



**TENNESSEE BUREAU OF ETHICS AND CAMPAIGN FINANCE
REGISTRY OF ELECTION FINANCE**

**Campaign Finance Audit of
Charles Brown
Election Year 2014**



Audit Team:

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STATE OF TENNESSEE



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August 12, 2015

Members of the Registry of Election Finance
404 James Robertson Parkway, Suite 104
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Ladies and Gentlemen,

Transmitted herewith are the agreed upon procedures for the campaign finance audit of Charles Brown's 2014 election campaign for Governor. This audit was conducted pursuant to the requirements of T.C.A. §2-10-212.

The procedures were developed to aid the Registry of Election Finance in its responsibilities to monitor and enforce Tennessee's Campaign Financial Disclosure Law and Campaign Contribution Limits Law. The candidate is responsible for complying with campaign finance laws and the accuracy of campaign financial disclosures. The sufficiency of these procedures is solely the responsibility of the Bureau of Ethics and Campaign Finance's audit group. Consequently, we make no representation regarding the sufficiency of the agreed upon procedures described in the report for any other purpose than aiding the Registry.

This report is intended for the information and use of the Members of the Tennessee Registry of Election Finance as outlined; and is not intended to be and should not be used by anyone other than the Registry without understanding the objectives, purposes, and underlying assumptions. This report, however, is a matter of public record.

Sincerely,

Jay Moeck, CPA, CFE
Audit Director

STATE OF TENNESSEE
BUREAU OF ETHICS AND CAMPAIGN FINANCE
REGISTRY OF ELECTION FINANCE

Audit Highlights
Mr. Charles Brown
2014 Campaign Finance Audit

AUDIT OBJECTIVES

The objectives of the audit were to determine Mr. Brown's compliance with certain provisions of campaign finance disclosure laws and regulations; compliance with certain provisions of campaign contribution limit laws and regulations; accuracy and completeness of the disclosures on the 2014 Second Quarter, 2014 Pre-Primary, 2014 Third Quarter, 2014 Pre-General and 2014 Fourth Quarter Campaign Financial Disclosure Statements; and to recommend appropriate actions to correct any deficiencies.

FINDING

- 1. Mr. Brown failed to maintain campaign records in violation of T.C.A. §§ 2-10-105(f) and 2-10-212(c). This violation resulted in the candidate improperly reporting the ending balance on hand on his 2014 Third Quarter and 2014 Pre-General reports, which is a violation of T.C.A. § 2-10-107(a)(1).**

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INTRODUCTION

AUDIT AUTHORITY

Tennessee Code Annotated (T.C.A.) §§2-10-206 and 2-10-212 authorize the Registry of Election Finance (Registry) to conduct audits of campaign financial disclosure statements filed with the Registry. The audit was initiated based on T.C.A. §2-10-212(1), which requires the Registry to audit gubernatorial candidates that receive at least 10% of the vote during the general election.

AUDIT PURPOSE

The Registry's campaign finance audits were developed to assist and encourage candidate compliance with campaign disclosure laws. The audit process assists the Registry in providing timely and accurate campaign information to government officials and the general public. The Registry's audits provide a tool to the Registry to evaluate the effectiveness of the campaign financial disclosure process. In addition, the audits assist the Registry with the enforcement of campaign finance limit laws and campaign finance disclosure laws. Finally, the audit reports are intended to assist the candidate and the State of Tennessee with promoting governmental accountability and integrity.

AUDIT SCOPE

During non-election years, Tennessee's campaign financial disclosure law requires candidates to make biannual financial disclosures as of the date of the first contribution or first expenditure, whichever occurs earlier. The biannual reporting periods are from January 16 to June 30 and July 1 to January 15 of each year. During election years, the disclosures expand to quarterly, pre-primary, and pre-general reports. Therefore, the audit reviewed Mr. Brown's disclosures on his 2014 Second Quarter, 2014 Pre-Primary, 2014 Third Quarter, 2014 Pre-General and 2014 Fourth Quarter Campaign Financial Disclosure Statements.

