




FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

March 13, 2000

MEMORANDUM

TO: RON M. HARRIS
PRESS OFFICER
PRESS OFFICE

FROM: ROBERT J. COSTA 
ASSISTANT STAFF DIRECTOR
AUDIT DIVISION

SUBJECT: PUBLIC ISSUANCE OF THE FINAL AUDIT REPORT ON
DAVID WU FOR CONGRESS

Attached please find a copy of the final audit report and related documents on David Wu for Congress which was approved by the Commission on February 28, 2000.

Informational copies of the report have been received by all parties involved and the report may be released to the public.

Attachment as stated

cc: Office of General Counsel
Office of Public Disclosure
Reports Analysis Division
FEC Library

22.07.025.3069

REPORT OF THE AUDIT DIVISION

ON

DAVID WU FOR CONGRESS

Approved February 28, 2000



FEDERAL ELECTION COMMISSION

999 E STREET, N.W.

WASHINGTON, D.C.

22.07.025.3071

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FEDERAL ELECTION COMMISSION
Washington, DC 20463

DAVID WU FOR CONGRESS

EXECUTIVE SUMMARY

David Wu for Congress (the Committee) registered with the Commission on August 18, 1997. On that same date, the Candidate filed a Statement of Candidacy designating the Committee as the principal campaign committee of David Wu, Democratic candidate for the U.S. House of Representatives from the state of Oregon, First District, for the 1998 election. The audit was conducted pursuant to 2 U.S.C. §438(b), which states that the Commission may conduct audits of any political committee whose reports fail to meet the threshold level of compliance set by the Commission.

The findings of the audit were presented to the Committee at an exit conference held at the completion of fieldwork on August 16, 1999 and later in the interim audit report. The relevant parts of the Committee's response to those findings are included in this audit report.

The following is an overview of the findings contained in the audit report.

Receipt of Contributions from Individuals in Excess of the Limitation — 2 U.S.C. §441a(a)(1)(A), 11 CFR §110.1(b). The Audit staff identified 101 contributions from 85 individuals which were in excess of the limitation in the amount of \$69,117. The Committee's reported entries on Schedules A (Itemized Receipts) indicated that these contributions had been reattributed among individuals, such as spouses, or redesignated to another election. However, the contributions records made available did not support these reattributions and redesignations. The Committee subsequently provided signed reattribution or redesignation letters relative to 80 of the 85 individuals which the Audit staff determined to be untimely pursuant to 11 CFR §103.3(b)(3). The Committee made refunds, totalling \$3,950, to the remaining five individuals. Therefore, excessive contributions totaling \$65,167 (\$69,117 - \$3,950) have not been refunded.

Disclosure of Candidate Loans — 11 CFR §104.3(d)(1). The Audit staff identified a \$70,000 loan provided by the Candidate to the Committee which was determined to be from a lending institution. The Committee originally disclosed the source of this loan to be from the Candidate's personal funds and, therefore, did not file a Schedule C-1 (Loans and Line of Credit from Lending Institutions) or copy of the loan agreement, as required. The Committee stated that they had a misunderstanding of the FEC's definition of "personal loan" and had no intention of concealing the source of funds. The Committee

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amended Schedules C (Loans) and Schedule C-1 for the appropriate reporting periods and provided a copy of the bank loan agreement to clarify the source of funds loaned to the Committee.

Misstatement of Financial Activity — 2 U.S.C. §434(b)(1),(2) and (4).

Disclosure reports filed for the period January 1, 1998 through December 31, 1998 contained material misstatements. For this period, reported receipts were overstated by \$76,337 while disbursements were overstated by \$10,268. As a result of identified reporting discrepancies, the cash figure at December 31, 1998 was understated by \$41,331. The Committee filed amended reports which materially corrected these misstatements.

Itemization and Disclosure of Receipts from Individuals and Political Committees— 2 U.S.C. §434(b)(3), 2 U.S.C §431(13)(A). A material number of contributions from individuals and political committees were not itemized on Schedules A as required. Many of those contributions not itemized should have been included on the 1998 Year End Report. The Committee stated that several contributions received in December 1998 were not processed and date stamped until the first business days of 1999. Certain in-kind contributions from political committees were also not itemized on Schedules A. For these contributions, the Committee stated they did not receive a notice from the contributing committee of their allocable disbursement. The Committee also incorrectly disclosed the aggregate year-to-date totals for certain contributions. The Committee filed amended reports which materially corrected the deficiencies noted by the Audit staff.

