



FEDERAL ELECTION COMMISSION

1125 K STREET N.W.
WASHINGTON, D.C. 20463

REPORT OF THE AUDIT DIVISION ON THE PRESIDENT FORD COMMITTEE (Primary Election)

I. Background

This report covers an audit of the President Ford Committee ("PFC") undertaken by the Audit Division 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 433(a)(8) of the Act and Section 9038(a) of Chapter 96 of the Internal Revenue Code of 1954. Section 438(a)(8) of the Act directs the Commission "to make from time to time audits and field investigations with respect to reports and statements filed under the provisions of this chapter, and with respect to alleged failures to file any report or statement required under the provisions of this chapter, and to give priority to auditing and field investigating of the verification for, and the receipt and use of, any payments received by a candidate under Chapter 95 or Chapter 96 of the Internal Revenue Code of 1954." Section 9038(a) of Chapter 96 states that "after each matching payment period, the Commission shall conduct a thorough examination and audit of the qualified campaign expenses of every candidate and his authorized committees who received payments under Section 9037."

The audit covered the period from June 20, 1975, PFC's date of registration, through February 10, 1978. The PFC reported beginning cash-on-hand of \$0.00, total receipts of \$14,692,435.85, total expenditures of \$14,448,808.92 and ending cash-on-hand of \$243,846.93. ^{1/} Total expenditures of \$14,448,808.92 is comprised of \$10,590,744.84 subject to the \$10,910,000 spending limitation contained in Section 441(b)(1)(A) of Title 2, of the United States Code (2 U.S.C 441(b)(1)(A)) with the remainder consisting of expenditures for exempt fundraising and legal and accounting expenses. Expenditures subject to the limitation have not been adjusted for \$24,993.64 in unqualified campaign expenses included therein.

^{1/} Apparent overstatement of \$220.00 ending cash due to an arithmetical error in report figures.



The principal officers of the PFC during the period covered by the audit included Mr. Dean Burch (6/20/75-7/8/75), Mr. Howard H. Calloway (7/9/75-4/5/76), Mr. Rogers C. B. Morton (4/6/76-9/6/76), and Mr. James A. Baker, III (9/7/76 to present), Chairmen, and Mr. David Packard (6/20/75-7/8/75), and Mr. Robert C. Moot (7/9/75 to present), Treasurers.

This report is based on documents and working 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.

II. Findings and Conclusions

A. Disclosure

Listed below are items noted during the audit that deal with Title 2 disclosure problems. The items are divided into two categories: (1) those for which the staff recommended amendments to PFC's report; and (2) those for which the staff feels no amending action is required.

(1) Items for which amended reports have been recommended:

(a) Itemization of Contributors

2 U.S.C. 434(b)(2) requires itemization of contributors whose aggregate contributions during the calendar year exceed \$100.00.

Due to a program instruction error, the Committee's computer processing unit selected only contributions aggregating in excess of \$100.00 per contributor per month to itemize on Schedule A, Line 15a FEC Form 3. This error occurred during February 1, 1976 to August 18, 1976 (reflected on the March 10 through September 10, 1976 FEC monthly reports). The projected error range of unreported contributions was between 10.0 and 16.6%; sample results indicated that approximately 1,200 contributors were not disclosed on the FEC reporting schedules as required by 2 U.S.C. 434(b)(2). In addition, other processing errors resulted in certain input irregularities affecting disclosure of contributors: such as, the same batch was processed twice, several batches were not entered, a batch was processed with an extra digit, zero (0) added to the contribution amounts, and keypunching errors.

197216037

The PFC, following our recommendation and guidance, submitted on February 22, 1977, comprehensive amendments for the period January 1, 1976 through August 18, 1976 amending the irregularities noted above.

Recommendation

No further action recommended.

(b) Itemization of Transfers Received

Section 434(b)(4) of Title 2, United States Code (2 U.S.C. 434(b)(4)) requires the committee to itemize the name and address of each political committee or candidate from which the committee received any transfer of funds, together with the amounts and dates of each transfer.

Fifteen transfers-in from political action committees either were reported under the name of the signatory on the check on Line 15a entitled "Itemized Contributors" or reported on Line 15b entitled "Unitemized Individual Contributions." (See Attachment I)

Based on our recommendation, the Committee's comprehensive amendments reclassified these transfers-in to Line 18b of FEC Form 3 as required.

