



FEDERAL ELECTION COMMISSION

1325 K STREET N.W.
WASHINGTON, D.C. 20463

REPORT OF THE AUDIT DIVISION ON THE WALLACE CAMPAIGN, INC.

I. Background

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This report covers an audit of the Wallace Campaign, Inc., ("the Committee") undertaken by the Audit Division to determine whether there has been compliance with the provisions of the Federal Election Campaign Act of 1971, as amended ("the Act"). The audit was conducted pursuant to Section 438(a)(8) of the Act and Section 9038(a) of Chapter 96 of the Internal Revenue Code of 1954. Section 438(a)(8) directs the Commission to "make from time to time audits and field investigations with respect to reports and statements filed under the provisions of this chapter, and with respect to alleged failures to file any report or statement required under the provisions of this chapter, and to give priority to auditing and field investigating of the verification for, and the receipt and use of, any payments received by a candidate under Chapter 95 or Chapter 96 of the Internal Revenue Code of 1954." Section 9038(a) of Chapter 96 states that "after each matching payment period, the Commission shall conduct a thorough examination and audit of the qualified campaign expenses of every candidate and his authorized committees who received payments under Section 9037."

The audit covered the period from January 1, 1975, through June 30, 1977. The Committee reported beginning cash-on-hand of \$198,363, total receipts of \$8,020,775, total expenditures of \$8,198,241 and ending cash-on-hand of \$20,897 for the period.

The principal officers of the Committee during the period covered by the audit included Mr. Charles S. Snider, Chairman, and Mr. F. Alton Dauphin, Jr., Treasurer.



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

II. Findings and Conclusions

A. Disclosure

(1) Disclosure of Repositories

The Registration Form and Statement of Organization for the Committee dated November 27, 1974, indicates that five (5) repositories were utilized by the Committee. However, our review of bank records presented for inspection revealed twenty-one additional repositories which were not disclosed on the Committee's Statement of Organization, as required by 2 U.S.C. 433(c).

Recommendation

The Committee amended its Statement of Organization on June 3, 1977, listing the previously undisclosed repositories, consequently, no action is recommended on this matter.

(2) Disclosure of In-Kind Contributions

Committee records indicated the receipt of \$491.50 of in-kind contributions which were not disclosed as required by 2 U.S.C. 434(b)(2), (3), (9) and (10).

Recommendation

The Committee submitted an amendment on June 3, 1977, disclosing the in-kind contributions mentioned above, consequently, no further action is recommended.

(3) Itemization of Expenditures Aggregating in Excess of \$100.00 During the Calendar Year

In our review of the Committee's procedures for itemizing expenditures, the Committee's bookkeeper explained that only those expenditures greater than \$100.00 were itemized on disclosure reports. Expenditures of \$100.00 or less, but aggregating in excess of \$100.00 during the calendar year, were not itemized on their reports, apparently as a result of a misinterpretation of 2 U.S.C. 434(b)(9) and (10).

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Recommendation

We recommend amendments to previously filed reports not be requested since our analysis revealed that only 2.3% of the total dollar value of all expenditures from January 1, 1975 to July 31, 1976 were classified as unitemized. We did advise the Committee that all expenditures must be reported in accordance with 2 U.S.C. 434(b)(9) and (10) on any subsequent reports.

(4) Unreported Receipts and Expenditures

As of June 30, 1977, approximately \$277.00 in receipts and approximately \$10,800.00 in expenditures relating to activities undertaken by the Committee's state offices and agents have not been reported as required by 2 U.S.C. 434(b)(2), (3), (6), (7), (9) and (10). Conversations with the Committee's bookkeeper indicated that untimely and incomplete transmittal of records from the state offices contributed to this situation. On October 17, 1977, the Committee filed comprehensive amendments for calendar years 1975, 1976 and 1977. The previously unreported activity mentioned above was reported in the amendments, along with detailed itemization relating to previously reported "lump sum" advances to individuals. Due to the lack of certain records, the amendments did not contain complete itemized expenditure information, however, the Committee will file informational amendments as records become available. All necessary records have been requested by the Committee from the respective parties.

