



FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

January 29, 2002

**MEMORANDUM**

**AGENDA ITEM**

For Meeting of: 2-14-02

**To:** The Commissioners

**Through:** James A. Pehrkon  
Staff Director

Robert J. Costa  
Deputy Staff Director

**From:** Joseph F. Stoltz  
Assistant Staff Director  
Audit Division

Alex Boniewicz  
Audit Manager

**Subject:** Final Audit Report on the South Carolina Republican Party

Attached for your approval is the subject report.

**Recommendation**

The Audit staff recommends that the report be approved.

This report is being circulated on a tally vote basis. Should an objection be received, it is recommended that the report be considered at the next regularly scheduled open session. If you have any questions, please contact Alex Boniewicz or Joe Stoltz at 694-1200.

Attachment:

Report of the Audit Division on the South Carolina Republican Party





FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20461

A99-61

***REPORT OF THE AUDIT DIVISION  
ON THE  
SOUTH CAROLINA REPUBLICAN PARTY***

**I. BACKGROUND**

**A. AUDIT AUTHORITY**

This report is based on an audit of the South Carolina Republican Party (SCRCP), undertaken by the Audit Division of the Federal Election Commission in accordance with the provisions of the Federal Election Campaign Act of 1971, as amended (the Act). The audit was conducted pursuant to Section 438(b) of Title 2 of the United States Code, which states, in part, that the Commission may conduct audits and field investigations of any political committee required to file a report under section 434 of this title. Prior to conducting any audit under this subsection, the Commission shall perform an internal review of reports filed by selected committees to determine if the reports filed by a particular committee meet the threshold requirements for substantial compliance with the Act.

**B. AUDIT COVERAGE**

The audit covered the period from January 1, 1997, through December 31, 1998. During this period, the SCRCP reported a beginning cash balance of \$14,644; total receipts of \$3,611,709; total disbursements of \$3,589,072; and a closing cash balance of \$37,281.

**C. COMMITTEE ORGANIZATION**

The SCRCP registered with the Commission on February 21, 1976 and maintains its headquarters in Columbia, South Carolina. The Treasurer during the period covered by the audit was Mr. John Camp, who continues to serve in that capacity.

To manage its federal financial activity, the SCRCP used one bank account to make approximately 1,100 disbursements. Receipts were composed of contributions from individuals (\$507,781); contributions from other political committees and transfers from affiliated and other party committees (\$560,247); offsets to operating expenditures received (\$90,811); interest income (\$55,066); and, transfers from its non-federal

accounts (\$2,730,666).<sup>1</sup> During the audit period, the SCRCP also utilized two non-federal accounts and, based upon available documentation, disbursements were made totaling \$4,480,553.

#### D. AUDIT SCOPE AND PROCEDURES

The audit included testing of the following general categories:

1. the receipt of contributions or loans in excess of the statutory limitations;
2. the receipt of contributions from prohibited sources, such as those from corporations or labor organizations;
3. proper disclosure of contributions from individuals, political committees and other entities, to include the itemization of contributions when required, as well as, the completeness and accuracy of the information disclosed (See Finding II.A.);
4. proper disclosure of disbursements including the itemization of disbursements when required, as well as, the completeness and accuracy of the information disclosed;
5. proper disclosure of debts and obligations (See Finding II.B.);
6. the accuracy of total reported receipts, disbursements and cash balances as compared to bank records (See Finding II.C.);
7. adequate recordkeeping for transactions;
8. proper disclosure of the allocation of costs associated with administrative expenses and activities conducted jointly on behalf of federal and non-federal elections and candidates (See Finding II.D.); and,
9. other audit procedures that were deemed necessary in the situation.

The SCRCP expended in excess of \$3 million on various types of media which included ads that criticized the Democratic candidates for U.S. Senate and House of Representatives in the 1998 election. These expenditures were paid with a combination of federal and non-federal funds using the ballot composition ratio applicable to administrative costs and the cost of generic voter drives. The Commission did not consider in the context of the audit whether the costs were contributions to or coordinated expenditures<sup>2</sup> on behalf of the Republican candidates.

<sup>1</sup> These categories of receipts total \$3,934,571 or about \$322,862 more than reported receipts (\$3,611,709). See Finding II.C., Misstatement of Financial Activity.

<sup>2</sup> Schedules F filed as part of amended reports disclosed coordinated expenditures totaling \$2,070,806.87 attributed to the following candidates: Inglis for Senate, Beasley for Governor and Spence for Congress. Subsequent amendments reversed this disclosure of coordinated activity.

A matter noted during the audit is pending before the Commission in another context. When the Commission concludes its consideration of this matter, information will be made public in accordance with Commission procedures.

Unless specifically discussed below, no material non-compliance with statutory or regulatory requirements was detected. It should be noted that the Commission may pursue further any of the matters discussed in this report in an enforcement action.