CAMPAIGN OVERVIEW

CAMPAIGN ORGANIZATION

Mr. Brown was a candidate in the November 4, 2014 general election for Governor. Mr. Brown filed an Appointment of Political Treasurer Statement with the Registry on August 14, 2014 prior to commencement of campaign finance activity. Mr. Brown appointed James M. Davis as political treasurer.

Mr. Brown's first financial disclosure for the 2014 campaign was the 2014 Second Quarter report filed on July 9, 2014. His most recent financial disclosure was the 2014 Fourth Quarter Report, which he filed on January 21, 2015. The Fourth Quarter report indicated no cash on hand, no outstanding obligations and no outstanding loans. The candidate has completed his 2014 election campaign reporting requirements.

OVERVIEW OF FINANCIAL ACTIVITIES

All of Mr. Brown's disclosures for the 2014 election were filed based on T.C.A. § 2-10-107 (a)(1). The statute allows candidates that have less than \$1,000 in contributions and expenses during a reporting period to report an abbreviated disclosure statement (short form disclosure). The short form disclosure requires only the reporting of the balance on hand, outstanding obligations, and outstanding loans. The filing also requires a signed statement that campaign activities fall under the exemption outlined in the statute. The Registry of Elections form has an optional area for candidates to disclose total receipts and total disbursements. A summary of Mr. Brown's disclosures for the 2014 election are presented below by reporting period.

Summary of Financial Activity
(Un-audited Amounts) **1**

	Second Quarter	Pre- Primary	Third Quarter	Pre- General		Fourth Quarter
Cash on hand (beginning)	\$0.00	\$0.00	\$0.00	\$750.00	2	\$0.00
Total receipts	0.00	0.00	803.00	700.00	2	0.00
Total disbursements	0.00	0.00	700.00	0.00		0.00
Cash on hand (ending)	\$0.00	\$0.00	\$103.00	\$50.00		\$0.00
Loans outstanding	\$0.00	\$0.00	\$0.00	\$0.00		\$0.00
Obligations outstanding	\$0.00	\$0.00	\$0.00	\$0.00		\$0.00

1 The chart shows the summary from the candidate's original paper disclosures.

2 The candidate appears to have disclosed amounts on the wrong line (see finding 1 on page 5).

OBJECTIVES, METHODOLOGIES, CONCLUSIONS

BALANCE ON HAND, LOANS, and OBLIGATIONS

Audit Objectives:

The objectives of our audit of balance on hand, loans, and obligations were to determine whether:

- the balance on hand, loans and obligations were properly reported in compliance with T.C.A. §§2-10-105 and 2-10-107, and reported in compliance with the Registry's rules;
- all receipts supporting the balance on hand were supported by bank statements and deposit slips;
- all campaign contributions from individuals and Political Action Committees (PACs) were within campaign limits;
- all contributions were from non-prohibited sources;
- all loans received were reported to the Registry, reported in the proper period, reported in compliance with T.C.A. §§2-10-105 and 2-10-107, and reported in compliance with the Registry's rules; and
- all loans received from lending institutions were supported by loan agreements;
- all disbursements supporting the balance on hand were supported by vendor receipts, canceled checks and bank statements;
- all disbursements and obligations were made for non-prohibited activities; and
- all disbursements and obligations were reported, reported in the proper period, reported in compliance with T.C.A. §§2-10-107 and 2-10-114 and reported in compliance with the Registry rules.

