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Federal Election Commission
Washington, DC 20463

SENSITIVE

MEMORANDUM

June 8, 2016

TO: The Commission

THROUGH: Alec Palmer *AP*
Staff Director

FROM: Patricia C. Orrock *pco*
Chief Compliance Officer

Lynn M. Fraser *LMF*
Director, ADR Office

SUBJECT: ADR 798 Cotton for Senate and Theodore V. Koch,
Treasurer, Recommendation to Approve Settlement
Agreement

RESOLUTION TERMS: Develop and certify implementation of a compliance
operations manual which includes internal controls
consistent with those described in the Commission's
Internal Controls and Political Committees advisory
document (2007) and the Best Practices for Committee
Management (published in the April 2009 Record,
available at [www.fec.gov/pages/brochures
/bestpractices.shtml](http://www.fec.gov/pages/brochures/bestpractices.shtml)), as well as a process to track receipt
of, and response to, communications with the Commission;
and pay a civil penalty of \$2,000.

Attached for your review is a signed negotiated ADR Settlement Agreement pertaining to
ADR 798 (RAD 16L-04). The ADR Office received this referral on March 18, 2016.

SUMMARY: In this case, the Reports Analysis Division (RAD) referred Cotton
for Senate and Theodore V. Koch, Treasurer (Respondents or the Committee) for
failing to disclose all receipts on its original 2014 30 Day Post-General Report.
The Committee filed Amended 2014 30 Day Post-General Reports on January 30,
2015, April 15, 2015 and a final amended report on October 19, 2015 that
disclosed additional receipts of \$155,050.

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In a FEC Form 99 filed January 13, 2016, the Committee states, in part, that after conducting an internal audit, it was determined that an amended report needed to be filed. " ... Specifically, it was determined that a \$150,000 vendor refund was more properly disclosed on the 2014 30-Day Post General Report than on the 2014 Year-End Report. Also, on the 2014 30-Day Post General Report, there were two previously unidentified online credit card contributions that amount to \$5,200 and a chargeback of -\$150 that was disclosed." Respondents contend that the Commission would not have known about the error in the date if the Committee had not done a complete audit of its financial records. It was during the course of this voluntary internal review of all accounting entries for the prior two years that the Committee discovered that the date on which the vendor refund had been posted was incorrect. The Committee corrected the date on which the vendor refund was posted, amended its reports accordingly, and submitted a *sua sponte* to advise the Commission of the error. .

Additionally, Respondents asserted that they terminated the vendors and consultants responsible for the reporting errors related to the 2014 cycle, and retained a new compliance team. The Committee's current compliance team has rebuilt the Committee's accounting systems, and now reconciles the banking and financial activities of the Committee on an ongoing basis, including all receipts and expenditures, and has amended all errors in reports filed with the Commission by the prior consultants. The Committee completely overhauled its compliance systems in the third quarter of 2015 to ensure that no similar errors occur in the future.

RECOMMENDATIONS:

1. Approve the attached settlement agreement of Cotton for Senate and Theodore V. Koch, Treasurer.
2. Approve the appropriate letters.
3. Close the file on this matter.