



TENNESSEE REGISTRY OF ELECTION FINANCE

Campaign Finance Audit of Representative John Tidwell Election Year 2006



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February 6, 2007

Members of the Registry of Election Finance
404 James Robertson Parkway, Suite 1614
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Ladies and Gentlemen,

Transmitted herewith are the agreed upon procedures for the campaign finance audit of Representative John Tidwell's 2006 election campaign for the House of Representatives. 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 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 Manager

STATE OF TENNESSEE
REGISTRY OF ELECTION FINANCE
Audit Highlights
Representative John Tidwell
2006 Campaign Finance Audit

AUDIT OBJECTIVES

The objectives of the audit were to determine Rep. Tidwell's compliance with certain provisions of campaign finance disclosure laws and regulations; compliance with certain provisions of campaign contribution limits laws and regulations; accuracy and completeness of the disclosures on the 2006 Second Quarter, 2006 Pre-Primary, 2006 Third Quarter, 2006 Pre-General, and 2006 Fourth Quarter Campaign Financial Disclosure Statements; and to recommend appropriate actions to correct any deficiencies.

FINDINGS

1. Rep. Tidwell did not properly maintain a campaign account in violation of Registry rules for bookkeeping. Rep. Tidwell did not maintain a separate campaign bank account from which he deposited all campaign contributions and from which he expended all campaign monies in violation of Registry rules.

2. Rep. Tidwell did not maintain proper documentation for campaign expenses. Rep. Tidwell failed to obtain or maintain vendor receipts for \$2,642.03 (49% of the expenses for the audit period). The failure to retain vendor invoices violates T.C.A. §2-10-212(c), which requires candidates to retain all checks, bank statements, and vendor receipts in order to comply with the audit process.

3. Rep. Tidwell failed to report two campaign expenses. The candidate's campaign records indicated that he paid campaign expenses to Wal-Mart on October 5, 2006 and October 6, 2006 for \$86.68 and \$98.80, respectively. The candidate failed to disclose these expenses on his reports in violation of T.C.A. §2-10-105(a).

4. Rep. Tidwell failed to itemize expenses to several payees who he paid more than \$100.00 during a reporting period. Rep. Tidwell failed to report all expenditures pursuant to T.C.A. §2-10-107(a)(2)(B), which requires payments of more than \$100.00 to one source during a reporting period to be itemized. Rep. Tidwell improperly reported \$3,407.15 (63% of un-itemized expenses reported during the audit period) of his expenses as un-itemized that were required to be itemized.

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INTRODUCTION

AUDIT AUTHORITY

In February 2006, the Tennessee Legislators and Governor Phil Bredesen enacted the “Comprehensive Governmental Ethics Reform Act of 2006,” which amended Tennessee’s campaign finance disclosure laws and duties of the Registry of Election Finance. The legislation established the audits of campaign disclosure reports. *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 finance 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

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 report 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 reports, and pre-general reports. This audit relates to disclosures made subsequent to the passage and approval of the Comprehensive Governmental Ethics Reform Act of 2006. The act was approved on February 15, 2006. Therefore, the audit reviewed only Rep. Tidwell’s disclosures on his 2006 Second Quarter, 2006 Pre-Primary, 2006 Third Quarter, 2006 Pre-General, and 2006 Fourth Quarter Campaign Financial Disclosure Statements. As of December 31, 2007, the candidate had filed the 2006 Annual Mid-Year Supplemental (2007) Campaign Financial Disclosure Statement, which covered campaign activities from January 16, 2007 to June 30, 2007. The report was part of the candidate’s 2006 campaign disclosures; however, the disclosures were not included in the audit procedures since the report was prepared after the commencement of the audit process.

CAMPAIGN OVERVIEW

CAMPAIGN ORGANIZATION

Rep. Tidwell was a candidate in the November 7, 2006 general election for the House of Representatives for district 74. Rep. Tidwell filed an Appointment of Political Treasurer Statement with the Registry on December 4, 2004 appointing Charlotte T. Tidwell as political treasurer.

