FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

REPORT OF THE AUDIT DIVISION ON THE DNC SERVICES CORPORATION/DEMOCRATIC NATIONAL COMMITTEE

I. Background

A. Overview

This report is based upon an audit of the DNC Services Corporation/Democratic National Committee ("the Committee") undertaken by the Audit Division of the Federal Election Commission in accordance with the Commission's audit policy to determine whether there has been compliance with the provisions of the Federal Election Campaign Act of 1971, as amended ("the Act"). The audit was conducted pursuant to Section 438(b) of Title 2 of the United States Code which states, in part, that the Commission may conduct audits and field investigations of any political committee required to file a report under Section 434 of this title. Prior to conducting any audit under this section, the Commission shall perform an internal review of reports filed by selected committees to determine if the reports filed by a particular committee meet the threshold requirements for substantial compliance with the Act.

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The Committee registered with the Clerk of the United States House of Representatives on September 25, 1972, as an affiliate of the Democratic National Committee. 1/ The Committee maintains its headquarters in Washington, D.C.

The audit covered the period January 1, 1980, through December 31, 1980. The Committee reported a beginning cash balance at January 1, 1980 of $192,513.07; total receipts for the period of $11,204,365.05; total expenditures for the period of $10,985,734.81; and an ending cash balance at December 31, 1980 of $411,143.41.

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.

1/ The Committee operated as the expenditure arm of the national party prior to September 30, 1978 in concert with the contribution committees: the Democratic National Committee (DNC) and Democratic Finance Committee (DFC). On September 30, 1978, the DNC and DFC merged into the Committee.

B. Key Personnel

The Treasurer of the Committee for the period of the audit was Peter G. Kelly. For the period March 17, 1981 to the present, the Treasurer is Mr. Charles E. Curry.

C. Scope

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

II. Audit Findings and Recommendations

A. Use of Non-Segregated Account/Prohibited Funds on Behalf of Federal Candidates

Section 102.5(a)(1) of Title 11 of the Code of Federal Regulations states, in part, that a political party committee which finances political activity in connection with both federal and non-federal elections shall either: (i) Establish a separate federal account in a depository and such account shall be treated as a separate federal political committee which shall comply with the requirements of the Act; or (ii) Establish a political committee which shall receive only contributions subject to the prohibitions and limitations of the Act, regardless of whether such contributions are for use in connection with federal or non-federal elections.

Section 441b(a) of Title 2 of the United States Code states, in part, that it is unlawful for any corporation to make a contribution or expenditure in connection with any election to any political office, or in connection with any primary election or political convention or caucus held to select candidates for political office.

The Committee made transfers totaling $41,500.00 from its federal accounts, and $57,000.00 from a non-federal account established to receive funds from corporate sources, to an account in New Jersey. The Committee also transferred $25,000.00 from its federal accounts, and $75,000.00 from a non-federal account established to receive funds from union sources, to an account in Illinois. The Committee stated that these transfers were used to fund voter registration and get-out-the-vote activities in the respective states.

The Committee reported a percentage of the activity in each account as federal activity. The percentages were apparently determined based on the ratio of federal money deposited to the account as a percentage of the total amount deposited (approximately 42% reported in New Jersey and 26% in Illinois).

Further review of the disbursements made from the Illinois account revealed that of the total disbursed from this account ($98,110.85) $61,321.82 was either included on invoices which were addressed to the Carter Mondale Re-election Committee, Inc., or itemized on that committee's stationery and therefore apparently expended on behalf of the Carter Mondale Re-election Committee, Inc. As a result, the amount of the disbursements in excess of $25,000.00 (the amount of funding from permissible sources) or $36,321.82 were apparently paid with prohibited funds.

In addition, if the remaining expenditures of $36,789.03 ($98,110.85 - $61,321.82) in the Illinois account and the entire amount of funds expended from the New Jersey account were for voter registration and get-out-the-vote activities, it would be our opinion that a portion of these expenses should also have been allocated between federal and non-federal activities.

During the course of the audit, Committee officials stated that these accounts were transmittal accounts which were established to receive predetermined amounts for federal and non-federal activities. Expenditures from these accounts were to be made in direct proportion to the amount of federal and non-federal funds deposited.

In response to the interim audit report at the end of the response period, December 9, 1982, the Committee submitted additional, more specific explanation of the Illinois and New Jersey account arrangements, new documentation in support of allocation of expenses, and an affidavit concerning expenditures made in New Jersey. From our review of the additional documentation and allocation formula used by the Committee, we believe that the original allocations of federal funds to Illinois and New Jersey were made on a reasonable basis.

On December 20, 1982, the Committee submitted an affidavit from a volunteer who worked with other Committee personnel to coordinate activities in Illinois. The affidavit states that the only expenditures made by this volunteer staff member, materially all of the Illinois expenditures, were in connection with the Illinois GOTV program or other ticket-wide or party-wide activities. And, expenditures billed to the Carter Mondale Re-election Committee, Inc., were done so as a result of mistakes by the vendors.

After consideration of the affidavit and detail explanation provided by the Committee, the Audit staff believes that the Illinois activity was apparently not made on behalf of the presidential candidate. Although the Committee did not provide samples of printed material, etc., the Committee did state that in the worst case situation a total of $1,385.71 could be allocable to the 441a(d) limit. The Audit staff's review revealed that this amount should be $1,738.84.

Given that apparently only $1,738.84 could have been expended on behalf of the Carter Mondale Re-election Committee, Inc., the Committee's use of a single account to finance both 441a(d) and GOTV activity is not felt to be material.

<u>Recommendation</u>

The Audit staff recommends no further action on this matter.

B. <u>Settlement of Debts</u>

Section 114.10(c) of Title 11 of the Code of Federal Regulations states, in part, that the debtor must file a statement of settlement with the Commission including the initial terms of credit, the steps the debtor has taken to satisfy the debt, and remedies pursued by the creditor. This statement must be filed prior to the termination of the reporting status of the debtor.

As a result of the Audit staff's review of the Committee's debts and obligations, it was determined that the Committee settled five (5) debts thereby reducing the Committee's obligations by $139,682.73. One debt settled by the amount of $102,494.30, which represented a loan made prior to 1975 from an individual, was adequately reported as a contribution after settlement. However, the Committee had not filed debt settlement statements with the Commission for any of the remaining four (4) settlements.

In response to the interim audit report, the Committee stated that one (1) debt in the amount of $3,665.95 was mistakenly listed on two (2) accounts payable vouchers. Another debt in the amount of $5,042.00 from a partnership was converted to an in-kind contribution. According to the Committee, debt settlement statements were inadvertently not filed for the remaining two (2) debts totaling $28,480.48 (amount original debt was reduced) but will be submitted to the Commission forthwith.

Recommendation

The Audit staff recommends no further action on this matter provided the Committee files debt settlement statements for the two (2) remaining debts within 30 days of receipt of this report.

C. **Matters Referred to the Office of General Counsel**

A certain other matter noted during the audit was referred to the Commission's Office of General Counsel for consideration.

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DOCUMENT
SEPARATOR