




FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

December 3, 1996

**MEMORANDUM**

TO: Ron M. Harris  
Press Officer  
Press Office

FROM: Robret J. Costa   
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 26, 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 26, 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 SUMMARY**

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

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. The audit covered the period from January 1, 1993 through December 31, 1994.

The findings were presented to the Committee at an exit conference held at the conclusion of audit fieldwork and later in an interim audit report. The Committee's response to those findings are included in the final audit report.

The findings contained in the final audit report are summarized below.

**REPORTING OF BUILDING FUND ACCOUNT ACTIVITY — 2 U.S.C.**

§431(8)(B)(viii), 11 CFR §§100.7(b)(12), 104.3(g), 100.8(b)(13), 100.5(a) and 2 U.S.C. §431(11). One hundred and fifty-eight operational and administrative expenditures totaling \$73,350 were made from three building fund bank accounts. These expenditures were not made to defray the purchase or construction of an office facility and do not fall within the building fund exemption. Therefore, the Committee must report all receipts and disbursements made from the building fund accounts.

In response to the interim audit report, the Committee filed memo Schedules A and memo Schedules B disclosing the building fund receipts and disbursements. The Committee also provided a narrative which described the changes it has implemented in order to comply with federal regulations.

**MISSTATEMENT OF FINANCIAL ACTIVITY — 2 U.S.C. §§434(b)(1),(2) and (4).**

For 1993, reported totals for receipts were understated by \$30,130 and disbursements were understated by \$22,210. For 1994, reported totals for receipts were understated by \$64,004 and disbursements were understated by \$87,161. These misstatements caused reported cash balances to also be misstated. The Committee filed comprehensive amended reports for calendar years 1993 and 1994 which corrected these misstatements of financial activity.

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**REPORTING OF RECEIPTS** — 2 U.S.C. §§434(b)(3)(A),(B), and (F); 431(13)(A).

The Committee neither reported nor itemized seven contributions from candidate committees totaling \$29,500, as well as five offsets to operating expenditures totaling \$24,900. Further, the Committee did not report the portions of contributions from individuals which exceeded \$5,000. As a result, fifteen contributions from individuals totaling \$85,000 were incorrectly disclosed. The transfers of the excessive portions of these contributions to a non-federal account were also neither reported nor itemized. The Committee filed the appropriate Schedules A and Schedules B to correctly disclose these transactions.

**REPORTING OF TRANSFERS FROM NON-FEDERAL TO FEDERAL ACCOUNTS FOR SHARED ACTIVITY (SCHEDULE H-3)** — 11 CFR §§106.5(g)(1) and (3). The Committee did not itemize one transfer in the amount of \$109,379 from a non-federal account to a federal account for shared activity. In response to the interim audit report, the Committee filed an amended Schedule H-3 which disclosed the transfer.

**REPORTING OF LOANS, DEBTS AND OBLIGATIONS** — 2 U.S.C. §§434(b)(8); 434(b)(2)(H) and (3)(E); 11 CFR §104.11. The Committee did not disclose outstanding debts and obligations to eleven vendors totaling \$67,151. The Committee filed amended Schedules D to correct the public record.

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

**I. BACKGROUND**

**A. AUDIT AUTHORITY**

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 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.

**B. AUDIT COVERAGE**

The audit covered the period from January 1, 1993, through December 31, 1994. The Committee reported a beginning cash balance on January 1, 1993 of \$85,256, total receipts for the period of \$2,101,219, total disbursements for the period of \$2,188,188, and an ending cash balance of (\$1,514).<sup>1</sup>

**C. COMMITTEE ORGANIZATION**

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

<sup>1</sup> Total receipts and disbursements were calculated by the summation of the Detailed Summary page Line 19, Column A and Line 30, Column A, respectively. The figures cited in this report were rounded to the nearest dollar. The amounts do not foot due to a mathematical discrepancy in the Committee's reported figures.