The candidate's first financial disclosure for the 2006 campaign was the 2005 early supplemental report filed on January 31, 2006. As of December 31, 2007, Rep. Tidwell's most current financial disclosure report was the 2006 annual mid-year supplemental (2007), which he filed on July 8, 2007 and amended on July 19, 2007. The 2006 annual mid-year supplemental (2007) report indicated \$13,960.84 in cash on hand, \$0.00 in outstanding obligations, and \$0.00 in outstanding loans. The candidate has not completed his 2006 election campaign reporting requirements. The candidate's next report will be due on January 31, 2008 and will cover the period of July 1, 2007 to January 15, 2008.

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: 2005 early supplemental, 2006 first quarter, 2006 second quarter, 2006 pre-primary, 2006 third quarter, 2006 pre-general, 2006 fourth quarter, and 2006 annual mid-year supplemental (2007) reports after amendments. As noted in the audit scope, we only audited disclosures from the 2006 second quarter through the 2006 fourth quarter. The amounts displayed are for informational purposes only.

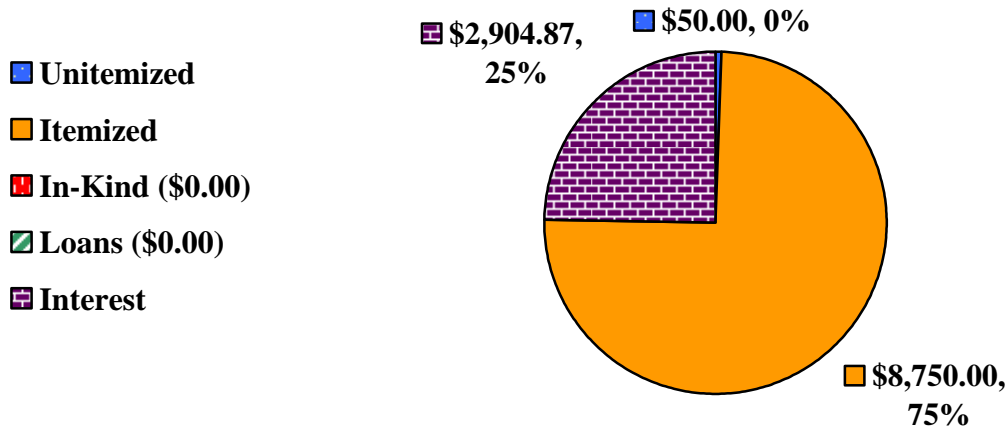
<u>Summary of Financial Activity</u>		
<u>(Un-audited Amounts)</u>		
Cash on hand at January 1, 2005		\$15,409.82 ¹
Receipts		
Itemized	\$8,750.00	
Un-itemized	50.00	
Interest	2,904.87	
Loans receipted	0.00	
Total receipts		<u>\$11,704.87</u>
Disbursements		
Itemized	1,665.49	
Un-itemized	11,488.36	
Loans principal payments	0.00	
Total disbursements		<u>\$13,153.85</u>
Cash on hand at June 30, 2007		<u>\$13,960.84</u>
Loans outstanding at June 30, 2007		\$0.00
Obligations at June 30, 2007		\$0.00
Total in-kind contributions received		\$0.00

¹ The cash balance at 1/1/2005 was funds transferred from the candidate's 2004 campaign.