Recommendation

No further action is recommended.

(c) Disclosure of Earmarked Funds

Section 441a(a)(8) of Title 2, of the United States Code (2 U.S.C. 441a(a)(8)) requires in part that all contributions made by a person which are in any way earmarked or otherwise directed through an intermediary shall be identified as contributions from that person.

Six transfers-in were reported without indicating that a portion of the amount transferred was earmarked for the PFC by an individual. The Committee indicated that these items apparently were the result of a processing error.

Based on our recommendation, the six items totaling \$620.50 were reported in the comprehensive amendments submitted February 22, 1977.

Recommendation

No further action is recommended.

(d) Itemization of Contributions In-Kind

Section 434(b)(2) of Title 2 of the United States Code (2 U.S.C. 434(b)(2)) requires in part that a committee report the full name and mailing address of each person who has made one or more contributions to or for such committee within the calendar year in an aggregate amount or value in excess of \$100, together with the amount and date of such contributions.

During the audit seven contributions in-kind were noted which had not been reported. In all cases the value of the contribution exceeded \$100.00. (See Attachment II).

It was our recommendation that the PFC establish the fair market value of these items and reflect these items in their reports as soon as the information was available. The Committee has amended their reports to reflect six of the contributions in-kind.

The seventh contribution in-kind was a mailing list used by the Nixon Campaign which was received by the PFC in the Fall of 1975. The value placed on the list by the PFC was \$540.00. In lieu of reporting a contribution in-kind, on January 7, 1978, the PFC paid \$540.00 to the 1972 Campaign Liquidation Trust for the mailing list.

Recommendation

Since the Committee has reported or accounted for all "contributions in-kind" noted above, we recommend no further action.

107316037

(e) Contributions in Excess of \$1,000
Limitation

Section 441a(a)(1)(A) of Title 2 of the United States Code (2 U.S.C. 441a(a)(1)(A)) requires that no person shall make contributions to any candidate or his authorized political committees with respect to any election for Federal office which, in the aggregate, exceed \$1,000. PFC identified, through their own internal procedures, many contributors donating in excess of \$1,000 per election and refunded the excess amount. During the course of our audit, two additional contributions (\$1,100.00 and \$1,750.00) in excess of the \$1,000 limit were identified and brought to the Committee's attention. All of the items have been rectified either through refunds of excess amounts or proper identification of contributors originally listed incorrectly in the PFC reports.

Recommendation

Since the PFC has corrected these matters, it is our recommendation that no further action is necessary.

(f) Transfer Received In Excess Of
\$1,000 Limitation

Section 441a(a)(4) of Title 2 of the United States Code (2 U.S.C. 441a(a)(4)) defines a multi-candidate political committee in part as a political committee which has been registered under Section 433 for a period of not less than 6 months. SEDCO, a political committee which registered with FEC on December 11, 1975, contributed a total of \$1,250.00 to PFC as of March 17, 1976, prior to becoming a "multi-candidate committee." As a result, the PFC refunded \$250.00 to SEDCO.

Recommendation

It is our recommendation that no further action is necessary.

(g) Disclosure of Repositories

Section 433(c) of Title 2 of the United States Code (2 U.S.C. 433(c)) requires that any change in information previously submitted in a Statement of Organization shall be reported to the Commission within a 10 day period following the change.

Our review of bank records presented for inspection revealed 22 repositories which were not disclosed by the PFC.

1 3 7 3 1 6 0 3 7 7

Recommendation

Since the PFC amended its Statement of Organization on July 12, 1977, listing the previously undisclosed repositories mentioned above, we recommend that no further action is necessary.

(2) Listed below are items noted during the audit which in the opinion of the Audit staff do not require any action by the President Ford Committee (PFC). Correcting these items would require costly and time consuming reclassification of data but would not change the actual dollars spent or reported; correcting these items would result only in moving report entries from one line to another or from one report to another.

(a) Inaccurate Reporting Dates

Attachment III lists the actual coverage dates used by the PFC to close their books and generate the FEC reports. In the cases where the PFC closed their books prior to the prescribed closing date, the FEC reports listed the prescribed coverage dates. The reason given by PFC for this practice was that additional time was needed to insure timely filing of disclosure reports given the necessary lead time for computer input and processing. No gaps in reporting occurred.

