



FEDERAL ELECTION COMMISSION  
WASHINGTON, D. C. 20463

August 22, 1985

MEMORANDUM

TO: FRED EILAND  
PRESS OFFICE

FROM: ROBERT J. COSTA *RJC*  
ASSISTANT STAFF DIRECTOR  
AUDIT DIVISION

SUBJECT: PUBLIC ISSUANCE OF FINAL AUDIT REPORT -  
CRANSTON FOR PRESIDENT COMMITTEE, INC.

Attached please find a copy of the final audit report of Cranston for President Committee, Inc. which was approved by the Commission on August 14, 1985.

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: FEC Library  
RAD  
Public Record  
Office of General Counsel

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FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

REPORT OF THE AUDIT DIVISION  
ON  
CRANSTON FOR PRESIDENT COMMITTEE, INC.

I. Background

A. Overview

This report is based on an audit of Cranston for President 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") and the Presidential Primary Matching Payment Account Act. The audit was conducted pursuant to 26 U.S.C. § 9038(a) which 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."

In addition, 26 U.S.C. § 9039(b) and 11 C.F.R. § 9038.1(a)(2) state, in relevant part, that the Commission may conduct other examinations and audits from time to time as it deems necessary.

The Committee registered with the Federal Election Commission on November 22, 1982 as the Cranston Presidential Advisory Committee, Inc. In addition, the Committee conducted testing of the waters activity commencing January 1, 1982. The Committee changed its name to Cranston For President Committee, Inc. on March 24, 1983. The Committee maintains its headquarters in Washington, D.C.

The audit covered the period from January 1, 1982, through May 31, 1984, the last day covered by the most recent report filed with the Commission at the time of the audit. In addition, certain activity was reviewed through July 13, 1984 for the Statement of Net Outstanding Campaign Obligations and through August 31, 1984 for allocation of expenditures to States. The Committee reported an opening cash balance of \$-0-, total

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receipts of \$7,294,652.16, total disbursements of \$7,279,893.52, and a closing cash balance of \$14,758.64 on May 31, 1984. However, the Committee continued to receive contributions and make disbursements. In addition, revised Statements of Net Outstanding Campaign Obligations have been submitted with each matching fund submission as required by 11 C.F.R. § 9034.5(d). Under 11 C.F.R. § 9038.1(b)(3) and (e)(4), additional audit work may be conducted and addenda to this report issued as necessary.

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

B. Key Personnel

The Treasurers of the Committee during the period audited were:

Mr. Ronald C. Peterson	11/22/82 - 3/23/83
Mr. William M. Landau	3/23/83 - present

C. Scope

The audit included such tests as verification of total reported receipts, disbursements and individual transactions; review of required supporting documentation; analysis of Committee debts and obligations; review of contribution and expenditure limitations; and such other audit procedures as deemed necessary under the circumstances.

II. Finding and Recommendation Related to Title 2, United States Code

A. Matters Referred to the Office of General Counsel

Certain matters noted during the audit were referred to the Commission's Office of General Counsel.

III. Findings and Recommendations Related to Title 26, United States Code

A. Calculation of Repayment Ratio

Section 9038(b)(2) of Title 26, United States Code states if the Commission determines that any amount of any payment made to a candidate from the matching payment account was used for any purpose other than to defray the qualified campaign expenses with respect to which such payment was made or to repay loans the proceeds of which were used to defray qualified campaign expenses, it shall notify such candidate of the amount so used, and the candidate shall pay to the Secretary an amount equal to such amount.

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The Commission, in a Notice of Proposed Rulemaking published in the Federal Register on June 28, 1984, set forth a pro-rata formula which would base repayments for non-qualified campaign expenses on the proportion of federal funds to total funds received by the candidate. The text of the regulation and the Explanation and Justification were published in the Federal Register on August 22, 1984, and transmitted to Congress. On March 5, 1985, the revised regulations were resubmitted for publication. The proposed regulations were before the Congress for 30 legislative days as of May 20, 1985, and approved by the Commission for publication in final form on June 11, 1985.

The formula and the appropriate calculation with respect to the Committee's receipt activity is as follows:

Total Matching Funds Certified Through the Date of Ineligibility (3/1/84) <sup>1/</sup>  
Numerator + Private Contributions Received Through 3/1/84

$$\begin{array}{r} \$ \quad 1,697,633.91 \\ \hline (\$1,697,633.91 + \$3,409,801.88) \end{array} = .332385$$

Thus, the repayment ratio for non-qualified campaign expenses is 33.2385%.

B. Use of Funds for Non-Qualified Campaign Expenses

Section 9038.2(b)(2)(i)(A) of Title 11, Code of Federal Regulations provides, in part, that the Commission may determine that amount(s) of any payments made to a candidate from the matching payment account, or contributions received by the candidate, were used for purposes other than qualified campaign expenses. Further, 11 C.F.R. § 9038.2(b)(2)(ii)(C) provides, in part, that an example of a Commission repayment determination under paragraph (b)(2) of this section includes determinations that funds were expended for expenses resulting from a violation of state or federal law, such as the payment of fines or penalties.

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<sup>1/</sup> On March 8, 1984, the Commission determined that the date of ineligibility under 11 C.F.R. § 9033.5(a) for Senator Alan Cranston is March 1, 1984.

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1. Disbursements for Fines and Penalties

A review of the Committee's disbursement activity revealed that the Committee disbursed \$875.00 for traffic and parking ticket fines. Additionally, the Committee disbursed \$6,076.96 for penalties for filing their Federal and State taxes on an untimely basis. These apparent non-qualified campaign expenses totaled \$6,951.96.

At the exit conference on October 19, 1984, the Audit staff presented Committee officials with schedules of the apparent non-qualified campaign expenses.

In the interim audit report, the Audit staff recommended that, absent a showing to the contrary, the Commission make an initial determination that the amount of payments of fines and penalties (\$6,951.96) be viewed as non-qualified campaign expenses and the pro-rata portion of \$2,310.73 ( $\$6,951.96 \times .332385$ ) be repaid to the U.S. Treasury pursuant to 26 U.S.C. § 9038(b)(2).

The Committee's response to the interim audit report dated May 2, 1985 did not address this issue.

Conclusion

On August 14, 1985, the Commission made an initial determination that the amount (\$6,951.96) of payments for fines and penalties be viewed as non-qualified campaign expenses and the pro-rata portion of \$2,310.73 be repaid to the U.S. Treasury within 90 calendar days of receipt of this report in accordance with 11 C.F.R. § 9038.2(d).

Repayment Amount: \$2,310.73

2. Bank Charges Assessed for Issuance of Checks Drawn on Accounts with Non-Sufficient Funds

During the audit, the Audit staff noted \$5,502 in bank charges for Committee checks which were drawn on 3 bank accounts with insufficient funds. These charges occurred from October, 1983 through March, 1984. A Committee worksheet entitled "Bad Check List-Final" lists 736 checks, totaling \$166,498.07, that were drawn on these accounts.

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In the interim audit report, the Audit staff recommended that, absent a showing to the contrary, the Commission make an initial determination that the amount of bank charges (\$5,502) be viewed as non-qualified campaign expenses and the pro-rata portion, \$1,828.78 ( $\$5,502 \times .332385$ ), be repaid to the U.S. Treasury pursuant to 26 U.S.C. § 9038(b)(2).