CHARTS

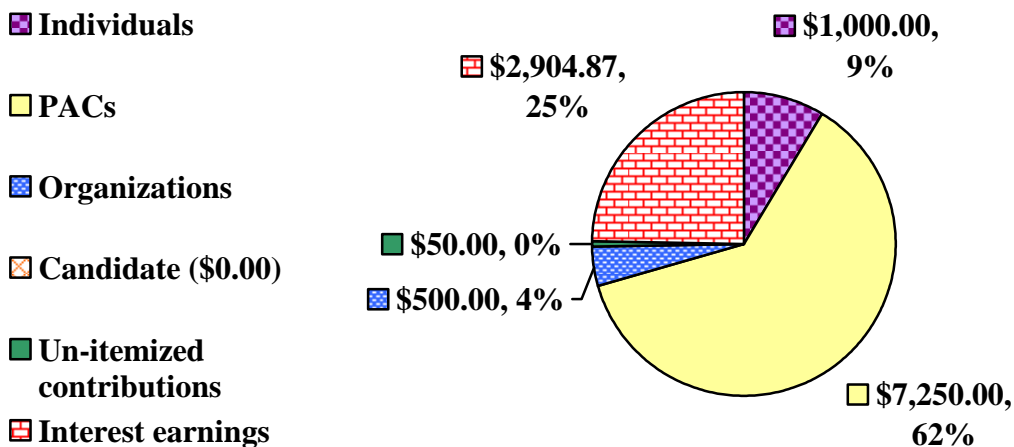
2006 ELECTION CAMPAIGN CONTRIBUTIONS

The following chart shows the contributions reported by the candidate for the 2006 election campaign.



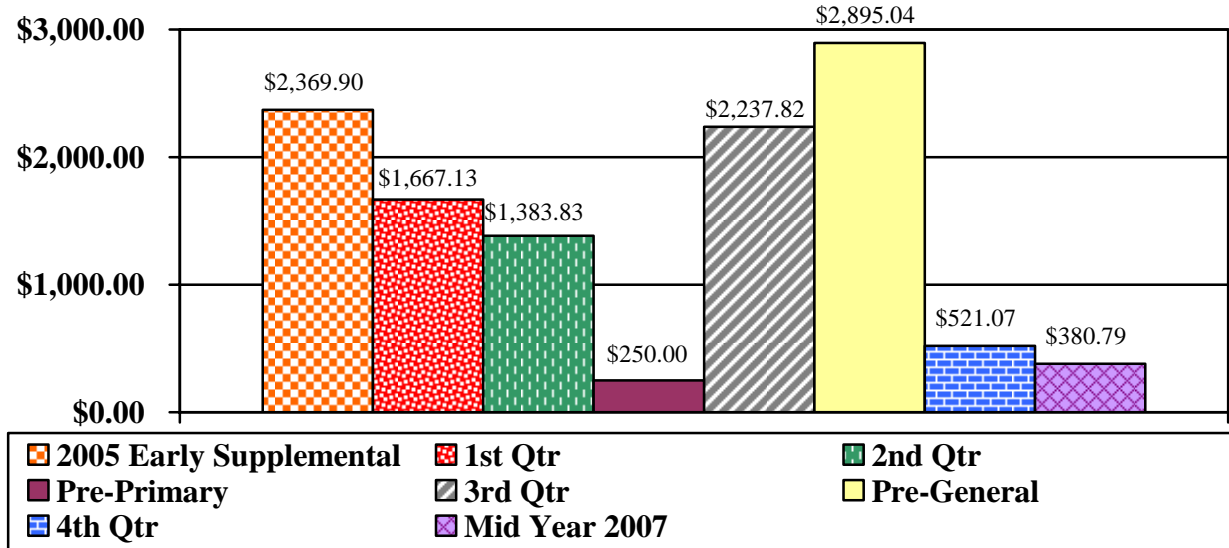
2006 CONTRIBUTIONS BY SOURCE

The following chart shows the contributions reported by the candidate for the 2006 election campaign. Organizations in this chart represent non-profit organizations, individual campaign organizations, or non-incorporated businesses.



