



FEDERAL ELECTION COMMISSION
WASHINGTON, D C 20463

A81-68

May 7, 1982

MEMORANDUM

TO: FRED EILAND
PRESS OFFICE

FROM: BOB COSTA *RJC*

SUBJECT: PUBLIC ISSUANCE OF FINAL AUDIT REPORT -
KANSAS DEMOCRATIC STATE COMMITTEE

Attached please find a copy of the final audit report of the Kansas Democratic State Committee which was approved by the Commission on April 29, 1982.

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
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Public Record



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REPORT OF THE AUDIT DIVISION
ON THE
KANSAS DEMOCRATIC STATE COMMITTEE

I. Background

A. Overview

This report is based on an audit of the Kansas Democratic State Committee ("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 General Accounting Office on July 24, 1974 and maintains its headquarters in Topeka, Kansas.

The audit covered the period January 1, 1980, through December 31, 1980. The audit also included a review of activity from June 6, 1979, through December 31, 1979 that had not been reported to the Federal Election Commission. The Committee reported a beginning cash balance at January 1, 1980 of \$1,133.78; total receipts for the period of \$31,560.03; total expenditures for the period of \$29,734.12; and an ending cash balance at December 31, 1980 of \$2,959.69.

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

B. Key Personnel

The Treasurer of the Committee during the period covered by the audit was W. E. Clarkson. The current Treasurer is Larry D. Tittel. Jim Ploger is the current Assistant Treasurer and held that post during the period covered by the audit.

C. Scope

The audit included such tests as verification of total reported receipts and 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. Disclosure of Financial Activity

Sections 434(b)(2) and (4) of Title 2, United States Code require that a committee report the total sum of all receipts and expenditures (including loan repayments) made during a reporting period and the calendar year. Sections 434(b)(3) and (5) of Title 2, United States Code provide for disclosure of each person who receives a loan repayment from the committee, and the disclosure of receipts and expenditures with aggregate values in excess of \$200.00. Section 434(b)(8) of Title 2, United States Code requires that a committee report the nature and amount of outstanding debts owed by such committee.

The Kansas Democratic State Committee maintains a bank account to fund Federal activity and a separate account for state and local activity. Prior to 1980 Committee reports disclosed activity for both accounts. However, Committee officials stated that during the latter part of 1979 a decision was made to report only the activity of the Federal account pursuant to 11 C.F.R. 102.5.

The Committee's second quarter report for 1979 (covering through June 30, 1979) contained a schedule indicating debts totaling \$46,793.04. The Committee filed no further reports for calendar year 1979. The Committee's report covering January 1, 1980 through March 31, 1980 showed no outstanding debts at the beginning of the period and provided no explanation as to the disposition of the debts outstanding at June 30, 1979.

The Committee's Assistant Treasurer explained that although most of these debts were incurred prior to his taking office it was his understanding that the debts were primarily related to non-federal activity. The Committee initiated a fundraising campaign in 1979 to retire the debts.

The debts outstanding at June 30, 1979 consisted of \$32,500 in bank loans; \$12,271.08 owed to a printing firm; and \$2,021.96 owed for office rent.

A special bank account had been opened to retire the debts and was titled the "capital account". A contribution of \$1,343.02 from an FEC registered committee called Association of State Democratic Chairpersons (ASDC - also known as Dollars for Democrats) was used to open this account on June 6, 1979. (See Finding D.) A review of the records from the capital account showed deposits totaling \$43,382.02 between June 6, 1979 and December 31, 1979 including 40 contributions requiring itemization. During the same period disbursements totaling \$42,791.11 were made from the capital account. These expenditures consisted of payments to settle all but one of the previously reported debts and one contribution refund. All 12 disbursements required itemization. The Committee's state account paid the balance (\$8,771.08) on the one remaining debt. In addition, the Committee's federal account expended \$490 for operating expenses during the second half of 1979. The capital account was closed in February of 1980 with the remaining funds transferred to the federal account.

No reports had been filed disclosing the receipts and disbursements described above. The Committee's Assistant Treasurer agreed to file appropriate reports for 1979 and submit documentation for the debt payments made by the state account.

The Audit staff recommended that the Committee file reports disclosing the activity in the capital account and the previously undisclosed disbursements made from the federal account, including the disposition of the Committee debts. In addition, the Audit staff recommended that the Committee provide documentation to verify that the portion of the debts paid by the state account related to state or local activity or reimburse the state account for amounts paid.

