




FEDERAL ELECTION COMMISSION  
Washington, DC 20463

September 20, 2006

MEMORANDUM

To: Robert W. Biersack  
Press Officer

From: Joseph F. Stoltz   
Assistant Staff Director  
Audit Division

Subject: Public Issuance of the Audit Report on Republicans for Choice, PAC

Attached please find a copy of the audit report and related documents on Republicans for Choice, PAC, which was approved by the Commission on September 12, 2006.

Informational copies of the report have been received by all parties involved 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  
DSDD Website ✓



# Report of the Audit Division on Republicans for Choice, PAC

January 1, 2001 – December 31, 2002

---

## Why the Audit Was Done

Federal law permits the Commission to conduct audits and field investigations of any political committee that is required to file reports under the Federal Election Campaign Act (the Act). The Commission generally conducts such audits when a committee appears not to have met the threshold requirements for substantial compliance with the Act.<sup>1</sup> The audit determines whether the committee complied with the limitations, prohibitions and disclosure requirements of the Act.

## 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)

Republicans For Choice, PAC (RFC) is a non-connected committee. RFC qualified for multi-candidate status on November 19, 1990, and is headquartered in Alexandria, Virginia. For more information, see the chart on the Committee Organization, p. 3.

## Financial Activity (p. 3)

- **Receipts**
  - From Individuals \$ 657,499
  - In-Kind Contributions 32,069
  - From Political Committees 2,500
  - Other receipts 11,757
  - **Total Receipts \$ 703,825**
- **Disbursements**
  - Operating Expenditures \$ 617,616
  - In-Kind Contributions 32,069
  - Contributions to Fed. Candidates 22,700
  - Other Disbursements 32,275
  - **Total Disbursements \$ 704,660**

## Findings and Recommendations (p. 4)

- Receipt of Prohibited Corporate Contributions (Finding 1)
- Misstatement of Financial Activity (Finding 2)

---

<sup>1</sup> 2 U.S.C. §438(b).

# Table of Contents

	<b>Page</b>
<b>Part I. Background</b>	
Authority for Audit	1
Scope of Audit	1
Changes to the Law	1
History of the Audit	1
<b>Part II. Overview of Committee</b>	
Committee Organization	3
Overview of Financial Activity	3
<b>Part III. Summaries</b>	
Findings and Recommendations	4
<b>Part IV. Findings and Recommendations</b>	
Finding 1. Receipt of Prohibited Corporate Contributions	5
Finding 2. Misstatement of Financial Activity	7

# Part I

## Background

### Authority for Audit

This report is based on an audit of Republicans for Choice, PAC (RFC), undertaken by the Audit Division of the Federal Election Commission (the Commission) in accordance with the Federal Election Campaign Act of 1971, as amended (the Act). The Audit Division conducted the audit pursuant to 2 U.S.C. §438(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 2 U.S.C. §434. Prior to conducting any audit under this subsection, the Commission must 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. 2 U.S.C. §438(b).

### Scope of Audit

This audit examined:

1. The receipt of excessive contributions and loans.
2. The receipt of contributions from prohibited sources.
3. The disclosure of contributions and other receipts.
4. The disclosure of disbursements, debts and obligations.
5. The disclosure of expenses allocated between federal and non-federal accounts.
6. The consistency between reported figures and bank records.
7. The completeness of records.
8. Other committee operations necessary to the review.

### Changes to the Law

On March 27, 2002, President Bush signed into law the Bipartisan Campaign Reform Act of 2002 (BCRA). The BCRA contains many substantial and technical changes to the federal campaign finance law. Most of the changes became effective November 6, 2002. Except for the period November 6, 2002, through December 31, 2002, the period covered by this audit pre-dates these changes. Therefore, the statutory and regulatory requirements cited in this report are primarily those that were in effect prior to November 6, 2002.

### History of the Audit

**2002 Conciliation Agreement.** On May 20, 2002, RFC entered into a Conciliation Agreement (the Agreement) with the Commission admitting that it had knowingly accepted prohibited contributions in the form of loans for payments made on behalf of RFC by a third-party vendor. The Agreement resulted from a 1996 audit and eventual investigation by the Commission's Office of General Counsel culminating in MUR 5173. The 1996 audit report recommended RFC amend its reports to disclose loans on Schedule C (Loans) totaling \$805,100. However, RFC erroneously included the \$805,100 in its reported cash total on its 1997 Mid Year Report; thereby overstating cash by this amount from this point forward (See Finding 2).

**Records necessary to complete audit fieldwork were not submitted in a timely fashion.** At an interim conference held on April 19, 2005, issues raised during fieldwork were presented to RFC representatives. The Audit staff requested credit card statements and related documentation for RFC payments made against balances owed on credit cards belonging to corporations possibly

related to RFC. When none of this documentation was provided, the Audit staff recommended that the Commission issue subpoenas. At the exit conference on July 12, 2005, the Audit staff reiterated to RFC officials that the Commission was in the process of issuing subpoenas for the records requested at the April 19th interim conference.

