



FEDERAL ELECTION COMMISSION

AK003843

June 16, 1993

MEMORANDUM

TO: FRED EILAND
CHIEF, PRESS OFFICE

FROM: ROBERT J. COSTA
ASSISTANT STAFF DIRECTOR
AUDIT DIVISION

A handwritten signature in black ink, appearing to be "RJ Costa", written over the name of the sender.

SUBJECT: PUBLIC ISSUANCE OF THE FINAL AUDIT REPORT ON
THE GEORGIA REPUBLICAN PARTY

Attached please find a copy of the final audit report on Georgia Republican Party which was approved by the Commission on June 10, 1993.

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: Office of General Counsel
Office of Public Disclosure
Reports Analysis Division
FEC Library

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FEDERAL ELECTION COMMISSION

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REPORT OF THE AUDIT DIVISION
ON THE
GEORGIA REPUBLICAN PARTY

I. Background

A. Overview

This report is based on an audit of the Georgia Republican Party ("the Committee"), undertaken by the Audit Division of the Federal Election Commission in accordance 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 whether 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 February 23, 1982. The Committee maintains its headquarters in Atlanta, Georgia. The audit covered the period January 1, 1987 through December 31, 1988. The Committee reported a cash balance on January 1, 1987 of \$131,223.79; total receipts of \$1,497,571.88; total disbursements of \$1,496,022.56; and a cash balance on December 31, 1988 of \$132,773.11.

This audit report is based on 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 report and were available to the Commissioners and appropriate staff for review.

B. Key Personnel

The Treasurer of the Committee during the period covered by the audit was Marvin H. Smith, who continues to serve as the current Treasurer.

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C. Scope

The audit included such tests as verification of total receipts and disbursements 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; with the exception that although the Committee's recordkeeping with respect to receipt records (for the period January 1, 1987 through June 30, 1988) and disbursement records (for the period January 1, 1987 through December 31, 1987) appeared to be in compliance with the requirements of 2 U.S.C. §432(c), bank accounts and supporting documentation were not maintained in a manner that allowed for the separation of federal and non-federal financial activity in accordance with the requirements of 11 C.F.R. §102.5, thereby limiting substantive testing of: total reported receipts and expenditures; proper disclosure of receipts/disbursements; and limitations/prohibitions on contributions. Further, the Committee did not appear to be in compliance with the provisions of 11 C.F.R §§102.9(a) and (b) which require, in part, that the treasurer keep an account of committee receipts and disbursements by any reasonable accounting procedure.

II. Audit Findings and Recommendations

A. Separation of Federal/Non-Federal Activity and Misstatement of Financial Activity

Sections 434(b)(2) and (4) of Title 2 of the United States Code require that each report disclose, for the reporting period and calendar year, the total amount of all receipts and the total amount of all disbursements.

Sections 102.5(a)(1)(i) and (ii) of Title 11 of the Code of Federal Regulations state, in part, that a political committee shall establish a separate federal account in a depository and that such account shall be treated as a separate federal political committee which shall comply with the requirements of the Act; or establish a political committee which shall receive 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.

In addition, Sections 102.9(a) and (b) of Title 11 of the Code of Federal Regulations provide, in relevant parts, that the treasurer of a political committee shall keep an account by any reasonable accounting procedure of all contributions received by or on behalf of the political committee, and of all disbursements made by or on behalf of the political committee.

During fieldwork, the Audit staff determined that, for 1987, the Committee maintained four accounts with respect to federal activity. Two accounts appeared to contain solely federal

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activity. The two remaining accounts were shared accounts with the non-federal committee, one used for payment of payroll and the other used for payment of operating and other expenditures. Since the shared payroll account was used solely for this purpose, the Audit staff is of the opinion that the Committee would be required to report each transfer from its federal account which reimburses this non-federal account. Therefore, the shared payroll account activity was not considered in the Audit staff's bank reconciliation to determine correct reportable activity for 1987. With respect to the shared operating account, from which disbursements appear to have been made for other than allocable costs, the Audit staff is of the opinion that this is a separate federal account as described at 11 C.F.R. §102.5(a)(1)(i), which shall comply with the reporting requirements of 11 CFR part 104. Additionally, only funds subject to the prohibitions and limitations of the Act shall be deposited to such account.^{1/} The Audit staff has included this account as part of the 1987 bank reconciliation to determine correct reportable activity.

