



FEDERAL ELECTION COMMISSION  
WASHINGTON, DC 20543

July 9, 1980

MEMORANDUM

TO: FRED ETLAND  
PRESS OFFICE

THROUGH: *[Signature]* ROBERT J. COSTA

FROM: *[Signature]* JUDY HAWKINS *[Signature]*

SUBJECT: PUBLIC ISSUANCE OF THRESHOLD AUDIT  
REPORT - THE CARTER/MONDALE PRESIDENTIAL  
COMMITTEE, INC.

Attached please find a copy of the Threshold Audit Report of the Carter/Mondale Presidential Committee, Inc. which was approved by the Commission on July 3, 1980.

Informational copies of the report have been received by all parties involved and this report may be released to the public as of today, July 9, 1980.

Attachment as stated

cc: The Library  
 RAL  
 Public Record



FEDERAL ELECTION COMMISSION

WASHINGTON D.C. 20463

THRESHOLD AUDIT REPORT OF THE AUDIT DIVISION
ON
THE CARTER/MONDALE PRESIDENTIAL COMMITTEE, INC.

I. Background

A. Overview

This report covers an audit of the Carter/Mondale Presidential Committee, Inc. ("the Committee"), to determine whether there has been compliance with the provisions of the Federal Election Campaign Act of 1971, as amended. The audit was conducted pursuant to the provisions of the Act and the rules of the United States Election Administration Commission. The Commission is authorized to investigate and report on any person or organization which is subject to the provisions of the Act, and to conduct examinations and audits in order to determine compliance with the Act. The audit was conducted in accordance with the provisions of the Act and the rules of the Commission, and the results are reported in this report.

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The Committee is registered with the Federal Election Commission on March 10, 1976, and is subject to the provisions of the Act and the rules of the Commission.

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### 3. Key Personnel:

The principal officers of the Committee during the period studied were Mr. Frank Schellie, Chairman, and Mr. John ...

### 4. Scope

The audit included such cases as receipt of total reported receipts and expenditures and individual transactions; review of requested supporting documentation and analysis of Committee letters and communications; review of correspondence and administrative instructions; and such other items as seemed necessary under the circumstances.

### 5. audit findings and recommendations

#### 3. Documentation of Findings

The objective of the audit was to determine the accuracy of the reported receipts and expenditures and to determine the propriety of the expenditures. The audit was limited to the period from January 1, 1954, to December 31, 1954.

The audit revealed that the Committee has not maintained adequate records of its receipts and expenditures. It is recommended that the Committee should maintain accurate records of its receipts and expenditures.

#### 4. audit findings and recommendations

##### 3. Documentation of Findings

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During the period of audit, Section 431 (2) (4) (C) of the Act stated, in part, that the term "expenditure" does not include the payment for legal or accounting services rendered to or on behalf of a candidate or political committee solely for the purpose of ensuring compliance with the Act. Although they must be reported, these compliance expenditures are exempt from the limitations imposed by Section 441a (b) (1) (A) of the Act.

Discussion

The Committee has retroactively adopted as of December 31, 1979, the exempt allocation policies recommended by a consultant from Peat, Marwick and Mitchell in a study entitled "An Analysis of Legal and Accounting Expenditures."

This report was compiled from the results of a study made of each of the Committee's cost centers in December of 1979. Cost center personnel were interviewed and an attempt was made to determine the amount of time spent on compliance related activities. Since no time records are maintained by the cost centers, the study relied on the ability of each individual to recognize and recall compliance vs. non-compliance work.

The report, completed in January 1980, recommended to the Committee percentages to be used in allocating the payment of each cost center to either legal and accounting. Accordingly, the 4th Quarter Report has filed with a retrospective adjustment to all payroll expenditures.

In the course of the fieldwork, covering the period from inception through September 30, 1979, the Audit Staff reviewed the Committee's compliance allocation policy and examined the assumptions upon which it was formulated. Based on this examination, the following findings are presented:

1. Exempt Allocation - Payroll Allocation

The Committee has allocated 90% of the Finance Cost Center payroll to exempt non-compliance. This policy implies that only 10% of the Finance Cost Center payroll would be necessary to the requirements of the Act. The Audit Staff found that this is not true. The Audit Staff concluded that the 10% exemption is not sufficient to maintain the maximum 10% exemption. The following non-compliance expenditures have been identified in determining a reasonable allocation:

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- 1) maintaining cash receipts records;
- 2) writing checks, transmitting funds to field workers, recording disbursements;
- 3) reconciling bank statements;
- 4) preparing cash flow reports;
- 5) budget preparation and budget performance reports;

6) keeping payroll records, paying employees, filing payrolls, recording and making sure that federal payroll reports are filed.

7) preparing expense reports for employees (1120 form) with the necessary supporting documents, such as receipts, and filing them in the appropriate folders. The employee's report is also filed in the employee's file. The employee's report is also filed in the appropriate folders. The employee's report is also filed in the appropriate folders.