Audit Methodology:

The Registry obtained Mr. Brown's 2014 Campaign Financial Disclosure Statements for the period April 1, 2014 through January 15, 2015. We requested Mr. Brown provide his campaign records to support all contributions received (including loans), all interest received and all expenses incurred during his 2014 election campaign. Mr. Brown provided his personal bank account statements and photocopies of three checks deposited into the candidate's personal account. The following steps were performed on Mr. Brown's documentation:

- An audit reconstruction of the campaign activities was prepared for each reporting period based on the candidate's bank statements. The audit reconstructed the ending balance on hand by reporting period which was then compared to the candidate's disclosure to determine if the balance on hand was properly calculated and reported. The reconstruction consisted of the following:
 - a. An attempt was made to prepare a listing of all contributions received by the candidate for each reporting period as if a detailed disclosure had been made. In preparing the listing, funds deposited into the candidate's personal account were reviewed to determine if the funds deposited were campaign funds or personal funds. All funds determined to be campaign funds were included in the audit reconstruction. From there a determination was made if those funds were included in the candidate's calculated aggregate receipts amount.
 - b. An attempt was made to prepare a listing of all campaign disbursements made during each reporting period as if a detailed disclosure was made. In preparing the listing, all disbursements from the candidate's personal account were reviewed to determine if they were campaign related.
 - c. A summary was prepared from the created listing to calculate audit reconstructed amounts for beginning balance on hand, total receipts, total disbursements, and ending balance on hand by reporting period.
- All contributions on the audit reconstructed listing were tested to determine if campaign contributions from individuals and PACs complied with campaign contribution limits, T.C.A. §2-10-301, et seq.; contributions were properly reported; contributions were reported in the proper period; contributions were reported in compliance with T.C.A. §§2-10-105 and 2-10-107; and contributions were reported in compliance with the Registry's rules.
- An attempt was made to tested campaign disbursements to determine if all campaign expenditures were reported, reported in the proper period, reported in compliance with T.C.A. §§2-10-107 and 2-10-114 and reported in compliance with the Registry's rules.

Audit Conclusion:

Mr. Brown's 2014 Campaign Financial Disclosure Statements for the period April 1, 2014 through January 15, 2015 indicate he received and spent less than \$1,000 in each reporting period; therefore, was only required to file short form disclosures (see the Overview of Financial Activities for the requirements for short form reporting). His disclosures also indicate the candidate had no campaign finance activity until August 2014. This was determined from the date the Appointment of Treasurer was filed, August 14, 2014. Campaign finance statutes require a candidate to file the Appointment of Treasurer form prior to incurring campaign expenses or receiving campaign contributions. The August appointment along with the 2014 Second Quarter

and 2014 Pre-Primary reports showing \$0.00 for all lines appears to indicate no campaign finance activity occurred until August 2014.

Based on discussions with Mr. Brown, the audit determined the candidate failed to retain any campaign records and failed to maintain a separate campaign bank account during the campaign (Finding 1). After an audit request, the candidate was able to obtain copies of his personal bank account statements for the entire audit period. Included in these records, provided by the bank, were copies of three checks which were deposited into the bank account. These checks confirmed some of the contributions reported. As a result of failing to maintain a separate campaign bank account and campaign records, the audit could not determine whether campaign expenses were incurred or the amounts of any possible expenses. As a result of the improper record keeping, the audit cannot verify the candidate's own contributions as they are related to campaign expenses incurred. Finally, the audit cannot confirm expenses of the campaign, the audit cannot confirm the campaign had \$1,000 or less in activity in a reporting period and therefore was eligible for short form reporting.

However, based on the manner in which the candidate was maintaining his account and records, Mr. Brown appears to have improperly calculated the ending balance on hand for the 2014 Third Quarter and 2014 Pre-General reports (Finding 1). Mr. Brown's campaign disclosure statements for the 2014 election, his personal bank statements, and method of maintaining the campaign account indicate the campaign had no loans or obligations during the election.