Recommendation

It is the opinion of the Audit staff that the Committee has used its best efforts to obtain the required information in accordance with Section 102.9(e) of the Commission's Regulations (11 CFR 102.9(e)). Furthermore, the value of the expenditures lacking the required information is addressed in Item B(6) as an apparent unqualified campaign expense since the "best efforts" provision does not apply to Title 26. Therefore, we recommend no further action on this matter. However, the Committee may continue to supply information in the form of amendments to their disclosure reports as previously agreed.

(5) Itemization of Individual Contributors

We compared selected individuals listed on the Committee's sixth submission for matching funds (covering the period 4/17/76-5/31/76) as having contributed in excess of \$100.00 during calendar year 1976, and the May 10, 1976

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report (covering the period 4/1/76-4/30/76). Our comparison indicated that twenty-four contributors were not itemized on the disclosure report as required by the Act (2 U.S.C. 434(b) (2)), even though the same contributor data base was used to generate both the disclosure reports and the matching submissions for individual contributors. The Committee could offer no explanation for this discrepancy but agreed to file amended reports.

Recommendation

On July 7, 1977, the Committee submitted a comprehensive contributor list, as an amendment to its reports for calendar year 1976, correcting the inconsistency noted above; consequently, no further action is recommended.

(6) Cash Expenditures in Excess of \$100

During the primary campaign, the Committee or its agents maintained checking accounts at eighteen national or state banks located in eleven states outside the State of Alabama. According to the Treasurer, activities in other target states were funded from Headquarters in the form of advances to the person in charge of operations for the respective target state(s). In most cases, the funds advanced were ultimately disbursed in the form of currency rather than from a checking account as required by 2 U.S.C. 437b. However, these are documented in Committee records by receipted bills as required by 2 U.S.C. 432(d).

Recommendation

We recommend that no further action be taken on this matter since all required records have been maintained. We further recommend that the expenditures be considered qualified campaign expenses in that the documentation presented established that the expenses were campaign related.

B. Apparent Unqualified Campaign Expenses

The following paragraphs enumerate various financial transactions made by the Committee during the period January 1, 1975 through June 30, 1977, which appear to be unqualified campaign expenses as defined in Section 9032(9) of Title 26 of the United States Code (26 U.S.C. 9032(9)). Also included are (1) the preliminary determinations made by the Commission on May 19, 1977; (2) the results of additional field work performed in June and July 1977; and (3) the final staff recommendations.

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(1) Sale of Committee Asset at Less than Fair Market Value

On February 11, 1976, the Committee purchased a 1976 Ford van for a total price of \$4,950.70. On June 7, 1976, the Committee's Chairman, Mr. Charles S. Snider, purchased the van from the Committee for \$1,500.00. Upon checking with a Montgomery bank and a Montgomery Ford dealer, in August, 1976, we established a value for the Ford van of at least \$4,200.00. In addition, on June 4, 1976, the Committee incurred \$367.00 in expenses for installation of an air conditioning unit in the van, thereby raising the fair market value (FMV) to at least \$4,567.00. Further, post-sale and post-ineligibility (6/9/76) expenses in the amount of \$1,069.92 were incurred by the Committee relating to repairs and improvements to the van, including new tires and chrome wheels.

On May 19, 1977, by a vote of 4-0, the Commission made a preliminary determination that an amount equalling the difference between the fair market value, as adjusted, on the date of sale - \$4,567.00 - and the selling price - \$1,500.00 - or \$3,067.00 be viewed as an unqualified campaign expense and be repaid in full to the U.S. Treasury. Further, the post-ineligibility repairs and improvements to the van incurred after the date of sale would be deducted from any remaining matching fund eligibility based on net outstanding campaign obligations.

In July 1977, the Committee provided additional information pertaining to the establishment of the FMV as of June 7, 1976, namely: (a) the Chairman documented \$775.30 in post-sale expenses paid from his personal funds to restore the van to original condition; (b) the Treasurer provided an appraisal made in June 1977, based on a statement, also dated June 1977, from a mechanic familiar with the van during the period of ownership by the Committee. The appraised value was between \$1,500.00 and \$1,750.00; (c) the Chairman also provided an analysis utilizing the October 4, 1976 trade-in value, as adjusted, and deducting certain post-sale expenses for repairs and improvements borne by him. However, the Audit staff believes that this analysis is not a reliable indicator of the June 7, 1976 FMV of the van due to the cost valuations used.

