

CITIZENS CLEAN ELECTIONS COMMISSION

Report on Agreed-Upon Procedures

**Rick Gray
Participating Candidate for
Corporation Commissioner
Primary Election 2016**

**Independent Accountants' Report on
Applying Agreed-Upon Procedures**

Chairman and Members of the Commission
Citizens Clean Elections Commission
Phoenix, Arizona

We (the Contractor) have performed the procedures enumerated below, which were specified and agreed to by the State of Arizona Citizens Clean Elections Commission (the Commission), solely to assist the Commission in evaluating whether Elect Rick Gray (the Candidate) Campaign Finance Reports for both the Pre-Primary (June 1, 2016 to August 18, 2016) and the Post-Primary (August 19, 2016 to September 19, 2016) reporting periods were prepared in compliance with Title 16, Articles 1 and 2 of the Arizona Revised Statutes, Campaign Contributions and Expenses, and the Citizens Clean Elections Act, and whether the reports complied with the rules of the Citizens Clean Elections Commission. The Candidate's management is responsible for the Pre-Primary and Post-Primary Campaign Finance Reports. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. Preliminary Procedures
 - a) Commission Staff will obtain a copy of the candidate's campaign finance report for the reporting period and provide the records to the Contractor.

Finding

We obtained both the Pre-Primary (June 1, 2016 to August 18, 2016) and Post-Primary (August 19, 2016 to September 19, 2016) Campaign Finance Reports from the Arizona Secretary of State's website.

b) Perform a desk review of the receipts reported in the candidate's campaign finance report as follows:

- (i) Determine whether the candidate accepted contributions only from individuals.

Finding

The contributions received during the periods reviewed appeared to be only from individuals.

- (ii) Determine whether any contributions received from individuals exceed the early contribution limit.

Finding

Contributions received from individuals during the periods reviewed did not exceed the \$160 early contribution limit.

- (iii) Check compliance with the maximum early contribution limits.

Finding

Early contributions received during the periods reviewed did not exceed the \$25,678 limit for a corporation commission candidate.

- (iv) Check compliance with the maximum personal contribution limits.

Finding

Personal contributions received during the periods reviewed did not exceed the \$1,420 limit for a corporation commission candidate.

c) Perform a desk review of the disbursements reported in the candidate's campaign finance report to identify any unusual items requiring follow-up during fieldwork.

Finding

We noted no unusual disbursements during our review.

- d) Contact the candidate or the campaign treasurer, as appropriate, to schedule a date to perform fieldwork. Discuss the nature of the documentation, which will be needed to perform the engagement and ascertain the location of the necessary documentation.

Finding

We contacted the Candidate to discuss the agreed-upon procedures, the timing of our procedures, and the documentation needed.

2. Fieldwork Procedures

- a) Commission staff will contact the candidate to request the records for an agreed-upon procedures attest engagement. Candidates chosen for a Primary Election Audit shall provide records from the Pre-Primary Election Report and the Post-Primary Election Report. Candidates chosen for a General Election Audit shall provide records from the Pre-General Election Report and the Post-General Election Report.

Finding

Commission staff sent an initial notice of primary random audit selection to the Candidate and informed the Candidate that we would be contacting him. We then communicated to the Candidate in a written request, the purpose of the engagement, agreed-upon procedures to be performed, documentation needed and potential future requirements of the Candidate.

- b) Commission staff will provide the records to the Contractor upon receipt. The Contractor shall contact the candidate and/or his or her representative(s) to discuss the purpose of the engagement, the general procedures to be performed and potential future requirements of the candidate, such as possible repayments to the Fund.

Finding

See comment in a) above.

- c) The Contractor shall contact or conduct an interview with the candidate and/or his or her representative(s) to discuss the bookkeeping policies and procedures utilized by the campaign committee.

Finding

The Candidate provided written bookkeeping policies and procedures utilized by the campaign committee.

- (i) Review the names of the candidate's family members. Family members include parents, grandparents, spouse, children, siblings and a parent or spouse of any of those persons.

