

From: [REDACTED]

Sent: Wednesday, June 16, 2021 1:31 PM

To: 'Bob Paduchik' [REDACTED] 'Justin Bis' [REDACTED]

[REDACTED]

Cc: [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Subject: Critical Financial Issues ORPSCC

To: Bob Paduchik

From: Laura Rosenberger, Denise Verdi, and Mark Bainbridge

Copy To: ORP Fiscal Review and Audit Committees and Gregory Blasiman and Christy Erb of CLA

Subject: Critical Financial Issues ORPSCC

As members of the Audit and Fiscal Review Committees, we have several concerns that we were hoping to review with Bob at either an in-person meeting or a Zoom meeting over the past 2 weeks. Since that meeting did not happen, we will just write them in this email and hope that we can get a meeting together possibly next week.

Primarily, we believe that the first steps CLA has to take involve the critical financial issues exposed by the write-off of the \$640,000 receivable in April, 2021. These issues have been highlighted in prior emails which are in the thread below and are evidenced in the information that Justin provided. This kind of material misstatement is unacceptable and also pertinent to the 2021 financial statements as the current administration recently authorized the write-off.

Serious deficiencies were identified by Rightside Compliance in their 2017 report and corrective action was clearly not implemented by the previous administration. We need to strengthen the financial integrity of the ORP and position the ORP to withstand any attempt by negative influences intending to harm our Party and its candidates.

As members of the Audit and Fiscal Review Committees we believe the following must happen immediately:

- Hold a special joint meeting of the Fiscal Review and Audit Committees and meet with Gregory Blasiman of the accounting firm of CLA (Canton office) to discuss the new issues brought to light by the \$640,000 accounts receivable write-off and the related direct entries to the equity section of the balance sheets over the last four years. Because these issues go back to 2017 the timing and scope of the auditor's work needs to change. In addition, we need to discuss with the auditors the timing of the delivery of the draft financial statements related to the previously agreed upon audit of 2019 and 2020.

- Determine at this meeting the timing and involvement of the Fiscal Review Committee in the Accounting and Reporting Improvements as discussed by a memo to the Committee on January 13, 2021.
- Elect at this meeting a Chairman of the Fiscal Review Committee and a Chairman of the Audit Committee in accordance with the Permanent Rules in order to strengthen the oversight role of both of these Committees.

Failure to take appropriate action now could have significant repercussions to the ORP, like a repeat of the \$150K FEC fine incurred under the past administration that has yet to be accounted for on the books and never explained to the Committee at large.

Best Regards,
 Laura Rosenberger District 10, Audit Committee
 Denise Verdi District 25, Fiscal Review Committee
 Mark Bainbridge District 16, Fiscal Review Committee

Begin forwarded message:

From: Mark Bainbridge
Subject: Key Information Needed Related to the ORP Financial Statements
Date: July 25, 2021 at 6:05:50 AM EDT
To: Mark A Bainbridge

Begin forwarded message:

From: Mark Bainbridge
Subject: Re: Key Information Needed Related to the ORP Financial Statements
Date: May 11, 2021 at 3:39:13 PM EDT
To: Bob Paduchik
Cc:

[Redacted content]

Bob

Every SCC member is committed to Republican ideals and electing candidates who support our conservative platforms. Each SCC member has spent personal time and treasure to be elected and continues to volunteer time and treasure to advance the Republican agenda. Everyone on the State Central Committee recognizes the many responsibilities the Chairman and

staff have including raising money. Without these efforts, the ORP would cease to exist.

Any organization, including the ORP, must have a solid foundation in order to successfully meet its objectives. Operational integrity, including finances and compliance with laws and regulations is an integral part of the foundation. An accurate financial record enables the ORP to allocate resources to achieve its conservative strategy goals. The development and adherence to internal procedures and controls reduces the opportunity for operational, financial, and regulatory errors and irregularities. The ORP must be a model organization capable of protecting its valuable information and withstanding scrutiny from external forces, particularly those opposed to our Republican agenda.

The issues related the poor accounting, reporting, and controls and the lack of risk assessment and mitigation efforts have all previously been emailed to and discussed extensively with Jane Timken. I first discussed these issues with you when we first talked before you were elected Chairman and provided you with copies of my emails on my concerns and recommendations to Jane and Rob. Further, you, Justin and I discussed these issues in our meeting on March 10 and I provided you with the January 13, 2021 memo from Rob Secaur on "Accounting and Reporting Improvements".

Preparing for a meeting with Justin and Tom on March 24, 2021, I realized that the accounts receivable balance had not changed since December 31, 2018 and asked them who owed the \$640,000 to the ORP. Our meeting was focused on my effort to help them get ready for the up-coming audit so I was looking at prior year financial statements for the first time (as I was not elected until 2020). My hope was that someone in the ORP knew who owed this receivable to the ORP. Justin agreed that the issue was significant and would discuss it with you. Clearly, the issue was discussed somewhere in the organization as the \$640,000 write off occurred within days. Obviously, no members of the Fiscal Review Committee, including me, could ask "detailed questions" about the \$640,000 write off until we found out the receivable was written off at our conference call on May 5, 2021. Thus, I believe I have done everything in a cooperative manner and am baffled that your email states you believe otherwise.

