



FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

A81-58

August 9, 1982

MEMORANDUM

TO: FRED EILAND
PRESS OFFICE

FROM: BOB COSTA *RC*

SUBJECT: PUBLIC ISSUANCE OF FINAL AUDIT REPORT -
SENATE DEFENSE AND ECONOMIC POLITICAL
ACTION COMMITTEE

Attached please find a copy of the final audit report of the Senate Defense and Economic Political Action Committee which was approved by the Commission on July 27, 1982.

Informational copies of the report have been received by all parties involved and the report may be released publicly.

Attachment as stated

cc: FEC Library
RAD
✓ Public Records



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REPORT OF THE AUDIT DIVISION
ON THE
SENATE DEFENSE AND ECONOMIC POLITICAL ACTION COMMITTEE

I. Background

A. Overview

This report is based on an audit of the Senate Defense and Economic Political Action 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.

The Committee registered with the Federal Election Commission on April 11, 1979 as the "Senator John Tower Political Action Committee." On July 16, 1980 the Committee changed its name to the "Senate Defense and Economic Political Action Committee." The Committee maintains its headquarters in Alexandria, Virginia.

The audit covered the period January 1, 1980 through December 31, 1980. The Committee reported a beginning cash balance on January 1, 1980 of \$13,026.34; total receipts for the period of \$34,209.85; total expenditures for the period of \$43,998.89; and an ending cash balance of \$3,237.30 on December 31, 1980.

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

B. Key Personnel

According to documents received by the Commission, the Treasurer of the Committee during the period of the audit was Mrs. Burton Barnes. The current Treasurer is Mr. Bradley O'Leary.

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. Luncheon Expenses

Section 441a(a)(1)(A) of Title 2, United States Code, prohibits a political committee from contributing amounts aggregating in excess of \$1,000 per election for federal office to any candidate or the candidate's authorized political committees. Section 100.7(a)(1)(iii) of Title 11, Code of Federal Regulations defines contributions to include anything of value contributed to influence Federal elections. The term "anything of value" includes in-kind contributions.

On August 20, 1980, the Committee made contributions of \$1,000 each to Senate candidates Dave O'Neal from Illinois and Armistead Selden from Alabama. On August 25 a luncheon honoring Dave O'Neal was held in Houston, Texas. The Committee made expenditures which were for the travel costs of Senator John Tower and his aide to attend the luncheon. These expenditures totaled \$759.93. Supporting documentation for these expenditures revealed that the purposes of the payments were for the O'Neal fundraiser and some of the amounts were reported as "Re-O'Neal fundraiser." Within 30 days of the Houston meeting, Citizens For O'Neal (O'Neal's Principal Campaign Committee) reported itemized receipts totaling \$24,400 from individuals and Political Action Committees (PACs) with addresses in Texas. Prior to the Houston meeting, Citizens For O'Neal reported itemized receipts of only \$5,100 from individuals and PACs in Texas.

In late July 1980, the Committee held a luncheon in Dallas, Texas. An initial review of Committee disbursement records indicated that a total of \$849.60 in disbursements were apparently related to the meeting. The disbursements were primarily for the travel costs of Senator Tower and staff. Supporting documentation for these expenditures stated that the purposes of the payments were for the Selden fundraiser and some of the amounts were reported as "Re-Selden fundraiser."

The Committee was informed that these expenditures may meet the definition of in-kind contributions and therefore, were possibly excessive contributions of \$759.93 to Senate Candidate O'Neal and \$849.60 to Senate Candidate Selden.

At the exit conference, Committee Treasurer Brad O'Leary said he had asked questions about PAC events and in-kind contributions at an FEC seminar in Austin, Texas. He also said that other candidates had been invited to the Dallas and Houston meetings; none of Mr. O'Neal's or Mr. Selden's personal expenses were paid for; and although Mr. O'Neal and Mr. Selden were introduced, they were not permitted to solicit contributions. It was his opinion that no in-kind contributions had occurred.

In the interim Audit report, the Audit staff recommended that the Committee submit evidence demonstrating that these transactions were not in-kind contributions and hence not excessive, or seek refunds of the excessive portion of the contributions from Candidates Selden and O'Neal and provide evidence of such refunds to the Audit Division.

Based on the Committee's response to the interim audit report, the Audit staff identified an additional expenditure of \$1,177.90 which related to the Selden meeting. This expenditure was apparently for the luncheon expense. In the response, the Treasurer further explained that the meeting Selden attended was a luncheon for supporters of the Committee and Senator John Tower gave a report on his activities as Chairman of the Platform Committee of the 1980 Republican National Committee. Mr. Selden was a guest at the luncheon and was allowed to say a few words. The response does not make it clear whether or not he solicited funds. The response also explains the Senator's itinerary for the trip and points out that this meeting was one of many functions attended including the official opening of his west Texas office.

Mr. O'Leary stated that the luncheon attended by Mr. O'Neal was not a Committee sponsored event. It was a luncheon sponsored by a private organization where Mr. O'Neal was the guest of honor and Senator Tower was one of the attendees. The response further states that as with the earlier trip, the luncheon was one of several events on the Senator's itinerary.

In addition, Mr. O'Leary stated that these expenditures were reported as being related to Selden and O'Neal fundraisers due to a misunderstanding by the Committee's bookkeeper. He indicated that the primary purposes of the expenditures were to open a field office and speak on behalf of a candidate for state office, and that the contacts with Selden and O'Neal were extremely incidental to other activities. Based on these arguments Mr. O'Leary felt that the finding was erroneous and requested that it be deleted from the final audit report.

Recommendation

In view of the explanation contained in the Committee's response and the amounts involved, the Audit staff recommends no further action.

B. Committee Debt

Section 441b(a) of Title 2, United States Code prohibits political committees from accepting contributions from corporations for the purpose of influencing federal elections.

The Committee reported an outstanding debt owed to a corporate media firm totaling \$11,500. The debt had been outstanding since early 1980 and was continuously reported until June 1982. No interest expense has been reported. During the audit fieldwork Committee personnel informed the Audit staff that the amount represents 100 hours of unused media services. However, related bills indicate the amount includes "office rent" as well as fees. Since the amount was outstanding more than 2 years and no apparent effort has been made to settle the debt, it appeared that the debt owed to the media firm may have been a corporate contribution. The auditors reviewed records of the media firm filed with the District of Columbia Superintendent of Corporations and noted that the Committee Treasurer was a Director of the corporation to whom the debt was owed.

In the interim audit report, the Audit staff recommended that the Committee submit evidence demonstrating that the debt due the media firm should not be considered a corporate contribution or take steps to settle the debt within 30 days of receipt of this report.

In his written response Mr. O'Leary explained that in 1979 the Committee had an oral agreement with the media firm for fundraising services. The contract provided for a fee of \$1,000 per month plus \$250 per month for an office for the period July

through September. Mr. O'Leary further stated that by October 1979, the firm ceased all services to the Committee. It was agreed that if services were reinitiated the amount owed on the contract would be \$11,500. However, the media firm was experiencing business reverses and no further services were rendered. It is Mr. O'Leary's understanding that the firm is no longer a going business concern. Mr. O'Leary believes that the debt probably would not have required disclosure, however it was included out of an "excess of caution." In conjunction with Mr. O'Leary's response an amended disclosure report was received reducing the debt to \$-0-.

Recommendation

In view of the explanation contained in the Committee's response and the amounts involved, the Audit staff recommends no further action.



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