

FINAL AUDIT REPORT OF THE REPORTS ANALYSIS AND AUDIT DIVISION
On
THE COMMITTEE TO RE-ELECT KWAME R. BROWN

EXECUTIVE SUMMARY

The Committee to Re-Elect Kwame R. Brown (Principal Campaign Committee) registered with the Office of Campaign Finance on April 24, 2007. The Committee was the principal campaign committee of Kwame R. Brown, a 2008 candidate for the Office of Member of the Council, of the District of Columbia, At-Large.

The audit was conducted pursuant to D.C. Official Code Section 1-1103.03(8) (2001 Edition, as amended) (the Act).

The findings of the audit were presented to the Committee in the Preliminary and Interim Audit Reports issued on January 12, 2011 and March 8, 2011, respectively. The Responses of the Committee to the audit findings are contained in the Final Audit Report.

The following is an overview of the findings contained in the Final Audit Report.

RECEIPTS NOT REPORTED

D.C. Official Code Section 1-1102.06(b)(2) and (8).

Our audit of the contributor checks, committee bank statements and committee cancelled checks, revealed that the Committee failed to report:

- 1) Two-hundred ten (210) contributions totaling \$102,763.00 that were evidenced through copies of the contributor checks provided by the Committee;
- 2) Six (6) contributions totaling \$610.00 that were received through Paypal payments, which were evidenced through Paypal statements provided by the Committee;
- 3) Five (5) cash contributions totaling \$177.00 that were evidenced through contributor records provided by the Committee;
- 4) Thirteen (13) credits issued by the bank totaling \$11,880.54 that were evidenced through the Committee bank statements;
- 5) Returned deposit items totaling \$2,550.00 that cleared the Committee's bank accounts; and,

6) Through Committee bank statements, an offset to its operating expenditures totaling \$214.09 which was a payment returned by the Committee bank for insufficient funds and then credited to the Committee bank account since the funds were not available for payment.

Our audit further revealed an irreconcilable difference of \$15,506.72 in reported receipts verses bank receipts. This difference may reflect receipts which were not reported. The Committee failed to provide deposit slips for each deposit and without the proper breakdown (a list of contributor checks) of each deposit made by the Committee, the Audit staff could not determine which individual receipts were not reported. The Audit staff submits that the irreconcilable difference of \$15,506.72 in total receipts was the result of these receipts which were not reported.

The Audit staff recommended that the Committee file an amended consolidated report inclusive of all receipts/contributions previously unreported. On February 25, 2011, the Committee submitted an Amended Consolidated Report inclusive of all receipts previously unreported.

EXCESSIVE CONTRIBUTIONS

D.C. Official Code Sections 1-1131.01(a) (3), 1-1101.01(8), 1-1131.01(g), and 1-1131.02.

3 DCMR Sections 3011.13 and 3011.14.

Our audit revealed that the Committee accepted five (5) excessive contributions totaling \$9,200.00. In its Response to the Interim Audit Report dated March 23, 2011, the Committee provided additional documentation that the aforementioned five (5) contributions were not excessive contributions. After review of the documentation, the Audit staff determined that these contributions were not excessive as stated by the Committee.

EXPENDITURES NOT REPORTED

D.C. Official Code Sections 1-1102.06(b)(9) and (10).

Our audit of the Committee's bank statements and cancelled checks revealed that the Committee failed to report:

- 1) Fifty-three (53) expenditures totaling \$169,431.49;
- 2) Bank charges totaling \$535.44;
- 3) Bank account debit payments totaling \$3,369.24;

- 4) Bank account deposit corrections totaling \$47,175.06;
- 5) Four (4) expenditures that resulted in a \$769.94 understatement in total expenditures;
- 6) Returned deposit items totaling \$6,950.00 that were charged back by the Committee depository;
- 7) Fees for returned deposit items totaling \$240.00;
- 8) A payment of \$214.09 that was redeposited by the Committee depository for insufficient funds; and,
- 9) Fees for insufficient funds totaling \$240.00.

Our audit also revealed an irreconcilable difference of \$5,834.07 in reported expenditures verses bank expenditures. The Audit staff surmised that this amount is a result of the bank debit corrections; however, without copies of the original Committee deposit slips, the Audit staff was unable to identify each deposit.

The Audit staff recommended that the Committee file an amended consolidated report inclusive of all expenditures previously unreported. On February 25, 2011, the Committee filed an Amended Consolidated Report inclusive of each expenditure that was previously unreported including the irreconcilable difference of \$5,834.07.

EXPENDITURES NOT NEGOTIATED THROUGH THE BANK ACCOUNT OF THE COMMITTEE

Our audit revealed that the Committee reported twelve (12) expenditures totaling \$19,636.20 that were not negotiated through the Committee's bank account.

The Audit staff recommended that the Committee file an Amended Consolidated Report deleting the aforementioned expenditures that were not negotiated through the bank account of the Committee. On February 25, 2011, the Committee filed an Amended Consolidated Report deleting the aforementioned expenditures that were not negotiated through the Committee's bank account.

