



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

December 4, 1996

MEMORANDUM

TO: Ron M. Harris
Press Officer
Press Office

FROM: Robret J. Costa *RJC*
Assistant Staff Director
Audit Division

SUBJECT: Public Issuance of the Final Audit Report on the Massachusetts
Republican State Committee

Attached please find a copy of the final audit report and related documents on the Massachusetts Republican State Committee which was approved by the Commission on November 20, 1996.

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

970/02508/3

970 / 02508 / 4

REPORT OF THE AUDIT DIVISION
ON THE

**Massachusetts Republican
State Committee**

November 20, 1996



FEDERAL ELECTION COMMISSION
999 E STREET, N.W.
WASHINGTON, D.C.

TABLE OF CONTENTS

MASSACHUSETTS REPUBLICAN STATE COMMITTEE

	Page
Executive Summary	1
Final Audit Report	3
Background	3
Findings	5
Transmittal to Committee	13
Chronology	15

9 7 0 / 0 2 5 0 8 / 5



AR#95-71

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

**FINAL AUDIT REPORT
ON THE
MASSACHUSETTS REPUBLICAN STATE COMMITTEE
EXECUTIVE SUMMARY**

The Massachusetts Republican State Committee (the Committee) registered with the United States General Accounting Office on February 19, 1974.

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 of any political committee whose reports fail to meet the threshold level of compliance set by the Commission.

The findings of the audit were presented to the Committee at an exit conference held at the completion of fieldwork on November 9, 1995 and later, in an interim audit report. The Committee's responses to those findings are included in the final audit report.

The following is an overview of the findings contained in the final audit report.

DISCLOSURE OF SHARED FEDERAL AND NON-FEDERAL ACTIVITIES — 11 CFR Sections 106.5 and 104.10(b). The Committee filed Schedules H2 in calendar years 1993 and 1994 disclosing allocation ratios for fundraising programs and events using the ballot composition method instead of ratios calculated using the funds received method. In addition, the Committee filed Schedules H4 allocating payments made for shared fundraising and event expenses using the ratio derived from the ballot composition method. The Committee should have disclosed and allocated such payments using ratios developed from the funds received method for each program or event. Finally, the Committee failed to report \$161,773 in shared administrative expenses expended from the non-federal account. In response to the interim audit report, the Committee filed amendments which corrected the public record.

97070250876

COMMISSION ON FEDERAL ELECTIONS
YESTERDAY'S CHOICES, TOMORROW'S
VOTERS. PLEASE CONTACT THE PUBLIC INFORMATION

APPARENT EXCESSIVE EXPENDITURES ON BEHALF OF ROMNEY FOR U.S. SENATE COMMITTEE — 2 U.S.C. Section 441a(d)(1) and 11 CFR Sections 100.8(b)(16)(i) and (iv). The Committee made payments totaling \$10,799 for goods/services on behalf of the Romney For U.S. Senate Committee that were not exempt from the definition of expenditure pursuant to 11 CFR §100.8(b)(16). These goods/services did not appear to be campaign materials used in connection with volunteer activities and/or there was no documentation related to the Committee's use of volunteers. As a result, the Committee made payments totaling \$4,453 in excess of the coordinated expenditure limitation. The Committee has since obtained a refund of \$4,453 from the Romney For U.S. Senate Committee.

MISSTATEMENT OF FINANCIAL ACTIVITY — 2 U.S.C. Sections 434(b)(1),(2) and (4). Reported beginning cash on hand was understated by \$679. Also, reported receipts and disbursements were understated by \$24,641 (net) and \$27,906 (net) respectively, for calendar year 1994. Ending cash on hand was overstated by \$2,586. In response to the interim audit report, the Committee filed a comprehensive amendment for 1994 which materially corrected the reporting deficiencies.

970 / 02508 / 7

To manage its financial activity, the Committee maintained two federal checking accounts.¹ Committee's receipts were composed of contributions from individuals, political committees, transfers from party committees, refunds/rebates, interest and transfers from its non-federal account.