Recordkeeping and Disclosure of Disbursements— 2 U.S.C. §432(c)(5), 2 U.S.C. §434(b)(5)(A). The Committee did not have sufficient records to support the payee address and/or purpose for a material number of disbursements. In addition, the Audit staff identified a material number of disbursements for which no payee address was disclosed on Schedules B (Itemized Disbursements). The Committee has not provided any further documentation to support the payee address and/or purpose of the identified disbursements. However, the Committee has amended Schedules B to materially correct the deficiencies noted by the Audit staff.

Disclosure of Debts and Obligations—2 U.S.C. §434(b)(8). As part of a limited review of debts and obligations owed by the Committee, the Audit staff identified inconsistencies in the outstanding balance owed to certain committee vendors between reporting periods. The Committee stated that they performed vendor reconciliations and made the necessary adjustments to the outstanding debt balances. The Committee also has amended Schedules D (Debts and Obligations) to materially correct the debts and obligations owed by the Committee for the public record.

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

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REPORT OF THE AUDIT DIVISION

ON

DAVID WU FOR CONGRESS

I. BACKGROUND

A. AUDIT AUTHORITY

This report is based on an audit of David Wu for Congress (the Committee), undertaken by the Audit Division of the Federal Election Commission (the Commission) in accordance with the provisions of the Federal Election Campaign Act of 1971, as amended (the Act). The audit was conducted pursuant to Section 438(b) of Title 2 of the United States Code which states, in part, that the Commission may conduct audits and field investigations of any political committee required to file a report under Section 434 of this title. Prior to conducting any audit under this subsection, the Commission shall perform an internal review of reports filed by selected committees to determine if the reports filed by a particular committee meet the threshold requirements for substantial compliance with the Act.

B. AUDIT COVERAGE

The audit covered the period from July 15, 1997 through December 31, 1998. The Committee reported a beginning cash balance of \$0, total receipts for the audit period of \$1,505,552; total disbursements for the audit period of \$1,626,591; and an ending cash balance of (\$3,208).¹

¹ Does not foot due to various reporting errors (see Finding II.C.). All figures presented in this report have been rounded to the nearest dollar.

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C. CAMPAIGN ORGANIZATION

The Committee registered with the Commission on August 18, 1997 as the principal campaign committee for Mr. Dave Wu, Democratic candidate for the U.S. House of Representatives from the state of Oregon, First District. The Treasurers of the Committee during the period covered by the audit were Ms. Karen L. Rasmussen from August 18, 1997 through July 16, 1998, Ms. Donna K. Urban from July 17, 1998 to December 8, 1998 and Mr. Jay Castle from December 9, 1998 through December 31, 1998. Mr. Castle is the current Treasurer as well. The Committee maintains its headquarters in Portland, Oregon.

To manage its financial activity, the Committee maintained two bank accounts and one investment account², from which it made approximately 1,200 disbursements. Into these accounts the Committee deposited contributions from individuals totaling approximately \$931,428, contributions from other political committees and organizations approximating \$407,266, offsets totaling \$37,301, and loans totaling \$100,000.

D. AUDIT SCOPE AND PROCEDURES

The audit included such tests as verification of total reported receipts and disbursements; the review of the required supporting documentation; and such other audit procedures as deemed necessary under the circumstances. The audit included testing of the following general categories, however, the scope of our testing regarding the Committee's disbursements and the debts owed by the Committee was limited. Although the Committee satisfied the minimum recordkeeping requirements of 11 CFR §102.9 in maintaining its disbursement records, these records were not maintained in a manner which would have allowed the Audit staff to perform the substantive testing normally undertaken when reviewing disbursements and debts owed by the Committee because many of these items were not supported by a receipted bill or invoice.