## **II. AUDIT FINDINGS AND RECOMMENDATIONS**

### **A. RECEIPT OF CONTRIBUTIONS IN CONNECTION WITH FEDERAL ELECTIONS**

Section 102.5(a)(1) of the Code of Federal Regulations states, in part, that organizations, including party committees, that finance political activity in connection with both federal and non-federal elections and which qualify as political committees shall either: establish a political committee that receives only contributions subject to the prohibitions and limitations of the Act regardless if such contributions are used in connection with federal or non-federal elections; or, as was done by the SCRP, establish a separate federal account. Such account shall be treated as a separate federal political committee, which shall comply with the requirements of the Act and only funds subject to the Act's prohibitions and limitations shall be deposited in the separate federal account.

Sections 102.5(a)(2)(i), (ii) and (iii) of Title 11 of the Code of Federal Regulations state that only contributions that are designated for the federal account; that result from a solicitation which expressly states that the contribution will be used in connection with a federal election; and, contributions from contributors who are informed that all contributions are subject to the prohibitions and limitations of the Act may be deposited to a federal account established under 11 CFR 102.5(a)(1)(i). Further, 11 CFR 102.5(a)(3) provides, in relevant part, that any party committee solicitations that make reference to a federal candidate shall be presumed to be for the purpose of influencing a federal election, and contributions resulting from that solicitation shall be subject to the prohibitions and limitations of the Act.

Section 110.11(a)(1)(iv) of Title 11 of the Code of Federal Regulations states, in relevant part, that whenever a person solicits any contribution through any broadcasting station, newspaper, magazine, outdoor advertising facility, poster, yard sign, direct mailing, or any other form of general public political advertising, a disclaimer meeting the requirements of paragraphs (a)(1)(i), (ii), (iii), (iv) or (a)(2) of this section shall appear and be presented in a clear and conspicuous manner to give the reader, observer or listener adequate notice of the identity of the persons who paid for, and where required, who authorized the communication. Further, 11 CFR 110.11(a)(1)(iv) states that for solicitations directed to the general public on behalf of a political committee which is not an authorized committee of a candidate, such solicitation shall clearly state the full name of the person who paid for the communication.

The Audit staff noted that the SCRP received contributions from nine individuals in amounts varying from \$10,000 to \$25,000 that were "split-deposited" with \$5,000 deposited to the SCRP's federal account and the balance deposited to the non-federal account. These contributions totaled \$120,000. For example, a \$25,000 contributor check would be "split-deposited" with \$5,000 deposited to the federal account and \$20,000 to the non-federal account. Procedurally, this would require the \$25,000 check to be listed on a deposit slip at \$25,000 and an indication made that \$20,000 was to be received in cash, for a "net" deposit of \$5,000 to the federal account. The \$20,000 in "cash" received is then deposited to the non-federal account. Deposit slips relative to these transactions were not available for review. Notations on photocopies of the contributor checks maintained by the SCRP indicated, in a couple of instances, that the \$5,000 was being "transferred" to the federal account. The checks were all made payable to "Victory 98" but none contained any designation for either the federal or non-federal account. The SCRP's bank statements show two deposits, one in the federal account and one in the non-federal account, but no transfer between the two. The portions split-deposited to the non-federal account totaled \$75,000.

A copy of the Victory 98 solicitation material was not available for review. Further, copies of most of the SCRP's solicitations were not made available, the few examples examined do not specify what account the funds are being solicited for; rather, they are generic requests for contributions to the party. Of the fundraising appeals identified and associated with contributions deposited into the Federal account, the SCRP provided samples, or partial samples, for only eighteen. Four of these contained a disclaimer indicating who had paid for the solicitation, as required. Further, seven of the eighteen solicitations did not mention that contributions will be used in connection with federal elections nor contain a disclaimer noting that only contributions subject to the prohibitions and limitations of the Act are acceptable. In fact, some of the solicitations state specifically that corporate contributions are permitted.

In view of the amounts of these contributions, the nature of the solicitations reviewed and the Audit staff's inability to associate these contributions with a specific solicitation for federal elections, these contributions do not appear to have been properly deposited under 11 CFR §102.5(a)(2).

The Audit staff discussed these matters with SCRP representatives and provided a schedule detailing the above-noted contributions.

In the interim audit report, the Audit staff recommended that the SCRP provide documentation indicating the \$45,000 in receipts were properly deposited in the federal account. In addition, the SCRP was requested to provide additional comments or explanations with respect to the \$75,000 in "split-deposited" funds being subject to the presumption at 11 CFR §102.5(a)(3) and should provide copies of the related deposit slips. The Audit staff further recommended that the SCRP provide documentation to show that procedures now include the use of required notices on solicitation devices utilized in raising funds solely for the federal account or jointly with the non-federal account.