D. AUDIT SCOPE AND PROCEDURES

The audit included testing of the following general categories:

1. The receipt of contributions or loans in excess of the statutory limitations;
2. the receipt of contributions from prohibited sources;
3. proper disclosure of contributions from individuals, political committees and other entities, to include the itemization of contributions when required, as well as, the completeness and accuracy of the information disclosed;
4. proper disclosure of disbursements including the itemization of disbursements when required, as well as, the completeness and accuracy of the information disclosed;
5. proper disclosure of campaign debts and obligations;
6. the accuracy of total reported receipts, disbursements and cash balances as compared to bank records (see Finding II.C.);
7. adequate recordkeeping of campaign transactions;
8. proper reporting and funding of allocable expenses (see Finding II.A.); and,
9. other audit procedures that were deemed necessary in the situation (see Finding II.B.).

Unless specifically discussed below, no material non-compliance was detected. It should be noted that the Commission may pursue any of the matters discussed in this report in an enforcement action.

¹ One of the accounts, GOP Victory '92, had minimal activity and was closed April 1, 1993.

II. AUDIT FINDINGS AND RECOMMENDATIONS

A. DISCLOSURE OF SHARED FEDERAL AND NON-FEDERAL ACTIVITIES

Introduction

Our review encompassed activity related to two bank accounts; one of which was a federal account and one a non-federal account. The Committee paid all shared expenses from the federal account. The federal account was then reimbursed from the non-federal account for the non-federal share of allocable expenses. The Committee used the ballot composition method (25% federal and 75% non-federal) to allocate shared expenses, administrative as well as fundraising. The various fundraisers that were allocated using the ballot composition method included direct mail, telemarketing programs and events.

1. Allocation Ratios for Fundraising Events - Schedule H2

Section 106.5(a)(2)(ii) of Title 11 of the Code of Federal Regulations states committees that make disbursements in connection with federal and non-federal elections shall allocate expenses according to this section for the direct costs of a fundraising program or event including disbursements for solicitation of funds and for planning and administration of actual fundraising events, where federal and non-federal funds are collected by one committee through such program or event.

Section 106.5(f) of Title 11 of the Code of Federal Regulations states, in part, if federal and non-federal funds are collected by one committee through a joint activity, that committee shall allocate its direct costs of fundraising, as described in paragraph (a)(2) of this section, according to the funds received method. Under this method, the committee shall allocate its fundraising costs based on the ratio of funds received into its federal account to its total receipts from each fundraising program or event.

Section 104.10(b)(2) of Title 11 of the Code of Federal Regulations states, in part, that in each report disclosing a disbursement for the direct costs of a fundraising program or an exempt activity, the committee shall assign a unique identifying title or code to each such program or activity and shall state the allocation ratio calculated for the program or activity.

In calendar years 1993 and 1994, the Committee held 33 fundraising programs or events. The Committee filed Schedules H2 disclosing allocation ratios for these fundraisers using the ballot composition method (25% federal and 75% non-federal). Since certain programs were ongoing and indistinguishable, the Audit staff consolidated

0
3
0
5
2
0
7
0
9

such activity into 17 separate programs and/or events. The Audit staff, using Committee receipt records, solicitation materials and invitations, calculated allocation ratios and assigned unique identifiers for each fundraising event or program based on the funds received method.

Workpapers detailing the above were provided to the Committee at the exit conference. The Committee agreed with the consolidation of programs/events and allocation ratios developed by the Audit staff and further agreed to file amended reports.

2. Reporting of Shared Activity - Schedule H4

Section 106.5(g)(1) of Title 11 of the Code of Federal Regulations states, in part, committees that have established separate federal and non-federal accounts under 11 CFR 102.5(a)(1)(i) or (b)(1)(i) shall pay the entire amount of an allocable expense from its federal account and transfer funds from its non-federal account to its federal account solely to cover the non-federal share of that allocable expense; or shall establish a separate allocation account into which funds from its federal and non-federal accounts shall be deposited solely for the purpose of paying the allocable expenses of joint federal and non-federal activities.

Section 104.10(b)(4) of Title 11 of the Code of Federal Regulations states, in part, a political committee that pays allocable expenses in accordance with 11 CFR 106.5(g) or 106.6(e) shall also report each disbursement from its federal account or separate allocation account in payment for a joint federal and non-federal expense or activity.

