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FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

October 16, 1980

MEMORANDUM

TO: FRED EILAND

THROUGH: BOB COSTA *R/C*

FROM: JUDY HAWKINS

SUBJECT: PUBLIC ISSUANCE OF THRESHOLD AUDIT REPORT -  
THE REAGAN FOR PRESIDENT COMMITTEE

Attached please find a copy of the threshold audit report of the Reagan For President Committee, which was approved by the Commission on September 16, 1980.

Informational copies of the report have been received by all parties involved and this report may be released to the public.

Attachment as stated

cc: FEC Library  
RAD  
Public Records

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## FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

### THRESHOLD AUDIT REPORT OF THE AUDIT DIVISION ON REAGAN FOR PRESIDENT

#### I. Background

##### A. Overview

This report covers an audit of Reagan For President ("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 Internal Revenue 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 the responsibilities under the chapter.

In addition, Section 9038.1(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 February 28, 1979 as the principal campaign committee of the Honorable Ronald Reagan, candidate for the Republican nomination for President of the United States. The Committee maintains its headquarters in Los Angeles, California.

The Audit covered the period from February 26, 1979, the inception date of the Committee, through December 31, 1979. During this period, the Committee reported an opening cash balance of \$-0-, total receipts of \$7,210,953.66, total expenditures of \$6,656,378.63, and a closing cash balance of \$554,574.98.

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

B. Key Personnel

The principal officers of the Committee during the period audited were Senator Paul Laxalt, Chairman and Ms. Bay Buchanan, Treasurer.

C. Scope

The audit included such tests as verification of total reported receipts, expenditures and individual transactions; review of required supporting documentation; 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 potential 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.

B. Audit Findings and Recommendations

The Committee response to the Commission approved Interim Threshold Audit Report was due on August 6, 1980. However, on August 8, 1980, the Commission received a written request from the Committee for an extension of time from August 6, 1980, until August 25th to file their views in response to the Interim Threshold Audit Report. On August 19, 1980, the Commission voted to deny the Committee's extension request, and agreed that any amendments or documentation presented with respect to the findings contained in this report will be acknowledged in the post-primary audit report.

Included below are the findings and recommendations as presented to the Committee on July 7, 1980. As of August 6, 1980, the Committee did not present any documentation to indicate that they had complied with any of the recommendations set forth below.

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1. Contribution Limitations

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 to Federal office which, in the aggregate, exceed \$1000.

1a) During the review of contributions, the Audit staff noted 128 persons made contributions which exceeded, or when aggregated with other contributions from the same person were in excess of, the \$1,000.00 limit. The total value of the excessive portions was \$75,820. According to Committee records, these contributions had not been refunded to the contributors.

1b) Our review also indicated 48 contributions that initially appeared excessive, but had been brought within the limits based upon letters from contributors authorizing the Committee to attribute a portion of the contribution(s) to another individual, such as husband and wife apportionments. The total value of these portions appearing as excessive in the reports is \$28,070.00. Another situation encountered during the review was that because of errors (i.e., input, coding, etc.) in the Committee's data base for contributors 30 contributions had been duplicated on the reports (i.e. the same contribution itemized twice). The total value of these duplicate entries appearing in the reports is \$22,453.28. The reports have not been amended to correct the public record with respect to the contributions mentioned in this paragraph.

The Committee agreed to review the apparent excessive contributions and rectify this situation by obtaining letters from contributors authorizing apportionment of the contribution(s). If the letters cannot be obtained, the Committee agreed to refund the excessive portions to the contributor(s). Further, the Committee agreed to amend its reports to correct the public record for contributions that appeared to be excessive, per the report but are, in fact, documented in Committee files as being within the limits.

Recommendation

The Audit staff recommends that within 30 days of receipt of this notification, the Committee refund the excessive portions of the contributions noted in 1a) and provide evidence of the refunds (i.e. the front and back of each cancelled check used to make the refunds), or provide evidence clearly demonstrating that the contributions are, in fact, not excessive. Further, it is recommended that the Committee itemize the refunds in its next

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regularly scheduled report to the Commission. If the Committee can demonstrate to the Commission's satisfaction that certain contributions are not excessive, it is recommended that an amended report(s) be filed to correct the public record. Further, it is recommended that the amended report(s) include the contributions outlined in 1b) that have been corrected on the Committee's data base but currently appear as excessive on the Committee's reports as filed.