In addition, Committee records with respect to contributions from individuals and disbursements were maintained in such a manner as to preclude the Audit staff from distinguishing which transactions were associated with the federal committee as opposed to those associated with the non-federal committee.

The Committee did not provide all 1987 bank statements until after the exit conference. The Audit staff performed a limited reconciliation of Committee bank accounts to its disclosure reports filed for 1987. Based upon the adjusted bank activity for all four accounts, the Committee's beginning cash was overstated by \$367.23, receipts were understated by \$184,355.43, disbursements were understated by \$175,973.08, and the cash balance at December 31, 1987 was understated by \$8,015.12. The Audit staff could not perform an in-depth analysis of the differences; it is our opinion that these differences reflect the non-federal activity within the shared accounts.

The Audit staff performed a reconciliation of the Committee's bank activity to reported financial activity for 1988 based upon the most recent reports filed by the Committee prior to notification of the impending audit. The reconciliation revealed a \$92,172.35 overstatement of receipts, a \$33,605.20 understatement of disbursements, and the cash balance at December 31, 1988 was overstated by \$125,378.82. The Audit staff did not perform an in-depth analysis relative to the above difference since the Committee had filed an amended report on January 9, 1990 which corrected in all material aspects, the misstatements of financial activity for 1988 as detailed above.

^{1/} Under the Campaign Finance Law of Georgia, corporate contributions are permitted.

Additionally, the Audit staff was unable to perform any substantive tests with respect to the Committee's receipts (for the period 1-1-87 to 6-30-88 and disbursements (for the period 1-1-87 to 12-31-87) as a result of the difficulties noted above with respect to the bank reconciliations, as well as the inability to distinguish federal from non-federal activity. The Committee's receipt documentation, for the above noted period, consisted of photocopies of contributor checks maintained separately from deposit slips. The deposit slips only noted total dollars by fundraising code. Further, there was no indication on the copy of the check as to whether it was deposited to a federal or a non-federal account; nor does it appear that the check copies were annotated with a fundraising code. For disbursements made during 1987 from the shared payroll account described above, documentation or worksheets, from which the Audit staff could identify the federal from the non-federal payroll, were not available to the Audit staff. Also, documentation for the shared operating account, for 1987, was maintained by vendor and the attached invoices contained no notations as to whether the disbursement was federal or non-federal in nature.

At the exit conference, Committee representatives were advised of the above matters.

In the interim audit report, the Audit staff recommended that within 30 calendar days of service of that report the Committee organize its financial records for 1987 and its receipt records through 6-30-88, so federal and non-federal activity could be separated. Alternatively, the Committee could amend their disclosure reports for 1987, adjusting for the misstatements mentioned above, and filing amended Schedules A and B for 1987, correctly itemizing receipt and disbursement activity. In addition, based upon the corrective action taken by the Committee with respect to this matter, the Audit staff recommended that the Committee make available for the Audit staff's review appropriate receipt documentation for the period 1-1-87 through 6-30-88 as well as disbursement documentation for 1987. For 1988, except as noted above, the Audit staff recommended no further action at that time. The Audit staff also noted that further recommendations may be forthcoming.

The Committee's response included receipt documentation and amended disclosure reports. Within the narrative portion of its response, the Committee states that all transfers from its federal accounts to its non-federal operating account have also been included on the amended reports and "strenuously objects to the classification by the Audit Report of the operating account as a federal account." The Committee notes that "the function and operation of this account was to serve as the account out of which allocable expenditures were made, following receipt of transfers from the federal account, using both federal and non-federal funds in proportion under the ballot composition method. The account was not used to pay non-allocable federal expenditures, and the

activity from this account was not reportable under FEC regulations then in place."