EXPENDITURES REPORTED IN DUPLICATE

Our audit revealed three (3) expenditures totaling \$486.09 that were reported in duplicate by the Committee on its Reports of Receipts and Expenditures.

The Audit staff recommended that the Committee file an Amended Consolidated Report deleting the aforementioned expenditures that were reported in duplicate on its Reports of Receipts and Expenditures. On February 25, 2011, the Committee filed an Amended Consolidated Report deleting the aforementioned expenditures that were previously reported in duplicate.

CASH DISBURSEMENTS OVER \$300

D.C. Official Code Section 1-1102.03(a)

3 DCMR Section 3010 and 3 DCMR Section 3010.3(b).

Our audit of the Committee bank statements and Committee cancelled checks revealed that the Committee issued eight (8) checks totaling \$31,590.79 that were paid to cash. The Audit staff was able only to trace three (3) of the eight (8) checks to expenditures reported on Schedule B, Itemized Expenditures, of the Committee's Reports of Receipts and Expenditures. Only three (3) of the checks were accompanied by the proper documentation, copies of invoices and money orders or cashier's checks, to substantiate each expenditure reported. The remaining five (5) checks were not accompanied by the proper documentation. The Committee only provided copies of invoices and did not include copies of money orders or cashier's checks as evidence of payment for each expenditure reported.

The Audit staff recommended that the Committee establish internal control procedures that would ensure that cash withdrawals of checks paid to cash are not made in amounts greater than \$50. Further, the Audit staff recommended that the Committee provide copies of the money orders or cashier's checks to substantiate the aforementioned five (5) payments that were paid to cash in which the proper documentation was not previously provided.

The Committee provided the Audit staff with a copy of its internal control procedures to ensure checks are not paid to cash in amounts greater than \$50. Further, on March 23, 2011, the Committee provided documentation to substantiate the five (5) expenditures that were paid to cash.

OTHER MATTER NOTED – PAYMENTS TO BANNER CONSULTING

D.C. Official Code Section 1-1102.01(c)(3).

3 DCMR Section 3400.2.

Our audit revealed sixty (60) expenditures totaling \$379,654.63 to Banner Consulting (46% of total expenditures) from the period August 2007 through March 2008. Thirty-four (34) expenditures were made by check and the remaining twenty-six (26) payments were made by wire transfer. The Committee provided invoices for each expenditure; however, the invoices did not provide a breakdown by amount for each service that was provided. Each invoice only included the total amount due. Of the \$379,654.63 total paid by the Committee to Elect Kwame R. Brown to Banner Consulting, \$239,663.42 was paid and/or transferred to Partners in Learning (that is 71% of all monies paid to Banner Consulting by the Committee to Re-Elect Kwame R. Brown).

The Audit staff requested that the Committee provide **all records** and statements pertaining to Banner Consulting and Partners in Learning. The Committee provided the requested financial records for Banner Consulting; however, the Committee did not provide all the financial records for Partners in Learning as requested.

MISSTATEMENT OF FINANCIAL ACTIVITY

D.C. Official Code Sections 1-1102.06(b) (8) and (10).

The Audit staff compared the Committee’s reported figures with its bank records and found that the Committee had misstated its receipts, disbursements and its cash on hand balance, as of July 31, 2010.

The following chart details the discrepancies between the Committee’s disclosure reports and bank records. The chart lists: (a) the amounts the Committee reported, (b) the actual amounts listed on its bank statements, and (c) the discrepancies between the two figures.

Comparison of Disclosure Reports and Bank Records

	Reported	Bank Statement	Discrepancy
Receipts	\$691,384.25	\$825,085.72	\$133,701.47 understated
Disbursements	\$621,821.78	\$824,790.68	\$202,968.90 understated
Ending Cash Balance	\$69,562.47	\$295.04	\$69,267.43 overstated

The understatement of receipts and expenditures resulted from the Committee’s combination of the aforementioned discrepancies previously noted. In addition to these discrepancies, there was an irreconcilable difference of \$15,506.84 in total receipts and \$5,834.07 in total expenditures.

The Audit staff recommended that the Committee correct the misstatement of its financial activity by making the appropriate adjustments as noted in the aforementioned findings. Further, the Audit staff recommended that the Committee file an Amended Consolidated Report inclusive of the appropriate adjustments.

On February 25, 2011, the Committee filed an Amended Consolidated Report making the appropriate adjustments as noted above.

CONCLUSION

The Audit staff determined that the reports, statements, and responses filed by the **Committee to Re-Elect Kwame R. Brown** were not in substantial compliance with the Campaign Finance Act. The Audit Division referred the failure of the Committee to initially report and disclose the required information on the reports and statements concerning the aforementioned previously undisclosed receipts and expenditures under D.C. Official Code Sections 1-1102.06(b)(2)(8)(9) and (10), and to maintain detailed

records of all expenditures disclosed in the reports and statements under D.C. Official Code Section 1-1102.01(c)(3) and 3 DCMR Section 3400.2, to the OCF General Counsel for whatever action deemed appropriate.



