



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

**Campaign Finance Audit of
James Harrell
Election Year 2012**



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June 12, 2013

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 James Harrell's 2012 election campaign for House Representative, District 96. 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 Limit Laws. 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 Registry's internal 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
James Harrell
2012 Campaign Finance Audit

AUDIT OBJECTIVES

The objectives of the audit were to determine James Harrell'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 2012 Second Quarter, 2012 Pre-Primary, 2012 Third Quarter and 2012 Fourth Quarter Campaign Financial Disclosure Statements; and to recommend appropriate actions to correct any deficiencies.

FINDINGS

The audit report contains no findings.

TABLE OF CONTENTS

INTRODUCTION	<u>PAGE</u>
Audit Authority	1
Audit Purpose	1
Audit Scope	1
CAMPAIGN OVERVIEW	
Campaign Organization	2
Overview of Financial Activities	2
CHARTS	
2012 Election Campaign Contributions	3
2012 Election Contributions by Source	3
2012 Election Contributions by Reporting Period	4
2012 Election Expenses by Reporting Period	4
OBJECTIVES, METHODOLOGIES, CONCLUSIONS	
Contributions and Receipts	5
Disbursements and Obligations	6
RESOLUTIONS	
Registry of Election Finance Actions	9

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

In non-election years, Tennessee’s campaign financial disclosure laws require 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 an election year, the disclosures expand to quarterly reports, pre-primary and pre-general reports. Therefore, the audit reviewed Mr. Harrell’s disclosures on his 2012 Second Quarter, 2012 Pre-Primary, 2012 Third Quarter and 2012 Fourth Quarter Campaign Financial Disclosure Statements.

CAMPAIGN OVERVIEW

CAMPAIGN ORGANIZATION

Mr. Harrell was a candidate in the August 2, 2012 primary election for House of Representatives in District 96. Mr. Harrell filed an Appointment of Political Treasurer Statement with the Registry on April 30, 2012 appointing Jennifer Harrell as political treasurer.

The candidate's first financial disclosure for the 2012 campaign was the 2012 Second Quarter report filed on July 10, 2012. As of June 1, 2013, Mr. Harrell's most recent financial disclosure was the Fourth Quarter report which indicated no cash on hand, no outstanding obligations and no outstanding loans. The candidate has completed his 2012 election campaign 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: 2012 Second Quarter, 2012 Pre-Primary, 2012 Third Quarter and 2012 Fourth Quarter reports after amendments. The amounts displayed are for informational purposes only.

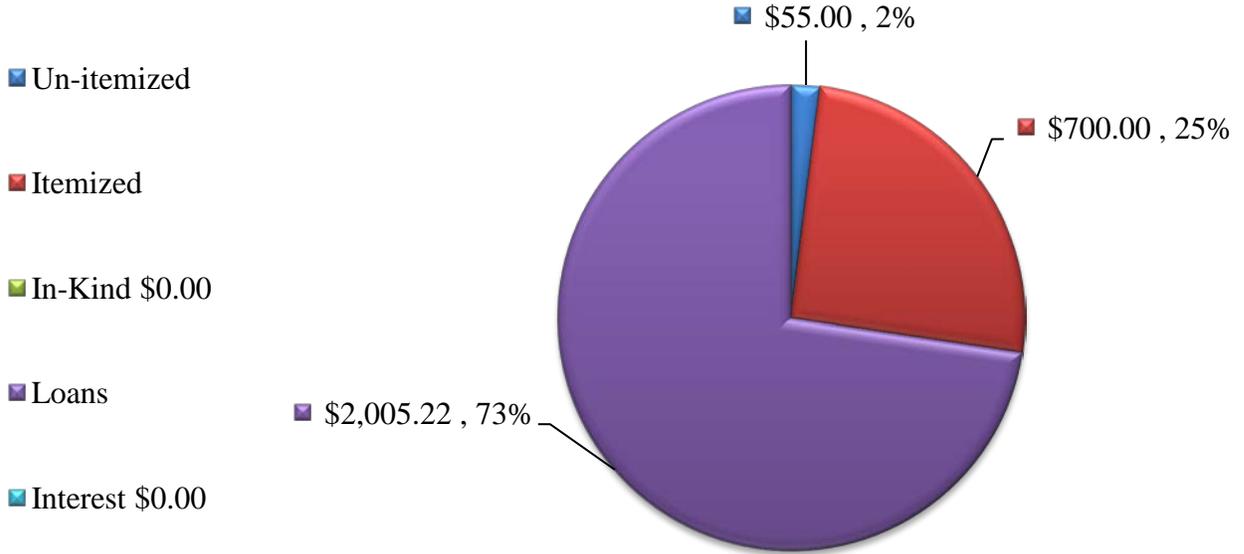
<u>Summary of Financial Activity</u>		
<u>(Un-audited Amounts)</u>		
Cash on hand at July 10, 2012		\$0.00
Receipts		
Un-Itemized	\$55.00	
Itemized ¹	\$2,705.22	
Loans receipted	\$2,005.22	
Interest	\$0.00	
Total receipts		<u>\$4,765.44</u>
Disbursements		
Un-Itemized	\$421.43	
Itemized	\$2,338.79	
Loans principal payments	\$2,005.22	
Obligation payments	\$0.00	
Total disbursements		<u>\$4,765.44</u>
Cash on hand at January 15, 2013		<u>\$0.00</u>
Loans outstanding at January 15, 2013		\$0.00
Obligations at January 15, 2013		\$0.00
Total in-kind contributions received		\$0.00