2. Allocation of Expenditures to States

Section 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.

During the period of audit, Section 106.2(b) of Title 11 of the Code of Federal Regulations stated, in part, that expenditures for staff, media, printing, and other goods and services used in a campaign in a specific state shall be attributed to that State. Further, Section 106.2(c)(1) and (2) stated, in part, that expenditures for publication and distribution of newspaper, magazine, television, and other types of advertisements distributed in more than one state shall be attributed to each state in proportion to the estimated viewing audience or readership of voting age which can reasonably be expected to be influenced by these advertisements. Expenditures for travel within a state shall be attributed to that State. Expenditures for travel between States need not be attributed to any individual State.

Our review of expenditures for the audit period included testing to determine the Committee's compliance with the recordkeeping, reporting and allocation requirements of the Act. Based upon our review, which consisted of an examination of selected disbursements on a 100% basis plus an unrestricted random sample drawn from a separate population of approximately 6000 disbursements, we determined the following:

1a) Expenditures Reviewed on a 100% Basis

Seventy-eight expenditures totaling \$237,586.75 were not allocated to the proper states, in conformance with the provisions outlined above. These expenditures represent approximately 26.09% of the total number of and 17.12% of the total dollar amount of expenditures within this review category;

2b) Expenditures Reviewed on a Sample Basis

Approximately 22.9% of the total quantity and 38% of the total dollar amount of expenditures reviewed in the sample were not allocated to the appropriate state(s).

Generally, the reasons for the allocation discrepancies noted in both of the above categories appeared to be a time delay in receiving the expenditure information from the state offices, and travel and salary expenditures made to individuals traveling and/or assigned within particular states and/or regional areas.

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

The Committee indicated that it would review the situation.

Recommendation

With respect to the allocation discrepancies noted in (2a) above, the audit staff recommends that within 30 days of receipt of this notification the Committee amend its state by state Allocation Schedule (FEC Form 3Pc) allocating the expenditures to the appropriate state(s).

With respect to the discrepancies noted in (2b) above, the Audit staff recommends that within 30 days of receipt of this notification the Committee review its disbursements and include within the amendment to FEC Form 3Pc the dollar value of any reallocation of expenditures to the appropriate states. Further, the Committee should provide the Audit staff with copies of the detailed working papers supporting the reallocation (bank account and check number, date, amount, payee, original allocation and adjusted allocation). Upon receipt of the amended FEC Form 3Pc and associated work papers, the Audit staff will review the Committee's adjusted allocation to determine the adequacy of the Committee's corrections to the State-by-State Allocation Schedule.

3. Financial Activity Not Accurately Stated

During the period audited, Section 434(b)(1), (8), (11) and (14) of Title 2 of the United States Code required the disclosure of the amount of cash on hand at the beginning of the reporting period; the total sum of all receipts and expenditures; and such other information as shall be required by the Commission.

Our reconciliation of the Committee's bank accounts to its disclosure reports indicated that (a) total reported receipts were understated \$11,602.16, (b) total reported expenditures were understated \$37,404.13, and (c) ending cash at December 31, 1979 was overstated \$25,801.97. It appears that these discrepancies were caused by including as cash on hand the value of "unspent" funds transmitted from national headquarters bank accounts to various state office accounts. These "unspent" funds were classified as such by the Committee until the expenditure information was received from the state offices and accounts. In several instances the detailed information (i.e. listings of disbursements made) was not received on a timely basis for inclusion in the disclosure report covering the time period in which the funds were expended. Therefore, a portion of 1979 activity was included in the 1980 disclosure reports. Further, the Committee has not yet received one (1) set of bank statements and cancelled checks from a state bank account for December 1979. Therefore, this activity could not be accurately accounted for in the reconciliation process.

The Committee concurred with our view that the lag time was largely responsible for the difference and agreed to attempt to reduce the lag time for future reports.

Recommendation

The Audit staff recommends that within 30 days of receipt of this notification the Committee make available to the Audit staff the lacking bank statement and cancelled checks for reconciliation purposes. Further, it is recommended that the Committee endeavor to reduce the lag time involved in receiving the information from the state offices and accounts, thereby increasing the accuracy of reported financial activity in the future.