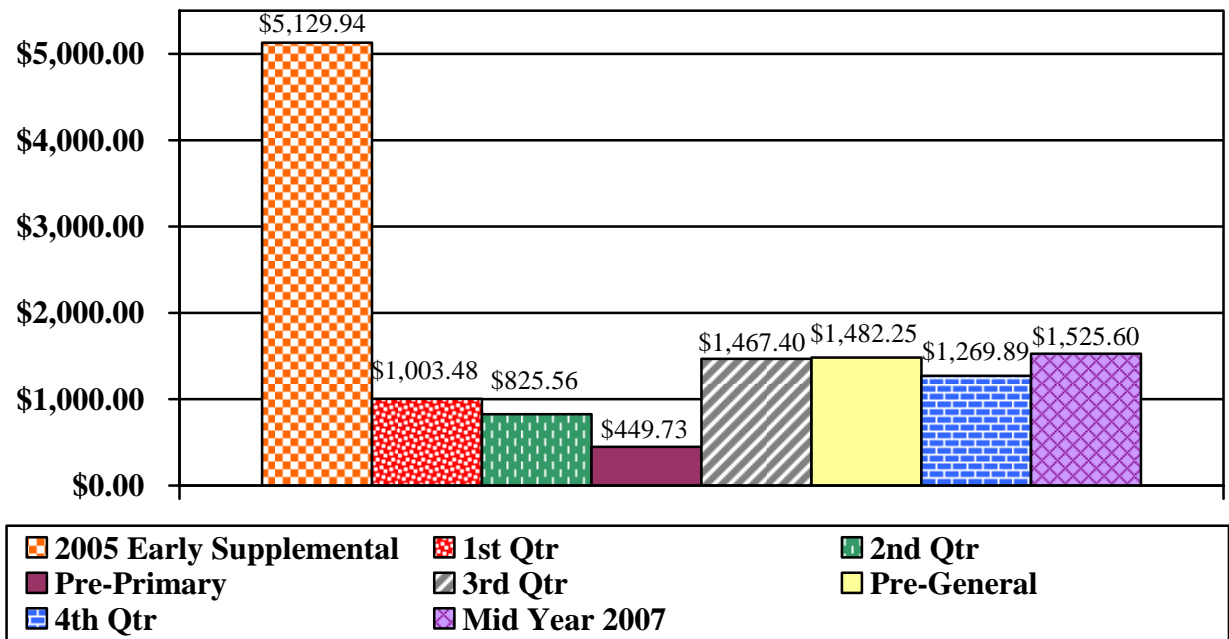
2006 ELECTION CONTRIBUTIONS BY REPORTING PERIOD

The following chart shows the contributions that the candidate reported for the 2006 election campaign by reporting period.



2006 ELECTION EXPENSES BY REPORTING PERIOD

The following chart shows the expenses that the candidate reported for the 2006 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:

- campaign contributions from individuals and Political Action Committees (PAC) were within 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;
- loans received were reported to the Registry, reported in the proper period, and in compliance with T.C.A. §§2-10-105 and 2-10-107, and reported in compliance with the Registry's rules; and
- loans received from lending institutions were supported by loan agreements.

Audit Methodology:

The Registry obtained Rep. Tidwell's 2006 Campaign Financial Disclosure Statements from April 1, 2006 to January 15, 2007. We requested Rep. Tidwell to provide his campaign records to support all contributions, loans, and interest that he received during his 2006 election campaign. Rep. Tidwell's campaign records for contributions included bank statements and contributor lists by reporting period. The following steps were performed on Rep. Tidwell's campaign documentation:

- The documentation was reviewed to determine if the candidate's contributions received from April 1, 2006 thru January 15, 2007 totaled \$6,500.00.

- A list of contributions was prepared and compared to the candidate's bank statements to determine if the candidate deposited all funds into a campaign bank account and properly recorded the funds.
- A list of contributions by contributor was prepared and 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.
- Contribution lists and bank statements were reviewed to determine if all contributions were reported, all receipts received were reported, all contributions were reported in the proper period, all contributions were reported in compliance with T.C.A. §§2-10-105 and 2-10-107, and all contributions were reported in compliance with the Registry's rules.
- The candidate's bank statements were reviewed to determine if the candidate received interest from April 1, 2006 thru January 15, 2007 totaling \$787.76.
- A schedule of interest earnings was prepared and compared to the candidate's bank statements to determine if all interest and investment earnings received were reported and reported in the proper period.

