



FEDERAL ELECTION COMMISSION  
WASHINGTON, DC 20543

October 3, 1980

MEMORANDUM

TO: FRED EILAND  
PRESS OFFICE

THROUGH: BOB COSTA *RC*

FROM: JUDY HAWKINS *JH*

SUBJECT: PUBLIC DISCLOSURE OF THRESHOLD AUDIT REPORT -  
GEORGE BUSH FOR PRESIDENT (COMMITTEE)

Attached please find a copy of the threshold audit report of the George Bush for President (Committee) which was approved by the Commission on September 23, 1980.

Informational copies of this report have been received by all parties involved and this report may be released to the public as of today, October 3, 1980.

Attachment as follows:

1. Public Disclosure  
2. Public Access



FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20543

THRESHOLD AUDIT REPORT OF THE AUDIT DIVISION  
ON  
GEORGE BUSH FOR PRESIDENT COMMITTEE

I. Background

A. Overview

This report covers an audit of the George Bush For President committee ("the Committee"), to determine whether there has been compliance with the provisions of the Federal Election Campaign Act of 1971, as amended ("the Act"). The audit was conducted pursuant to Section 9039(b) of Title 26 of the United States Code which states, in part, that the Commission is authorized to prescribe rules and regulations in accordance with the provisions of subsection (c), to conduct examinations and audits (in addition to examinations and audits required by Section 9038(a)), to conduct investigations, and to require the keeping and submission of any books, records, and information, which it determines to be necessary to carry out its responsibilities under the chapter.

In addition, Section 9033.1(b) of Title 11 of the Code of Federal Regulations states, that the Commission may conduct other examinations and audits from time to time as it deems necessary to carry out the provisions of this subchapter.

The Committee registered with the Federal Election Commission on January 5, 1979. The Committee maintains its financial headquarters in Houston, Texas and its national political headquarters in Alexandria, Virginia.

The audit covered the period from inception through December 31, 1979. The Committee reported during the audit period an opening cash balance of \$-0-, total receipts of \$4,455,097.94, total expenditures of \$4,379,790.15, and a closing cash balance of \$75,307.79.

This report is based on documents and working papers which support each of its factual statements. They form part of the record upon which the Commission based its decisions on the matters in this report and were available to Commissioners and appropriate staff for review.

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B. Key Personnel

The principal officers of the Committee during the audit were: Mr. James A. Baker, III, Chairman, from January 5, 1979 through December 31, 1979; Mr. Robert Visser, Treasurer from January 5, 1979 until April 5, 1979; and Mr. Thomas M. Roberts, Treasurer from April 5, 1979 through December 31, 1979.

C. Scope

The audit included such tests as verification of total reported receipts and expenditures and individual transactions; review of required supporting documentation and analysis of Committee debts and obligations; review of contribution and expenditure limitations; and such other audit procedures as deemed necessary under the circumstances.

II. Audit Findings and Recommendations

A. Introduction to Findings

The objective of the threshold audit is to review the Committee's accounting policies and procedures in order to determine not only their current but also their future ability to comply with Title 2 of the United States Code and Title 26 of the Internal Revenue Code, and to verify the accuracy of reports and statements filed during the audit period.

The report contains two types of recommendations. One type involves material dollar values which request immediate specific action by the committee such as reallocations, amendments, or refunds. The other type involves procedural recommendations which are designed to improve the Committee's ability to comply with the requirements of the Act.

B. Audit Findings and Recommendations

On August 8, 1980, the Committee's legal counsel submitted a letter in response to the following audit findings and recommendations wherein the Committee disagreed with the majority of the recommendations contained in the report. In particular, the Committee took issue with audit recommendations concerning the allocation of expenditures to states and the Committee's practice of allocating expenditures to exempt legal and accounting categories, and requested a meeting with commission representatives to review the factual and legal matters concerning these findings. Counsel also stated, however, that in an attempt to cooperate with the Commission, the Committee planned to adjust the accounting records and file the necessary amendments as called for in the audit report.

1. Allocation of Expenditures to States

Sections 441a(b)(1)(A), and 441a(c) of Title 2 of the United States Code provides that no candidate for the office of President of the United States who has received matching funds may make expenditures in any one state aggregating in excess of the greater of 16 cents multiplied by the state voting age population or \$200,000.00, adjusted by the Consumer Price Index.