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Treasurers of record during the period covered by the audit were Mr. James H. Young from January 1, 1993 to January 31, 1993, and Mr. Lyndo Tippett from February 1, 1993 to the present.<sup>2</sup>

To manage its federal financial activity, the Committee maintained four bank accounts. In addition, two bank accounts were maintained in conjunction with a telemarketing firm in California. From these accounts the Committee made approximately 2,024 disbursements. Approximately 16,776 contributions (about \$1,292,408) from individuals were received. In addition, the Committee received 419 contributions (\$162,058) from political committees, six transfers (\$198,491) from its non-federal accounts for shared expenses, 38 transfers (\$427,462) from affiliated committees, two loans (\$24,592), 64 offsets to operating expenditures (\$89,324) and other federal receipts (\$1,017).<sup>3</sup> The North Carolina Democratic Executive Committee (DEC) maintained three building fund accounts from which some federal operating and administrative expenditures were paid. The building fund bank accounts are discussed in Finding II.A. below.

#### D. AUDIT SCOPE AND PROCEDURES

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 Finding II.C.);
4. proper disclosure of disbursements including the itemization of disbursements when required, as well as, the completeness and accuracy of the information disclosed (see Finding II.A.);
5. proper disclosure of Committee debts and obligations (see Finding II.E.);

<sup>2</sup> The Commission was informed that Mr. Tippett became Committee Treasurer effective February 1, 1993 in a letter received on August 3, 1993.

<sup>3</sup> As presented at Finding II.B., the Committee's reports understated receipts and disbursements.

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6. 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 reporting and funding of activities conducted jointly on behalf of federal and non-federal elections and candidates (see Findings II.A. and D.); and
9. other audit procedures that were deemed necessary in the situation.

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

## **II. AUDIT FINDINGS AND RECOMMENDATIONS**

### **A. REPORTING OF BUILDING FUND ACCOUNT ACTIVITY**

Section 431(8)(B)(viii) of Title 2 of the United States Code states, in part, that the term "contribution" does not include any gift, subscription, loan, advance, or deposit of money or anything of value to a State committee of a political party specifically designated to defray any cost for construction or purchase of any office facility not acquired for the purpose of influencing the election of any candidate in any particular election for Federal office.

Section 100.7(b)(12) of Title 11 of the Code of Federal Regulations states, in relevant part, that if such gift, subscription, loan, advance, or deposit of money or anything of value is made to a committee which is not a political committee under 11 CFR §100.5, the amount need not be reported. However, if such gift, subscription, loan, advance, or deposit of money or anything of value is made to a political committee, it shall be reported in accordance with 11 CFR §104.3(g).

Section 104.3(g) of Title 11 of the Code of Federal Regulations provides, in part, that gifts, subscriptions, loan, advances, or deposits of money or anything of value to defray costs of construction or purchase of office facilities received by a political committee shall be reported as a memo entry on Schedule A.

Section 100.8(b)(13) of Title 11 of the Code of Federal Regulations states, in part, that a purchase, payment, distribution, loan, advance, or deposit of money or anything of value made to a national committee or a state committee of a political party is not an expenditure if it is specifically designated to defray any cost incurred for construction or purchase of any office facility which is not acquired for the purpose of influencing the election of any candidate in any particular election for Federal office.



However, if such purchase, payment, distribution, loan, advance, or deposit of money or anything of value is made to a political committee, it shall be reported in accordance with 11 CFR §104.3(g).

Section 100.5(a) of Title 11 of the Code of Federal Regulations states, in part, that the term "political committee" includes any committee, club, association, or other group of persons which receives contributions aggregating in excess of \$1,000 during a calendar year or which makes expenditures aggregating in excess of \$1,000 during a calendar year. Further, 2 U.S.C. §431(11) defines, in part, "person" to include an individual, partnership, committee, association, corporation, labor organization, or any other organization or group of persons.

The North Carolina Democratic Executive Committee (DEC) is the governing body of the North Carolina Democratic Party. The North Carolina Democratic Victory Fund (the Committee) is a separate federal political committee formed to handle the federal election activity for the Party. The DEC also maintains non-federal accounts which file reports with the State of North Carolina.

The DEC leased an office facility, the Historic Goodwin House (HGH), as its headquarters from the Historic Goodwin House, Inc. (HGH, Inc.). HGH, Inc. was formed to own, maintain, operate and lease space in HGH, pursuant to 2 U.S.C. §431(8)(B)(viii) and 11 §§CFR 100.7(b)(12) and 100.8(b)(13). As a result, none of HGH Inc.'s receipts and disbursements were reported. HGH, Inc. is managed by a board of directors elected by the DEC.

