



FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20461

December 3, 1996

MEMORANDUM

TO: Ron M. Harris
Press Officer
Press Office

FROM: Robret J. Costa *RJ*
Assistant Staff Director
Audit Division

SUBJECT: Public Issuance of the Final Audit Report on the North Carolina
Democratic Victory Fund

Attached please find a copy of the final audit report and related documents on the North Carolina Democratic Victory Fund which was approved by the Commission on November 7, 1996.

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: Office of General Counsel
Office of Public Disclosure
Reports Analysis Division
FEC Library

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REPORT OF THE AUDIT DIVISION
ON THE

**North Carolina Democratic
Victory Fund**

Approved November 7, 1996



FEDERAL ELECTION COMMISSION
999 E STREET, N.W.
WASHINGTON, D.C.

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VICTORY FUND

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20461

**FINAL AUDIT REPORT
ON THE
NORTH CAROLINA DEMOCRATIC VICTORY FUND
EXECUTIVE SUMMARY¹**

The North Carolina Democratic Victory Fund (the Committee) registered with the Federal Election Commission on February 24, 1983 and maintains its headquarters in Raleigh, North Carolina. The audit was conducted pursuant to 2 U.S.C. Section 438(b), which states that the Commission may conduct audits of any political committee whose reports fail to meet the threshold level of compliance set by the Commission. The findings of the audit were presented to the Committee at an exit conference held subsequent to the completion of fieldwork and later in an interim audit report. The Committee's responses to those findings are included in this final audit report.

EXPENDITURES APPARENTLY MADE ON BEHALF OF THE CLINTON/GORE CAMPAIGN — 2 U.S.C. §441a(d)(1); 11 CFR §§110.7(a)(1) and (4); 100.8(b)(18)(i), (ii), (v), and (vii):

Goods and Services Purchased Apparently on Behalf of the Clinton/Gore Campaign. The Audit staff identified expenditures totaling \$135,733 that appeared to have been made on behalf of the Clinton/Gore Campaign. In response to the interim audit report, the Committee stated that the expenditures for specific events at which the President and Vice President made appearances were not campaign events but rather represented exempt GOTV activity². Other expenditures represented purchases of campaign materials that were distributed by volunteers and were therefore also exempt. However, the committee did not submit any documentation in support of these claims.

Direct Mail Program The Committee apparently used a commercial vendor and commercial mailing lists in conjunction with direct mail programs supporting the Clinton/Gore campaign. Costs associated with the mailings totaled \$177,217. In response to the interim audit report, the Committee stated that these expenditures were exempt party expenditures because volunteers were used and the lists were developed by the Committee. However no documentation was submitted to support this claim.

¹ Three findings (II A.3 a, II G and H) are not summarized herein

² Under 11 CFR §§100.7(b)(9), (15) and (17) and 100.8(b)(10), (16) and (18) certain party expenditures are exempt from the definition of "contribution" and "expenditure" and are therefore permissible and not subject to any limits

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Phone Bank Program. Under 11 CFR §100.8(b)(18)(v) a party-sponsored GOTV phone bank on behalf of a Presidential nominee is exempt from the contribution and expenditure limits if among other things, the calls are made by volunteers, not paid workers. The Committee operated at least three phone banks with paid workers at a cost of approximately \$169,000. The Committee claimed that paid workers were used only for the generic script phase, but did not provide any documentation to support this..

MISSTATEMENT OF FINANCIAL ACTIVITY/ITEMIZATION OF CONTRIBUTIONS — 2 U.S.C. §434(b)(1), (2), (3), and (4). Reported totals for receipts, disbursements and cash on hand for calendar years 1991 and 1992 were misstated. The Committee also did not itemize \$29,619 in contributions from political committees and \$227,432 in transfers from the DNC and the Committee's non-federal account. In response to the interim audit report, the Committee filed amendments for each reporting period, which materially corrected these reporting deficiencies.

DISBURSEMENTS TO VOLUNTEERS USING MONEY ORDERS — 2 U.S.C. §432(h)(1) and 11 CFR §102.10. The Committee used money orders totaling \$81,755 as a means to account for payments to volunteers in lieu of disbursing currency. In response to the interim audit report, the Committee presented information to show that this activity was akin to petty cash disbursements documented by a written journal.

DISCLOSURE OF OCCUPATION AND NAME OF EMPLOYER — 2 U.S.C. §§434(b)(3) (A), 431(13)(A), 432(i) and 11 CFR §104.7(b). The Committee failed to disclose occupation and name of employer on its schedules of itemized contributions. In response to the interim audit report but several years after the contributions were received, the Committee submitted evidence of its efforts to obtain the information and filed amended Schedules A.

APPARENT PROHIBITED CONTRIBUTIONS AND REPORTING OF DEBTS — 2 U.S.C. §§434(b)(8), 441b(a), 441b(b)(2), and 11 CFR §§116.3(b), 116.3(c) and 116.8(a). The Committee received a prohibited corporate contribution from Gordon and Schwenkmeyer, Inc. (GSI). The contribution resulted from GSI's extension of credit, which for the audit period totaled approximately \$64,000. In addition the Committee did not report this debt to GSI on Schedule D. In response to the interim audit report, the Committee filed amended Schedules D that materially disclosed the amounts owed to GSI but indicated that the amounts are in dispute.

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FEDERAL ELECTION COMMISSION
WASHINGTON DC 20461

**REPORT OF THE AUDIT DIVISION
ON
NORTH CAROLINA DEMOCRATIC VICTORY FUND**

I. BACKGROUND

A. OVERVIEW

This report is based on an audit of the North Carolina Democratic Victory Fund (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 audit covered the period January 1, 1991 through December 31, 1992. The Committee reported a beginning cash balance of \$123,258; total receipts for the period of \$3,296,949; total disbursements for the period of \$3,232,730 and an ending cash balance of \$187,447.¹ The Committee maintained four bank accounts for its federal activity during this period. In addition, four bank accounts were maintained in conjunction with a fundraising firm in California.

B. COMMITTEE ORGANIZATION

The Committee registered with the Federal Election Commission on February 24, 1983. The Committee maintains its headquarters in Raleigh, North Carolina.

¹ Does not foot due to Committee mathematical errors and various reporting errors. See Finding II.B. All amounts have been rounded to the nearest dollar

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This report is based on documents and workpapers which support each of its 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.

C. KEY PERSONNEL

During the audit period, the Treasurers of the Committee were:

- Mr. Barton W. Baldwin until January 29, 1991;
- Mr. James H. Young from January 29, 1991 through the end of the audit period;
- The current Treasurer is Mr. Lyndo Tippett.

D. SCOPE

Although in maintaining its contribution records, the Committee satisfied the recordkeeping requirements of 11 CFR §102.9, the Audit staff's testing of contributions collected by a fundraising firm, which was acting as an agent on behalf of the Committee, was limited due to the lack of third party documentation; (i.e., copies of contributor checks and contributor response devices). In addition, the testing of disbursements was limited because the Audit staff could not test for the proper negotiation of money orders used for election day expenses (see Finding II.C.).

The audit covered the following general categories:

1. The receipt of contributions or loans in excess of the statutory limitations;
2. the receipt of contributions from prohibited sources, such as those from corporations or labor organizations;
3. proper disclosure of contributions from individuals, political committees and other entities, to include the itemization of contributions when required, as well as, the completeness and accuracy of the information disclosed (see Findings II.D., E. and F.);
4. proper disclosure of disbursements including the itemization of disbursements when required, as well as, the completeness and accuracy of the information disclosed;
5. proper disclosure of committee debts and obligations;

6. the accuracy of total reported receipts, disbursements and cash balances as compared to committee bank records (see Finding II.B.);
7. adequate recordkeeping for committee transactions;
8. proper disclosure of the allocation of costs associated with activities conducted jointly on behalf of federal and non-federal elections and candidates (see Findings II.H. and C.); and
9. other audit procedures that were deemed necessary in the situation (see Findings II.A. and G.).

Unless specifically discussed below, no material non-compliance was detected. It should be noted that the Commission may pursue any of the matters discussed in this report in an enforcement action.

II. FINDINGS AND RECOMMENDATIONS

A. EXPENDITURES MADE ON BEHALF OF THE CLINTON/GORE CAMPAIGN

Section 441a(d)(1) of Title 2 of the United States Code states, in part, that the national committee of a political party and a State committee of a political party, including any subordinate committee of a State committee may make expenditures in connection with the general election campaign of candidates for Federal office subject to the limitations contained within this subsection.²

Sections 110.7(a)(1) and (4) of Title 11 of the Code of Federal Regulations state that the national committee of a political party may make expenditures in connection with the general election campaign of any candidate for President of the United States affiliated with the party. The national committee of a political party may make expenditures authorized by this section through any designated agent, including State and subordinate party committees.