On May 2, 1985, the Committee responded that:

"section 9032(a) of Title 26, United States Code defines a qualified expense as a purchase, payment, distribution, loan, advance, deposit or gift of money or of anything of value incurred by the candidate, or by his authorized committee, in connection with his campaign for nomination or election, and neither the incurring nor payment of which constitutes a violation of any law of the United States or of the State in which the expense is incurred. These bank charges fall squarely within this statutory definition. They constitute payments due under a contract between the banks and the Committee and are not expenses which arise from a violation of law. Thus, they are analogous to finance charges charged on credit card accounts, which are clearly qualified expenses, rather than governmental fines or penalties."

The Commission has not previously encountered the issuance of insufficient fund checks on such a large scale by a publicly-funded committee. Here, the Committee issued hundreds of bad checks under circumstances suggesting either knowledge that the checks were unsupported or at least disregard for whether there would be sufficient funds to cover the checks. Although the Commission has accorded wide discretion to candidates in how to conduct their publicly-funded campaigns, and therefore in what costs are qualified campaign expenses, it has also found in specific cases certain expenses are not legitimate ones to be paid for with public funds. Thus, in contrast to legitimate finance charges mentioned by the Committee, the bank penalties result here from behavior which is not the type of activity Congress intended to finance with public funds in enacting the Matching Payment Account Act, and in fact could be illegal. While not intruding on the Committee's legitimate discretion in how to run its publicly-funded campaign, the Commission believes that public funds should not subsidize bank charges for widespread issuance of bad checks.

Conclusion

On August 14, 1985, the Commission made an initial determination that the amount (\$5,502) of bank charges be viewed as non-qualified campaign expenses and the pro-rata portion of \$1,828.78 be repaid to the U.S. Treasury within 90 calendar days of receipt of this report in accordance with 11 C.F.R. § 9038.2(d).

Repayment Amount: \$1,828.78

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RECAP OF REPAYMENT AMOUNTS

III.B.1. Disbursements for Fines and Penalties	2,310.73
III.B.2. Bank Charges Assessed for Issuance of Checks Drawn on Accounts with Non-Sufficient Funds	<u>1,828.78</u>
Repayment Pursuant to 26 U.S.C. § 9038(b)(2)	<u>\$4,139.51</u> 2/

C. Determination of Net Outstanding Campaign Obligations

Section 9034.5(a) of Title 11, Code of Federal Regulations requires that the candidate submit a Statement of Net Outstanding Campaign Obligations (NOCO) which discloses among other items, the total of all outstanding obligations for qualified campaign expenses and an estimate of the necessary winding down costs within 15 days of the candidate's date of ineligibility.

On March 8, 1984, the Commission determined that the date of ineligibility for Senator Alan Cranston was March 1, 1984. Pursuant to 11 C.F.R. § 9033.5(a), that is the date Senator Cranston's candidacy terminated for the purpose of incurring qualified campaign expenses.

The Committee submitted the original NOCO on March 15, 1984 and has continued to submit a revised NOCO with each matching fund submission.

2/ The potential for an additional repayment(s) exists regarding expenses incurred by the Committee with respect to the Iowa state spending limitation (11 CFR § 9038.2(b)(2)(ii)(A)). Based on audit fieldwork performed through August 31, 1984, the Committee made \$641,424.40 in payments deemed allocable to the Iowa limit of \$684,537.50. In addition, approximately \$178,000 in accounts payable allocable to Iowa were noted. The Audit Division plans to perform follow-up fieldwork covering the period from September 1, 1984 through the disposition of the Committee's last matching fund payment (3/20/85) to verify the additional amounts paid and allocable to the Iowa state limit. After this audit work is completed, an addendum to this report will be prepared.

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The Audit staff reviewed the NOCO dated July 13, 1984. This review was limited to verifying cash on hand, accounts receivable, capital assets and certain large accounts payable.<sup>3/</sup> The audited NOCO statement is included at Exhibit A.

In its response to the interim audit report, the Committee did not address the NOCO statement. Should the Committee's financial position change substantially, additional fieldwork may be required to assess the impact of the change on the deficit and to verify additional components of the NOCO.

### Conclusion

The Committee received individual contributions totaling \$89,103.14 and a matching fund payment totaling \$34,131.07 during the period July 13, 1984 through August 31, 1984. Therefore, the Committee's remaining entitlement as of August 31, 1984, as audited, is \$1,100,472.72 (\$1,223,706.93 - \$123,234.21).

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<sup>3/</sup> The Committee's NOCO included other payables, however, these items were excluded since the Committee did not present documentation supporting these items prior to the completion of audit fieldwork.



## Cranston for President Committee, Inc.

Revised Statement of Net Outstanding Campaign Obligations  
July 13, 1984 (Audited Statement)Assets

Cash	\$	44,572.09
Accounts Receivable		15,520.36
Capital Assets		<u>10,000.00</u>

Total Assets		\$	70,092.45
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Obligations

Accounts Payable for Qualified Campaign Expenses		1,212,647.98
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Estimated Winding  
Down Costs 7/13/84  
to 12/31/84

Salaries, Consulting	\$40,000.00
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Rent	15,000.00
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Supplies, Postage, Xerox, Furniture Rental	7,151.40
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Computer Services	10,000.00
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Telephones	5,000.00
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Travel Expenses	<u>4,000.00</u>
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81,151.40

Total Obligations		<u>1,293,799.38</u>
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Net Outstanding Campaign <u>a/</u> Obligations - Deficit		<u>(\$1,223,706.93)</u>
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a/ Since certain estimates were used in computing this amount, the Audit staff will review the Committee's reports and records as necessary to compare the actual figures with the estimates and prepare adjustments accordingly.

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FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

December 1, 1987

MEMORANDUM

TO: FRED EILAND  
CHIEF, PRESS OFFICER

FROM: ROBERT J. COSTA *RJC*  
ASSISTANT STAFF DIRECTOR  
AUDIT DIVISION

SUBJECT: PUBLIC ISSUANCE OF ADDENDUM TO THE FINAL AUDIT REPORT -  
CRANSTON FOR PRESIDENT COMMITTEE, INC.

Attached please find a copy of the Addendum to the Final Audit Report of the Cranston for President Committee, Inc. which was approved by the Commission on October 27, 1987.

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: FEC Library  
RAD  
Public Disclosure  
Office of General Counsel

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FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

ADDENDUM TO THE  
FINAL REPORT OF THE AUDIT DIVISION  
ON  
CRANSTON FOR PRESIDENT COMMITTEE, INC.

I. Background

A. Overview

On August 22, 1985, the Federal Election Commission ("the Commission") released the final audit report on Cranston For President Committee, Inc. ("the Committee"). That report was based on an audit of the Committee conducted pursuant to 26 U.S.C. § 9038(a) and included an initial determination regarding repayment to the U.S. Treasury. The audit covered the period January 1, 1982 through May 31, 1984.

The final audit report, Finding III.B. addressed the Commission's initial determination that the Committee made disbursements totaling \$12,453.96 for non-qualified campaign expenses; \$6,951.96 for disbursements related to fines and penalties and \$5,502 in bank charges assessed for issuance of checks drawn on accounts with non-sufficient funds. The Commission determined that the pro-rata portion, \$4,139.51 was repayable to the U.S. Treasury.

On October 1, 1985, the Commission notified the Committee that since no response to its initial determination had been received, the Commission's initial repayment determination became final (11 C.F.R. § 9038.2(c)(1)). On October 10, 1985, a check in the amount of \$4,139.51 was received from the Committee and forwarded to the U.S. Treasury for deposit into the matching payment account (26 U.S.C. § 9038(d)).