On April 7, 1982 the Committee filed amended reports for 1979 substantially disclosing the activity in the capital account, the disposition of Committee debts, and previously undisclosed disbursements made from the federal account. In addition, the Committee submitted copies of checks showing that a portion of the debts were paid by the state account and asserted that these were debts related to state and local activity.

Recommendation

The Audit staff recommends no further action in this matter.

B. Disclosure of Transfers to Other Political Committees

Section 434(b)(4)(H)(i) of Title 2, United States Code requires that committees other than authorized committees disclose all contributions made to other political committees.

A review was conducted of all 1980 Committee expenditures. One check dated October 27 and payable to Phil Martin for Congress, was not listed on the Committee's reports. In addition, during the pre-audit review it was noted that the Kennedy For President Committee reported receiving 2 contributions totaling \$1,600.00 from the Committee in February, 1980. The contributions had not been reported by the Kansas Democratic State Committee to the Commission because they were made from the state account. The Committee's Assistant Treasurer acknowledged the contributions should have been made from the federal account and said he would file an amendment.

The Audit staff recommended that the Committee file comprehensive amendments for 1980 disclosing the contributions made to Martin For Congress and Kennedy For President. Further, the Audit staff recommended that the Committee reimburse the state account \$1,600.00 for the contributions made to Kennedy For President.

On April 7, 1982 the Committee filed amendments disclosing the previously unreported transfers to federal candidates. The Committee also submitted a copy of the check reimbursing the state account \$1,600 for the federal candidate transfer.

Recommendation

The Audit staff recommends no further action in this matter.

C. Allocation of Administrative Expenses

Section 106.1(e) of Title 11, Code of Federal Regulations requires that party committees which have established separate Federal campaign committees pursuant to 11 C.F.R. 102.5 allocate administrative expenses between their federal and non-federal accounts on some reasonable basis.

The Committee has created separate federal and non-federal committees in accordance with 11 C.F.R. 102.5 but no administrative expenses have been reported to the Commission.

Through a review of state account records it was determined that in 1980, \$59,055.75 in administrative expenses had been incurred by the non-federal account. Applying the criteria of 11 C.F.R. 106.1(e) and related Commission Advisory Opinions, several allocation percentages were calculated. The Committee agreed that the ratio (14.63%) of total funds raised by the federal account compared to the total funds raised by the combined non-federal and federal accounts was the most reasonable method to determine the Committee's share of administrative expenses. Therefore the Committee's share of administrative expenses for 1980 was \$8,639.86 (\$59,055.75 times 14.63%).

The Audit staff recommended that the Committee reimburse the state account \$8,639.86 for its fair share of administrative costs for 1980 and file an amendment disclosing this amount as administrative expenses.

On April 7, 1982 the Committee said they would reimburse the state account and on April 19, 1982 submitted a copy of the check reimbursing the state account \$8,639.86 for administrative expenses.

Recommendation

The Audit staff recommends no further action in this matter.

D. Receipt of Funds From State Account

Section 441b of Title 2, United States Code prohibits any corporation or labor organization from making a contribution in connection with any federal election and prohibits any person from accepting such a contribution. In addition, Section 102.5(a)(1)(i) of Title 11 of the Code of Federal Regulations provides if a committee which finances political activity in connection with activity in both federal and non-federal elections establishes a separate federal account, all disbursements in connection with federal activity shall be made from this account and no transfers may be made to such federal account from an account maintained for the purpose of financing activity in connection with non-federal elections.

On October 23, 1980, \$6,500.00 was transferred from the state account to the federal account. Kansas law permits most corporations and labor unions to contribute to state election campaigns. According to the Committee's Assistant Treasurer, this transfer represented \$6,500.00 received from the Association of State Democratic Chairpersons (ASDC) that was incorrectly deposited into the state account. The error was discovered during an audit of the state account by the Kansas Government Ethics Commission (now called the Kansas Public Disclosure Commission). To correct the error and comply with Kansas law, the transfer was made. It was verified that \$6,500.00 had been received from ASDC in early 1980 and deposited into the state account.

Recommendation

Since the \$6,500.00 transfer represents funds received from a federal committee that was incorrectly deposited into the state account and corrected prior to our review, the Audit staff recommends no further action in this matter.

FEC
DOCUMENT
SERIALS