Sections 100.8(b)(18)(i), (ii), (v) and (vii) of Title 11 of the Code of Federal Regulations state, in part, that payment by a State or local committee of a political party of the costs of voter registration and get-out-the-vote activities conducted by such committee on behalf of the Presidential and Vice Presidential nominee(s) of that party is not an expenditure for the purpose of influencing the election of such candidates provided that the following conditions are met:

² The regulations cited and references thereto in this report refer to regulations in effect for the period 1/1/91 through 12/31/92

- (i) Such payment is not for the costs incurred in connection with any broadcasting, newspaper, magazine, billboard, direct mail, or similar type of general public communication or political advertising. For purposes of this section, the term "direct mail" means any mailing(s) by a commercial vendor or any mailing(s) made from commercial lists.
- (ii) The portion of the costs of such activities allocable to Federal candidates is paid from contributions subject to the limitations and prohibitions of the Act.
- (v) Payment of the costs incurred in the use of phone banks in connection with voter registration and get-out-the-vote activities is not an expenditure when such phone banks are operated by volunteer workers. The use of paid professionals to design the phone bank system, develop calling instructions and train supervisors is permissible. The payment of the costs of such professional services is not an expenditure but shall be reported as a disbursement in accordance with 11 CFR 104.3.
- (vii) Payments made from funds donated by a national committee of a political party to a State or local party committee for voter registration and get-out-the-vote activities shall not qualify under this exemption. Rather, such funds shall be subject to the limitations of 2 U.S.C. 441a(d) and 11 CFR 110.7.

1. Introduction

The North Carolina Democratic Party conducted the North Carolina '92 Coordinated Campaign (CC). According to the plan overview contained in the Committee's records, the CC's purpose was to manage the activities to reach and persuade swing and democratic voters to turn out and vote for the democratic candidates. The three major functions of the coordinated campaign were: (1) voter contact with "swing" voters, (2) voter registration/GOTV with "traditional" democratic voters, and (3) campaign services.

The Committee managed the CC through one of its federal accounts entitled the Unity 92 Federal Account (the Unity account) and a non-federal account entitled N.C. Democratic Unity 92 Non-Federal Account. The total budgeted cost of the CC was \$2,109,513. The Unity account was funded by contributions from individuals, political committees, political organizations, and transfers received from both the

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Democratic National Committee (DNC)³ and from the Committee's non-federal accounts. One of the non-federal accounts (The Special DNC Transfer Account) used to fund the Unity Account was the depository for transfers received from the DNC.

The CC's headquarters was located in Raleigh, North Carolina from July 23, 1992 through December 11, 1992. The Clinton/Gore campaign sublet a portion of the CC's office space from August 1, 1992 through November 20, 1992.

2. Goods and Services Purchased Apparently on Behalf of the Clinton/Gore Campaign

During audit fieldwork the Audit staff identified 63 expenditures totaling \$139,433 made by the CC which appeared to have been made on behalf of the Clinton/Gore campaign. Except for \$3,700 in bank drafts received from the Clinton/Gore campaign, no other transactions and/or materials originating from the Clinton/Gore campaign were identified. For the purposes of this review, since the \$3,700 could not be associated with a specific activity or any of the 63 expenditures discussed above, this amount has been applied as an offset against the \$139,433 in expenditures made apparently on behalf of the Clinton/Gore campaign, leaving a net total of \$135,733.⁴

The Audit staff obtained a copy of the Democratic Coordinated Fall Campaign Budget, and the check register which detailed the CC's activity through October 28, 1992. The budget contained event expense codes and explanations of the event expense codes. In many instances, the check register contained notations detailing the purpose of the expenses. The Audit staff identified 6 event expense codes which appear to be related to Clinton/Gore activities: #7150 - a Gore event at East Carolina University, #7151 - October 4 Clinton Raleigh event, #7152 - October 12 Clinton Charlotte event, #7154 - October 26 Clinton/Gore Bus Trip, #7400 - Gore Reception-Coor. Campaign, and #7450 - a Gore Dinner-DNC. We were able to identify invoices associated with these expense codes as well as additional invoices which were either billed to the Clinton/Gore campaign or appeared to relate to expenses incurred on behalf of the Clinton/Gore campaign.

Fifteen expenditures, totaling \$40,796, were billed to the Clinton/Gore campaign and paid by the CC. Items purchased included: several bus trips to Clinton/Gore rallies, production services for a rally in Durham, mobile phone usage,

³ See Section II.A.3.a., Transfers Received from the DNC

⁴ According to the documentation made available to the Audit staff, the Committee was not authorized by the DNC under 11 CFR §110.7(a)(4) to make expenditures pursuant to 2 U.S.C. §441a(d)(1). The DNC reported that \$9,682,711 of its \$10,331,703 National Party Limit for the 1992 Presidential election had been expended through September 30, 1994

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bulk mailing for the Clinton/Gore campaign, event phone charges, windbreakers for a Clinton/Gore bus trip and buttons and bumper stickers.

The remaining 48 expenditures, totaling \$98,637, were billed to the CC. Expenses which appeared to have been made on behalf of the Clinton/Gore campaign included: buses, meals, equipment rentals, production services, fireworks, a banner, flowers, and postage.

During a conference with the current Committee Chair it was stated that anything billed to the Clinton/Gore campaign which was paid by the CC was based upon an agreement between the parties. No documentation has been provided to support this statement.

In the interim audit report, the Audit staff recommended that the Committee provide the evidence which demonstrates that the expenditures totaling \$135,733 were not made on behalf of the Clinton/Gore campaign. Such evidence should include, but is not limited to, specific explanations from vendors detailing reasons why the purchase of goods and services were invoiced to the Clinton/Gore campaign, why the expense codes appeared to be for activities for the Clinton/Gore campaign and why the other purchases of goods and services which appear to have been incurred for the benefit of the Clinton/Gore campaign should not be considered expenditures on behalf of the Clinton/Gore campaign.

In response to the interim audit report the Committee's response stated that:

"Each of the expenditures identified [by the Audit staff] represent exempt expenditures which can be generally grouped as follows:

"Many of the itemized expenditures represent purchases by the Committee of bumper stickers, buttons, t-shirts, jackets and fliers distributed by volunteers. The purchase of such materials distributed by volunteers is exempt pursuant to 11 C.F.R §100.7(b)(15), 11 C.F.R. §100.8(b)(16).

"Numerous additional expenditures including ... the rental of the North Carolina State University Faculty Club, expenses incurred with the United States Postmaster, the rental of and expenses at the Sheraton Imperial and other expenses incurred in connection with the 'Gore Fundraiser' are fundraising expenses of the [CC] which conducted a fundraiser at which Al Gore was the featured guest. The event was not a 'Clinton-Gore' event, but was instead the principal fundraising event of the Committee during the fall of 1992. [There] was no express advocacy of Clinton-Gore and no fundraising in behalf of Clinton-Gore."

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The response states further that the remaining expenses conducted during the month of October 1992 were incurred at GOTV rallies for the CC. The response refers to GOTV rallies conducted on October 4th in Raleigh, October 12th in Charlotte and October 26 in Durham at the North Carolina Central University, in which, Bill Clinton was the key speaker; however the response states that event was attended by and conducted on behalf of the entire Democratic slate.

Finally, the Committee contends that the invoices which are either designated or coded and marked Clinton-Gore:

“... reflects merely error or inadvertence on the part of the vendor or committee staff. For example, the printing of Clinton-Gore literature obviously has been coded or invoiced as Clinton-Gore, but clearly the printing of such literature by the Party for distribution by volunteers is an exempt activity. The fact that the Vice Presidential or Presidential nominee was to be [in] attendance at an event may explain the naming of the event or the coding of the expenditure, but does not establish that the expenditure was made for or in behalf of the Clinton-Gore Committee. The costs of these events were not paid with funds donated by the National Committee, and thus the expenditures are exempt GOTV activities.”

The Committee stated that much of the activity incurred by the CC was conducted by volunteers and on behalf of the CC not the Clinton/Gore Committee; however, the Committee did not provide any evidence that supports these statements. For example, the Committee states that it has “...examined available records and, through counsel and staff, has interviewed numerous volunteers and staff members involved...” during the audit period. Yet, no documentation or a description of what was discussed in the interviews was provided to support its position.

Although the Committee's general commentary relating to the use of volunteers to distribute campaign materials seems plausible, the Committee did not demonstrate that this was in fact the case. Consequently it appears that the expenditures for the campaign materials were incurred on behalf of the Clinton/Gore campaign.

Regarding the expenditures in relation to the specific events mentioned by the Committee, the information provided by the Committee did not demonstrate that the expenses were not in connection with the Clinton/Gore campaign.

Section 110.8(e)(1) and (2)(ii) of Title 11 of the Code of Federal Regulations state that a political party may make reimbursement for the expenses of a candidate who is engaging in party-building activities, without the payment being considered a contribution to the candidate, and without the unreimbursed expense being considered an expenditure counting against the limitations as long as the event is a bona fide party event or appearance, and no aspect of the solicitation for or the setting of the

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event and the remarks or activities of the candidate were for the purpose of influencing the candidate's nomination or election. Notwithstanding those requirements, an event or appearance occurring on or after January 1 of the year of the election for which the individual is a candidate is presumptively for the purpose of influencing the candidate's election, and any contributions or expenditures are governed by the contribution and expenditure limitations of this part 110. Further, Section 110.8(e)(2)(iii) states, in relevant part, that the presumption in paragraph (ii) of this section may be rebutted by a showing to the Commission that the appearance or event was party related.