**The issuing of subpoenas.** As a result of the above, the Commission issued subpoenas on August 30, 2005 to obtain documentation relating to credit card charges incurred by corporations on behalf of RFC. On January 5, 2006, the final transmittal of subpoenaed materials was received and the Audit staff determined that there were six corporate credit card accounts<sup>2</sup> to review. On February 28, 2006, photocopies of the statements were provided to RFC officials and the Audit staff requested that they demonstrate whether the charges were RFC-related. No response to this request was made by RFC. During the audit period, several RFC-related corporate entities engaged in credit card transactions that potentially benefited RFC in the amount of \$68,869 (See Finding 1).

---

<sup>2</sup> Of the six corporate credit cards, two are in the name of The Stone Group, Inc., a company owned by RFC's current treasurer; two are in the name of Unique Graphics, owned by the current treasurer (recently, Unique Graphics became a subsidiary of The Stone Group, Inc.); one is in the name of Marketing Services, Inc., a company owned by the former treasurer who currently works for the Stone Group, Inc. (Marketing Services, Inc. is no longer in business); and, for the last card the only documentation were statements provided by RFC. The Audit staff treated this card as corporate until evidence to the contrary is provided. RFC made the majority of the payments on this card during the audit period. The current or former treasurers were authorized signatories for these six cards.

## Part II

### Overview of Committee

#### Committee Organization

<b>Important Dates</b>	<b>Republicans For Choice, PAC</b>
• Date of Registration	January 29, 1990
• Audit Coverage	January 1, 2001 - December 31, 2002
<b>Headquarters</b>	Alexandria, Virginia
<b>Bank Information</b>	
• Bank Depositories	One
• Bank Accounts	Two checking accountsm
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Ann E.W. Stone
• Treasurer During Period Covered by Audit	Ann E.W. Stone
<b>Management Information</b>	
• Attended Commission Campaign Finance Seminar	No
• Used Commonly Available Campaign Management Software Package	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

#### Overview of Financial Activity (Audited Amounts)

<b>Cash on hand @ January 1, 2001</b>	<b>\$ 14,446</b>
<b>Receipts</b>	
○ Contributions from Individuals	657,499
○ In-Kind Contributions	32,069
○ Contributions from Political Committees	2,500
○ Other receipts	11,757
<b>Total Receipts</b>	<b>\$ 703,825</b>
<b>Disbursements</b>	
○ Operating Expenditures	617,616
○ In-Kind Contributions	32,069
○ Contributions to Federal Candidates	22,700
○ Other Disbursements	32,275
<b>Total Disbursements</b>	<b>\$ 704,660</b>
<b>Cash on hand @ December 31, 2002</b>	<b>\$ 13,611</b>

## **Part III**

### **Summaries**

#### **Findings and Recommendations**

##### **Finding 1. Receipt of Prohibited Corporate Contributions**

During the audit period, several RFC-related corporate entities engaged in credit card transactions that potentially benefited RFC in the amount of \$68,869. The Audit staff recommended that RFC provide documentation demonstrating that these transactions were not from prohibited sources, were not for the benefit of RFC, or were timely refunded to the corporate entities. Absent this documentation, it was further recommended that RFC make the appropriate refunds. RFC did not respond to the interim audit report.

(For more detail, see p. 5)

##### **Finding 2. Misstatement of Financial Activity**

RFC misstated receipts, disbursements and cash-on-hand balances for calendar years 2001 and 2002. The Audit staff recommended that RFC amend its disclosure reports to correct the misstatements. RFC did not respond to the interim audit report.

(For more detail, see p. 7)

## Part IV

# Findings and Recommendations

### Finding 1. Receipt of Prohibited Corporate Contributions

#### Summary

During the audit period, several RFC-related corporate entities engaged in credit card transactions that potentially benefited RFC in the amount of \$68,869. The Audit staff recommended that RFC provide documentation demonstrating that these transactions were not from prohibited sources, were not for the benefit of RFC, or were timely refunded to the corporate entities. Absent this documentation, it was further recommended that RFC make the appropriate refunds. RFC did not respond to the interim audit report.

#### Legal Standard

**A. Receipt of Prohibited Corporate Contributions.** Political committees may not accept contributions made from the general treasury funds of corporations. This prohibition applies to any type of corporation including a non-stock corporation, an incorporated membership organization, and an incorporated cooperative. 2 U.S.C. §441b.