(b) Reporting of Refunds and Rebates

During the primary campaign, PFC reported on Line 17 refunds and rebates received and deposited in PFC Washington Headquarters accounts which related to expenditures made subject to the spending limitation in 2 U.S.C. 441a(b)(1)(A). Refunds and rebates relating solely to exempt fundraising expenditures were deducted from the reported fundraising expenditures rather than reported as a receipt on Line 17. The deduction was accomplished by reporting a negative expenditure entry on the Schedule B for Line 23, "Exempt Fundraising Expenditures." This practice prevented an understatement of expenditures subject to limitation by including only those refunds and rebates applicable to operating expenditures on Line 17. This resulted in a reported difference of approximately \$10,000.

1 3 7 0 1 6 0 3 7

Proper reporting of refunds and rebates relating to fundraising expenses in the receipts portion of FEC reports would require a change in the forms to allow differentiation between operating and fundraising related refunds and rebates.

Refunds and rebates received and deposited in PFC non-Washington Headquarters accounts were netted from reported expenditures for the respective advance account. This was accomplished in the expenditure section of the report by reporting a negative entry for the respective vendor/payee, rather than a refund or rebate as a line 17 receipt. This resulted in a reporting difference of approximately \$40,000.00.

The two procedures mentioned above did not result in a misstatement of expenditures chargeable to the expenditure limitation but rather an understatement in refunds and rebates received and a like understatement in gross expenditures per report.

(c) Consolidation of Expenditures

(i) The PFC in processing expense reports received from state advance accounts sometimes grouped together several separate expenditures to a single vendor and reported them as one expenditure in the aggregate amount, thus reducing processing time, hence cost, by keeping line entries to a minimum. A few state advance accounts, in reporting back to PFC, also grouped expenditures together on their expense reports.

This practice, either by PFC or the state advance accounts, while not 100% consistent with the provision of reporting each expenditure in excess of \$100.00 or aggregating in excess of \$100.00 in a calendar year, did not in the end result materially distort disclosure.

(ii) A similar practice was noted in the PFC's processing of state advance account expense reports. On several occasions, PFC grouped incidental expenses (usually less than \$25.00) or occasionally larger expenditures, for which adequate information (name and address of vendor, etc.) was not available at time of processing, under the name of the state chairman or person in charge of the advance account as the vendor/payee. This practice allowed timely processing of state expense reports with categorization of expenses (supplies, travel, etc.) when available.

107016037

While there is a possibility that certain expenses processed in this manner could conceivably aggregate in excess of \$100.00 per actual vendor per calendar year, thus requiring itemization, this practice did not have a material effect on disclosure.

(d) Advance Reporting System

PFC, throughout the primary campaign, reported as an expenditure the amount of an advance of funds made to PFC state bank accounts. As the state entities submitted expense reports to account for their advances, the PFC would enter these vendors' expenses into their expenditure reporting system and use a reversing entry to reduce the previously reported advance. While the advance payments were reported on a timely basis, the expense reports of the state entities were processed between 1 month and 9 months after the actual state check was written to the ultimate vendor/payee. Balances in the advance accounts were fully liquidated and reported as of the April 10, 1977 report.

(e) Reporting of Debts and Obligations

A review of the PFC's outstanding debts and obligations revealed that while these were itemized at the close of each respective reporting period, their subsequent liquidation was evidenced only in the receipts' and expenditures' sections of later reports, and not reflected, as required on Schedule C for Lines 26 and 27. Since testing has given assurance that all reported debts and obligations were liquidated, no amending action is believed to be necessary on an item by item basis. However, we suggested that the PFC submit a statement signed by the Treasurer, for the public record, indicating that all reported debts and obligations have been liquidated as of a given reporting date and that in future reports, debts and obligations will be reported as required by the Act. The PFC submitted this statement on July 12, 1977.

B. Other Matters

(1) Cash Expenditures in Excess of \$100

Section 437b(b) of Title 2 of the United States Code (2 U.S.C. 437b(b)) allows a political committee to maintain a petty cash fund from which no expenditures in excess of \$100 may be made in connection with one purchase or transaction.