The Committee filed Schedules H4 in calendar years 1993 and 1994 on which all payments made for shared fundraising and event expenses were allocated using the ballot composition method (25% federal and 75% non-federal). The Committee should have disclosed and allocated such payments on Schedules H4 based on ratios developed from the funds received method for each specific program or event.

During the period January 1, 1993 through December 31, 1994 the Committee reported that the non-federal amount of shared expenses totaled \$1,452,752. The Audit staff calculated, based on correct allocation ratios, \$1,436,361 as the non-federal amount of shared expenses. A review of the federal and non-federal accounts identified \$1,191,500 in transfers actually made from the non-federal account to the federal account for all shared expenses. As a result, the federal account overpaid its share of expenses. Conversely, transfers from the non-federal account did not exceed the non-federal share of expenses.

Further, the Audit determined that contrary to the regulatory requirement stated above the non-federal account paid directly to vendors \$161,773 in shared administrative expenses.² Funds expended from the non-federal account to pay shared administrative expenses were not reported.

As previously stated, the Committee was given schedules of all fundraising and event programs, along with allocation ratios developed by the Audit staff. Further, a schedule of shared administrative expenses originating from the non-federal account was also provided to the Committee. The Committee stated that it agreed with our calculations and it will file amended reports to correct the reporting irregularities noted above.

In the interim audit report the Audit staff recommended that the Committee:

- file amended Schedules H2 for calendar years 1993 and 1994 disclosing the federal/non-federal allocation ratio and unique event identifier for each program or event;
- file amended Schedules H4 for calendar years 1993 and 1994 correctly disclosing all shared fundraising/event expenses including their respective unique identifier; and
- file memo Schedules H4 to include all shared administrative expenses, not disclosed on Schedules H4, made from the non-federal account.

In response to the interim audit report, the Committee filed amended Schedules H2 for calendar years 1993 and 1994 correctly disclosing the allocation ratio (federal/non-federal) and unique event identifier for each program or event.

The Committee also filed amended Schedules H4 for calendar year 1993 and 1994 disclosing all shared fundraising/event expenses, including their respective unique identifiers and memo Schedules H4 for 1993 and 1994, all of which materially corrected the reporting errors noted above.

B. APPARENT EXCESSIVE EXPENDITURES ON BEHALF OF ROMNEY FOR U.S. SENATE COMMITTEE

Section 441a(d)(1) of Title 2 of the United States Code states notwithstanding any other provision of law with respect to limitations on expenditures or limitations on contributions, the national committee of a political party and State

² During the audit period the federal account overfunded allocable expenses of joint federal and non-federal activity by \$279,361. Therefore, no reimbursement from the federal account to the non-federal account is due.

97070250802

committee of a political party, including any subordinate committee of a State committee, may make expenditures in connection with the general election campaign of candidates for Federal office, subject to the limitations contained in paragraphs (2) and (3) of this subsection.

Sections 100.8(b)(16)(i) and (iv) of Title 11 of the Code of Federal Regulations state, in part, that the payment by a state or local committee of a political party of the costs of campaign materials (such as pins, bumper stickers, handbills, brochures, posters, party tabloids or newsletters, and yard signs) used by such committee in connection with volunteer activities on behalf of any nominee(s) of such party is not an expenditure, provided that such payment is not for costs incurred in connection with any broadcasting, newspaper, magazine, billboard, direct mail, or similar type of general public communication or political advertising and such materials are distributed by volunteers and not by commercial or for-profit operations.

Our review of Committee vendor files indicated expenditures totaling \$10,799 were made on behalf of the Romney For U.S. Senate Committee (the Romney Committee). These payments were made for services and materials that appeared to have been shipped directly to the Candidate or to commercial vendors.³

° The Committee paid an invoice (\$2,414) from Voter Contact Services for "Tape/Romney File With one selection." "4 Mailings." These materials were sent to a company named Imagtech. The Committee responded that Imagtech, in Utah, made telephone calls "on behalf of the Republican slate." The Committee stated further that the "tape was a list of registered Republican voters in certain towns that had been previously identified as Romney supporters." The Committee's Executive Director stated that "I cannot explain the word 'mailings' at the top of the invoice since the invoice related to a telephone effort and not to any mailings."

