



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20543

June 19, 1996

MEMORANDUM

TO: RON M. HARRIS
PRESS OFFICER
PRESS OFFICE

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

SUBJECT: PUBLIC ISSUANCE OF THE FINAL AUDIT REPORT ON
SAN BERNARDINO COUNTY REPUBLICAN CENTRAL
COMMITTEE

Attached please find a copy of the final audit report and related documents on the San Bernardino County Republican Central Committee which was approved by the Commission on June 10, 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

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**REPORT OF THE AUDIT DIVISION
ON**

**San Bernardino County Republican
Central Committee**

Approved June 10, 1996



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

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20460

**FINAL AUDIT REPORT
ON THE
SAN BERNARDINO COUNTY REPUBLICAN CENTRAL COMMITTEE**

EXECUTIVE SUMMARY

The San Bernardino County Republican Central Committee (the Committee) registered with the Federal Election Commission on March 23, 1977

The audit was conducted pursuant to 2 U.S.C. §438(b), which states 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 6, 1995, and later in an interim audit report. The Committee's response to those findings are included in this final audit report.

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

APPARENT OVER-FUNDING BY THE NON-FEDERAL ACCOUNT — 11 CFR §§102.5(a) and 106.5 The Audit staff reviewed expenses paid from federal and non-federal accounts and identified \$13,374 in federal expenses that had impermissibly been paid by the non-federal account between January 1, 1993 and December 31, 1994.

Of this amount, \$4,241 represented transfers from the non-federal account to the federal account which exceeded the non-federal share of expenses initially paid by the federal account. The remainder, \$9,133 represented the federal account's share of allocable voter registration expenses paid by the non-federal account.

The Committee did not dispute this finding but due to lack of funds was unable to make a payment to the non-federal account. The Committee did file amendments to its original reports to clarify the public record, and also reported a debt, in the amount of \$13,374, owed to the non-federal account on its April 15, 1996 quarterly report.

PROHIBITED IN-KIND CONTRIBUTIONS — 2 U.S.C. §441b(a), 11 CFR §§104.13(a) and 106.5(a) Allocable in-kind contributions, totaling \$12,578, were identified from corporations involving donated office space and printing services. Of this amount, \$2,361 represented the federal account's allocable share.

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Since the federal account did not either (1) pay the non-federal account in advance or on receipt for its allocable share of the goods and services or (2) transfer sufficient funds to the non-federal account in advance to pay for its share, the Committee did not satisfy either of the conditions set forth in Advisory Opinion 1992-33

The Committee did make a refund of \$1,000 prior to receipt of the interim report, and, in response to that report, provided information indicating that the remaining \$1,781 was refunded to the corporations

MISSTATEMENT OF FINANCIAL ACTIVITY — 2 U.S.C §§434(b)(1), (2) and (4)
In reports covering 1993 activity, the Committee's totals for receipts and disbursements were understated by approximately \$11,000 and \$6,600, respectively. Beginning and ending cash balances were also materially misstated. With respect to reports covering 1994, receipts were understated by \$22,230 (net) and disbursements by \$9,808, with beginning and ending cash also misstated

Amendments were filed, in response to the interim audit report, which corrected the public record

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20461

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**REPORT OF THE AUDIT DIVISION
ON
THE SAN BERNARDINO COUNTY REPUBLICAN CENTRAL
COMMITTEE**

I. BACKGROUND

A. AUDIT AUTHORITY

This report is based on an audit of the San Bernardino County Republican Central Committee (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 investigations of any political committee required to file a report under section 434 of this title. Prior to conducting any audit under this subsection, 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.

B. AUDIT COVERAGE

The audit covered the period January 1, 1993 through December 31, 1994. During this period, the Committee reported a beginning cash balance of \$7,661; total receipts for the period of \$143,210; total disbursements for the period of \$158,095; and an ending cash balance of \$169.¹

C. COMMITTEE ORGANIZATION

The Committee registered with the Federal Election Commission on March 23, 1977 and maintains its headquarters in Rancho Cucamonga, California. The Treasurer of the Committee during the audit period was Ms. Deborah Hagar. The present Treasurer of the Committee is Ms. Nancy McLain. The Committee is affiliated with the Republican State Central Committee of California.