In response to the interim audit report, the SCRCP provided copies of deposit slips for \$40,000 of the \$45,000 deposited to the federal account, as well as one deposit slip for \$5,000 of the \$75,000 deposited to the non-federal account. SCRCP's narrative response is prefaced by noting that the interim audit report does not include any findings of intentional, willful or deliberate non-compliance with the Act and states any instances of non-compliance occurred solely as the result of inexperience, inadvertent errors, or clerical mistakes on the part of SCRCP staff members in place during the relevant time period. The response notes however, that SCRCP is unable to show that the funds addressed above were raised in accordance with 11 CFR §102.5(a)(2) because such documentation does not exist. The response goes on to state that as a result of a mere oversight, rather than willful disregard for the requirements of the Act, the solicitations used to raise the contributions at issue simply did not include all of the information required by this provision. Further, there have been absolutely no allegations or inferences that the SCRCP misled these contributors or in any way obtained these contributions under false pretenses.

In conclusion, the response describes corrective measures taken. SCRCP's Executive Director will designate an existing staff member as the FEC compliance officer. All SCRCP staff members involved with soliciting contributions will receive instructions regarding the required notices on solicitation devices. Further, all solicitation devices will be reviewed by the compliance officer or the Executive Director prior to being sent out to ensure the devices contain appropriate information. In addition, the SCRCP will provide any private vendors that may be used to commercially create solicitation materials with information regarding the notices required under the Act and such devices will be reviewed by SCRCP staff prior to being used.

## **B. REPORTING OF DEBTS AND OBLIGATIONS**

Section 434(b)(8) of Title 2 of the United States Code states that each report shall disclose the amount and nature of outstanding debts and obligations owed by a political committee.

Section 104.11 of Title 11 of the Code of Federal Regulations states, in part, that debts and obligations owed by a political committee which remain outstanding shall be continuously reported until extinguished. In addition, a debt, obligation, or written promise to make an expenditure, the amount of which is \$500 or less, shall be reported as of the time the payment is made or no later than 60 days after such obligation is incurred, whichever comes first. Any debt or obligation, the amount of which is over \$500, shall be reported as of the date on which the debt or obligation is incurred.

Disclosure reports filed by the SCRCP did not disclose that it owed any debts and obligations. Based on available invoices and disbursement records, it was determined that over the course of five reporting periods there were outstanding obligations to three vendors that should have been disclosed on Schedule D. The outstanding balances for these obligations, for the five reporting periods, totaled \$276,540. As of the end of the audit period (12/31/98), the outstanding debts which

should have been disclosed on the 1998 Year End report included: \$30,407 owed to Strategic Telecommunications, a provider of fundraising services; \$47,658 owed to Conquest Communications, a provider of telemarketing services; and \$19,372 owed to Stevens, Reed & Curcio, a provider of media services.

The SCRCP's representative was informed of the unreported debt subsequent to the exit conference and provided schedules detailing these debts. At that time, he offered no response.

In the interim audit report, the Audit staff recommended that SCRCP file Schedules D (by reporting period) to disclose the debts and obligations addressed above. It was further recommended that the SCRCP provide a written description of system changes it has implemented to enable it to identify and report debts and obligations.

In response to the interim audit report, the SCRCP filed the requested amended Schedules D. In addition, the SCRCP's response notes the compliance officer will be responsible for familiarizing himself or herself with the debt reporting requirements of the Act.

### **C. MISSTATEMENT OF FINANCIAL ACTIVITY**

Sections 434(b)(1), (2) and (4) of Title 2 of the United States Code state, in relevant part, that each report shall disclose the amount of cash on hand at the beginning of each reporting period, the total amount of all receipts, and the total amount of all disbursements for the reporting period and calendar year.

The Audit staff's reconciliation of the SCRCP's reported financial activity to its bank activity, for the period January 1, 1998, through December 31, 1998, revealed that it had misstated its receipts, disbursements and cash on hand balances. The SCRCP did not provide workpapers detailing how the dollar amounts shown on its disclosure reports were calculated.

The SCRCP reported total receipts of \$3,158,629, an understatement of \$335,119. Correct reportable receipts for 1998 were \$3,493,748. The understatement resulted from the failure to report a transfer from its non-federal account (\$231,000); the failure to report a refund from a media vendor (\$60,000); the under reporting of a transfer from the non-federal account (\$16,000); and an unexplained difference that understated receipts by \$28,119.

Total reported disbursements were \$3,133,696. The SCRCP should have reported total disbursements of \$3,480,944. Therefore, disbursements were understated by \$347,248. The understatement stemmed mainly from the SCRCP's: failure to report six disbursements totaling \$510,659; the reporting of a disbursement in the amount of \$148,332 made from a non-federal account; and an unexplained overstatement of \$15,078.



The SCRP reported ending cash on hand of \$37,281 on December 31, 1998, an overstatement of \$21,624. The correct cash balance was determined to be \$15,658. The overstatement resulted from the misstatements detailed above.

At the Exit Conference, SCRP representatives were provided with documentation detailing the misstatements. They agreed to correct the misstatements.

In the interim audit report, the Audit staff recommended that SCRP file a comprehensive amended report for calendar 1998, which included Summary and Detailed Summary Pages to correctly disclose its reported activity, as well as amended Schedules A, B and/or H4, by report period, to correct the misstatements noted above.