° Another invoice (\$352) from Voter Contact Services states "2 Phone List[sic]/Shipped to Romney 10/14/94, volunteer Phone List 4 MA towns." The Committee stated that these telephone lists were shipped to the Romney Committee's campaign office and that the "calls were made by volunteers from their homes or in a local office in four towns in the state."

³ The Committee's coordinated expenditure limitation for the 1994 general election for senate nominees was \$270,673. At the exit conference, the Committee's Executive Director stated that he signed a letter assigning the Committee's coordinated expenditure limit to the National Party. The National Republican Senatorial Committee (NRSC) reported spending \$540,000 on behalf of the Romney for U.S. Senate Committee through November 3, 1995. Payments in the amount of \$316,000 and \$224,000 were made to National Media, Inc. in Alexandria, VA.

◦ The Committee paid two additional invoices from Voter Contact Services (\$425 and \$619) for voter lists shipped to the Romney Committee. The Committee stated that voter lists were "shipped to the Romney Headquarters in Cambridge. The lists were used by volunteer telephone callers who made calls for the Republican party candidates from a Republican Party office at 7 Central Street in Arlington, Massachusetts."

The expenditures to Voter Contact Services for the voter telephone lists (\$352, \$425 and \$619) do not appear to satisfy the 11 CFR §100.8(b)(16) exemption for campaign materials. A voter telephone list is not the type of material that can be distributed by volunteers as traditionally done with pins, bumper stickers, brochures, posters, etc. Therefore, it appears the Committee made expenditures on behalf of the Romney Committee.⁴

The other expenditure (\$2,414) to Voter Contact Services involved a "Tape/Romney File With one selection," "4 Mailings" which was shipped to another vendor. At the close of fieldwork, it was unclear whether the telephone script provided by the Committee was associated with that portion of the invoice in question. Further, the invoice contained the contradictory language "4 Mailings." Absent additional documentation to the contrary, it is also possible that this expenditure does not satisfy the 11 CFR §100.8(b)(16) exemption for campaign materials.

◦ The Committee paid invoices from Wellesley Printing for "6,000 'Newton for Romney' Flyers" (\$525) and "30,000 'Must Reading' Newspaper reprint" (\$2,400). The Committee stated that the Newton for Romney flyers were shipped to the Candidate's campaign headquarters where they were picked up by "Newton residents, and distributed by volunteers -- principally Newton residents -- door-to-door in Newton." The Committee stated further that the reprints were shipped to the Romney home and "distributed door-to-door by volunteers in cities and towns throughout the state."

◦ The Committee paid Cambridge Lumber & Supply Company \$488 for materials shipped to "Romney" and "Romney Campaign." The Committee responded that the materials were "wood and supplies required to construct political signs which were held by volunteers at busy intersections in the final days of the Romney campaign. The material was delivered directly to the Romney campaign headquarters in Cambridge and distributed and used by campaign volunteers."

◦ The Committee paid two invoices, totaling \$3,576, to Boston Sweats for campaign buttons and yard signs. The Committee stated that "the buttons and signs were delivered to the Romney headquarters where they were by their nature distributed and used by campaign volunteers and private citizens."

⁴

It should be noted that the get-out-the-vote exemption, which includes the use of phone banks, pursuant to 2 U.S.C. §431(9)(ix) and 11 CFR §100.8(b)(18) is inapplicable, given that this activity occurred during the 1994 election cycle, a non-Presidential election

Subsequent to the exit conference, the Executive Director stated that "While place of delivery of products from vendors may be an issue, we relied on the pamphlet published by the Federal Elections [sic] Commission (copy of cover enclosed), which does not mention place of delivery." (Local Party Activity - Federal Election Commission-February 1993)

It is the opinion of the Audit staff that the exemption from the definition of expenditure at 11 CFR §100.8(b)(16) is not applicable to the activities described above because the goods/services purchased do not appear to be campaign materials used in connection with volunteer activities and/or there was no documentation related to the Committee's use of volunteers. As a result, the Committee made payments totaling \$4,453 (\$540,000 + \$10,799 - \$546,346)⁵ in excess of the coordinated expenditure limitation.