Finding

We obtained and reviewed the names of the Candidate's family members.

- (ii) Review bank statements for each of the months in the reporting period and perform the following:
 - Select a sample of deposits and withdrawals from the bank statements and determine that the transaction is properly reflected in the candidate's records and campaign finance report.

Finding

We selected five deposits and five withdrawals from the bank statements for the periods reviewed and determined that they appeared to be properly recorded in the Candidate's campaign finance reports, with one exception. One deposit tested for \$1,000.00 was comprised of personal monies and was deposited into the Campaign bank account at the end of the Campaign. Per discussion with the Campaign Treasurer, this was done intentionally to ensure the account did not have a negative balance due to transactions she was unaware of. Per the Citizens Clean Elections Act & Rule Manual rule R(2)-20-104(D)(4), a participating candidate shall only deposit early contributions, qualifying contributions and Clean Elections funds into the candidate's current campaign account.

In addition, one deposit tested was comprised of qualifying contributions transferred from the Candidate's personal bank account. Per discussion with the Campaign Treasurer, the contributions had been mistakenly deposited into the Candidate's personal account, and once the error was discovered, it was promptly corrected by transferring the funds to the Campaign bank account.

- Perform a proof of receipts and disbursements for the reporting period.

Finding

Proof of receipts and disbursements was performed for the reporting period. After performing proof of cash procedures, we calculated a Post-Primary ending cash balance of \$442.34. However, we expected the ending balance to be \$1,000.00, which is the amount of the personal deposit made by the Candidate, as referenced in (2)(c)(ii). Therefore, we noted an unreconciled difference of \$557.66, which indicates that the Campaign overspent by this amount. Per the Citizens Clean Elections Act & Rule Manual rule 16-941(A)(3), a participating candidate: shall not make expenditures in the primary election period in excess of the adjusted primary election spending limit.

Though it appears the campaign overspent, the Candidate is allowed to contribute up to \$1,420 to the campaign, which would have eliminated the amount indicated as overspent. In addition, the Campaign returned \$7,787.44 to the Commission upon the completion of the Campaign.

- d) Judgmentally select a sample of early contributions reported in the candidate's campaign finance report and agree to supporting documentation, which reflects the name of the contributor (for all contributions) and for individuals who contributed greater than \$50, which reflects the contributor's address, occupation and employer.

Finding

We reviewed the supporting documentation for five early contributions reported in the Candidate's campaign finance report, and determined the name of the contributors for the contributions was included on the support. For individuals who contributed greater than \$50, we determined that the contributor's address, occupation and employer were also included on the support.

- (i) For other types of cash receipts reported in the candidate's campaign finance report, review supporting documentation and review for compliance with regulatory rules and laws and agree the receipt to inclusion in the campaign account bank statement.

Finding

We reviewed supporting documentation for seven cash receipts totaling \$3,760.78, reported in the Campaign finance report and noted the following exceptions. One cash receipt totaling \$22.79 was reported as a receipt received from the Candidate, however after reviewing supporting documentation, it was noted that this transaction was an expenditure incurred by the Campaign, and should have been recorded in the Campaign finance report as a reimbursement to the Candidate. We traced the reimbursement payment to the Candidate on the Campaign bank statement without exception.

Two cash receipts totaling \$583.34, received from other campaign committees for joint expenditures, were reported as transfers in the Candidate's campaign finance report. We agreed the receipts to the campaign account bank statement, however documentation maintained by the Campaign for this expenditure was inadequate, because no detailed invoice was maintained by the Campaign. Per the Citizens Clean Elections Act & Rule Manual rule R(2)-20-703, all participating candidates shall retain records with respect to each expenditure and receipt, including bank records, vouchers, worksheets, receipts, bills and accounts, journals, ledgers, fundraising solicitation material, accounting systems documentation, and any related materials documenting campaign receipts and disbursements, for a period of three years, and shall present these records to the Commission on request.