In response to the interim audit report, the SCRP filed amended schedules to correct the misstatements for 1998. The response also notes that the SCRP's compliance officer will have the additional duty and responsibility to keep a record of receipts and expenditures to ensure future reports of financial activity are accurately and properly filed.

#### **D. NON-FEDERAL FUNDING OF FEDERAL ACTIVITY**

Section 102.5(a)(1)(i) of Title 11 of the Code of Federal Regulations states, in relevant part, that each organization, including a party committee, which finances political activity in connection with both federal and non-federal elections shall establish a separate federal account in a depository in accordance with 11 CFR part 103. Such account shall be treated as a separate federal political committee, which shall comply with the requirements of the Act. Only funds subject to the prohibitions and limitations of the Act shall be deposited in such separate federal account. All disbursements, contributions, expenditures and transfers by the committee in connection with any federal election shall be made from its federal account. No transfers may be made to such federal account from any other account(s) maintained by such organization for the purpose of financing activity in connection with non-federal elections, except as provided in 11 CFR 106.5(g).

Section 106.5(g)(1) (i) and (ii) (A) of Title 11 of the Code of Federal Regulations states, in part, that committees that have established separate federal and non-federal accounts under 11 CFR 102.5(a)(1)(i) or (b)(1)(i) shall pay the expenses of joint federal and non-federal activities described in paragraph (a)(2) of this section according to either paragraph (g)(1)(i) or (ii), as follows: the committee shall pay the entire amount of an allocable expenses from its federal account and shall transfer funds from its non-federal account to its federal account solely to cover the non-federal share of that allocable expense, or the committee shall establish a separate allocation account into which funds from its federal and non-federal accounts shall be deposited solely for the purpose of paying the allocable expenses of joint federal and non-federal activities. Once a committee has established a separate allocation account for this purpose, all allocable expenses shall be paid from that account for as long as the account is maintained.

Section 106.5(e) of Title 11 of the Code of Federal Regulations provides, in part, that each state or local party committee shall allocate the costs of activities exempt from the definition of contribution or expenditure, when conducted in conjunction with non-federal election activities, according to the proportion of time or space devoted in a communication. Under this method, the committee shall allocate expenses of a particular communication based on the ratio of the portion of the communication devoted to federal candidates or elections as compared to the entire communication.

Section 106.5(f) of Title 11 of the Code of Federal Regulations provides, in relevant part, that if a committee, through a joint activity collects federal and non-federal funds, it shall allocate its direct costs of fundraising according on the funds received method. Under this method, the committee shall allocate its fundraising costs based on the ratio of funds received into its federal account to its total receipts from each fundraising program or event. This ratio shall be estimated prior to each such program or event based on the committee's reasonable prediction of its federal and non-federal revenue from that program or event. No later than the date 60 days after each fundraising program or event, the committee shall adjust the allocation ratio to reflect the actual ratio of funds received and, as necessary, transfer funds to adjust for any overpayment or underpayment, by either the federal or non-federal account.

Section 104.10(b)(4) of Title 11 of the Code of Federal Regulations states that a political committee that pays allocable expenses in accordance with 11 CFR 106.5(g) or 106.6(e) shall also report each disbursement from its federal account or its separate allocation account in payment for joint federal and non-federal expense or activity. In the report covering the period in which the disbursement occurred, the committee shall state the full name and address of each person to whom the disbursement was made, and the date, amount and purpose of each such disbursement. If the disbursement includes payment for the allocable costs of more than one activity, the committee shall itemize the disbursement, showing the amounts designated for administrative expenses and generic voter drives, and for each fundraising program or exempt activity, as described in 11 CFR 106.5(a)(2) or 106.6(b). The committee shall also report the total amount expended by the committee that year, to date, for each category of activity.

The SCRP maintained one federal and two non-federal accounts, an "operating account" and a "state account". SCRP utilized the operating account as an administrative account, whose activity was not disclosed on either State or Federal disclosure reports.<sup>3</sup> Under this account structure, the regulations require that all allocable activity be paid initially from a federal account. Reimbursements to the federal account may be made from non-federal accounts, such as the SCRP's state and operating accounts, solely to cover the non-federal share of the allocable expense. The Audit staff's review of disbursements included separate reviews of vendors who received substantial payments from both the SCRP federal and non-federal accounts, and a review of all other

<sup>3</sup> According to the South Carolina State Ethics Commission, state law permits the establishment of an account for administrative expenses. The establishment of this account allowed the acceptance of contributions from an individual in excess of the state limitation of \$3,500 per election cycle.

disbursements made from both non-federal accounts. In addition, copies of television and radio spots were provided by SCRCP and reviewed by the Audit staff for content.