A Committee representative has stated that the lease payments covered rent, utilities and other services. The Committee provided an unsigned copy of a lease agreement. The term of the lease was to be five (5) years commencing January 1, 1987. The lease provided for rent payments of \$3,000 per month and noted that HGH, Inc. would be responsible for expenses such as lighting, heating, water and cleaning through December 31, 1991. Although this lease supports Committee representations, this document pertains to a period of time prior to the audit period. A Committee representative offered that the current lease arrangements may be based on an oral agreement and, to date, have not provided a current lease agreement. During the audit period the Committee made 19 rent payments totaling \$83,500.

Three building fund bank accounts were utilized during the audit period for the purchase and maintenance of HGH. Receipts for these accounts totaled \$148,562<sup>4</sup>, and were comprised of 19 transfers from the federal operating account for lease payments (\$83,500), one other federal transfer (\$4,592), a draw on the federal line of credit

<sup>4</sup> Total receipts do not include interaccount transfers of \$3,995, which are not required to be disclosed

(\$17,420), contributions from individuals (\$2,298), contributions from corporate sources (\$21,875), contributions from political and other committees (\$3,775), interest earned (\$123) and contributions from unknown sources (\$14,979).

Disbursements from the building fund accounts, which totaled \$127,434<sup>5</sup>, included 20 mortgage payments to the financing entity (\$53,680), 158 operational and administrative expenditures (\$73,350) and service charges (\$404).

Operational and administrative expenditures disbursed from the building fund accounts are not for the purchase or construction of an office facility. Therefore, in the opinion of the Audit staff, the exemption provided at 2 U.S.C. §431(8)(B)(viii) and 11 CFR §§100.7(b)(12) and 100.8(b)(13) is voided and the Committee must report all receipts and disbursements made from the building fund accounts.

Commission Advisory Opinions (AOs) have provided some guidance in this area. In AO 1983-8, the Commission noted that property taxes, assessments, and charges and other expenses incurred by a trust established to acquire property, were not for the construction or purchase of an office facility. Additionally, any donations received to defray operating expenses or other administrative expenses of that trust are subject to the Act's contribution limitations and prohibitions.

Pursuant to 2 U.S.C. §431(8)(B)(viii), the building fund can accept contributions from corporate sources to pay for the purchase or construction of an office facility. Although the building fund exemption has been voided, the Audit staff has noted that the mortgage payments disbursed by the building fund (\$53,680) exceed the amount of contributions received from corporate and unknown sources (\$36,854). In addition, there were sufficient permissible funds received from the federal operating account to cover the operational and administrative expenditures disbursed from the building fund accounts.

Disbursements from the three building fund bank accounts are summarized as follows:

1. First Citizens Bank

The majority of building fund activity went through the First Citizens Bank account, named Historic Goodwin House Inc.. The First Citizens Bank account was active throughout the audit period. Disbursements for this account totaled \$98,998, which included 156 operating and administrative expenditures totaling \$49,676, 19 mortgage payments for the purchase of HGH totaling \$49,192 and service charges totaling \$130.

<sup>5</sup> Total disbursements do not include interaccount transfers of \$3,995, which are not required to be disclosed

The 156 disbursements for operating and administrative expenses were incurred for such goods/services as: pest control, lawn care, cleaning services and supplies, and utilities. When questioned about these expenses, a Committee representative maintained that the lease payments included the cost of these services and utilities.

As stated above, it is the opinion of the Audit staff that these expenditures were not made to defray the purchase or construction of an office facility; and do not fall within the building fund exemption.

2. NationsBank

This account, named the Historic Goodwin House Inc. Restoration Account, was active at the beginning of the audit period through June 30, 1994. Disbursements totaled \$24,572, which included a \$22,520 payment for the installation of a new heating system, a \$1,155 payment to an appliance company, service charges totaling \$190 and a \$707 interaccount transfer to the First Citizens Bank account to close out the account.

The disbursement for a new heating system is not a disbursement for the purchase or construction of an office facility that falls within the building fund exemption.

3. Triangle East Bank

This account, named the NC Democratic Executive Committee Building Fund, was opened during October, 1994. Disbursements totaled \$7,860, which included a double mortgage payment in the amount of \$4,488, service charges totaling \$84, and an interaccount transfer to the First Citizens Bank account of \$3,288.

A Committee representative stated that the mortgage was paid from the Triangle East Bank account because the account had sufficient funds to cover the check, and the Committee's policy was to pay its bills out of whichever account had the available funds at the time a bill was to be paid. Disbursements from this account do not violate the building fund exemption. However, disbursements made from the first two building fund accounts violate the exemption, making all HGH Inc. disbursement activity reportable.