Office of Campaign Finance

**FINAL AUDIT REPORT ON
THE COMMITTEE TO RE-ELECT KWAME R.
BROWN
PRINCIPAL CAMPAIGN COMMITTEE
2008 GENERAL ELECTION**

APRIL 2011

**REPORTS ANALYSIS AND AUDIT DIVISION
OFFICE OF CAMPAIGN FINANCE
WASHINGTON, DC 20009**

I. BACKGROUND

OVERVIEW

This Report is based upon a field audit of the Statements and Reports of Receipts and Expenditures filed by the Committee to Re-Elect Kwame R. Brown ("the Committee") undertaken by the Reports Analysis and Audit Division (RAAD), Office of Campaign Finance (OCF), to determine if the Committee has complied with the provisions of the District of Columbia Campaign Finance Reform and Conflict of Interest Act of 1974, as amended, D.C. Official Code Section 1-1103.03(8) (2001 Edition) (the Act).

1. Candidate

Kwame R. Brown, a candidate in the 2008 General Election for the Office of Member of the Council, At-Large, of the District of Columbia, registered with the OCF on April 24, 2007, in accordance with D.C. Official Code Section 1-1102.05. Mr. Brown also filed a Candidate Waiver Request of the reporting requirements for the filing of Candidate Reports of Receipts and Expenditures, pursuant to D.C. Official Code Section 1-1102.06.

The field audit of the candidate's statements covered the period February 1, 2007 through July 31, 2010. The candidate, in his Statement of Candidacy, designated the Committee to Re-Elect Kwame R. Brown as his Principal Campaign Committee.

2. Principal Campaign Committee

The Committee to Re-Elect Kwame R. Brown registered with the OCF on April 24, 2007, in accordance with D.C. Official Code Section 1-1102.04. An Amended Statement of Organization was filed on August 5, 2008. On its Statement of Organization, the Committee identified its depository as the Industrial Bank of Washington, bank account #1079727; however, through the review of the Committee's bank records, the Audit staff noted that another depository was opened by the Committee on August 20, 2008 (Industrial Bank of Washington, bank account #1189735) by transferring \$60,000.00 from the initial bank depository. The Committee however, **failed to amend its Statement of Organization to include the new depository**. D.C. Official Code Section 1-1102.04 (b)(9) requires that the Statement of Organization include the "name and address of the bank or banks designated by the committee as the campaign depository or depositories, together with the title and number of each account and safety deposit box used by that committee at the depository or depositories...". Further, any change in information previously submitted in a Statement of Organization must be reported within the ten (10) day period following the change. See D.C. Official Code Section 1-1102.04(c). Therefore, the Audit staff will refer the failure of the Committee to disclose the additional depository to the OCF General Counsel for whatever action deemed appropriate.

The audit of the Committee to Re-Elect Kwame R. Brown covered the period February 1, 2007 through July 31, 2010. The Committee's Report of July 1, 2007, the first report filed, disclosed a beginning cash balance of \$0.00. During the period of the pre-audit (desk) review, the reports filed by the Committee reflected total aggregated receipts of \$691,384.25, total aggregated expenditures of \$621,821.78, and an ending cash balance of \$69,562.47. Receipts and expenditures per **audit** were \$825,085.72 and \$824,790.68, respectively, with an ending cash balance of \$295.04.

The Preliminary Audit Report was issued to the Committee on January 12, 2011 with the Audit staff's findings and recommendations.

The Committee responded with additional information on January 13, 2011 and January 19, 2011.

Additionally, on February 25, 2011, the Committee filed an Amended Consolidated Report to reflect the audited receipts, expenditures, and ending cash on hand balance as calculated by the Audit staff.

The Interim Audit Report was issued on March 8, 2011.

The Committee responded with additional information on March 23, 2011.

B. KEY PERSONNEL

The principal officers of the Committee to Re-Elect Kwame R. Brown were Dawn Cromer, Treasurer, and Sigmund R. Adams, Chairperson, as cited in the Statement of Organization. Acceptance of Treasurer and Chairperson Forms were filed on April 24, 2007.

C. SCOPE

The audit procedures performed included a verification and/or examination of:

1. The mathematical accuracy of the Reports of Receipts and Expenditures filed with the Director, Office of Campaign Finance, during the period audited;
2. Total reported receipts and expenditures and individual transactions with source documents;
3. Conformity with the contribution limitation as mandated by D.C. Official Code Section 1-1131.01;
4. Committee debts and obligations;
5. Proper categorization of the Committee's receipts and expenditures; and

6. The review procedures as deemed necessary under the circumstances.

II. FINDINGS AND RECOMMENDATIONS

RECEIPTS

A. RECEIPTS NOT REPORTED

D.C. Official Code Sections 1-1102.06(b)(2) and (8) provide, in part that, “Each report under this section shall disclose: [t]he full name and mailing address (including the occupation and the principal place of business, if any) of each person who has made 1 or more contributions to or for such committee or candidate (including the purchase of tickets for events such as dinners, luncheons, rallies, and similar fundraising events) within the calendar year in an aggregate amount or value in excess of \$50 or more, together with the amount and date of such contributions; and the total sum of all receipts by or for such committee or candidate during the reporting period.”