¹ The itemized receipts amount includes the \$2,005.22 loan write off.

CHARTS

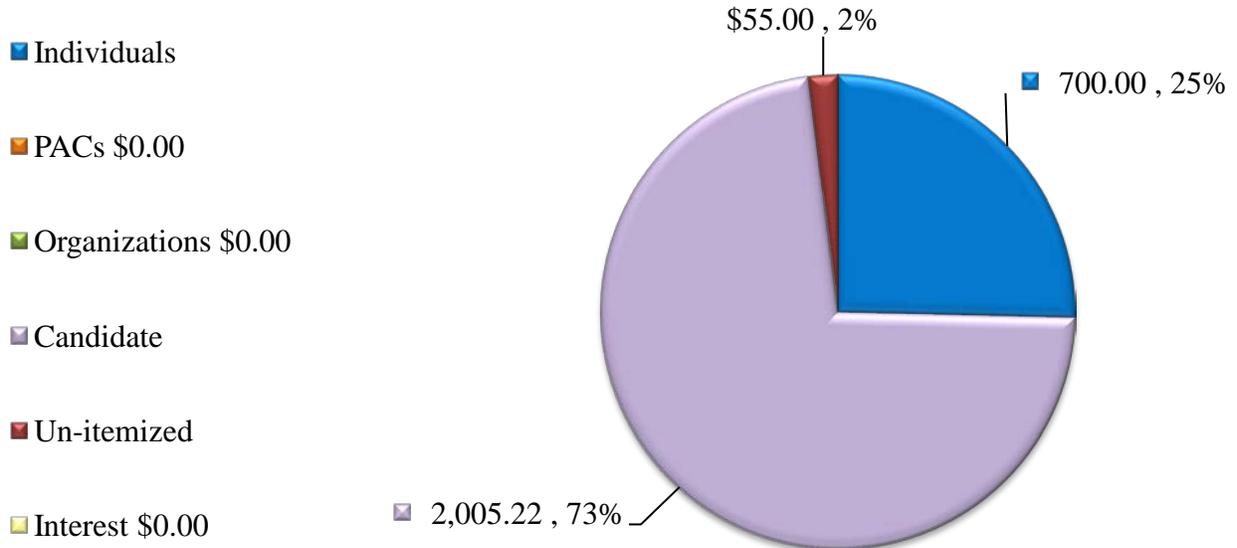
2012 ELECTION CAMPAIGN CONTRIBUTIONS

The following chart shows the contributions reported by the candidate for the 2012 election campaign.



2012 ELECTION CONTRIBUTIONS BY SOURCE

The following chart shows the monetary contributions reported by the candidate for the 2012 election campaign. Organizations in this chart represent non-profit organizations, non-PAC campaign organizations, or businesses.



2012 ELECTION CONTRIBUTIONS BY REPORTING PERIOD

The following chart shows the contributions that the candidate reported for the 2012 election campaign by reporting period. The fourth quarter contributions represent the conversion of the candidate personal loan to contributions; the contributions were reported as a write off of the personal loan.



2012 ELECTION EXPENSES BY REPORTING PERIOD

The following chart shows the expenses that the candidate reported for the 2012 election campaign by reporting period. The fourth quarter expenses were also reported as the write off of the loan.



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, 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.