Recommendation

With the exception of the \$775.30 in post-sale expenses to restore the van to original condition, we do not believe that the June 1977 appraisal and FMV analysis provided by the

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Committee satisfactorily establishes the true FMV as of June 7, 1976. Therefore, an amount equalling the difference between the FMV, as adjusted, on the date of sale--\$3,791.70 (\$4,567.00 less \$775.30)--and the selling price--\$1,500.00--or \$2,291.70, should be viewed as an unqualified campaign expense and repaid in full to the U.S. Treasury. The value (\$1,069.92) of post-ineligibility repairs and improvements to the van, which were incurred after the date of sale, was repaid to the Committee by the Chairman on June 29, 1977. The amount of this recovery was used to reduce the amount of net outstanding campaign obligations as of January 21, 1977; therefore, no additional repayment is necessary.

Recommended repayment amount - Item B(1) - \$2,291.70.

(2) Questionable Floral Arrangement Purchases

During 1975 and 1976, the Committee purchased floral arrangements from two (2) florists in the amount of \$2,002.22. Of these purchases, gift card notations on the receipts indicated that \$1,566.95 of the total were from the family of the Committee Chairman, Mr. Charles S. Snider, or picked up by a member of his family. In addition, of the items we questioned, \$149.99 comprised arrangement orders lacking sufficient information relating to sender or recipient to make any determination as to whether the purchase was campaign related. These figures do not include any floral arrangements sent to hospitals on behalf of the Committee's staff or sent by Governor and/or Mrs. Wallace.

On May 19, 1977, by a vote of 4-0, the Commission made a preliminary determination that absent documentation to the contrary \$1,716.94 in expenses for floral arrangements be viewed as unqualified and the value repaid in full to the U.S. Treasury.

Additional information obtained from the Committee indicates the following categories: (a) \$558.56 represented personal (i.e., non-campaign related) expenses of the Chairman who subsequently repaid the Committee on June 29, 1977, thus eliminating the need for repayment; (b) \$40.65 represented the cost of an office terrarium; (c) \$533.89 represented the value of arrangements which could not be identified as to sender's and/or recipient's name, although believed to be campaign-related by the Committee; and (d) \$583.84 represented arrangements sent under the name of the Chairman and/or his family which, according to the Chairman, should be considered campaign-related due to his long-standing relationship with the Committee and the Governor, making his name readily identifiable with the Wallace Campaign by the respective recipients.

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Recommendation

We recommend that the expenses noted in items (c) and (d) above be viewed as unqualified and the value be repaid in full to the U. S. Treasury.

Recommended repayment amount - Item B(2) - \$1,117.73

(3) Questionable Expenses Relating To
Automobile Servicing

Committee records indicate payment of \$19,065.32 to an auto repair shop and a tire service from January 1, 1975, to June 9, 1976 (Candidate's date of ineligibility). These expenditures represent \$7,745.18 for gasoline, \$1,147.82 for engine tuneups, \$3,412.35 for tires, \$402.25 for brake work, and \$6,357.72 for other repairs ranging from body and paint work to removal, repair, and reinstallation of engines to the installation of an air conditioning system. In most cases, the receipts for the work do not indicate the vehicle on which the work was done or the person authorizing the work.

On May 19, 1977, by a vote of 4-0, the Commission made a preliminary determination that absent documentation to the contrary \$18,698.32 (\$19,065.32 less \$367.00 for air conditioning unit in item B(1)) in expenses for automobile servicing be viewed as unqualified and the value repaid in full to the U.S. Treasury.

The Committee subsequently provided a listing of sixteen individuals who used this service and an analysis of expenses for the eighteen month period. In addition, according to the Treasurer and one of the co-owners of the service station, all major repair work was authorized by telephone before the work was performed. Although, the Chairman and/or Treasurer authorized the work, no records were kept which would aid in identifying the person's vehicle serviced, or if there was sufficient usage on campaign-related business to justify the repair and/or maintenance.

Recommendation

In light of the additional information/documentation obtained from the Committee, we recommend that the \$1,960.99 in major repairs which could not be verified as attributable to the persons authorized to use the service be viewed as unqualified and be repaid in full to the U.S. Treasury.

