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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

June 14, 2002

MEMORANDUM

TO: Ron M. Harris
Press Officer
Press Office

FROM: Joseph F. Stoltz
Assistant Staff Director
Audit Division

A handwritten signature in black ink, appearing to read "Joseph F. Stoltz", written over the typed name in the "FROM" field.

SUBJECT: Public Issuance of the Final Audit Report on Citizens to Elect Rick Larsen

Attached please find a copy of the final audit report and related documents on Citizens to Elect Rick Larsen that was approved by the Commission on June 6, 2002.

Informational copies of the report have been received by all parties involved and the report may be released to the public on June 17, 2002.

Attachment as stated

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

REPORT OF THE AUDIT DIVISION
ON
CITIZENS TO ELECT RICK LARSEN

Approved June 6, 2002



FEDERAL ELECTION COMMISSION
999 E STREET, N.W.
WASHINGTON, D.C.

CITIZENS TO ELECT RICK LARSEN

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CITIZENS TO ELECT RICK LARSEN

EXECUTIVE SUMMARY

Citizens to Elect Rick Larsen (CERL) registered with the Federal Election Commission on May 24, 1999, as the principal campaign committee for Richard Ray Larsen, Democratic candidate for the U.S. House of Representatives from the State of Washington, 2nd District

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 audit findings summarized below were presented to CERL at the completion of fieldwork on December 19, 2001 and later in the interim audit report. CERL's responses to the findings are contained in the audit report.

APPARENT EXCESSIVE CONTRIBUTIONS - 2 U.S.C. §§441a(a)(1)(A) and (2)(A); 11 CFR §§110.1(b), 103.3(b)(3) and (4), 110.1(b)(5), 110.1(k) and 110.1(1)(5). The Audit staff identified 62 contributions from 56 individuals that exceeded the contribution limitations by \$43,812. CERL refunded 22 contributions totaling \$14,200 and obtained redesignation documentation for a \$700 contribution. However, these actions were not timely. In addition, only 14 of the 22 refund checks issued by CERL have been negotiated.

In response to the interim audit report, CERL representatives did not dispute the receipt of the above excessive contributions. CERL refunded all of the excessive contributions and provided copies of the refund checks and letters sent to the contributors.

DISCLOSURE OF CONTRIBUTIONS - 2 U.S.C. §434(b)(3) and 11CFR §104.13(a). The Audit staff identified 34 contributions from political party committees, totaling \$21,903, that were not itemized on Schedule A (Itemized Receipts). Of these, twenty-four were in-kind contributions, totaling \$10,353, which also required disclosure on the Detailed Summary Page, Schedule A and Schedule B.

In response to the interim audit report, CERL filed amended reports by reporting period disclosing the contributions on Schedules A and, where appropriate, on Schedules B.



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WASHINGTON, D.C. 20463

***REPORT OF THE AUDIT DIVISION
ON
CITIZENS TO ELECT RICK LARSEN***

I. BACKGROUND

A. AUDIT AUTHORITY

This report is based on an audit of Citizens to Elect Rick Larsen (CERL), 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 May 17, 1999, the date of CERL's first financial transaction, through December 31, 2000. CERL's reports covering this period reflect a beginning cash balance of \$0, total receipts for the audit period of \$1,583,397, total disbursements for the audit period of \$1,579,105, and an ending cash balance of \$4,292.

C. CAMPAIGN ORGANIZATION

CERL registered with the Commission on May 24, 1999 as the principal campaign committee for Mr. Richard Ray Larsen (the Candidate), Democratic candidate for the U.S. House of Representatives from the State of Washington, Second District. At its inception, Mr. Todd E. Morrow served as Treasurer. On April 3, 2000, Mr. Robert Anderson became Treasurer and continues to serve in that capacity. CERL maintains its headquarters in Everett, WA.

To manage its financial activity, CERL maintained one checking, two savings and one money market account. From these accounts, approximately 690 disbursements were made. CERL received approximately 4,430 contributions from individuals, totaling approximately \$848,500, and 445 contributions from political action

II. AUDIT FINDINGS AND RECOMMENDATIONS

A. APPARENT EXCESSIVE CONTRIBUTIONS

Sections 441a(a)(1)(A) and (2)(A) of Title 2 of the United States Code state, 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 and that no multi-candidate political committee shall make contributions to any candidate and his authorized political committees with respect to any election for Federal office which, in the aggregate, exceed \$5,000.

Section 110.1(b) of Title 11 of the Code of Federal Regulations 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.

Section 103.3(b)(3) of Title 11 of the Code of Federal Regulations states, in part, that the treasurer shall be responsible for examining all contributions received for evidence of illegality and for ascertaining whether contributions received, when aggregated with other contributions from the same contributor, exceed the contribution limitations of 11 CFR 110.1 or 110.2. 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), 110.1(k) or 110.2(b), as appropriate. If a redesignation or reattribution is not obtained, the treasurer shall, within sixty days of the treasurer's receipt of the contribution, refund the contribution to the contributor.

