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FEDERAL ELECTION COMMISSION
WASHINGTON DC 20581

July 9, 1980

MEMORANDUM

TO: FRED EILAND
PRESS OFFICE

THROUGH: *[Signature]* ROBERT J. COSTA

FROM: *[Signature]* JUDY HAWKINS Jr.

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 at 10 a.m. today, July 9, 1980.

Attachment(s) attached

cc: FEC Library
RAE
[Signature] Title 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 Act"). The audit was conducted pursuant to Section 3033(b) of Title 11 of the United States Code which states, in part, that the Commission is authorized to prescribe rules and regulations in accordance with the provisions of subsection (c), to conduct examinations and audits (in addition to examinations and audits required by Section 3033(a)), to conduct investigations, and to require the keeping and submission of any books, records, and information, which it determines to be necessary to carry out its responsibilities under the chapter.

In addition, Section 3033.1.b of Title 11 of the Code of Federal Regulations states, that the Commission may conduct other examinations and audits from time to time as it deems necessary to carry out the provisions of this subchapter.

The Committee registered with the Federal Election Commission on March 16, 1976, and maintains its headquarters in Washington, D.C.

The audit covered the period from inception through September 30, 1976. The Committee reported an opening cash balance of \$-0-, total receipts of \$1,420,720.43, total expenditures of \$1,535,355.33, and a closing cash balance of \$386,764.10 during the period.

This report is based on documents and working papers supporting each of the financial statements. The documents of the record upon which the Commission based its accounting in the matters in this report and were available at the time of the appropriate staff for review.

3. Key Personnel

The principal officers of the Committee during the period audited were Mr. Evan Bobelle, Chairman, and Mr. John Salton, Treasurer.

C. Scope

The audit included such tasks as reconciliation of total reported receipts and expenditures and individual transactions; review of required supporting documentation and analysis of Committee debts and obligations; review of disbursement and expenditure limitations; and such other audit procedures as deemed necessary under the circumstances.

II. Audit Findings and Recommendations

A. Introduction to Findings

The objective of the independent audit is to review the Committee's accounting policies and procedures in order to determine not only their current, but also their potential ability to comply with Title I of the United States Code and Title II of the United States Code and to review the accuracy of reports and statements filed during the audit period.

The report contains two (2) types of recommendations: those involving material deficiencies which require immediate specific action by the Committee such as repair treatments or refunds, and procedural recommendations which are designed to improve the Committee's ability to comply with the requirements of the Act.

3. Audit Findings and Recommendations

I. Allegations of Excess Legal and Accounting

Section 441a(b)(1), A., and 441a(c) of Title I of the United States Code states, in part, that no Presidential candidate who is eligible to receive matching fund payments may make in a campaign for nomination expenditures in excess of \$10,000,000 adjusted by the Consumer Price Index.

During the period of audit, Section 431(f)(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 payroll of each cost center to exempt legal and accounting. Accordingly, the 4th Quarter Report was filled with a retroactive 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.

II. Exempt Allocation - Payroll Allocation

The Committee has allocated 95% of the Finance Cost Center payroll to exempt accounting. This policy implies that only 5% of the Finance payroll would be necessary if the requirements of the Act did not have to be met. The Audit staff found that this 5% does not fully reflect the minimum costs associated with maintaining an approximately \$15,000,000 cash flow organization of this type. The following non-compliance accounting functions must be considered in determining a reasonable allocation:

- 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 quarterly payroll returns and making state and federal payroll deposits; and
- 7) filing exempt organization return (1020 PCS) with the Internal Revenue Service. Section 501 of the Internal Revenue Code requires that all unrelated business income be reported. Consequently, the Committee must maintain accounting records sufficient to permit compliance with the Internal Revenue Service reporting and record keeping requirements.

A discussion of allocation percentages is more meaningful when translated into man-hours of employment. As January 1, 1981, the Finance cost centers required a total of 30 man hours per day, 11 people, 3 hours per day. The Audit staff recommends that 18 or 13 out of 30 man hours per day be attributed to non-compliance in contrast to the Committee's practice of attributing 31 or only 4.4 man hours to non-compliance.

When the minimum non-compliance accounting functions described above are considered, it is reasonable to assume that more than 4.4 man hours per day would be required to perform them. This position is supported by the Audit staff's observation of Committee employees performing non-compliance work when their pay was allocated 100% to exempt compliance.

The Audit staff discussed these findings with Committee officials, and they initially stated their disagreement with our conclusions.

On May 27, 1981, the Committee responded to the Audit staff's recommendations noting that the exempt accounting payroll allocation changes had been made as recommended, and were reflected in an amendment to the April 1981 report.