The audit work has disclosed that \$5,625.64 expended from a state bank account was supported by (1) a cancelled check or bank wire and (2) cash disbursement voucher containing the check number, amount, date, payee and intended purpose and (3) a statement signed by two PFC state officials pertaining to \$4,275.64 of the total. The Audit staff feels that the documentation provided does not disclose the purpose in sufficient detail to allow us to determine whether the expenditures were campaign related. Hence, no determination regarding qualified campaign expenses can be made. In addition, \$92.00 of the PFC's funds were used to pay parking violation fines.

(3) Application of Formula

Section 9038(b)(3) of Title 26, of the United States Code (26 U.S.C. 9038(b)(3)) requires the candidate to repay that portion of any unexpended balance remaining in the candidate's account which bears the same ratio to the total unexpended balance as the total amount received from the matching payment account bears to the total of all deposits made into the candidate's account.

On August 13, 1976, the Commission advised President Ford that his date of ineligibility would be August 18, 1976. The audit work has determined that on this date the Committee had an adjusted surplus cash position of \$399,934.01. Repayment under this section of the Act is based on the following formula:

$$\frac{\text{Total Matching Funds Received*}}{\text{Total Deposits Through Ineligibility*}} \times \text{Surplus} = \text{Repayment}$$

Based on this formula and the audit work completed to date, the Committee's repayment of excess funds is as follows:

$$\begin{array}{rcl} \$ 4,650,246.27* & \times & \$399,934.01* \\ \hline \$14,016,635.55* & & = & \$132,684.60 \end{array}$$

* These figures are after making adjustments for the two items noted in C (1) above and C (4) below.

(4) Other Adjustments

The PFC repaid the United States Treasury \$957.84 which represents the value of eleven checks issued by the PFC in payment for (1) services rendered in connection with the primary campaign by apparent corporate entities and (2) a contribution refund of \$500.00 to an individual who had exceeded the \$1,000 contribution limitation contained in Section 441a(b) of Title 2 of the United States Code. These checks, dated between March 31, 1976 and September 16, 1976 were outstanding when the account was closed on January 12, 1978. In lieu of reissuing these checks, the PFC paid the United States Treasury the full amount as part of the payback, thereby, precluding the application of Sections 441a(f) and 441b(a) of Title 2 of the United States Code. The Audit staff has reviewed this matter and believes the approach was a reasonable and equitable method of disposing of these outstanding checks.

Recommendation

Based on the above calculation and the findings listed under (1), (2) and (4), the PFC would be required to repay \$146,121.63 comprised of the following:

| | |
|---|-------------|
| Item C (1) - NSF checks matched and overpayment | \$ 6,761.55 |
| Item C (2) - Unqualified Campaign Expenses | 5,717.64 |
| Item C (3) - Amount Per Formula | 132,684.60 |
| Item C (4) - Other Adjustments | 957.84 |

\$146,121.63

On February 17, 1978, the Committee Controller hand delivered a check, drawn on the account of The President Ford Committee and made payable to the United States Treasury in the amount of \$146,121.63. This represents payment in full of the Committee's repayment obligation under Section 9038 (b)(1), (2), and (3) of Title 26 of the United States Code.

III. Auditor's Statement

Except for the matters specifically noted in this report, the audit disclosed that the President Ford Committee (Primary Election) conducted their activities in conformity with the Federal Election Campaign Act of 1971, as amended, and in conformity with Chapter 96 of Title 26, United States Code, in all material aspects.

ATTACHMENT II
CONTRIBUTIONS-IN-KIND

| Description | Fair Market Value |
|--|-------------------|
| 1. Office space and travel expense | \$ 983.80 |
| 2. 25 Cases of apples | 200.00 |
| 3. 25 Cases of apples | 200.00 |
| 4. 25 Cases of apples | 200.00 |
| 5. 22 and one-half Cases of apples | 180.00 |
| 6. Office space, telephone calls & mailgrams | 592.50 |
| 7. Mailing List | 540.00* |
| | <hr/> |
| Total | \$2,896.30 |

* Payment made on January 7, 1978.