**B. Questionable Contributions.** If a committee receives a contribution that appears to be prohibited (a questionable contribution - in the form of money, in-kind contributions or loans), it must follow the procedures below:

1. Within 10 days after the treasurer receives the questionable contribution, the committee must either:
  - Return the contribution to the contributor without depositing it; or
  - Deposit the contribution (and follow the steps below). 11 CFR §103.3(b)(1).
2. If the committee deposits the questionable contribution, it may not spend the funds and must be prepared to refund them. It must therefore maintain sufficient funds to make the refunds or establish a separate account in a campaign depository for possibly illegal contributions. 11 CFR §103.3(b)(4).
3. The committee must keep a written record explaining why the contribution may be prohibited and must include this information when reporting the receipt of the contribution. 11 CFR §103.3(b)(5).
4. Within 30 days of the treasurer's receipt of the questionable contribution, the committee must make at least one written or oral request for evidence that the contribution is legal. Evidence of legality includes, for example, a written statement from the contributor explaining why the contribution is legal or an oral explanation that is recorded by the committee in a memorandum. 11 CFR §103.3(b)(1).
5. Within these 30 days, the committee must either:
  - Confirm the legality of the contribution; or
  - Refund the contribution to the contributor and note the refund on the report covering the period in which the refund was made. 11 CFR §103.3(b)(1).



**C. Reporting Operating Expenditures.** When operating expenditures to the same person exceed \$200 in an election cycle, the committee must report the:

- Amount;
- Date when the expenditures were made;
- Name and address of the payee; and
- Purpose (a brief description of why the disbursement was made). 2 U.S.C. §434(b)(5)(A) and 11 CFR §104.3(b)(4)(i).

**D. Credit Card Transactions.** In the case of operating expenditures charged on a credit card, a committee must itemize a payment to a credit card company if the payment exceeds the \$200 aggregate threshold for itemization. The committee must also itemize, as a memo entry, any specific transaction charged on a credit card if the payment to the actual vendor exceeds the \$200 threshold. The memo entry must include the name and address of the vendor, the purpose, and the amount of the disbursement. 11 CFR §§102.9(b)(2) and 104.9.

### **Facts and Analysis**

RFC may have accepted prohibited in-kind contributions totaling \$68,869<sup>3</sup> in the form of RFC-related expenses paid via six corporate credit cards.<sup>4</sup> Based on available documentation, the six corporate credit card accounts had balances totaling \$36,800 at the beginning of the audit period. Since no information was provided relative to these balances, the balances were treated as RFC-related for purposes of the Audit staff's review. RFC incurred charges during the period totaling \$32,069.<sup>5</sup> Payments totaling \$21,721 were made by RFC against the outstanding balances and 40 additional payments totaling \$44,391 were made from unknown sources. At the end of the audit period, RFC owed \$2,757.

At a March 20, 2006 conference, the treasurer explained that the six credit cards had been used by the corporations, as well as by RFC officials, both prior to and during the audit period. Payments to the credit card companies were made by the corporations and RFC. The treasurer's explanation of RFC's procedure for paying RFC-related charges from the credit card statements was as follows: before the audit period, the cardholder would submit an expense report for any charges incurred by RFC and then, RFC would reimburse the cardholder. However, during the audit period this procedure was not always followed. RFC sometimes made payments directly to the credit card companies instead of reimbursing the cardholders. She stated that recently, RFC has returned to the original policy whereby expense reports were required.

The Audit staff noted that not all payments to the credit card companies reported on Schedules B (Itemized Disbursements) included the required memo entries and none of the activity was disclosed as debts owed by RFC on Schedules D (Debts and Obligations).

---

<sup>3</sup> This figure could increase or decrease depending on the provision of additional documentation.

<sup>4</sup> See footnote 2.

<sup>5</sup> The \$32,069 in charges included goods and services, such as: gas, meals, internet services, and office supplies (\$18,529); finance charges (\$11,604); and, late or over limit fees (\$1,936). Of the \$32,069 in charges, \$20,448 were incurred in 2001 and \$11,621 in 2002.

### **Interim Audit Report Recommendation and Committee Response**

The Audit staff recommended that RFC provide evidence demonstrating that transactions made on corporate credit cards were not in-kind contributions. The evidence should have documented what portion, if any, of the beginning balances on the six corporate credit cards and the additional charges incurred during the audit period were RFC-related. Absent such evidence, the Audit staff recommended that RFC refund \$47,148 (\$68,869 - \$21,721 payments made by RFC) to the corporate entities who incurred these charges on RFC's behalf.

The Audit staff further recommended that RFC itemize, as a memo entry, any specific transaction charged on credit cards on behalf of RFC if the payment to the actual vendor exceeded the \$200 threshold. The memo entry was to include the name and address of the vendor, the purpose, and the amount of the disbursement.

RFC did not respond to the interim audit report.

## **Finding 2. Misstatement of Financial Activity**

### **Summary**

RFC misstated receipts, disbursements and cash-on-hand balances for calendar years 2001 and 2002. The Audit staff recommended that RFC amend its disclosure reports to correct the misstatements. RFC did not respond to the interim audit report.