Recommended repayment amount - Item B(3) - \$1,960.99

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(4) Questionable Gift Purchases

Committee records contained paid receipts totaling \$2,320.36 from a Montgomery jewelry and small appliance dealer. The items purchased were:

Group #1

Purchase Date	Item Description	Amount
5/28/75	Desk TV	\$ 233.15
11/7/75	Portable TV	211.95
10/11/75	Camera and film	<u>175.54</u>
Group #1 Total:		\$ <u><u>620.64</u></u>

Group #2

3/11/75-4/6/76	Unidentified items	\$1,299.72
Group #2 Total:		<u><u>\$1,299.72</u></u>

Group #3

6/20/75	Toaster & blender	\$ 50.78
7/24/75	Mint Julep serving set	139.80
7/18/75	Can opener	15.32
9/4/75	Engraved Water Goblets	92.56
9/10/75	Server Car bag	44.99
10/11/75	Razor & Waffle Baker	<u>56.55</u>
Group #3 Total:		\$ <u><u>400.00</u></u>

With the exception of the items listed in group #1, information which would enable the staff to make a determination as to whether the remaining items were, in fact, campaign related and hence qualified campaign expenses, was not available at the conclusion of our initial field work in August 1976.

On May 19, 1977, by a vote of 4-0, the Commission made a preliminary determination that absent documentation to the contrary the expenses in Groups 2 and 3 (\$1,699.72) * be viewed as unqualified and the value be repaid in full to the U.S. Treasury.

The Committee was able to document \$2,294.43 of purchases as either items used in the campaign offices (\$1,985.75) or as gifts to long-time supporters and/or volunteers and their families (\$308.68); hence leaving one purchase, a necklace and gift wrap in the amount of \$25.93 remaining which the Committee could not document as campaign-related since the recipient is not known.

* Preliminary repayment amount overstated by \$211.95 as a result of a duplicate invoice, subsequently identified during additional field work.

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Recommendation

We recommend that the amount noted below representing the cost of the necklace and giftwrap be viewed as unqualified and the value be repaid in full to the U.S. Treasury.

Recommended repayment amount - Item B(4) - \$25.93

(5) Non-Campaign Related Purchases - American Express

Payments to American Express between January 1, 1975, and June 9, 1976, amounted to \$4,263.89. These payments were not supported by sufficient documentation to determine the purpose of the expenditure. Upon inquiry we were informed by the Committee bookkeeper that these were the personal credit cards of the Committee Chairman and/or Treasurer. As a result of Committee submission of documentation to clear unsupported expenditures mentioned in item B(6), American Express billing statements were furnished which indicated that the majority of the charges were for hotel and restaurant services (meals and lodging) in Montgomery, Alabama, location of Wallace headquarters.

On May 19, 1977, by a vote of 4-0, the Commission made a preliminary determination that absent any documentation to the contrary, such as a statement from the Committee Chairman and/or Treasurer, as appropriate, showing the purpose of the charges, these expenses totalling \$4,263.89 be viewed as unqualified and the value be repaid in full to the U.S. Treasury.

In June 1977, documentation was reviewed which cleared all but \$36.88 in charges. The Chairman agreed that this amount was personal and repaid the Committee on June 29, 1977.

Recommendation

We recommend that since the personal charges noted above were recovered by the Committee, no repayment is required.

(6) Unsupported Expenditures

On August 27, 1976, the Committee was advised that unsupported expenditures totalling approximately \$877,000.00 were identified as a result of our review of Committee expenditure records. As of May 19, 1977, the Committee supplied additional documentation in the form of receipted bills, invoices, travel vouchers, cancelled checks and acceptable contemporaneous memoranda and other materials with which the Audit staff was able

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to determine that the expenditures were incurred by the Candidate, or by his authorized committee, in connection with his campaign for nomination for election (see 26 U.S.C. 9032(9)). This additional documentation reduced the unsupported amount to approximately \$219,851.00.

On May 19, 1977, by a vote of 4-0, the Commission made a preliminary determination that absent documentation to the contrary, the insufficiently supported expenditures incurred (1/1/75-6/9/76) be viewed as unqualified and the value (\$219,399.42) be repaid in full to the U.S. Treasury. In addition, with respect to those expenses incurred (6/10/76-7/31/76), the amount (\$451.58) should be deducted from any further matching fund eligibility based on net outstanding campaign obligations.

As of this date, there remains approximately \$91,273.25 in expenditures made by the Committee or its agents during the period January 1, 1975, through June 9, 1976, supported by: (a) a cancelled check or bank wire with the purpose notation on the face with no additional documentation or (b) a cancelled check or bank wire with the purpose notation included on the associated check stub or (c) a cancelled check or bank wire with an accompanying memorandum to the bookkeeping department from the Treasurer containing the date, check number, amount, payee, and intended purpose (address not included).