4. Loans and Letters of Credit

During the audit period Section 434(b)(12) of Title 2 of the United States Code required the disclosure of the amount and nature of debts and obligations owed by the Committee, in such form as the Commission may prescribe, and

a continuous reporting of their debts and obligations until they are extinguished, together with a statement as to the circumstances and conditions under which any such debt or obligation is extinguished and the consideration therefore.

Further, the Commission has included within the Financial Control and Compliance Manual For Presidential Candidates Receiving Public Financing (Primary Election Financing), published July 1979, a suggested format for the disclosure of letters of credit.

4a) Disclosure of Loans

The Audit staff noted a bank loan received on September 6, 1979 for which the reported nature (details of the debt) on Schedule C-P consisted of only "Bank Loan." The Committee did not disclose the rate, duration and collateral (if any) used to secure the loan.

4b) Letter of Credit

A letter of credit in the amount of \$30,000 was established with a bank on March 5, 1979 which was subsequently increased to \$60,000 and then to \$90,000 during calendar year 1979. The letter of credit, secured with money market certificates, was in favor of the Pacific Telephone and Telegraph Company as security for a national telephone agreement. The Committee did not disclose the \$30,000 initial increment, but disclosed the subsequent increases to \$60,000 and \$90,000 as addenda to its reports filed with the Commission. The recommended format specifies that letters of credit be disclosed on schedule C-P, Line 13 of the report.

Recommendation

With respect to the loan, the Audit staff recommends that, within 30 days of receipt of this notification, the Committee file an amended report fully detailing on Schedule CP Line 13 the nature of the loan, together with the security, collateral, and endorsements (if any) used to secure it.

With respect to the letter of credit, as noted above the Committee did file an addendum disclosing a portion of the information concerning the letter of credit, however the filing was deficient in two respects: (1) an addendum was used in lieu of FEC Schedule C-P and the amount, as reported, was not included in total debts owed by the Committee (FEC Form 3P, Line 13); and (2) the information contained in the addendum was incomplete in that the nature of the obligation (terms, collateral, default clause and penalty provisions, if any) was not disclosed.



Therefore, it is recommended that, at a minimum, the Committee amend the appropriate report(s) to disclose the nature of the obligation. The amendment may be effected by filing a letter with the Commission disclosing the required information. For reports filed in 1980, the Committee should adjust its filing practices to insure that all the relevant information relating to debts and obligations is disclosed on a timely basis.

5. Transfers Received From Non-Affiliated Committees

Section 434(b)(4) of Title 2 of the United States Code required, for the period audited, the disclosure of the name and address of each political committee or candidate from which the reporting committee received any transfers of funds, together with the amounts and dates of all transfers.

During the receipts review, the Audit staff noted 17 transfers totaling \$4,755.79 received from non-affiliated committees which had not been itemized on the Committee's disclosure reports, although the dollar value was reported as unitemized contributions. The transfers cited herein represent approximately 50% of the total number and 29% of the total dollar amount of transfers received by the Committee.

The Treasurer stated that this was an apparent oversight on the part of the Committee, and agreed to amend its reports itemizing the transfers.

Recommendation

The Audit staff recommends that within 30 days of receipt of this notification the Committee file an amended report(s) with the Commission itemizing the transfers.

6. Earmarked Contributions

During the period of audit, Section 110.6 (c)(3) and (4) of Title 11 of the Code of Federal Regulations required that the recipient disclose on the next report each conduit through which the contribution passed.

Our review of transfers-in indicated that 49 earmarked contributions totaling \$4,870.00 were received by the Committee during 1979. However, the Committee reported these earmarked contributions as though they were individual contributions (i.e., nonearmarked) and did not disclose the conduit(s) through which the contributions passed.

The Committee officials stated that the conduits were not disclosed because they were informed by a former Commission employee that disclosure of the conduit was unnecessary. However, the Committee agreed to amend its report(s) to disclose the conduits as required.

Recommendation

The Audit staff recommends that within 30 days of receipt of this notification the Committee file an amended report with the Commission disclosing the earmarked contributions in conformance with the provisions outlined above.

7. Matters Referred to the Office of General Counsel

Certain other matters noted during the audit were referred to the Commission's Office of General Counsel for further consideration on May 12, 1980.

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