1. The receipt of contributions or loans in excess of the statutory limitations (see Finding II.A.);
2. the receipt of contributions from prohibited sources, such as those from corporations or labor organizations;
3. proper disclosure of receipts from individuals, political committees and other entities, to include the itemization of contributions or other receipts when required, as well as, the completeness and accuracy of the information disclosed (see Findings II.B. and D.);

² Prior to registering with the Commission, an exploratory account was opened on behalf of Dave Wu (the Candidate) in July 1997 to handle financial activity for a testing-the-waters effort. This account was closed and the remaining balance, approximately \$9,550, was transferred to the Committee's operating account when the Committee registered in August 1997.

4. proper disclosure of disbursements, including the itemization of disbursements when required, as well as, the completeness and accuracy of the information disclosed (see Finding II.E.);
5. proper disclosure of debts and obligations (see Finding II.F.);
6. the accuracy of total reported receipts, disbursements and cash balances as compared to bank records (see Finding II.C.);
7. adequate recordkeeping for transactions (see Finding II.E.); and
8. other audit procedures that were deemed necessary in the situation.

Unless specifically discussed below, no material non-compliance was detected. It should be noted that the Commission may pursue further any of the matters discussed in this report in an enforcement action.

II. AUDIT FINDINGS AND RECOMMENDATIONS

A. RECEIPT OF CONTRIBUTIONS FROM INDIVIDUALS IN EXCESS OF THE LIMITATIONS

Section 441a(a)(1)(A) of Title 2 of the United States Code states, that no person shall make contributions to any candidate and his authorized political committees with respect to any election for Federal office which, in the aggregate, exceed \$1,000.

Subsection (b) of 11 CFR §110.1 explains that *with respect to any election* means that if the contribution is not designated in writing by the contributor for a particular election then the contribution applies to the next election for that Federal office after the contribution is made. A contribution is considered made when the contributor relinquishes control over the contribution by delivering the contribution to the Candidate, the political committee, or an agent of the committee. A contribution mailed is considered made on the date of the postmark.

Sections 103.3(b)(3) and (4) of Title 11 of the Code of Federal Regulations state, in part, that contributions which exceed the contribution limitations may be deposited into a campaign depository or returned to the contributor. If any such contribution is deposited, the treasurer may request redesignation or reattribution of the contribution by the contributor in accordance with 11 CFR 110.1(b) or 110.1(k). If a redesignation or reattribution is not obtained, the treasurer shall, within 60 days of the treasurer's receipt of the contribution, refund the contribution to the contributor. Further, any contribution which appears to be illegal under 11 CFR 103.3(b)(3), and which is deposited into a campaign depository shall not be used for any disbursements by the political committee until the contribution has been determined to be legal. The political

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committee must either establish a separate account in a campaign depository for such contributions or maintain sufficient funds to make all such refunds.

Section 110.1(b)(5)(i) and (ii) of Title 11 of the Code of Federal Regulations states, in part, that the treasurer of an authorized political committee may request a written redesignation of a contribution by the contributor for a different election if:

- the contribution was designated in writing for a particular election, and the contribution, either on its face or when aggregated with other contributions from the same contributor for the same election, exceeds the limitation at 11 CFR §110.1(b)(1);
- the contribution was designated in writing for a particular election and the contribution was made after that election and the contribution cannot be accepted under the net debts outstanding provisions of 11 CFR §110.1(b)(3);
- the contribution was not designated in writing for a particular election, and the contribution exceeds the limitation on contributions set forth in 11 CFR §110.1(b)(1); or
- the contribution was not designated in writing for a particular election, and the contribution was received after the date of an election for which there are net debts outstanding on the date the contribution is received.

Further, a contribution shall be considered to be redesignated for another election if the treasurer of the recipient authorized political committee requests that the contributor provide a written redesignation of the contribution and informs the contributor that the contributor may request the refund of the contribution as an alternative to providing a written redesignation and, within sixty days from the date of the treasurer's receipt of the contribution, the contributor provides the treasurer with a written redesignation of the contribution for another election, which is signed by the contributor.

Section 110.1(k) of Title 11 of the Code of Federal Regulations states any contribution made by more than one person, except for a contribution made by a partnership, shall include the signature of each contributor on the check, money order, or other negotiable instrument or in a separate writing and if a contribution made by more than one person does not indicate the amount to be attributed to each contributor, the contribution shall be attributed equally to each contributor.

