

# PAC Internal Controls: FEC Suggests Additional Procedures

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The Federal Election Commission (FEC) recently issued guidance to political action committees (PACs) regarding internal controls they should consider to minimize reporting errors, and worse, the growing number of instances where political committee funds or assets are misappropriated. Although these requirements are not mandatory, and the FEC has not indicated that a PAC can avoid liability solely by adopting any or all of the proposed controls, the advisory document is nevertheless a useful tool in reviewing whether a PAC has enough safeguards in place to protect its assets from misappropriation and to ensure that accurate, timely reports are filed with the Commission.

The guidance is available at [http://www.fec.gov/law/policy/guidance/internal\\_controls\\_polcmtes\\_07.pdf](http://www.fec.gov/law/policy/guidance/internal_controls_polcmtes_07.pdf). A summary of the specific recommendations follows. Please note that Wiley Rein LLP offers legal audit services to its clients to ensure political committee compliance with the campaign finance laws and regulations.

## Bank Accounts

- A. Limit the number of bank accounts to those absolutely required to manage the committee's business.
- B. All committee bank accounts should be in the name of the committee and utilize the committee's Employer Identification Number. Accounts should not be in the name of an individual or use an individual's Social Security Number.
- C. Limit the number of persons authorized to sign checks. In addition, checks in excess of a certain dollar amount should require the signature of two responsible individuals.

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- D. Maintain careful control over debit and credit cards. Consider dollar restrictions on cards, both on a per transaction basis and a cumulative limit. Once expenditures are approved, the limit can be re-established.
- E. Review the transactions on bank statements and reconcile the statements to the accounting records each month in a timely manner. Someone should reconcile the bank statement other than the check signers and those controlling the checking account and processing transactions.
- F. Prior to filing each report, a reconciliation between bank and accounting records and the disclosure reports should be undertaken.
- G. Require all wire transfers to be pre-authorized by two responsible individuals and immediately recorded in the accounting records.
- H. Finally, investigate other control-related services that the committee's bank may be able to provide.

### **Receipts**

- A. Make a list of receipts when the mail is opened. Ideally, the person opening the mail and preparing the list should be independent of the accounting function. A responsible official should periodically (during the monthly bank reconciliation if not more often) compare the list with the recorded amount for the deposit and the deposit amount on the bank statement.
- B. The employee responsible for opening the mail should complete the following:
- Place restrictive endorsements, such as For Deposit Only to the Account of the Payee, on all checks received.
  - Prepare a list of the money, checks, and other receipts.
  - Forward all receipts to the person responsible for preparing and making the daily bank deposits.
- C. If the committee receives contributions via debit and credit card, the same type of information described above for checks and cash should be assembled for those contributions.
- D. Prohibit delivery of unopened business mail to employees having access to the accounting records.
- E. Contributions that are received by committee personnel at events and in person should be subject to the same procedures as those received via mail.
- F. Secure undeposited receipts in a locked cabinet at all times.
- G. Cash refunds should require approval.
- H. Locations where the physical handling of cash takes place should be reasonably safeguarded.

## **Disbursements**

- A. Generally, disbursements should be made with pre-numbered checks, with the exception of petty cash.
- B. If a mistake is made when preparing a check, void the check before preparing a new one. The voided check should then be altered to prevent its use, retained to make sure all pre-numbered checks are accounted for, and filed with other checks for a permanent record.
- C. If possible, check signing should be the responsibility of individuals having no access to the accounting records.
- D. Draw checks according to procedures prescribing adequate supporting documentation and authorization.
- E. All supporting documents should be canceled or marked "paid" once a disbursement is made to avoid double payments.
- F. Mail all checks promptly and directly to the payee or, if they are to be delivered by committee staff, require that the person taking control of the checks signs for them. The person mailing the check should be independent of those requesting, writing, and signing it.

## **Petty Cash**

Use an imprest petty cash fund with one custodian. The imprest fund involves replenishing petty cash only when properly approved vouchers and/or petty cash log entries are presented justifying all expenditures.

## **Payroll**

Many non-connected committees use a payroll service for much of the payroll function. Where there are more than a few employees, a service can be a very effective way of handling payroll and maintaining a separation of duties within the payroll operation. If the committee chooses to handle payroll in-house, the signing and distribution of the checks must be properly handled to prevent their theft. The controls should include limiting the authorization for signing the checks to a responsible person who does not have access to timekeeping or the preparation of the payroll, the distribution of the payroll by someone who is not involved in the other payroll functions, and the immediate return of unclaimed checks for redeposit.

## **Payables**

The accounts payable/notes payable procedures are clearly related to the procedures for cash disbursements and payroll. The control concern is to make certain that all liabilities are properly recorded and ultimately paid. There should be a proper segregation of duties over the performance of the functions of comparing receiving reports, purchase orders and invoices and the handling of the actual disbursement functions.

## **Computerized Systems**

All of the same control considerations that apply to a manual transaction system apply to an automated system. In particular, separating functions so that data files are reconciled to other records by someone independent of the transaction processing and reporting functions is critical. Furthermore, electronic data must be regularly backed up to avoid a loss of data that can interfere with a committee's ability to file timely and

accurate disclosure reports.