



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

**Campaign Finance Audit of
Senator Steve Southerland
Election Year 2014**



Audit Team:

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STATE OF TENNESSEE



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October 14, 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 Senator Steve Southerland's 2014 election campaign for Senate, District 1. 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
Senator Steve Southerland
2014 Campaign Finance Audit

AUDIT OBJECTIVES

The objectives of the audit were to determine Sen. Steve Southerland'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 2011 Early Mid-Year Supplemental, 2011 Early Year-End Supplemental 2012 Early Mid-Year Supplemental, 2012 Early Year-End Supplemental 2013 Early Mid-Year Supplemental, 2013 Early Year-End Supplemental, 2014 First Quarter, 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.

The audit report contains no findings.

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INTRODUCTION

AUDIT AUTHORITY

Tennessee Code Annotated (T.C.A.) §§ 2-10-206, 2-10-212 authorize the Registry of Election Finance (the “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(2), which requires the Registry to audit approximately two percent of all candidates for the general assembly.

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 Sen. Steve Southerland’s disclosures on his 2011 Early Mid-Year Supplemental, 2011 Early Year-End Supplemental 2012 Early Mid-Year Supplemental, 2012 Early Year-End Supplemental 2013 Early Mid-Year Supplemental, 2013 Early Year-End Supplemental, 2014 First Quarter, 2014 Second Quarter, 2014 Pre-Primary, 2014 Third Quarter, 2014 Pre-General, and 2014 Fourth Quarter Campaign Financial Disclosure Statements.

CAMPAIGN OVERVIEW

CAMPAIGN ORGANIZATION

Sen. Steve Southerland was a candidate in the November 4, 2014 general election for Senate District 1. Sen. Steve Southerland filed an Appointment of Political Treasurer Statement with the Registry on March 8, 2011 appointing W.J. (Bill) Blackburn as political treasurer.

The candidate's first financial disclosure for the 2014 campaign was the 2011 Early Mid-Year Supplemental report filed on July 13, 2011. Sen. Southerland's last financial disclosure for his 2014 election campaign was the 2014 Fourth Quarter Report, which he filed on January 23, 2015. The Fourth Quarter report indicated \$77,786.03 in cash on hand, no outstanding obligations, and no outstanding loans. The candidate filed his Appointment of Political Treasurer Statement for his 2018 election on March 24, 2015, which transferred his remaining balance to the 2018 election. The transfer ended his 2014 reporting requirements.

OVERVIEW OF FINANCIAL ACTIVITIES

The following financial amounts are a summary of the financial disclosures made by the candidate. The summarized amounts are from the following disclosure reports: 2011 Early Mid-year Supplemental, 2011 Early Year-end Supplemental, 2012 Early Mid-year Supplemental, 2012 Early Year-end Supplemental, 2013 Early Mid-year Supplemental, 2013 Early Year-end Supplemental, 2014 First Quarter, 2014 Second Quarter, 2014 Pre-Primary, 2014 Third Quarter, 2014 Pre-General, and 2014 Fourth Quarter reports after amendments. The amounts displayed are for informational purposes only.

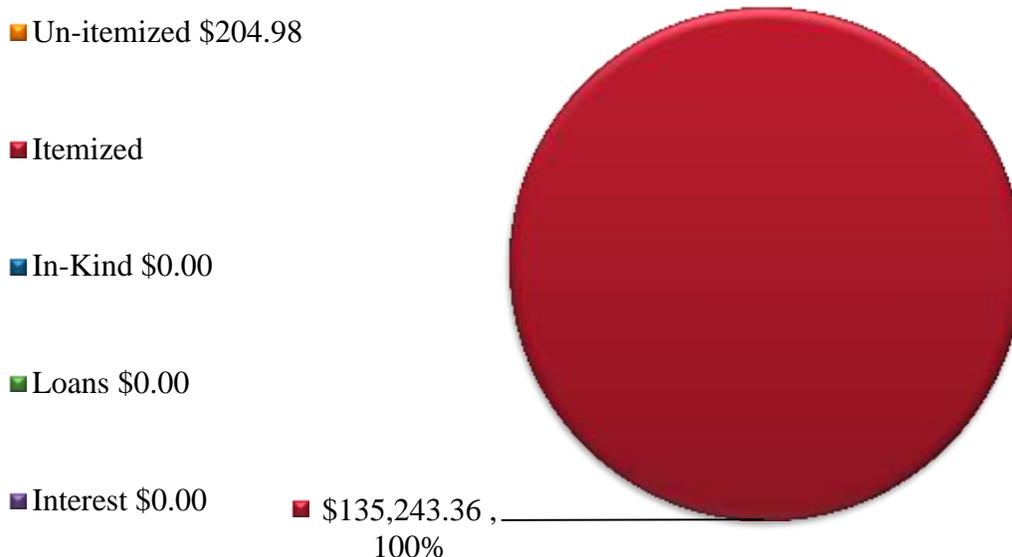
<u>Summary of Financial Activity</u>		
<u>(Un-audited Amounts)</u>		
Cash on hand at January 16, 2011		\$96,798.27 ¹
Receipts		
Un-Itemized	\$204.98	
Itemized	135,243.36	
Loans received	0.00	
Interest	0.00	
Total receipts		<u>\$135,448.34</u>
Disbursements		
Un-Itemized	5,371.31	
Itemized	149,089.27	
Loans principal payments	0.00	
Obligation payments	0.00	
Total disbursements		<u>\$154,460.58</u>
Cash on hand at January 15, 2015		<u>\$77,786.03</u>
Loans outstanding at January 15, 2015		\$0.00
Obligations at January 15, 2015		\$0.00
Total in-kind contributions received		\$0.00