If a contribution to a candidate or political committee, either on its face or when aggregated with other contributions from the same contributor, exceeds the limitations on contributions set forth in 11 CFR §110.1(b), (c) or (d), as appropriate, the treasurer of the recipient political committee may ask the contributor whether the contribution was intended to be a joint contribution by more than one person. A

contribution shall be considered to be reattributed to another contributor if the treasurer of the recipient political committee asks the contributor whether the contribution is intended to be a joint contribution by more than one person, and informs the contributor that he or she may request the return of the excessive portion of the contribution if it is not intended to be a joint contribution, and within sixty days from the date of the treasurer's receipt of the contribution, the contributors provide the treasurer with a written reattribution of the contribution, which is signed by each contributor, and which indicates the amount to be attributed to each contributor if equal attribution is not intended.

Section 110.1(l)(5) Of Title 11 of the Code of Federal Regulations states that if a political committee does not retain the written records concerning redesignation or reattribution, the redesignation or reattribution shall not be effective, and the original designation or attribution shall control.

Section 110.9(a) of Title 11 of the Code of Federal Regulations states that no candidate or political committee shall accept any contribution or make any expenditure in violation of the provisions of part 110. No officer or employee of a political committee shall accept a contribution made for the benefit or use of a candidate, or make any expenditure on behalf of a candidate, in violation of any limitation imposed on contributions and expenditures under this part 110.

During our review of receipts, the Audit staff identified 101 contributions which were in excess of the 2 U.S.C. §441a(a)(1)(A) limitation in the amount of \$69,117. These contributions were from 85 individuals. Many of the reported entries on the Committee's Schedules A (Itemized Receipts) indicated that these contributions had been reattributed among individuals, such as spouses, or redesignated to another election. However, the contribution records made available did not support these reattributions and redesignations. The contribution records examined by the Audit staff consisted of copies of contributor checks, batch deposit cover sheets, and some contributor information cards apparently completed by the contributor.

Nineteen of the 101 contributions, totaling \$15,250, related to the 1998 primary election; 78 contributions, totaling \$51,567, related to the 1998 general election; and, four contributions, totaling \$2,300, related to the 2000 primary election. The Audit staff noted that the Committee made two refunds subsequent to audit fieldwork, totaling \$350, relative to two of the 101 contributions noted above and provided photocopies of the refund checks (front only). These refunds were not made in a timely manner.

No separate account was maintained by the Committee relative to questionable contributions and the Committee did not consistently maintain a sufficient balance to cover the amounts deposited in excess of the limitation (see 11 CFR 103.3(b)(4)).

The Audit staff discussed this matter with Committee officials; at the exit conference, a schedule of these contributions was provided. After the conclusion of fieldwork, the Committee submitted statements relative to 48 of the 85 contributors

discussed above which included signed redesignations. The Audit staff notes that these statements were all dated between July and September 1999 and were, therefore, untimely.

In the interim audit report, the Audit staff recommended that the Committee provide evidence demonstrating that the \$68,767 (\$69,117 - \$350) in contributions were not excessive. Absent such evidence, the Audit staff recommended that the Committee refund the excessive contributions to the contributors and submit evidence of the refunds (copies of the front and back of the negotiated refund checks).

The Committee stated in its response to the interim audit report that its fundraising staff was "... unaware of the requirement for signed written designations for future elections or debt retirement purposes, or the requirement that contributions attributed between spouses be documented by written reattributions signed by both contributors." In addition to the 48 statements noted above, the Committee submitted an additional 32 statements which included signed redesignations or reattributions. As a result, statements have been provided relative to 80 (48 + 32) of the 85 identified contributors. For the remaining five contributions, the Committee made four refunds in January 2000, totaling \$3,100, and demonstrated that one contribution, in the amount of \$500, had been refunded timely.

Although written redesignations or reattributions from contributors were obtained relative to 80 contributions, this remedy is not available to the Committee because requests were not made within 60 days of the Committee's receipt of the contributions pursuant to 11 CFR §103.3(b)(3). The redesignation and reattribution letters are all dated between July and December 1999.

In summary, of the \$69,117 in excessive contributions received from individuals that were identified by the Audit staff, the Committee refunded \$3,950 (\$3,100 + \$500 + \$350). Therefore, excessive contributions totaling \$65,167 (\$69,117 - \$3,950) have not been refunded.