ATTACHMENT III
EFFECTIVE DATES FOR FEC REPORTS

| Report Type | Actual Coverage Dates Used By PFC | Correct Coverage Dates As Required |
|-------------|--------------------------------------|---------------------------------------|
| 2/10/76 | 1/1 - 1/31/76 | Same |
| 3/10/76 | 2/1 - 2/25/76 | 2/1 - 2/29/76 |
| 4/10/76 | 2/26 - 3/26/76 | 3/1 - 3/31/76 |
| 5/10/76 | 3/29 - 4/28/76* | 4/1 - 4/30/76 |
| 6/10/76 | 4/29 - 5/26/76 | 5/1 - 5/31/76 |
| 7/10/76 | 5/27 - 6/25/76 | 6/1 - 6/30/76 |
| 8/10/76 | 6/28 - 7/28/76* | 7/1 - 7/31/76 |
| 9/10/76 | 7/29 - 8/18/76 | 8/1 - 8/31/76 |
| 10/10/76 | 8/19 - 9/28/76 | 9/1 - 9/30/76 |
| 11/10/76 | 9/29 - 10/26/76 | 10/1 - 10/31/76 |
| 12/10/76 | 10/27 - 11/30/76 | 11/1 - 11/30/76 |
| 1/31/77 | 12/1 - 12/31/76 | 12/1 - 12/31/76 |

* Both two day gaps represent Saturdays and Sundays on which no activity occurred.

Auditor's Note: No gaps, either per books or per reports for period 1/1 - 12/31/76.

ATTACHMENT I

TRANSFERS-IN

107016038

| | |
|--|-----------------|
| 1. Mitchell, Huggins Voluntary Political Fund | \$1,000.00 |
| 2. Chevron Committee for Political Participation | 250.00 |
| 3. Hughes Active Citizenship Fund | 2,000.00 |
| 4. Hickory Street Fund | 500.00 |
| 5. Good Government Program for Employees of Standard Oil | 50.00 |
| 6. Burlington Northern Employees Voluntary Good Government Fund | 500.00 |
| 7. Conoco Employees Good Government Fund | 500.00 |
| 8. Dillingham Employees Citizen Action Program | 60.00 |
| 9. G-P Employees Fund | 600.00 |
| 10. Government Improvement Group | 1,000.00 |
| 11. Northwestern Officers Trust Account | 1,500.00 |
| 12. Owens-Illinois Employees Good Citizenship Fund | 500.00 |
| 13. Southern Pacific Management Officers Good Government Fund | 50.00 |
| 14. Tacoma Fund | 250.00 |
| 15. Voluntary Contributors for Better Government | <u>2,000.00</u> |
| Total | \$10,760.00 |

It was noted in the review of the Texas and Illinois state records that certain agents operating at the district level made cash disbursements in excess of \$100. However, detailed testing has given assurance that the expenditures are thoroughly supported by independent documentation stating the particulars of the expenditures, as required by 2 U.S.C. 432, and also reported in accordance with 2 U.S.C. 434. The total dollar value of this activity is estimated not to exceed \$20,000.00. It is the opinion of the staff that the PFC Headquarters staff was not aware of this activity at the time it was occurring.

Recommendation

It is our recommendation that these cash disbursements in excess of \$100 be viewed as qualified campaign expenses.

C. Repayment to the Treasury

(1) Excessive Matching Fund Payments

Section 9038(b)(1) of Title 26, of the United States Code (26 U.S.C. 9038(b)(1)) requires the candidate to repay any amounts determined by the Commission to be in excess of the aggregate amount of payments to which he was entitled.

During our review of the receipts records of the PFC, it was determined that \$3,089.73 of the contributions matched during the matching funds process were supported by written instruments which were not collectible due to Non Sufficient Funds of the contributor. Based on this information, these contributions were not matchable.

In addition, a review of the payments made during the matching funds process indicated that an inadvertant overpayment of Federal funds was made to the PFC on August 5, 1976. This overpayment amounted to \$3,671.82.

(2) Unqualified Campaign Expenses

Section 9038(b)(2) of Title 26, of the United States Code (26 U.S.C. 9038(b)(2)) requires the candidate to repay any amounts determined to have been used for payments of other than qualified campaign expenses.

FEC
DOCUMENT
SEPARATOR