

Zelenkofske Axelrod LLC

Erie County Republican Committee
Erie, Pennsylvania

We were engaged by the Erie County Republican Committee ("ECRC") to perform a forensic accounting review for any unusual or unauthorized transactions for the period of January 1, 2008 through December 31, 2011. We focused our attention in three areas:

1. Review of ECRC campaign finance reports, these reports are filed in 7 cycles throughout the calendar year. Campaign finance reports are filed by candidates for statewide, legislative and judicial offices, as well as political committees registered in Pennsylvania.
2. Review of monthly bank statements from January 1, 2008 through December 31, 2011.
3. Review of ECRC check and deposit registers from August 30, 2010 through December 31, 2011.

Our procedures and results are as follows:

1. We reviewed the internal controls for the cash receipts and disbursements cycles. We noted that backup documentation was not available for all disbursements. No other material weaknesses were noted.
2. We reviewed all bank statements and canceled checks for the period January 1, 2008 through December 31, 2011. No unusual items were noted.
3. We reviewed the check register for the period of August 30, 2010 through December 31, 2011. We vouched all disbursements to the cancelled checks provided by the bank, verifying that the amounts and vendors match. We vouched all cash receipts from the deposit register to the corresponding bank statement. No unusual items or exceptions were noted. Due to the lack of record keeping by the previous Treasurer, we noted that there was no check or deposit register available for the period of January 1, 2008 through August 29, 2010.
4. We reviewed ECRC campaign finance reports for the period January 1, 2008 through December 31, 2011 and reconciled each report cycle to the corresponding bank statement(s). In order to reconcile we vouched cash receipts and disbursements from the finance report to the corresponding deposits and cleared checks on the bank statement. No variances were found for cash receipts and disbursements for the year ended December 31, 2008. We found variances for both cash receipts and disbursements for the years ended December 31, 2009 and 2010. For the year ended December 31, 2011 we found a \$50 variance in cash receipts and no variance in cash disbursements. However, as noted in #7, various events such as the annual spring dinners and Lincoln Day Breakfast's occurred from 2008 through 2011 for which there was no accounting. Therefore, there may be significant variances that are not noted in Exhibit 1. Please see Exhibit I for the schedule of variances we noted. The variances noted represent A) amounts listed on the campaign finance reports that are not listed on the bank statements and B) variances for amounts listed on the bank statements that are not listed on the campaign finance reports. The difference between A and B is the Net Variance, which is listed by year.

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5. We vouched all disbursements for the period of January 1, 2008 through December 31, 2011 from the campaign finance reports to the cancelled checks provided by the bank, verifying that the amounts and vendors match. For purchases made by check card, we agreed from the finance report to "other debits" on the corresponding bank statement. We did not note any exceptions or unusual items. However, we cannot prove all disbursements are for legitimate ECRC purposes due to the lack of backup documentation and controls over purchasing.
6. We calculated the amount of funds the former Executive Director received during the period he served as Executive Director for ECRC. The former Executive Director received payments for monthly expense reimbursements as well as his monthly "retainer" from the ECRC. The former Executive Director acted as the ECRC Executive Director for approximately one year, from July 2009 through June 2010. We noted that there was no written contract in place between the former Executive Director and the ECRC and the Pennsylvania Republican Committee, however, per discussion with the current finance committee of the ECRC, it was agreed that he was to receive \$20,000 for his services. We noted that ECRC paid the former Executive Director a monthly retainer of \$2,083.

Payments made to the former Executive Director:

Monthly Retainer:	\$ 23,956.31
Health Insurance Reimbursement:	1,331.65
Other Expense Reimbursements:	<u>1,689.33</u>
Total	<u>\$ 26,977.29</u>

7. We reviewed available event files for the January 1, 2008 through December 31, 2011. We noted that the event files were incomplete; each event file should contain an accounting for the event in accordance with campaign finance laws. This accounting should include a record of how many attendees were at the event, price per attendee and any other donations. They should also include a listing of itemized expenses incurred to run the event, with supporting documentation such as invoices, receipts or cancelled checks for each expense. They should also include unpaid debts as of the filing dates of the reports. All amounts owed by the ECRC should be reported on the campaign finance reports. The accounting for these events should be reconciled to the general ledger. We noted that none of the above procedures were followed. The event files did not include an accounting for the event and lacked sufficient documentation to allow for a recreation of an accounting for the event. ECRC was not in compliance with campaign finance laws.

In the February 6, 2012 minutes, the prior executive director was asked about how the February 2011 breakfast event had went. He stated it made \$700 profit. He was then asked to provide documentation of that event, which he stated he had, but never was received by the executive committee.