Section 103.3(b)(4) of Title 11 of the Code of Federal Regulations states that any contribution which appears to be illegal under 11 CFR 103.3(b)(1) or (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 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) 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 exceeds the limitation on contributions set forth in 11 CFR 110.1(b)(1). 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

the period October through December 2000, CERL did not consistently maintain sufficient funds to make the necessary refunds. The bank balances were approximately \$37,000 on October 30, 2000 and approximately \$9,700 on December 28, 2000¹.

In the interim audit report, the Audit staff recommended that CERL provide evidence that demonstrated the contributions noted above (\$43,812) were not excessive; that it obtained timely reattributions or redesignations; or, that the contributions were timely refunded. Absent submission of the requested evidence, CERL was to refund the remaining unresolved excessive contributions totaling \$34,562 (\$43,812 - (14,200 - 4,950)) and provide evidence of all refunds (copies of the front and back of the negotiated refund checks). If funds were not available to make the necessary refunds, those contributions that required refund should have been disclosed as debts on Schedule D (Debts and Obligations) until such time that funds were available to make the refunds. With respect to the refund checks that had not been negotiated, the Audit staff recommended that if CERL was not successful in its efforts to accomplish the refunds, the funds should have been paid to the U.S. Treasury or to a charitable organization.

In response to the interim audit report, CERL representatives did not dispute the receipt of the above excessive contributions. CERL refunded all of the excessive contributions (totaling \$34,562) and provided copies of the refund checks and letters sent to the contributors. Although the refund checks had not been negotiated by the payees, CERL representatives stated they would make the negotiated check copies available as soon as they clear the bank².

B. DISCLOSURE OF CONTRIBUTIONS

Section 434(b)(3) of Title 2 of the United States Code states, in part, 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 104.13(a) of Title 11 of the Code of Federal Regulations states, in part, that the amount of an in-kind contribution shall be equal to the usual and normal value on the date received. Each in-kind contribution shall be reported as a contribution and an expenditure in accordance with 11 CFR §104.3(a) and (b).

As a result of our review of contributions from political party committees, the Audit staff identified 34 contributions, totaling \$21,903, that were not itemized on Schedule A (Itemized Receipts). Twenty-four were in-kind contributions, totaling \$10,353, which also required disclosure on the Detailed Summary Page, Schedule A and

¹ Based on an analysis of the contributions and disbursements databases provided by CERL, the 2000 Primary activity was not funded by contributions designated for the 2000 General or future elections, including any excessive contributions identified by the Audit staff. Because election designations were not provided in the databases, they were determined by the Audit staff based on contribution receipt dates and disbursement dates provided in the databases.

² CERL has provided copies of the front and back of 27 negotiated refund checks, totaling \$17,502.



FEDERAL ELECTION COMMISSION
WASHINGTON D C 20463

June 11, 2002

Mr. Robert Anderson, Treasurer
Citizens to Elect Rick Larsen
c/o Robert W. Ferguson, Esq.
Preston Gates Ellis, LLP
701 Fifth Avenue, Suite 5000
Seattle, WA 98104-7078

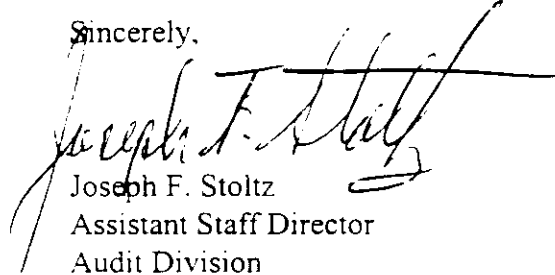
Dear Mr. Anderson:

Attached, please find the Report of the Audit Division on Citizens to Elect Rick Larsen. The Commission approved this report on June 6, 2002.

The Commission approved Final Audit Report will be placed on the public record on June 17, 2002. Should you have any questions regarding the public release of this report, please contact the Commission's Press Office at (202) 694-1220.

Any questions you may have related to matters covered during the audit or in the report should be directed to Kendrick D. Smith or Thomas J. Nurthen of the Audit Division at (202) 694-1200 or toll free at (800) 424-9530.

Sincerely,



Joseph F. Stoltz
Assistant Staff Director
Audit Division

Attachment as stated

cc: Ryan Pennington, Finance Director

CITIZENS TO ELECT RICK LARSEN

CHRONOLOGY

Audit Fieldwork	09/10/01 – 12/19/01
Interim Audit Report to Committee	02/22/02
Response Received to the Interim Audit Report	04/10/02
Final Audit Report Approved	06/06/02
Final Audit Report to Committee	06/11/02