



FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

BJ005897

June 30, 1994

MEMORANDUM

TO: RONALD M. HARRIS  
CHIEF, PRESS OFFICE

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

SUBJECT: PUBLIC ISSUANCE OF THE FINAL AUDIT REPORT ON  
DAVID DUKE FOR U.S. SENATE

Attached please find a copy of the final audit report on David Duke for U.S. Senate which was approved by the Commission on June 22, 1994.

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  
Report Analysis Division  
FEC Library



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BJ004533

**REPORT OF THE AUDIT DIVISION  
ON  
DAVID DUKE FOR U.S. SENATE**

**I. Background**

**A. Overview**

This report is based on an audit of the David Duke for U.S. Senate Committee ("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 2 U.S.C. § 438(b) 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 Committee registered with the Secretary of the Senate on January 2, 1990, and maintains its headquarters in Metairie, Louisiana. The audit covered the period from November 1, 1989 (the earliest transaction recorded on the bank statements), through December 31, 1990 (close of audit period). Certain contribution records dated after December 31, 1990, but relating to the 1990 Primary election, were reviewed in conjunction with the contributions review. The Committee reported a beginning cash balance of \$-0-; total receipts of \$2,657,331.00; total disbursements of \$2,602,287.00, and a cash balance on December 31, 1990 of \$55,044.00.

This audit 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.

B. Key Personnel

The Treasurer of the Committee during the period covered by the audit was James A. McPherson and the Assistant Treasurer was Paul Allen.

C. Scope

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

II. Audit Findings and Recommendations

A. Misstatement of Financial Activity

Section 434(b)(1), (2), and (4) of Title 2 of the United States Code requires a Committee to disclose the amount of cash on hand at the beginning of each reporting period and the total amount of all receipts and disbursements by reporting period and calendar year.

Our reconciliation of the Committee's 1990 reported activity to its 1990 bank activity revealed the following misstatements.

The Committee's reported 1990 receipts were overstated by \$60,282.34 and 1990 disbursements were overstated by \$7,658.59. This resulted in an overstatement of the 1990 Ending Cash-On-Hand balance in the amount of \$53,938.96: [\$60,282.34 + \$1,315.21 (1990 Beginning Cash-On-Hand overstatement) - \$7,658.59].

The components of the receipts misstatement are as follows:

1990 Receipts as Reported		\$2,519,268.00
• NSF <u>Contributor</u> checks never adjusted out of reported receipts	( 6,319.14)	
• Reversing entries for NSF <u>Committee</u> checks returned by the bank and Bank errors	(76,951.92)	
• Interaccount transfers erroneously included in reported receipts	(48,163.45)	

•	Receipts from eight additional campaign accounts not included in reported totals (see Finding II.D.)	46,548.33	
•	Under reporting of receipts	25,280.00	
•	Unexplained Difference	( 676.16)	
	Subtotal		( 60,282.34)
	Adjusted 1990 Receipts		<u>\$2,458,985.66</u>

The components of the disbursements misstatement are as follows:

	1990 Disbursements as Reported		\$2,489,311.00
•	Reported NSF Contributor check reversals included in reported disbursements	( 6,319.14)	
•	Reversing entries for NSF Committee checks returned by the bank and Bank errors	(76,951.92)	
•	Unreported 1990 disbursements:		
	(1) 1990 checks outstanding as of 12/31/90	26,294.51	
	(2) Disbursements clearing bank account 12/26-12/31/90	24,764.52	
	(3) Disbursements from eight additional campaign accounts not included in reported totals (see Finding II.D.)	22,375.41	
	(4) Net total of incorrect disbursements reporting	575.16	
•	Unexplained Difference	<u>1,602.87</u>	
	Subtotal		<u>(7,658.59)</u>
	Adjusted 1990 Disbursements		<u>\$2,481,652.41</u>

Generally, the Committee's reported totals, with minor adjustments, were based upon bank statement figures. For the period from the Committee's inception through August 1990, this resulted in disbursements being reported when the checks cleared the bank, as opposed to the check date. For the month of September 1990, the Committee reported disbursements as of the date of the checks.

For the period October 1, 1990 through December 31, 1990, the Committee determined its reported ending cash-on-hand balance by adding to its December 25, 1990 bank statement balance all deposits for the period December 26, 1990 through December 31, 1990. Reported receipts were the total of bank statement deposits through December 31, 1990. Reported disbursements was derived from these two totals and reported beginning cash-on-hand. These calculations resulted in an overstatement of ending cash-on-hand and an understatement of disbursements.

Also, the Committee's reported totals for the entire audit period included only headquarters activity from the Greater New Orleans Homestead account. The receipts and disbursements activity from eight additional campaign accounts was not included in reported totals.

At the Exit Conference, the Committee was provided with copies of schedules detailing the differences between reported activity and correct reportable activity for the entire audit period. The Committee did not provide any explanations for these misstatements.

In the Interim Audit Report the Audit staff recommended that the Committee file a comprehensive amendment for 1990 correcting its reported activity.

The Committee filed a comprehensive amendment showing adjusted year-to-date amounts for calendar year 1990 on November 16, 1992 materially correcting the misstatement of financial activity. No further explanation was provided.

#### Recommendation #1

The Audit staff recommends no further action on this matter.

#### B. Itemization of Refunds and Rebates

Section 434(b)(2)(I) of Title 2 of the United States Code states, in relevant part, that each report shall disclose for the reporting period and the calendar year, the total amount of all rebates, refunds, and other offsets to operating expenditures. In addition, 2 U.S.C. §434(b)(3)(F) requires that each report include the identification of each person who provides a rebate, refund, or other offset to operating expenditures to the reporting committee in an aggregate amount or value in excess of \$200 within

the calendar year, together with the date and amount of such receipt. Section 431(13) of Title 2 of the United States Code defines, in part, the term "identification" to be the full name and address of such person.