8) preparing and filing reports on the status of the organization's financial affairs, including the balance sheet, income statement, and cash flow statement. These reports are prepared on a regular basis and are filed in the appropriate folders.

9) preparing and filing reports on the organization's compliance with applicable laws and regulations, including the Internal Revenue Code, the Employee Retirement Income Security Act (ERISA), and the Affordable Care Act (ACA). These reports are prepared on a regular basis and are filed in the appropriate folders.

10) preparing and filing reports on the organization's overall financial performance, including the annual financial statement and the annual budget performance report. These reports are prepared on a regular basis and are filed in the appropriate folders.

11) preparing and filing reports on the organization's compliance with applicable laws and regulations, including the Internal Revenue Code, the Employee Retirement Income Security Act (ERISA), and the Affordable Care Act (ACA). These reports are prepared on a regular basis and are filed in the appropriate folders.

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Recommendation

Report adjustments made by the Committee were effective through March 31, 1980, which extended beyond the September 30, 1979 period of audit. Therefore, the Audit staff recommends that the amendments and committee adherence to these allocation changes be verified during the mandatory post primary audit, and that no further action by the Committee be required at this time.

b) Exempt Legal - Payroll Allocation

In accordance with the recommendations made by their consultant in the study discussed above, the Committee is allocating 30% of the legal cost center payroll to exempt compliance.

The Audit staff discussed legal cost center activities with personnel from the legal staff and determined from their descriptions of their work that a larger proportion of legal department activity is non-compliance than is reflected in the current allocation. Using percentages given to us for each individual as an estimate of their compliance activity, we calculated that an average of 30% of the legal cost center payroll is compliance related, and 70% is non-compliance.

The Audit staff discussed these findings with the Committee and they have agreed with our calculations.

In May 27, 1980, the Committee responded to the Audit staff's recommendations noting that the changes regarding the reallocation of legal payroll had been made, and filed as an amendment to the April 20th report.

Recommendation

As noted in the recommendations section of the report, the amendments to the report of the Committee were effective through March 31, 1980, which extended beyond the September 30, 1979 period of audit. Therefore, the Audit staff recommends that the amendments and committee adherence to these allocation changes be verified during the mandatory post primary audit, and that no further action be required at this time.

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1c) Allocation of Computer Payroll Processing Costs

The Committee has allocated to exempt legal and accounting costs of the cost of computer processing the Committee payroll. Since only a portion of payroll is allocated to compliance, only a proportionate share of payroll processing should be allocated to compliance. Using the payroll processing costs recommended in the Committee's study, and the revised report and accounting report prepared by the Committee in this report, the Audit staff estimates that the Committee's payroll processing costs attributable to exempt compliance, excluding the allocation to payroll processing, of payroll processing should be allocated to compliance.

After reviewing the report, the Committee has recommended that the allocation of payroll processing costs to compliance be based on the actual number of exempt employees, rather than the total number of employees. The report also recommends that the Committee's study be updated to reflect the current situation.

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Recommendation

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2. Allocations of Expenditures in the States and to Exempt Fundraising

Section 442a(b)(1)(A), and 442a(c) of Title 2 of the United States Code state that no candidate for the office of President of the United States who is eligible to receive and has received matching funds may make an aggregation of expenditures in any one state in excess of the greater of 16 cents multiplied by the state voting age population and adjusted by the Consumer Price Index, or \$200,000.

Section 106.2 of Title 11 of the Code of Federal Regulations specifies the manner in which allocations of expenditures to states are to be made. Section 106.2(c)(1) states that media expenditures attributable to more than one state shall be allocated in proportion to the estimated voting age population which can reasonably be expected to be influenced by them. Section 106.2(c)(2) states that expenditures for travel within a state shall be attributed to that state, and travel between states does not have to be allocated to any one state.

During the period of audit, section 442a(b)(1)(A) of Title 2, United States Code, and section 106.2(c)(1) of Title 11, United States Code, were in effect. The Commission is not subject to the expenditure limitations of section 442a(b)(1)(A) of Title 2, United States Code, or section 106.2(c)(1) of Title 11, United States Code, since the Commission is not a candidate for the office of President of the United States.

In addition, section 106.2(c)(2) of Title 11 of the Code of Federal Regulations states, in part, that each political committee required to file any report or statement under this subchapter shall maintain records and reports on the matters required to be reported, which shall provide in sufficient detail the necessary information from which the records and statements filed may be prepared and checked for accuracy.

Media

In the course of the audit, the Commission, the State of New York, and the State of California, were contacted by a media consultant in connection with the media expenditures of the Commission. The consultant advised that the Commission's expenditures for media in the various states are in excess of the Commission's allocations to the various states in exempt fundraising.