B. DISCLOSURE OF CANDIDATE LOANS

Section 104.3(d)(1) of the Code of Federal Regulations states, in part, when a candidate or political committee obtains a loan from, or establishes a line of credit at, a lending institution as described in 11 CFR 100.7(b)(11) and 100.8(b)(12), it shall disclose in the next due report the following information on schedule C-1: the date and amount of the loan or line of credit; the interest rate and repayment schedule of the loan, or of each draw on the line of credit; the types and value of traditional collateral or other sources of repayment that secure the loan or the line of credit, and whether that security interest is perfected; an explanation of the basis upon which the loan was made or the line of credit established, if not made on the basis of either traditional collateral or other sources of repayment; and, a certification from the lending institution of the accuracy of the borrower's statements. Also, 11 CFR §104.3(d)(2) requires a political committee to

submit a copy of the loan or line of credit agreement which describes the terms and conditions of the loan or line of credit when it files Schedule C-1.

Section 102.7(d) of the Code of Federal Regulations states, in part, that any candidate who obtains any loan shall be considered as having obtained the loan as an agent of such authorized committee.

Section 104.3(a)(4)(iv) of the Code of Federal Regulations states that each report shall disclose each person who makes a loan to the reporting committee or to the candidate acting as an agent of the committee, during the reporting period, together with the identification of any endorser or guarantor of such loan, the date such loan was made and the amount or value of such loan.

Section 104.11(a) of the Code of Federal Regulations states, in part, that debts and obligations owed by a political committee which remain outstanding shall be continuously reported until extinguished.

Section 110.10(a) of the Code of Federal Regulations states that except as provided in 11 CFR parts 9001, *et seq.* and 9031, *et seq.*, candidates for Federal office may make unlimited expenditures from personal funds.

Sections 110.10(b)(1) and (2) of the Code of Federal Regulations state, in part, that for purposes of this section, *personal funds* means any assets which under applicable state law, at the time he or she became a candidate, the candidate had legal right of access to or control over, and with respect to which the candidate had either legal and rightful title, or an equitable interest. Also included as personal funds are salary and other earned income from bona fide employment and dividends and proceeds from the sale of the candidate's stock or other investments.

On its 1997 Year End report, the Committee disclosed three loans from the Candidate in the following amounts: \$25,000, \$5,000 and \$70,000. In response to a Request for Additional Information sent to the Committee by the Commission's Reports Analysis Division asking for information as to the source of these loans, the Committee filed an amendment to Schedule C (Loans) which stated that these loans were "...from the candidate's personal funds, as defined by 11 CFR 110.10." No Schedule C-1 (Loans and Lines of Credit from Lending Institutions) or copy of the loan agreement was filed.

Based on documentation provided to the Audit staff, we determined that the \$25,000 and \$5,000 loans were from the Candidate's personal funds. However, the \$70,000 loan provided by the Candidate to the Committee was from a \$118,000 line of credit extended to the Candidate by a lending institution. Bank documentation provided to the Audit staff indicated that a draw by the Candidate against the entire \$118,000 line of credit was deposited into the Candidate's personal checking account on September 24,

1997 and on that same date, a \$70,000 check from this account was deposited into the Committee's operating account.³

At the exit conference, the Audit staff informed Committee officials that it appeared that the source of funds relative to the \$70,000 loaned to the Committee was the lending institution from which the Candidate secured the line of credit as opposed to from the Candidate's personal funds. Committee officials stated that they would file a Schedule C-1 to correctly disclose this information. Subsequent to the exit conference, the Committee provided documentation relative to the collateral used by the Candidate to obtain the line of credit from the lender, and documentation to demonstrate that the source of funds, relative to the \$5,000 and \$25,000 loans, was the Candidate's personal funds.

In the interim audit report, the Audit staff recommended that the Committee file Schedules C and C-1 to correctly disclose the three loans discussed above. The Audit staff further recommended that the Committee file these amendments for each reporting period and to file a copy of the loan agreement relative to the \$70,000 bank loan in 1997.