¹ All amounts presented in this report are rounded to the nearest whole dollar. The reported totals do not foot (see Finding II B).

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To manage its financial activity, the Committee used two bank accounts: a federal account and a non-federal account. The Committee received contributions from individuals 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 (see Finding II C),
- 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 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 B),
- 7 Adequate recordkeeping of campaign transactions,
- 8 Proper reporting and funding of allocable expenditures (see Findings II.A. 1 and II A 2), and,
- 9 Other audit procedures that were deemed necessary under the circumstances

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

II. AUDIT FINDINGS AND RECOMMENDATIONS

A. SHARED FEDERAL AND NON-FEDERAL ACTIVITIES

Background

Our review encompassed activity related to two bank accounts, one was a federal account and the other was considered a non-federal account. As provided at 11

CFR 106.5(g)(1)(i) and 102.5(a)(1), the Committee initially paid for expenses allocable between federal and non-federal activities from the federal account, except as discussed below. Transfers into the federal account were received from the non-federal account. The sources of funds deposited in the non-federal account included receipts from corporations which would not be permissible contributions under the Act.

1 Apparent Over-funding by the Non-federal Account

Section 106.5(g)(1)(i) of Title 11 of the Code of Federal Regulations states, in relevant part, that a committee shall pay the entire amount of an allocable expense from its federal account and shall transfer funds from its non-federal account to its federal account solely to cover the non-federal share of that allocable expense

Section 106.5(g)(2)(ii)(A) of Title 11 of the Code of Federal Regulations states, in relevant part, that for each transfer of funds from a committee's non-federal account to its federal account, the committee must itemize in its reports the allocable activities for which the transferred funds are intended to pay

The Audit staff reviewed all disbursements from the federal and non-federal accounts, including the transactions disclosed on Schedule H-4, to determine if the Committee's federal account paid its allocable amount of shared expenditures during the period January 1, 1993 through December 31, 1994. The Committee reported that the non-federal amount of shared expenditures for the audit period totaled \$68,984. Although the Committee disclosed varying allocation ratios on Schedule H-1 (Method of Allocation for Shared Federal and Non-federal Administrative Expenses and Generic Voter Drive Costs) and Schedule H-2 (Allocation Ratios for Individual Fundraising Events, Exempt Activities, and Shared Direct Candidate Support) throughout the audit period, a ratio of 50%/50% was used by the Committee to allocate all expenditures involving shared activity.

The Audit staff calculated, based on correct allocation ratios, \$116,809 to be the non-federal amount of shared expenditures. However, an analysis of the federal and non-federal accounts identified \$121,050 in transfers actually made. Therefore, transfers from the non-federal account exceeded the non-federal share of expenditures by \$4,241 (\$121,050 - \$116,809)

At an interim conference and at the exit conference the Audit staff provided to the Committee schedules detailing the above finding. At the exit conference, the Treasurer indicated that the Committee did not dispute the finding and no additional information was available in resolution of the finding. During a conference the Committee's treasurer commented that she recently attended training in reporting shared activity presented by the Republican National Committee which would help her to prepare disclosure reports in the future

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In the interim audit report, the Audit staff recommended that the Committee demonstrate that the non-federal account did not over-fund the federal account or refund the excess funding from the federal account to the non-federal account and provide evidence that such refund was made (i.e., a copy of the front and back of the negotiated refund check) It was further recommended that the refund be itemized on Schedule H-4 as a disbursement to the non-federal account for the purpose of making an adjustment, and, 100% of the expenditure be allocated to the federal share

In a response to the interim audit report, the Committee stated that it did not dispute this finding The Committee also asserted that funds were not available at the time of the response to repay the non-federal account However, on its disclosure report for the period 1/1/96 through 3/31/96, the Committee reported a debt to the non-federal account in the amount of \$4,241.