Audit Conclusion:

Rep. Tidwell's 2006 Campaign Financial Disclosure Statements from April 1, 2006 to January 15, 2007 included the 2006 second quarter, 2006 pre-primary, 2006 third quarter, 2006 pre-general, and 2006 fourth quarter. Rep. Tidwell's campaign records indicated that he received contributions totaling \$6,500.00. He deposited \$6,500.00 in funds into a savings account. The savings account paid \$787.76 in interest earnings from April 1, 2006 to January 15, 2007. The savings account records indicated that the candidate maintained both his personal and campaign funds in the savings account. The comingling of personal and campaign funds made it difficult to determine which funds the candidate actually received and disbursed for the campaign. The comingling of funds is a violation of Registry rules (Finding 1). Rep. Tidwell's campaign records indicated that the contributions he reported complied with campaign finance limits and complied with campaign finance laws. Rep. Tidwell reported no in-kind contributions or loans.

FINDING

1. Rep. Tidwell did not properly maintain a campaign account in violation of Registry rules for bookkeeping.

Rep. Tidwell did not maintain a separate campaign bank account for his 2006 campaign activities as required by the Registry's bookkeeping rules. Instead, Rep. Tidwell deposited campaign contributions and personal funds into a savings account and he paid campaign expenditures with personal checks, credit cards, or cash.

For expenditures paid with personal funds, there were no reimbursements from the savings account to Rep. Tidwell. It appears that Rep. Tidwell used his campaign financial disclosure reports to document the campaign fund amounts in his savings account.

The failure to maintain a separate campaign bank account could result in the failure to report all campaign contributions and/or the personal use of campaign funds. The Registry established rules for campaign bank accounts to prevent candidates from comingling personal and campaign funds, which could subsequently lead to inaccurate reporting of campaign activities or the misuse of campaign funds. The candidate did not implement the following Registry rules for the use of a campaign account, 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 comeingle personal funds or any other monies with campaign account funds.
- Registry Rule 0530-1-1-.02(4) specifically states that all expenditures shall be made from the campaign account.

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 Rep. Tidwell’s 2006 Campaign Financial Disclosure Statements from April 1, 2006 to January 15, 2007. We requested Rep. Tidwell to provide his campaign records to support all expenditures that he had during his 2006 election campaign. Rep. Tidwell’s campaign records for expenditures included a daily pocket calendar where the candidate recorded both campaign and personal activities. In addition, the candidate used the pocket calendar to record appointments, mileage expenditure amounts, purchases made, purchase

locations, and/or purposes of purchases. The following steps were performed on Rep. Tidwell's campaign documentation:

- The documentation was reviewed to determine if the candidate's disbursements from April 1, 2006 thru January 15, 2007 totaled \$5,494.83.
- 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 and bank statements were reviewed to determine if all expenses were reported, all expenses were reported in the proper period, all expenses were reported in compliance with T.C.A. §§2-10-107 and 2-10-114, and all expenses were in compliance with the Registry's rules.

Audit Conclusion:

Rep. Tidwell's 2006 Campaign Financial Disclosure Statements and campaign records indicated that he had un-itemized expenses totaling \$5,577.31 and itemized expenses totaling \$100.00 from April 1, 2006 to January 15, 2007. As outlined in Finding 1, Rep. Tidwell did not properly maintain a separate campaign account in violation of Registry rules for bookkeeping. As a result, the candidate had no documentation for disbursements from a campaign account. In addition, Rep. Tidwell failed to retain vendor invoices for expenses as required by T.C.A. §2-10-212(c) (Finding 2). Rep. Tidwell failed to report two campaign expenditures totaling \$182.48 in violation of campaign finance laws (Finding 3). Finally, Rep. Tidwell failed to itemize all expenses to several payees who he paid more than \$100.00 during a reporting period (Finding 4). The campaign records and disclosures indicated that all expenses, except those noted in the findings, complied with campaign finance laws. Rep. Tidwell reported no obligations during the 2006 election campaign.

FINDINGS

2. Rep. Tidwell did not maintain proper documentation for campaign expenses.

Rep. Tidwell failed to obtain or maintain vendor receipts for \$2,642.03 (49% of the total expenditures for the audited period). The failure to maintain vendor invoices is a violation of T.C.A. §2-10-212(c), which requires candidates to retain all checks, bank statements, and vendor receipts in order to comply with the audit process.