During the exit conference, the Audit staff discussed this matter with Committee representatives.

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In the interim audit report, the Audit staff recommended that the Committee demonstrate that the above expenditures were related to the purchase or construction of an office facility; or file memo Schedules A to disclose all building fund receipts and file memo Schedules B or memo Schedules H-4 to disclose all building fund disbursements<sup>6</sup> from January 8, 1993, the date on which the check for the first non-exempt disbursement in the audit period was written, through the date that the changes recommended below are implemented; and detail in writing the changes it has implemented to assure that only expenditures relating to the purchase or construction of an office facility are disbursed from its building fund accounts in compliance with 11 CFR §100.8(b)(13), as well as, any other comments and/or documentation it believes relevant to this matter.

In response to the interim audit report, the Committee filed memo Schedules A and memo Schedules B which materially disclosed the building fund receipts and disbursements from January 8, 1993 through June 21, 1995. Further, a Committee representative wrote:

“Upon obtaining appropriate financing, the North Carolina Democratic Party Building Fund, in 1996, completed the acquisition of the Goodwin House upon the filing of Articles of dissolution of Historic Goodwin House, Inc.. Prospectively, all contributions designated for the construction or purchase of the office facility will be deposited to the North Carolina Democratic Party Building Fund account and Historic Goodwin House, Inc. will, in accordance with its charter and its Articles of Dissolution, cease all activities.

Prospectively, activity in the party Building Fund account will consist only of the receipt of funds designated to defray the cost [of] acquisition of the Goodwin House and the disbursement[s] will be only those permissible pursuant to 11 C.F.R. 100.8(b)(13).”

**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 each reporting period, the total amount of all receipts, and the total amount of all disbursements for the period and calendar year.

The Audit staff's reconciliation of the Committee's reported activity to its bank activity for the audit period revealed the following misstatements:

<sup>6</sup> The two interaccount transfers mentioned above are not required to be disclosed

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1. January 1, 1993 through December 31, 1993a. Beginning Cash on Hand Balance

The Committee reported a beginning cash balance at January 1, 1993 of \$85,256. Utilizing bank records, the Audit staff determined the correct beginning cash balance to be \$101,806. Therefore, the Committee's beginning cash balance was understated by a net amount of \$16,550. The Audit staff was unable to identify the reason(s) for this adjustment, since the Committee did not maintain workpapers or other records which demonstrated how this amount was obtained.

b. Receipts

The Committee reported total receipts of \$868,618 for 1993. Based on our analysis of Committee bank records, the Audit staff determined that the Committee should have reported total receipts of \$898,748. Therefore, the Committee's reported receipts were understated by a net amount of \$30,130. This understatement was the result of the following:

◦	Offsets to operating expenditures received from Gordon and Schwenkmeyer not reported (see Finding II.C.)	\$ 24,900
◦	Gordon and Schwenkmeyer receipts from individuals over-reported	(955)
◦	Excessive portions of contributions from individuals not reported (see Finding II.C.)	8,000
◦	Miscellaneous reconciling adjustment	<u>(1,815)</u>
	Total (Net) Understatement	<u>\$ 30,130</u>

c. Disbursements

The Committee reported total disbursements of \$893,511 for 1993. Based on the Audit staff's review of bank records, it was determined that the Committee should have reported total disbursements of \$915,721. Therefore, the Committee's reported disbursements were understated by a net amount of \$22,210. This understatement resulted from the following:

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◦	Write-off of reported outstanding checks from 1992	\$ (8,013)
◦	Disbursements to Gordon and Schwenkmeyer not reported	23,711
◦	Voided payroll check reported	(1,578)
◦	Transfer of excessive portions of contributions from individuals to non-federal account not reported (see Finding II.C.)	7,000
◦	Credit card service charges not reported	1,466
◦	Miscellaneous reconciling adjustment	<u>(376)</u>
	Total (Net) Understatement	<u>\$ 22,210</u>

d. Ending Cash on Hand Balance

The Committee reported an ending cash on hand balance on December 31, 1993 of \$60,363. The Audit staff determined that this amount was understated by a net amount of \$24,470. This overstatement was primarily due to the misstatements noted above. The correct ending cash balance was determined to be \$84,833. Further, the Committee's beginning cash on hand for January 1, 1994 should be corrected to reflect the same amount, \$84,833.