This Addendum is based on the follow-up fieldwork of the Committee conducted pursuant to 11 C.F.R. § 9038.1(b)(3) which states that the Commission staff may conduct additional fieldwork after completion of the fieldwork conducted pursuant to paragraph (b)(1) and (2) of this section. The follow-up fieldwork covered the period June 1, 1984 through December 31, 1985.

In addition, 11 C.F.R. § 9038.1(e)(4) states, in part, that addenda to the audit report may be issued from time to time as circumstances warrant and additional information becomes

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available. Such addenda may be based, in part, on follow-up fieldwork conducted under paragraph (b)(3) of this section.

This Addendum is based upon documents and workpapers which support each of its factual statements. They form part of the record upon which the Commission based its decisions on the matters in the Addendum and were available to Commissioners and appropriate staff for review.

B. Key Personnel

The Treasurer of the Committee during the period of this review was Mr. William M. Landau.

C. Scope

The fieldwork included an examination of the required supporting documentation for receipts and disbursements, analysis of Committee debts and obligations (including winding down costs), and such other procedures as deemed necessary under the circumstances to determine whether the Committee received any matching fund payments in excess of the amount to which it was entitled and whether any amount of any payment made from the matching payment account was used for any purpose other than to defray the qualified campaign expenses of the Committee.

II. Findings and Recommendations Related to Title 26, United States Code

A. Apparent Non-Qualified Campaign Expenses

Section 9038(b)(2)(A) of Title 26, United States Code states that if the Commission determines that any amount of any payment made to a candidate from the matching payment account was used for any purpose other than to defray the qualified campaign expenses with respect to which such payment was made, it shall notify such candidate of the amount so used, and the candidate shall pay to the Secretary an amount equal to such amount.

The Commission, in a Notice of Proposed Rulemaking published in the Federal Register on June 28, 1984, set forth a pro-rata formula which would base repayments for non-qualified campaign expenses on the proportion of federal funds to total funds received by the candidate. The text of the regulation and the Explanation and Justification were published in the Federal Register on August 22, 1984, and transmitted to Congress. On March 5, 1985, the revised regulations were resubmitted for publication. The proposed regulations were before the Congress for 30 legislative days as of May 20, 1985, and approved by the Commission for publication in final form on June 11, 1985.

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The formula and the appropriate calculation with respect to the Committee's receipt activity is as follows:

Total Matching Funds Certified Through the Date of Ineligibility (3/1/84)\*/  
Numerator + Private Contributions Received Through 3/1/84

$$\frac{\$1,697,633.91}{(\$1,697,633.91 + \$3,409,801.88)} = .332385$$

Thus, the repayment ratio for non-qualified campaign expenses is 33.2385%.

B. Allocation of Expenditures to States

As stated in footnote 2 on page 6 of the final audit report, the Audit staff noted that the potential for an additional repayment(s) exists regarding expenses incurred by the Committee with respect to the Iowa state spending limitation. Based on audit fieldwork performed through August 31, 1984 \*\*/, the Committee made \$641,424.40 in payments deemed allocable to the Iowa limit of \$684,537.50. In addition, approximately \$178,000 in accounts payable allocable to Iowa were noted.

The following pages 6 through 16 contain the results of the initial audit fieldwork relative to the Iowa state spending limitation as presented in the interim audit report; the Committee's response to the interim audit report; and the amount, as calculated by the Audit staff, by which the Committee exceeded the spending limitation. Found at pages 17 through 19 are the results of the Audit staff's review of additional documentation made available during the follow-up fieldwork.

Section 9035(a) of Title 26, United States Code states, in part, that no candidate shall knowingly incur qualified campaign expenses in excess of the expenditure limitation applicable under section 441a(b)(1)(A) of Title 2.

Sections 441a(b)(1)(A) and 441a(c) of Title 2, United States Code provide, in part, that no candidate for the office of President of the United States who is eligible under section 9033 of Title 26 to receive payments from the Secretary of the Treasury may make expenditures in any one State aggregating in

\*/ On March 8, 1984, the Commission determined that the date of ineligibility under 11 C.F.R. § 9033.5(a) for Senator Alan Cranston is March 1, 1984.

\*\*/ During initial fieldwork, the Audit staff's review relative to state allocations covered the period 1/1/82-8/31/84.

excess of the greater of 16 cents multiplied by the voting age population of the State, or \$200,000, whichever is greater, as adjusted by the Consumer Price Index.

Section 9038.2(b)(2)(i)(A) of Title 11, Code of Federal Regulations provides, in part, that the Commission may determine that amounts of any payments made to a candidate from the matching payment account were used for purposes other than qualified campaign expenses. Further, 11 C.F.R. § 9038.2(b)(2)(ii)(A) provides, in part, that an example of a Commission repayment determination under paragraph (b)(2) of this section includes determinations that a candidate, a candidate's authorized committee(s) or agents have made expenditures in excess of the limitations set forth in 11 C.F.R. § 9035.

The Commission's Regulations at 11 C.F.R. § 106.2(a)(1) apply to Presidential primary candidates receiving or expecting to receive Federal matching funds. Except for expenditures exempted under 11 C.F.R. § 106.2(c), expenditures incurred by a candidate's authorized committee for the purpose of influencing the nomination of that candidate for the office of President with respect to a particular State shall be allocated to that State. An expenditure shall not necessarily be allocated to the State in which the expenditure is incurred or paid.

Section 106.2(b)(1) of Title 11, Code of Federal Regulations states that an expenditure incurred by a candidate's authorized committee for the purpose of influencing the nomination of that candidate in more than one State shall be allocated to each State on a reasonable and uniformly applied basis.

The Committee's FEC Form 3P, page 3, covering activity through May 31, 1984, disclosed \$699,678.35 as allocable to the Iowa expenditure limitation of \$684,537.50. However, the sum of the periodic report totals filed by the Committee through May 31, 1984, is \$712,118.98.

At the entrance conference on July 3, 1984, the matter of the allocation of expenditures to Iowa was discussed. Committee officials stated that they were presently reviewing expenditures, reports, and allocation methods and that amendments may be filed. On July 25, 1984, the Committee filed an amended FEC Form 3P, page 3, changing the allocated amount for Iowa to \$553,194.24.

During the audit fieldwork, the Committee provided the Audit staff with its internal worksheets on which \$624,972.10 was recorded as allocable to Iowa. It should be noted that the amount allocated by the Committee on Form 3P, page 3, (Iowa) could not be reconciled to the Committee's internal worksheets.

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Committee officials stated that with respect to its Iowa allocations their internal worksheets were not accurate.

A review of the Committee's allocation procedures indicated that a computerized general ledger was used to record allocated costs for the period January 1, 1983 through September 30, 1983. From October 1, 1983, through February 29, 1984, the Committee manually recorded allocated costs on spread sheets which listed disbursements by check number and amount. Each disbursement, or portion thereof, was then allocated to fundraising, legal and accounting, national campaign, Iowa, New Hampshire, etc. The Audit staff noted that the Committee did not allocate any expenses paid from its two (2) Iowa bank accounts in January, 1984. Further, disbursements made after February 29, 1984, were not recorded by the Committee, since a separate spread sheet was used to record allocable debts outstanding as of February 29, 1984.