In its response to the interim audit report, the Committee stated that "[d]ue to a misunderstanding of FEC's definition of 'personal loan' and since the loan was secured by the candidate's personal equity in his residence, the source of the funds were not disclosed on Schedule C-1 with the loan agreement." The Committee stated that "[t]here was no intention to conceal the mortgage as the source of the candidate's loan and that the candidate made numerous public statements during the campaign that he had taken a mortgage on his home to demonstrate his commitment to his efforts." Included in the Committee's response were Schedules C-1 and amended Schedules C for the appropriate reporting periods. In addition, the Committee provided a copy of the bank loan agreement to clarify the source of funds for the \$70,000 loaned to the Committee.

C. MISSTATEMENT OF FINANCIAL ACTIVITY

Sections 434(b)(1), (2), and (4) of Title 2 of the United States Code require a political committee to disclose the amount of cash on hand at the beginning of each reporting period and the total amount of all receipts and disbursements for each reporting period and the calendar year.

The Audit staff reconciled the Committee's reported financial activity to its bank activity for the period July 15, 1997 through December 31, 1998 and determined that the Committee's reported 1998 activity was materially overstated.

The Committee overstated reported receipts by \$76,337. This net overstatement was primarily due to the following: over reporting unitemized contributions from individuals, in the amount of \$82,298; not reporting contributions

³ The Committee stated that the remaining \$48,000 of the \$118,000 line of credit was retained by the Candidate for living expenses during the campaign.

received in the Year End reporting period, totaling \$50,867; over reporting receipts due to a math error on the Detailed Summary Page, in the amount of \$35,751; not reporting offsets to operating expenditures, totaling \$33,034; and, reporting several contributions twice, totaling \$22,750.

The Committee overstated its 1998 reported disbursements by \$10,268. This net overstatement was primarily due to the following: reporting the same disbursements twice, totaling \$36,927; not reporting in-kind contributions, totaling \$20,846; and, not reporting disbursements made in the Thirtieth day report following the General Election and Year End reporting periods, totaling \$8,986. The reported beginning cash on hand balance at January 1, 1998 was understated by \$463 and ending cash on hand balance at December 31, 1998 was understated by \$41,331 due to these misstatements.

At the exit conference, the Audit staff informed the Committee officials of the identified discrepancies included in their reported activity. These officials agreed to file the necessary amended reports to correct the identified misstatements.

In the interim audit report, the Audit staff recommended that the Committee file amendments to the applicable 1998 reports to correct the misstatements. It was recommended that these amendments include Summary and Detailed Summary Pages, as well as Schedules A (Itemized Receipts) and Schedules B (Itemized Disbursements) for each reporting period in 1998.

In its response to the interim audit report, the Committee filed amended reports which materially corrected these misstatements. The Committee also stated that receipts and disbursements were overstated due to a clerical mix-up in the reporting dates with the 1998 Pre-General and Post-General reports. The overlap in reporting periods caused certain receipts and disbursements to be inadvertently reported twice. In addition, the Committee stated that discrepancies on the Detailed Summary Pages were a result of "[t]he person preparing the amendments to the Post-General and Year-End reports inadvertently added the period totals to the previous year-to-date totals on the original Pre-General report, not the amended report."

D. ITEMIZATION AND DISCLOSURE OF RECEIPTS FROM INDIVIDUALS AND POLITICAL COMMITTEES

Section 434(b)(3)(A) of Title 2 of the United States Code states, in part, that each report shall disclose the identification of each person who makes a contribution to the reporting committee during the reporting period, whose contribution or contributions have an aggregate amount or value in excess of \$200 within the calendar year, together with the date and amount of any such contribution.

Section 434(b)(3)(B) of Title 2 of the United States Code states that each report under this section shall disclose the identification of each political committee

which makes a contribution to the reporting committee during the reporting period, together with the date and amount of any such contribution.

Section 431(13)(A) of Title 2 of the United States Code defines the term "identification" to be, in the case of any individual, the name, the mailing address, and the occupation of such individual, as well as the name of his or her employer.

Section 104.3(a)(4) of Title 11 of the Code of Federal Regulations states, in part, that the identification of each contributor and the aggregate year-to-date total for such contributor shall be reported for each person whose contribution or contributions aggregate in excess of \$200 per calendar year and for all committees which make contributions to the reporting committee during the reporting period.