The Audit staff notes that the fieldwork review of available disbursement documentation showed no federal activity with respect to the operating account other than the three payments described in Finding II.C.. In addition, there were no federal or state-level elections held in Georgia during 1987. Finally, for 1988, the Committee discontinued its practice of using a joint operating account, conforming to the regulations then in effect. The Audit staff is of the opinion the Committee has substantively complied with the recommendation with respect to this matter.

Recommendation #1

The Audit staff recommends no further action with respect to this matter.

B. Disclosure of Disbursements

Section 434(b)(5)(A) of Title 2 of the United States Code requires that each report under this section disclose the name and address of each person to whom an expenditure in an aggregate amount or value in excess of \$200 within the calendar year is made to meet a candidate or committee operating expense, together with the date, amount and purpose of such operating expenditure.

As discussed in Finding II.A. above, Committee disbursement records for 1987 were such that federal activity could not be distinguished from non-federal activity. The Audit staff was able to perform a limited review of expenses incurred during 1987 utilizing a partial check register and bank statements for accounts containing federal activity provided after the close of fieldwork. By comparing the check register entries to bank statements for the joint operating account, and disbursements disclosed on Schedule B of reports filed by the Committee, the Audit staff determined there were 46 disbursements totaling \$44,628.97 that were not itemized on the Committee's disclosure reports, for which the payee could also be determined. The Audit staff then accounted for the remaining disbursements in excess of \$200 on the bank statements and identified an additional 148 disbursements totaling \$160,547.19 which were not itemized on Committee reports. Since these 148 disbursements were identified using only bank statements provided subsequent to the close of fieldwork, only check number and amount are available for these disbursements. Altogether, the Audit staff noted 194 disbursements, totaling \$205,176.16, made during 1987, for which records maintained by the Committee did not allow for a determination of the federal or non-federal nature of these

disbursements; and for which there were not itemized entries on Schedule B of the Committee's disclosure reports.

In addition, the Audit staff notes that transfers from the Committee's federal account to the shared payroll account, totaling \$105,400.00, representing the federal portion of allocable payroll costs, appear not to have been reported on Committee disclosure reports for 1987. It should be noted that the Committee reported \$117,585.32 in Other Disbursements on its 1987 Year-End report; however, this amount was not supported by itemized entries on Schedules B. Further, absent Committee workpapers detailing the source of its reported figures, the Audit staff was unable to determine which disbursements were included as Other Disbursements.

For 1988, the Audit staff performed a sample review of Committee disbursements. The results indicated that a material number of disbursements were not itemized as required on the most recent reports filed prior to notification of the impending audit. On January 9, 1990, as part of a comprehensive amendment filed by the Committee, Schedules B were submitted which materially corrected the itemization problem identified for 1988.

At the exit conference, Committee representatives were made aware of the problems associated with the 1988 disbursements.

In the interim audit report, the Audit staff recommended that within 30 calendar days of service of that report, contingent upon the corrective action taken with respect to Finding II.A. (Separation of Federal/Non-Federal Activity and Misstatement of Financial Activity) for 1987, the Committee file appropriate Schedules B disclosing disbursements not itemized as noted above. For 1988, the Audit staff recommended no further action.

As part of the Committee's response received May 4, 1992, amendments were filed to correct the reporting of federal activity for 1987 which included Schedules B disclosing disbursements requiring itemization.

The Audit staff's review of these amendments indicated the Committee has materially corrected the disclosure of disbursements.

Recommendation #2

The Audit staff recommends no further action with respect to this matter.

C. Contributions to Federal Candidates from the Non-Federal Account

Section 102.5(a)(1)(ii) of Title 11 of the Code of Federal Regulations states, in part, that all disbursements, contributions, expenditures and transfers by a committee in connection with any federal election shall be made from its federal account.

The Audit staff's limited review of disbursements noted that the Committee made three contributions totalling \$2,300 to federal candidates from its State Operating account.