In view of the irregularities noted in the Committee procedures and allocations, the Audit staff reviewed all costs incurred by the Committee and determined that \$951,825.65 required allocation to Iowa.

The interim audit report recommended that, absent a showing to the contrary, the Committee adjust its accounting records and, where necessary, file amendments to reflect the expenditures not previously allocated to Iowa. As part of its response to the interim report recommendations, the Committee presented additional expenditure documentation which not only challenged expenses allocated by the Audit staff to Iowa, but also expenses previously recorded by the Committee on its internal worksheets as allocable to Iowa.

The Audit staff reviewed the additional documentation and made certain adjustments to the interim report allocations. Presented below are categories of expenses (amounts paid or amounts outstanding) which were not recorded on the Committee's internal worksheets as allocable to Iowa.

1. Salaries, Employer FICA and Consultant Fees

Section 106.2(b)(2)(ii) of Title 11, Code of Federal Regulations requires that, except for expenditures exempted under paragraph (c) of this section (relating to national campaign expenditures exempted from allocation), salaries paid to persons working in a particular State for five consecutive days or more, including advance staff, shall be allocated to each State in proportion to the amount of time spent in that State during a payroll period. Further, 11 C.F.R. § 106.2(a)(1) states, in part, that expenditures incurred by a candidate's authorized committee(s) for the purpose of

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influencing the nomination of that candidate for the office of President with respect to a particular State shall be allocated to that State.

The Audit staff's review identified persons who had incurred expenditures while working in Iowa for five or more consecutive days. Their names were traced to payroll records to determine whether their salaries, employer FICA, or consultant fees had been allocated to Iowa.

Based upon this review, the Audit staff determined that additional salaries, employer FICA, and consultant fees allocable to Iowa totaled \$142,407.53. The Committee did not allocate certain salaries, employer FICA, consultant fees, and payroll taxes paid from its national account; and salaries, employer FICA and consultant fees paid from its Iowa bank accounts during January, 1984. In certain instances, the Committee allocated net salaries to Iowa but not the associated payroll taxes and employer FICA.

The Committee, in its response to the interim audit report, questioned the inclusion of \$73,684.30 in staff salaries, employer FICA and consulting fees applied to the Iowa limitation by the Audit staff.

For expenses totaling \$56,405.98, the Committee submitted documentation which consisted of written statements from Committee officials, check request authorization forms, copies of expense reimbursement vouchers (some with copies of receipts attached) to support its contention that these expenses did not require allocation to Iowa.

For the remaining \$17,278.32, the Committee states that "the Committee did not pay salaries to many of its staff primarily for the month of February and considered this to be voluntary services to the campaign. These unpaid salaries which amounted to \$17,278.32 were allocated by the Audit staff to Iowa. Accordingly, the amount of expenditures for Iowa should be reduced by \$17,278.32, which is the amount of unpaid salaries in Iowa."

With respect to the \$56,405.98 in expenditure documentation made available, the Audit staff analyzed this information and found in several instances that the documentation submitted was not sufficient to demonstrate that an expense(s) did not require allocation to Iowa. For example, if only a statement, signed by a Committee official, was provided without copies of travel vouchers signed by the individual in question or other documentation to demonstrate that this individual was not working in Iowa during the relevant time period (or portion thereof), the Audit staff did not reduce the amount allocable to

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Iowa. In cases where adequate supporting documentation demonstrated that the traveler was not working in Iowa, the amount originally determined as allocable to Iowa by the Audit staff was reduced accordingly. Thus, it is the Audit staff's opinion that the Committee's submission of these statements, signed by Committee officials, without further documentation or proof are not sufficient to meet the Committee's burden that the expenses in question are qualified campaign expenses (i.e., not chargeable to the Iowa limit). Based on the application of this criteria, the Audit staff concluded that \$36,193.33 of the \$56,405.98 in documentation submitted by the Committee is sufficient to reduce the amount allocable to the Iowa limit. The remainder (\$20,212.65) of the expenses challenged by the Committee, are still considered allocable to Iowa.

The Audit staff disagrees with the Committee's position that the amount of unpaid salaries (\$17,278.32) for staff working in Iowa does not require allocation to Iowa. It should be noted that the Committee did not present any documentation from its staff verifying that their services for the month of February 1984 were voluntary. It is the opinion of the Audit staff that the Committee may not exclude these expenses without sufficient documentation from its staff.

Therefore, the amount required to be allocated to Iowa has been reduced to \$106,214.20 (\$142,407.53 - \$36,193.33), based on the Audit staff's analysis of the Committee's response to the interim report.

2. Intra-State Travel and Subsistence Expenditures

Section 106.2(b)(2)(iii) of Title 11, Code of Federal Regulations states that travel and subsistence expenditures for persons working in a State for five consecutive days or more shall be allocated to that State in proportion to the amount of time spent in each State during a payroll period. This same allocation method shall apply to intra-State travel and subsistence expenditures of the candidate and his family or the candidate's representatives.

A review of supporting documentation revealed that expenditures for intra-State travel and subsistence had been incurred by persons working in Iowa for five or more consecutive days. Based upon this review, the Audit staff determined that additional intra-State travel and subsistence expenditures totaling \$71,329.01 should be allocated to Iowa.

In response to the interim audit report, the Committee provided additional documentation consisting of expense reimbursement vouchers and vendor receipts totaling \$25,435.27.

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This documentation, presented for the first time in the Committee's response, indicated that \$24,787.62 in expenses initially deemed allocable to Iowa are exempt from allocation in accordance with 11 C.F.R. § 106.2(c)(4) (the exemption for interstate travel expenses).

Therefore, the amount requiring allocation to Iowa has been reduced to \$46,541.39 (\$71,329.01 - \$24,787.62), based on the Audit staff's analysis of the Committee's response to the interim report.

### 3. Media and Polling Expenditures

Section 106.2(b)(2)(i)(B) of Title 11, Code of Federal Regulations requires that expenditures for radio, television and similar types of advertisements purchased in a particular media market that covers more than one State shall be allocated to each State in proportion to the estimated audience. This allocation of expenditures, including any commission charged for the purchase of broadcast media, shall be made using industry market data.

Also, 11 C.F.R. § 106.2(b)(2)(vi) states, in part, that expenditures incurred for taking of a public opinion poll covering only one State shall be allocated to that State.

The Committee paid a vendor \$131,699.20 for media buys. In a letter dated July 9, 1984, the vendor notified the Committee of the amount of each buy and the percentage of each buy that required allocation to Iowa.

The vendor's allocable percentages were based on the 1983-84 Arbitron Ratings Universe Estimates Summary, published by the Arbitron Ratings Company. Application of such percentages require that \$100,241.74 be allocated to Iowa; however, the Committee only allocated \$95,598 to Iowa, leaving a difference of \$4,643.74.

With respect to polling expenses, the Committee paid \$10,874 to a vendor for a telephone poll targeted at a select group of potential Iowa caucus participants. According to the contract, the poll was conducted between September 10, 1983 and October 2, 1983; however, the Committee did not allocate this cost (\$10,874) to Iowa.

In summary, the Audit staff determined that an additional \$15,517.74 should be allocated to Iowa (media \$4,643.74 and polling \$10,874).

In its response to the interim audit report, the Committee did not question the allocation of \$15,517.74 in media and polling expenditures to the Iowa limit.