2 Allocable Voter Registration Expenses Paid by the Non-federal Account

Section 106.5(a)(2)(iv) of Title 11 of the Code of Federal Regulations states, in relevant part, that committees making disbursements in connection with federal and non-federal elections shall allocate expenses related to generic voter drives, including voter identification, voter registration, and get-out-the-vote drives, or any other activities that urge the general public to register, vote or support candidates of a particular party without mentioning a specific candidate

Section 106.5(g)(1)(i) of Title 11 of the Code of Federal Regulations states, in relevant part, that a committee shall pay the entire amount of an allocable expense from its federal account and shall transfer funds from its non-federal account to its federal account solely to cover the non-federal share of that allocable expense

During the period January 1, 1993 through December 31, 1994 the non-federal account paid for allocable voter registration expenses totaling \$41,512 None of this activity was disclosed on Schedule H-4 of the Committee's reports. Based on a ballot composition ratio of 22%, the Audit staff determined that \$9,133 of these expenditures were allocable to the federal account:

At an interim conference and at the exit conference the Audit staff provided to the Committee schedules detailing the above finding At the exit conference, the Treasurer indicated that the Committee did not dispute the finding and no additional information was available in resolution of the finding

In the interim audit report it was recommended that the Committee refund an amount equal to the federal share of allocable voter registration expenses to the non-federal account and provide evidence that such refund was made (i.e., a copy of the front and back of the negotiated refund check) It was further recommended that the Committee file memo Schedules H-4 for 1993 and 1994 itemizing all shared voter

registration expenditures made from the non-federal account, including their respective allocation ratios

In response to the interim audit report, the Committee stated that it did not dispute this finding. The Committee also asserted that funds were not available at the time of the response to repay the non-federal account. However, on its disclosure report for the period 1/1/96 through 3/31/96, the Committee reported a debt to the non-federal account in the amount of \$9,133. Included in the Committee's response were comprehensive amended disclosure reports for 1993 and 1994 which complied with the latter part of the recommendation described above

B. MISSTATEMENT OF FINANCIAL ACTIVITY

Sections 434(b)(1), (2) and (4) of Title 2 of the United States Code state, in relevant part, that each report shall disclose the amount of cash on hand at the beginning of each reporting period, the total amount of all receipts, and the total amount of 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 years 1993 and 1994

1 1993

a Receipts

The Audit staff determined that the Committee's reported receipts were understated by \$11,155. The understatement was the result of unreported deposits totaling \$3,388 and unreported in-kind contributions of \$7,767

b Disbursements

The Committee's reported disbursements were understated by a net amount of \$6,624. Most of the understatement was the result of unreported disbursements totaling \$4,328 and unreported in-kind contributions of \$2,236

c Cash on Hand

The Committee's reported beginning cash on hand at January 1, 1993 was overstated by \$6,727. The overstatement was carried over from ending cash as disclosed on the Committee's year end 1992 report

The Committee's reported ending cash on hand at December 31, 1993 was overstated by a net amount of \$3,565. The overstatement resulted from the discrepancies in beginning cash, receipts, and disbursements described above

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2 1994

a Receipts

The Committee's reported receipts were understated by a net amount of \$22,230. Most of the understatement was the result of unreported receipts totaling \$3,914, unreported transfers from the non-federal account totaling \$16,850, and unreported in-kind contributions of \$1,506.

b Disbursements

The Committee's reported disbursements were understated by a net amount of \$9,808. The understatement resulted from unreported disbursements totaling \$10,221 and unreported in-kind contributions of \$872, and a net total of (\$1,285) in miscellaneous reporting errors or omissions.

c Cash on Hand

The Committee's reported beginning cash on hand at January 1, 1994 was overstated by \$6,820. The overstatement resulted from a \$3,565 overstatement in 1993 ending cash, described above. Also, there was an difference of \$3,255 between reported ending cash on hand at December 31, 1993 and reported beginning cash at January 1, 1994. The Audit staff was unable to determine any reason for this discrepancy.

The Committee's reported ending cash on hand at December 31, 1994 was understated by a net amount of \$2,833. The understatement was a result of differences identified in reported cash, receipts, and disbursements, noted above, and a mathematical error of \$2,769.²

At an interim conference and at the exit conference, the Audit staff explained the causes of the misstatements discussed above. Copies of schedules detailing the errors were provided to the Committee. The Treasurer indicated that the Committee did not dispute the finding and no additional information was available in resolution of the finding. Also, she agreed to file comprehensive amended reports for calendar years 1993 and 1994.