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.

1b) 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 30% allocation. Using percentages given to us for each individual as an estimate of their compliance activity, we calculate that an average of 70% of the legal cost center payroll is compliance related, and 30% 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 requiring the reallocation of legal payroll had been made, and filed in an amendment to the April 1980 report.

Recommendation

As noted in the recommendation for finding 1a, the amendments filed by the Committee include language which extend beyond the period of the audit, therefore the Audit staff recommends that the amendments and committee adherence to the percentage changes be reviewed during the post primary audit, and that no further action be required at this time.

1c) Allocation of Computer Payroll Processing Costs

The Committee has allocated to exempt legal and accounting 100% 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 allocation percentages recommended in the consultant's study, and the revised legal and accounting allocation percentages recommended in this report, the Audit staff calculates that 21% of the Committee's payroll is allocable to exempt compliance. Extending this calculation to payroll processing, 21% of payroll processing should be allocated to compliance.

After reviewing our calculations, the Committee agreed to our method of allocating payroll processing costs, but initially disagreed on the actual percentage. The percentage differences result from the Committee's assertion that 95% rather than the Audit staff's 85% should be allocated to exempt accounting.

Recommendation

The Audit staff does not recommend a report amendment for the period of the audit because the dollar amount is not significant, but we do recommend in the future that the Committee apply a percentage compliance allocation to payroll processing and revise the percentage whenever substantial changes in payroll compliance allocations occur.

1d Overhead Allocations

In the consultant's report to the Committee discussed previously, an allocation of overhead expenses among operating, exempt legal and accounting, and fundraising was calculated. A proportionate overhead adjustment was filed with the Annual Charter Report. This adjustment was based, in part, on the exempt legal and accounting payroll allocation percentages discussed in sections 1, 2 and 3 above.

The Audit staff reviewed the overhead allocation calculation with the Committee. They have concurred that the overhead allocation should reflect the revised payroll allocations.

Recommendation

The Audit staff recommends that the Committee revise their overhead allocations to reflect the adjustments to exempt legal and accounting payroll allocations recommended in sections 1, 2 and 3 above. We do not, however, recommend a report amendment at this time since the dollar amounts are not significant.

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

Section 441a(b)(1)(A), and 441a(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 \$100,000.

Section 106.1 of Title II 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 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 401(f)(4)(I) of Title 2, and Section 106.2(c)(2) of Title II, stated, in part, that fundraising costs are not subject to the expenditure limitation of 441a(b) until they exceed 10% of that limitation to occur within 60 days of a primary election convention or primaries. These costs, however, shall be accounted in accordance with 441a(b).

In addition, Section 106.1(d) of Title II of the Code of Federal Regulations states, in part, that each political committee required to file any report or statement under this subsection shall maintain records with respect to the matters required to be reported, which shall provide in sufficient detail the necessary information from which the reports and statements filed may be verified and checked for accuracy.

In Media

In the course of the audit findings, the Audit staff examined invoices submitted by a media consultant in connection with media services provided. The Audit staff found that these invoices did not provide enough information to verify the Committee's allocations to the various states or to exempt fundraising.

Currently, invoices show dollar amounts, the name of a state or a "fundraising" notation, and general information about program length. There is no supporting information as to the identity of television or radio stations, dates, names of newspapers, publication dates or program contents. Without this information, the Audit staff cannot verify the state or fundraising allocations made under 441a(b) and 431(f) of the Act or 11 C.F.R. 106.2. Although the Committee was able to find collateral evidence to support allocations made in the audit period, such evidence may not always be available.

The Audit staff has discussed the need for more detailed invoices with the Committee, and they have agreed to request them from the media consultant.

Recommendation

The Audit staff recommends that the Committee obtain more detailed invoices from their media consultant to enable the Audit staff to verify their compliance with the Act.

35. Travel

The Committee maintains two types of accounts in which travel expenditures may occur: a draft account for state campaign activity and an operating account used primarily for national headquarters expenditures.

State expenditures are controlled by issuing limited quantities of blank drafts to Committee personnel in various states and preceding the drafts for allocation to the states.

An examination of expenditures from the headquarters operating account revealed, however, that some travel expenditures incurred by headquarters personnel on incidental travel to the states are not properly allocated.

The Audit staff examined expense reports, activity schedules, and travel summaries submitted by headquarters personnel in relation to state travel. It was found that per diem, mileage, airfare, and car rentals that were clearly related to state campaign business were not allocated to the state.