2. January 1, 1994 through December 31, 1994

a. Receipts

The Committee reported total receipts of \$1,232,600 for 1994. The Audit staff determined that, based upon bank records, the Committee should have reported total receipts of \$1,296,604. Therefore, the Committee's receipts were understated by a net amount of \$64,004. This understatement resulted from the following:

◦	Math error in calculating reported activity	\$ (1,000)
◦	NSF contributions reported	(632)

◦ Excessive portions of contributions from individuals not reported (see Finding II.C.)	17,150
◦ Contributions from Candidate committees not reported (see Finding II.C.)	29,500
◦ Contributions from individuals not reported	17,984
◦ Deposit not reported	500
◦ Interaccount transfer reported as an offset to operating expenditure	(310)
◦ Miscellaneous reconciling adjustment	<u>812</u>
Total (Net) Understatement	<u>\$ 64,004</u>

b. Disbursements

The Committee reported total disbursements of \$1,294,677 for 1994. The Audit staff's review of bank records revealed that the Committee should have reported total disbursements of \$1,381,838. Therefore, the Committee's reported disbursements were understated by \$87,161. The understatement resulted from the following:

◦ Math error in calculating reported activity	\$ 2,294
◦ Voided checks reported	(793)
◦ Disbursements and service charges not reported	20,186
◦ Transfers of contributions to the non-federal account not reported	64,350
◦ Miscellaneous reconciling adjustment	<u>1,124</u>
Total (Net) Understatement	<u>\$ 87,161</u>

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c. Ending Cash on Hand Balance

The reported ending cash balance at December 31, 1994 of \$(1,514) was understated by \$1,113. The correct ending cash balance was determined by the Audit staff to be \$(401). This understatement resulted from the effects of the receipt and disbursement misstatements noted above.

At the exit conference, the Audit staff provided copies of the consolidated bank reconciliations to the Committee. The Committee's representative agreed to file amended reports.

Subsequent to the exit conference, the Committee filed comprehensive amended reports for calendar years 1993 and 1994 which materially corrected the misstatements of financial activity described above.

C. REPORTING OF RECEIPTS

Sections 434(b)(3)(A),(B) and (F) of Title 2 of the United States Code state, in part, that each report under this section shall disclose the identification of each person who makes a contribution to the reporting committee during the reporting period, whose 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; 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 the identification of each person who provides a rebate, refund, or other offset to operating expenditures to the reporting committee in an aggregate amount or value in excess of \$200 within the calendar year, together with the date and amount of such receipt.

Section 431(13)(A) of Title 2 of the United States Code states that the term "identification" means, 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.

During our review of the Committee's receipts, the Audit staff noted 12 transactions totaling \$54,400 that the Committee failed to itemize. In addition, the Audit staff also noted 18 transactions totaling \$96,250 that were disclosed improperly.

1. Itemization of Receipts

a. Contributions from Candidate Committees

During the Audit staff's reconciliation of the Committee's reported activity to its bank activity for 1994 it was discovered that seven contributions, totaling \$29,500, were received from candidate committees but were neither included in reported totals nor itemized on Schedules A.

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b. Receipt of Offsets to Operating Expenditures

During our preparation of the 1993 bank reconciliation the Audit staff noted five offsets to operating expenditures totaling \$24,900 that were neither included in reported totals nor itemized on the Committee's Schedules A. All unitemized offsets were received in 1993 from Gordon and Schwenkmeyer, Incorporated, a telemarketing firm contracted by the Committee during the audit period.

2. Disclosure of Receipts

Due to a problem identified during the 1994 bank reconciliation, all contributions from individuals aggregating \$5,000 on the disclosure reports were reviewed. The Audit staff noted that the Committee only reported contributions from individuals up to \$5,000. The portions of the contributions which exceeded \$5,000 were not reported.<sup>7</sup>

As a result, the Audit staff noted fifteen contributions, totaling \$85,000, for which the amounts were incorrectly disclosed. This also caused the aggregate year-to-date for these contributions to be misstated. The Audit staff further noted that one of these contributions was disclosed without the proper address. In addition to the errors mentioned above, the Audit staff also noted three disclosure errors, totaling \$11,250, for which the incorrect aggregate year-to-date was disclosed.

At the exit conference, the Audit staff provided copies of workpaper schedules detailing the errors mentioned above. The Committee's representative agreed to file amended Schedules A to correct the receipts errors mentioned above, along with amended Schedules B, to disclose the transfers of contributions to the Committee's non-federal account.