Our audit of the contributor checks, committee bank statements and committee cancelled checks, revealed that the Committee failed to report:

- 1) Two-hundred ten (210) contributions totaling \$102,763.00 that were evidenced through copies of the contributor checks provided by the Committee;
- 2) Six (6) contributions totaling \$610.00 that were received through Paypal payments, which were evidenced through Paypal statements provided by the Committee;
- 3) Five (5) cash contributions totaling \$177.00 that were evidenced through contributor records provided by the Committee;
- 4) Thirteen (13) credits issued by the bank totaling \$11,880.54 that were evidenced through the Committee bank statements;
- 5) Returned deposit items totaling \$2,550.00 that cleared the Committee’s bank accounts; and,
- 6) Through Committee bank statements, an offset to its operating expenditures totaling \$214.09 which was a payment returned by the Committee bank for insufficient funds and then credited to the Committee bank account since the funds were not available for payment.

Our audit further revealed an irreconcilable difference of \$15,506.72 in reported receipts verses bank receipts. This difference may reflect receipts which were not reported. The Committee failed to provide deposit slips for each deposit and without the proper breakdown (a list of contributor checks) of each deposit made by the Committee, the Audit staff could not determine which individual receipts were not reported. The

Audit staff submits that the irreconcilable difference of \$15,506.72 in total receipts was the result of these receipts which were not reported.

In our opinion, the failure to report each of the aforementioned receipts and report the total sum of all receipts represents individual violations of D.C. Official Code Section 1-1102.06(b) (2).

In the Preliminary Audit Report the Audit staff recommended that the Committee file an Amended Consolidated Report inclusive of all contributions/receipts previously unreported including the irreconcilable difference of \$15,506.72.

In its Response to the Preliminary Audit Report on February 25, 2011, the Committee filed an Amended Consolidated Report inclusive of all contributions/receipts that were previously unreported as recommended by the Audit staff.

The Audit staff will refer to the OCF General Counsel the failure of the Committee to initially report and disclose the required information on reports and statements under D.C. Official Code Section 1-1102.06(b)(2) and (8), for whatever action deemed appropriate.

B. EXCESSIVE CONTRIBUTIONS

D.C. Official Code Section 1-1131.01(a)(3) provides that, "No person shall make any contribution which, and no person shall receive any contribution from any person which, when aggregated with all other contributions received from that person, relating to a campaign for nomination as a candidate or election to public office, including both the primary and general election or special elections, exceeds: In the case of a contribution in support of a candidate for member of the Council elected at-large or for the recall of a member of the Council elected at-large, \$1,000."

D.C. Official Code Section 1-1101.01(8) provides that, "When used in this chapter, unless otherwise provided: [t]he term 'person' means an individual, partnership, committee, corporation, labor organization, and any other organization."

D.C. Official Code Section 1-1131.01(g) provides that, "All contributions made by any person directly or indirectly to or for the benefit of a particular candidate or that candidate's political committee, which are in any way earmarked, encumbered, or otherwise directed through an intermediary or conduit to that candidate or political committee, shall be treated as contributions from that person to that candidate or political committee and shall be subject to the limitations established by this section."

3 DCMR Section 3011.13 provides that, "A corporation, its subsidiaries, and all political committees established, financed, maintained or controlled by the corporation and its subsidiaries share a single contribution."

3 DCMR Section 3011.14 provides that, “A corporation is deemed to be a separate entity; provided that a corporation (corporation B) which is established, financed, maintained or controlled (51% or more) by another corporation (corporation A) is considered, for the purposes of the contribution limitations, a subsidiary of the other corporation (corporation A).”

D.C. Official Code Section 1-1131.02 provides that, “All contributions made by partnerships must be attributed to both the partnership and to each partner, on the Reports of Receipts and Expenditures. A partner's contribution must be attributed in direct proportion to the partner's share of the partnership profits according to instructions which must be provided by the partnership to the political committee or candidate; or by agreement of the partners, as long as only the profits of the partners to whom the contributions are attributed are reduced (or losses increased) in proportion to the contribution attributed to each of them. Contributions by a partnership or by a partner may not exceed the limitations on contributions as prescribed by D.C. Official Code Section 1-1131.01.”

Our audit revealed that the Committee accepted five (5) excessive contributions totaling \$9,200.00.

In the Preliminary Audit Report, the Audit staff recommended that the Committee refund the excessive portion of each contribution to each contributor and provide documentation of the completed transactions (front and back copies of the negotiated checks) to our office for review.

In the Responses received by the Committee, the Committee representative stated that the Committee did not have the monies to repay the excessive portions previously accepted.

In the Interim Audit Report the Audit staff reiterated its recommendation made in the Preliminary Audit Report that the Committee refund the excessive portion of each contribution to each contributor and provide the Audit staff with the proper documentation of the completed transaction. The Audit staff also recommended that the Committee hold a fundraiser to solicit the monies to repay each contributor the excessive portion of the contribution received.