FINDING

- 1. Mr. Brown failed to maintain campaign records in violation of T.C.A. §§ 2-10-105(f) and 2-10-212(c). This violation resulted in the candidate improperly reporting the ending balance on hand on his 2014 Third Quarter and 2014 Pre-General reports, which is a violation of T.C.A. § 2-10-107(a)(1).**

Mr. Brown commingled campaign funds with personal funds by failing to maintain a separate campaign account. He did not follow Registry rules for campaign finance record keeping by failing to maintain any campaign records during the campaign. Although not required by statute, the Registry has developed guidance for candidates for maintaining their campaign accounts and records of campaign activities. This guidance is not the sole method for maintaining records and does not include all variations of campaign activities; however, the failure to use a separate campaign bank account, retain expenses records and reconcile reports increases the likelihood of errors in recording and reporting campaign activities. If the candidate had followed the Registry's guidance, he may have averted the errors noted in this finding. The candidate did not implement the following Registry Rules, which resulted in inadequate campaign records:

- Registry Rule 0530-1-1-.01(1) defines a campaign account as "a separate bank account which must be maintained by a candidate or political campaign committee into which all campaign contributions shall be deposited and from which all campaign monies shall be expended."

- Registry Rule 0530-1-1-.02(1) states that a candidate shall not commingle personal funds or other monies with campaign account funds.
- Registry Rule 0530-1-3-.05(2) & (3) states that a candidate through his/her record-keeping system must be able to determine the aggregate amount of contributions received per election from each contributor and all expenditures incurred. The Registry recommends that candidates and their committees maintain photocopies of all contribution checks received or in the alternative, a journal or listing of contributions.
- Registry Rule 0530-1-1-.02(8) states that a candidate should perform bank reconciliations that reconcile the bank account and the campaign records to the financial disclosure statements.

The failure to maintain campaign records, which is a violation of T.C.A. §§ 2-10-105(f) and 2-10-212(c), and follow Registry bookkeeping procedures appear to have resulted in the candidate improperly reporting the ending balances on hand on his 2014 Third Quarter and 2014 Pre-General reports. Based on the information reviewed it appears that the ending balances on the Third Quarter and Pre-General reports should have both been \$0 instead of the \$103 and \$50 reported, respectively. The failure to accurately report the ending balances is a violation of T.C.A. § 2-10-107(a)(1).

RECOMMENDATION TO CANDIDATE

Mr. Brown should amend his campaign financial disclosure reports to properly report the ending balance on hand for each reporting period. In future campaigns, Mr. Brown should develop a campaign record-keeping system that adequately meets the requirements of the campaign financial disclosure statutes. The system should ensure that the candidate maintains campaign and personal funds separately and that he obtains and retains documentation for each contribution received. He should also obtain and retain receipts, invoices and other supporting documents for all campaign expenses incurred. Finally, the candidate should reconcile the campaign bank account to the campaign disclosure statements to ensure that all campaign finance activities are recorded and reported properly.

RECOMMENDATION TO REGISTRY

We recommend the Members of the Registry consider the findings for possible further action. We recommend the Registry approve the audit performed as being sufficient and complete. Finally, we recommend the Registry post the audit report to the Registry's web site notwithstanding whether a significant penalty is assessed, as outlined in T.C.A. §2-10-212(f). The report and related findings will assist current and future candidates in understanding the audit process, the purposes of Registry rules, and types of procedures needed to comply with campaign finance laws.

RESOLUTIONS

CANDIDATE'S CORRECTIVE ACTIONS

After notifying Mr. Brown of the above finding, he chose to take corrective actions on his reports prior to the Registry's approval of the audit. Mr. Brown amended his 2014 Third Quarter and 2014 Pre-General Campaign Financial Disclosure Statements on July 13, 2015.

Corrective Actions - Finding 1:

The candidate's amended 2014 Third Quarter and 2014 Pre-General report properly reported receipts, expenses, and balance on hand. The amended report corrects the reporting errors noted in Finding 1. The errors for campaign record keeping cannot be corrected by amendment.

REGISTRY OF ELECTION FINANCE ACTIONS

The Members of the Registry of Election Finance reviewed the 2014 campaign finance audit of Mr. Charles Brown during the August 12, 2015 regular monthly meeting. The report contained one finding along with the corrective actions of the candidate. The Registry voted to accept and approve the audit report with no further action.