



FEDERAL ELECTION COMMISSION
WASHINGTON, D C 20463

A82-8

January 12, 1983

MEMORANDUM

TO: FRED EILAND
PRESS OFFICE

FROM: BOB COSTA *RC*

SUBJECT: PUBLIC ISSUANCE OF FINAL AUDIT REPORT -
CALIFORNIA REPUBLICAN PARTY

Attached please find a copy of the final audit report of the California Republican Party which was approved by the Commission on January 4, 1983.

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: FEC Library
RAD
Public Record



FEDERAL ELECTION COMMISSION

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A81-8

REPORT OF THE AUDIT DIVISION ON THE CALIFORNIA REPUBLICAN PARTY

I. Background

A. Overview

This report is based on an audit of the California Republican Party ("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(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 Committee registered with the Office of the Secretary of the Senate on August 7, 1974. The Committee maintains its headquarters in Burbank, California.

The audit covered the period January 1, 1980 through December 31, 1980. During the period of the audit, the Committee reported a beginning cash balance of \$-0-, 1/ total receipts for the period of \$1,930,626.05; total expenditures for the period of \$1,907,013.20 and an ending cash balance on December 31, 1980 of \$23,612.00.

This audit report is based on 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 the Commissioners and appropriate staff for review.

1/ The Committee had no activity between January 1, 1980 and March 10, 1980.

B. Key Personnel

The Treasurer of the Committee during the period covered by the audit was Mr. Michael Donaldson.

C. Scope

The audit included such tests as verification of total reported receipts, expenditures and individual expenditure transactions; review of required supporting documentation; analysis of Committee debts and obligations; and such other audit procedures as deemed necessary under the circumstances. Due to the Committee's inability to provide adequate information pertaining to individual contributions, the Audit staff was precluded from conducting tests of the Committee's compliance with the Act's recordkeeping, disclosure and individual contribution limitation requirements (see Finding A).

II. Audit Findings and Recommendations

A. Recordkeeping for Receipts

Section 432(c) of Title 2 of the United States Code, requires the treasurer of a political committee to keep an account of (1) all contributions received by or on behalf of such political committee; (2) the name and address of any person who makes any contribution in excess of \$50, together with the date and amount of such contribution by any person; and (3) the identification of any person who makes a contribution or contributions aggregating more than \$200 during a calendar year; together with the date and amount of any such contribution.

Section 102.9(a) of Title 11 of the Code of Federal Regulations, requires the treasurer of a political committee to keep an account by any reasonable accounting procedure of all contributions received by or on behalf of the political committee. (1) For contributions in excess of \$50, the account shall include the name, address, date of receipt and amount of the contribution. (2) For contributions from any person which aggregate more than \$200 within a calendar year, the account shall include the identification of the contributor and the date of receipt and amount.

The receipt records maintained by the Committee for individual contributions consisted of approximately 40-50 cartons of solicitation response documents which had accompanied the contributions when received and a computerized file prepared from the response documents.

The response documents for the non-federal and federal accounts were combined with no designation and in no discernible order. Due to the condition of these records the Audit staff was unable to make use of them for testing the Committee's compliance with the recordkeeping, disclosure, and contribution limitation requirements of the Act.

The Committee controller was therefore asked to obtain an alphabetical print-out, from their computer firm, of all contributions received by the Committee during the period covered by the audit. However, the print-out that was obtained and presented contained both federal and non-federal contributions. Because the print-out did not distinguish the federal contributions from the non-federal contributions, the Audit staff was still unable to test the Committee's individual receipt processing system. At the conclusion of the fieldwork, the Committee still had not provided a print-out containing only federal contributions received by the Committee to the Audit staff but stated that the computer firm would continue their efforts to produce such a listing.

In the interim audit report the Audit staff recommended that the Committee, within 30 days of receipt of the report, obtain and submit, for the Audit staff's review, an alphabetical print-out of all contributions received by the Committee between January 1, 1980 and December 31, 1980, excluding or designating any contributions received into the non-federal accounts.

On October 26, 1981 the Committee provided the Audit staff with a computer generated alphabetical listing of contributors and the amounts contributed to the federal account. A review of the print-out revealed that it substantially reflected the total reported receipt activity of the Committee.

Recommendation

The Audit staff recommends no further action on this matter.

B. Omission of Disclosure Information

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 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 committee operating expense, together with the date, amount, and purpose of such operating expenditure.

In addition, Section 104.3(b)(3)(i)(A) and (B) of Title 11 of the Code of Federal Regulations states, in part, that "purpose" means a brief statement or description of why the disbursement was made. Statements or descriptions which meet the requirements of this section include dinner expenses, media, salary, polling, travel expenses, and travel expense reimbursement. Descriptions such as "advance", "election day expenses", "expenses", "other expenses", "expense reimbursement", and "miscellaneous", would not meet the requirements of this section for reporting the purpose of an expenditure.

The pre-audit review of the Committee's disclosure reports indicated that 248 itemized expenditures totaling \$420,729.74 lacked certain required disclosure information. These disbursements comprised 32% of the dollar value and 48% of the number of disbursements requiring itemization.

Detailed below are the itemized expenditures for which various disclosure information was omitted.