Section 104.3(a)(4)(v) of Title 11 of the Code of Federal Regulations states, in relevant part, that the identification and the aggregate year-to-date total shall be reported for each person who provides a rebate, refund, or other offset to operating expenditures to the reporting committee in an aggregate amount or value in excess of \$200 within the calendar year, together with the date and amount of such receipt.

The Committee's receipt records were reviewed by the Audit staff and traced to the Committee's Schedule A's to determine whether all refunds and rebates requiring itemization were itemized properly. We identified 28 refunds and rebates, totaling \$7,550.28, which were received by the Committee. Of these 28 items, 14, totaling \$6,349.92, were required to be itemized. The Committee did not itemize any refunds and rebates.

At the Exit Conference, the Committee was provided with a schedule of the itemizable refunds and rebates and they were requested to file amended Schedule A's. No explanation was provided by Committee officials for these omissions.

In the Interim Audit Report, the Audit staff recommended that the Committee file amended Schedule A's itemizing the aforementioned refunds and rebates.

The Committee filed a comprehensive amendment on November 16, 1992, which materially corrected the failure to itemize refunds and rebates.

#### Recommendation #2

The Audit staff recommends no further action on this matter.

#### C. 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 or to such political committee; and where such debts and obligations are settled for less than their reported amount or value, a statement as to the circumstances and conditions under which such debts or obligations were extinguished and the consideration therefor.

Section 104.11 of Title 11 of the Code of Federal Regulations states, in part, that debts and obligations owed by or to a political committee which remain outstanding shall be continuously reported until extinguished. In addition, a debt, obligation, or other promise to make an expenditure, the amount of which is \$500 or less, shall be reported as of the time payment is

made or no later than 60 days after such obligation is incurred, whichever comes first. Any loan, debt or obligation, the amount of which is over \$500, shall be reported as of the time of the transaction.

A review of reports filed by the Committee indicated that no debts were disclosed on Schedule D (Debts and Obligations Owed by a Committee). However, our review of Committee invoices and related payments revealed outstanding debts and obligations at the close of the Committee's last three reporting periods for 1990 which were required to be disclosed on Schedule D. For the Pre-Primary report, 2 debts and obligations, totaling \$6,089.57, were identified as outstanding. For the Third Quarter 1990 report 9 debts, totaling \$17,840.35, were identified as outstanding and 18 debts, totaling \$47,031.59, were identified as outstanding for the 1990 Year-end report. Debts required to be disclosed for these three reporting periods total \$70,961.51 (29 items).

At the Exit Conference, the Committee was provided schedules detailing these identified debts and obligations. Committee officials provided no explanation for these omissions.

In the Interim Audit Report, the Audit staff recommended that the Committee file amended Schedule D's disclosing the aforementioned debts and obligations.

The Committee filed amendments on November 16, 1992, which materially corrected the failure to file Schedule D's to disclose all debts and obligations.

### Recommendation #3

The Audit staff recommends no further action on this matter.

#### D. Failure to Amend Statement of Organization for Additional Banks or Other Depositories

Section 433(b)(6) of Title 2 of the United States Code states that the Statement of Organization of a political committee shall include a listing of all banks, safety deposit boxes, or other depositories used by the Committee.

Section 102.2(a)(vi)(2) of Title 11 of the Code of Federal Regulations states, in relevant part, that the Statement of Organization shall include a listing of all banks, safe deposit boxes, or other depositories used by the Committee. Any change or correction in the information previously filed in the Statement of Organization shall be reported no later than 10 days following the date of the change or correction by filing an amended Statement of Organization or by filing a letter noting the changes. The amendment need list only the name of such committee and the change or correction.

On its Statement of Organization, the Committee identified Greater New Orleans Homestead Bank as its only campaign depository. No amendments were filed relative to any additional campaign depositories.

However, during 1990 the Committee opened an additional eight campaign accounts at depositories located throughout the state of Louisiana. None of the activity from these accounts was reported by the Committee. (See 1990 Receipts Misstatement at Finding II.A.) The additional campaign accounts were opened at the following depositories:

<u>Bank Name/Location</u>	<u>Date Account Opened</u>
Central Bank/Monroe, LA	3/20/90
Hibernia National/Baton Rouge, LA	9/28/90
Hibernia National/Lafayette, LA	5/29/90
Investors Bank & Trust Co./Gretna, LA	8/27/90
Peoples Bank & Trust Co./Chalmette, LA	6/01/90
Whitney National/New Orleans, LA	7/16/90
Cameron State/Cameron, LA	5/21/90
First American/Shreveport, LA	3/16/90

The Committee agreed that these eight campaign accounts were Committee accounts and that no amendments to the Statement of Organization were ever filed.

In the Interim Audit Report the Audit staff recommended that the Committee file an amended Statement of Organization disclosing the additional banks discussed above.

The Committee filed an amended Statement of Organization which disclosed the bank accounts noted above. The response also states that "back in 1990, volunteers sprung up all over Louisiana. Ones who did well wanted to open bank accounts to handle campaign business in their area. They got permission from one of the three campaign managers we went thru in quick succession." The assistant treasurer goes on to explain that "[t]he first time I found out about the accounts was when the bank statements were mailed to me, some after the campaign was over."

#### Recommendation #4

The Audit staff recommends no further action on this matter.



E. Matters Referred to the Office of General Counsel

Other matters noted during the audit have been referred to the Commission's Office of General Counsel.