



KENTUCKY REGISTRY OF ELECTION FINANCE

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April 29, 2022

To the People of the Commonwealth of Kentucky
Chairman and Members of the Registry of Election Finance

As Auditors for the Registry of Election Finance, we transmit our audit report of the Kentucky State Democratic Executive Committee income tax check-off funds for the period beginning December 1, 2015, and ending December 31, 2021. This report contains our findings related to the committee's compliance with the provisions of Kentucky Revised Statutes Chapter 121, Campaign Finance Regulation.

Respectfully submitted,

David Simpson

David C. Simpson
Audit Manager

Jack Scott Lawless

Jack S. Lawless, CPA
Auditor

Enclosures

cc: Colmon Elridge, Chairperson
Lindy Karns, Treasurer
Ben Self, Former Chairperson
Sannie Overly, Former Chairperson
Patrick Hughes, Former Chairperson

**KENTUCKY STATE DEMOCRATIC EXECUTIVE COMMITTEE
INCOME TAX CHECK-OFF FUNDS
AUDIT REPORT AND STATEMENT OF RECEIPTS AND
EXPENDITURES
FOR THE PERIOD DECEMBER 1, 2015,
THROUGH DECEMBER 31, 2021**

INTRODUCTION

The Kentucky State Democratic Executive Committee (“Committee”), an executive committee of a political party as defined by KRS 121.015(3)(e), was organized to engage in activities to support candidates of the Democratic Party. Pursuant to KRS 141.071 and KRS 141.072, individual taxpayers of Kentucky may designate a portion of their state income tax liability to a political party that the Kentucky State Treasurer must forward to the Committee. The Committee’s accounting, reporting and use of the Income Tax Check-off (“ITC”) funds is governed by KRS 121.230.

As provided by KRS 121.230(5), the Kentucky Registry of Election Finance (“Registry”) performed an audit of the Committee’s receipt and use of ITC funds for the period beginning December 1, 2015 and ending December 31, 2021. This report summarizes the Registry’s audit.

The Committee’s Treasurer during the audit period was Lindy Karns. Colmon Elridge was serving as the Committee’s Chairperson at the end of the audit period. During the audit period, his predecessors included Ben Self (2017-2020), Sannie Overly (2016-2017) and Patrick Hughes (2015-2016).

SCOPE

The scope of the audit was limited to evaluating the Committee’s compliance with the provisions of KRS 121.230. Procedures performed during the audit included, but were not limited to:

- accounting for each ITC check received from the Kentucky State Treasurer;
- review of documents supporting the use of ITC funds; and
- comparing records to reports filed with the Registry.

SUMMARY OF FINDINGS

1. CRITERIA: KRS 121.230(3)(a) that:

The designated official of each state or local governing authority of a political party to which funds are remitted under KRS 141.071 to 141.073 shall maintain a current record of the receipts, balance and expenditures of the funds so remitted. In addition, the official shall, by January 31 each year, forward to the Registry of Election Finance a report of:

(a) The unexpended and unobligated balance of such remitted funds.

FINDING

During the audit period, the Committee's reports to the Registry did not accurately reflect the "unexpended and unobligated balance" of ITC funds remitted to the Committee.

The Committee maintains a bank account designated for the sole purpose of managing and accounting for the receipt and disbursement of ITC funds. The ITC bank account is separate from all other Committee funds and bank accounts. The ITC reports submitted to the Registry during the audit period did not accurately account for the transactions recorded on the monthly bank statements of the Committee's designated ITC bank account.

As a result of the inaccurate reporting, the Committee reported a \$150,176.98 cash balance to the Registry at the end of the audit period when the actual bank balance was \$144,588.67. These two amounts are reconciled below in Exhibit 1 with each reconciling item shown separately.

To correct the reporting errors, the Committee should enter an audit adjustment as part of its next ITC report to the Registry so that the cash balance shown in the report is reduced by \$5,588.31 (\$144,588.67, bank balance, - \$150,176.98, audited report balance).

Further, in all future reporting periods, the Committee shall take all precautions necessary to ensure that the amounts reported to the Registry as ITC receipts and ITC disbursements accurately reflect the transactions flowing through the ITC bank account.