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#### 4. Overhead and Miscellaneous Expenditures

Section 106.2(b)(2)(iv) of Title 11, Code of Federal Regulations states that except for expenditures exempted under paragraph (c) of this section, overhead expenditures of offices located in a particular State shall be allocated to that State. For purposes of this section, overhead expenditures include, but are not limited to rent, utilities, office equipment, furniture, supplies, and telephone service base charges.

##### a. General Overhead and Miscellaneous

Our review also disclosed that expenditures were incurred in Iowa for office rent, telephones, postage, shipping, printing, office supplies, utilities, voter lists, furniture, equipment and miscellaneous expenses.

Based upon this review, the Audit staff determined that an additional \$97,599.27 should be allocated to Iowa.

In its response to the interim audit report, the Committee provided documentation for expenditures totaling \$3,121.45. The documentation submitted consisted of individual expense vouchers and vendor receipts, our review of which indicated that \$3,023.43 of the expenses in question were not allocable to Iowa.

Therefore, the amount requiring allocation is reduced to \$94,575.84 (\$97,599.27 - \$3,023.43), based on the Audit staff's analysis of the Committee's response to the interim report.

##### b. Iowa Designated as a Regional Headquarters

Under 11 C.F.R. § 106.2(b)(2)(iv)(B), except for expenditures exempted under paragraph (c) of this section, overhead expenditures of a regional office or any office with responsibilities in two or more States shall be allocated to each State on a reasonable and uniformly applied basis. For purposes of this section, overhead expenditures include but are not limited to, rent, utilities, office equipment, furniture, supplies, and telephone service base charges.

At an interim conference on July 25, 1984, Committee officials stated that in accordance with 11 C.F.R. § 106.2(b)(2)(iv)(B), Iowa was being designated as "the regional headquarters" for eight other States. The states in the "region" and their respective primary/caucus dates, as defined by the Committee, are as follows: Iowa as headquarters (2/20/84);

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Illinois (3/20/84); Kansas (3/24/84); Michigan (3/17/84); Minnesota (3/20/84); Missouri (4/17/84); Nebraska (5/15/84); Ohio (5/8/84); and Wisconsin (4/3/84). As a result, overhead expenses incurred at the Iowa office totaling \$95,950.95 were reallocated among these states on the Voting Age Population basis. This resulted in \$90,577.71 of Iowa overhead expenses being reallocated to these other states.

In order to evaluate the reasonableness of the designation of the office as a "regional office", the Audit staff performed a number of analyses to identify the activities which related to more than one state.

The long-distance billing for the Iowa office was reviewed to determine whether there was a significant level of telephonic communication between Iowa (headquarters) and the other states in the "region." These billings listed 120,543 long distance telephone calls. The result of this review was that there were 1,276 telephone calls, or only 1.05%, to all the States in the "region". \*/ The telephone records from the other States were also reviewed and no significant levels of telephone activity relating to Iowa were discovered. \*\*/

Except for Iowa, the Committee did not maintain bank accounts in any of the states within the "region." The activity in the Iowa bank accounts was reviewed for disbursements made in or on behalf of these other states. Our review disclosed no activity on behalf of the other states.

The Audit staff reviewed all the correspondence, notes, contemporaneous memoranda, and other organizational and budgetary documentation for information concerning the administration, control or operation by Iowa as a regional headquarters. This review did not produce any information regarding Iowa functioning as a regional headquarters.

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\*/ The results of the review of telephone calls made, represented by percentages, are: Iowa (intra-State) -93.12%; Illinois -.36%; Kansas -.02%; Michigan -.04%; Minnesota -.06%; Missouri -.03%; Nebraska -.4%; Ohio -.04%; Wisconsin -.1%; and all other States - 5.83%.

\*\*/ These records consisted of telephone reimbursements to Committee staff and telephone billings for one of the states in which a telephone was maintained by the Committee.

On July 26, 1984, the Audit staff requested, in writing, that the Committee provide the planning documents for the set-up and operation of Iowa as a regional headquarters. The Committee did not provided the planning documents, as requested.

On August 30, 1984, Committee officials provided a memorandum titled "TERMS OF EMPLOYMENT". This memorandum confirmed an offer of employment to an individual for the position of Midwest Coordinator. The memorandum was dated January 3, 1983 and describes the duties of the "Midwest Coordinator" as having responsibility for the following States: North Dakota, South Dakota, Nebraska, Kansas, Missouri, Iowa, Minnesota, Wisconsin, Illinois, Indiana, Michigan and Ohio. \*/ In addition, the memorandum also discussed the establishment of a Midwest Regional Headquarters and support staff to service the above states.

The Audit staff found no evidence that a Midwest Regional Headquarters was established as outlined in the memorandum, or that the Iowa state office functioned as the Regional Office as alleged by the Committee.

In its May 2, 1985 response to the interim report, the Committee stated that:

"its designation of Iowa as a regional headquarters is appropriate under 11 C.F.R. § 106.2(b)(2)(iv)(B). This regulation states 'that overhead expenditures of a regional office...shall be allocated to each State on a reasonable and uniformly applied basis.' (emphasis added). It is clear from the regulation that the right to designate an office as a regional office lies with the Committee. The Audit staff may then review the allocation to determine whether the expenses have been allocated on a reasonable and uniform basis, but the regulation does not provide for a challenge to the Committee's designation of its Iowa office as a regional office.

"The Audit Report reaches the conclusion that the Iowa office could not be a regional office based primarily on the admittedly low telephone billings to other states within the region. However, the Audit staff omitted to factor in its analysis the crucial fact that the primaries in the other states within the region were not scheduled until after March 1, 1984, the day on which Senator Cranston withdrew his candidacy (3).

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\*/ Based on the document, the "Midwest Coordinator" had responsibility for three states not included in the "region", specifically, North Dakota, South Dakota and Indiana.

Thus, the Committee lacks detailed documentation of activity in other states in the region only because the campaign did not last through those primaries, not because the Iowa office was not expected to function as a regional office.

"The Committee should not be deprived of its right to designate Iowa as a regional office and allocate certain overhead expenses accordingly. To do so would penalize unsuccessful candidates disproportionately vis a vis successful candidates, a disparity for which there is no rationale in law or policy (4).

"(3) In fact, the next primary in the region was not scheduled until March 20, 1984, a month after the Iowa caucuses.

"(4) The Committee allocated the expenditures based on the voting population of each State, which results in \$90,577.71 allocated to the region. While this result is both reasonable and uniform, the Audit staff, if it disagrees with this method, has other measures available. It could, for example, allocate the expenditures based on the work which was directly attributable to other states within the region. Thus, for example, if it were to allocate the expenses on the basis of phone calls alone, at least 7% should be allocated to other states."

There are two points contained in the above cited response to which the Audit staff takes exception. First, the Committee asserts that the regulation, (referring to 11 C.F.R. 106.2(b)(2)(iv)(B)) does not provide for a challenge to the Committee designation of its Iowa office as a regional office.

It is the opinion of the Audit staff that the issue is not whether the Commission may look behind the Committee's designation, but rather whether such designation has significance, i.e. whether the Committee has shown that its Iowa office functioned as a regional headquarters so that its allocation of Iowa overhead to other states is reasonable.

