



FEDERAL ELECTION COMMISSION
WASHINGTON, D. C. 20463

March 2, 1981

MEMORANDUM

TO: FRED EILAND
PRESS OFFICE

THROUGH: BOB COSTA *JTB for R/C*

FROM: JUDY HAWKINS

SUBJECT: PUBLIC ISSUANCE OF FINAL AUDIT
REPORT - DNC SERVICES CORPORATION

Attached please find a copy of the final audit report of the DNC Services Corporation which was approved by the Commission on September 12, 1980.

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

Attachment as stated

cc: FEC Library
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Public Record



FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20461

REPORT OF THE AUDIT DIVISION ON THE DNC SERVICES CORPORATION

I. Background

A. Overview

This report is based upon an audit of the DNC Services Corporation ("the Committee"), undertaken by the Audit Division of the Federal Election Commission in accordance with the Commission's audit policy 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 438(a)(8) of Title 2 of the United States Code which, at the time of the audit directed 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.

The Committee registered with the Clerk of the United States House of Representatives on September 25, 1972, as an affiliate of the Democratic National Committee. ^{1/} The Committee maintains its headquarters in Washington, D.C.

The audit covered the period from January 1, 1976 through June 30, 1979, the final coverage date of the most recent report filed by the Committee at the time of the audit. The Committee reported an opening cash balance on January 1, 1976 of \$26,190.66, total receipts for the period of \$18,462,292.92, total expenditures for the period of \$18,331,295.58, and a closing cash balance on June 30, 1979 of \$157,188.00.

This report is based upon documents and working papers which support each of the 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 Commissioners and appropriate staff for review.

^{1/} The Committee operated as the expenditure arm of the National party for the period January 1, 1976 through September 30, 1978 in concert with the contribution committees: the Democratic National Committee (DNC) and Democratic Finance Committee (DFC). On September 30, 1978, the DNC and DFC merged into the Committee.

B. Key Personnel

The principal officers of the Committee during the period audited were as follows:

| <u>DATE</u> | <u>CHAIRMAN</u> | <u>TREASURER</u> |
|-----------------|-------------------|-------------------------|
| 1/1/76-1/31/77 | Robert S. Strauss | Edward Bennett Williams |
| 2/1/77-6/5/78 | Kenneth M. Curtis | Joel McCleary |
| 6/6/78-4/13/79 | John C. White | Evan S. Dobelle |
| 4/14/79-6/30/79 | John C. White | Peter G. Kelly |

C. Scope

The audit included such tests as verification of reported receipts, expenditures 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. Unpaid or Negotiated Debts as Corporate Contributions

Section 441b(a) of Title 2 of the United States Code states, in part, that it is unlawful for any corporation to make a contribution or expenditure in connection with any Federal election to political office.

Section 114.10(c)(3) of Title 11, of the Code of Federal Regulations requires that a corporation and/or a debtor must file a statement of settlement with the Commission for debts forgiven by a vendor.

1. Interest Not Paid to a Corporate Vendor

On June 30, 1977, a note in the amount of \$215,564.00, at an interest rate of 9½% was signed by the Committee and the Democratic National Committee 2/ consolidating all debt owed to a vendor who was verified to be registered as a corporation. Our review of this arrangement and subsequent principal and interest payments revealed that as of March 15, 1979, the time of the last payment to the vendor, no debt was reported as owing to the vendor but our verification of interest revealed a balance due of \$1,943.94. The Committee officials stated that previous officials had indicated that the vendor's note had been paid in full.

2/ The Democratic National Committee terminated its activities on September 30, 1978, through merger into the Committee. At this time all debts were absorbed by the Committee.

In accordance with our request, the Committee paid the debt totaling \$1,943.94. The Committee submitted a copy of the front of the check since it has not yet cleared the bank.

Recommendation

Since the Committee has paid the debt, we recommend that no further action be taken on this matter.

2. Undisclosed Corporate Invoices

As a result of our review of vendor files, we discovered that as of June 30, 1979 invoices indicated a balance due a vendor, who was a verified corporate entity, to be \$276,524.75 whereas the Committee disclosed a balance owed of \$243,385.75 for a difference of \$33,139.00. Further research revealed the following undisclosed charges:

- a. A \$5,000.00 charge in 1976 for services rendered.
- b. A \$3,139.00 charge in 1977 for miscellaneous expenses of the president of the corporation.
- c. A \$25,000.00 charge in 1978 for consulting services; services which were said by the Committee Administrator to never have been authorized.

Our review also revealed that nine (9) other invoices for charges incurred in 1978 and 1979 were not disclosed for periods ranging from 72 to 381 days.

The Committee officials stated that the three (3) invoices noted above were disputed by the Committee but that there was no correspondence to support the disputes and that the vendor had made no attempt to collect the amounts involved. They further stated that the late disclosure of invoices was due to the torpid routing procedures used to get the invoices to the accounting department but that those procedures have been corrected.

In accordance with our request, the Committee contacted the vendor concerning the invoices. The Committee states that the vendor made attempts to collect the amounts involved, but failed to provide the Committee with documentation of authorization for these expenditures. The Committee believes that payment of an unsubstantiated invoice is improper. Because of the disputed nature of these invoices, the Committee has been unable to obtain a written statement from the vendor which states that the invoices were issued in error.

Recommendation

Since the Committee contacted the vendor in an effort to resolve this dispute and has agreed to notify the Commission of the final resolution of this dispute, we recommend that no further action be taken on this matter.

3. Prohibited Contributions Through Cancellation of Outstanding Checks For Corporate Debts

During our review of general journal entries made by the Committee, we discovered that entries were made on 12/31/76, 4/17/77, and 7/31/78 to write-off (cancel) 21 stale, uncashed checks totaling \$5,313.41. Of this total, six (6) checks totaling \$1,242.54 were verified to be to corporate entities at the time that the checks were issued and written-off. There was no evidence in the Committee records to indicate that checks had been reissued to any of the corporations or individuals involved.

In accordance with our request, the Committee reissued checks for four (4) of the debts totaling \$890.80, the Committee submitted evidence that the services were not rendered by two (2) of the vendors. The Committee submitted copies of the front of the checks since they have not yet cleared the bank. The remaining fifteen (15) cancelled payments totaling \$4,070.87 were payable to either individuals, in amounts of \$100.00 or less, or political committees and reclassifiable as an in-kind contribution without a contribution limit being exceeded (2 U.S.C. 441a(a)). On May 2, 1980, the Commission determined that no further action should be taken concerning this matter.

Recommendation

Since the Committee reissued checks for four (4) of the corporate debts and provided evidence that the other two (2) vendors did not render service, we recommend no further action be taken on this matter.

B. 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 consideration on February 1, 1980.



FEDERAL ELECTION COMMISSION

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

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 # 1206.
THE PRESS SUMMARY WILL PROVIDE A BRIEF HISTORY OF
THE CASE AND A SUMMARY OF THE ACTIONS TAKEN, IF ANY.

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