



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

January 26, 2006

MEMORANDUM

TO: ROBERT W. BIERSACK
PRESS OFFICER
PRESS OFFICE

FROM: JOSEPH F. STOLTZ *JFS*
ASSISTANT STAFF DIRECTOR
AUDIT DIVISION

SUBJECT: PUBLIC ISSUANCE OF THE AUDIT REPORT ON
THE NEW YORK HOST COMMITTEE 2004

Attached please find a copy of the audit report on the New York Host Committee 2004 which was approved by the Commission on January 12, 2006.

All parties involved have received informational copies of the report and the report may be released to the public.

Attachment as stated

cc: Office of General Counsel
Office of Public Disclosure
Reports Analysis Division
FEC Library
Web Manager



Report of the Audit Division on the New York City Host Committee 2004

July 26, 2002 – December 31, 2004

Why the Audit Was Done

The Commission audits each host committee or municipal fund that represents a city where a publicly financed nominating convention is held. The audit seeks to determine if the committee has materially complied with the prohibitions and disclosure requirements of the election law.¹

Future Action

The Commission may initiate an enforcement action, at a later time, with respect to any of the matters discussed in this report.

About the Committee (p. 2)

The New York City Host Committee 2004, headquartered in New York City, is the committee responsible for hosting the 2004 Republican National Convention. For more information, see chart on the Committee Organization, p. 2.

Financial Activity (p. 2)

• Receipts		
○ Contributions to Defray Convention Expenses		\$ 84,916,063
○ Refunds, Rebates, Returns of Deposits Relating to Convention Expenses		568,170
○ Other Receipts		244,759
○ Total Receipts		\$ 85,728,992
• Disbursements		
○ Convention Expenses		\$ 80,702,899
○ Other Disbursements		1,614,672
○ Total Disbursements		\$ 82,317,571

Finding and Recommendation (p. 3)

- Reporting of Letter of Credit

¹ 11 CFR §9008.54.

Table of Contents

	Page
Part I. Background	
Authority for Audit	1
Scope of Audit	1
Inventory of Committee Records	1
Part II. Overview of Committee	
Committee Organization	2
Overview of Financial Activity	2
Part III. Summary	
Finding and Recommendation	3
Part IV. Finding and Recommendation	
Reporting of Letter of Credit	4

Part I

Background

Authority for Audit

This report is based on an audit of the New York City Host Committee 2004 (NYCH), undertaken by the Audit Division of the Federal Election Commission (the Commission) as mandated by Section 9008.54 of Title 11 of the Code of Federal Regulations. That section states the Commission shall conduct an examination and audit of each host committee registered under 11 CFR §9008.51.

Scope of Audit

This audit examined:

1. The receipt of contributions from prohibited sources.
2. The disclosure of contributions and other receipts.
3. The disclosure and nature of disbursements.
4. The disclosure of debts and obligations.
5. The completeness of records.
6. The consistency between reported figures and bank records.
7. Other committee operations necessary to the review.

Inventory of Committee Records

The Audit staff routinely conducts an inventory of committee records before it begins the audit fieldwork. NYCH's records were materially complete and the fieldwork began immediately.

Part II Overview of Committee

Committee Organization

Important Dates	New York City Host Committee 2004
• Date of Registration	February 26, 2003
• Audit Coverage	July 26, 2002 – December 31, 2004
Headquarters	New York, NY
Bank Information	
• Bank Depositories	Two
• Bank Accounts	Thirteen
Treasurer	
• Treasurer When Audit Was Conducted	Diane J. Rizzo
• Treasurer During Period Covered by Audit	Diane J. Rizzo
Management Information	
• Attended FEC Campaign Finance Seminar	No
• Used Commonly Available Campaign Management Software Package	Yes
• Who Handled Accounting, Recordkeeping Tasks, and Other Day-to-Day Operations	Paid Vendor

Overview of Financial Activity (Audited Amounts)

Cash on hand @ July 26, 2002	\$ 0
Receipts	
o Contributions to Defray Convention Expenses	\$ 84,916,063
o Refunds, Rebates, Returns of Deposits Relating to Convention Expenses	568,170
o Other Receipts	244,759
Total Receipts	\$ 85,728,992
Disbursements	
o Convention Expenses	\$ 80,702,899
o Other Disbursements	1,614,672
Total Disbursements	\$ 82,317,571
Cash on hand @ December 31, 2004	\$ 3,411,421

Part III

Summary

Finding and Recommendation

Reporting of Letter of Credit

NYCH failed to disclose a \$3,000,000 letter of credit on Schedules C and C1. The Keybank National Association issued the letter of credit on July 21, 2004. The Audit staff recommended that NYCH amend its reports to disclose the letter of credit. NYCH correctly disclosed the letter of credit on October 14, 2005.