¹ The balance on hand at 1/16/2011 is funds transferred from the candidate's prior campaign.

CHARTS

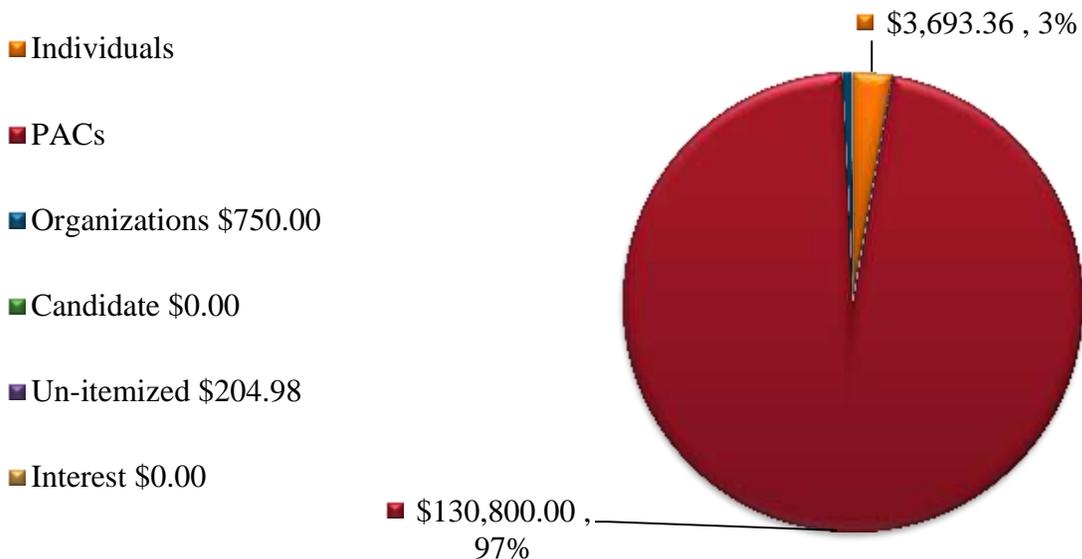
2014 ELECTION CAMPAIGN CONTRIBUTIONS

The following chart shows the contributions reported by the candidate for the 2014 election campaign.



