

FEC Fines Lockheed Martin Employees' PAC \$27,000 for Violations

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In mid-July, the Lockheed Martin Employees' Political Action Committee (LMEPAC) reached an agreement with the Federal Election Commission (FEC) to pay \$27,000 in fines for failing to accurately report its contributions and expenditures. The fines followed a substantial review of the PAC's finances by auditors from both Lockheed Martin Corporation and the FEC.

Beginning in 2001, the PAC's assistant treasurer, Kenneth Phelps, had written checks to himself for unauthorized disbursements, recording the checks as contributions to a wide array of candidates. According to Lockheed's internal investigation, Mr. Phelps carried out his scheme over a three-year period and embezzled nearly \$170,000 from the PAC before he was caught in late 2003.

Ironically, an internal audit report completed by the corporation early in 2001 had recommended some safeguards that, had they been properly implemented, would have reduced the likelihood that Mr. Phelps could have stolen the PAC funds. Specifically, the report recommended dividing the responsibility for completing the reports from the custodian of the cash reports. This recommendation was never implemented, however, because the corporation delegated the authority to outsource the reporting obligations to the assistant treasurer, who never acted on the recommendation.

Because of the misappropriated funds and Mr. Phelps' destruction of the underlying records, LMEPAC's reports were out of balance by more than \$194,000. Although recognizing that there were some mitigating circumstances, the Commission nevertheless imposed a significant fine on the PAC. The FEC rejected a separate finding in its staff audit report that the PAC failed to maintain proper payroll

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deduction authorization (PDA) forms for 42% of its contributors. In their Statement of Reasons, the Commissioners noted a March 2006 change in Commission policy that enabled PACs to satisfy their recordkeeping requirements without producing the original PDAs.

For a discussion of the steps that PACs can take to help prevent this kind of situation from happening, please refer to the March 2004 *Government Contracts Issue Update* article entitled "Manage Embezzlement Risks to Protect Those Precious PAC Dollars."