FEDERAL ELECTION COMMISSION
1325 K STREET N.W.
WASHINGTON,D.C. 20463

REPORT OF THE AUDIT DIVISION ON THE PRESIDENT FORD COMMITTEE

(General Election Campaign)

I. Background

This report covers the audit of The President Ford Committee (PFC), undertaken by the Audit Division of the Federal Election Commission 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 9007(a) of Chapter 95 of the Internal Revenue Code of 1954. Section 438(a)(8) of the Act 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 9007(a) of Title 26 of the United States Code (26 U.S.C. 9007(a)), directs the Commission to conduct an audit of the qualified campaign expenses of every candidate and his authorized committees who received a Presidential Election Campaign Fund payment and to determine the amount, if any, of repayment to the general fund of the U.S. Treasury.

The audit covered the period from August 19, 1976, the beginning of the expenditure report period (26 U.S.C. 9002 (12)(A)), through January 31, 1978. The PFC reported beginning cash on hand of $0.00, total receipts of $23,806,015.19, total expenditures of $23,582,089.31* and ending cash on hand of $223,925.88 for the period ending with the February 10, 1978 report.

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* Reported expenditures subject to the limitation is $21,811,590.40 (See 2 U.S.C. 441a(b)(1)(B)).

The principal officers of the PFC during the period covered by the audit included Mr. Rogers C. B. Morton (8/19/76-9/6/76) and Mr. James A. Baker, III (9/7/76 to present), Chairmen, and Mr. Robert C. Moot (8/19/76-9/6/76) and Mr. Royston C. Hughes (9/7/76 to present), Treasurers.

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 the Commissioners and appropriate staff for review.

II. Findings and Conclusions

A. Disclosure

(1) Disclosure of Repositories

A comparison between the PFC's Statement of Organization and amendments thereto, and bank records reviewed during the audit, revealed twenty-one repositories which were not previously disclosed.

Recommendation

Since the PFC amended its Statement of Organization on July 12, 1977, listing the previously undisclosed repositories mentioned above, we recommend no action on this matter.

(2) Reporting of Debts and Obligations

A review of the PFC's outstanding debts and obligations revealed that while these were itemized at the close of each respective reporting period, their subsequent liquidation was evidenced only in the receipts' and expenditures' section of later reports, and were not reflected as required on Schedule C for lines 26 and 27.

Recommendation

Since testing has given assurance that all reported debts and obligations were liquidated, no amending action is believed to be necessary on an item by item basis. However, we suggested that the PFC submit a statement for the public record, signed by the Treasurer, indicating that all reported debts and obligations have been liquidated as of a given reporting date and that commencing with the May 10, 1977 report, debts and obligations will be reported as required by the Act. The PFC submitted this statement on July 12, 1977, consequently, no action is recommended.

(3) Advance Reporting System

(i) The PFC, throughout the general election campaign, reported as an expenditure the amount of an advance of funds made to PFC state bank accounts. As the state entities submitted expense reports to account for their advances, the PFC would enter these vendors' expenses into their expenditure reporting system and use a reversing entry to reduce the previously reported advance. While the advance payments were reported on a timely basis, the expense reports of the state entities were processed between one and twenty-three weeks after the actual state check was written to the ultimate vendor/payee. In some cases up to six (6) reporting periods elapsed between the date the check was written from the advance account and when the ultimate vendor/payee detail was reported. However, balances in the advance accounts were substantially liquidated and reported as of the May 10, 1977 report.

(ii) Refunds and rebates received and deposited in PFC non-Washington Headquarters accounts were netted from reported expenditures for the respective vendor/payee. This was accomplished in the expenditure section of the report, by reporting a negative entry for the respective vendor/payee, rather than a refund or rebate as a line 17 receipt. This resulted in a reporting difference of at least $21,000.00.

This procedure mentioned above did not result in a misstatement of expenditures chargeable to the expenditure limitation but rather an understatement in refunds and rebates received and a like understatement in expenditures per report.

(iii) The PFC, in processing expense reports received from state advance accounts, sometimes grouped together several separate expenditures to a single vendor and reported them as one expenditure in the aggregate amount, thus reducing processing time, hence cost, by keeping line entries to a minimum. A few state advance accounts, in reporting back to PFC, also grouped expenditures together on their expense reports.

This practice, either by PFC or the state advance accounts, while not 100% consistent with the provision of reporting each expenditure in excess of $100.00 or aggregating in excess of $100.00 in a calendar year, did not materially distort disclosure.

(iv) A similar practice was noted in the PFC's processing of state advance account expense reports. On several occasions, PFC grouped incidental expenses (usually less than $25.00 or occasionally larger expenditures) for which adequate information (name and address of vendor, etc.) was not available at time of processing, under the name of the state chairman or person in charge of the advance account as the vendor/payee. This practice allowed timely processing of state expense reports with categorization of expenses (supplies, travel, etc.) when available.

While there is a possibility that certain expenses processed in this manner could conceivably aggregate in excess of $100.00 per actual vendor per calendar year, thus requiring itemization, this practice did not have a material effect on disclosure.

Recommendation

We feel that no amending action is required by the PFC since our review indicated that ultimate vendor/payee information was materially reported, although not always on a current basis.

B. Repayment to the U.S. Treasury

Pursuant to Section 9007(b) of Title 26 of the United States Code (26 U.S.C. 9007(b)) and Commission Regulations, Section 142.4(b) and 145.2 (11 CFR 142.4(b) and 145.2), the repayment amount applicable to the PFC is computed as follows:

(1) Unqualified Campaign Expenses

(a) Our review of the PFC's reports and records revealed that disbursements totalling $700.00 were made in payment of parking violation fines levied against PFC employees and/or volunteers while performing campaign related duties.