### **Legal Standard**

**Contents of Reports.** Each report must disclose:

- The amount of cash on hand at the beginning and end of the reporting period;
  - The total amount of receipts for the reporting period and for the calendar year;
  - The total amount of disbursements for the reporting period and for the calendar year; and
  - Certain transactions that require itemization on Schedule A (Itemized Receipts) or Schedule B (Itemized Disbursements).
- 2 U.S.C. §434(b)(1), (2), and (4).

### **Facts and Analysis**

The Audit staff reconciled reported activity to bank records for calendar years 2001 and 2002. The following charts outline the discrepancies for the beginning cash balances, receipts, disbursements, and the ending cash balances. The succeeding paragraphs explain why the differences occurred, if known.

<b>2001 Committee Activity</b>			
	<b>Reported</b>	<b>Bank Records</b>	<b>Discrepancy</b>
Beginning Cash Balance @ January 1, 2001	\$829,792	\$14,446	\$815,346 Overstated
Receipts	\$365,041	\$386,449	\$(21,408) Understated
Disbursements	\$367,941	\$388,329	\$(20,388) Understated
Ending Cash Balance @ December 31, 2001	\$826,892	\$12,566	\$814,326 Overstated

### Beginning Cash Balance – 2001

The beginning cash on hand was overstated by \$815,346, due principally to an erroneous \$805,100 adjustment made by RFC as an increase in its receipts made in an attempt to respond to a 1996 audit report recommendation. The 1996 report recommended RFC amend its reports to disclose loans on Schedule C (Loans) totaling \$805,100. However, RFC erroneously included the \$805,100 in its reported cash total on its 1997 Mid Year Report; thereby overstating cash by this amount from this point forward.

### Receipts – 2001

The understatement of receipts resulted from the following:

• Unreported prohibited in-kind contributions from credit card charges made on behalf of RFC (See Finding 1, footnote 5)	+ \$ 20,448
• Unexplained difference	+ 960
<b>Total understatement of receipts</b>	<b><u>+ \$ 21,408</u></b>

### Disbursements – 2001

The net understatement of disbursements resulted from the following:

• Unreported prohibited in-kind contributions from credit card charges made on behalf of RFC (See Finding 1, footnote 5)	+\$ 20,448
• Unexplained difference	- 60
<b>Total net overstatement of disbursements</b>	<b><u>+ \$ 20,388</u></b>

### Ending Cash Balance – 2001

The \$814,326 net overstatement of the ending cash on hand resulted from the misstatements described above.

2002 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2002	\$826,892	\$12,566	\$814,326 Overstated
Receipts	\$293,193	\$317,376	\$(24,183) Understated
Disbursements	\$321,795	\$316,331	\$5,464 Overstated
Ending Cash Balance @ December 31, 2002	\$798,290	\$13,611	\$784,679 Overstated

### Beginning Cash Balance – 2002

The \$814,326 net overstatement of the beginning cash on hand resulted from the misstatements described above.

**Receipts – 2002**

The net understatement of receipts resulted from the following:

• Deposited receipts not reported (consists principally of a \$5,000 loan from the current treasurer, a \$5,000 loan from a former treasurer, and a \$2,500 contribution from a PAC)	+ \$ 12,873
• Unreported prohibited in-kind contributions from credit card charges made on behalf of RFC (See Finding 1, footnote 5)	+ 11,621
• Reported receipt not supported by deposit	- 250
• Unexplained difference	- <u>61</u>
<b>Total net understatement of receipts</b>	<b>+ \$ <u>24,183</u></b>

**Disbursements – 2002**

The net overstatement of disbursements was the net result of the following:

• Reported disbursements not supported by a check or bank debit (\$15,000 to a non-federal committee and \$250 to an unregistered organization)	- \$ 15,250
• Unreported prohibited in-kind contributions from credit card charges made on behalf of RFC (See Finding 1, footnote 5)	+ 11,621
• Unexplained difference	- <u>1,836</u>
<b>Total net overstatement of disbursements</b>	<b>- \$ <u>5,465</u></b>

**Ending Cash Balance – 2002**

The \$784,679 net overstatement of the closing cash on hand resulted from the misstatements described above.

It should be noted that the adjustments above relating to unreported prohibited in-kind contributions could increase or decrease depending on the provision of additional documentation. The Audit staff discussed this finding with RFC representatives at several conferences and presented them with copies of relevant workpapers. RFC representatives stated that corrective amendments would be filed.

**Interim Audit Report Recommendation and Committee Response**

The Audit staff recommended that RFC file amended reports for calendar years 2001 and 2002. Also, the most recent report was to have been amended to show the adjusted cash on hand balance with an explanation that it resulted from audit adjustments from a prior period.

RFC did not respond to the interim audit report.