Subsequent to the exit conference, the Committee filed the appropriate Schedules A and Schedules B, which materially corrected the errors mentioned above.

**D. REPORTING OF TRANSFERS FROM NON-FEDERAL TO FEDERAL ACCOUNTS FOR SHARED ACTIVITY (SCHEDULE H-3)**

Sections 106.5(g)(1) and (3) of Title 11 of the Code of Federal Regulations provide, in relevant part, that committees that have established separate federal and non-

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As a result of the Committee transferring portions of the contributions which exceeded \$5,000 to its non-federal account in a timely manner, no excessive contributions problem exists. However, it should be noted that these transfers to the non-federal account were neither included in reported totals nor itemized on the Committee's Schedules B (see Finding II.B )

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federal accounts under 11 CFR 102.5 shall report each transfer of funds from its non-federal account to its federal account or to its separate allocation account for the purpose of paying such expenses.

During the Audit period the Committee made a total of six transfers (\$198,491) from its non-federal accounts to its federal accounts for shared activity. All transfers were itemized as required on Schedules H-3, except for one transfer from the Unity Non-Federal account to the Unity 92 Federal account in the amount of \$109,379.

At the exit conference, this matter was discussed with Committee representatives, who agreed to file the appropriate amended report.

In the interim audit report, the Audit staff recommended that the Committee file an amended Schedule H-3 to correctly itemized the above noted transfer.

In response to the interim audit report, the Committee filed an amended Schedule H-3 which correctly disclosed this transfer.

#### **E. REPORTING OF LOANS, DEBTS AND OBLIGATIONS**

Section 434(b)(8) of Title 2 of the United States Code states that each report shall disclose the amount and nature of outstanding debts and obligations owed by or to such political committee; and where such debts and obligations are settled for less than their reported amount or value, a statement as to the circumstances and conditions under which such debts or obligations were extinguished and the consideration therefor.

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

Section 104.11 of Title 11 of the Code of Federal Regulations states, in part, that debts and obligations owed by or to a political committee which remain outstanding shall be continuously reported until extinguished. In addition, a debt, obligation, or written promise to make an expenditure, the amount of which is \$500 or less, shall be reported as of the time payment is made or no later than 60 days after such obligation is incurred, whichever comes first. Any loan, debt or obligation, the amount of which is over \$500, shall be reported as of the date on which the debt or obligation is incurred.

From the Audit staff's review of Committee disbursements, we determined that the Committee did not materially disclose its debts and obligations on Schedule D. Our review of Committee invoices and related payments indicated outstanding debts and

obligations to eleven (11) vendors totaling \$67,151 which were not reported as required on Committee disclosure reports.

The Audit staff reviewed all activity associated with a \$100,000 line of credit established by the Committee at Branch Banking and Trust. During the audit period, the Committee made draws of \$20,000 on 1/20/93 and \$4,593 on 6/7/94. Both draws remained outstanding through the end of the audit period (12/31/94) until repaid in 1995.

The Committee disclosed these draws as outstanding loans through the 1994 Pre-General election reporting period. However, these loans were not disclosed on Schedule C nor reported on Line 10 of the Committee's Summary Page for its 1994 Post General Election and Year End reports.

At the exit conference, Committee representatives were advised of the loan issues, and were provided a schedule detailing the other debts and obligations that should have been disclosed. Committee officials, who provided no explanations for these omissions, agreed to file amended Schedules D to correct this problem.

Subsequent to the exit conference, the Committee filed amended Schedules D which disclosed the majority of the debts and obligations noted above.

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FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

AR#95-73

November 27, 1996

Mr. Lyndo Tippett, Treasurer  
North Carolina Democratic Victory Fund  
220 Hillsborough Street  
Raleigh, NC 27603

Dear Mr. Tippett:

Attached please find the Final Audit Report on the North Carolina Democratic Victory Fund. The Commission approved the report on November 26, 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 Alex Boniewicz or William Antosz 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**

<b>Audit Fieldwork</b>	<b>12/4/95 - 1/26/96</b>
<b>Interim Audit Report to the Committee</b>	<b>9/3/96</b>
<b>Response Received to the Interim Audit Report</b>	<b>10/9/96</b>
<b>Final Audit Report Approved</b>	<b>11/26/96</b>

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