The Audit staff conducted a sample review of contributions from individuals and determined that the Committee did not itemize a material number of contributions from individuals on Schedules A (Itemized Receipts) as required. A majority of the contributions not itemized as required should have been included on the 1998 Year End Report; some of the contributions were received in 1998 but not deposited until January 1999.

The Audit staff also reviewed all 315 contributions, totaling \$442,887, which the Committee received from political committees. Not itemized on Schedules A, as required, were 43 contributions, totaling \$ 32,396. Eighteen of these 43 items, totaling \$3,896, were in-kind contributions from other political committees while eight others, totaling \$15,500, were received in 1998 but not deposited until 1999.

The Audit staff's review of contributions from political committees itemized on Schedules A also revealed 21 disclosure errors, totaling \$43,779, mainly due to the incorrect reporting of aggregate year-to-date totals.

At the exit conference, the Audit staff explained the irregularities noted above and provided a schedule of the itemization and disclosure errors relative to contributions from political committees. The Committee officials stated that they would file amended Schedules A to correct the deficiencies noted by the Audit staff. In a written response received subsequent to the exit conference, the Committee stated that they were now utilizing computer software that calculated the aggregate totals for each reporting period and that amendments would be filed to correct the aggregate year-to-date errors.

In the interim audit report, the Audit staff recommended that the Committee file amended Schedules A and Detailed Summary Pages for each reporting period to correct the deficiencies noted above.

In its response to the interim audit report, the Committee filed amendments to materially correct the itemization and disclosure deficiencies noted above. Relative to the itemization deficiencies, the Committee also stated that several

contributions received by the Committee in December 1998, but deposited in January 1999, were not itemized on the 1998 Year-End report because Committee staff did not process and date stamp the contributions until the first business days of January 1999. The Committee further stated that "...[t]his is a small and common problem compounded by mail delivery and collection schedules during the holidays, and the Committee requests that this finding be deleted from the final report." Regarding certain in-kind contributions which were not itemized, the Committee stated "...it did not have a record of receiving a notice from the contributing committees with information concerning their allocable disbursements."

E. RECORDKEEPING AND DISCLOSURE OF DISBURSEMENTS

Sections 432(c)(5) and (d) of Title 2 of the United States Code state that the treasurer of a political committee shall keep an account of the name and address of every person to whom any disbursement is made, the date, amount, and purpose of the disbursement, and the name of the candidate and the office sought by the candidate, if any, for whom the disbursement was made, including a receipt, invoice, or canceled check for each disbursement in excess of \$200. The treasurer shall preserve all records required to be kept by this section and copies of all reports required to be filed by this subchapter for 3 years after the report is filed.

Section 434(b)(5)(A) of Title 2 of the United States Code requires each report under this section to disclose the name and address of each person to whom an expenditure in an aggregate amount or value in excess of \$200 within the calendar year is made by the reporting committee to meet a candidate or committee operating expense, together with the date, amount and purpose of such operating expenditure.

Section 104.3(b)(4)(i)(A) and (B) of Title 11 of the Code of Federal Regulations defines "purpose" as a brief statement or description of why the disbursement was made, and gives examples of acceptable descriptions.

The Audit staff conducted a sample review of the Committee's disbursements to determine if records were maintained as required and if the disbursements were adequately disclosed. From this review, the Audit staff identified a material number of items for which the Committee did not have sufficient records (i.e., receipted bill or invoice generated by the payee) to support payee address and/or purpose of the disbursement. Canceled checks were maintained by the Committee for most disbursements, however, the payee address and purpose of disbursement were not recorded on the checks.

The Audit staff further identified a material number of items for which no payee addresses were disclosed on Schedules B (Itemized Disbursements) pursuant to 2 U.S.C. §434(b)(5)(A). Many of these disbursements were itemized on the Committee's 1998 Year End report.

At the exit conference, the Audit staff presented these matters to Committee officials. These officials stated that they were preparing amended Schedules B for all 1998 reports to correct the deficiencies noted by the Audit staff.

In the interim audit report, the Audit staff recommended that the Committee obtain and submit the missing disbursement information and/or provide documentation of its efforts to obtain this information. The Audit staff further recommended that the Committee file amended Schedules B to correct the disbursements not adequately disclosed.