In the interim audit report it was recommended that the Committee file comprehensive amended reports for calendar years 1993 and 1994 with supporting Schedules H-1, H-2, H-3, H-4, A, and B to correct the misstatements described above.

² Ending cash on hand, as reported, exceeded beginning cash plus total receipts less total disbursements, as reported on the 1993 summary pages, by \$2,769.

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Included in the Committee's response were comprehensive amended reports for 1993 and 1994 which corrected the misstatements noted above.

C. PROHIBITED IN-KIND CONTRIBUTIONS

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 federal election, or for any political committee to knowingly accept or receive any contribution prohibited by this section

Section 104 13(a)(2) of Title 11 of the Code of Federal Regulations states, in part, that each in-kind contribution shall also be reported as an expenditure at the same usual and normal value and reported on the appropriate expenditure schedule

Sections 106 5(a)(2)(i) and (ii) of Title 11 of the Code of Federal Regulations state, in part, that committees that make disbursements in connection with federal and non-federal elections shall allocate administrative expenses including rent and the direct costs of a fundraising event where federal and non-federal funds are collected by the Committee through such event

Advisory Opinion 1992-33 states, in part, that a national party committee may accept corporate in-kind donations in connection with fundraising activities, but only if one of two conditions is met (1) the amount of the federal share of goods or services is paid to the non-federal account in advance or on receipt; or (2) sufficient funds to pay for the federal share of goods or services have been transferred to a non-federal account in advance

Our review of vendor invoices for the period January 1, 1993 through December 31, 1994 identified allocable in-kind contributions from corporations³ totaling \$12,578. The Audit staff determined that the federal share of the corporate in-kind contributions totaled \$2,781. Donated office space⁴, an administrative expense, accounted for \$2,361 of the amount allocable to the federal account, whereas donated printing services for fundraising events accounted for the remaining \$420.

During the audit period, the federal account did not make any disbursements to the non-federal account. Therefore, the Committee did not satisfy either of the conditions set forth in Advisory Opinion 1992-33 with respect to the corporate in-kind contributions. The previous Treasurer made a partial refund of \$1,000 to one of the contributing corporations, however, this payment was not timely. As of November 6, 1995,

³ The current incorporated status of contributors was verified with California's Secretary of State or through other sources.

⁴ On its disclosure reports the Committee incorrectly attributed the in-kind contribution of office space to an officer of the corporation.

the date of the exit conference, a balance of \$1,781 (\$2,781 - \$1,000) had not been refunded by the Committee

At an interim conference and at the exit conference the Audit staff provided to the Committee schedules detailing the above finding. At the exit conference, the Treasurer indicated that the Committee did not dispute the finding and no additional information was available in resolution of the finding

In the interim audit report it was recommended that the Committee refund the federal share (\$1,781) of the in-kind contributions to the contributors from the federal account and provide evidence of such refunds, i.e., copies of the front and back of the negotiated refund checks

Included in the Committee's response to the interim audit report were copies of refund checks totaling \$1,781. A front and back copy of one of the checks for \$237 demonstrated that it had been negotiated. The Committee asserted that the remaining checks had not cleared the bank in time to be included with the response

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20543

June 12, 1996

Ms. Nancy McLain, Treasurer
San Bernardino County Republican
Central Committee
7365 Carnelian Avenue, Suite 133
Rancho Cucamonga, CA 91730

Dear Ms. McLain:

Attached please find the Final Audit Report on the San Bernardino County Republican Central Committee. The Commission approved the report on June 10, 1996.

The Commission approved Final Audit Report will be placed on the public record on June 19, 1996. Should you have any questions regarding the public release of the report, please contact the Commission's Press Office at (202) 219-4155 or toll-free at (800) 424-9530. Any questions you have related to matters covered during the audit or in the report should be directed to Bob Simmons or Wanda Thomas of the Audit Division at (202) 219-3720 or at the above toll free number.

Sincerely,

Robert J. Costa
Assistant Staff Director
Audit Division

Attachment as stated

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CHRONOLOGY

SAN BERNARDINO COUNTY REPUBLICAN CENTRAL COMMITTEE

Audit Fieldwork	9/18/95 - 9/29/95
Interim Audit Report to the Committee	3/11/96
Response Received to the Interim Audit Report	5/15/96
Final Audit Report Approved	6/10/96

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