The Non-Federal Funding Analysis at Attachment 1 (the Analysis) presents allocable expenditures reported by the SCRCP, transfers made from the non-federal accounts for allocable expenses, and the results of the reviews detailed below. In the interim audit report, the Analysis indicated that the non-federal accounts appeared to have over funded allocable expenses by \$424,870. Based on documentation received in response to the interim audit report relative to the Altus Group (see subsection 8. below), the Analysis was revised and now indicates that the non-federal accounts appear to have over funded allocable expenses by \$358,591.

Further, some payments made directly from the SCRCP's non-federal accounts should have been disbursed from, and disclosed by, the federal account. The results of these reviews are discussed below:

1. Conquest Communications

The review of payments made to Conquest Communications identified six disbursements totaling \$132,011 made from the federal account which were disclosed as for "telemarketing" on Schedules H4. Invoices and other documentation, including copies of some scripts, indicate these payments were for non-federal activities. Since these payments were for solely non-federal purposes, the Analysis has been adjusted \$-33,003 ( $\$132,011 \times 25\%$ ) to reflect the federal portion of these allocable expenses.

In addition, one payment from the non-federal account was noted in the amount of \$1,000 for the purchase of an ad in a convention program. The Analysis has been adjusted \$250 ( $\$1,000 \times .25$ ) to reflect this as an allocable expense that should have been made from the federal account. This disbursement also requires (memo) disclosure on Schedule H4.

2. Stevens, Reed & Curcio

The review of all payments made to Stevens, Reed & Curcio identified four disbursements totaling \$17,067 made from the non-federal account. Of this amount, \$9,367 was for a radio ad entitled "The Lock". Although the Audit staff was able to review copies or tapes of much of the media attributed to this vendor, "The Lock" was not among those reviewed for content. Those ads reviewed were federal candidate specific, but none contained an overt advocacy statement. Rather they suggest to the recipient that they should contact the persons involved and express their opinion or some equivalent message. Other payments to Stevens, Reed & Curcio made from the federal account were disclosed on Schedule H4 for "Issue Advertising". Therefore, the Analysis has been adjusted \$4,267

(\$17,067 x 25%) to reflect the federal portion of these allocable expenses. These disbursements also require (memo) disclosure on Schedule H4.

3. Ballot Access Payments

On April 9, 1998, the SCRП made a payment of \$54,684 from its federal account to the South Carolina State Election Board. The payment represented ballot access filing fees collected from various candidates and deposited into the federal account. The disbursement was disclosed on Schedule H4 as an allocable expense and reimbursed by the non-federal account. This payment is not an allocable expense, but rather a pass through of funds collected from candidates. No reimbursement from the non-federal account was appropriate and the Analysis has been adjusted by \$41,013 ( $\$54,684 \times 75\%$ ).

4. Strategic Telecommunications

Payments to Strategic Telecommunications made from the federal account were for fundraising services and disclosed on Schedule H4. They were reimbursed by the non-federal account based on the ballot composition ratio. Based on the limited records maintained by SCRП to distinguish the source of receipts, the Audit staff determined that the correct ratio, using the funds received method, was 34% federal and 66% non-federal. This resulted in an adjustment of \$-7,273 for those payments disclosed on Schedule H4 and allocated using the ballot composition ratio. Payments for fundraising efforts were also made from the non-federal accounts and totaled \$144,652. Those payments should have been made from the federal account, disclosed on Schedule H4, and partially reimbursed from the non-federal account. The federal portion of these expenses is \$49,182 ( $\$144,652 \times 34\%$ ). The Analysis reflects the \$41,909 ( $\$-7,273 + \$49,182$ ) additional Federal portion of these expenses.

5. Stevens & Schriker

The review of all payments made to Stevens & Schriker identified disbursements totaling \$58,395 made from the non-federal account for media placement. Available documentation indicated the media buys were for a federal candidate. The copy of the ad provided for review was candidate specific, but did not contain an express advocacy statement. The Analysis has been adjusted \$14,599 ( $\$58,395 \times 25\%$ ) to reflect the federal portion of these allocable expenses. These disbursements also require (memo) disclosure on Schedule H4.

6. National Media

The review of all payments made to National Media identified three disbursements totaling \$162,715 made from the federal account which

were disclosed as for "media services" on Schedules H4. Invoices and other documentation, including a copy of an ad used by National Media, indicate these payments were for radio ads on behalf of Beasley for Governor. Since these payments were for solely non-federal purposes, the Analysis has been adjusted \$-40,679 ( $\$162,715 \times 25\%$ ) for the federal portion of these allocable expenses.

7. Payments From the Non-Federal Operating Account (Operating account)

The review of all payments from the Operating account identified disbursements totaling \$578,255, which appear to be either for solely federal expenditures (\$2,874) or apparent, allocable expenses (\$575,381) such as compensation, phone, utilities, rent, office expense, staff expense, printing postage, media, events, telemarketing, polls and other miscellaneous expenses. SCRIP provided limited external documentation supporting these expenditures. SCRIP headquarters housed staff and operations for both federal and non-federal activities. Available documentation does not indicate that any of the payments were for solely non-federal activities; therefore, they are treated as allocable expenses in the Analysis. Adjustments were made to the Analysis for the apparent federal expenditures (\$2,874) and for the federal portion of the allocable expenditures (\$143,845, or 25% of \$575,381). These expenditures also require (memo) disclosure on Schedule H4.

