



FEDERAL ELECTION COMMISSION
WASHINGTON, D. C. 20543

AK004136

September 20, 1993

MEMORANDUM

TO: FRED EILAND
CHIEF, PRESS OFFICE

FROM: ROBERT J. COSTA *ARC*
ASSISTANT STAFF DIRECTOR
AUDIT DIVISION

SUBJECT: PUBLIC ISSUANCE OF THE FINAL AUDIT REPORT ON
TERRY EVERETT FOR CONGRESS

Attached please find a copy of the final audit report on Terry Everett for Congress which was approved by the Commission on September 13, 1993.

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



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20461

AK004115

REPORT OF THE AUDIT DIVISION
ON
TERRY EVERETT FOR CONGRESS

I Background

A. Overview

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This report is based on an audit of Terry Everett for Congress (the "Committee"), 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 section, 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.

The audit covered the period from March 17, 1992, the date of the Committee's first recorded transaction, through December 31, 1992, the closing date for the latest report filed at the time of the audit. The Committee reported a beginning cash balance of \$0; total receipts for the period of \$1,070,472 1/; total disbursements for the period of \$1,042,083; and an ending cash balance of \$28,389 2/.

1/Amounts disclosed by report periods totaled \$1,084,355 and \$1,049,779 respectively for receipts and disbursements.

2/These amounts will not foot because of a \$6,187 mathematical discrepancy in carrying forward ending cash on hand from the Pre-General Election report to the Post-General Election report.

B. Campaign Organization

The Committee registered with the Clerk of the U.S. House of Representatives on April 14, 1992 as the principal campaign committee for Robert Terry Everett, Republican candidate for the U.S. House of Representatives from the state of Alabama, District 2. The Committee maintained its headquarters in Enterprise, Alabama.

The audit indicated that the Committee was financed primarily through loans from the candidate (\$320,582.50) and from the Central Bank of the South (\$584,120.23). Together these loans represented 86% of total receipts. The remaining 14% was derived from in-kind contributions from the candidate, contributions from individuals and from political party committees.

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

C. Key Personnel

The Treasurer of the Committee during the period covered by the audit was Mr. Robert Terry Everett.

D. Scope

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;
4. proper disclosure of disbursements including the itemization of disbursements when required, as well as, the completeness and accuracy of the information disclosed (see Finding II.D.);

5. proper disclosure of campaign debts and obligations (see Finding II.B.);
6. the accuracy of total reported receipts, disbursements and cash balances as compared to campaign bank records (see Finding II.A.);
7. adequate recordkeeping for campaign transactions; and
8. other audit procedures that were deemed necessary in the situation.

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

II. Audit Findings

Misstatement of Financial Activity

Sections 434(b) (1), (2) and (4) of Title 2 of the United States Code require a political committee to report the amount of cash on hand at the beginning and ending of each reporting period and the total amount of all receipts and disbursements for the reporting period and calendar year.

The Audit staff's reconciliation of the Committee's reported activity to its bank activity revealed the following misstatements:

Receipts

By summing the current period totals for each reporting period, it was determined that the Committee reported \$1,084,355 for 1992.³ The Audit staff's bank reconciliation determined that the Committee should have reported total receipts of \$1,054,982.15. Therefore, the Committee's reported receipts were overstated by a net amount of \$39,497.85. The Audit staff's analysis of receipt activity identified the following errors which caused the misstatement:

- an in-kind contribution from the candidate reported in error (\$1000) in the Pre-Primary Election report;

³/On its 1992 Year End Report the Committee reported calendar year to date receipts for 1992 of \$1,070,472. The difference is an apparent mathematical error within its 1992 Post-General Election report.

- overreported in-kind contributions from the candidate in the October Quarterly report (\$39,159);
- unreported loans from the candidate in the Pre-General Election report (\$10,000);
- a non-sufficient funds check reported in the Pre-General Election report (\$1000);
- reconciling adjustments (\$1786.15).

Overreporting of in-kind contributions from the candidate resulted from the Committee using in-kind receipts from the candidate as a reconciling amount to ending cash-on-hand per the bank statements and disbursements per schedules B.