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Currently, invoices show dollar amounts, the name of a state or a "uniting" station, and general information about the program. There is no supporting information as to the frequency of the station or radio stations, dates, names of the program, publication dates or program contents. Without this information, the Public Staff cannot verify the state or local television stations (under 411(a) and 411(b) of the Act or 171.2). Although the Committee was able to find certain evidence to support allocations made in the public service, such evidence may not always be available.

The Public Staff has discussed the need for more detailed records with the Committee, and they have agreed to request them from the radio companies.

Recommendation

The Public Staff recommends that the Committee obtain more detailed records from the radio companies to enable the Public Staff to verify their compliance with the Act.

Footnote

The Public Staff has reviewed the records of the radio companies and has found that they do not contain the information required by the Act. The Public Staff has requested that the radio companies provide this information to the Public Staff.

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The operating account cannot be subject to the same accounting controls that ensure the allocation of state expenditures in the draft account, such as the precoding of drafts with state general ledger codes. It is therefore necessary for the Committee to develop and apply allocation procedures for travel expenditures occurring in the operating account.

In addition, the Audit staff noted that the Committee does not, as a policy, allocate that portion of salary related to state travel. Salaries of campaign personnel who are assigned to work in a state are properly allocated to the state in the payroll accounting system. This system does not provide, however, for the allocation of portions of salaries representing travel to the state by headquarters personnel.

The Audit staff reviewed the problems of allocating travel expenses with the Committee. While they agreed to the need for travel expense allocations, they were uncertain as to how such a policy could be instituted.

The Audit staff pointed out to the Committee that use of time sheets was the best method for determining those expenses incurred by headquarters personnel which should be allocated, and that a detailed review of headquarters personnel's assignments would provide a basis to allocate travel expenses properly. Such review could be done at the point at which travel documentation is coded for processing.

Recommendation

The Audit staff recommends, that the Committee adopt a procedure for allocating travel expenses, including headquarters payroll expenses, to the states to which they apply. No amendment is recommended because the dollar amounts are not significant at this time.

1. Combined Federal and Campaign Travel

During the period of audit, Section 402 (b) of Title 2, of the United States Code states, in part, it shall be the duty of the treasurer to keep a detailed and exact account of all expenditures made by or on behalf of the committee. 11 C.F.R. 101.1 states, in part, that where travel is both campaign and non-campaign related an allocation must be made.

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c) Committee policy states that if it is necessary to carry a government plane to a destination, the costs of carrying the aircraft will be allocated based on the number of passengers aboard the aircraft on the next leg. It is unclear in Committee policy whether any of the cost would be borne by the Committee if the individual to be ferried is required to leave a campaign trip due to official business. Though the passengers are on official business, a portion of the cost should be borne by the Committee, since the additional flight resulted from a mixed or campaign trip.

Recommendations

For the period of audit, the Audit Staff recommends no further Committee action. For combined trips occurring after September 30, 1979, the Audit Staff recommends that the Committee:

1. continue to use first class tickets in the case of travel to a city served by commercial airlines, and in the case of travel to a city not served by commercial airlines, use first class tickets, the actual travel cost.

2. continue to use first class tickets in the case of travel to a city served by commercial airlines, and in the case of travel to a city not served by commercial airlines, use first class tickets, the actual travel cost.

3. clarify Committee policy concerning allocation of traveling expenses.

4. Conduct of Campaigns

Section 177.2 of the Code of Federal Regulations states that a contribution is any thing of value given to or for the use of any individual, partnership, corporation, or other organization, for the purpose of influencing the exercise of the official functions of that individual, partnership, corporation, or other organization.

In addition, Section 177.2 of the Code of Federal Regulations, states in part, that contributions which appear to be illegal shall be, within 60 days:

1. returned to the contributor;

2. deposited into a campaign depositary, reported, and when a contribution can not be determined to be legal, returned within a reasonable time.



Legal questions encountered by the Committee are referred to a legal advisory committee which is composed of Committee personnel and attorneys from various outside law firms. Advisory committee members are expected to donate their own time for non-compliance legal work. Advisory committee members are informed of the various requirements relating to exempt compliance activities, volunteer services, use of law firm resources, and requested to maintain accurate records to be submitted to the campaign committee.

In a discussion with a member of the Committee's legal staff, the Audit staff determined that compliance related legal services may have been provided by members of the advisory committee, but that no records had been submitted to the Committee, therefore no services had been reported. In addition, the Committee made no formal request to advisory committee members to determine whether reportable legal services had been provided by the members.

By request of the Audit staff, the Committee sent questionnaires to advisory committee members to determine whether any reportable legal services had been provided. The Committee provided copies of the questionnaires to the Audit staff and in their May 27, 1982 response, stated that the action indicated no reportable services had been provided.

Recommendation:

The Audit staff recommends that though no further Committee action is required at this time, the Committee should stress to advisory committee members that records should be maintained for any services resulting in an in-kind contribution from an employer, or for reportable compliance activities, and they should be submitted to the Committee for timely disclosure.

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