In its Response to the Interim Audit Report dated March 23, 2011, the Committee provided additional documentation that the aforementioned five (5) contributions were not excessive contributions. After review of the documentation, the Audit staff determined that these contributions were not excessive as stated by the Committee. They are detailed below:

Contribution #1 – The contribution was actually a refund by the vendor for an ad that was never placed.

Contribution#2 – The contribution was actually attributed to two members of the same family (father and son) who share the same first and last name.

Contribution #3 – The contribution was actually attributed to separate donors who are husband and wife.

Contributions #4 and #5 – The original excessive contribution was not deposited by the Committee; therefore, another contribution, not excessive in nature, was issued by the vendor.

DISBURSEMENTS

C. EXPENDITURES NOT REPORTED

D.C. Official Code Sections 1-1102.06(b)(9) and (10) provide that, “Each report under this section shall disclose: [t]he full name and mailing address (including the occupation and principal place of business, if any) of each person to whom expenditures have been made by such committee or on behalf of such committee or candidate within the calendar year in an aggregate amount or value of \$10 or more, the amount, date, and purpose of each such expenditure and the name and address of, and office sought by, each candidate on whose behalf such expenditure was made; and the total sum of expenditures made by such committee or candidate during the calendar year.”

Our audit of the Committee’s bank statements and cancelled checks revealed that the Committee failed to report:

- 10)** Fifty-three (53) expenditures totaling \$169,431.49;
- 11)** Bank charges totaling \$535.44;
- 12)** Bank account debit payments totaling \$3,369.24;
- 13)** Bank account deposit corrections totaling \$47,175.06;
- 14)** Four (4) expenditures that resulted in a \$769.94 understatement in total expenditures;
- 15)** Returned deposit items totaling \$6,950.00 that were charged back by the Committee depository;
- 16)** Fees for returned deposit items totaling \$240.00;
- 17)** A payment of \$214.09 that was redeposited by the Committee depository for insufficient funds; and,
- 18)** Fees for insufficient funds totaling \$240.00.

Our audit also revealed an irreconcilable difference of \$5,834.07 in reported expenditures verses bank expenditures. The Audit staff surmised that this amount is a result of the bank debit corrections; however, without copies of the original Committee deposit slips, the Audit staff was unable to identify each deposit.

In our opinion, the failure to report each expenditure and report the total sum of all expenditures represents individual violations of D.C. Official Code Sections 1-1102.06(b) (9) and (10).

In the Preliminary Audit Report, the Audit staff recommended that the Committee file an Amended Consolidated Report inclusive of each of the aforementioned expenditures, including the irreconcilable difference in the amount of \$5,834.07, that was previously unreported.

On February 25, 2011, the Committee filed an Amended Consolidated Report inclusive of each expenditure that was previously unreported including the irreconcilable difference of \$5,834.07.

The Audit staff will refer to the OCF General Counsel the failure of the Committee to initially report and disclose the required information on reports and statements under D.C. Official Code Section 1-1102.06(b)(9)and (10), for whatever action deemed appropriate.

D. EXPENDITURES NOT NEGOTIATED THROUGH THE BANK ACCOUNT OF THE COMMITTEE

Our audit revealed that the Committee reported twelve (12) expenditures totaling \$19,636.20 that were not negotiated through the Committee's bank account.

In the Preliminary Audit Report, the Audit staff recommended that the Committee file an Amended Consolidated Report deleting the aforementioned expenditures that were not negotiated through the bank account of the Committee.

On February 25, 2011, the Committee filed an Amended Consolidated Report deleting the aforementioned expenditures that were not negotiated through the Committee's bank account.

E. EXPENDITURES REPORTED IN DUPLICATE

Our audit revealed three (3) expenditures totaling \$486.09 that were reported in duplicate by the Committee on its Reports of Receipts and Expenditures.

In the Preliminary Audit Report, the Audit staff recommended that the Committee file an Amended Consolidated Report deleting the aforementioned expenditures that were reported in duplicate on its Reports of Receipts and Expenditures.

On February 25, 2011, the Committee filed an Amended Consolidated Report deleting the aforementioned expenditures that were previously reported in duplicate.

F. CASH DISBURSEMENTS

D.C. Official Code Section 1-1102.03(a) in pertinent part provides that, “No expenditures may be made by such committee or candidate except by check drawn payable to the person to whom the expenditure is being made on that account or accounts, other than petty cash expenditures as provided in subsection (b) of this section.’

3 DCMR Section 3010.1 provides that, “A candidate, political committee or citizen-service program may maintain a Petty Cash Fund which shall not exceed three hundred dollars (\$300) at any time.”

3 DCMR Section 3010.3 (b) provides that, “Cash expenditures shall not exceed fifty dollars (\$50) to any person in connection with a single purchase or transaction.”