The information provided by the Committee in rebuttal to the presumption is not persuasive for the following reasons:

a. The memo and purpose lines of the check and the check request form for the expenditures incurred at the N.C. State University Faculty Club stated that these expenditures were for a Gore fundraiser. The expenditures incurred for the U.S. Postmaster and the Sheraton Imperial Hotel were assigned event expense codes [#7400 and #7450] by the Committee as a Gore event, not an event for the CC.

b. Three North Carolina Democratic Party Check Request Forms in which the request for payment of goods and services was made by the Clinton/Gore Campaign manager in North Carolina. These requests were approved by the director of the CC and paid by the CC. Moreover, the event expense code [#7152] assigned to these expenditures by the Committee was entitled, "Oct. 12 Clinton Charlotte event."

c. An invoice billed to Clinton/Gore '92 stated, "production services for Clinton/Gore campaign in Durham, North Carolina--October 26, 1992." This invoice was paid by the CC and was assigned by the Committee an event expense code [#7154] entitled, "Oct. 26 CG Bus Trip." In addition, the Audit staff identified two bank drafts from the Clinton for President Committee dated October 26, 1992 and made payable to the North Carolina Unity '92 which have noted on the purpose line "reimbursement for bus trip expense". Thus, it appears that this event was incurred for the benefit of the Clinton/Gore Committee.

d. Finally, a letter dated November 9, 1992 from North Carolina Central University addressed to the executive director of the Committee requested payments for an event held at the University on October 26, 1992. The letter states in part, "The Clinton/Gore registration rally was held at North Carolina Central University on October 26, 1992. ...I met with the Clinton/Gore staff and explained that the University could not absorb the cost for any activity or event associated with the rally. I was assured by the Clinton/Gore staff that the [Committee] would pay for the entire event." The letter details the expenditures associated with the rally and who the CC should pay. It should be noted that the Audit staff could not determine if the Committee paid these expenditures, however, there appears to be understanding between the Clinton/Gore staff and the CC that the CC would absorb the costs associated with this event.

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Based upon the invoices and event expense codes relating to Clinton/Gore activities, the request forms written by the Clinton/Gore campaign manager of N.C. and approved by the director of the CC, the invoices describing the production services for the Clinton/Gore rally, events coded by the Committee as Clinton/Gore events and the letter which states the Committee would pay for the entire event that was described as a Clinton/Gore registration rally and not a CC event, it appears that the CC incurred expenditures on behalf of the Clinton/Gore Committee.

Further, regarding the Committee's last assertion that invoices coded or marked Clinton/Gore were errors on the part of vendors or Committee staff, the Committee did not, as requested in the interim audit report, provide any explanation from vendors detailing reasons why the purchase of goods and services were invoiced to the Clinton/Gore campaign.

Since the Committee's response to the interim report does not contain documentation to the contrary, the Audit staff concludes that the \$135,733 in goods and services discussed above were purchased on behalf of the Clinton/Gore campaign.

3. Coordinated Campaign Activities which Appear to be Related to Clinton/Gore Campaign Activities

a. Transfers Received from the DNC

As stated above, the CC conducted three main functions: (1) voter contact with "swing" voters; (2) voter registration/GOTV with "traditional" democratic voters, and (3) campaign services. Such functions, if conducted on behalf of the Democratic Party's presidential nominee will not be considered an expenditure on behalf of the nominee provided that certain conditions pursuant to 11 CFR §100.8(b)(18) are met. Based on the information made available, it appears certain conditions were not satisfied.

The Audit staff identified seven transfers from the DNC totaling \$127,450 which were deposited or transferred into the Unity account. Five of the seven transfers were from the DNC's General Fund⁵. The Audit staff was not able to determine from which DNC account the remaining two transfers originated, however, the transfers were reported by the DNC Services Corporation, a federal committee. These transfers comprised 6% of the budgeted cost of the CC. During October 1992, six⁶

⁵ According to letters from the DNC, the DNC's General Fund contains only contributions received in accordance with the limitations and prohibitions of the Federal Election Campaign Act.

⁶ According to notations on the Committee's bank records, one transfer from the DNC General Fund in the amount of \$25,000 was erroneously deposited into the North Carolina Judicial Campaign Committee Account, a non-federal account, and subsequently transferred to the Unity account on November 9, 1992.

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transfers totaling \$110,450 were deposited into the DNC Special Transfer Account and subsequently transferred to the Unity account. The remaining transfer in the amount of \$17,000 was deposited directly into the Unity account on September 28, 1992.

For five of the transfers, the CC's records contained letters from the DNC in which restrictions were placed on the use of the funds: "... be used only for general overhead and administrative expenses ... and ... that no part of these funds be used ... for the costs of campaign materials used ... in connection with activities on behalf of any candidate for federal office ... or the payment of the costs of any voter registration or get-out-the-vote activity conducted on behalf of our prospective nominee for President or any other candidate for federal office." In addition each letter stated that "...[the] State party does not have any authority under §441a(d) with respect to the Presidential election campaign."

The deposit of national party funds, totaling \$127,450, into the Unity account and the use of funds in the Unity Account to defray the costs of voter registration, get-out-the-vote and campaign services may void the exemption at 11 CFR §100.8(b)(18). Because a detailed breakdown for certain payments related to the aforementioned programs was not available during the audit, an analysis to identify the magnitude of national party funds used to fund these programs was not performed prior to the Committee's receipt of the interim audit report. Information necessary to perform an analysis was requested in the interim report.

At the exit conference, the Committee was provided with a schedule of the transfers. The Committee did not comment.

The interim audit report recommended that the Committee provide explanations of why the deposit and use of DNC monies, totaling \$127,450, did not void the exemption under 11 CFR §100.8(b)(18) and photocopies of deposit tickets prepared by Committee personnel for all deposits into the Unity account during the months of October and November, 1992.

In response to the interim audit report the Committee stated that "[a]n analysis of the accounts of the Committee establishes that the average daily balance during the month of October and November, 1992 exceeded \$150,000 in each month. On the dates in which deposits were made of funds transferred from the DNC, the Committee's bank balance in October exceeded \$400,000 and in November exceeded \$200,000. A FIFO analysis would demonstrate, therefore, that no transferred funds were expended in any way that would tend to void the exemption provided in 11 C.F.R. §100.8(b)(18)(vii)."

The Committee's response included the information necessary for the Audit staff to analyze whether national party funds were used to fund the exempt activities, and based on the information available, the Audit staff concludes that national party funds were not used.

b. Direct Mail Program

The Coordinated Campaign conducted a direct mail program to identify swing voters. "Persuasion" mail pieces were used to encourage these voters to vote for the Democratic candidates.

The CC contracted with Gold Communications to develop a direct mail voter contact program. Gold Communications developed eight mailings for the Committee. The Audit staff obtained direct mail pieces and a summary of costs associated with each mailing. In addition, we reviewed available mailing permit documentation as well as disbursement records to determine the total cost of each mailing. The CC was responsible for depositing money for postage into the Committee's bulk mailing permit account #1006.

Of the eight mailings reviewed, two mailings qualified as activities exempt from the definitions of contribution and expenditure pursuant to 11 CFR §§100.7(b)(9) and 100.8(b)(10). Three other mailings appeared to benefit the candidate for Governor and did not mention any federal candidates.

Of the remaining mailings, all three appeared to benefit the Clinton/Gore campaign. These mailings did not mention or have a picture of the Democratic candidate, rather, these mailings described his opponent's record and his position on various issues. It appeared that these mailings clearly tried to persuade the voter towards the Democratic candidate and therefore, should be considered as expenditures made on behalf of the Clinton/Gore campaign.

The Audit staff reviewed a memorandum and invoices between Gold Communications and the CC, as well as printing and postage costs to calculate a total cost per mailing. We calculated allocation percentages based on the proportion of space devoted to each of the candidates within the mailings.⁷

Based on the information made available during fieldwork, it appeared that the use of a commercial vendor and the apparent use of mailings made from commercial lists for these mailings voided the exemption under 11 CFR §100.8(b)(18).

⁷ The disbursements were reported on Schedule H-4 and allocated based on the CC's ballot composition ratio, 30% federal, 70% non-federal

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Therefore, it appeared the CC made expenditures on behalf of the Clinton/Gore campaign totaling \$177,217.⁸

At the exit conference, the Audit staff requested additional information regarding the direct mail expenditures. The Committee did not comment.

The interim audit report recommended that the Committee provide documentation which demonstrates that the mailings were not made by a commercial vendor; that the mailings were not made from commercial mailing lists; and provide invoices or other information generated by the vendor detailing the cost of each mailing. The detailed cost information for each mailing should include, but is not limited to, the number of pieces mailed, the origination point of each mailing, the drop date(s) of the mailings, postage cost, costs of mailing lists used, cost of labels, if used, and any other relevant costs associated with the mailings.

The Committee did not comply with all of the recommendations of the interim audit report. Specifically, the Committee did not provide invoices or other information generated by the vendor which detailed the cost of each mailing; the number of pieces mailed, the origination point of each mailing, the drop date(s), postage cost, cost of mailing list used, cost of labels and any other relevant costs associated with the mailings.

Rather, the Committee stated in its response that:

"the three mail pieces that are challenged by the Interim Report are designed to promote the entire Democratic Party slate saying 'Vote Democratic, Vote For Change.' ... [T]he pieces do not mention the Democratic nominees for President or Vice President, nor the Democratic senatorial nominee, and instead promote the concept of voting 'Democratic.' The focus of the direct mail pieces which are challenged is the distinction between the ideology of the Democratic Party and the ideology of the Republican Party. The intent of the pieces is to distinguish the Republican ideology from the interests of swing voters. Therefore, the focus of the pieces is on economic issues including unemployment and tax matters so as to elicit the interest of middle class 'swing voters' in the nominees of the Democratic Party. There is no express advocacy of the Clinton-Gore ticket. The express advocacy is in behalf of the entire Democratic slate premised upon the identification of the interest of those voters with the ideology of the nominees of the North Carolina Democratic Party.

⁸ The Audit staff did not perform a modified FIFO analysis to associate the deposit of party funds with the payment of direct mail or phone bank expenses prior to issuance of the interim audit report.

