Protocol for Audits of Candidates/House Members' Campaign Accounts (As of 1/18/17)

I. How House Members and Candidates are Randomly Selected for An Audit

A. Obtain list of members from the Democratic and Republican House Caucuses. Currently, there are 44 Democrats (35%) and 80 Republicans (65%); the total number of Members is 124. Select ten (10) members to audit: four (4) Democrats, and six (6) Republicans. Also, one (1) candidate will be randomly selected to audit for a total of 11 campaign accounts to audit.

B. Obtain an alphabetical list of House candidates with open campaign accounts from the House Ethics Committee Executive Assistant. Select one (1) candidate to randomly audit. Once a candidate for the House closes his or her campaign account and files a final campaign disclosure report, the candidate will not be subject to a random audit.

C. Use a device for random selection of names; first in alphabetical order, type in Democratic names, then Republican names, and one candidate name from candidates with open campaign accounts. Example:
Use http://www.miniwebtool.com/random-name-picker/ -random name generator:
Type in list of names, each on their own line, and click select a name. It chooses randomly from the list. Do not have to retype names after each selection.

D. The House Ethics Committee's law clerk or page will use the random device to identify eleven (11) audits: (10) House members in proportion to the parties and one (1) candidate; in the current situation four (4) Democrats, six (6) Republican House Members, and one (1) candidate would be selected.

II. Who Conducts a Member or Candidate's Audit

A. An independent accounting firm ("firm") retained by the Clerk of the House of Representatives will conduct 11 audits as randomly selected. The House Ethics Committee will inform the firm of the 11 audits to be conducted. These audits should be completed within 45 days unless extenuating circumstances exist, such as, audits which must occur during tax season. The firm's auditor will then make a report to the House Ethics Committee notifying the Committee that the audits are completed. The firm will then conduct audits of another randomly selected 11 individuals and this procedure will continue in this fashion until the firm has conducted an audit of every current Member or candidate.

B. If a member volunteers for an audit, the Counsel to the House Ethics Committee may conduct the audit according to the audit protocol. However, the member is still subject to the random audit process.

III. How a Member or Candidate's Audit is Conducted by the Firm

A. The House Ethics Committee will print all of the campaign disclosures for a specified one year time period for the Member or candidate to be audited and provide that information to the auditor.

B. 1. The auditor will request that the selected Member or candidate provide his or her campaign bank account statement beginning two months prior to the one year time period through two months after the one year time period. If the Member or candidate received online contributions, the Member or candidate must provide the online report for that time period. If any questions are raised during the audit regarding expenditures or contributions, the auditor will request that the Member or candidate provide the auditor with invoices or receipts for campaign expenditures and copies of checks or a log book of campaign donations during that time period. If the Member or candidate has a commercial loan for the campaign, the Member or candidate should provide the amortization schedule so the auditor can determine what amount of the payment made on the loan is towards interest and what amount is towards principal.

The Member or candidate subject to the audit may meet with the firm for the audit, show the firm the information required for the audit, and permit the firm to review the information. However, the Member or candidate is not required to leave actual campaign documents, including campaign bank statements, records of contributions, and expenditures with the firm but the firm may need to make a copy of the documents. If such information is left with the firm for the Member or candidate's audit, the firm must return the materials promptly to the Member or candidate at the conclusion of the audit and shred any copies of the documents the firm made.

2. Members or candidates selected at random must provide the requested documents or meet with the firm with the requested documents within 30 days of the date of the request. However, the firm is authorized to extend the deadline for receiving the requested documents or meeting with the Member or candidate to review the documents if the Member or candidate has provided a request based upon extenuating circumstances for extending the deadline. If a Member or candidate fails to comply with a request for an audit, then the firm must notify Counsel to the House Ethics Committee.

C. The firm will create an Excel spreadsheet for each member or candidate audited that will provide the following:

1. List every expenditure found on the campaign report and note when it matches bank account statement (provide the bank statement month and the associated check number). Include any bank fees and any online service fees with a notation of the same.

2. List every contribution found on the campaign report and note when it matches the bank account statement (provide the bank statement month and amount deposited. If the deposit is a component of an aggregated deposit, make this notation for each component; however, only list the aggregate deposit amount for the first component or the bank statement amount will be inaccurate at the end of the column on the Excel sheet. The firm may need to check the report of online contributions, if applicable. Check that each contribution made to a Member or candidate did not exceed the contribution limit during the election cycle.

3. Verify on the State Ethics Commission's website that any contributions made by a Lobbyist Principal or a Political Action Committee to a Member or candidate match the contributions the Member or candidate reported. Do not verify this contribution by using the Contributor link; instead, use the following links to verify the contribution: Individual Report/Committee Report/Non-Candidate Report.

4. The firm conducting the audit may communicate with the Counsel to the House Ethics Committee regarding any questions the firm may have regarding the reporting of campaign contributions, expenditures, and loans.

5. If a pattern of significant discrepancy is indicated between the Member or candidate's campaign bank account records and the Member or candidate's campaign disclosure reports, then the firm will make a report of those discrepancies and provide the report to the Counsel to the House Ethics Committee. Pattern of significant discrepancies include, for example, contributions not reported; contributions received by a donor in excess of $1,000.00 per election cycle; contributions received from another campaign; in-kind contributions reported without an in-kind expenditure; deposits of numerous cash contributions but no record was retained, and expenditures not reported. The firm will not determine if the expenditure made from campaign funds was proper.

6. After a pattern of significant discrepancy is indicated during the audit as noted in the firm's report, Counsel to the House Ethics Committee may then take additional steps to verify the discrepancies, including obtaining a subpoena for records of a vendor for copies of the receipts or invoices and/or a Member or candidate's campaign bank account or credit card statements.

7. Format of the Excel Spreadsheet:

    a. Start with the oldest disclosure report and work towards the most recent.

b. Columns should be titled Amount, Type/Date, Campaign Bank Account Name, Amount, Type, and Match. Also, reported by Lobbyist Principal or PAC.

c. Within each report, begin documenting the oldest expenditures first and move up to the most recent. After documenting the expenditures, complete the same task for the contributions.

d. A subsection may be helpful to explain what should be provided in each column. Also, an example could be included for instruction.

e. Determine if last campaign disclosure's "Contributions on Hand" match the ending account balance listed in the bank account statement for that period.

IV. Audit Letter

A signed audit letter is prepared and sent to the Member or candidate by the firm stating that no concerns were found during the audit or that there were issues with an explanation of the issues or discrepancies found.

V. Complaint

If a pattern of significant discrepancies are found during the audit, the firm should advise Counsel to the House Ethics Committee. Counsel should then review the discrepancies and subsequently advise the Ethics Committee during a meeting and address whether a complaint should be issued. The Committee will make any such determinations.

VI. Authority for an Audit

Effective April 1, 2017, SC Code Ann. § 8-13-530(1) provides:

Each ethics committee shall:
ascertain whether a person has failed to comply fully and accurately with the disclosure requirements of this chapter, which may include, but is not limited to, an <u>audit of filed reports and applicable campaign bank statements</u>, and to promptly notify the person to file the necessary notices and reports to satisfy the requirements of this chapter;

(emphasis added). SC Code Ann. § 8-13-530(1).