




FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

October 29, 2001

MEMORANDUM

TO: RON M. HARRIS
PRESS OFFICER
PRESS OFFICE

FROM: ROBERT J. COSTA 
DEPUTY STAFF DIRECTOR

SUBJECT: PUBLIC ISSUANCE OF THE FINAL AUDIT REPORT ON
THE LA HOST COMMITTEE AND THE LA CONVENTION 2000
COMMITTEE

Attached please find a copy of the final audit report and related documents on the LA Host Committee and the LA Convention 2000 Committee that was approved by the Commission on October 19, 2001.

Informational copies of the report have been received by all parties involved and the report may be released to the public on October 29, 2001.

Attachment as stated

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



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

**REPORT OF THE AUDIT DIVISION
ON THE
LA HOST COMMITTEE
AND THE
LA CONVENTION 2000 COMMITTEE**

EXECUTIVE SUMMARY

LA Host Committee and LA Convention 2000 registered with the Federal Election Commission on March 29, 1999 and maintained their headquarters in Los Angeles, California. The Treasurer for both committees is Mr. Cary Davidson.

The audit was conducted pursuant to 11 CFR §9008.54 which states that the Commission shall conduct an examination and audit of each host committee registered under 11 CFR §9008.51.

The three audit findings summarized below were presented to the LA Host Committee and LA Convention 2000 at the completion of fieldwork on June 29, 2001 and the committee's responses to the findings are contained in the audit report.

CONTRIBUTIONS FROM OUTSIDE THE LOS ANGELES METROPOLITAN AREA - 11 CFR §§9008.52(c)(1) & (2). The audit questioned one a \$15,000 contribution from GlaxoWellcome received by the LA Host Committee. The address disclosed was that of the District Sales Manager for GlaxoWellcome who worked out of his home office in Pasadena, CA. No other facility for GlaxoWellcome could be located within the MA. It was the opinion of the Audit staff that a personal residence that contains a home office does not qualify as a business that can be considered local.

On October 10, 2001, the Commission determined by a vote of 4-1, that this was a permissible contribution.

REPORTING OF DEBTS AND OBLIGATIONS - 2 U.S.C. §434(b)(8). During the course of fieldwork, the Audit staff became aware of a \$1,000,000 letter of credit provided by Majestic Realty to LA Host Committee that had not been disclosed. The Treasurer stated that conditions did not arise for the letter of credit to be used and noted that neither the regulations nor the instructions on Schedules C/C-1 require letters of credit to be disclosed. The Audit staff recommended that the Commission require the LA Host Committee to amend its reports to disclose the letter of credit on Schedules C and C-1.

On October 10, 2001, the Commission determined by a vote of 4-1 that the LA Host Committee was not required to disclose the letter of credit.

MISTATEMENT OF FINANCIAL ACTIVITY - 2 U.S.C. §434(b)(2) & (4). The Audit staff's reconciliation of the LA Convention 2000 Committee's reported financial activity to its bank activity, for the period July 8, 1999, through September 30, 2000, disclosed that it had misstated its receipts and disbursements. Subsequent to the fieldwork, the LA Convention 2000 Committee filed an amended 2000 60-Day Post Convention Report to materially correct the misstatement.



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***REPORT OF THE AUDIT DIVISION
ON THE
LA HOST COMMITTEE AND THE LA CONVENTION 2000
COMMITTEE***

I. **BACKGROUND**

A. **AUDIT AUTHORITY**

This report is based on audits of the LA Host Committee (LA Host) and the LA Convention 2000 Committee (LA2000). The audits sought 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 11 CFR §9008.54 which states that the Commission shall conduct an examination and audit of each host committee registered under 11 CFR §9008.51.

B. **AUDIT COVERAGE**

For LA2000, the audit covered the period from July 22, 1998 through September 30, 2000. During this period, its reports reflect an opening cash balance of \$-0-, total receipts of \$14,965,303, total disbursements of \$14,547,415, and a closing cash balance of \$417,888.¹

For LA Host, the audit covered the period from July 8, 1999 through September 30, 2000. During this period, its reports reflect an opening cash balance of \$-0-, total receipts of \$26,455,668, total disbursements of \$26,392,092, and a closing cash balance of \$63,576.

A limited review of both committees' disclosure reports for the period October 1, 2000 through December 31, 2000 was performed.

C. **COMMITTEE ORGANIZATION**

Both committees² registered with the Federal Election Commission on March 29, 1999 and maintained their headquarters in Los Angeles, California. The Treasurer for both committees is Mr. Cary Davidson.

¹ All amounts in this report have been rounded to the nearest dollar.

² Separate committees were set up under 2 USC §501(c)(3) and (c)(6) for the tax advantages provided under each section to the committees as well as to contributors to the committees.