Section 106.2(a) of Title 11 of the Code of Federal Regulations states that expenditures made by a Presidential candidate's authorized committee which seek to influence the nomination of the candidate in a particular state shall be attributed to that state. This section further requires that the allocation of expenditures shall be reported on FEC form 3PC.

4. Expenditures Directly Related to Specific States

The Audit staff reviewed expense reimbursements to individuals and expenditures made to outside vendors and employees and discovered that \$197,947.06 had not been properly allocated to 33 states. This amount represents 34.4% of the total amount that should be allocated to states. The under-allocations were caused by policy decisions and accounting practices as described below:

1. The Committee allocated to states only the net salaries of employees who worked in various states. Deductions and employer's share of taxes totaling \$67,899.88 were not allocated to 19 states. Committee officials said their computer system was not capable of allocating expenditures among more than six (6) states. They further stated that they did allocate New Hampshire payroll deductions and taxes because that is the one state where they expected to be close to the expenditure limits.

2. Expense reimbursements to individuals were reviewed and it was determined that \$21,051.94 was not properly allocated to various states. Much of this amount relates to a trip made by the candidate in early May, 1979 shortly after announcing his candidacy. Committee officials said that the decision was made not to allocate these amounts to states since it was a national trip with national press and not targeted for any specific state campaign. The balance of the individual reimbursements were simply not allocated to states.

3. During our review of expenditures it was noted that salaries of headquarters employees were not allocated for those portions of time spent working in states. The audit also audits the time spent by these individuals in

states in relation to the total work time, and estimated \$55,148.01 in salaries should be allocated to specific states. Committee officials stated that most of the individuals were national campaign officials and although they may do some work on state campaigns when they visit a particular state, they are mainly concerned with coordinating the total national campaign and therefore no portion of their salaries should be allocated to states.

4. A review of the Committee's vendor ledger and expenditures made at field offices relating to activity in a number of states revealed that expenditures totalling \$21,548.96 were not allocated as required. Most of these items related to the post announcement trip discussed in item 2.

5. Amounts paid to media consultants for TV and radio advertising time was properly charged to states. However, it was found that \$19,034.35 in commissions paid to consultants for buying the time was not allocated to the five (5) states where the ads were broadcast.

6. Expenditures made to other political committees for services used in connection with the campaign were reviewed and it was determined that \$2379.10 was not properly allocated to states. Of this amount, \$2240 was for expense reimbursements to a Congressional candidate who worked for the Bush campaign during the post announcement trip.

7. \$5,987.60 paid for production of a TV commercial filmed exclusively for broadcast in New Hampshire was not charged to New Hampshire.

In addition to the statements and committee responses noted above, they also expressed the belief that the allocation errors for any one state are immaterial because the committee does not expect total expenditures to reach the limitations in most states. In a state such as New Hampshire, where the committee expects to be close to the limitation, they said they have taken the conservative approach and have charged everything applicable to New Hampshire. Committee officials also stated that it is not worth the benefits derived to account for all the allocations possible.

In 1979 the Committee did not exceed state spending limitations in any one state. However, increased activity during 1980 may cause some state limits to be exceeded if committee procedures are not changed.

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Recommendation

The Audit staff recommends that the committee adjust their accounting records for 1979 to properly reflect the amounts allocable to each state and within 30 days of receipt of this report file comprehensive amendments for 1979 to reflect these adjustments on their reports. In addition, it is recommended that the committee revise their accounting policies and procedures to properly allocate expenditures to states, as follows:

1. All campaign related travel (except interstate) and subsistence expenses should be allocated to the appropriate state.

2. Salaries of individuals who work in a particular state campaign should be proportionally allocated for time worked in those states.

3. Payroll deductions and employers taxes related to salaries allocated to states should also be allocated.

b. Expenditures Attributable to Two or More States

In addition to regulations mentioned above, Section 106.2(c) of Title 11 of the Code of Federal Regulations requires that an expenditure by a Presidential Candidate for use in two or more states, which cannot be attributed in specific amounts to each state, shall be attributed to each state based on the voting age population in each state which can reasonably be expected to be influenced by such an expenditure.