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"In addition ... is the involvement of volunteers in the sorting, packing and delivery of the direct mail pieces. ... Gold Communications developed the concepts for the mail pieces, which work was done in conjunction with the Democratic Party staff. The lists of names and addresses used was compiled from files in each of North Carolina's 100 counties by the Party. The lists collected were then collated and assembled into a unified format.

"The [CC] procured space in which volunteers sorted, bundled, and bagged mail by zip code for purposes of obtaining efficient bulk mail delivery. Volunteers then delivered the mail into the custody of the United States Postal Service."

The Audit staff acknowledges that the pieces in question did not name any of the candidates on the Democratic slate. One piece included references to George Bush's middle class tax policies, and also included a picture and references to the Republican candidate for the U.S. Senate. The second piece included references to George Bush's handling of economic issues. Both pieces contain language urging the reader to "Vote Democratic - Vote For Change."

In addition, the Committee claims to have used a volunteer effort to mail these pieces and to have produced the mailing lists in-house. However, aside from the statements made in the Committee's response, the Committee did not provide any other documentation that supports its position. Moreover, a memorandum from the direct mail vendor to the Committee detailing the costs of the program states, in part, "That leaves \$196,000 to cover list costs and remaining production costs. ... We can review the accounting next week after the exact postage and list costs can be pinned down." Based on these statements, it appears that direct mailing vendor purchased lists for the mailings.

Since the Committee's response to the interim audit report did not contain documentation that the direct mail was not processed by a commercial vendor or the mailings made from commercial lists, the Audit staff concludes that the exemption under 11 CFR §100.8(b)(18) was voided. Therefore, the CC made expenditures on behalf of the Clinton/Gore campaign totaling \$177,217.

c. Phone Bank Program

During fieldwork the Audit staff obtained phone bank documentation, three phone scripts, payroll records, contracts and other relevant disbursement records regarding the phone bank program. Based upon the available records, it appeared the CC operated at least three phone bank operations with paid workers and, in addition, entered into a contract with a vendor to provide phone calling services. The total identified costs of these operations were \$168,934. Due to a lack of documentation, we were not able to associate any of the scripts with any of the phone bank operations.

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Two of the three scripts mentioned Bill Clinton as part of their get-out-the-vote message. The third script did not mention any candidates.

During fieldwork and at the exit conference we requested Committee officials to provide more documentation associated with the phone bank operations. At the time no additional information detailing which script was used with which phone bank had been provided by the Committee. The use of paid workers to conduct the phone bank operations voided the exemption under 11 CFR §100.8(b)(18).

At the exit conference, the Committee was provided with a schedule of the phone bank costs discussed above. The Committee did not comment.

In the interim audit report, the Audit staff recommended that the Committee provide the following:

- a) evidence to demonstrate why the use of paid phone bank employees did not void the exemption provided under 11 CFR §100.8(b)(18);
- b) a detailed analysis of all phone bank costs, including documentation which supports the costs of the GOTV phase and costs associated with other discreet phases, if any, based on the number of calls made for each phase. For phases of the program that utilized more than one script, the costs should be allocated to each script;
- c) information detailing how the results of the GOTV phase and other discreet phases, if any, were utilized; and
- d) information which correlates each paid caller to a specific script and to the location from which the calls were made.

The Committee did not comply with all of the recommendations presented in the interim audit report. Specifically, the Committee did not provide a detailed analysis of all phone bank costs, or documentation which supports the costs of the GOTV phase and costs associated with other discreet phases, if any, based on the number of calls made for each phase. Further no information was provided which detailed how the results of the GOTV phase and other phases were utilized and which correlates each paid caller to a specific script and to the location from which the calls were made.

Rather, the Committee stated in its response that:

"The [CC] organized and operated both volunteer and paid phone banks focused on its GOTV efforts. The GOTV efforts included the identification of Democratic voters and pre-election day and election day

calls to turn out voters. In addition, certain calling was directed to the generation of excitement among volunteers, election day workers and prospective voters coincident with GOTV rallies conducted in the State.

"... This [GOTV] paid phone banking used a purely generic script to remind voters of the upcoming election and to identify voters needing a ride on election day to their polling place. Voters were encouraged to vote a straight Democratic ticket. No candidate was identified by name...

"Of the substantial expenditures identified by the Commission for paid phone banks, only phone banking conducted on election day utilized a script which identified Bill Clinton and in some instances Al Gore in the GOTV phone calls...

"An analysis of these charges on a per diem basis suggests that should the Commission determine the phone bank scripts from election day not to contain a merely incidental reference to the Democratic Presidential nominee then the total expenditures for such election day calling would not likely exceed 8-10% of the total expenditures for paid phone bank.

"An examination of the three scripts shows that the pre-election day script is completely generic and contains only a GOTV and Vote Democratic message. The remaining two scripts are election day scripts and only those scripts identify a Democratic candidate.

"The Audit Staff has identified as expenditures on behalf of Clinton-Gore, the costs of a paid phone bank conducted to stir enthusiasm for the GOTV rally in Durham. As is set forth above, the rally was designed to motivate volunteers, election day workers and prospective voters by encouraging participation in a GOTV rally held in Durham on October 26, 1992. No script has been located for this phone bank."

As stated above the Audit staff previously noted that two of the three scripts identified Clinton/Gore; however due to the lack of information provided we were not able to identify which costs were associated with each program. Also addressed by the Committee is its use of paid workers. The Committee contends that the paid phone bank workers performed services for the generic script phase only, however, no documentation was provided by the Committee to support this assertion. Therefore, the exemption under 11 CFR §100.8(b)(18) was voided by the use of paid callers.

Although the Committee contends that only between 8-10% of the total phone bank expenditures identified could relate to Clinton/Gore it did not provide any documentation that would have allowed the Audit staff to independently verify

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that percentage or otherwise calculate what portion of the \$168,934 in costs related to the phone banks were paid on behalf of the Clinton/Gore campaign.

B. MISSTATEMENT OF FINANCIAL ACTIVITY

Sections 434(b)(1), (2), and (4) of Title 2 of the United States Code state, in relevant part, that each report shall disclose the amount of cash on hand at the beginning of the reporting period and the total amount of all receipts and disbursements received or made during the reporting period and the calendar year.

The Audit staff's reconciliation of bank activity to the Committee's disclosure reports filed from January 1, 1991 through December 31, 1992 indicated a material misstatement of financial activity for calendar years 1991 and 1992.

1. Calendar Year 1991

Reported beginning cash on hand was overstated by \$29,187 when compared to the correct reportable beginning cash on hand.

a. Receipts

The Committee's reported receipts were understated by \$13,115. The misstatement of receipts resulted from the Committee reporting three transfers, totaling \$14,110, twice; not reporting receipts from political committees totaling \$4,933, a transfer of \$4,000, receipts deposited into the federal accounts totaling \$7,819, receipts from the Committee's telemarketing firm totaling \$9,473; and an unexplained difference of \$1,000.

b. Disbursements

The misstatement of disbursements resulted from the Committee not reporting disbursements in the amount of \$25,947 to the Committee's telemarketing firm.

c. Cash on Hand

The reported ending cash on hand balance at December 31, 1991 was overstated by a net amount of \$42,020. This resulted from the misstatements detailed above.

d. Allocable Expenses Paid by a Non-Federal Account

During the first three months of 1991, the Committee paid allocable expenses from a non-federal account titled, N.C. Democratic Executive Committee account (DEC-NF). A review of disbursements made from the DEC-NF

indicated that payments totaling \$107,728 were made during this period (see Finding II.G., Allocation of Administrative Expenses).

The Committee should have reported the allocable expenses as memo entries on Schedule H-4 (Joint Federal/Non-Federal Activity Schedule).

2. Calendar Year 1992

a. Receipts

The Committee's reported receipts were understated by \$125,743. The misstatement of receipts resulted from the Committee over reporting the return of unused money orders by \$315; reporting only as memo entries (i.e., the amount was not included in reported totals) in-kind contributions totaling \$5,370; reporting a contribution which did not clear the Committee's bank accounts in the amount of \$2,000; not reporting an in-kind contribution in the amount of \$21,000, contributions from political committees totaling \$24,686, a transfer from one of the Committee's non-federal accounts for \$150, receipts from the Committee's federal accounts totaling \$20,597, and receipts from the Committee's telemarketing firm in the amount of \$56,255.

b. Disbursements

The Committee's reported disbursements were understated by \$169,394. The misstatement resulted from the Committee reporting only as memo entries the value of in-kind contributions totaling \$5,370; not reporting the value of a \$21,000 in-kind contribution; under reporting fees paid to the Committee's telemarketing firm totaling \$58,312; a math error which caused a under reported amount of \$88,363; and miscellaneous other errors totaling \$3,651.

c. Cash on Hand

The Committee reported an ending cash on hand balance on December 31, 1992 of \$187,447. The Audit staff concluded that this was overstated by a net amount of \$85,641, which resulted from the misstatements detailed above.

At the exit conference the Committee was provided with schedules detailing the misstatements discussed above. The Committee did not comment on the issues discussed above.

In the interim audit report, the Audit staff recommended that the Committee file amended disclosure reports for calendar year 1991 and 1992 to correct the misstatements discussed above. With regard to section 1.d., Allocable Expenses Paid by a Non-Federal Account, the Audit staff recommended the Committee file Schedules H-4 listing as memo entries the allocable expenses totaling \$107,728.