LA 2000 utilized six bank accounts to handle its financial activity. From its accounts, LA2000 made approximately 1200 disbursements and received 155 contributions from individuals and local businesses totaling about \$10,377,404. LA2000 reported receiving 8 in-kind contributions totaling \$537,246. In addition, LA2000 received one in-kind contribution of \$500,000 from the City of Los Angeles, as well as one contribution in the amount of \$2,000,000. LA2000 also received loans totaling \$2,000,000 and the remainder of the receipts (\$55,805) included offsets to expenditures and items such as the proceeds from the sale of merchandise and transportation passes.

LA Host utilized two bank accounts to handle its financial activity. From its accounts, LA Host made 138 disbursements and received 50 contributions from individuals and local businesses totaling about \$5,246,841. In addition, LA Host reported receiving 108 in-kind contributions totaling \$20,294,483 and one payment from the City of Los Angeles for \$921,950. The remainder of the receipts (\$25,999) were refunds, rebates, returns of deposits relating to convention expenditures and other income, such as the proceeds from the sale of merchandise and transportation passes.

D. AUDIT SCOPE AND PROCEDURES

The audit of the LA2000 and LA Host included testing of the following general categories:

1. The receipt of contributions from prohibited sources, those from outside of the Los Angeles Metropolitan Area (see Finding II.A.);
2. Proper disclosure of contributions from individuals to include the itemization of contributions when required, as well as, the completeness and accuracy of the information disclosed;
3. Proper disclosure of disbursements including the itemization of disbursements when required, as well as, the completeness and accuracy of the information disclosed;
4. Review of the disbursements to determine compliance with the requirements of 11 CFR §9008.52(c);
5. Proper disclosure of committee debts and obligations (see Finding II.B.);
6. The accuracy of total reported receipts, disbursements and cash balances as compared to committee bank records (see Finding II.C.);
7. Adequate recordkeeping for committee transactions;

8. Other audit procedures that were deemed necessary in the situation.

As part of the Commission's standard audit process, an inventory of committee records is conducted prior to the audit fieldwork. This inventory is conducted to determine if the auditee's records are materially complete and in an auditable state. Based on our review of records presented, it was concluded that the records were materially complete and fieldwork began immediately.

Unless specifically discussed below, no material non-compliance 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 - LA HOST

A. CONTRIBUTION FROM OUTSIDE THE LOS ANGELES METROPOLITAN AREA

Section 9008.52(c)(1) of Title 11 of the Code of Federal Regulations states, in relevant part, that local businesses (including banks), local labor organizations, and other local organizations or individuals who maintain a local residence or who work for a local business, local labor organization or local organization may donate funds or make in-kind donations to a host committee.

Section 9008.52(c)(2) of Title 11 of the Code of Federal Regulations states that for purposes of this section, any business (including the branch of a national or regional chain, a franchise, or a licensed dealer) or labor organization or other organization with offices or facilities located within the Metropolitan Area (MA) of the convention city shall be considered local. There shall be a rebuttable presumption that any such entity located outside the MA is not local. A showing that the volume of business or activity in an area outside of the MA would be directly affected by the presence of the convention may rebut this presumption.

LA Host reported receiving a \$15,000 contribution from GlaxoWellcome. The address disclosed on Schedule A was in Pasadena, CA. However, the copy of the contributor check was imprinted with a Research Triangle Park, NC address. The Treasurer indicated that the District Sales Manager for GlaxoWellcome works out of his home office at the address listed in the report. A thorough search for the location of any other facility GlaxoWellcome may have maintained in the MA was conducted by utilizing its internet web page and contacting the firm by telephone. No facility could be located within the MA. It is the opinion of the Audit staff that a personal residence that contains a home office does not qualify as a business that can be considered local.

The Audit staff presented the issue at the exit conference and the Treasurer reiterated his position that the contribution was acceptable.

The Audit staff recommended that, absent evidence demonstrating that the contributor can be considered local under 11 CFR §9008.52(c)(2), the Commission require LA Host to refund the contribution. If funds were not available to make the necessary refund, the contribution was to be disclosed as a debt on Schedule D (Debts and Obligations) until such time that funds became available to make the refund.

On October 10, 2001, the Commission determined by a vote of 4-1, that this was a permissible contribution.

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.

Section 100.7(a)(1)(i) of Title 11 of the Code of Federal Regulations states, in part, that the term contribution includes the following payments, services or other things of value: a gift, subscription, loan, advance, deposit of money or anything of value made by any person. The term loan includes a guarantee, endorsement, or any other form of security.

During the course of fieldwork, the Audit staff became aware of a \$1,000,000 letter of credit provided by Majestic Realty to LA Host. A letter attached to a contribution received from Majestic Realty, dated June 28, 2000, notes "You are authorized to deposit this check once we have our \$1,000,000 Letter of Credit in hand." A copy of the letter of credit could not be located in records provided by the LA Host. At the conclusion of fieldwork, a written request was made for an explanation of the circumstances surrounding the \$1,000,000 letter of credit.