Bob, we are all working for the benefit of the ORP. Let's resolve these issues so we are a stronger organization and are positioned to devote our entire effort to advancing our Republican cause and electing Republicans to office.

The Fiscal Review Committee is looking forward to an explanation of the \$640,000 write off.

Mark

On May 10, 2021, at 8:53 AM, Bob Paduchik [REDACTED] wrote:

Mark, thank you for your email providing greater detail of the questions you asked during the Fiscal Review Committee conference call. The purpose of that call is to preview the Treasurer's report and ORP financials for the upcoming meeting, staff was prepared to do so. Had you provided these very specific questions to us anytime during the 2 months of my chairmanship prior to the call we would have been better prepared to address the questions during the call.

I have said on numerous occasions, compliance issues are important and a priority for ORP staff, SCC members, our candidates and constituents. We have many issues of compliance: Federal Elections law, state campaign finance law, various federal, state and municipal regulations, human resources, IT and of course accounting. We also have many other responsibilities as a political organization dedicated to electing Republican candidates. Primarily is raising the money necessary to supporting those campaign efforts as well as the operating and compliance costs of the ORP. Please understand that we have many activities ahead of us, especially during such an important and challenging election cycle, of which compliance is an important part. As you know, the ORP is in contract with Clifton Larson Allen, LLP to conduct an audit that includes the years in question. I expect the audit to answer most if not all your questions.

Mark, we have spoken several times since I was elected chairman in February, including a nearly 2-hour meeting Saturday, April 17th, you have never once mentioned to me a \$640,000 accounts receivable discrepancy. I'm confused why you wouldn't have shared such strong concerns with me earlier. It will be helpful going forward if you present your concerns and questions in a cooperative manner. I will ring you later today to discuss offline.

Thank you for your service to our party and our committee.

-Bob

From: Mark Bainbridge [REDACTED]
Sent: Sunday, May 9, 2021 8:30 AM
To: [REDACTED]

Cc: Bob Paduchik [REDACTED] Justin Bis [REDACTED]
Subject: Key Information Needed Related to the ORP Financial Statements

May 9, 2021

ORP Fiscal Review Committee Members:

Our discussion at Wednesday's Fiscal Review Committee was enlightening. My objective on Wednesday was to raise the questions so Bob, Justin and the Fiscal Review Committee understood the issues and risks. I did not expect Management to immediately respond to the issues. Bob admitted that he knew the ORP does not have anyone on staff with the requisite financial expertise or capability to deal with minor accounting issues let alone issues of this magnitude. I concur with his assessment. I am concerned that management believes I am the only person interested in the financial issues and the other Committee members have no interest in spending the time discussing them.

In my assessment, the Fiscal Review Committee demonstrated a keen interest in understanding the issues, making certain the issues are properly resolved, and establishing controls to assure appropriate financial reporting. This assessment was validated by the phone calls I received from members of the Fiscal Review Committee subsequent to the meeting.

Management must face the issues and be resolute in correcting the financial records of the ORP. The purpose of this email is to delineate the key issues and the information that management needs to provide the Fiscal Review Committee in order to protect the ORP.

Since being elected to SCC in 2020, I have had many discussions with Jane Timken about the poor state of the ORP financial records and the related risks. To date, there has been only minor effort to correct the situation. In March, 2021 at a meeting with Justin and Tom Dains, the Accounting Director, I asked about the \$640,000 receivable that has been on the books since at least 2018. Tom said he had no idea what the receivable was as no one had ever asked the question. Tom's answer was something I will never forget. A few days later, I talked to Justin on another issue and reminded him that Bob needed to be aware of the issue and Tom's lack of knowledge about the receivable. Justin assured me he would tell Bob.

I requested management follow-up with me on my question about the \$640,000 accounts receivable. I did not receive a reply to my question. It was my intent to offer to help Management understand the issue and develop the best approach to rectify the issues.

The worst thing Management can do when faced with an accounting or reporting issue is to make an adjustment that cannot be explained and further compound the issue by not informing the Fiscal Review Committee. This is precisely what happened with the \$640,000 write off of receivables. It is clear to me that Management did not intend to address the issue on Wednesday's call until I asked the question. I believe this because of the reaction of Management when I pursued the issue.

When faced with an issue of writing off a receivable of two-thirds of a million dollars, Management must get expert accounting advice, delineate the issues, and inform the Fiscal Review Committee of the issue *prior* to making an accounting adjustment. Clearly, this is not the approach Management took. By not being forthcoming with the write-off, I am inclined to believe that Management does not understand the magnitude of the issue nor the need for financial diligence. Management has a responsibility that they either do not understand or choose to ignore in the hope they will never be challenged.