Recommendation

We recommend that the payment of parking violation fines be viewed as an unqualified campaign expense and the value ($700.00) be repaid in full to the U.S. Treasury. In addition, the PFC should be advised that the value of the repayment and the original expenses are not subject to the spending limitation in Section 441a(b)(1)(B) of Title 2 of the United States Code (2 U.S.C. 441a(b)(1)(B)).

(b) On December 1, 1977, the PFC paid a bill totalling $11,589.87 for legal services rendered in connection with the disposition of the residual in the PFC's "Legal and Accounting Compliance Fund." This expense was incurred by the Candidate during the expenditure report period; however, the majority of the services were rendered in 1977 in seeking approval from the Internal Revenue Service as to the method of disposition. The PFC believes this expense may be classified as a "winding down cost" and therefore a qualified campaign expense.

On January 5, 1978, the Commission determined that this expense did not further the election of the Candidate and hence was an unqualified campaign expense. The Committee requested that they be allowed to reimburse the "Public Funds Account" from the "Legal and Accounting Compliance Fund" rather than make a repayment to the U.S. Treasury. This amount would then be included in the calculation of any campaign surplus to be refunded to the U.S. Treasury. The Commission approved the reimbursement on January 27, 1978, and the funds were transferred by the Committee on the same date.

<u>Recommendation</u>

Since the Committee's "Public Funds Account" has recovered the full amount of the unqualified campaign expense, we recommend no further action.

(2) <u>Income Derived From Investment of a Portion of the Fund Payment</u>

The PFC invested a portion of the Fund payment in a savings account for a two month period commencing on August 24, 1976. The interest earned on the principal and interest base amounted to $71,474.29. In addition, $28.08 was realized as a result of interest earned on telephone deposits.

<u>Recommendation</u>

Section 142.4 of the Commission's Regulations (11 CFR 142.4) first published August 25, 1976, provides that earned interest income must be returned to the U.S. Treasury presumably less applicable Federal and/or State income taxes. The computation below illustrates the method of arriving at the amount to be repaid to the U.S. Treasury. In addition, the PFC should be advised that the value of the repayment and income tax payments is not subject to the spending limitation in Section 441a(b)(1)(B) of Title 2 of the United States Code (2 U.S.C. 441a(b)(1)(B)).

Total amount of interest income earned	$ 71,502.37
Less: Federal income tax paid	(33,951.00)
D.C. income tax paid	(7,079.00)
	$ 30,472.37
Repayment amount - Item B(2)	$ 30,472.37

(3) Unused Portion of Fund Payment

The computation below illustrates the method of arriving at the amount to be repaid to the U.S. Treasury. With the exception of the amount added for estimated Qualified Campaign Expenses net of estimated refunds and rebates, the remainder of the computation is self-explanatory. Attachment #1 is a schedule comprising PFC's best estimate of winding down costs for the period February 1, 1978 through May 31, 1978 (projected termination date of the PFC), accounts payable as of February 10, 1978 (incurred during the expenditure report period), and accounts receivable as of February 10, 1978.

These estimated figures were reviewed by the Audit staff and are considered reasonable. The use of these estimates will permit a repayment determination at this time, rather than postponing repayment pending actual figures for the period February 1, 1978 through May 31, 1978. Estimates will be compared to actual figures by reviewing future PFC reports filed and/or records as necessary through the date of termination. An adjustment to the repayment figure presented will be made in a supplemental report, if necessary.

Fund Payment	$ 21,820,000.00
Less: Expenditures subject to limitation (8/19/76-1/31/78)	(21,811,590.40)
Current Surplus as of January 31, 1978	8,409.60
Estimated Qualified Campaign Expenses Net of Estimated Refunds and Rebates as of 2/10/78 - See Attachment #1	(6,222.55)
Unused Portion of Fund Payment	$ 2,187.05
Repayment amount - Item B(3)	$ 2,187.05

Recap - Section B

Item B(1) - Unqualified Campaign Expenses	$	700.00
Item B(2) - Net Income From Investment		30,472.37
Item B(3) - Unused Portion of Fund Payment		2,187.05
Total Repayment Amount	$	33,359.42

On February 17, 1978, the Committee Controller hand delivered two (2) checks ($700.00 and $32,659.42), drawn on the accounts of the President Ford Committee and made payable to the United States Treasury for the sum of $33,359.42. This represents payment in full of the Committee's repayment obligation under Section 9007 (b)(1) and (b)(4) of Title 26 of the United States Code.

III. Auditor's Opinion

Except for the matters specifically noted in this report, the audit disclosed that The President Ford Committee conducted their activities in conformity with the Federal Election Campaign Act of 1971, as amended, and in conformity with Chapter 95 of Title 26 of the United States Code in all material aspects.

Attachment #1

Estimated Qualified Campaign Expenses and Receivables as of Close of Business February 10, 1978

Accounts Payable February 10, 1978		$ 4,518.93
Winding Down Costs February 1, 1978 to Termination		
Salaries and Fees	$3,250.00	
Postage, Printing and Reproduction	125.00	
Storage	$ 600.00	3,975.00
Accounts Receivable February 10, 1978		(2,271.38)
Estimated Qualified Campaign Expenses net of estimated refunds and rebates as of February 10, 1978		$ 6,222.55

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SEPARATOR