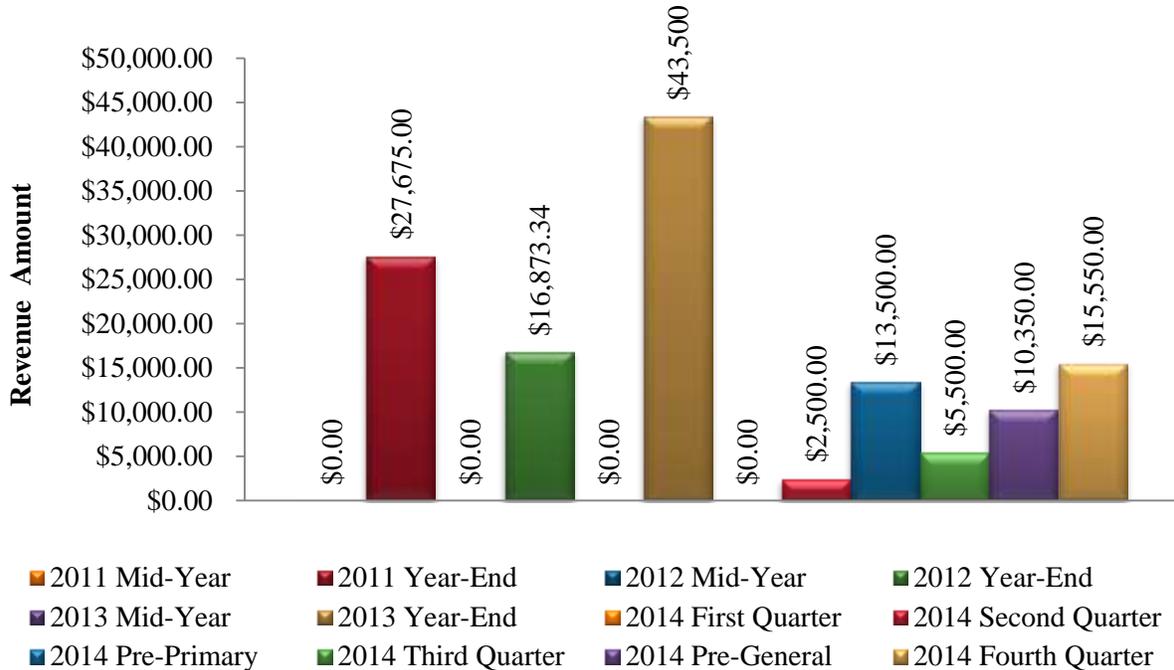
2014 ELECTION CONTRIBUTIONS BY SOURCE

The following chart shows the monetary contributions reported by the candidate for the 2014 election campaign. Organizations in this chart represent non-profit organizations, non-PAC campaign organizations, or businesses.



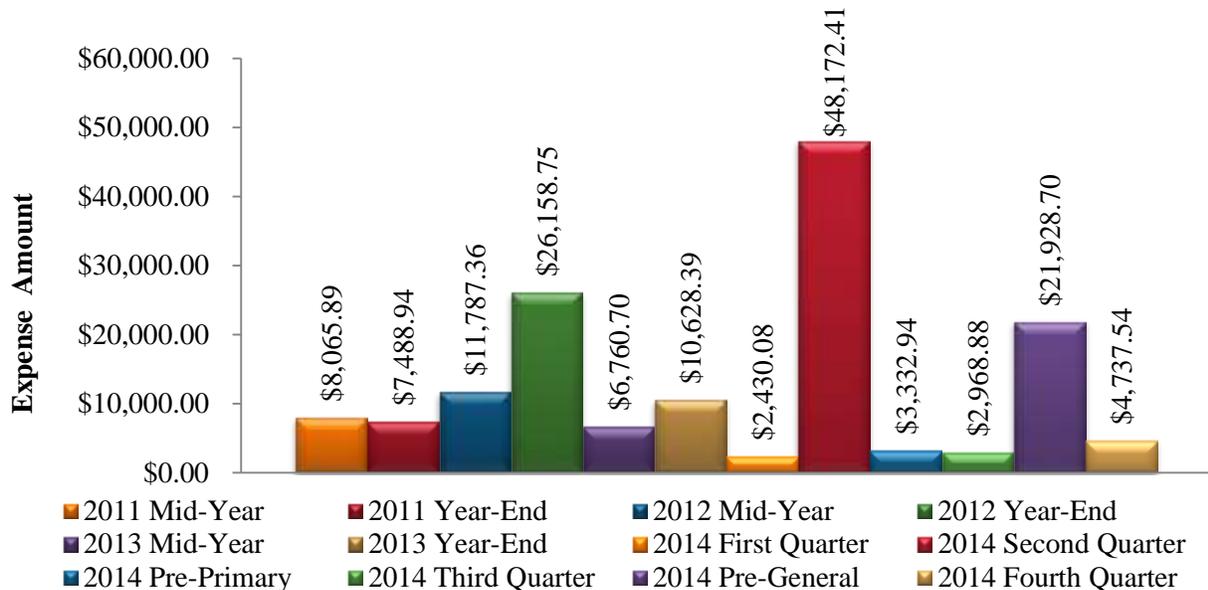
2014 ELECTION CONTRIBUTIONS BY REPORTING PERIOD

The following chart shows the contributions that the candidate reported for the 2014 election campaign by reporting period.



2014 ELECTION EXPENSES BY REPORTING PERIOD

The following chart shows the expenses that the candidate reported for the 2014 election campaign by reporting period.



OBJECTIVES, METHODOLOGIES, CONCLUSIONS

CONTRIBUTIONS AND RECEIPTS

Audit Objectives:

The objectives of our audit of contributions and loans were to determine whether:

- all campaign contributions from individuals and Political Action Committees (PACs) were within campaign limits;
- all contributions were from non-prohibited sources;
- all contributions received were reported, 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;
- all monetary contributions were supported by bank statements and deposit slips;
- all in-kind contributions were supported by donation letter or other appropriate supporting documentation;
- all interest and other investment earnings received were reported, reported in the proper period, and supported by bank or investment statements;
- all loans received were reported to the Registry, reported in the proper period, report 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.