Part IV

Finding and Recommendation

Reporting of Letter of Credit

Summary

NYCH failed to disclose a \$3,000,000 letter of credit on Schedules C and C1. The Keybank National Association issued the letter of credit on July 21, 2004. The Audit staff recommended that NYCH amend its reports to disclose the letter of credit. NYCH correctly disclosed the letter of credit on October 14, 2005.

Legal Standard

A. Post Convention Reports. Each host committee is required to register with the Commission and file a post convention report on FEC form 4. The report must be filed on the earlier of: 60 days following the last day the convention is officially in session; or 20 days prior to the presidential general election. This report must be complete as of 15 days prior to the date on which the report must be filed and disclose all the information required by 11 CFR part 104 with respect to all activities related to a presidential nominating convention. 11 CFR §9008.51(b)(1).

B. Loans. In addition to a loan of money, a loan includes a guarantee, endorsement, or any other form of security. 11 CFR §100.52(b).

Facts and Analysis

On July 21, 2004, NYCH obtained an irrevocable letter of credit from the Keybank National Association (the Bank). The letter of credit established in the amount of \$3,000,000 was issued in favor of 16 insurance related entities and remains in effect through December 31, 2007.

According to a document entitled "Reimbursement Agreement," NYCH obtained a fully fronted general liability insurance policy from the AIG Insurance Company (AIG) with respect to certain potential claims arising from activities related to the 2004 Republican National Convention. The Reimbursement Agreement states that AIG and NYCH desire to obtain a letter of credit to provide for payments to be made to AIG in the event NYCH fails to make such payments when due.

Documentation made available by representatives of the Bank demonstrated that the letter of credit was never exercised. Even though the letter of credit was not exercised, NYCH should have disclosed it on Schedules C (Loans) and C-1 (Loans and Lines of Credit from Lending Institutions), but it did not. As noted above, the definition of a loan includes a guarantee, endorsement, or any other form of security. The letter of credit at issue represents a guarantee. NYCH did disclose the fee it paid to obtain the letter of credit.

This matter was addressed at the exit conference. NYCH representative disagreed that the letter of credit is required to be disclosed. On March 28, 2005, NYCH submitted more

information and explained, the letter of credit was set up to support the commercial general liability coverage, a relatively small insurance policy. Representatives further stated:

“after pricing insurance policies that would cover a national political convention in New York City, the City of New York decided to self-insure its, the Host Committee’s, the Committee on Arrangement’s and the Republican National Committee’s exposure related to the Convention instead of procuring conventional insurance....The commercial general liability policy is a fully fronted policy which means that instead of paying a fee and the insurance company paying for any losses beyond the deductible amount and up to the policy limit, the insured pays or otherwise sets aside the full amount of the policy up front to the insurance company. The letter of credit was merely a payment feature to a fully fronted insurance policy. It is essentially a means of buying a service so that small claims may be efficiently processed. Consequently, the cost of the letter of credit was reported in the same way the premium on the insurance policy was reported.”

Preliminary Audit Report Recommendation and Committee Response

The Audit staff recommended that NYCH amend its reports to disclose, and continue to disclose, the letter of credit on Schedules C and C-1.

Counsel for NYCH (Counsel) stated that the letter of credit does not expire until December 31, 2007; it has no other debts; the City of New York has agreed to indemnify NYCH for any claim against it; and, the remaining cash on hand will more than likely be donated to a City project. However, disclosing the letter of credit would then require NYCH to continue filing disclosure reports through calendar year 2007, even though there would be no financial activity to report other than the outstanding letter of credit. As an alternative, Counsel has agreed to disclose the letter of credit, provided that NYCH be allowed to terminate, with the understanding that in the unlikely event the letter of credit was exercised, NYCH would register again.

On October 14, 2005, NYCH disclosed the letter of credit on Schedules C and C-1. A request to terminate by NYCH will be handled in accordance with existing Commission policy and procedures.