Audit Methodology:

The Registry obtained Mr. Harrell's 2012 Campaign Financial Disclosure Statements from April 1, 2012 to January 15, 2013. We requested Mr. Harrell provide his campaign records to support all contributions, loans and interest that he received during his 2012 election campaign. Mr. Harrell's campaign records for contributions included a bank account statement and histories, copy of contribution checks, contributions listings and credit card statements. The following steps were performed on Mr. Harrell's campaign documentation:

- The documentation was reviewed to determine if the candidate's monetary contributions and interest received from April 1, 2012 to January 15, 2013 totaled \$755.

- A reconciliation of monetary contributions reported to funds deposited into the campaign account 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 itemized monetary contributions were 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.
- The documentation was reviewed to determine if the candidate's loan contributions from April 1, 2012 to January 15, 2013 totaled \$2,005.22.
- Loan 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.

Audit Conclusion:

Mr. Harrell's 2012 Campaign Financial Disclosure Statements from April 1, 2012 to January 15, 2013 indicate the candidate received \$2,760.22 in contributions (\$755 from individuals and \$2,005.22 in personal loans from the candidate). The audit of the campaign records indicated the campaign received \$805 from individuals and \$2,040 in loans from the candidate. The \$50 difference from individuals was one un-reported contribution check. The \$34.78 difference in the loan amount was a result of the candidate improperly calculating expenses paid from the candidate's personal fund (see the audit conclusion section of disbursement and obligation section below). The failure to report the \$84.78 in contributions is a violation of T.C.A §2-10-105(a). A finding for the failure to report the contributions was not included as the \$50 contribution did not require detailed disclosure and the candidate subsequently wrote off the loan. The result of the additions only changes the source of the loan payment at the end of the campaign not the campaign balance.

Except for the additional contributions, the audit procedures indicated that the itemized monetary contributions reported by the candidate complied with campaign limits laws. Mr. Harrell's reports and campaign records indicated no in-kind contributions or interest earnings from April 1, 2012 to January 15, 2013.

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 Mr. Harrell's 2012 Campaign Financial Disclosure Statements from April 1, 2012 to January 15, 2013. We requested Mr. Harrell provide his campaign records to support all expenses that he had during his 2012 election campaign. Mr. Harrell's campaign records for expenses included a bank account histories, credit card statements and vendor receipts/invoices. The following steps were performed on Mr. Harrell's campaign documentation:

- The documentation was reviewed to determine if the candidate's disbursements from April 1, 2012 to January 15, 2013 totaled \$2,760.22.
- 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.
- All 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:

The Review of the campaign records indicated Mr. Harrell's campaign disbursed \$2,845 for campaign expenses (including a \$49.74 loan repayment). The \$84.78 difference includes the following:

1. The candidate failed to report \$30 in bank service fees withdrawn directly from the campaign account by the bank.
2. The candidate failed to report a \$15.51 purchase of bank checks that was electronically withdrawn from the campaign account.
3. The candidate improperly reported a \$10.47 expense during the second quarter and pre-primary reporting period.
4. The candidate improperly calculated his loan activity such that a \$49.74 loan repayment from the campaign account was unreported.

The candidate made several campaign purchases with personal credit cards that were not reimbursed from the campaign account; therefore, the candidate was required to report the expense and the use of the candidates personal funds as a contribution or loan. The candidate selected to report the contributions as loans. However, the candidate miscalculated the amount of the expense which caused the loan to be understated by \$34.78. (Also see the receipt section for the failure to report loan contributions received.) Finally, the audit indicated the candidate improperly reported three expenses to Costco as fuel totaling \$111.63 as un-itemized. The gas expenses should have been itemized.

The failure to properly report expenses, itemized expenses and properly report loans are violations of campaign finance laws. However, no findings were noted as the candidate paid most of the expenses for his campaign through a personal loan and subsequently wrote off the personal loan which will result in no change in the account balance. In addition, the errors do not appear to be systemic to the campaign or the candidate's disclosure but immaterial errors.

RESOLUTIONS

REGISTRY OF ELECTION FINANCE ACTIONS

The Members of the Registry of Election Finance reviewed the 2012 campaign finance audit of Mr. Harrell during the June 2013 regular monthly meeting. The report contained no findings for corrective actions. The candidate was required to make the correction to his disclosure to properly report the error noted in the conclusion sections. The Registry voted to accept and approve the audit report with no further action.