



AUDIT REFERRAL # 16-02

September 21, 2016

MEMORANDUM

To: Kathleen Guith
Acting Associate General Counsel

Jeff S. Jordan
Assistant General Counsel

Through: Alec Palmer
Staff Director

From: Patricia C. Orrock
Chief Compliance Officer *Patricia C. Orrock*

Tom Hintermister
Assistant Staff Director Thomas Hintermister
Audit Division

Zuzana O. Pacious Zuzana O.
Audit Manager Pacious

By: Terry O'Brien Zuzana O.
Lead Auditor Pacious

Subject: Oklahoma Leadership Council (A13-13) -
Referral Matter

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On September 1, 2016, the Commission approved the Proposed Final Audit Report on the Oklahoma Leadership Council. The report was released to the public on September 13, 2016. In accordance with the Materiality Thresholds for Unauthorized Committees, the Final Audit Report of the Commission includes a finding that meets the criteria for referral to the Office of General Counsel.

Finding 3 – Recordkeeping for Employees: Amount in Violation \$178,305;
Calendar Years 2011/2012

All workpapers and related documentation are available for review in the Audit Division. Should you have any questions regarding these matters, please contact Terry O'Brien or Zuzana Pacious at 694-1200.

Attachments: Finding 3 – Recordkeeping for Employees
Designation of Counsel

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Finding 3. Recordkeeping for Employees

Summary

During audit fieldwork, the Audit staff determined that OLC did not maintain any monthly payroll logs, as required, to document the percentage of time each employee spent in connection with a federal election. For calendar years 2011 and 2012, the Audit staff identified payments to OLC employees totaling \$178,305 for which OLC did not maintain monthly payroll logs. This entire amount consisted of payroll that was allocated with both federal and non-federal funds. In response to the Interim Audit Report recommendation, OLC provided details of the system it has implemented that requires employees to complete monthly logs detailing the percentage of time spent in connection with federal elections.

The Commission approved the finding that OLC failed to maintain monthly payroll logs totaling \$178,305 to document the time employees spent in connection with the federal election activity.

Legal Standard

Maintenance of Monthly Logs. Party committees must keep a monthly log of the percentage of time each employee spends in connection with a federal election.

Allocations of salaries, wages, and fringe benefits are to be undertaken as follows:

- employees who spend 25 percent or less of their compensated time in a given month on federal election activities must be paid either from the federal account or be allocated as administrative costs;
- employees who spend more than 25 percent of their compensated time in a given month on federal election activities must be paid only from a federal account; and,
- employees who spend none of their compensated time in a given month on federal election activities may be paid entirely with funds that comply with state law. 11 CFR §106.7(d)(1).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reviewed disbursements for payroll. OLC did not maintain any monthly payroll logs or equivalent records to document the percentage of time each employee spent in connection with a federal election. These logs were required to document the proper allocation of federal and non-federal funds used to pay employee salaries and wages. For 2011 and 2012, OLC did not maintain monthly logs for \$178,305 in payroll.¹ This amount is made up exclusively of expenditures reported on Schedules H4 (Disbursements for Allocated Federal/Non-federal Activity) and paid with federal and non-federal funds during the same month.

¹ OLC did not report or pay any payroll consisting of 100 percent federal funds. All payroll-related expenses were allocated and reported on Schedules H4. Payroll amounts are stated net of taxes and fringe benefits.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed the recordkeeping requirement with OLC representatives during audit fieldwork and at the exit conference. In response to the exit conference, OLC Counsel stated that after the 2012 election cycle and prior to the commencement of the audit, OLC implemented timekeeping protocols in response to the Commission memorandum concerning timekeeping requirements. OLC's Chairman instructed its employees to comply with the guidelines set forth in this memorandum. The response further stated that OLC will continue to work with its staff to ensure payroll recordkeeping requirements are followed.

The Interim Audit Report recommended that OLC:

- provide evidence that it maintained monthly time logs to document the percentage of time an employee spent in connection with a federal election; or
- provide details of its plan to maintain monthly payroll logs in the future.

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report recommendation, OLC stated that it has implemented timekeeping protocols in response to the Commission's December 2013 memorandum² concerning timekeeping requirements. OLC's response further stated that its Chairman verbally instructed employees to comply with the guidelines set forth in the Commission's memorandum. OLC provided a copy of its employee recordkeeping policy, along with a memorandum OLC sent to its entire staff explaining the recordkeeping requirements and instructions detailing how employees are expected to comply. OLC also provided a copy of the time allocation sheet its employees will complete each month documenting their time spent on federal and state election activities. As such, OLC has complied with the Interim Audit Report recommendation by providing details of its plan to maintain monthly payroll logs in the future.

D. Draft Final Audit Report

The Draft Final Audit Report acknowledged that OLC implemented timekeeping protocols and provided a copy of its employee recordkeeping policy as well as a copy of the time allocation sheet its employees will complete each month documenting their time spent on federal and state election activities.

E. Committee Response to the Draft Final Audit Report

OLC's response to the Draft Final Audit Report provided no additional comments.

Commission Conclusion

On August 5, 2016, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that OLC failed to maintain monthly payroll logs totaling \$178,305 to document the time employees spent in connection with federal election activity.

The Commission approved the Audit staff's recommendation.

² Request for Consideration of a Legal Question (LRA 917), issued on October 23, 2012, and the Commission's policy conclusion issued on November 28, 2012.



FEDERAL ELECTION COMMISSION
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Statement of Designation of Counsel

Audie A13-13

Name of Counsel: William J. McGinley
Ann M. Donaldson

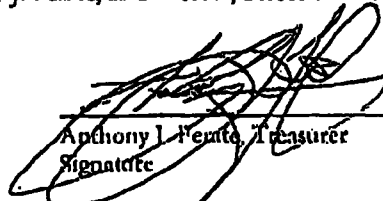
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The above named individuals are hereby designated as counsel and are authorized to receive any notifications and other communications from the Commission and to act on behalf of the Oklahoma Leadership Council and Anthony J. Ferate, as Treasurer, before the Commission.

4/1/2014
Date


Anthony J. Ferate, Treasurer
Signature

Name (Print): Oklahoma Leadership Council
and Anthony J. Ferate, as Treasurer

Address: 4031 North Lincoln Blvd.
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Information is being sought as part of an investigation being conducted by the Federal Election Commission and the confidentiality provisions of 2 U.S.C. § 437g(n)(12)(A) apply. This section prohibits making public any investigation conducted by the Federal Election Commission without the express written consent of the person under investigation.

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