It is evident, based on our review of materials made available, that the Committee has not demonstrated that the Iowa office ever functioned as a regional office. By the Committee's own admission in the response ("... the crucial fact the primaries in the other states within the region were not scheduled until after March 1, 1984, the day on which Senator Cranston withdrew his candidacy (3). Thus the Committee lacks detailed documentation of the activity in other states in the region only because the campaign did not last through those primaries, not because the Iowa office was not expected to

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function as a regional office" [footnote (3) omitted]), it demonstrates its failure to satisfy the regulatory requirements. The regulations refer to "a regional office with responsibilities in two or more states ..." (emphasis added). The Committee admits there is a lack of documentation of activity in other states in the region only because the campaign did not last through those primaries. Given the fact that organizational work, staffing and preparations attendant to the 2/20/84 Iowa caucus began as early as mid-1983 (8 months prior to the date of the caucus), it seems as if similar activity should have occurred with respect to Illinois (date of primary 3/20/84), as well as other primaries occurring in March and April, 1984. The admitted lack of activity with respect to the other states in the "region", (given the proximity of the other states' primary dates) demonstrates that the Iowa office was not intended to function as a regional office.

Second, the Committee suggested (in footnote (4) of its response) that at a minimum at least 7% of Iowa overhead expenses should be allocated elsewhere "on the basis of phone calls alone". It should be noted that the Audit staff's analysis of long-distance billings for the Iowa office concluded that only about 1% of long-distance phone calls from the Iowa office went to states in the asserted "region"; the 7% figure cited by the Committee is the approximate percentage of all long-distance calls to states outside Iowa. The implicit suggestion that overhead may be diverted from a state under the "regional headquarters" regulation solely on the basis of a relatively small number of interstate phone calls, especially in view of the regulation's specific exclusion of such expenses from state allocation, 11 C.F.R. § 106.2(b)(2)(v)(B), appears beyond the regulation's intent.

For the reasons stated above, in the Audit staff's opinion the reduction by the Committee of expenses originally charged to the Iowa state limit based on its contention that the expenses are classifiable under the regional headquarters exclusion is without merit. Therefore, such reduction is disallowed for purposes of calculating amounts chargeable to the Iowa limit.

5. Allocation of Compliance Costs and Fundraising Expenditures

Section 106.2(c)(5) of Title 11, Code of Federal Regulations states, in part, that an amount equal to 10% of campaign workers' salaries and overhead expenditures in a particular State may be excluded from allocation to that State as an exempt compliance cost. An additional amount equal to 10% of such salaries and overhead expenditures in a particular State may be excluded from allocation to that State as exempt fundraising

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expenditures, but this exemption shall not apply within 28 calendar days of the primary election as specified in 11 CFR 110.8(c)(2).

In the preparation of the state allocation amendment filed on July 25, 1984, which disclosed an amended allocation of \$553,194.24 to Iowa, the Committee attempted to apply the 10% allocation for compliance costs and fundraising expenses.

The Committee calculated the 10% compliance exemption based on their determination of the gross amount allocable to Iowa rather than on payroll and overhead expenditures, as required. The Committee's calculation resulted in an exemption of \$55,366.04.

The Committee also calculated the 10% exemption from allocation for fundraising expenses on this same basis and did not exclude payroll and overhead expenditures which occurred within 28 days of the caucus. The Committee's 10% exemption for fundraising expenses relative to Iowa totaled \$55,366.04.

Based on the records made available during the initial fieldwork, the Audit staff calculated the 10% compliance exemption. The base figure (\$553,194.24) utilized by the Committee was adjusted downward to \$367,686.40, resulting in a compliance exemption of \$36,768.60.

The interim report advised the Committee that it may recompute the fundraising exemption; however, all relevant documentation in support of this calculation should be provided with its response to the interim report.

In its response to the interim audit report, the Committee revised its original base figures for both the compliance and fundraising exemptions. The original base figure (\$553,194.24) for the compliance exemption was reduced to \$315,792.70, resulting in an exemption to the Iowa state limit of \$31,579.27. The Audit staff reviewed the information presented and reduced the Committee's figure to \$293,385.40, resulting in an exemption of \$29,338.54. Certain disbursements included in the Committee's figure were not classifiable as overhead and payroll expenses relative to Iowa.

With respect to the 10% exemption for overhead and payroll related to fundraising in Iowa, the Committee submitted worksheets in support of an exemption of \$11,692.33. The reduction of approximately \$43,000 from its original calculation (\$55,366.04) resulted from the Committee's attempt to delete from the original base figures: (1) expenses not allocable to Iowa, (2) expenses (allocable to Iowa) not considered overhead or

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payroll, and (3) the costs associated with fundraising occurring within 28 days of the Iowa caucuses (see 11 C.F.R. § 110.8(c) (2)). The Audit staff reviewed the worksheets supporting this calculation and found that approximately \$80,000 in fundraising expenses had been incorrectly excluded from the Committee's base. After adjusting for this error, the fundraising exemption increased from \$11,692.22 to \$19,632.23.

Thus, based on our analysis of the materials presented in response to the interim report, the Committee is entitled to exempt from allocation to the Iowa state limit, \$29,338.54 in compliance related expenses and \$19,632.23 in expenses related to fundraising pursuant to 11 C.F.R. § 106.2(c) (5).

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Recap of Allocable Expenditures  
Audit Analysis

Expenditures recorded by the  
Committee as Allocable to Iowa  
on its internal worksheets \$606,208.69 \*/

Expenditures Not Recorded by the  
Committee as Allocable to Iowa on  
its Internal Worksheets:

II.A.1. Salaries, Employer FICA and Consultant Fees	106,214.20
II.A.2. Intra-State Travel and Subsistence	46,541.39
II.A.3. Media and Polling Expenditures	15,517.74
II.A.4. Overhead and Miscellaneous	<u>94,575.84</u>
Total	869,057.86 <u>**/</u>
II.A.5. less 10% Exemption for Compliance Costs	(29,338.54)
less 10% Exemption for Fundraising Costs	<u>(19,632.23)</u>
Total	820,087.09
less 2 U.S.C. § 441a Iowa State Spending limitation	<u>(684,537.50)</u>
Total Expenditures Incurred in Excess of State Limitation	<u>\$135,549.59</u>

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\*/ As noted on page 5, \$624,972.10 was recorded by the Committee on its internal worksheets as allocable to Iowa. However, the Committee submitted documentation in its response to the interim report which demonstrated that \$18,763.41 in expenditures were erroneously recorded by the Committee as allocable to Iowa. Therefore, the amount recorded as allocable to Iowa has been reduced accordingly (\$624,972.10 -\$18,763.41).

\*\*/ Since the Committee failed to demonstrate that its Iowa served as a regional headquarters, no adjustment is necessary.

The following adjustments to the Audit staff's recap at page 16 were developed based on our review of additional documentation/activity during follow-up fieldwork.

Expenditures recorded by the Committee as allocable to Iowa on its internal worksheets

During the follow-up fieldwork, the Audit staff identified expenditures totaling \$1,481.09 that the Committee erroneously allocated to Iowa. The majority of this amount represents duplicative entries on the Committee's internal worksheets.

Furthermore, Committee documentation was reviewed in the form of signed statements from individuals who attest, that for a specific period usually in February 1984, "I worked as a volunteer in the Cranston for President Committee's Iowa campaign. Therefore, the Cranston Committee does not owe me any salary for my work in Iowa during that period." The amount in question totals \$13,458.32.