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In response to the interim audit report, the Committee filed amended reports for calendar years 1991 and 1992 that materially corrected the misstatements. In addition, the Committee filed Schedules H-4 that correctly disclosed as memo entries the allocable administrative expenses.

C. DISBURSEMENTS TO VOLUNTEERS USING MONEY ORDERS

Section 432(h)(1) of Title 2 of the United States Code states, in part, that each political committee shall designate one or more State banks, federally chartered depository institutions, or depository institutions the deposits or accounts of which are insured by the Federal Deposit Insurance Corporation, or the National Credit Union Administration, as its campaign depository or depositories. Each political committee shall maintain at least one checking account and such other accounts as the committee determines at a depository designated by such committee. All receipts received by such committee shall be deposited in such accounts. No disbursements may be made other than petty cash disbursements under paragraph (2) by such committee except by check drawn on such accounts in accordance with this section.

Section 102.10 of Title 11 of the Code of Federal Regulations states, that all disbursements by a political committee, except for disbursements from the petty cash fund under 11 CFR 102.11, shall be made by check or similar draft drawn on account(s) established at the committee's campaign depository or depositories under 11 CFR part 103.

The Audit staff identified 3,033 money orders purchased by the Committee through the Unity account, at a cost of \$2 each, on October 30, and November 2, 1992. The aggregate value of these bearer instruments, denominated in amounts of \$15, \$20, \$35, and \$55, was \$81,755. According to a Committee official, the money orders were used as a means to account for payments to volunteers in lieu of disbursing currency.

Based on our analysis of documentation provided, blank money orders were forwarded to the individual responsible for paying volunteers who performed services relative to the Weekend and Election Day door hanger program. Several forms were used as part of the program: (a) instruction sheets on which were recorded the money orders sent to the individuals responsible for disbursing the instruments, as well as, guidance related to accounting for all money orders, and (b) a Volunteer Reimbursement Request to be used to record the name, address, social security number, and amount paid.⁹

According to the instruction sheets, the individual responsible was to forward the Volunteer Reimbursement Request forms, carbon copies of the money orders issued to the volunteers, and unused money orders to Committee headquarters the day after the election.

⁹ There was no provision for the signature of the volunteer to whom the money order(s) was payable.

Our review of this activity indicated that approximately 2,500 carbon copies were maintained, along with the Volunteer Reimbursement Request forms. Seventy unused money orders, totaling \$2,830, were deposited into the Committee's Unity account on December 7, 1992. As to the reporting of this activity, the purchases of the money orders were itemized on Schedule H-4. However, no reporting occurred relative to the named recipients of the money orders.

Although certain records were maintained, as described above, the Audit staff was not able to review the actual instruments for proper endorsement. Unlike checks issued on the Committee's accounts, the negotiated money orders were not returned to the Committee.

When these issues were discussed with Committee officials, the Counsel to the Committee stated the money orders were used to get away from the tradition of using cash for volunteers on election day.

In the interim audit report, the Audit staff recommended the Committee: submit documentation to demonstrate that the use of money orders, as described above, satisfied the requirements of 2 U.S.C. §432(h)(1) and 11 CFR §102.10; and file an amendment to its original filings to disclose a description of the program to which the transactions at issue relate, the number of money orders issued, the aggregate value, number of recipients, and purposes for such disbursements.

In response to the interim audit report, the Committee stated that "... the North Carolina Democratic Party, in an effort to increase the accountability and accuracy of the disbursement of election day expense monies and the reporting of such expense monies, determined to use bank money orders purchased prior to election day and disseminated to authorized individuals for distribution on election day in accordance with expenses incurred by election day volunteers.

"A money order is a cash equivalent and the Committee has complied with the record keeping requirements applicable to petty cash disbursements as provided in 11 C.F.R. §102.11." The Committee provided examples of documentation that was previously reviewed during audit field work.

Although the transactions at issue involved \$82,000 in money orders, the Committee's disbursement of money orders to volunteers in denominated amounts of \$15, \$20, \$35 and \$55 in conjunction with its use of "Volunteer Reimbursement Request" forms is akin to petty cash disbursements documented by a written journal. See 11 CFR §102.11. The Committee also filed an amended Schedule B that stated the nature of the transactions, the number of money orders issued, their aggregate value and purposes for such disbursements.

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D. DISCLOSURE OF OCCUPATION AND NAME OF EMPLOYER

Section 434(b)(3)(A) of Title 2 of the United States Code states that each report shall disclose the identification of each person (other than a political committee) 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, together with the date and amount of any such contribution.

Section 431(13)(A) of Title 2 of the United States Code defines the term "identification" as, in the case of any individual, the name, the mailing address, and the occupation of such individual, as well as the name of his or her employer.

Section 432(i) of Title 2 of the United States Code states, in part, that when the treasurer of a political committee shows that best efforts have been used to obtain, maintain, and submit the information required by this Act for the political committee, any report or any records of such committee shall be considered in compliance with this Act.

Section 104.7(b) of Title 11 of the Code of Federal Regulations states, in part, that with regard to reporting the identification of each person whose contribution(s) to the committee and its affiliated committees aggregate in excess of \$200 in a calendar year (pursuant to 11 CFR 104.3(a)(4)), the treasurer and the committee will not be deemed to have exercised best efforts to obtain the required information unless he or she has made at least one effort per solicitation either by a written request or by an oral request documented in writing to obtain such information from the contributor. Such effort shall consist of a clear request for the information (i.e., name, mailing address, occupation, and name of employer) which request informs the contributor that the reporting of such information is required by law.

The Audit staff conducted a sample review of contributions from individuals and identified a 100% error rate relative to the itemization of occupation and name of employer. Upon further review, it was noted that the occupation and name of employer was not itemized on Schedules A (itemized receipts) for any of the 649 contributors listed on disclosure reports filed during the audit period. The total dollar amount of contributions required to be itemized was \$383,297.

The Audit staff examined two types of solicitations used by the Committee. One device, used in connection with the Victory Gala event did not contain a request for occupation and name of employer; nor did it contain language stating the reporting of such information is required by law. The other device which apparently was used for membership solicitations did contain a request for occupation and name of employer; however, it did not contain language stating the reporting of such information is required by law.

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At the exit conference the Committee was informed that disclosure reports filed for 1991-1992 did not contain occupation and name of employer information. Committee officials stated they did not know why occupation or name of employer was not disclosed during the audit period.

In the interim audit report, the Audit staff recommended that the Committee provide evidence to demonstrate that it exercised best efforts; or absent such a showing, contact all contributors who have not provided the required contributor information, provide copies of responses to these requests, and file amended Schedules A to correct the public record. Such request to contributors, if necessary, was to include language that Federal law requires the reporting of such information.

In response to the interim audit report, the Committee provided documentation which demonstrated that the Committee attempted to contact most of the individuals that were required to disclose this information. Documentation included: response devices returned by contributors with the required information; copies of letters returned to the Committee without the required information because contributor addresses were no longer valid.; and copies of letters dated September 1, 1995 sent to contributors requesting the information but no response was returned to the Committee. In addition, the Committee provided the required information for contributors that it had on its receipt data base.

Information obtained by the Committee was reported on amended Schedules A. In regard to the letters sent to contributors, the requests asked for the required information and included language informing the contributor that the reporting of such information is required by law. The requests for required information and subsequent reporting of information obtained occurred several years after the dates of the contributions in question.

E. ITEMIZATION OF CONTRIBUTIONS FROM POLITICAL COMMITTEES

Section 434(b)(3) of Title 2 of the United States Code, states, in relevant parts, that each report under this section 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; and of each affiliated committee which makes a transfer to the reporting committee during the reporting period and, where the reporting committee is a political party committee, each transfer of funds to the reporting committee from another political party committee, regardless of whether such committees are affiliated, together with the date and amount of such transfer.

Section 431(13) of Title 2 of the United States Code states that the term "identification" means: in the case of any person, other than an individual, the full name and address of such person.

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The Audit staff reviewed contributions from political action committees, party committees, and other political committees and identified contributions totaling \$29,619 (9.56% of the total amount of such contributions) which were not itemized. The value of these contributions was also not included in the Committee's reported totals (see Finding II.B., Misstatement of Financial Activity).

At the exit conference the Committee was provided with a schedule summarizing the reporting errors but did not comment on the issues discussed above.

In the interim audit report, the Audit staff recommended the Committee file Schedules A to correct the public record. In its response, the Committee filed amended Schedules A that materially corrected the issues discussed above.

F. ITEMIZATION OF TRANSFERS

Section 434(b)(3)(D) of Title 2 of the United States Code states that each report under this section shall disclose the identification of each affiliated committee which makes a transfer to the reporting committee during the reporting period and, where the reporting committee is a political party committee, each transfer of funds to the reporting committee from another political party committee, regardless of whether such committees are affiliated, together with the date and amount of such transfer.

The Audit staff reviewed transfers deposited into the Committee's federal accounts and identified 4 transfers totaling \$227,432 ¹⁰ which were not itemized as required on either Schedule A or Schedule H-3. Comprising this amount were: \$4,000 in proceeds from a joint fundraising effort between the Committee and the DNC; a \$21,000 in-kind contribution from the DNC; a \$150 transfer from the Committee's non-federal account; and a \$202,282 transfer to fund allocable expenses.

At the exit conference, the Committee was provided with schedules detailing the items discussed above but did not comment on this issue.

In the interim audit report, the Audit staff recommended the Committee file Schedules A and Schedules H-3 to amend its disclosure reports to itemize the above noted transfers. In response, the Committee filed Schedules A and Schedules H-3 that materially corrected the discrepancies noted above.