8. Altus Group

Two payments, totaling \$500,000, made to the Altus Group from the federal account, were disclosed on Schedules H4, with the purpose noted as "Issue Advertisement". Although the payments were initially disclosed as allocable expenditures, subsequent amendments disclosed these payments as coordinated expenditures on behalf of the candidates for Governor and U.S. Senate. The disclosure reports were amended again to once more reflect these payments as allocable expenditures. Copies of the ads made available to the Audit staff during fieldwork could not be associated with this vendor. The Audit staff made repeated verbal and written requests to the SCRIP for invoices relative to Altus Group to allow us to determine the nature of these expenses. Finally, the Commission issued a subpoena to obtain the necessary documentation.

In response to the subpoena, Altus Group indicated they were only responsible for the planning and scheduling of media airtime, as well as the disbursement of funds for the ad placements. The response also indicated that a firm called IKON was responsible for the videotapes and their distribution directly to the television stations. IKON representatives provided a copy of an ad placed, representing it to be, to the best of their knowledge, the only one utilized. It was an ad relating solely to the Governor's race. In addition, the SCRIP staff contacted specific television

stations identified in Altus Group's subpoena response in order to locate documentation that establishes what ads were run. Invoices were submitted from three stations representing \$48,500 of \$388,127 in total placements. These invoices indicated that at least two ads were utilized. One ad, which pertained to the Governor race, was determined to be solely non-federal in nature; and, the other ad, although federal candidate specific, did not contain an express advocacy statement. Copies of both identified ads had previously been made available to the Audit staff.

The Analysis had been previously adjusted \$375,000 ( $\$500,000 \times 75\%$ ) to reflect the expenses as solely federal expenditures. Based on the documentation provided at the time the interim audit report was prepared, the Audit staff calculated the non-federal portion of the documented media placements, as well as a pro-rata portion of the associated expenses, such as commissions, production costs and reimbursed expenses to be \$58,969.

Therefore, in the interim audit report, the Analysis had been adjusted \$316,031 ( $\$375,000 - \$58,969$ ) to reflect these remaining expenses as potentially federal expenditures. In the interim audit report, the Audit staff recommended, in part, that SCRCP provide documentation detailing the nature and purpose of the remaining disbursements made to Altus Group to include but not be limited to contracts, statements of account, invoices and copies of media ads.

In response to the interim audit report, SCRCP stated it had enclosed documentation related to the nature and purpose of disbursements made to the Altus Group. The response acknowledged that two payments, totaling \$500,000, were made to the Altus Group, and notes the funds to effect these payments were received from the Republican Governor's Association (RGA), through the Republican National Committee (RNC) to be used "...expressly and solely in support of and on behalf of Beasley for Governor, clearly a non-federal purpose." According to the response, SCRCP served as nothing more than a conduit by which RGA disbursed \$500,000 to the Altus Group. The SCRCP response goes on to state that these disbursements were mistakenly identified on its reports to the FEC as federal in nature and that, in reality, these expenditures were solely for Beasley for Governor, a non-federal purpose. The response states that the SCRCP has undertaken efforts to determine to the greatest extent possible the manner in which these funds were spent, however, as a conduit, it is not in possession of complete documentation to show this money was spent on non-federal purposes.

The response notes that SCRCP contacted television stations throughout South Carolina and has located a significant number of advertisement flight sheets. According to SCRCP, the available flight sheets indicate these were not allocable expenditures, but rather non-federal in nature. SCRCP's response states, "While these flight sheets do not reflect the entirety of the

advertisements purchased with these funds, they are certainly representative of all of the advertisements. Further, when viewed in conjunction with the source of the funds, they further tend to prove that such funds were non-allocable." The response states that SCRP has determined these disbursements should have been properly characterized as non-federal in nature, and has amended its reports to correct the reporting of these disbursements. In conclusion, the response states that the Audit staff's analysis should be amended to reflect a reduction in the over-funded amount by \$316,031; thus, the federal account is only over funded by \$108,839. Lacking funds at this time to make such a transfer, the SCRP will disclose this amount owed on Schedule D until such time as funds become available to reimburse the non-federal account.

Documentation was not provided to support SCRP's claim that RGA was the source of the funds used to make the (\$500,000) payments to the Altus Group or that its intent was for it to be used to support Beasley for Governor. The Audit staff reviewed the placement invoices and station affidavits provided by SCRP and noted that much of the documentation had been previously submitted. In addition, much of the documentation was not pertinent to the Altus Group payments, but rather supported media buys purchased through other media vendors utilized by SCRP. Further, contrary to the representations made in SCRP's response, the documentation provided to date establishes that the placements made by the Altus Group involved at least two ads, only one of which was non-federal in nature.