Our audit of the Committee bank statements and Committee cancelled checks revealed that the Committee issued eight (8) checks totaling \$31,590.79 that were paid to cash. The Audit staff was able only to trace three (3) of the eight (8) checks to expenditures reported on Schedule B, Itemized Expenditures, of the Committee’s Reports of Receipts and Expenditures. Only three (3) of the checks were accompanied by the proper documentation, copies of invoices and money orders or cashier’s checks, to substantiate each expenditure reported. The remaining five (5) checks were not accompanied by the proper documentation. The Committee only provided copies of invoices and did not include copies of money orders or cashier’s checks as evidence of payment for each expenditure reported.

In the Preliminary Audit Report, the Audit staff recommended that the Committee establish internal control procedures that would ensure that cash withdrawals of checks paid to cash are not made in amounts greater than \$50. Further, the Audit staff recommended that the Committee provide copies of the money orders or cashier’s checks to substantiate the aforementioned five (5) payments that were paid to cash in which the proper documentation was not previously provided.

The Committee did provide the Audit staff with a copy of its internal control procedures to ensure checks are not paid to cash in amounts greater than \$50. However, the Committee did not provide the Audit staff with the proper documentation (copies of the money orders/cashier’s checks) to substantiate the aforementioned five (5) expenditures that were paid to cash.

In the Interim Audit Report, the Audit staff reiterated its recommendation in the Preliminary Audit Report that the Committee provide the proper documentation to substantiate the five (5) aforementioned expenditures paid to cash.

In its Response to the Interim Audit Report dated March 23, 2011, the Committee provided documentation to substantiate the five (5) expenditures that were paid to cash. The Committee provided written statements from each vendor/payee that these monies were actually paid and received in cash.

G. OTHER MATTERS NOTED – PAYMENTS TO BANNER CONSULTING

D. C. Official Code Section 1-1102.01(c)(3) provides that, “Except for accounts of expenditures made out of the petty cash fund provided for under Section 1-1102.03.(b), the treasurer of a political committee, and each candidate, shall keep a detailed and exact account of: All expenditures made by or on behalf of such committee or candidate.”

3 DCMR Section 3400.2 provides that, “Each required filer, pursuant to Section 3400.1 shall obtain and preserve, from the date of registration, detailed records of all contributions and expenditures disclosed in reports and statements filed with the Director, including the following: (a) Check stubs; (b) Bank statements; (c) Canceled checks; (d) Contributor cards and copies of donor checks; (e) Deposit slips; (f) Invoices; (g) Receipts; (h) Contracts; (i) payroll records; (j) Tax records; (k) Lease agreements; (l) Petty cash journals; (m) Ledgers; (n) Vouchers; and (o) Loan documents.”

Our audit revealed sixty (60) expenditures totaling \$379,654.63 to Banner Consulting (46% of total expenditures) from the period August 2007 through March 2008. Thirty-four (34) expenditures were made by check and the remaining twenty-six (26) payments were made by wire transfer. The Committee provided invoices for each expenditure; however, the invoices did not provide a breakdown by amount for each service that was provided. Each invoice only included the total amount due.

Further, it appears that the expenditures were made to Banner Consulting at least on a weekly basis, if not, within a closer time frame. On occasion, more than one payment was made on the same day. This was evidenced through the review of the Committee bank statements. Additionally, several of the payments were not reported by the Committee on its Reports of Receipts and Expenditures.

In the Preliminary Audit Report, the Audit staff stated that the invoices submitted did not provide the proper documentation to substantiate the amounts and regularity of the payments made by the Committee to Banner Consulting. Additionally, the Committee did not provide a copy of the contract between Banner Consulting and the Committee to Re-Elect Kwame R. Brown.

Therefore, in the Preliminary Audit Report, the Audit staff requested that the Committee provide **all records** and statements pertaining to Banner Consulting, including, but not limited to, bank records and all invoices that were paid by Banner Consulting on behalf of the Committee. Further, the Audit staff recommended that the Committee provide a copy of the contract detailing the services provided by Banner Consulting for the Committee to Re-Elect Kwame R Brown.

In its Response to the Preliminary Audit Report, the Committee provided the bank statements and invoices for Banner Consulting (Charles Hawkins Resident Agent) as requested by the Audit staff. However, the Committee did not provide copies of the cancelled checks to accompany the bank statements presented from Banner Consulting. Banner Consulting did provide partial copies of the entity's check register. Therefore, the Audit staff was unable to identify the payee of each expenditure made by the Banner Consulting as indicated on its bank statements. The Committee provided a copy of the Agreement and Statement of Work dated June 1, 2007, and signed only by Charles D. Hawkins. Charles Hawkins, Principal, Banner Consulting Services, proposed that Banner Consulting Services will manage the campaign field operations for the Committee to Re-Elect Kwame R. Brown. The Agreement was not signed by the Committee to Re-Elect Kwame R. Brown.