As part of its February 21, 2001 response to matters addressed at the conclusion of fieldwork, the LA Host stated that, "Majestic Realty provided a letter of credit to the host committee. To activate the letter of credit, the Chairman of the Democratic National Convention Committee (DNCC) would have been required to determine, in consultation with the host committee, that the host committee failed to meet its funding obligation for the convention. In as much as the condition precedent never occurred, the host committee never activated the letter of credit. Moreover, the letter of

credit was cancelled when Majestic Realty contributed \$1,000,000 to the host committee.”

The Audit staff presented this matter at the exit conference. The Treasurer reiterated his position that conditions did not arise for the letter of credit to be used and noted that neither the regulations nor the instructions on Schedules C/C-1 require letters of credit to be disclosed.

Subsequent to the exit conference, the Treasurer submitted a copy of the irrevocable standby letter of credit issued on June 22, 1999 by the Sanwa Bank of California relative to the account of Edward P. Roski, Jr. of Majestic Realty, with an expiration date of December 31, 2000. A draw on the letter of credit could be affected with a letter from the Chairman of the DNCC as described above, and the presentation of the letter of credit itself and a sight draft(s) signed by the beneficiaries (LA Host and LA Convention 2000) mentioning the letter of credit. Partial draws could be made. In addition, in the cover letter provided, LA Host continues to maintain its previously stated position that the letter of credit is not a reportable transaction and not the same as a line of credit. The letter closes by pointing out that host committees accept “donations” not “contributions” under the Commission’s regulations.

Section 9008.51 of Title 11 of the Code of Federal Regulations requires Host Committees to register and file reports of their receipts and disbursements with the Commission. Section 104.3 sets out the contents of reports to be filed and includes all contributions, all transfers from affiliated committees, all loans, offsets to operating expenditures, and other receipts. As noted above, the definition of a loan includes a guarantee, endorsement, or any other form of security. The Audit staff concluded that the letter of credit at issue qualified as a guarantee, or form of security, and was reportable on Schedule C with a memo explaining the circumstances.

The Audit staff recommended that the Commission require LA Host to amend its reports to disclose the letter of credit on Schedules C and C-1.

On October 10, 2001, the Commission determined by a vote of 4-1 that LA Host was not required to disclose the letter of credit.

III. AUDIT FINDING AND RECOMMENDATION - LA2000

MISSTATEMENT OF FINANCIAL ACTIVITY

Sections 434(b)(2) and (4) of Title 2 of the United States Code state, in relevant part, that each report shall disclose 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 LA2000 reported financial activity to its bank activity, for the period July 8, 1999, through September 30, 2000, disclosed that it had misstated its receipts and disbursements.

LA2000 reported total receipts of \$14,965,303, an understatement of \$906,571. Correct reportable receipts were \$15,871,874. The understatement resulted from the failure to report a short-term loan (\$900,000) received August 1, 2000 pending conversion of a contributor's stock certificates, the failure to report the receipt of an in-kind contribution (\$111) and, an unexplained difference, which understated receipts by \$6,460.

Total reported disbursements were \$14,547,415. The SCRП should have reported total disbursements of \$15,444,184. Therefore, disbursements were understated by \$896,769. The understatement resulted from the failure to report the repayment of the short-term loan (\$900,000) on August 15, 2000, an unreported disbursement (\$1,453) and an unexplained overstatement of \$4,684.

Subsequent to the fieldwork, LA2000 filed an amended 2000 60-Day Post Convention Report. At the Exit Conference, LA2000 representatives were advised that the amended report materially corrected the errors noted above and adequately disclosed the short-term loan.



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

October 19, 2001

Cary Davidson, Treasurer
LA Host Committee
LA Convention 2000 Committee
520 S Grand Ave, Suite 700
Los Angeles, CA 90071

Dear Mr. Davidson:

Attached please find the Final Audit Report on the LA Host Committee and the LA Convention 2000 Committee. The Commission approved the report on October 19, 2001.

The Commission approved Final Audit Report will be placed on the public record on October 25, 2001. Should you have any questions regarding the public release of the report, please contact the Commission's Press Office at (202) 694-1220. Any questions you have related to matters covered during the audit or in the report should be directed to Mr. Alex Boniewicz or Mr. Joe Stoltz of the Audit Division at (202) 694-1200 or toll free at (800) 424-9530.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Costa". The signature is fluid and cursive.

Robert J. Costa
Deputy Staff Director

Attachment as Stated

CHRONOLOGY

LA HOST COMMITTEE
LA CONVENTION 2000 COMMITTEE

Audit Fieldwork	December 4, 2000 - February 9, 2001
Final Audit Report Approved	October 19, 2001

