



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

A85-27

March 1, 1988

MEMORANDUM

TO: FRED EILAND
CHIEF, PRESS OFFICE

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

SUBJECT: PUBLIC ISSUANCE OF FINAL AUDIT REPORT-
MICHIGAN REPUBLICAN STATE COMMITTEE

Attached please find a copy of the final audit report on Michigan Republican State Committee which was approved by the Commission on February 23, 1988.

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 Disclosure ✓
Office of General Counsel

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REPORT OF THE AUDIT DIVISION
ON THE
MICHIGAN REPUBLICAN STATE COMMITTEE

I. Background

A. Overview

This report is based on an audit of the Michigan Republican State 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 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 subsection, 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 Comptroller General of the United States on April 17, 1972. The Committee maintains its headquarters in Lansing, Michigan. The audit covered the period January 1, 1983 through December 31, 1984. The Committee reported a cash balance on January 1, 1983 of \$739.97 total receipts of \$1,419,443.73; total expenditures of \$1,395,836.02; and a cash balance on December 31, 1984 of \$24,347.68.

This audit report is based on documents and workpapers which support each of its factual statements. They form part of the report 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 Mr. Denzil Hammond.

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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. However, although the contribution records provided by the Committee for 1983 meet the recordkeeping requirements of 2 U.S.C. § 432(c) and 11 C.F.R. § 102.9(a), the records were not maintained in a manner which allowed testing for correct aggregate contributor totals and proper itemization.

II. Audit Findings and Recommendations

A. Contributions to Candidate in Excess of the Limitations

Section 441a(a)(2)(A) of Title 2 of the United States Code states that no multicandidate political committee shall make contributions to any candidate and his authorized political committees with respect to any election for Federal office which, in the aggregate, exceed \$5,000.

Section 441a(a)(4) of Title 2 of the United States Code defines the term "multicandidate political committee" as a political committee which has been registered for a period not less than 6 months, which has received contributions from more than 50 persons, and except for any State political party organization, has made contributions to 5 or more candidates for Federal office.

Under 11 C.F.R. § 110.3(b)(2)(ii), all contributions made by the political committees established, financed, maintained or controlled by a State party committee and by subordinate State party committees shall be presumed to be made by one political committee unless: (A) the political committee in question has not received funds from any other political committee established, financed, maintained or controlled by any party unit; and (B) the political committee in question does not make its contributions in cooperation, consultation or concert with, or at the request or suggestion of any other party unit or political committee established, financed, maintained or controlled by another party unit.

The Audit staff obtained a listing of all contributions from committees made to the Jack Lousma for U.S. Senate committee ("the Lousma Committee") for the period covered by the audit. Contributions made by the Committee and its affiliated local party committees in Michigan were identified. In addition, the Audit staff noted four contributions in-kind made by the Committee for the Lousma Committee. When aggregated, these

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contributions exceed the limitation for the general election by \$4,318.29.

Committee representatives were given a schedule of all contributions discussed above at the conclusion of the audit fieldwork.

In the Commission approved interim audit report, the Audit staff recommended that the Committee, within 30 days of receipt of this report, provide evidence that the contributions in question were not excessive or seek a refund from the Jack Lousma for U.S. Senate committee in an amount equal to the excessive portion of contributions made to the Lousma Committee for the general election.

In its response, the Committee explained that \$6,669.20 of the \$6,868.30 categorized by the Audit staff as in-kind contributions to the Jack Lousma for U.S. Senate committee represented expenses associated with a "volunteer intensive" mailer for Lousma. According to the Committee, a letter was sent to an in-house list, stuffed by volunteers and mailed by the Committee. A copy of the letter was not provided as part of the response.

It would appear that based on the above information coupled with the information included on invoice records reviewed during fieldwork, the mailing in question falls within the exception to the definition of expenditures at 11 C.F.R. § 100.8(b)(16).

Therefore, the amount (\$6,868.30) of apparent in-kind contributions addressed in the interim report is reduced by \$6,669.20. The remainder, \$199.10, is viewed as an in-kind contribution to the Lousma campaign.

Recommendation #1

Based on the representation made by the Committee concerning the \$6,669.20 in expenses initially questioned by the Audit staff, it now appears that the Committee did not exceed the 2 U.S.C. § 441a(a)(2)(A) limitation with respect to the transactions discussed above.

B. Misstatement of Financial Activity

Sections 434(b)(2) and (4) of Title 2 of the United States Code, require that each report shall disclose for the reporting period and calendar year, the total amount of all receipts and disbursements.

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The Audit staff performed a reconciliation of the Committee's financial activity per bank records to reported activity for calendar years 1983 and 1984. Our review revealed that Committee reports depicting the 1983 activity were materially correct; however, certain misstatements with respect to calendar year 1984 reports were noted.

Specifically, reported receipts were understated by \$28,463.81, reported disbursements were understated by \$3,522.00 and the reported cash balance at 12/31/84 was understated by \$24,527.51. */ These discrepancies in reported totals were caused, for the most part, by errors in the recording of deposits and disbursements in the Committee's books, the effect of which carried forward to report totals.