In addition, Rep. Tidwell did not maintain adequate documentation for campaign expenditures. Rep. Tidwell used a daily pocket calendar to document both personal and campaign expenditures. The information that Rep. Tidwell logged into the calendar did not contain complete vendor and purpose information. Since Rep. Tidwell failed to maintain all vendor receipts and complete expense information, we could not determine his compliance for the following campaign finance statutes:

- T.C.A. §2-10-107(a)(2)(B) requires the disclosure of all expenditures of more than one hundred dollars (\$100.00) during a reporting period to be itemized. The itemized information for each expense must include full name, address, and the purpose of the payment. The candidate is also required to list the total amount of expenditures of one hundred dollars (\$100.00) or less by category.
- T.C.A. §2-10-114 defines how campaign funds may be expended and prohibited uses of campaign funds.

Finally, as noted in Finding 1, Rep. Tidwell failed to properly maintain a campaign account. As a result, he had no documentation for the disbursements on the bank statements nor disbursement checks to support the expenses he reported.

3. Rep. Tidwell failed to report two campaign expenditures.

The candidate's campaign records indicated campaign expenditures to Wal-Mart of \$86.68 and \$95.80 on October 5, 2006 and October 6, 2006, respectively. Rep. Tidwell did not report the expenditures totaling \$182.48 on his pre-general campaign financial disclosure statement. The failure to report these expenditures violated T.C.A. §2-10-105(a), which requires a candidate to prepare a statement of all expenditures made by or on behalf of the candidate.

4. Rep. Tidwell failed to itemize expenses to several payees who he paid more than \$100.00 during a reporting period.

Rep. Tidwell failed to report all expenditures pursuant to T.C.A. §2-10-107(a)(2)(B), which requires payments of more than \$100.00 in total to one source during a reporting period to be itemized. The itemized expenditure must include the full name, complete address, the amount paid to the source, and the purpose of the payment that clearly identifies that the expenditure was allowable. The following expenditures were not properly itemized pursuant to T.C.A. §2-10-107(a)(2)(B):

- The candidate reported un-itemized mileage expenses in the second quarter, pre-primary, third quarter, pre-general, and fourth quarter reporting periods totaling \$498.56, \$386.78, \$735.08, \$641.93, and \$546.75, respectively. The campaign records indicated that all mileage expenses were paid to Rep. Tidwell for reimbursement of miles he drove for various campaign activities.
- The candidate's records indicated that he made purchases during the third quarter reporting period from Marks Building Supply of \$98.78 and \$55.77 on September 11, 2006 and September 18, 2006, respectively. The candidate reported the \$154.55 as un-itemized expenses for "sign materials" on his third quarter report.
- The candidate's records indicated that he made purchases during the pre-general reporting period from Marks Building Supply of \$90.88 and \$95.80 on October 19, 2006 and October 21, 2006, respectively. The candidate reported the \$186.68 as un-itemized expenses for "sign materials" on his pre-general report.

- The candidate's records indicated that he made a purchase on October 2, 2006 for \$88.82 from Wal-Mart. The candidate reported the \$88.82 as un-itemized expenses for "photos" on the pre-general report. As noted in Finding 3, Rep. Tidwell had two (2) additional purchases from Wal-Mart totaling \$182.48 during the pre-general reporting period.
- The candidate's records indicated that he made purchases during the fourth quarter reporting period from IGA of \$92.45 and \$75.55 on December 21, 2006 and December 22, 2006, respectively. The candidate reported the \$168.00 as un-itemized expenses for "food and beverages" on his fourth quarter report.

Rep. Tidwell improperly reported \$3,407.15 (63% of un-itemized expenditures) of expenditures as un-itemized that were required to be itemized.

RECOMMENDATION TO CANDIDATE

Rep. Tidwell should amend his campaign financial disclosure reports to include all campaign expenditures and properly disclose all expenditures that were required to be itemized.