¹⁰ The value of three transfers, totaling \$25,150, was not included in the Committee's reported totals. See Finding II.B., Misstatement of Financial Activity. The remaining transfer in the amount of \$202,282, was reported by the Committee on the detail summary page of the year end 1992 report, but this transfer was not itemized as required on Schedule H-3 (Transfers from Non-Federal Accounts)

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G. ALLOCATION OF ADMINISTRATIVE EXPENSES

Section 106.5(d)(1) of Title 11 of the Code of Federal Regulations requires that all state and local party committees allocate their administrative expenses and costs of generic voter drives by the ballot composition method described in paragraphs (d)(1)(i) and (ii) of this section.

Section 106.5(g)(1) of Title 11 of the Code of Federal Regulations provides that committees that have established separate federal and non-federal accounts under 11 CFR 102.5 shall pay the expenses of joint federal and non-federal activities as follows: (i) pay the entire amount of an allocable expense from its federal account and transfer funds from its non-federal account to cover the non-federal share of that allocable expense; or (ii) establish a separate allocation account into which funds from its federal and non-federal accounts shall be deposited solely for the purpose of paying the allocable expenses of joint federal and non-federal activities. Once a committee has established a separate allocation account for this purpose, all allocable expenses shall be paid from that account for as long as the account is maintained.

The Committee paid most of its administrative expenses from the Unity account, a federal account which appeared to operate in accordance with 11 CFR §106.5(g)(1)(i). Disbursements from this account were reported on Schedule H-4 (Joint Federal/Non-Federal Activity). According to Schedule H-1 (Method of Allocation for Shared Federal and Non-Federal Administrative Expenses and Generic Voter Drive Costs) filed by the Committee, the ballot composition ratio was 30% federal and 70% non-federal regarding the allocation of administrative and generic voter drive costs.

However, from January 1, 1991 through March 31, 1991, the Audit staff noted that no transfers from the Committee's non-federal accounts were made to the Unity account, a federal account, to pay for administrative expenses pursuant to 11 CFR §106.5(g)(1). During this period its administrative expenses were paid from a non-federal account titled, N.C. Democratic Executive Committee (DEC-NF).

The Audit staff reviewed check copies and a payroll journal to determine the total amount of administrative expenses paid from the DEC-NF account during the period January 1, 1991 through March 31, 1991. The total amount of administrative expenses identified was \$107,728.¹¹

Rather than paying expenses from the DEC-NF, the Committee should have paid all shared expenses from the Unity account and then sought reimbursement from the DEC-NF account for its allocable share of expenses in accordance with 11 CFR §106.5(g)(1).

¹¹ The expenses, totaling \$107,728, were not disclosed on the Committee's reports initially filed. See Finding II.B., Misstatement of Financial Activity.

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We also determined that \$23,999 in administrative expenses were paid from a federal account titled, N.C. Democratic Executive Committee Federal Account (DEC-F). These disbursements were itemized on Schedule B (Operating Expenditures). The Audit staff identified administrative expenses paid from January 1, 1991 through March 31, 1991 totaling \$131,727.

Pursuant to the ballot composition method at 11 CFR §106.5(d)(1) the federal share for this period was \$39,518. This was determined by multiplying the federal allocation ratio (30%) by the total amount of administrative expenses. Hence, it appears that the non-federal accounts over paid their share of administrative expenses by \$15,519. This was calculated by subtracting the amount of administrative expenses which were paid from federal accounts from the federal share of administrative expenses for this period. For the remainder of 1991, it appeared that the federal account(s) overpaid its share of allocable expense by \$4,416.

For 1992, the Audit staff noted that the Committee did not make any transfers from its non-federal accounts to the Unity (allocation) account to pay for administrative expenses incurred prior to June. Prior to June, the administrative expenses were paid from the DEC-F. These expenses were reported on Schedule B.

It should be noted that for calendar year 1992, the non-federal share of administrative expenses calculated by the Audit staff totaled \$1,423,951. However, only \$1,365,021 was actually transferred from non-federal accounts to the Unity account to pay the administrative expenses. Administrative expenses were paid from the Committee's federal accounts which exceeded the federal allocable amount by \$58,930.

At the exit conference, the Committee was provided with schedules detailing the matters discussed above but did not comment on this matter.

In the interim audit report, the Audit staff recommended no further action because the federal accounts over paid their share of 1992 administrative expenses by \$58,930 versus the federal under payment of \$11,103 in 1991.

H. DISCLOSURE OF EXPENSE CLASSIFICATION

Section 104.10(b)(4) of Title 11 of the Code of Federal Regulations states, in relevant part, that a political committee that pays allocable expenses in accordance with 11 CFR 106.5(g) or 106.6(e) shall also report each disbursement from its federal account or its separate allocation account in payment for a joint federal and non-federal expense or activity. If the disbursement includes payment for the allocable costs of more than one activity the committee shall itemize the disbursement, showing the amounts designated for payment of administrative expenses and generic voter drives, and for each fund-raising program or exempt activity, as described in 11 CFR 106.5(a)(2) or 106.6(b).

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The Audit staff's sample review of disbursements reported on Schedule H-4 resulted in an error rate of 97% relative to the omission of expense classifications. Except for the mid year 1991 disclosure report, the Committee did not disclose expense classifications on Schedule H-4.¹²

However, the expenditures disclosed on Schedule H-4 were allocated 30% federal and 70% non-federal which is equivalent to the Committee's ballot composition ratio reported on Schedule H-1. Many of the expenses reported on Schedule H-4 were for administrative costs for which the ballot composition ratio is appropriate.

At the exit conference, the Committee was informed of the discrepancies noted above. Besides asking several questions in regards to the Schedule H-4 the Committee did not comment.

In the interim audit report the Audit staff recommended the Committee adopt procedures to preclude a reoccurrence in the future. In response, the Committee stated that it "... has adopted procedures to correctly disclose expense classification." Since the Committee did not submit written procedures, the Audit staff reviewed Schedules H-4 filed after the Committee's receipt of the interim report and found that the Committee did not consistently check the boxes on the reports which indicate the expenses classifications. Therefore, the Committee has not complied with the recommendation of the interim report.

I. TRANSACTIONS WITH GORDON AND SCHWENKMEYER, INC.

1. Background

Gordon and Schwenkmeyer, Inc. ("GSI") is a telemarketing firm located in El Segundo, California. Its two principals, Mr. Michael Gordon and Ms. Kris Schwenkmeyer, are a former Executive and Political Director, respectively, for the California Democratic Party (CDP). They left the CDP in 1985 and incorporated their telemarketing firm.

For most of the audit period GSI operated under a contract with the Committee which was effective from June 12, 1991 through June 12, 1993.¹³ This contract specified some of the services GSI was to provide the Committee and the compensation rates to be paid to GSI. GSI worked from phone lists and solicited contributions for the Committee. There were two compensation rates, one for the solicitation of previous donors and a lower rate for the solicitation of prospective donors.

¹² For expense classification, disclosure entails checking the applicable category box (administrative/voter drive, fundraising, exempt or direct candidate support)

¹³ There was apparently a similar prior agreement which was not provided to the Audit staff.

As outlined in the contract, GSI opened a custodial checking account(s) into which all donations received through a telephone solicitation program(s) were deposited. GSI served as custodian of the account(s).

GSI maintained custodial accounts for three federal telemarketing programs conducted during the audit period.¹⁴ The programs were identified as NCD, NC2 and NC3. According to an April 15, 1993 Gordon and Schwenkmeyer Program Summary on Behalf of the North Carolina Democratic Party (Program Summary) provided by GSI, the North Carolina Democratic Party's fundraising program was divided into three parts. Part one was dedicated to increasing the net raised from existing telemarketing donors; the second part was directed toward progressive donors throughout the country; and the third part was geared toward developing new donors from the democratic voter file.

According to the agreement, the contributions received through a telephone solicitation program were deposited into the custodial account corresponding to the program which generated the contribution. GSI accounted for each program separately and did not use profits from one program to pay the operating shortfall of another. Funds from the custodial accounts were transferred to GSI's corporate account, and on occasion, GSI transferred funds to the custodial account from its corporate account.

The NC3 program, described above as the third part of the Committee's fundraising program, involved prospecting which is the process by which GSI expands the contributor base for its customer, in this case by developing new donors from the democratic voter file. GSI contends that prospecting is made necessary because "[a]pproximately 15% of the donor file becomes inactive each year. Therefore to sustain and expand the telemarketing program, new donors need to be developed." The Audit staff calculated that the NC3 program created a debt, approximating \$64,000, to GSI over the audit period.¹⁵ The debt resulted because expenses consistently exceeded revenue and no up front funding or other payment was provided by the Committee. According to the Program Summary, GSI stated that:

"the initial prospect solicitation of the targeted households was going to lose approximately \$10 for every donor developed, however, once the donor had been developed, the profits from the first three and half resolicitations of the donor would pay off the initial debt. Once the debt was repaid, the Party would then receive all future profits from the continued resolicitation. From a program standpoint, the democratic voter file appeal made a great deal of sense, the only unanswered question was, who would pay the initial development debt?"

¹⁴ One account was closed in March, 1991 and had little activity.

¹⁵ According to documents provided by GSI, the debt was \$65,633.23

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Recognizing, none of our clients had the resources to pay off the development debt upfront, we decided our firm would finance the initial debt and pay ourselves back from the profits of future rounds."¹⁶

The contract outlined how Committee debt to GSI was to be resolved. Should debt remain outstanding and the contract expire or be terminated, GSI retained the right to solicit funds in the name of the Committee until the debt, including the costs to GSI of recovering the debt, was satisfied.