Disbursements

The Committee reported total disbursements of \$1,049,779 for 1992.⁴ The Audit staff's bank reconciliation determined that the Committee should have reported total disbursements of \$1,027,754.32. Therefore, the Committee's reported disbursements were overstated by a net amount of \$22,024.68. The Audit staff's analysis of Committee disbursements identified the following errors which caused the misstatement:

- five in-kind contributions reported as receipts but not as disbursements/underreported as disbursements in the Pre-Primary Election report (\$16,499.84);
- four disbursements overstated in the July Quarterly report (\$65,655.35);
- four disbursements not reported in the Pre-General Election report (\$18,695.00);
- three interest payments on bank loans not reported in the July Quarterly, Pre-General and Post-General Election reports (\$8,340.59);
- net reconciling adjustments (\$95.24).

⁴On its 1992 Year End report the Committee reported calendar year to date disbursements for 1992 totaling \$1,042,083. The difference is an apparent mathematical error within its 1992 Post General Election report.

Ending Cash on Hand Balance

The Committee reported an ending cash on hand balance on December 31, 1992 of \$28,389. The Audit staff determined this was overstated by a net amount of \$1,161.17 which resulted from the misstatements detailed above; it was also a result of the failure to carry forward the correct ending cash-on-hand from the Pre-General to the Post-General reporting periods, a difference of \$6,187.00. The correct ending balance was determined by the Audit staff to be \$27,227.83.

Copies of workpapers detailing the above noted differences were provided to Committee representatives at the exit conference. Committee representatives stated that they would amend their reports to properly disclose the Committee's financial activity.

Subsequent to the Committee's receipt of the Interim Audit Report, Committee representatives filed a comprehensive amendment on August 25, 1993 which materially corrected the misstatements.

B. Debts and Obligations

Section 434(b)(3)(E) of Title 2 of the United States Code states that each report shall disclose the identification of each person who makes a loan to the reporting committee during the reporting period, together with the identification of any endorser or guarantor of such loan, and date and amount or value of such loan.

Section 431(11)(A) of Title 2 of the United States Code states that the term "person" includes any individual, partnership, committee, association, corporation, labor organization, or any other organization or group of persons.

Section 434(b)(8) of Title 2 of the United States Code, in part, requires each report filed under this section, by the treasurer of a political committee to disclose the amount and nature of outstanding debts owed by the Committee.

Section 104.11(a) of Title 11 of the Code of Federal Regulations states, in relevant part, that debts and obligations owed by a political committee which remain outstanding shall be continuously reported until extinguished.

The Audit staff's review of the available records for loan receipts from the candidate and from the Central Bank of the South indicated that none of the loan receipts were itemized as required on Schedules A. The Committee received three bank loans totaling \$584,120.23 and nine loans from the candidate totaling \$320,582.50. Through the close of the audit period, no repayments were made on the principal amounts of the loans.

It was also noted that the correct amount of the outstanding balances of the loans from the candidate and from the bank were not reported on Schedules C and that the correct total amount of outstanding loans from all sources was not reported on line 10 of the Summary Page for any reporting period in the calendar year 1992. It appeared that the Committee reported on Schedules C only the amount(s) of loans received in each period; no Schedules C were filed to continuously report these loans in subsequent periods.

At the exit conference, Committee representatives were provided schedules of the loans requiring itemization and copies of the auditor's workpapers detailing the discrepancies noted above. Committee representatives stated that they would amend their reports to properly disclose the above noted obligations.

Subsequent to the Committee's receipt of the Interim Audit Report, Committee representatives filed a comprehensive amendment on August 25, 1993 which correctly reported the debts and obligations.

C. Inadequate Disclosure of Disbursements

Section 434(b)(5)(A) of Title 2 of the United States Code states, in part, that each report under this section shall disclose the name and address of each person to whom an expenditure in an aggregate amount or value in excess of \$200 within the calendar year is made by the reporting committee to meet a candidate or committee operating expense, together with the date, amount, and purpose of such operating expenditure.

A sample review of those disbursements itemized on the Committee's reports indicated that the Committee failed to adequately disclose the required information for a material number of itemized disbursements. Most of the errors resulted from the Committee's failure to disclose an adequate purpose for disbursements relating to reimbursements to Committee employees for expenses incurred on behalf of the campaign in the Pre-Primary Election, July Quarterly, and October Quarterly reports.

At the exit conference, Committee representatives stated that they would amend their reports to correctly disclose the purpose of these disbursements as part of a comprehensive amendment.

Subsequent to the Committee's receipt of the Interim Audit Report, Committee representatives filed a comprehensive amendment on August 25, 1993 which materially corrected the disclosure of disbursements.

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