The Consulting Agreement between Banner Consulting and Partners in Learning for consulting services on the Re-Elect Kwame R. Brown Campaign project was also provided by the Committee. The agreement was signed by Charles Hawkins and Mr. Che Brown. The agreement was dated June 1, 2007. Partners in Learning agreed to provide Banner Consulting Services with a campaign plan, strategy, implementation of the strategy, consultants, labor, vendors, signs, brochures, mailers, polling, phone banks, etc., and any activity related to the Re-Elect Kwame R. Brown Campaign

The Audit staff did not recognize the vendor Partners in Learning from its review of the Committee's Reports of Receipts and Expenditures or bank records. The review of Banner Consulting bank statements and records determined that expenditures were being made on a regular basis to Partners in Learning by Banner Consulting. Several expenditures were made to Partners in Learning in close proximity to the time frames if not on the same day and the same amounts by Banner Consulting. It was also noted that the payments and/or transfers made by the Committee to Re-Elect Kwame R. Brown to Banner Consulting were paid and/or transferred to Partners in Learning on the same dates or in close proximity. Further, the Committee did not disclose these expenditures (to Partners in Learning) on the Committee's Reports of Receipts and Expenditures, as Partners in Learning apparently was the subvendor of Banner Consulting. Of the \$379,654.63 total paid by the Committee to Elect Kwame R. Brown to Banner Consulting, \$271,163.42 was paid and/or transferred to Partners in Learning (that is 71% of all monies paid to Banner Consulting by the Committee to Re-Elect Kwame R. Brown).

Because the Committee did not provide the Audit staff with copies of the cancelled checks of Banner Consulting, the payments to Partners in Learning were identified from the schedule prepared by the Audit staff (from Committee bank statements) in the Preliminary Audit Report. The Audit Schedule was matched with the bank statements of Banner Consulting and the amounts verified through checks or wire transfers. It should be noted that the wire transfers began in June 2008.

It also appears that Banner Consulting Services Agent, Charles Hawkins, was paid for his services as a consultant in the amounts of \$200.00 and \$300.00 through Banner

Consulting, in the total sum of \$500.00. Further, through the review of Committee bank records, Mr. Hawkins was paid directly twice in the amounts of \$2,000 each on April 28, 2010 and May 7, 2010 for consulting services. Bank records indicated that he was not paid on a monthly basis during the 15 month period.

The Statement of Work dated June 1, 2007 outlined the proposed performance of services by Banner Consulting Services from June 1, 2007 through November 4, 2008, and was only signed by Charles Hawkins, Principal, Banner Consulting. The Committee also provided Banner Consulting's Articles of Organization dated July 26, 2007; and a copy of the Articles of Cancellation for Banner Consulting dated May 18, 2009.

The Audit staff was unable to follow the paper trail concerning the contributions/receipts received and expenditures made by the Committee to Re-Elect Kwame R. Brown; therefore, it could not formulate an accurate opinion on the financial activity of the Committee to Re-Elect Kwame R. Brown without first examining the financial records and statements of Partners in Learning. The invoices (54) presented by the Committee of Partners in Learning did not sufficiently substantiate through "description" the exact nature of the services provided for which payment is billed to Banner Consulting Services.

Additionally, through the review of Banner Consulting bank statements, there were two (2) wire transfers to Winning Strategies in the amounts of \$30,000 and \$8,000 on June 3, 2008 and July 2, 2008, respectively. However, the Committee did not provide a contract or invoice to document and/or substantiate these transactions.

It was also noted through the review of Banner Consulting bank statements that on May 18, 2009, there was a counter debit (withdrawal) in the amount of \$3,241.69. Supporting documentation was not provided to support this withdrawal. Therefore, the Audit staff was unable to determine the source or use of these funds.

The Audit staff submits that it appears that all other expenditures made by Banner Consulting for the Committee to Re-Elect Kwame R. Brown were documented and directly related to the campaign.

In the Interim Audit Report, the Audit staff recommended that the Committee provide the signed Agreement, if any, between Banner Consulting Services and the Committee to verify the existence and terms of their business relationship; and all financial records and statements of Partners in Learning as they relate to the Committee to Re-Elect Kwame R. Brown and Banner Consulting. Further, the Audit staff recommended that Banner Consulting provide documentation to support the two (2) aforementioned wire transactions to Winning Strategies and the \$3,241.69 counter debit (withdrawal) that was made by Banner Consulting.

In its Response to the Interim Audit Report dated March 23, 2011, the Committee provided a copy of the Statement of Work previously submitted. However, this agreement was signed by both Charles D. Hawkins and Dawn Cromer, treasurer for the

Committee to Re-Elect Kwame R. Brown. The agreement was also dated June 1, 2007 as was the aforementioned agreement.

The Committee further stated in its Response that Partners in Learning computed \$241,663.42 as revenue paid by Banner Consulting as opposed to the \$271,163.42 stated by OCF staff.

In light of the aforementioned, the Audit staff recalculated the total payments made to Partners in Learning by Banner Consulting and determined that the actual total payments made to Partners in Learning should be \$239,663.42. This total was calculated and is evidenced through the bank statements provided by Banner Consulting. It appears that the Committee computed its total based on the invoices provided not actual bank records.