Exhibit 1

Bank 12.31.21	\$ 144,588.67	Reported 12.31.21		\$ 150,176.98
		Reconciling item from previous audit period that remains outstanding		82.50
		Deposits to ITC Bank Account that were not Reported to Registry as ITC:		
		3/4/2016		16.50
		3/10/2016		69.00
		5/19/2016		8.00
		3/20/2017		72.50
		3/28/2017		8.00
		3/22/2018		9.50
		4/25/2019 Interest Income		3.73
		5/7/2019		8.50
		5/25/2019 Interest Income		4.01
		6/25/2019 Interest Income		2.82
		7/25/2019 Interest Income		8.13
		8/25/2019 Interest Income		21.43
		9/25/2019 Interest Income		21.45
		10/25/2019 Interest Income		20.77
		11/25/2019 Interest Income		22.48
		12/25/2019 Interest Income		21.92
		1/25/2021 Interest Income		29.23
		Disbursements from ITC Bank Account that were not Reported to Registry as ITC:		
		<u>Check No.</u>		
		5/31/2018 5818 Rachel Travis		(450.00)
		6/27/2018 5822 Revolution Messaging, LLC		(2,250.00)
		7/2/2018 5820 Blue State Digital		(1,082.50)
		7/5/2018 5828 Rachel Travis		(450.00)
		7/24/2018 5830 Collin Lauderdale		(138.73)
		8/1/2018 Auto ATT		(873.82)
		8/3/2018 5831 Rachel Travis		(450.00)
		8/6/2018 5829 Copy of check not legible		(424.86)
		8/8/2018 5832 Collin Lauderdale		(322.25)
		8/10/2018 5843 Harman Droge		(241.40)
		5/5/2020 Auto Deposited Item Return Fee		(5.00)
		5/5/2020 Auto Deposited Item Returned		(5.50)
		Error reporting interest for 6 months ended 6/30/2020:		
		\$143.88 (Interest Received 1/1/2020 to 6/30/2020) - \$167.58		
		(Interest Reported) = \$23.70 difference		(23.70)
		ITC Account with WesBanco closed 3/31/19	\$ 9,245.83	
		ITC Account with Traditional Bank opened 4/5/19	<u>8,000.00</u>	
		Net Decrease to ITC Cash Balance Not Reported		(1,245.83)
		Receipts Reported as ITC that were not Deposited to ITC Bank Account:		
		3/13/2018		(19.00)
		Disbursements Reported as ITC that were not Withdrawn from ITC Bank Account:		
		5/3/2018 Kroger, coffee supplies		58.71
		6/22/2018 Blue State Digital, Software		995.00
		6/30/2018 Blue State Digital, Credit card fees		87.50
		4/5/2019 ADP, Payroll Processing		148.76
		4/8/2019 Google, E-mail Service		195.37
		5/7/2019 Google, E-mail Service		219.80
		6/6/2019 Google, E-mail Service		238.67
		6/30/2019 WesBanco, Bank Fees		5.00
		11/30/2021 WesBanco, Bank Fees		10.00
		12/31/2021 WesBanco, Bank Fees		5.00
Reconciled Balance	<u>\$ 144,588.67</u>			<u>\$ 144,588.67</u>

2. CRITERIA: KRS 121.230(1) states that:

No state or local governing authority of a political party to which funds are remitted under KRS 141.071 to 141.073 shall use such funds other than in support of the party's candidates in a general election and for the administrative costs of maintaining a political party headquarter.

CRITERIA: KRS 121.230(3)(b) states that:

The designated official of each state or local governing authority of a political party to which funds are remitted under KRS 141.071 to 141.073 shall maintain a current record of the receipts, balance and expenditures of the funds so remitted. In addition, the official shall, by January 31 each year, forward to the Registry of Election Finance a report of:

(b) An itemized listing of each expenditure authorized, incurred or made from such remitted funds, indicating the amount, date, and purpose of each expenditure, regardless of the amount, and the name, address, and occupation of each person to whom an expenditure of fifty dollars (\$50) or more was made, since the date of the last report.

FINDING

The Committee made the following transfers of cash from the ITC bank account to other Committee bank accounts.

<u>Date</u>	<u>Amount</u>
7/15/2016	\$ 20,000.00
10/25/2016	30,000.00
4/20/2017	30,000.00
8/19/2017	15,000.00
2/20/2019	25,000.00
5/6/2019	<u>35,000.00</u>
Total	<u>\$ 155,000.00</u>

The Committee's ITC Fund records are devoid of evidence describing the reason these cash transfers were made from the ITC bank account to other Committee accounts. There is no description of the use of the transferred ITC funds and there

is no independent third party documentation, such as a vendor invoice, detailing the use of the transferred funds.

In addition to the cash transfers listed above, the Committee incurred another \$1,245.83 reduction to the ITC bank account without description or explanation. As shown in the gray highlighted area on Exhibit 1, the Committee closed the ITC bank account at WesBanco on March 31, 2019, when the ITC bank account balance was \$9,245.83. The ITC bank account was reopened at Traditional Bank on April 5, 2019, with a beginning balance of \$8,000. No explanation or documentation was provided explaining the reason for the \$1,245.83 ITC cash reduction.

Absent a description or other documentation detailing the nature of the use of the transferred ITC funds and the ITC cash reduction resulting from the switch to Traditional Bank, the Registry cannot determine whether these ITC funds were used for the lawful purpose of supporting a candidate in a general election or for paying the administrative costs of maintaining the Committee's headquarters.

Also, there were numerous cash disbursements of lesser amounts where the Committee reported the payee's name and sometimes a brief description of the service it received in return for payment, but the Committee failed to provide independent supporting documentation, such as a vendor invoice, for the disbursement. These unsupported disbursements were deemed to be immaterial to the Registry's audit and are not itemized herein.

For complete transparency in all future reporting periods, the Committee shall take all necessary measures to ensure that all disbursement of ITC funds are paid directly from the ITC bank account. There shall be no transfers from the ITC bank account to another Committee bank account and there shall be no other comingling of the ITC fund with any other Committee fund. When reporting each ITC disbursement to the Registry, the Committee shall include the full name of the recipient of each disbursement and provide a clear and complete description of the item or service received in return for the disbursement. Finally, the Committee shall retain copies of all documents, including vendor invoices, supporting the amounts paid from the ITC bank account. This requirement shall apply to each and every ITC disbursement regardless of the amount of the disbursement.

STATEMENT OF RECEIPTS AND EXPENDITURES

ITC Funds and Interest Deposited	\$ 330,787.70
Less: ITC Funds Disbursed, Includes Audit Adjustment	<u>(187,586.24)</u>
Net Increase/(Decrease) to ITC Account	<u>\$ 143,201.46</u>
 ITC Funds Receivable from Department of Revenue as of December 31, 2021	 <u>\$ 1,078.50</u>