During the course of the audit, it was determined that the Committee expended \$289,050.38 for political items and services used in various state campaigns which were not allocated to states. Of this amount, \$43,939.00 related to production of TV commercials for use in two or more states; \$63,000 related to a media consultant who organized the media facets of the campaign; \$118,305.13 related to badges, bumper stickers, brochures and other items used in all state campaigns; and \$63,806.25 related to costs of publishing and mailing newsletters to supporters and voters across the nation. When discussing the matter, Committee officials noted that it would not be worth the accounting efforts necessary to identify the states to which these expenses apply. They also said that using voting age population is a difficult task since their computer system can only allocate to six (6) different states per expenditure. They also said that the amounts which would result for each state are immaterial especially since New Hampshire is the only state where they expected to be close to the expenditure limit.

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In 1979, the Committee did not exceed spending limitations in any state. However, increased activity during 1980 could cause some state limits to be exceeded if procedures are not changed.

Recommendation

The Audit staff recommends that expenses for items such as media production, campaign materials, and newsletters which are used in two or more states should be allocated to all states which can reasonably be expected to be influenced by such an expenditure. Furthermore, in those circumstances where it is unreasonable to keep an accurate record of expenditures made to influence an election in a particular state, such expenditures should be attributed to each state which can reasonably be expected to be influenced by such expenditures on the basis of relative voting age population. The auditors suggest that the voting age population allocation be done on a report by report basis instead of for each individual expenditure. In other words, expenditures for these items should be accumulated and allocated to states on the last day of the reporting period on the basis of the relative share of voting age population for those states involved.

2. Expenditures Attributable to Exempt Legal and Accounting and Fundraising

Section 441a(b) (1) (A) and 441a(c) of Title 2 of the United States Code states, in part, that no Presidential candidate who is eligible to receive matching fund payments may make expenditures in excess of \$10,000,000 (as adjusted by the Consumer Price Index) during a campaign for nomination.

During the period of the audit, Section 431(f) (4) (J) of Title 2 of United States Code stated, in part, that the term "expenditure" does not include the payment for legal or accounting services rendered to or on behalf of a political committee solely for the purpose of ensuring compliance with Title 2 of the United States Code or Chapters 95 and 96 of the Internal Revenue Code of 1954. Although they must be reported, these compliance expenditures are exempt from the limitations imposed by Section 441a(b) (1) (A) of Title 2 of the United States Code.

During the period of the audit, Section 431(f) (4) (I) of Title 2, United States Code, and Section 110.3(c) (2) of Title 11, Code of Federal Regulations stated, in part, that fundraising costs are not subject to the expenditure limitation of 441a(b) of Title 2, United States Code unless they exceed 20% of that limitation or occur within 28 days of a primary election, convention, or caucus. All such costs, however, shall be reported in accordance with Section 434(e) of Title 2 United States Code.

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a. Allocation of Overhead to Exempt Legal Accounting and Fundraising

A review of allocation of overhead costs to exempt legal and accounting and fundraising revealed that \$35,159.64 had been improperly charged to exempt fundraising, and \$9,646.52 had been improperly charged to exempt legal and accounting.

The Committee's practice is to charge a percentage of overhead costs related to operation of their Houston and Alexandria, Virginia offices to exempt categories based on the proportionate share of net payroll relating to the exempt functions (17.24% for fundraising and 4.73% for legal and accounting in 1979). Of the \$818,172.80 in overhead expenses charged to the Houston and Alexandria offices, it was determined that only \$614,229.43 (consisting of payroll, postage, phones, office supplies, coffee, petty cash, printing, equipment rentals, and cleaning) were actual overhead expenses. The auditors determined that the balance (\$203,943.37) which was charged to overhead and then applied to exempt categories, represented costs which are not overhead expenses. These costs include the Candidate's personal secretary, travel, political consultants, political postage, and payroll taxes. Using the payroll dollar percentages mentioned above, the auditors determined that only \$105,893.15 of overhead should be charged to exempt fundraising and only \$29,053.05 of overhead should be charged to exempt legal and accounting.

To summarize, the Committee charged \$141,052.79 to exempt fundraising when only \$105,893.15 should have been charged. The Committee charged \$38,699.57 to exempt legal and accounting when only \$29,053.05 should have been charged. As a result, in the opinion of the Audit staff, the Committee has understated total expenditures subject to limitation by \$44,806.16.

The Committee responded that all of these costs relate to legal and accounting and fundraising because they are an integrated committee with all departments interrelated.