2. Apparent Prohibited 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 election to federal office and that it is unlawful for any political committee knowingly to accept or receive any contribution prohibited by this section.

Section 441b(b)(2) of Title 2 of the United States Code states, in part, that the term "contribution or expenditure" shall include any direct or indirect payment, distribution, loan, advance, deposit, or gift of money, or any services, or anything of value to any political party in connection with any election to any of the offices referred to in this section.

Section 116.3(b) of Title 11 of the Code of Federal Regulations states, in part, that a corporation in its capacity as a commercial vendor may extend credit to a political committee or another person on behalf of a political committee provided that the credit is extended in the ordinary course of the corporation's business and the terms are substantially similar to extensions of credit to nonpolitical debtors that are of similar risk and size of obligation.

Section 116.3(c) of Title 11 of the Code of Federal Regulations states, in part, that in determining whether credit was extended in the ordinary course of business, the Commission will consider whether the commercial vendor followed its established procedures and its past practice in approving the extension of credit; whether the commercial vendor received prompt payment in full if it previously extended credit to the same political committee; and whether the extension of credit conformed to the usual and normal practice in the commercial vendor's trade or industry.

¹⁶ In Advisory Opinion 1991-18 requested by the New York State Democratic Committee which was about to engage GSI to provide telemarketing services, the Commission concluded that for any prospecting to be performed by GSI on behalf of the requester, GSI would have to be reimbursed in an amount equal their normal expenses and expected profit prior to beginning the prospecting program in order that GSI not make a corporate contribution.

Section 116.8(a) of the Title 11 of the Code of Federal Regulations states, in part, that a creditor may forgive the outstanding balance of a debt owed by an ongoing committee if the creditor and the ongoing committee have satisfied the requirements of 11 CFR 116.3 regarding extensions of credit by commercial vendors, the debt has been outstanding for at least twenty-four months and the following conditions have been met. The creditor has exercised reasonable diligence in attempting to locate the ongoing committee and has been unable to do so; or the ongoing committee does not have sufficient cash on hand to pay the creditor and has receipts of less than \$1000 during the previous twenty-four months and has disbursements of less than \$1000 during the previous twenty-four months and owes debts to other creditors of such magnitude that the creditor could reasonably conclude that the ongoing committee will not pay this particular debt.

As stated in the background section, the NC3 program created a debt of approximately \$64,000 during the audit period. In 1991, receipts of \$6,279 were deposited into the NC3 account and disbursements of \$6,013 were made. GSI billed the Committee \$11,025 and deducted \$5,350 from the account by check or telephone transfer, resulting in a debt of \$5,675 as of 12/31/91. During 1992, receipts of \$107,457 were deposited into the account and disbursements of \$107,496 were made. GSI billed the Committee \$165,704 and deducted \$107,400 by either check or telephone transfer, resulting in additional debt of \$58,304 by 12/31/92.¹⁷ It appears the extension of credit by GSI, approximately \$64,000 at 12/31/92, resulted in a prohibited corporate contribution having been made by GSI and accepted by the Committee.

In the interim audit report, the Audit staff recommended the Committee obtain from GSI and provide to the Audit staff additional documentation or any other comments to demonstrate that maintaining the outstanding debt was in the normal course of GSI's business. The information provided should include examples of other customers or clients of similar size and risk for which similar services have been provided and similar billing arrangements have been used. Also, information concerning GSI's billing policies for similar clients and work, advance payment policies, debt collection policies, and billing cycles should be included. Finally, provide information detailing the liquidation of the debt.

The Committee's response to the interim report did not include any documentation or comments from GSI that demonstrated that maintaining outstanding debt was in the normal course of GSI's business. No information regarding GSI's billing policies for similar clients and work, advance payment policies, debt collection policies, or billing cycles, was provided.

¹⁷ The Committee has apparently severed its relationship with GSI after the audit period. The Audit staff has no information to determine whether the debt was eventually extinguished.

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Rather, in response to the interim audit report, the Committee stated that, "The Commission in its Audit Report has assumed that there has been an advance of value by GSI to the Party. The Commission has made this assumption based upon the statements furnished by GSI. However, there was a legitimate dispute between the parties as to whether any amount was owed to GSI by the Party, and this issue led the Party to terminate the relationship between the Party and GSI. Accordingly, the Party contends that it did not receive any contribution, loan, or advance of value from GSI. The Party was never able to obtain from GSI an explanation or accounting with respect to amounts claimed by GSI. The unsubstantiated claims that amounts are owed is not a sufficient basis for an assumption that a corporate contribution has been made."

The response also stated that:

"... counsel for the Democratic Party, by letter dated February 2, 1994, alleged that GSI had breached the terms of the contract between the parties by soliciting on behalf of other clients, individuals who were proven donors of the Party, whose names and addresses were included in the NCD file. Counsel for the Democratic Party demanded immediate return of the NCD file, and sought to terminate the contract. The letter further made demand that GSI make no further solicitations on behalf of the party and demanded an accounting with respect to all costs and fees claimed by GSI."

A copy of the letter was provided.

In a second letter dated March 10, 1994, Counsel for the Committee stated in response to GSI's claim that the Committee owed them approximately \$49,000 that they could not advise the Committee to pay their claim. "...The costs previously billed to the Party were both excessive and unsubstantiated... [Y]our unauthorized solicitation of the individuals on the party permanent file (N.C.D.) has damaged the Party. Therefore, the Party is of the opinion that there is no outstanding obligation to GSI."

The Committee's argument that there was a legitimate dispute between the parties as to whether any amount was owed to GSI and, thus, did not receive any contribution from GSI is not persuasive. The Committee did not provide any documentation that demonstrates the costs billed to the Committee were both excessive and unsubstantiated. The documentation made available demonstrates that GSI decided to finance the initial debt and pay themselves back the profits from future solicitation rounds. Therefore, the extension of credit of approximately \$64,000 appears to constitute a prohibited corporate contribution.

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3. Disclosure of Debts

Section 104.3(d) of Title 11 of the Code of Federal Regulations states, in part, that each report filed under 11 CFR 104.1 shall, on Schedule D, disclose the amount and nature of outstanding debts owed by the reporting committee.

Section 104.11 of Title 11 of the Code of Federal Regulations states, in part, that debts owed by a political committee which remain outstanding shall be continuously reported until extinguished. These debts shall be reported on separate schedules together with a statement explaining the circumstances and conditions under which each debt was incurred or extinguished.

During the audit period, the Committee did not report its debt to GSI on Schedule D (Debts and Obligations, Excluding Loans) as required. During 1991 the Committee filed semiannual reports; while during 1992 in addition to quarterly reports, the Committee filed Pre and Post General reports. The correct balance for each reporting period was:

<u>Period</u>	<u>Incurred</u>	<u>Payment</u>	<u>Outstanding</u>
Year end 1991 7/1/91 - 12/31/91	\$11,025	\$ 5,350	\$ 5,675
First Quarter 1992 1/1/92 - 3/31/92	716	1,650	4,741
Second Quarter 1992 4/1/92 - 6/30/92	71,747	38,100	38,388
Third Quarter 1992 7/1/92 - 9/30/92	71,038	38,350	71,076
Pre General 1992 10/1/92 - 10/14/92	20,786	10,200	81,662
Post General 1992 10/15/92 - 11/23/92	1,417	18,850	64,229
Year End 1992 11/24/92 - 12/31/92	00	250	63,979

In the interim audit report, the Audit staff recommended the Committee file amended Summary Pages and amended Schedules D which accurately reflect its debt to GSI for each of the reporting periods.

In response to the interim audit report, the Committee contends that any obligation owed to GSI is a disputed debt pursuant to 11 CFR §116.10. Nonetheless, the Committee filed amended Schedules D that materially disclosed the amounts owed to GSI and indicated on each Schedule D that the amounts are in dispute.

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

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COMMISSION
AUDIT DIVISION

SEP 26 2 22 PM '96

September 26, 1996

MEMORANDUM

TO: Robert J. Costa
Assistant Staff Director
Audit Division

THROUGH: John C. Surina
Staff Director

FROM: Lawrence M. Noble
General Counsel

BY: Kim Bright-Coleman *KBC*
Associate General Counsel
Rhonda J. Vosdinger *RJV*
Assistant General Counsel
Andre G. Pineda *AGP*
Attorney

SUBJECT: Proposed Final Audit Report on the North Carolina Democratic
Victory Fund (LRA #473)

970/0250844

I. INTRODUCTION

The Office of General Counsel has reviewed the proposed Final Audit Report on the North Carolina Democratic Victory Fund ("the Committee") submitted to this Office on August 6, 1996.¹ We concur with findings in the proposed report which are not discussed separately in the following memorandum. If you have any questions concerning our comments, please contact Andre G. Pineda, the attorney assigned to this audit.