The additional station affidavits provided also indicated the same two ads reflected in previously supplied affidavits were utilized. As noted, one ad was non-federal in nature and, the other ad, although federal candidate specific did not contain an express advocacy statement. Station affidavits supporting the cost of 27% of media ads placed through the Altus Group are now available. Based on these affidavits, 74% of the dollars were for placement of the ad that was non-federal in nature; and, 26% of the dollars were for placement of the ad that was allocable in nature. Further, there has been no evidence provided relative to this vendor or any other media vendor suggesting there may have been media that was solely federal in nature utilized by the SCRP during the audit period.

Based on the additional documentation provided, the Audit staff has revised its calculation of the non-federal portion of the documented media placements, as well as a pro-rata portion of the associated expenses, such as commissions, production costs and reimbursed expenses to be \$125,249. As a result, the Analysis has been adjusted \$249,751 (\$375,000 - \$125,249) to reflect these remaining expenses as potentially federal expenditures.

9. Payments From the Non-Federal State & Local Account (State Account)

The review of payments from this non-federal account identified disbursements totaling \$32,972, which appear to be either solely for federal expenditures (\$4,406) or allocable expenses (\$32,566) such as payroll, expense reimbursement, phone, utilities, rent, office expense, staff expense, printing postage, media, events, telemarketing, polls and miscellaneous expenses. SCRIP headquarters housed staff and operations for both federal and non-federal activities. Available documentation does not indicate that any of these payments were for solely non-federal activities; therefore, they are treated as allocable expenses in the Analysis. Adjustments were made to the Analysis for the apparent federal expenditures (\$4,406) and for the federal portion of the allocable expenditures (\$8,142, or 25% of \$32,566). These expenditures also require (memo) disclosure on Schedule H4.

10. Welch, Norman & Coley

All payments to Welch, Norman & Coley were reviewed. Although it appeared that the services provided were solely fundraising in nature, one payment made from the federal account (\$8,950) was disclosed on Schedule H4 and reimbursed by the non-federal account at the ballot ratio. Based on the limited records maintained by SCRIP to distinguish the source of receipts, the Audit staff determined that the correct ratio, using the funds received method, should have been 60% federal and 40% non-federal. The Analysis adjusts for the difference between the \$6,713 ( $\$8,950 \times 75\%$ ) originally allocated using the ballot access ratio and the correct non-federal allocable share of \$3,580 ( $\$8,950 \times 40\%$ ), based on the funds received ratio. This results in a net adjustment of \$-3,133 ( $\$3,580 - \$6,713$ ). For payments from the non-federal accounts, an adjustment of \$8,186 ( $\$13,643 \times 60\%$ ) is required; these payments also require (memo) disclosure on Schedule H4.

11. American Printing

The Audit staff reviewed payments to American Printing and identified the following:

- a. Disbursements from the federal account totaling \$33,741 were reported as allocable expenses on Schedules H4 and allocated using a ratio of 75% non-federal and 25% federal. Based on the documentation provided by SCRIP, these payments were made for apparent fundraising expenditures. Using the funds received method; the Audit staff determined that the ratio should have been 40% non-federal and 60% federal. The Audit staff's Analysis has been adjusted \$11,809 ( $\$33,741 \times 35\%$ ) to reflect the correct federal portion of these expenses at the 60% fundraising ratio rather than the 25% administrative ratio.



- b. Disbursements from the federal account totaling \$32,864 were made for solely non-federal purposes and disclosed as allocable expenses on Schedules H4. Therefore, the Analysis was adjusted \$-8,216 ( $\$32,864 \times 25\%$ ).
- c. Disbursements from the non-federal account totaling \$3,082, were made relative to a federal candidate based upon the limited documentation provided by SCRP. The Audit staff's Analysis has been adjusted to reflect these as solely federal expenditures.
- d. A disbursement was made in the amount of \$50,440 from the non-federal account for the printing of an absentee ballot. Utilizing the ratio to allocate such costs based on time and/or space, the Analysis was adjusted \$6,305 ( $\$50,440 \times 25\%$ ).
- e. Disbursements were made from the non-federal account for apparent fundraising expenses totaling \$26,049. Using the funds received method; the Audit staff determined that the ratio should have been 60% federal and 40% non-federal. The Analysis has been adjusted \$15,629 ( $\$26,049 \times 60\%$ ) to reflect the federal portion of these apparent allocable expenses.
- f. Disbursements were made from the non-federal account for apparent allocable expenses, such as business cards and envelopes, totaling \$3,431. The Analysis has been adjusted \$858 ( $\$3,431 \times 25\%$ ) to reflect the federal portion of these allocable expenses.

The Analysis was appropriately adjusted for each category of disbursement noted above, resulting in a net adjustment of \$29,467. Further, those payments from the non-federal account require (memo) disclosure on Schedule H4.

At the exit conference, the Audit staff provided workpapers detailing the adjustments noted above to the SCRP representatives. They had no comment at that time. Subsequent to the exit conference, SCRP submitted additional documentation relative to American Printing.