It should be noted that the Committee originally carried these salaries as debts owed by the Committee on its internal worksheets and on its reports filed with the Commission through October 31, 1984 (Schedule D-P). Committee officials did not advise the Audit staff that these debts were being converted to volunteer services until the Committee submitted its response to the interim audit report. At that time the Audit staff recommended that the Committee's position be rejected since the Committee did not present any documentation from its staff verifying that their services were voluntary (see discussion on p.6 concerning unpaid salaries totaling \$17,278.32).

As a result of our review of the documentation noted above, a downward adjustment of \$14,939.41 (\$1,481.09 + \$13,458.32) has been made to the amount on page 16 recorded as allocable to Iowa which results in a figure of \$591,269.28 as allocable to Iowa on Committee's internal worksheets.

Salaries, Employer FICA and Consulting Fees

Additional documentation indicated that an individual was not working in Iowa for a portion of a pay period. This resulted in a downward adjustment of \$419.52. The amount allocable to Iowa relative to this category of expenditures is now \$105,794.68.

Committee documentation for salary expenses totaling \$17,466.22 was reviewed and is identical to the documentation relative to the \$20,212.65 in expenses submitted by the Committee

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in its response to the interim audit report (see pages 6-7 for detailed discussion). The Committee continues to assert that signed statements from supervisors are sufficient evidence to demonstrate that certain salaries do not require allocation to Iowa.

Again, it is our opinion that a signed statement from a supervisor, without additional documentation or proof to demonstrate the individual was not in Iowa (i.e., copies of check request authorization forms, expense reimbursement vouchers, receipts, etc.) is not sufficient to meet the Committee's burden that the expenses in question are not chargeable to the Iowa limit.

As a result no further adjustment has been made with respect to salaries, employer FICA, and consulting fees allocable to Iowa.

#### Intra-State Travel and Subsistence

Based on our analysis of additional documentation made available during the follow-up fieldwork, the Audit staff has made a downward adjustment of \$1,195.84 to the amount chargeable to the Iowa limit. Our analysis of the documentation made available revealed that certain entries had been duplicated on the Committee's internal worksheets and that two other disbursements were for inter-state travel. Thus, the amount now allocable to Iowa for this category is \$45,345.55.

#### Media and Polling

The Committee did not question the allocation of these expenses. Hence, the figure cited in the recap at page 16 remains unchanged.

#### Overhead and Miscellaneous Expenditures

During the follow-up fieldwork the Audit staff obtained additional documentation which supported a downward adjustment of \$9,482.05. Approximately \$9,400 of the reduction is necessary to correct an overstatement in the amount recorded by the Committee as payable to a telephone company.

The amount allocable to Iowa relative to Overhead and Miscellaneous Expenditures is now \$85,093.79.

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Recap of Allocable Expenditures  
Audit Analysis as of December 31, 1985

Expenditures recorded by the Committee  
as allocable to Iowa on its internal  
worksheets \$591,269.28

Expenditures Not Recorded by the  
Committee as Allocable to Iowa  
on its Internal Worksheets

Salaries, Employer FICA and  
Consulting Fees 105,794.68

Intra-State Travel and Subsistence 45,345.55

Media and Polling Expenditures 15,517.74

Overhead and Miscellaneous 85,093.79

Total \$843,021.04

Less 10% Exemption for  
Compliance Costs (31,260.03) \*/\*\*/

Less 10% Exemption for  
Fundraising Costs (19,665.66) \*/\*\*/

Total \$792,095.35

Less 2 U.S.C. § 441a Iowa  
State Spending Limitation (684,537.50)

Total Expenditures Incurred  
in Excess of State Limitation \$107,557.85

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\*/ Salaries totaling \$20,551 were inadvertently excluded from the base number used to calculate the Committee's compliance and fundraising exemptions at page 16, therefore, the exemptions for compliance and fundraising have increased accordingly. It should be noted that these salaries were included in the recap on page 16 as "expenditures recorded by the Committee as allocable to Iowa on its internal worksheets -\$606,208.69.

\*\*/ The base numbers from which the amount of the 10% exemption was calculated did not include the costs of intra-state telephone calls made within Iowa. Upon receipt of documentation supporting such charges (telephone bills with detailed itemizations), the Audit staff will make the necessary adjustments.

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In the interim addendum, the Audit staff recommended that, absent a showing to the contrary within 30 days of the Committee's receipt of the addendum, the Commission make a determination that the Committee exceeded the Iowa spending limitation by the amount of \$107,557.85. Further, an amendment to the Committee's FEC Form 3-P, Page 3 (Allocation of Primary Expenditures by State) should be filed to correct the public record.

### Analysis of Committee's Response to the Interim Addendum

On June 22, 1987, the Committee submitted comments on four items involving the amount determined as allocable to the Iowa state limit. Each is discussed separately below.

#### ° Total Value of Services Volunteered

The Committee questioned the accuracy of the \$13,458.32 figure cited on page 17 of this Addendum. The Committee correctly points out that signed statements from 13 individuals were submitted to show that services, the value of which totaled \$14,458.32, were voluntary and thus, that value should not be allocated to the Iowa limit. The Committee then concludes, "Since the Report does not explain this \$1,000 discrepancy [\$14,458.32 - \$13,458.32], the Committee assumes that it is due to clerical error and requests that the appropriate correction be made."

The \$1,000 discrepancy is present because one of the individuals who submitted a signed statement in support of \$3,600 in volunteer services, had already received a \$1,000 payment. Thus, the most that individual (and the Committee) could ascribe to the volunteer exemption was \$2,600.

#### ° Total Value of Staff Salaries Reallocable to States Other than Iowa, Based on Supervisor Statements and Receipt Documentation

The Committee questioned the Commission's decision to reject the Committee's position that \$623.30 in expenses was not allocable to Iowa. According to the Committee these expenses were documented with receipts showing that allocation to Iowa was not required.

As stated on page 17, the Audit staff reviewed the expenses, totaling \$1,042.82, identified by the Committee as documented with receipts, and determined that adequate documentation demonstrating that allocation to Iowa was not required was present for \$419.52. The remainder, \$623.30, represented expenses which were either (1) previously determined as not allocable to Iowa based on our previous reviews of allocable expenses, or (2) lacking documentation sufficient to demonstrate that no allocation to Iowa is required.

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° Salary Reallocations Supported Only by Supervisor Statements

In its response, the Committee urges the Commission to reexamine its position relative to \$16,423.40 in expenses which the Committee maintains are not allocable to Iowa. In support of its position, the Committee believes that the statements signed by supervisors provided to support its contention that an individual was not working in Iowa during the relevant time period should be deemed as acceptable documentation and the amount of expenses initially allocated to Iowa be reduced accordingly. The Committee offers three arguments:

First, the Committee contends that it was "initially assured" by the Commission auditors that supervisor statements would be sufficient documentation to support these reallocations. While Committee officials were informed that statements signed by supervisors may be submitted to support reallocations, documentation in the form of travel vouchers, receipts etc. should accompany the signed statements. In the Audit staff's opinion, the Committee's argument that "It is unfair for the Commission now -- literally years after the fact -- to require additional documentation" is not persuasive.

Second, the Committee states "the reallocations requested by the Committee are not amenable to additional documentary "proof", especially of the types suggested on page 18 of the Report. When an individual is working in his or her base office, his or her employer often pays no expenses and, hence, does not have the types of documents sought by the Commission."