Audit Methodology:

The Registry obtained Sen. Steve Southerland's 2014 Campaign Financial Disclosure Statements from January 16, 2011 to January 15, 2015. We requested Sen. Southerland to provide his campaign records to support all contributions, loans, and interest that he received during his 2014 election campaign. Sen. Southerland's campaign records for contributions included bank statements, deposit slip copies and contributor check copies. The following steps were performed on Sen. Southerland's campaign documentation:

- The documentation was reviewed to determine if the candidate's monetary contributions and interest received from January 16, 2011 to January 15, 2015 totaled \$135,448.34.

- A reconciliation of monetary contributions reported to funds deposited into the campaign accounts was prepared to determine if the candidate deposited all funds into a campaign bank account and properly reported the funds in his campaign account on his campaign disclosures.
- All un-itemized monetary contributions and a sample of itemized monetary contributions was prepared and compared to the candidate's disclosures reported during the election 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.
- In-kind contributions by contributor was compared to the candidate's itemized contributions reported during the election to determine if campaign contributions from individuals and PACs complied with campaign contribution limits, T.C.A. §2-10-301, et seq.
- The documentation was reviewed to determine if the candidate's loans received from January 16, 2011 to January 15, 2015 totaled \$0.00.
- A list of loans received and payments made by source was prepared and compared to the candidate's bank statements to determine if the candidate deposited all loan proceeds into a campaign bank account and made all payments from campaign funds.
- The list of loans was reviewed to determine if all loan activity was reported to the Registry, reported in the proper period, reported in compliance with T.C.A. §§2-10-105 and 2-10-107, and all loans were in compliance with the Registry's rules.

Audit Conclusion:

Sen. Southerland's 2014 Campaign Financial Disclosure Statements from January 16, 2011 to January 15, 2015 and the candidate campaign records indicated that he received and deposited contributions totaling \$135,448.34. The audit testing of un-itemized monetary contributions and the sample of itemized monetary contributions indicated that contributions reported complied with campaign finance limits and campaign finance laws. The campaign records and disclosures indicated that Sen. Southerland received no loans and had no interest earnings.

DISBURSEMENTS AND OBLIGATIONS

Audit Objectives:

The objectives of our audit of disbursements and obligations were to determine whether:

- all disbursements and obligations 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 Sen. Southerland's 2014 Campaign Financial Disclosure Statements from January 16, 2011 to January 15, 2015. We requested Sen. Southerland provide campaign records to support all expenses during his 2014 election campaign. Sen. Southerland's campaign records for expenses included bank statements, cancelled checks, check book check stubs, vendor receipts/invoices, and credit card statements. The following steps were performed on his campaign documentation:

- The documentation was reviewed to determine if the candidate's disbursements from January 16, 2011 to January 15, 2015 totaled \$154,460.58.
- A list of disbursements was prepared and compared to the candidate's bank statements and copies of cleared checks to determine if the candidate expended all funds from the campaign bank account.
- The list of disbursements was compared to the candidate's campaign disclosures and the bank statements to determine if all disbursements were reported.
- A sample of un-itemized and itemized expenditures were reviewed to determine if all 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:

Sen. Southerland's 2014 Campaign Financial Disclosure Statements from January 16, 2014 to January 15, 2015 and the candidate campaign records indicated that he had expenses totaling \$154,460.58. The audit testing of expenditure samples indicated that expenditures reported complied with campaign finance limits and campaign finance laws except Sen. Steve Southerland failed to itemize \$280 in expenditures to individuals or vendors who he paid more

than \$100.00 during a reporting period. The improper reporting is a violation of T.C.A. §2-10-107(a)(2)(B). The campaign disclosures indicated that Sen. Southerland reported no obligations.

No detail finding was provided for the failure to itemize expenses as the errors represent less than 1% of the transactions the candidate reported. Also, the audit testwork indicated the volume of un-itemized expenses the candidate was reporting was reduced later in the election cycle due to the candidate electing to itemize certain expenses which could be reported as un-itemized. The reduction in the volume of un-itemized expenses reduces the possibility that errors were occurring late in the audit period or will occur in future reporting periods. However, the audit staff discussed the errors with Sen. Southerland and he amended the applicable campaign finance disclosures to correct the errors noted.

RESOLUTIONS

REGISTRY OF ELECTION FINANCE ACTIONS

The Members of the Registry of Election Finance reviewed the 2014 campaign finance audit of Sen. Southerland during the November 2015 regular monthly meeting. The report contained no findings for corrective actions. The Registry voted to accept and approve the audit report with no further action.