At the Exit Conference, a Committee representative was provided with copies of the checks in question. In its 1990 April Quarterly Report, filed with the Commission on April 17, 1990, the Committee reported the transfer of \$2,300^{2/}, the amount of the aforementioned contributions, to its State Account, and provided copies of the bank memoranda.

Recommendation #3

The Audit staff recommends no further action with respect to this matter.

D. Reporting of Interest Income Received

Sections 434(b)(2)(J) and (3)(G) of Title 2 of the United States Code provide, in relevant parts, that each report under this section shall disclose for the reporting period and calendar year the total amount of all dividends, interest and other forms of receipts, as well as the identification of each person who provides any dividend, interest or other receipt to the reporting committee in an aggregate value or amount in excess of \$200 within the calendar year, together with the date and amount of any such receipt.

Section 431(13)(B) of Title 2 of the United States Code defines the term "identification" to be, in the case of any person, to be the full name and address of such person.

Section 431(11) of Title 2 of the United States Code defines the term "person" to include an individual, partnership, committee, association, corporation, labor organization, or any other organization or group of persons.

^{2/} In the Audit staff's opinion, this action obviates the need for the non-federal account to register as a political committee.

The Audit staff's review of available bank statements for the Committee's federal money market and Victory '88 accounts, determined that all 28 transactions involving receipt of interest income, totaling \$13,230.79, were not itemized as required.

In addition, the Detailed Summary Pages filed as part of the Committee's 1987 and 1988 Year-End disclosure reports disclose a total of only \$10,209.35 in Other Receipts. The Audit staff noted that the Committee appears to have understated other receipts by \$2,775.78 for 1987; and, understated other receipts by \$245.66 for 1988.

In the interim audit report, the Audit staff recommended that within 30 calendar days of service of that report the Committee file appropriate Schedules A disclosing interest income not itemized as noted above.

On May 4, 1992, as part of its response to the interim audit report, the Committee submitted amended reports that included Schedules A which materially disclosed interest income received.

Recommendation #4

The Audit staff recommends no further action with respect to this matter.

E. Disclosure of Contributions from Individuals

Section 434(b)(3)(A) of Title 2 of the United States Code requires that each report disclose the identification of each person who makes a contribution to the reporting committee during the reporting period, whose contribution or contributions have an aggregate amount or value in excess of \$200 within the calendar year, together with the date and amount of any such contribution.

Section 431(13) of Title 2 of the United States Code defines the term "identification" to be, in the case of any individual, the name, mailing address, and the occupation of such individual, as well as the name of his or her employer.

The Audit staff was unable to perform any substantive testing for the period from January 1, 1987 to June 30, 1988 since federal and non-federal contributor records could not be separated, as detailed at Finding II.A.. The Audit staff was able to perform a limited review of contributions received from individuals during the period July 1, 1988 through December 31, 1988. This review, performed on a sample basis, identified a material number of itemization and disclosure errors. The disclosure errors appear to be attributable to data input errors. Specifically, dollar amounts had been entered incorrectly or, for contributions made from joint accounts, the contribution had been attributed to the husband when the wife signed the check. The disclosure errors were confined to the 1988 October Quarterly

reporting period. This is the first reporting period in which the Committee utilized computer-generated Schedules A.

At the exit conference, a Committee spokesperson stated that the itemization problem may have been due to a computer-programming error. The Committee spokesperson also was aware of the data entry problem of attributing checks signed by the wife to the husband.

In the interim audit report, the Audit staff recommended that within 30 calendar days of service of that report the Committee file amended Schedules A to correct the problems noted above. Based upon the review of documentation submitted by the Committee in response to Finding II.A., the Audit staff also noted that further recommendations may be forthcoming.

In its response to the interim audit report, the Committee notes that it "has compared its computer records with the deposit records and amended its October 1988 quarterly report as necessary."

The Audit staff's review of the amended report indicated that the Committee had materially corrected the problems noted above.

Recommendation #5

The Audit staff recommends no further action with respect to this matter.

F. Matters Referred to the Office of General Counsel

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