Examination of copies of cancelled checks relative to some of the payments in question revealed that an Iowa address was used. This does not support the claim that the individuals were "D.C. staffers ... working in Washington". In addition, the checks appear to have been cashed at a number of different locations, including Iowa. If anything, the Iowa address and lack of documentary support suggest that the individuals were working in Iowa, and thus the associated payments should be allocated to Iowa.

Third, the Committee states that, "the Commission has given no reason, and none exists, to question the veracity of the signed statements of supervisors which the Committee has provided." The signed statements, as given, make a number of omissions which result in questions being raised about specifics. With respect to the signed statement for Monica McFadden, the time periods for the checks in question were not specifically mentioned in the statement, and the wording of the statement is such that it could well cover time in Iowa. The signed statement for Robert Schroth contains one demonstrable misstatement of fact, stating that he was not in Iowa during October 1983 after

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the 9th of that month, when a supporting voucher attached states that he did not leave Iowa until the 11th. In view of the inaccuracy of a supported statement, it appears reasonable to doubt unsupported statements. The wording of the signed statement for Willie Logan also leaves open the question of his location during the period covered by the check. In view of the apparent inadequacies of the signed statements, the Audit Division believes that additional documentation is needed to support the non-allocation of the payroll expenditures to Iowa.

Therefore, it is the opinion of the Audit staff that no adjustment is warranted.

° Iowa telephone refunds

As part of its response, the Committee provided copies of refund checks, totaling \$680.16, received from Northwestern Bell relative to telephone service in Iowa. The payments to Northwestern Bell were allocated to Iowa at 93.12% of face value to reflect the portion of the service allocable to Iowa, accordingly, 93.12% of the value of the refunds received is viewed as a reduction to the amount originally charged to Iowa.

Expenditures allocable to Iowa state spending limit, page 20	\$792,095.35
Less: Pro-rated share of Iowa telephone refunds (\$680.16 x 93.12 %)	<u>(633.36)</u>
Sub-Total	\$791,461.99
Less: 2 U.S.C. § 441a Iowa State Spending Limitation	<u>(684,537.50)</u>
(Revised) Total Expenditures Incurred in Excess of State Limitation	<u>\$106,924.49</u>

As discussed above, the Audit staff noted that the Committee incurred expenditures allocable to the Iowa state spending limitation totaling \$791,461.99. As part of the follow-up fieldwork, the Audit staff reviewed Committee records to determine:

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- ° the date the last dollar of the last matching fund payment was expended - (May 1, 1985);
- ° the disposition of all accounts payable allocable to the Iowa limit as of May 1, 1985;
- ° the disposition of all Committee checks written on closed accounts or accounts with non-sufficient balances (considered as accounts payable) and allocable to Iowa as of May 1, 1985; and
- ° what portion of the \$791,461.99 in expenses chargeable to the Iowa state limit were outstanding (not paid) as of May 1, 1985.\*/

In the interim addendum, the Audit staff recommended that, absent a showing to the contrary within 30 days of the Committee's receipt of the addendum, the Commission make a determination that the amount paid in excess of the Iowa state spending limitation be viewed as non-qualified campaign expenses and the pro-rata portion be repaid to the U.S. Treasury pursuant to 26 U.S.C. § 9038(b)(2).

\*/ The Audit staff considers any expenses chargeable to the Iowa state limit, the amount(s) [or portions thereof] which were (a) considered by the Committee as forgiven/settled, (b) paid via an in-kind contribution, (c) settled in accordance with 11 C.F.R. § 114.10, or (d) paid by the Committee after 5/1/85 to be outstanding as of May 1, 1985 for purposes of calculating the repayment to the U.S. Treasury pursuant to 26 U.S.C. § 9038(b)(2) and 11 C.F.R. § 9038.2(b)(2)(iii). With respect to (a) above, the Committee recognized that its payable records were in disorder, therefore, confirmations were sent to all know vendors requesting verification of amounts believed to be owed. If a vendor did not respond to the confirmation request, the Committee considered the amount (recorded in its records) forgiven. A review of the items in question revealed that only \$1,589.75 of the \$8,827.79 in this category actually represents debts considered forgiven, via no response to the Committee's confirmation letter. The remaining debts (approximately \$7,200) were actually settled with the individuals/vendors or not paid as of December 31, 1985.

The recap below has been revised and reflects adjustments necessary to expunge those expenses incurred and allocable to the Iowa state spending limitation but not paid as of May 1, 1985.

Amount incurred in excess of Iowa state spending limitation (See page 23)	\$106,924.49
Less: amount included above but not paid as of May 1, 1985	(40,548.52)
Plus: difference between the Compliance and Fundraising exemptions under Title 2 versus under Title 26	<u>1,015.90</u>
Amount paid in excess of Iowa state spending limitation	\$ 67,391.87
Repayment ratio	<u>.332385</u>
Repayment Amount	\$ 22,400.05
Less: Repayments received March 13, 1987 June 18, 1987	(11,500.00) (5,000.00)
Repayment Amount Due	<u>\$ 5,900.05</u>

### Conclusion

On October 27, 1987, the Commission made an initial determination that the amount (\$67,391.87) paid in excess of the Iowa state spending limitation be viewed as non-qualified campaign expenses and the pro-rata portion \$22,400.05 be repaid to the U.S. Treasury within 90 calendar days of receipt of this addendum in accordance with 11 C.F.R. § 9038.2(d). As noted above, after applying the \$16,500 in repayments received, the net amount due is \$5,900.05.

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B. Determination of Net Outstanding Campaign Obligations

Section 9034.5(a) of Title 11, Code of Federal Regulations requires that the candidate submit a Statement of Net Outstanding Campaign Obligations ("NOCO") which contains, among other items, the total of all outstanding obligations for qualified campaign expenses and an estimate of necessary winding down costs within 15 days of the candidate's date of ineligibility.

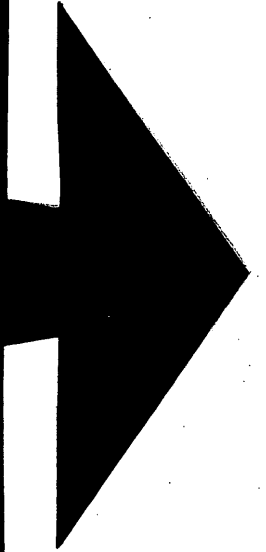
Further, 11 C.F.R. § 9034.5(d) requires that a candidate submit a revised NOCO Statement with each submission for matching fund payments filed after the candidate's date of ineligibility, reflecting the financial status of the campaign as of the close of business on the last business day preceding the date of submission for matching funds.

Finding III.C. of the final audit report addressed the Committee's financial position with respect to the Candidate's entitlement to the receipt of matching funds. The Audit staff verified the Committee's July 13, 1984 revised NOCO and determined that the Committee had net outstanding campaign obligations of \$1,223,706.93 on that date and that as of August 31, 1984, the Committee's remaining entitlement was \$1,100,472.72.

The Audit staff updated the Committee's financial position through March 26, 1985, the date on which the Committee received its last matching fund payment. During the period 9/1/84 through 3/26/85, the Committee received a total of \$557,221.47 in contributions from individuals and matching funds. Thus, even after applying the \$557,221.47 to the calculated entitlement [as of 8/31/84] of \$1,100,472.72, the Committee had an adjusted entitlement in excess of \$500,000. As noted above, the Committee did not receive any matching fund payments subsequent to the March 26, 1985 payment. Therefore, the Committee did not receive any matching funds in excess of entitlement.

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DOCUMENT  
SEPARATOR