8. We analyzed the amount of revenues and expenses during the former Executive Director's time as Executive Director and for the year subsequent to his departure. The ECRC had revenues of approximately \$61,500 from July 2009 through June 2010, while from July 2010 through June 2011 the ECRC raised approximately \$28,000. The ECRC had expenditures of approximately \$56,000 from July 2009 through June 2010, while from July 2010 through June 2011

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expenditures totaled approximately \$25,800. Revenues and expenditures decreased by approximately the same amount when the former Executive Director left the position.

Recommendations:

Based on our analysis, we recommend the following procedures be implemented:

- Require supporting documentation for all expense reimbursements and ECRC purchases.
- Copies of all supporting documentation should be maintained and filed in accordance with the campaign finance report cycle.
- ECRC should maintain a current and accurate ledger of cash receipts and disbursements. This ledger should be reconciled monthly to the bank statement. Monthly reconciliations will prevent abuse or misappropriation of funds and discrepancies can be resolved in a timely manner. A ledger will also aid in the preparation of the campaign finance reports.
- ECRC should continue to request copies of cancelled checks from the bank and review periodically to ensure funds are not being misappropriated.
- ECRC should require that all agreements be in writing and signed by all parties involved.
- ECRC should maintain an accurate accounting for each event. The accounting should be supported by appropriate documentation and reconciled to the general ledger.

Conclusion:

In conclusion, we found various areas for improvements as listed above in the report. The most significant area for improvement is the record keeping of the business affairs of the ECRC. ECRC should keep supporting documentation and accurate ledgers of cash disbursements and receipts, which would agree to event files and Campaign Finance Reports. ECRC should reconcile this ledger monthly to the bank statements. Campaign Finance Reports were not able to reconcile to supporting documentation. Each Campaign Finance Report should be supported by the general ledger, which should be supported by deposit slips, copies of checks from donors, invoices, etc. ECRC was not in compliance with the campaign finance laws. There should be no variances between the Campaign Finance Reports, general ledger and supporting documentation. We are not aware of what information was used to file the campaign finance reports, so therefore significant variances may exist in addition to the variances noted in Exhibit 1. Signed contracts should be in place for anyone doing business on behalf of the ECRC and any deviations from those contracts need to be acted on and documented. Based on the amount of missing documentation, variances noted and lack of controls in place for the period under review, we recommend this information be further reviewed.

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Exhibit I

Campaign Finance Report - Expenditures - See #4 and #7

	Included on Campaign Finance Report	Expenditures Not Included on Bank Statement	Total Net Variance
2008	\$ -	\$ -	\$ -
2009	\$ 1,613.37	\$ (505.30)	\$ 1,108.07
2010	\$ 3,355.79	\$ (1,993.02)	\$ 1,362.77
2011	\$ -	\$ -	\$ -
Totals	<u>\$ 4,969.16</u>	<u>\$ (2,498.32)</u>	<u>\$ 2,470.84</u>

We found no variances for the years ended December 31, 2008 and 2011. For the years ended December 31, 2009 and 2010 we found expenditures of \$1,613.37 and \$3,355.79, respectively, that were not included on the campaign finance report but cleared the ECRC bank account. We found expenditures of \$505.30 that were included on the campaign finance report but not present on the bank statements for the year ended December 31, 2009. For the year ended December 31, 2010 expenditures of \$1,993.02 were not included on the bank statements but were present on the campaign finance report. We found that \$1,978.02 of these expenditures were included in multiple campaign finance reports. For the four years we tested we found an aggregate net variance of \$2,470.84 of expenditures reported on the campaign finance reports. There should be no variances noted.

Campaign Finance Report – Cash Receipts - See #4 and #7

	Cash Receipts Not Included on Campaign Finance	Cash Receipts Not Included on Bank Statement	Total Net Variance
2008	\$ -	\$ -	\$ -
2009	\$ 625.00	\$ (117.20)	\$ 507.80
2010	\$ 859.13	\$ (1,539.78)	\$ (680.65)
2011	\$ -	\$ (50.00)	\$ (50.00)
Totals	<u>\$ 1,484.13</u>	<u>\$ (1,706.98)</u>	<u>\$ (222.85)</u>

We found no variances for the year ended December 31, 2008. For the years ended December 31, 2009 and 2010 we found cash receipts of \$625.00 and \$859.13, respectively, that were not included on the campaign finance report but cleared the ECRC bank account. We found cash receipts of \$117.20 and \$1,539.78 that were included on the campaign finance report but not present on the bank statements for the years ended December 31, 2009 and 2010. For the year ended December 31, 2011 there was a variance of \$50.00 that was included on the campaign finance report but not reflected on the bank statement. For the four years we tested we found an aggregate net variance of \$222.85 of cash receipts reported on the campaign finance reports. There should be no variances noted.