For future elections, the candidate should develop a campaign record-keeping system that adequately meets the requirements of the campaign financial disclosure statutes. The system should ensure that:

- Contributions and expenditures are adequately documented.
- Contributions are deposited in the campaign account within 10 days of receipt.
- Contributions made for a primary election can be distinguished from those made for a general election.
- The aggregate amount of contributions received per election from each contributor can be determined.

The candidate should establish a campaign account into which all contributions are deposited and expenditures are paid. The candidate should retain all checks, bank statements, and vendor receipts in order to comply with the audit process and to verify his compliance with campaign finance statutes. To verify that all campaign finance activities are properly recorded and reported, the candidate should ensure the campaign bank account reconciles to the campaign disclosure statements.

RECOMMENDATION TO REGISTRY

We recommend the Registry approve the audit performed as being sufficient and complete. Additionally, we recommend the Registry post the audit report to the Registry's website. 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 Rep. Tidwell of the above findings, he chose to take corrective actions on his reports prior to the Registry's approval of the audit. Rep. Tidwell amended his 2006 Second Quarter, Pre-Primary, Third Quarter, Pre-General, and Fourth Quarter Campaign Financial Disclosure Statements on January 28, 2008. The corrective actions detailed below resulted in a reduction of un-itemized expenses and increase of itemized expenses of \$3,318.33.

Corrective Actions - Finding 4:

On his amended 2006 second quarter, pre-primary, third quarter, pre-general, and fourth quarter reports, Rep. Tidwell moved \$3,318.33 from un-itemized expenditures to itemized expenditures by making the following changes:

- Rep. Tidwell added itemized expenditures for mileage to the second quarter, pre-primary, third quarter, pre-general, and fourth quarter reports totaling \$498.56, \$386.78, \$735.08, \$641.93, and \$546.75, respectively. Then, he removed the un-itemized expenditures for "mileage" from the same reports.
- Rep. Tidwell added itemized expenditures to Marks Building Supply of \$98.78 and \$55.77 on his third quarter report. Then, he removed \$154.55 of the un-itemized expenditures for "sign materials."
- Rep. Tidwell added itemized expenditures to Marks Building Supply of \$90.88 and \$95.80 on his pre-general report. Then, he removed the un-itemized expenditures for "sign materials."
- Rep. Tidwell added itemized expenditures to Curtis IGA of \$92.45 and \$75.55 on his fourth quarter report. Then, he removed \$168.00 of the un-itemized expenditures for "food / beverage."

The campaign records provided by the candidate verified the corrections and detailed disclosures. The current amended report properly disclosed these expenditures.

Incomplete Corrective Actions – Findings 3 and 4 (bullet point 4):

Rep. Tidwell has not added the two expenditures to Wal-Mart totaling \$182.48 to his pre-general report (Finding 3). In addition, he has not changed the expenditure made on October 2, 2006 for \$88.82 to Wal-Mart from un-itemized to itemized (Finding 4, Bullet Point 4).

Rep. Tidwell stated that all of the purchases may not have been purchased at the same Wal-Mart. As noted in Finding 2, Rep. Tidwell did not maintain receipts for expenditures purchased; therefore, we requested Rep. Tidwell to provide the locations as a part of the audit process. During the audit, Rep. Tidwell indicated that he made the purchases listed in the findings from the Wal-Mart in Waverly, Tennessee. After the completion of the audit, Rep. Tidwell stated that he may not have made all of the purchases from the Wal-Mart in Waverly. The expenditures required to be itemized and/or un-itemized are dependent on the different locations of the vendor. Regardless of the resolution of the vendor's location, Rep. Tidwell is required to disclose the additional expenditures for \$182.48 in sign materials on his pre-general report.

REGISTRY OF ELECTION FINANCE ACTIONS

The Members of the Registry of Election Finance reviewed the 2006 campaign finance audit of Rep. Tidwell during the February 13, 2008 regular monthly meeting. The report contained four findings for corrective actions. The Registry voted to accept and approve the audit report and to issue a show cause notice for failing to report two campaign expenses and failing to itemize expenses to several payees. Subsequent actions by the Registry related to the show cause notice will appear in the subsequent board minutes.