The Committee performed an extensive review of its financial activity for both 1983 and 1984 and prepared amended reports covering the period 1/1/83 through 12/31/84. These amended reports, filed on 10/7/85 and 10/8/85, corrected the deficiencies noted above. Further, new procedures have been designed in an effort to preclude a reoccurrence of this nature.

Recommendation #2

The Audit staff recommends no further action on this matter.

C. Itemization of Contributions from Individuals

Section 434(b)(3)(A) of Title 2 of the United States Code states, in part, that each report shall disclose the identification of each person who makes a contribution to the reporting committee during the reporting period, whose contribution or contributions have an aggregate amount or value in excess of \$200 within the calendar year.

During the course of the review of receipts, it was noted that the Committee failed to itemize 22 contributors whose contributions totaled \$23,200.00. The Committee filed amended reports on 10/7/85 and 10/8/85 which included the contributors not itemized on their original reports.

Recommendation #3

The Audit staff recommends no further.

*/ See Finding C. concerning transactions requiring itemization.

D. Itemization of Contributions Received from Political Committees

Under 2 U.S.C. § 434(b)(3)(B) each report shall disclose the identification of each political committee which makes a contribution to the reporting committee during the reporting period, together with the date and amount of any such contribution.

The Committee's contribution records were reviewed to determine whether all contributions received from political committees were itemized on the Committee's disclosure reports. It was noted that 19 contributions, totaling \$20,975.00, were not itemized as required.

The Committee was provided with a schedule of these contributions during fieldwork. Amended reports filed by the Committee on 10/7/85 and 10/8/85 included proper itemization for these contributions.

Recommendation #4

The Audit staff recommends no further action.

E. Disclosure of Debts Owed by the Committee

Section 434(b)(8) of Title 2 of the United States Code requires that the amount and nature of outstanding debts and obligations owed by or to such political committee be disclosed.

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 payments related thereto, revealed that in 7 instances, invoiced amounts in excess of \$500 were not disclosed as required. The value of these debts totaled \$61,391.19 and pertained to activity in both 1983 and 1984.

During the exit conference, Committee officials were advised of this matter and provided with a schedule of the debts. A Committee official stated that amendments to its reports would be filed in the near future. Further, the Audit staff noted that accounting system revisions with respect to the recording and reporting of accounts payable were in place for calendar year 1985.

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Amended reports properly disclosing the aforementioned debts were filed on 10/7/85 and 10/8/85.

Recommendation #5

The Audit staff recommends no further action on this matter.

F. Disclosure of Loans

Section 434(b)(3)(E) of Title 2 of the United States Code requires that each report shall disclose the identification of each person who makes a loan to the reporting committee during the reporting period, together with the identification of any endorser or guarantor of such loan, and date and amount or value of such loan.

In addition, 11 C.F.R. § 104.3(d) requires the disclosure of the amount and nature of outstanding debts and obligations on Schedule C (Loans) or Schedule D (Debts and Obligations), as appropriate.

During the pre-audit review of loan activity, the Audit staff noted that the Committee failed to disclose a \$30,000 loan received from the Republican National Committee on Schedule C (Loans) for reports filed for the period 4/1/83 through 12/31/83.

Amendments presented to the Audit staff and filed on 10/7/85 and 10/8/85 included all loan schedules missing from the original reports.

Recommendation #6

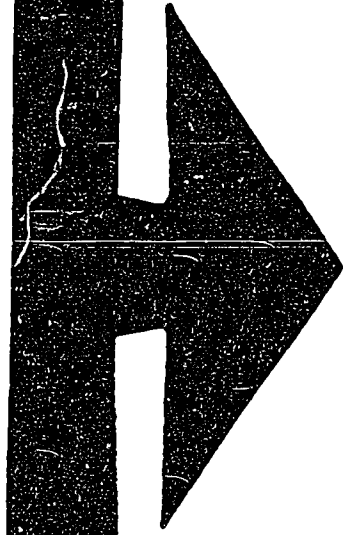
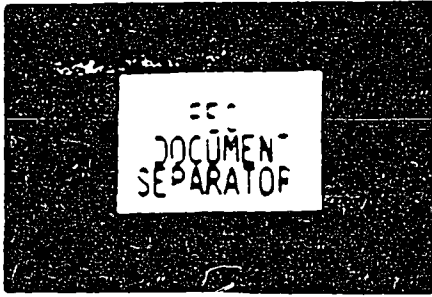
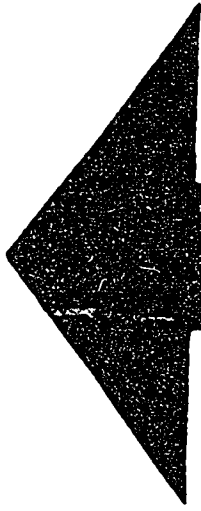
The Audit staff recommends no further action.

G. Matters Referred to the Commission's Office of General Counsel

Certain matters noted during the audit were referred to the Commission's Office of General Counsel.

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