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 preceding 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 headquarter's 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 where expenses incurred by headquarters personnel should be allocated, and that a detailed review of headquarters personnel reimbursement requests would indicate to which state travel expenses are related. 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 proportionate payroll expenses, to the states to which they apply. No amendment is recommended because the dollar amounts are not significant at this time.

C. Combined Official and Campaign Travel

During the period of audit, Section 430 c (3) of Title I, of the United States Code stated, 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. 100.1 states, in part, that where travel is both campaign and non-campaign related an allocation must be made.

During the audit, an examination was made of invoices for combined official and campaign travel. These invoices stated the amounts due to the U.S. Government for campaign portions of combined travel, but did not show original U.S. Government invoices or the calculations used to determine the campaign Committee's share of expenses. We were unable to verify these expenditures because of insufficient records. Though not significant as of September 30, 1979, in the opinion of the Audit staff, the lack of documentation may result in a material problem as the campaign progresses.

The Committee officials stated they recognized the need for more information and agreed to request supporting documentation.

The Committee provided the Audit staff with a statement of policy, and on May 27, 1980, provided trip itineraries, manifests, and worksheets used to determine the Committee portion of travel expenses for the single trip involving combined official and campaign travel during the audit period. The formula used by the Committee is as follows:

First class airfare plus 1 dollar X the number of campaign-related passengers X campaign event time
total event time = amount of reimbursement.

A review of the documentation indicated several areas in Committee policy requiring further clarification:

a. The Committee allocation formula is based on commercial first class airfare rates; however, Committee policy does not state how the Committee will determine the allocable cost per person when the destination is not served by a regularly scheduled airline.

b. In the calculation of campaign event time, the Committee has eliminated travel time, staff time, study time, and news conference or interview time, which are classifications provided by the Committee for trip elimination. In an election year, news conference or interview time could frequently be campaign related, and should be included in the calculation, along with staff time and study time regardless of whether conducted during travel time or at the point of destination.

c) Committee policy states that if it is necessary to ferry 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 use of 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, 1973, the Audit staff recommends that the Committee:

a. continue to use first class airfare in the case of travel to a city served by regularly scheduled commercial service, and in the case of travel to a city not served by regularly scheduled commercial flights, the lowest charter rate;

b. eliminate campaign travel time on a business day basis, including staff time, and never conference or entertainment time, travel time, and study time, or justify such elimination; and,

c. clarify Committee policy concerning allocation of campaign charters.

4. Contribution Limitations

Section 441a a 1 A of Title 1 of the United States Code states, that no person shall make contributions to any committee and its unincorporated organizations with respect to any election for Federal office unless the aggregate does not exceed \$1,000.

In addition, Section 103.3 b of the Code of Federal Regulations, states in part, that contributions which appear to be illegal shall be, within 10 days:

i. returned to the contributor or

ii. deposited into a common depository, reported, and when a contribution can not be determined to be illegal, refunded within a reasonable time.

During the review of Committee contribution records and refund policies, the Audit staff determined that contributions aggregating in excess of the limitation were not being refunded within a reasonable time period. Though not significant as of September 30, 1973, it is the opinion of the Audit staff that present procedures may result in a material problem as the campaign progresses.

By existing Committee procedures, when a limitation problem is identified, the Committee contacts the contributor, and if possible, requests by letter that the contribution be allocated to a spouse. No formal procedure had been established by the Committee to track contributor responses to these letters, and pre-audit review identified contributions deposited prior to December 1, 1972, for which allocation letters had not been sent until January, 1973. Refunds are not made by the Committee until it is determined that a contribution can not be allocated.

In general, excessive contributions identified by the Audit staff resulted from manual aggregation procedures which failed to aggregate contributions from a single contributor. In this situation, one account was linked with two different aliases. The Committee is attempting to correct this aggregation, and aggregation procedures are currently undergoing further review.

Recommendations

The Audit staff recommends that the Committee develop procedures to identify excess contributions in a timely manner, and refund the excessive portion within 30 days of initial deposit.

In addition, the Audit staff suggests that manual aggregation procedures be converted to improve the aggregation process, and reduce the amount of information to be reviewed by Committee personnel.

3. Exempt Compliant Related Audit Findings

During the period of audit, Section 401(e) of Title I of the United States Code exempted from the definition of a contribution legal or accounting services rendered to or on behalf of a candidate or political committee solely for the purpose of ensuring compliance with the provisions of this Act as integrated in Chapter 31 of the Internal Revenue Code of 1954.

Unless one person retains for such services a fee greater than the regular employee of the individual rendering such services, and amounts paid to unrelated for such legal or accounting services shall be reported in accordance with 1 U.S.C. 404(b).

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, 1981 response, stated that the return 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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