There is absolutely no reason for Bob and Justin to take a defensive posture about the condition of the ORP financial records and practices as the situation is long-standing. It is their responsibility to fix the situation and institute controls necessary to assure ORP can withstand any scrutiny of its financial records.

Another issue of grave concern is the scathing 2017 report prepared by outside consultants stating that ORP was not in compliance with the Federal Election Commission and the Ohio SOS campaign guidelines. The recommendations of the consultants have yet to be fully implemented. At a meeting with Bob and Justin on April 17, 2021, they both indicated they had not yet read this report.

Cybersecurity is a critical issue. Bob has begun the process of addressing this issue. Prior to Bob being employed, Management and staff used their personal computers and hardware. Bob is now requiring that all employees use encrypted devices owned by the ORP. However, in the absence of strict written cybersecurity policies and procedures, as well as employee education, the entire ORP could be compromised.

The ORP financial reporting format is antiquated, does not provide SCC with the information necessary to make decisions, and is not compliant with Generally Accepted Accounting Principles (GAAP). The Permanent Rules require an audit to be completed annually. An auditing firm was hired early in 2021, but the audit procedures have not started to date. A financial statement audit has not been completed for 16 years or more.

There is also a need for internal controls which are processes that are in place to reduce the risk that financial statements are incorrect and assets are not secured. The April 30, 2021 financial statement is a stellar example of what happens when internal controls are lacking.

Following are the areas which I believe need to be addressed immediately with a timely written response to the Financial Review Committee.

\$640,000 Receivable Removed from April 30, 2021 Financial Statement

To have \$640,000 eliminated from a financial statement requires significant explanation.

1. When were the \$640,000 in receivables originally recorded?
2. What constituted the receivables? Who owed the ORP?
3. Was the cash received? From whom? When? How much?
4. When the receivables were paid, to what specific accounts were they recorded?
5. Why was the receivable never questioned over all the years?
6. What controls should be in place to preclude this from happening again?

The Equity Section of the Balance Sheet and Reconciliations

Since December 31, 2019, the equity section of the balance sheet has been omitted from the financial statements. (Equity equals assets less liabilities.) More importantly, the *changes* in the equity section (from one period to the next) have not been provided in the financial statements. Equity is adjusted

by the net profit or loss for the period. Equity is an indicator of the health of the ORP.

From my assessment, it appears that at least a portion of the \$640,000 was recorded through the equity section of the balance sheet and not through the Profit and Loss Statement. Making such an adjustment to the equity section of the balance sheet is not permissible under GAAP.

The Committee needs a detailed schedule showing equity:

1. As of the calendar years ended December 31, 2017, 2018, 2019, 2020, and as of the period ended April 30, 2021.
2. Changes in these periods by profit or loss and most critically any other changes made with the details of these other changes.

This equity balance information will be required to complete the 2020 audit this year.

\$150,000 Fine Paid to the Federal Election Commission (FEC)

It is important to understand:

1. Where was the FEC fine recorded in the financial statements? Was it recorded in the equity section of the balance sheet or in the profit and loss statement?
2. When was the \$150,000 fine paid by the ORP to the FEC?
3. What was the period of time covered by the FEC audit that relates to the FEC fine?
4. Why was the ORP fined and what was the wording used by the FEC as to the reason for the fine?

Management should be able to adequately answer these questions and provide the information requested in the next few days. In the event that this is not

possible, the normal procedure would be to place any employees or consultants that had access to the QuickBooks financial reporting system during the time these events occurred, on administrative leave until a CPA firm completes an investigation. Clerical accounting people that only have access to daily receipts and disbursement responsibilities would not be impacted. It seems that this would only impact Tom Dains, the Accounting Director. However, I am not sure who else might be involved in preparation of the financial statements or have access to the system.

One final thought is based upon the comments on our conference call Wednesday. Management seems to want to take the suggestions from the January, 2021 memo that was given to the Fiscal Review Committee and implement them and report back to the Committee that they were accomplished. I believe that the Fiscal Review Committee needs to have a significant oversight role including:

1. Selecting a CPA firm to help improve the financial reporting and documenting accounting procedures;
2. Hiring a consultant to do a gap analysis of cybersecurity (identifying the gap or differences between current procedures and desired procedures);
3. Reviewing the results of these reports directly with the CPA firm and the cybersecurity consultant;
4. Determining the scope and cost benefits of implementation of the recommendations; and
5. Analyzing to what extent the ORP should hire accounting employees versus use accounting consultants.

I believe the Fiscal Review Committee wants and needs to spend the time to delve into these issues in order to preserve the integrity of the ORP as well as fulfill its fiduciary responsibilities.

I would be happy to clarify any of my comments. Please do not hesitate to call me.

Mark

Mark A. Bainbridge

Cell:

