



FEDERAL ELECTION COMMISSION

1325 K STREET N.W.
WASHINGTON, D.C. 20463

REPORT OF THE AUDIT DIVISION ON THE GUN OWNERS OF AMERICA CAMPAIGN COMMITTEE '76, GUN OWNERS OF CALIFORNIA CAMPAIGN COMMITTEE, GUN OWNERS OF AMERICA LEGISLATIVE ACTION FUND

I. Background

A. Overview

This report is based upon audits of the Gun Owners of America Campaign Committee '76 ("GOA"), Gun Owners of California Campaign Committee ("GOC"), and the Gun Owners of America Legislative Action Fund ("LAF") undertaken by the Audit Division of the Federal Election Commission 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 under the authority of Section 438(a)(8) of Title 2 of the United States Code which directs the Commission to make from time to time audits and field investigations with respect to reports and statements filed under the provisions of the Act.

GOA originally registered with the Federal Election Commission on September 4, 1975, under the name of "Target '76", which was changed to Gun Owners of America Campaign Committee '76 in January, 1976. GOA's major function is to solicit contributions in the 49 states other than California, mainly utilizing direct mail techniques, for the purpose of influencing and encouraging pro-gun legislation through the election of legislators at the Federal level. GOA was formed primarily because of the success of its sister committee, Gun Owners of California (GOC); which organized prior to GOA, and which restricts its operations to soliciting contributions from within the State of California and influencing legislation and elections on the state level. The Gun Owners of America Legislative Action Fund (LAF) was established in May, 1976, as a Federal lobbying organization and is primarily funded with corporate or apparent corporate contributions which, under the Act, GOA could not accept. Rather than continue returning such contributions, as was the practice during the first several months of 1976, GOA established LAF as a pro-gun Federal lobbying organization in order to utilize these contributions.

The audits covered the period July 2, 1975, the inception of GOC, through December 31, 1976, the final coverage date of the latest report filed by GOA at the time of the first audit, which commenced April 12, 1977. Because of issues raised during that audit, a follow-up audit was made, starting on August 1, 1977, at which time a complete audit of GOC and a partial audit of LAF was conducted. During the audit period, GOA reported beginning cash of \$-0-, total receipts of \$2,282,635.10, total expenditures of \$2,120,940.04, and ending cash of \$161,695.06. 1/

B. Key Personnel

The principal officers of GOA were Mr. John E. Bianchi, Treasurer, and Mr. Willis E. Laney, Jr., Executive Director, from September 4, 1975 through January 28, 1976. Mr. Laney occupied both positions from January 29, 1976 through October 28, 1976, at which time Mr. Thomas E. Hall was designated as Treasurer. Mr. H. Donald Harper replaced Mr. Hall effective November 30, 1976, and Mr. Timothy Macy became Executive Director effective that same date. Effective February 28, 1977, Mr. John H. Hodgson, II, assumed the position of Treasurer of GOA. The above individuals performed parallel functions for GOC and LAF during the audit period.

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; and such other audit procedures as deemed necessary under the circumstances.

II. Auditor's Statement and Description of Findings

It is the opinion of the Audit staff, based upon examination of the reports and statements filed and records presented, that the above mentioned Committees have not conducted their activities in compliance with the Federal Election Campaign Act and that the reports and statements originally filed by GOA do not fairly present the financial activities of the Committees for the period covered by the audit.

1/ As a result of our audit, GOC subsequently filed reports for the audit period showing beginning cash of \$-0-, total receipts of \$1,447,872.77, total expenditures of \$1,391,305.13, and ending cash as of December 31, 1976 of \$56,567.64.

Introduction

During the period covered by the audit, the Committees shared joint administrative expenses. Committee officials established a procedure whereby GOA would make all initial administrative expenditures and be reimbursed, in turn, by the other committees according to each committee's proportionate share of total contributions received for the period. Initially, administrative expenses were to be allocated between GOA and GOC and reimbursements made by GOC to GOA based on the following formula:

$$\frac{\text{Committee Receipts for Period}}{\text{Total Receipts of Both Committees for Period}} \times (\text{Total Overhead for Period for Period})$$

After LAF was organized in May of 1976, administrative expenses were to be allocated between the three (3) committees based on each committee's expected share of contributions to be received: GOA-45%, GOC-40%, LAF-15%.

As of February 1, 1977, this allocation/reimbursement procedure was discontinued when Computer Caging Corporation was formed. Computer Caging was designated to undertake the mailing, sorting, and processing operations for each committee and bill each directly for its share of overhead expenses on a per letter basis.

A. Registration and Filing of Reports with the Commission

Section 433(a) of Title 2 of the United States Code, requires each political committee receiving contributions or making expenditures exceeding \$1,000 in any calendar year for the purpose of influencing Federal elections to register with the Commission. Section 434(a) and (b) of the Act requires the treasurer of a political committee supporting candidates for election to Federal office to file reports containing certain information regarding receipts, expenditures, and cash-on-hand for the reporting period.

As was discussed earlier, GOA and GOC shared administrative expenses. GOA was to allocate expenses to GOC which was subsequently to reimburse GOA for its share, based on GOC's percentage of total contributions received for each period. The Commission approved this procedure (see AO 1976-43) providing:

1) Such payments from GOC are not in excess of what they normally would have to pay for such services. (The Commission's concern being that such payments not be a device for providing additional funds to GOA, circumventing the contribution limits of 2 U.S.C. 441a); and

2) Payment from GOC to GOA be made from a segregated account that does not contain corporate or other Federally-prohibited contributions. (In accordance with this provision, a separate bank account termed the Federal Support Fund was established by GOC which would contain only individual contributions, from which all transfers to GOA were to be made.)

As a result, GOA established procedures for paying all expenses directly, then allocating 40% of the total administrative expenses each period to GOC, which was then supposed to reimburse GOA for this amount from its Federal Support Fund. The 40% figure was based on GOC's anticipated share of total contributions received by the Committees in accordance with the prescribed formula. Based on a review of a schedule of total contributions received, broken down by Committee, GOC's actual share of total contributions for the period 1/1/76-12/31/76 was 39.5% of the total.

Our examination of the allocation/reimbursement relationship between GOA and GOC revealed the following facts:

1) Net transfers from GOC to GOA totalling \$272,948.92 were made with no discernible pattern and exceeded GOC's actual share of allocated expenses as per the established procedure by \$29,137.20 (after adjustment for a fourth Committee's share of shared administrative overhead attributed to GOC).

2) For the months June through October, 1976, GOC's balance of excess payments to GOA ranged from \$68,186.16 to \$119,569.64. During this period GOA made most of its contributions to Federal candidates.

3) A comparison of end-of-period GOC/GOA overpayment balances with the corresponding GOA cash-on-hand figures showed a consistent pattern after May 31, 1976, of net overpayments exceeding GOA's cash-on-hand (except as of 12/31/76). (See Attachment I)

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Audit Opinion and Subsequent Developments

Based on the facts developed, the Audit staff was of the opinion that the record of overpayments by GOC to GOA constituted an expenditure in excess of \$1,000 which influenced the Federal election process and, accordingly, required GOC to register as a political committee and file reports with the Commission. We so recommended to the GOC Officials at the conclusion of the first GOA audit performed in April, 1977. An interim audit report discussing this and other findings was transmitted to the Office of General Counsel on June 8, 1977. On August 8, 1977, the Commission found reason to believe that GOC had violated 2 U.S.C. Section 433 and Section 434, and the appropriate letter was forwarded to the Committee (GOC) during the course of the follow-up audit which commenced on August 1. On August 29, 1977, GOC filed a statement of organization and reports of receipts and expenditures for the periods ending December 31, 1975 and December 31, 1976. On November 29, 1977, the Commission found reasonable cause to believe that GOC had violated the prompt and timely filing requirements of 2 U.S.C. Section 433 and Section 434.

Recommendation

The Commission entered into a conciliation process with the Committee which culminated in an agreement being signed and approved by the Commission on May 3, 1978. Therefore, no further action is recommended on this matter.

B. Acceptance of Prohibited Contributions

Section 441b(a) of Title 2 of the United States Code prohibits any political committee from knowingly accepting corporate or union contributions made in connection with any Federal election.

In May of 1976, legal counsel for GOA requested an opinion concerning the propriety of requesting contributions for its connected lobbying committee (LAF) within the same solicitation for donations to its regular GOA fund. The Commission responded that such a practice was not prohibited under the Act, provided:

1) the entire cost of the joint mailing is borne by the political fund; and

2) that the contributor expressly designate his desire, via a reply card, etc., to contribute to either the political contribution fund (GOA) or the legislative activities fund (LAF).

Despite the apparent prohibition against shared expenses embodied in the Commission's response, an allocation/reimbursement procedure, similar to the one established between GOA and GOC, was set up between GOA and LAF. The Executive Director of GOA confirmed LAF funds were 100% corporate or apparent corporate contributions. LAF was to reimburse GOA from these funds for its share of administrative expenses, based on LAF's expected share of contributions (15%) received by the three (3) committees. However, LAF's actual share of total contributions received during that portion of the audit period when LAF was in existence (5/14-12/31/76) was 5.2%. Using the latter percentage as a basis for computing LAF's share of joint administrative expenses, and comparing the resulting total with actual transfers from LAF to GOA (\$38,531.53), less GOA payment of LAF expenses, resulted in a net overpayment by LAF to GOA of \$17,634.38. 2/ (See Attachment II)

Audit Opinion and Subsequent Developments

Based on these facts, it was the opinion of the Audit staff that GOA, a committee supporting Federal candidates, accepted funds comprised of corporate contributions from LAF, as payment for shared administrative expenses.

We advised the Officials representing both Committees at the conclusion of the April, 1977 audit that this matter would be referred to the Office of General Counsel for its consideration. This matter was included in the interim audit report forwarded to the Office of General Counsel on June 8, 1977. On August 8, 1977, the Commission found reason to believe that both GOA and LAF had violated 2 U.S.C. Section 441b. 3/ In addition, the Commission found reason to believe that LAF had also violated 2 U.S.C. Section 433 and Section 434 because, as in the case of GOC, the net overpayment balance from LAF to GOA in excess of \$1,000 qualified LAF as a political committee, subject to the requirements of those sections of the Act. The appropriate letters were delivered to the Committees' representatives during the course of the follow-up audit in August, 1977.

2/ The excessive payments by LAF were refunded by GOA in two (2) installments: 1) \$18,244.00 on June 28, 1977, for the Committees' calculation of net overpayments as of 12/31/76; 2) \$13,755.17 on August 15, 1977, representing the net overpayment resulting from the LAF transfer to GOA in January 1977, less that month's allocation and correction for miscalculation in the 6/28/77 payback.

3/ According to the legal analysis, LAF also appeared to have violated Section 441b in that it continued to receive corporate contributions after it had attained status as a political committee (once its overpayments to GOA exceeded \$1,000).

On November 29, 1977, in accordance with the Office of General Counsel's recommendations, the Commission found reasonable cause to believe that violations of the above sections had occurred.

Recommendation

The Commission entered into a conciliation process with the Committee which culminated in an agreement being signed and approved by the Commission on May 3, 1978. Therefore, no further action is recommended on this matter.

C. Reporting of Receipts and Expenditures

Section 434(b) of Title 2 of the United States Code requires the treasurer of a political committee supporting candidates for election to Federal office to include in reports filed with the Commission specific information regarding receipts, expenditures, and cash-on-hand for the reporting period.

During the course of the first GOA audit (4/12-4/24/77), the following errors were discovered in GOA's reports filed with the Commission from the Committees' inception to December 31, 1976:

1) Expenditures, occurring a total of 244 times, were either over-reported or under-reported in each of the Committees' reports filed up to 12/31/76.

2) Nine (9) instances of failure to itemize expenditures to seven payees aggregating in excess of \$100 during the calendar year.

3) An overstatement of total receipts by \$101,101.75 for the year ending December 31, 1976, due to the reporting of an inter-account transfer as a receipt and the inclusion in receipt totals of apparent corporate contributions deposited in the segregated LAF "Holding Account."

4) An overstatement of total expenditures by \$627.16 for the year ending December 31, 1976.

5) A resulting overstatement of cash-on-hand as of December 31, 1976 of \$100,474.59.

At the conclusion of the first audit in April, the Audit staff recommended to GOA that they amend their reports for all periods covered by the audit, to include the necessary Schedules A and B and adjusted periodic and year-end summary schedules. On June 16, 1977, the Committee filed comprehensive amendments for the years ending 12/31/75 and 12/31/76 which materially complied with our recommendations.

In the course of the follow-up audit (8/1-8/12/77), during which the audit for GOA was completed, and GOC and LAF received full and partial audits respectively, no additional material findings regarding the Committees' reports and records were discovered.

Recommendation

Since satisfactory amendments were received from GOA on June 16, 1977, no further action is recommended regarding this matter.

D. Other Matters

The following matter for which the Audit staff feels no further action is warranted, was discussed with GOA representatives at the conclusion of our April audit.

Our judgmental review of the timeliness of GOA's depositing of receipts disclosed that for 31 receipt days examined, in 22 instances the receipts were deposited from 11 to 19 days later. The Committee was advised of the requirements of Section 103.3(a) of Title 11, Code of Federal Regulations, which states receipts shall be deposited within 10 days of the Committee's acceptance of them. Since that audit, GOA has streamlined the receipts handling system under the Computer Caging Corporation which, in our opinion, will reduce the deposit lag-time for all the Committees involved.