It should be noted that the Committee failed to provide the Audit staff with bank records and statements for Partners in Learning as requested by the Audit staff in the Interim Audit Report. The Committee provided a Profit and Loss Statement for Partners in Learning and copies of the invoices from Partners in Learning that were previously submitted to the Audit staff.

The Profit and Loss Statement provided by Partners in Learning reflects revenue totaling \$241,663.42 received from Banner Consulting with a net income to Partners in Learning in the amount of \$25,877.85.

The Profit and Loss Statement reflects \$41,000 paid to a contractor for services provided. The Committee provided a Statement of Work for this contractor indicating the services provided. The Statement of Work was dated March 18, 2011. The Statement of Work indicated services provided for daily labor in all eight wards of the city.

The Profit and Loss Statement also reflects expenses of \$169,164.00 for "day labor"; \$1,052.98 for "fuel"; \$2,696.61 for "office supplies"; and, \$1,871.98 for "telephone and fax". However, the Committee failed to provide adequate documentation to substantiate the aforementioned expenditures totaling \$174,785.57.

The Audit staff submits that without documentation (bank records and statements of Partners in Learning) to substantiate and/or evidence the aforementioned expenditures totaling \$174,785.57, it cannot attest that the financial records submitted, fairly represent the financial activity as indicated in the Profit and Loss Statement provided by Partners in Learning.

Additionally, in its Response to the Interim Audit Report dated March 23, 2011, the Committee provided copies of two (2) invoices totaling \$38,000 for the aforementioned wire transfers to Winning Strategies made by Banner Consulting. The invoices were dated June 6, 2008 and July 2, 2008. As previously noted, the wire transfers were made on June 3, 2008 and July 2, 2008. The Committee did not provide a contract or

agreement between Winning Strategies and the Committee to Re-Elect Kwame R. Brown.

Lastly, in its Response to the Interim Audit Report dated March 23, 2011, the Committee provided a Statement of Verification from Mr. Charles Hawkins dated March 15, 2011, affirming that he withdrew \$3,241.69 from the Banner Consulting bank account to dissolve the business in the state of Maryland and to pay for other business and personal obligations. There were no other documents provided to evidence the use of these monies.

OVERALL OPINION BY THE AUDIT STAFF

The Audit staff reiterates its opinion as stated in the Interim Audit Report that it cannot attest, based on the financial records and statements provided, that the Reports filed by the Committee to Re-Elect Kwame R. Brown fairly represent the financial activity of the campaign.

The Audit staff therefore will refer the failure of the Committee to Re-Elect Kwame R. Brown to maintain the records required under D.C. Official Code Section 1-1102.01(c)(3) and 3 DCMR Section 3400.2 to the OCF General Counsel for whatever action deemed appropriate.

H. MISSTATEMENT OF FINANCIAL ACTIVITY

The Audit staff compared the Committee's reported figures with its bank records and found that the Committee had misstated its receipts, disbursements and its cash on hand balance, as of July 31, 2010.

Legal Standard

D.C. Official Code Sections 1-1102.06(b) (8) and (10) provide that each Report must disclose the following:

- The amount of cash on hand at the beginning and end of the reporting period;
- The total sum of all receipts by or for such committee or candidate during the reporting period; and
- The total sum of expenditures made by such committee or candidate during the calendar year.

The following chart details the discrepancies between the Committee's disclosure reports and bank records. The chart lists: (a) the amounts the Committee reported, (b) the actual amounts listed on its bank statements, and (c) the discrepancies between the two figures.

Comparison of Disclosure Reports and Bank Records

	Reported	Bank Statement	Discrepancy
Receipts	\$691,384.25	\$825,085.72	\$133,701.47 understated
Disbursements	\$621,821.78	\$824,790.68	\$202,968.90 understated
Ending Cash Balance	\$69,562.47	\$295.04	\$69,267.43 overstated

The understatement of receipts and expenditures resulted from the Committee's combination of the aforementioned discrepancies previously noted. In addition to these discrepancies, there was an irreconcilable difference of \$15,506.84 in total receipts and \$5,834.07 in total expenditures.

In the Preliminary Audit Report, the Audit staff recommended that the Committee correct the misstatement of its financial activity by making the appropriate adjustments as noted in the aforementioned findings. Further, the Audit staff recommended that the Committee file an Amended Consolidated Report inclusive of the appropriate adjustments.

On February 25, 2011, the Committee filed an Amended Consolidated Report making the appropriate adjustments as noted above. Hence, the Committee corrected the misstatement of its financial activity.

FINAL RECOMMENDATION

We, therefore, recommend that this report be issued as the "Final Audit Report". We have determined that the reports, statements, and responses filed by the **Committee to Re-Elect Kwame R. Brown**, are not in substantial compliance with the District of Columbia Campaign Finance Reform and Conflict of Interest Act of 1974, as amended.

April 4, 2011

Date

Renee Coleman

Renee Coleman
Audit Manager

FINAL AUDIT APPROVED FOR RELEASE:

Cecily E. Collier-Montgomery

Cecily E. Collier-Montgomery
Director
Office of Campaign Finance

April 4, 2011

Date