Recommendation

The Audit staff recommends that the Committee adjust their accounting records for 1979 to more accurately reflect amounts applicable to exempt fundraising and legal and accounting and file comprehensive amendments for 1979 within 30 days of receipt of this report to reflect these adjustments.



In addition, the Audit staff recommends that the Committee adjust their procedures for applying overhead so that only administrative expenses supporting the exempt legal and accounting and fundraising functions are applied to the exempt departments.

b. Exempt Accounting Expenditures

Committee officials stated that the Committee's policy is to charge all amounts associated with accounting services to the exempt category.

The staff advised the Committee that a portion of these costs are not compliance related, i.e. would be necessary absent the requirements of the Act, and should be considered an operating expenditure subject to the overall spending limitation:

- 1) maintaining cash receipts records;
- 2) writing checks, transmitting funds to field workers, recording disbursements;
- 3) reconciling bank statements;
- 4) preparing cash flow reports;
- 5) budget preparation and budget performance reports;
- 6) keeping payroll records, paying employees, filing quarterly payroll returns and making state and federal payroll deposits; and
- 7) filing exempt organization return (1120 POL) with the Internal Revenue Service. Section 527 of the Internal Revenue Code requires that all unrelated business income be reported. Consequently, the Committee must maintain accounting records sufficient to permit compliance with the Internal Revenue Service reporting and record keeping requirements.

An analysis of the detailed flowcharts of the Committee's accounting system indicated that approximately 11% of functions related to accounting for receipts, approximately 33% of functions related to accounting for payroll expenditures, and approximately 14% of functions related to accounting for all

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other expenditures are not compliance related. Applying the appropriate percentages to each accounting department employee's gross salary resulted in an estimated \$8650 (16%) of the accounting payroll expenses which should not be charged to exempt accounting.

Using the percentages of non-compliance related steps mentioned above, the auditors estimated that \$10,000 of the computer expenses (which totalled \$62,618.33 for 1979), should not be charged to exempt accounting. In addition, \$2,118.71 in other payroll related expenses were identified as improperly charged to exempt accounting categories.

To summarize, \$20,768.71 was overcharged to exempt accounting. The Committee officials replied that the efforts to determine the small percentage of accounting expenditures which are not exempt would not result in a material amount and therefore would not cause the committee to exceed its expenditure limitations.

#### Recommendation

The Audit staff recommends that the Committee adjust their accounting records for 1979 to properly reflect the amounts allocable to exempt accounting and file a comprehensive amendment for 1979 within 30 days of receipt of this report to properly segregate the \$20,768.71 from exempt accounting. Furthermore, the Committee should adjust its accounting procedures so that only 84% of accounting department payroll and computer costs are charged to exempt compliance and that the percentage be reevaluated periodically as the campaign progresses.

### 3. Contributions Received in Excess of Limits

Section 441a(a)(1)(A) of Title 2 of the United States Code states, that no person shall make contributions to any candidate and his authorized political committees with respect to any election for Federal office which, in the aggregate, exceed \$1,000.

In addition, Section 103.3(b) of Title 11 of the Code of Federal Regulations, states in part, that contributions which appear to be illegal shall be, within 10 days:

- (1) returned to the contributor; or
- (2) deposited into a campaign depository, reported and when a contribution can not be determined to be legal within a reasonable time, be refunded.

Our examination of receipts indicated that the Committee accepted 19 contributions from six (6) individuals which aggregated in excess of \$1,000. The excess portion of the contributions accepted from these six (6) individuals totaled \$2,592. We also noted other contributions which appeared excessive. However, the committee was able to determine these other contributions were not excessive. The Committee informed the auditors that every effort is made to identify and refund excessive contributions by periodically reviewing their master contributor list and contacting contributors. In some cases they retain the apparent excessive contribution in an attempt to determine if the contribution was intended to be divided among the contributor who signed the check and members of his family. If this follow up work proves the contributions to still be excessive, refunds are made.

Recommendation

The Audit staff recommends that the Committee refund the amount of the contributions in excess of the \$1,000 limitation for each contributor or obtain documentation indicating that the contributors have not exceeded their limitation. If the Committee refunds the portion of each contribution in excess of \$1,000, it is recommended that copies of the negotiated refund checks (front and back) be submitted to the auditors.

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