¹ Because the proposed Final Audit Report does not include any matters exempt from public disclosure under 11 C.F.R. § 2.4, we recommend that the Commission's discussion of this document be conducted in open session

Celebrating the Commission's 20th Anniversary

YESTERDAY TODAY AND TOMORROW
DEDICATED TO KEEPING THE PUBLIC INFORMED

II. DISBURSEMENTS TO VOLUNTEERS USING MONEY ORDERS (I.L.C.)

The Audit staff identified 3,033 money orders that were purchased by the Committee on October 30, 1992 and November 2, 1992. The total value of these money orders, denominated in amounts of \$15, \$20, \$35 and \$55, was \$81,755. Blank money orders were forwarded to individuals responsible for paying volunteers ("coordinators") for services related to a Weekend and Election day door hanger program ("program"). The Committee sent coordinators "Volunteer Reimbursement Request" forms that were used to record the name, address, social security number and amount paid for those volunteers who received money orders for their program work. Coordinators were required to forward the "Volunteer Reimbursement Request" forms, carbon copies of money orders, and unused money orders to Committee headquarters the day following the election. The Committee maintained 2,500 copies of money orders as well as "Volunteer Reimbursement Request" forms; 70 unused money orders totaling \$2,830 were returned to the Committee. The Committee itemized the purchase of the money orders on its Schedule H-4's, but it did not report the named recipients of the money orders. Based on this review, the Audit staff concludes that the Committee did not satisfy the requirements of 2 U.S.C. § 432(h)(1) and 11 C.F.R. §§ 102.10 and 104.10(b)(4).

This Office concurs with the proposed report's conclusion that the Committee did not satisfy 11 C.F.R. § 104.10(b)(4). Specifically, the Committee reported the name and address of the bank from which it purchased money orders rather than the name and address of each person who received a money order from the Committee. Furthermore, the Committee reported the purpose and total amount of money orders that it purchased from the bank rather than the purpose and amount of each money order given to an individual.²

This Office does not, however, concur with the proposed report's conclusion that the Committee did not satisfy the requirements of 2 U.S.C. § 432(h)(1) and 11 C.F.R. § 102.10. Specifically, the Office of General Counsel believes that the Committee's disbursement of money orders to volunteers in denominated amounts of \$15, \$20, \$35, and \$55 in conjunction with its use of "Volunteer Reimbursement Request" forms is akin to petty cash disbursements documented by a written journal. See 11 C.F.R. § 102.11.

² 11 C.F.R. § 104.10(b)(4) requires political committees who pay allocable expenses in accordance with 11 C.F.R. § 106.5(g) or § 106.6(e) to report each disbursement for a joint federal or non-federal expense or activity. The purpose of this reporting requirement is to enable the Commission to track the flow of non-federal funds into federal accounts and to ensure that the use of non-federal funds is strictly limited to payment for the non-federal share of allocable activities. Explanation and Justification for 11 C.F.R. § 106.5(g), 55 Fed. Reg. 26,065-66 (June 26, 1990). As a result, the Committee's reporting obligation differs significantly from other political committees that do not have joint federal and non-federal expenses or activities. Compare 11 C.F.R. § 104.3(b)(3) (Committees must report disbursements over \$200).

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The Office of General Counsel recognizes that \$81,755 is a significant amount of money to be disbursed through a petty cash account. However, 2 U.S.C. § 432(h)(2) and 11 C.F.R. § 102.10 do not contain any language indicating how much money a petty cash account may contain. Furthermore, the statutory and regulatory history for these provisions provide no guidance as to how much money a petty cash account may contain nor does it provide guidance as to the purpose for such accounts or why documentation is needed for petty cash disbursements. Notwithstanding the lack of such information, the plain language of these provisions suggest that Congress was concerned about the traceability and verification of committee disbursements under \$100. In light of this apparent concern, the Office of General Counsel believes that the analytical focus of petty cash transactions should center upon the ability to trace and document petty cash disbursements rather than focusing upon the total amount disbursed through a petty cash account.

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A political committee may maintain a petty cash fund from which it may make expenditures not in excess of \$100 to any person per purchase or transaction. 11 C.F.R. § 102.11. If such a fund is maintained, a written journal of all disbursements must be kept by the treasurer of the political committee. *Id.* Such a journal shall include the name and address of every person to whom any disbursement is made, as well as the date, amount, and purpose of such disbursement. *Id.* The "Volunteer Reimbursement Request" forms maintained by the Committee contain the name, address, social security number and amount of disbursement for each volunteer who received money for his or her participation in the program. In addition, copies of the money orders that the Committee maintained state the name of the volunteer as well as the date and amount of disbursement. Finally, the instruction sheets for the "Volunteer Reimbursement Request" forms specifically state that the money orders are to "be used to reimburse volunteers who request reimbursement for the Weekend and Election Day door hanger program." Because the Committee maintained the information required by 11 C.F.R. § 102.11, this Office believes that the Committee's records are substantially equivalent to a written journal. Therefore, this Office believes that the Committee complied with 2 U.S.C. § 432(h)(1) and 11 C.F.R. § 102.11 because the disbursements are documented and can be traced. This Office further believes that based on the Committee's documentation, the Committee's disbursements are distinguishable from cash disbursements by other political committees. Compare Final Audit Report for the Nevada State Democratic Party (approved April 2, 1996) and Final Audit Report for Clinton for President (approved December 27, 1994).³

³ Significant differences exist between this audit and other audits involving non-check transactions. For example, the Final Audit Report for the Nevada State Democratic Party (approved April 2, 1996) concluded that although the Nevada Committee made many money order disbursements of \$100 to individuals, often to the same individuals on the same day, for voter registration efforts, it maintained few records to document its disbursements. Therefore, the disbursements from the Nevada Committee's petty cash account were not documented and could not be traced. In contrast, the North Carolina Democratic

III. TRANSACTIONS WITH GORDON AND SCHWENKMEYER, INC. (II.I.)

Gordon and Schwenkmeyer, Inc. ("GSI") is a telemarketing firm that operated three federal telemarketing programs for the Committee known as NCD, NC2 and NC3. GSI deposited contributions received from these programs into corresponding custodial accounts. Although GSI did not use profits from one program to pay the operational shortfalls of another, it transferred custodial account monies to its corporate account and, on occasion, transferred corporate monies to its custodial accounts. GSI operated NC3 on a prospective basis, thereby creating a \$64,000 debt that the Committee owed to GSI during the audit period.

This Office concurs with the proposed report's conclusion that GSI's operation of NC3 resulted in an apparent \$64,000 prohibited corporate contribution to the Committee. In addition, this Office notes that GSI's transfer of monies from its corporate accounts to the Committee's custodial accounts may also result in apparent corporate contributions to the Committee that are distinct from the apparent \$64,000 prohibited contribution that results from GSI's extension of credit to the Committee. *Compare* 2 U.S.C. §441b(a)(corporation prohibited from making contributions in connection with any election to federal office) with 11 C.F.R. § 116.3(b) (incorporated vendor may extend credit to political committee so long as credit is extended in the ordinary course of the vendor's business; failure to do so results in prohibited corporate contribution). Specifically, GSI may not commingle corporate monies with contributions received through the NC3 program. A deposit of funds into a Committee account is a contribution to the Committee. 2 U.S.C. § 431(8)(A)(i). NC3 contributions are Committee monies that must be deposited in a designated campaign depository. 2 U.S.C. § 432(h)(1). The NC3 custodial account appears to be a Committee account and, as such, may not contain corporate monies. *See* 2 U.S.C. § 432(h)(1)(a) and Advisory Opinion ("AO") 1991-18; *see also*, AO 1980-42 (fundraising agent acts on behalf of committee). Therefore, this Office recommends that the proposed report include additional language noting that GSI's transfers of corporate funds into the custodial accounts may have also resulted in prohibited corporate contributions to the Committee.

Victory Fund disbursed different denominated money orders on different days and maintained identifying information for each disbursement

This audit is also distinguishable from the Final Audit Report for Clinton for President (approved December 27, 1994), which concluded that per diem expenses paid by traveler's checks were the equivalent of cash disbursements in violation of 11 C.F.R. § 102.10. The Clinton Committee maintained a log that named the recipient of the checks, the days and location traveled, as well as the denomination of the traveler's checks, the total amount disbursed and the dates issued. The audit staff determined, however, that the Clinton Committee's log lacked identifying information for the blocks of checks it issued in amounts greater than needed for per diems. In contrast, the Committee disbursed money orders for the Weekend and Election day door hanger program and maintained more detailed identifying records for its disbursements.

070/0250847



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

AR#93-50

November 25, 1996

Mr. Lyndo Tippett, Treasurer
North Carolina Democratic Victory Fund
P.O. Box 12196
Raleigh, NC 27605

Dear Mr. Tippett:

Attached please find the Final Audit Report on the North Carolina Democratic Victory Fund. The Commission approved the report on November 7, 1996.

The Commission approved final audit report will be placed on the public record on December 3, 1996. Should you have any questions regarding the public release of the report, please contact the Commission's Press Office at (202) 219-4155. Any questions you have related to the matters covered during the audit or in the report should be directed to Wanda Thomas of the Audit Division at (202) 219-3720 or toll free at (800) 424-9530.

Sincerely,

Robert J. Costa
Assistant Staff Director
Audit Division

Attachment as stated

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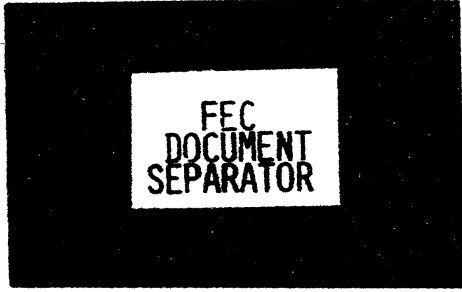
CHRONOLOGY

**NORTH CAROLINA DEMOCRATIC
VICTORY FUND**

Audit Fieldwork	6/13/94 - 8/3/94
Interim Audit Report to the Committee	8/11/95
Response Received to the Interim Audit Report	11/6/95
Final Audit Report Approved	11/7/96

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