It is the opinion of the Audit staff that the documentation in support of the remaining expenditures does not disclose the purpose of the expenditure in sufficient detail to allow a determination as to whether the expenditures were campaign-related, and consequently whether these expenditures are qualified campaign expenses as defined in Section 9032(9) of Title 26 of the United States Code (26 U.S.C. 9032(9)).

Breakdown of Unsupported Expenditures

<u>Description</u>	<u>Time Period</u>	<u>Amount</u>
Group #1		
Unaccounted for advances made from Headquarters bank accounts to individuals	1/1/75-6/9/76	
Total unaccounted for advances:		\$53,185.45

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<u>Description</u>	<u>Time Period</u>	<u>Amount</u>
Group #2		
Unsupported expenditures made from State bank accounts	1/1/75-6/9/76	
Franklin State Bank - NJ		\$ 1,273.81
Fulton National Bank - GA		1,500.00
1st Nat'l Bank & Trust - MI		995.00
S.E. 1st Bank of Jacksonville - FL		4,673.04
Bank of Countryside - IL		3,025.05
Southern Nat'l Bank of Houston - TX		1,145.00
American Fletcher Bank - IN		4,494.00
Bankers Trust - NY*		6,003.44
Amalgamated Bank - NY		4,978.46
		<u>\$29,087.80</u>

Recommendation

We recommend that the unsupported expenses incurred (1/1/75-6/9/76) be viewed as unqualified and the value be repaid in full to the U.S. Treasury.

Recommended repayment amount - Item B(6) - \$91,273.25

Recap - Section B

<u>Item</u>	<u>Recommended as Unqualified</u>
B(1) Van	\$ 2,291.70
B(2) Floral Arrangements	1,117.73
B(3) Automobile Service	1,960.99
B(4) Unidentified Gift	25.93
B(5) American Express	-0 -
B(6) Unsupported Expenditures	<u>91,273.25</u>
Total Recommended Repayment	<u>\$96,669.60</u>

*Cancelled checks and bank statements requested 8/27/76, however, not presented for review to date.

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C. Determination of Net Outstanding Campaign Obligations

In accordance with Section 134.3(c)(2) of the Commission's Regulations, the amount of net outstanding campaign obligations of the candidate is shown below. This figure was determined using actual receipts and qualified campaign expenses through June 30, 1977, with the appropriate adjustments to arrive at a January 21, 1977 figure, the last day on which the candidate could have submitted funds for matching payments.

Cash in banks as of 1/21/77 and capital assets as of 6/9/76 (candidate's date of ineligibility)	\$10,807.28
Post June 9, 1976, unreimbursed non-campaign related expenses	<u>6,361.96*</u>
Subtotal	17,169.24
Less: Qualified accounts payable as of 1/21/77	<u>103,720.75</u>
Net outstanding campaign obligations as of 1/21/77	<u><u>\$86,551.51</u></u>

Therefore, on January 21, 1977, the Committee was eligible to receive this amount of matching fund payment(s).

* Post 6/9/76 unreimbursed non-campaign related expenses:

Travel expense	\$1,408.51
Insurance expense	2,669.45
Payroll and/or per diem	1,685.00
Storage expense	<u>599.00</u>
	<u><u>\$6,361.96</u></u>

Recommendation

We recommend the authorization of a matching fund payment of \$48,874.05, currently held in abeyance by the Commission. However, in view of the recommended repayment amount of \$96,669.60 noted above, the payment is offset by the required repayment leaving a balance owed to the U.S. Treasury of \$47,795.55. This amount is subject to change based on the results of the repayment hearing to be conducted on April 3, 1978, as requested by the Candidate.

Total recommended repayment	\$96,669.60
Less: amount in abeyance	<u>(48,874.05)</u>
Net amount to be repaid	<u><u>\$47,795.55</u></u>

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III. Auditor's Opinion

Except for the matters specifically noted in this report, the audit disclosed that The Wallace Campaign, Inc. conducted their activities in conformity with the Federal Election Campaign Act of 1971, as amended, and in conformity with Chapter 96 of Title 26 of the United States Code in all material aspects.

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