- (ii) For in-kind contributions, review the supporting documentation and determine the methodology utilized to value the contribution and assess the reasonableness.

Finding

No in-kind contributions were reported in the Candidate's campaign finance reports during the periods reviewed.

- e) Judgmentally select a sample of cash expenditures reported in the candidate's campaign finance report and perform the following:
 - (i) Review supporting invoice or other documentation and agree amount to the amount reported in the candidate's finance report.

Finding

We reviewed five expenditures and agreed amounts to supporting invoices or other documentation and to the Candidate's finance report, with no exceptions noted.

- (ii) Determine that the name, address and nature of goods or services provided agree to the information reported in the candidate's campaign finance report.

Finding

We reviewed five expenditures and agreed the name, address and nature of goods or services provided to the information reported in the Candidate's campaign finance report with one exception. The Campaign finance report included a \$24,823.05 expenditure for mailings, however the invoice initially retained by the Campaign did not itemize or detail the services that were provided.

After reviewing the draft report, the Campaign provided additional supporting documentation detailing the consulting fee services described above.

- Agree the amount of the expenditure to the campaign account bank statement.

Finding

We reviewed five expenditures and agreed amounts to the campaign account bank statements without exception.

- (iii) Determine whether the expenditure was made for a direct campaign purpose. Direct campaign purpose includes, but is not limited to, materials, communications, transportation, supplies and expenses used toward the election of the candidate.

Finding

We reviewed five expenditures and determined that all appeared to have been made for direct campaign purposes with one exception. The Campaign finance report included a \$24,823.05 expenditure for mailings, and the invoice initially retained by the Campaign did not itemize or detail the services that were provided. Per the Citizens Clean Elections Act & Rules Manual rule R2-20-703(A)(1), all participating candidates shall have the burden of proving that expenditures made by the candidate were for direct campaign purposes.

After reviewing the draft report, the Campaign provided additional supporting documentation detailing the consulting fee services described above.

- If the expenditure is a joint expenditure made in conjunction with other candidates, determine that the amount paid represents the candidate's proportionate share of the total cost.

Finding

Two of the five expenditures we tested was for a joint expenditure made in conjunction with another campaign. The amounts paid appear to represent the Candidate's proportionate share of the total cost.

- f) Determine whether any petty cash funds have been established and, if so, determine how expenditures from these funds have been reflected in the accounting records. Determine whether aggregate petty cash funds exceed the limit of \$1,420.

Finding

Based on inquiry of the Candidate, the Candidate did not establish a petty cash fund during the periods reviewed.

- (i) If applicable, judgmentally select a sample of expenditures made from the Candidate's petty cash fund(s) and obtain supporting documentation for the expenditure. Determine whether the expenditure was for a direct campaign expense and whether the expenditure was in excess of the \$160 limit on petty cash expenditures.

Finding

Based on inquiry of the Candidate, the Candidate did not establish a petty cash fund during the periods reviewed.

- g) Determine whether a legal defense fund has been established.

Finding

Based on inquiry of the Candidate, the campaign did not establish a legal defense fund.

- (i) If a legal defense fund was established, how were these funds accounted for?

Finding

Based on inquiry of the Candidate, the campaign did not establish a legal defense fund.

- h) Contact the Candidate and/or his or her representative(s) to discuss the preliminary engagement findings and recommendations that the Contractor anticipates presenting to the CCEC. During this conference, the Contractor will advise the Candidate and/or his or her representative(s) of their right to respond to the preliminary findings and the projected timetable for the issuance of the final issuance of the report.

Finding

We discussed our findings with the Campaign Treasurer and the Campaign Treasurer maintained that the Campaign did not overspend Campaign funds, however the Treasurer was unable to identify the source of the variance identified.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Pre-Primary and Post-Primary Campaign Finance Reports of Elect Rick Gray. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Citizens Clean Elections Commission, and is not intended to be and should not be used by anyone other than this specified party.

Foster & Chapman P.C.

December 16, 2016