In the interim audit report, in addition to the recommendation relative to the Altus Group, discussed in sub-section 8. above, the Audit staff recommended that SCRP:

- Demonstrate that the identified disbursements paid from non-federal accounts are not expenditures as defined at 11 CFR §100.8(a) or not allocable expenses pursuant to 11 CFR §106.5(a)(2); or,

- File Schedules H4 (Joint Federal/Non-Federal Activity Schedule) disclosing as memo entries the allocable expenditures paid from the non-federal accounts; and

- Using funds from its federal account reimburse the non-federal account(s) and provide evidence of such reimbursement. If the SCRCP lacks the funds to reimburse the non-federal account(s), then disclose the amount owed on Schedule D (Debts and Obligations) as a debt, until such time that funds are available to make the reimbursement.

The Audit staff further recommended that SCRCP provide a written description of system changes it has implemented to ensure all allocable disbursements are paid from a federal account and that expenditures for fundraising activities are allocated utilizing the funds received method.

In response to the interim audit report, SCRCP enclosed documentation relative to the Altus Group, which is discussed above in Section II.D.8., and concludes that it has demonstrated that the reimbursement that should be made to its non-federal account with funds from its federal account totals no more than \$108,839. The response also notes that the SCRCP currently lacks the funds to reimburse the non-federal account and, as recommended by the Audit staff, the SCRCP will disclose the \$108,839 as a debt until such time as funds become available to make this reimbursement. In addition, SCRCP filed amended (Memo) Schedules H-4 to disclose those allocable expenses paid from the non-federal account as recommended. The response also addresses system changes to be implemented by SCRCP. The designated compliance officer will ensure future compliance by making sure all allocable disbursements are paid from a federal account and that expenditures for fundraising activities are allocated using the funds received method. Furthermore, the compliance officer will ensure that receipts are initially deposited in the appropriate accounts based on the intended purpose of such funds. The Executive Director will be responsible for monitoring the compliance officer's work in this area and will, on a quarterly basis, review the SCRCP's financial records to ensure that funds received and disbursed are properly documented and deposited. Finally, the compliance officer will review all reports, prior to filing with the FEC, to ensure that receipts and disbursements are accurately reported.

Based on our review of the additional documentation provided relative to the Altus Group, the Audit staff has revised the Non-Federal Funding Analysis as presented at Attachment 1 of the interim audit report. The Analysis now indicates the non-federal accounts have potentially over funded allocable expenses by \$358,591.

South Carolina Republican Party  
Non-Federal Funding Analysis

Attachment 1

	<b>Transfers from Non Federal Accounts</b>		\$ 2,730,666.36
	<b>Less: Adjusting Transfers from the Federal to the Non-Federal</b>		(22,588.28)
	<b>Less: Non Federal Portion of Reported Allocable Expenditures<sup>1</sup></b>		<u>(2,821,383.24)</u>
	<b>Net (Under funding)/Over funding by the Non Federal Accounts:</b>		(113,305.76)
<b>Adjustments:</b>			
<b>VENDOR</b>	<b>DESCRIPTION</b>	<b>Finding Index</b>	<b>ADJUSTMENT</b>
Conquest	Paid from Non-Federal Account	Finding II.D.1.	\$ 250.00
	Paid from Federal Account		\$ (33,002.69)
Stevens Reed & Curcio	Paid from Non-Federal Account	Finding II.D.2.	\$ 4,266.71
Ballot Access Payment	Paid from Federal Account, Not Allocable	Finding II.D.3.	\$ 41,013.00
Strategic Telemarketing	Paid from Federal Account, adjusted for Fundraising Ratio	Finding II.D.4.	\$ (7,272.71)
	Paid from Non-Federal Account		\$ 49,181.81
Stevens & Schriber	Paid from Non-Federal Account	Finding II.D.5.	\$ 14,598.75
National Media	Paid from Federal Account	Finding II.D.6.	\$ (40,678.75)
Non-Federal Operating Account	Paid from Non-Federal Account	Finding II.D.7.	\$ 146,720.47
Altus Group	Paid from Federal Account	Finding II.D.8.	\$ 249,751.13
Non-Federal State & Local Account	Paid from Non-Federal Account	Finding II.D.9.	\$ 12,547.82
Welch, Norman & Coley	Paid from Federal Account, adjusted for Fundraising Ratio	Finding II.D.10.	\$ (3,132.50)
	Paid from Non-Federal Account		\$ 8,186.09
American Printing	Net Paid from Federal & Non-Federal Account	Finding II.D.11.	\$ 29,467.16
	<b>Adjusted Amount of Potential Non-Federal OVER Funding of Allocable Expenses</b>		<b>\$ 358,590.53</b>

<sup>1</sup> This analysis utilizes a ballot composition ratio of 25% federal and 75% non-federal, as determined by the Audit staff. The SCRP utilized a ratio of 28.5% federal and 71.5% non-federal for some reporting periods.