In the interim audit report the Audit staff recommended that the Committee provide documentation from Voter Contact Services with respect to invoice #4 which explains the annotation "4 mailings" and clarify whether the script provided with invoice #4 applies to both items listed; and provide evidence which demonstrates that the expenditures for the activity described above were exempt pursuant to 11 CFR §100.8(b)(16), to include but not be limited to volunteer sign-up sheets, pictures, etc., all of which must relate to specific programs noted above; or demonstrate that the expenditures were independent in nature, such that the Committee did not exceed the 2 U.S.C. §441a(d)(1) limitation; or obtain a refund in the amount of \$4,453 from the Romney For U.S. Senate Committee.

In response to the interim audit report, the Committee submitted a copy of a reimbursement check in the amount of \$4,453 from the Romney For U.S. Senate Committee, along with a copy of the bank validated deposit ticket.

C. MISSTATEMENT OF FINANCIAL ACTIVITY

Sections 434(b)(1), (2) and (4) of Title 2 of the United States Code state, in part, that a political committee shall disclose the amount of cash on hand at the beginning of the reporting period and the total amount of all receipts and all disbursements for the reporting period and calendar year.

The Audit staff's reconciliation of the Committee's reported activity to its bank activity revealed that material misstatements occurred with respect to reports filed covering calendar year 1994.

Beginning cash on hand was understated by \$679. This error was a carry over from the 1993 reporting period.

⁵ This amount (\$546,346) is the sum of the 2 U.S.C. §441(a)(2)(A) limit (\$5,000), 441a(d)(2) limits (\$270,673 state party and \$270,673 national party)

070/0250815

Receipts were understated by a net amount of \$24,641, due to not reporting receipts totaling \$35,141 and the over-reporting of \$10,500 in receipts.

Disbursements were understated by \$27,906, primarily due to an unreported transfer to the non-federal account in the amount of \$25,000 and not reporting disbursements made from a petty cash fund totaling \$2,242.

Ending cash on hand was overstated by \$2,586, the net result of the reporting errors noted above.

The Committee was provided schedules of the above reporting errors at the exit conference. The Committee officials agreed to file a comprehensive amendment for 1994 to rectify the errors.

In the interim audit report the Audit staff recommended that the Committee file a comprehensive amendment for 1994 to correct the reporting deficiencies noted.

In response to the interim audit report, the Committee filed a comprehensive amendment for 1994, which materially corrected the reporting deficiencies.

970 / 025036



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

AR#95-71

November 25, 1996

Alfred Fondacaro, Jr.
Assistant Treasurer
Massachusetts Republican State Committee
34 Boynton Road
Medford, MA 02155

Dear Mr. Fondacaro:

Attached please find the Final Audit Report on the Massachusetts Republican State Committee. The Commission approved the report on November 20, 1996.

The Commission approved final audit report will be placed on the public record on December 4, 1996. Should you have any questions regarding the public release of the report, please contact the Commission's Press Office at (202) 219-4155. Any questions you have related to the matters covered during the audit or in the report should be directed to Tom Nurthern of the Audit Division at (202) 219-3720 or toll free at (800) 424-9530.

Sincerely,

Robert J. Costa
Assistant Staff Director
Audit Division

Attachment as stated

cc: Mr. William B. Vernon, Executive Director

9707025087

U.S. GOVERNMENT PRINTING OFFICE: 1995
GSA FPMR (41 CFR) 101-11.6
EVERYONE IS INVITED TO PARTICIPATE AND TO BE INFORMED

CHRONOLOGY

MASSACHUSETTS REPUBLICAN STATE COMMITTEE

Audit Fieldwork	10/10/95 - 11/09/95
Interim Audit Report to the Committee	09/13/96
Response Received to the Interim Audit Report	10/11/96
Final Audit Report Approved	11/20/96

9707025038

97070250819