1. Purpose of Disbursement

The purpose for 205 of the Committee's itemized disbursements totaling \$369,102.53 was listed only as expenses or fee. On two occasions, the Committee was notified by the Commission's Reports Analysis Division that the reports failed to disclose an adequate purpose for expenditures however, the Committee did not respond to the notices. The majority of the disbursements disclosed in this manner were payments to individuals.

2. Dates of Disbursement

The Committee's reports also neglected to disclose the date(s) for nine disbursements totaling \$10,134.65. Committee records indicate that the disbursements were for salaries for two separate pay periods in December 1980.

3. Payees

The Committee did not disclose the payees for five disbursements totaling \$29,460.15. The identification of the payees was contained in the Committee records.

4. Payees, Addresses, and Amount of Disbursements

In addition, the Committee did not disclose payees, addresses, and the amounts for the May 31, 1980 payroll totaling \$7,526.34 and June 30, 1980 payroll totaling \$6,059.88. This information was contained in the Committee records.

Committee officials offered no explanations as to why adequate purposes as listed in 1. above, or the dates, payees, addresses and amounts as listed in 2, 3 and 4 above respectively were not disclosed.

In the interim audit report the Audit staff recommended that the Committee, within 30 days of receipt of the report, file a comprehensive amendment for calendar year 1980 disclosing:

(1) adequate purposes as defined pursuant to 11 C.F.R. 104.3(b)(3)(i)(A) and (B) for the 205 disbursements noted in 1. above;

(2) the dates of the nine (9) salary disbursements noted in 2. above;

(3) the payees for the five disbursements noted in 3. above; and

(4) the payees, addresses, and amounts for each disbursement in excess of or aggregating in excess of \$200 noted in 4. above.

On October 1, 1981, 30 days prior to the due date, the Audit staff received amendments disclosing the information requested in the interim report. Based on a review of the amendments, the Audit staff concluded that the Committee has substantially complied with the recommendations.

Recommendation

The Audit staff recommends no further action on these matters.

C. Misstatement of Transfers

Section 434(b)(2)(F) and (4)(c) of Title 2 of the United States Code requires that each report under this section disclose the total amount of all receipts transferred from other political party committees and the total amount of all disbursements including transfers to other political party committees, regardless of their affiliation.

The Committee reported the receipt of transfers totaling \$118,600 from the Republican National Committee and \$40,000 from the California Republican Victory Fund on October 17, 1980. The Committee also disclosed on the same date two disbursements to the California Republican Party non-federal account in the amounts of \$118,600 and \$40,000.

The bank reconciliation disclosed that the two reported transfers were not deposited into or disbursed from the Committee's account. When questioned concerning the two transfers, the Committee's controller produced bank statements which indicated that the transactions were actually handled through the California Republican Party's non-federal account.

In the interim audit report the Audit staff recommended that the Committee, within 30 days of receipt of the report, file a comprehensive amendment deleting the receipt and disbursement of the two transactions noted above.

On November 9, 1981, the Committee provided the Audit staff with amended reports deleting the two transactions.

Recommendation

The Audit staff recommends no further action on this matter.

D. Disclosure of Debts and Obligations

Section 441b(a) of Title 2 of the United States Code states, in part, that it is unlawful for any national bank, or any corporation organized by authority of any law of congress, to make a contribution or expenditure in connection with any election to any political office or for any corporation whatever, to make a contribution or expenditure in connection with any election at which presidential and vice presidential electors or a senator or representative in, Congress are to be voted for, or in connection with any primary election held to select candidates for any of the foregoing offices, or for any political committee, knowingly to accept or receive any contribution prohibited by this section.

In addition, Section 102.5(a)(1)(i) of Title 11 of the Code of Federal Regulations requires that each organization including a party committee, which finances political activity in connection with both federal and non-federal elections and qualifies as a political committee under 11 C.F.R. 100.5 and establishes a separate federal account in a depository in accordance with 11 C.F.R. Part 103 shall be treated as a separate federal political committee which shall comply with the requirements of the Act.

During the period covered by the audit, the Committee reported eight debts and obligations totaling \$395,970. The Audit staff determined during the review of the Committee's expenditure records that the California Republican Party's non-federal account paid \$271,021 2/ of these reported debts. Committee officials stated that they were aware that the debts paid by the non-federal account were disclosed on the Committee's reports. 3/ The Committee maintained invoices for some of the payments, however, the invoices did not contain sufficient information in order to make a determination as to whether the debts were incurred by the Committee's federal or non-federal account.

In the interim audit report the Audit staff recommended that the Committee provide documentation to support that the amounts paid by the non-federal account were in fact for non-federal goods and/or services.

On July 9 and September 2, 1982 the Committee provided documentation consisting of bills, invoices, and check copies. As a result of a review of this documentation, it was determined that the payments from the non-federal account related to goods or services that were administrative in nature subject to allocation between the federal and non-federal accounts. A review of the Committee's method of allocating administrative expenses between the federal and non-federal accounts indicated that the payment of the debts by the non-federal account did not cause the non-federal account to exceed its allocable portion. This determination was based on a review of total administrative expenses, irrespective of the amounts paid by the federal and non-federal accounts on individual bills or invoices.

Recommendation

The Audit staff recommends no further action on this matter.

2/ \$157,176 was paid in 1981.

3/ On October 1, 1981, the Committee amended their FEC reports to delete the non-federal portion of the debts.

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