In its response to the interim audit report, the Committee filed amended Schedules B that materially corrected the missing payee addresses. The Committee did not provide any further documentation relative to disbursement disclosure information.

F. DISCLOSURE OF DEBTS AND OBLIGATIONS

Section 434(b)(8) of Title 2 of the United States Code states, in part, that each report filed under this section shall disclose the amount and nature of outstanding debts and obligations owed by a political committee.

Sections 104.11(a) and (b) of Title 11 of the Code of Federal Regulations state, in part, that debts and obligations owed by or to a political committee which remain outstanding shall be continuously reported until extinguished. These debts and obligations shall be reported on separate schedules together with a statement explaining the circumstances and conditions under which each debt and obligation was incurred or extinguished. A debt or obligation, the amount of which is \$500 or less, shall be reported as of the time payment is made or not later than 60 days after such obligation is incurred, whichever comes first. A debt or obligation which is over \$500 shall be reported as of the date on which the debt or obligation is incurred, except that any obligation incurred for rent, salary or other regularly reoccurring administrative expense shall not be reported as a debt before the payment due date.

During the Audit staff's review of disbursements, the disclosure of debts and obligations owed by the Committee was also tested. Our testing was limited because the Committee had no system in place for tracking debts owed and the available documentation was not generated by the payees (such as invoices, receipted bills, etc.), nor was information otherwise available with which to determine the dates on which these obligations were incurred (see Finding II.E.).

However, the Audit staff noted that the Committee disclosed \$132,687 in outstanding debts and obligations on Schedules D (Debts and Obligations) as of November 23, 1998, the close of the reporting period for the Thirtieth day report following the General Election. Furthermore, no outstanding debts were disclosed as of December 31, 1998, the close of the reporting period for the 1998 Year End report. When the Audit staff discussed these debt reporting problems, Committee officials stated that while recently preparing the 1999 Mid Year Report they had performed vendor

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reconciliations which indicated that adjustments were necessary to the debt balances disclosed as of November 23, 1998. Further, as of December 31, 1998, the Committee actually owed \$79,473 to 21 vendors. By comparing these vendor reconciliations to available records, the Audit staff determined this total to be materially correct. Officials stated that they would file amended Schedules D to correct the debts and obligations for the 1998 reports.

In the interim audit report, the Audit staff recommended that the Committee file amended Schedules D relative to the Thirtieth day report following the 1998 General Election and the 1998 Year End report.

In its response to the interim audit report, the Committee filed amended Schedules D to materially correct the debts and obligations owed by the Committee.

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

March 6, 2000

Mr. Jay Castle, Treasurer
David Wu for Congress
818 SW Third Avenue
Portland, OR 97204

Dear Mr. Castle:

Attached please find the Report of the Audit Division on David Wu for Congress. The Commission approved the report on February 28, 2000.

The Commission approved Final Audit Report will be placed on the public record on March 13, 2000. Should you have any questions regarding the public release of the report, please contact the Commission's Press Office at (202) 694-1220. Any questions you have related to matters covered during the audit or in the report should be directed to Tom Hintermister or Marty Favin of the Audit Division at (202) 694-1200 or toll free at (800) 424-9530.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Costa".

Robert J. Costa
Assistant Staff Director
Audit Division

Attachment as stated

cc: Ms. Whitney Burns, Consultant

22-07-025-3089

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CHRONOLOGY

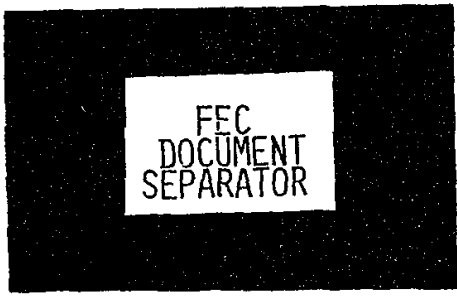
DAVID WU FOR CONGRESS

Audit Fieldwork	7/19/99 - 8/16/99
Interim Audit Report to the Committee	11/22/99
Response Received to the Interim Audit Report	1/11/00
Final Audit Report Approved	2/28/00

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