Attachments as stated

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GUN OWNERS OF AMERICA CAMPAIGN COMMITTEE '76

Summary of Receipts from LAF, GOA Payments on Behalf of LAF, and Allocation of Expenses to LAF
Based on 5.2% Actual Share of Contributions Received *

Period	Allocaable Admin. Exp. Based on 5.2%***	GOA Payment of LAF Payroll Taxes	LAF Transfers To GOA	Balance Overpayment (Underpayment)
June	\$ 2,872.08			\$ (2,872.08)
July	2,053.77			(4,925.85)
August	3,052.48		\$20,133.50	12,155.17
September	2,158.04			9,997.13
October 1-18	1,430.48		9,105.99	17,672.64
Oct. 19 - Dec. 31	5,153.28	\$4,177.02	9,292.04	17,634.38
Totals	<u>\$16,720.13</u>	<u>\$4,177.02</u>	<u>\$38,531.53</u>	<u>\$17,634.38</u>

Net Overpayment as of 12/31/76 According to
Committee's Amended Schedule of 8/77

15,721.40

Difference

\$ 1,912.98**

* Revised as a result of additional fieldwork conducted 8/1-8/12/77

** Difference represents amount of allocated expenditures due GOA which Committee listed for December 1976 per their schedule. This amount is not supported by accounting records or our examination.

*** Actual percentage to 2 decimal places is 5.16 which the Audit staff originally used. Committee rounded-up to the nearest 10th decimal place. As difference amounts to \$128.62, Audit staff feels this is not significant.

Attachment I

GUN OWNERS OF AMERICA CAMPAIGN COMMITTEE '76

Summary of Receipts from GOC and Allocation of Joint Administrative Expenses to GOC Based on Actual Varying Share of Contributions Received.*

Allocable Admin. Exp. Based on GOC's Actual Share of Total Contributions by Period		Transfers In to GOA from GOC	Net Balance Overpayment (Underpayment)	GOA Cash-On-Hand at end of Period per Records
<u>1975</u>				
October		\$ 5,000.00	\$ 5,000.00	
November	\$ - 0 -	7,000.00	5,100.00	
December	6,900.00	10,339.73	12,000.00	\$19,682.27
	3,439.73			
<u>1976</u>				
January-March 31	(35.9%) 35,193.95	38,315.19	15,121.24	32,843.76
April	(35.9%) 18,437.71	28,800.00**	25,483.53	22,049.66
May	(35.9%) 22,285.30	23,000.00**	26,198.23	33,150.72
June	(41.3%) 22,810.93	83,864.00**	87,251.30	76,887.39
July	(41.3%) 16,311.66	48,630.00**	119,569.64	36,318.31
August	(41.3%) 24,243.70	- 0 -	95,325.94	57,431.80
September	(41.3%) 17,139.78	(10,000.00)**	68,186.16	57,839.64
Oct. 1-18	(41.3%) 11,361.33	38,000.00	94,824.83	66,808.67
Oct. 19-Dec. 31	(41.3%) 40,928.98	- 0 -	53,895.85	61,220.47

Totals \$219,053.07 \$272,948.92 \$53,895.85

Less: Net Overpayment According to GOA per Their Amended Schedule of 8/77 Difference 29,137.20 \$24,758.65 ***

* Revised as a result of additional fieldwork conducted 8/1-8/12/77.

** Net of Payments of GOC Postage by GOA

*** Represents share of administrative overhead attributable to the Law and Order Campaign Committee (LOCC) for the period June-Dec., 1976 which was payable to GOA and advanced by GOC on behalf of LOCC. GOC presently shows the advance on behalf of LOCC as receivable from LOCC on its schedule of debts and obligations. GOC feels this can be legitimately deducted in their share of administrative overhead expense, reduces the overpayment balance accordingly.



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ADDITIONAL INFORMATION REGARDING THIS ORGANIZATION
MAY BE LOCATED IN A COMPLETED COMPLIANCE ACTION
FILE RELEASED BY THE COMMISSION AND MADE PUBLIC IN
THE PUBLIC RECORDS OFFICE. FOR THIS PARTICULAR
ORGANIZATION'S COMPLETED COMPLIANCE ACTION FILE
SIMPLY ASK FOR THE PRESS SUMMARY OF MUR # 713.
THE PRESS SUMMARY WILL PROVIDE A BRIEF HISTORY OF
THE CASE AND A SUMMARY OF THE ACTIONS TAKEN, IF ANY.



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