



FEDERAL ELECTION COMMISSION
WASHINGTON, D C 20463

July 25, 1997

MEMORANDUM

TO: RON M. HARRIS
PRESS OFFICER
PRESS OFFICE

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

SUBJECT: PUBLIC ISSUANCE OF THE AUDIT REPORT ON COMMITTEE TO
REVERSE THE ACCELERATING GLOBAL ECONOMIC AND
STRATEGIC CRISIS: A LAROUCHE EXPLORATORY COMMITTEE

Attached please find a copy of the audit report and related documents on the Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee which was approved by the Commission on July 17, 1997.

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 THE

**Committee to Reverse the
Accelerating Global Economic
and Strategic Crisis:
A LaRouche Exploratory
Committee**

Approved July 17 1997



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

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REPORT OF THE AUDIT DIVISION
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ECONOMIC AND STRATEGIC CRISIS:
A LAROUCHE EXPLORATORY COMMITTEE**

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

**REPORT OF THE AUDIT DIVISION
ON THE
COMMITTEE TO REVERSE THE ACCELERATING GLOBAL
ECONOMIC AND STRATEGIC CRISIS:
A LAROUCHE EXPLORATORY COMMITTEE**

EXECUTIVE SUMMARY

The Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee (the Committee) registered with the Federal Election Commission on August 30, 1993. The Committee was the principal campaign committee of Lyndon H. LaRouche, Jr., a candidate for the 1996 Democratic presidential nomination.

The audit was conducted pursuant to 26 U.S.C. §9038(a), which requires the Commission to audit committees that receive Federal Funds. The Committee received \$624,692 in matching funds from the U.S. Treasury.

The findings of the audit were presented to the Committee in an Exit Conference Memorandum on April 8, 1997. The Committee's response has been included in the audit report.

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

AMOUNTS DUE TO THE U.S. TREASURY — 11 CFR §§9038.2(b)(1) and (4), and 9038.3(c)(1). The audit report concluded that the candidate is required to repay \$26,718 to the U.S. Treasury. The amount is comprised of surplus matching funds (\$25,681) and contributions that were matched and later determined to have been non-matchable (\$1,037). On June 11, 1996 the Committee made a repayment of \$24,140 to the United States Treasury, leaving a balance due of \$2,578.

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FEDERAL ELECTION COMMISSION
WASHINGTON, D C 20463

**REPORT OF THE AUDIT DIVISION
ON
COMMITTEE TO REVERSE THE ACCELERATING GLOBAL
ECONOMIC AND STRATEGIC CRISIS:
A LAROUCHE EXPLORATORY COMMITTEE**

I. BACKGROUND

A. AUDIT AUTHORITY

This report is based on an audit of the Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee (the Committee). The audit is mandated by Section 9038 (a) of Title 26 of the United States Code. That section 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." Also Section 9039 (b) of the United States Code and Section 9038.1(a)(2) of the Commission's Regulations state that the Commission may conduct other examinations and audits from time to time as it deems necessary.

In addition to examining the receipt and use of Federal funds, the audit seeks to determine if the campaign has materially complied with the limitations, prohibitions and disclosure requirements of the Federal Election Campaign Act of 1971, as amended.

B. AUDIT COVERAGE

The audit covered the period from the Committee's inception, August 13, 1993, through August 31, 1996. During this period, the Committee's disclosure reports reflect an opening cash balance of \$-0-, total receipts of \$4,081,164¹, total disbursements of \$4,017,432 and a closing cash balance of \$63,732. In addition, a limited review of the Committee's records and disclosure reports filed through February 28, 1997 was conducted for purposes of determining the Committee's remaining matching fund entitlement based on its financial position.

¹ Figures in this report are rounded to the nearest dollar.

C. CAMPAIGN ORGANIZATION

The Committee registered with the Federal Election Commission on August 30, 1993 as the principal campaign committee of Lyndon H. LaRouche, Jr., a candidate for the 1996 Democratic presidential nomination. The Treasurer of the Committee is Kathy A. Magraw. The Committee's office is located in Leesburg, Virginia.

The campaign maintained one bank account to manage its financial activity. From the account, the Committee issued approximately 1,400 checks in payment for goods and services. Also, the Committee received approximately 17,300 contributions totaling \$3,198,514 from roughly 8,700 individuals. The Committee also accepted \$1,020 from 2 political committees.

In addition, the Candidate received \$624,692 in matching funds from the United States Treasury. This amount represents 4% of the \$15,455,000 maximum entitlement. The candidate was determined eligible to receive matching funds on November 2, 1995. The Committee made 5 matching fund requests totaling \$628,070. The Commission certified 99% of the requested amount. For matching fund purposes, the Commission determined that the candidacy of Lyndon H. LaRouche, Jr. ended April 25, 1996 pursuant to 26 U.S.C. §9033(c)(1)(B).

II. AUDIT SCOPE AND PROCEDURES

In addition to a review of the Committee's expenditures to determine the qualified and non-qualified campaign expenses incurred by the campaign, the audit covered the following general categories, as appropriate, for the committee:

1. The receipt of contributions or loans in excess of the statutory limitations;
2. the receipt of contributions from prohibited sources, such as those from corporations or labor organizations;
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 campaign bank records;
7. adequate recordkeeping for campaign transactions;
8. accuracy of the Statement of Net Outstanding Campaign Obligations filed by the Committee to disclose its financial condition and establish continuing matching fund entitlement (see Finding III.A.);
9. the Committee's compliance with spending limitations; and
10. other audit procedures that were deemed necessary in the situation.

As part of the Commission's standard audit process, an inventory of campaign records was conducted prior to the audit fieldwork. This inventory was conducted to determine if the auditee's records were materially complete and in an auditable state. Based on our review of records presented, it was concluded that the records were materially complete and fieldwork began immediately.

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

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. AMOUNTS DUE TO THE U.S. TREASURY

1. Determination of Net Outstanding Campaign Obligations - Surplus

Section 9034.5(a) of Title 11 of the Code of Federal Regulations requires that within 15 days of the candidate's date of ineligibility, the candidate shall submit a statement of net outstanding campaign obligations which contains, among other things, the total of all outstanding obligations for qualified campaign expenses and an estimate of necessary winding down costs. Subsection (b) of this section states, in part, that the total outstanding campaign obligations shall not include any accounts payable for non-qualified campaign expenses.

Mr. LaRouche's date of ineligibility was April 25, 1996. The Committee filed a Statement of Net Outstanding Campaign Obligations (NOCO) which reflected a \$146,791 surplus as of that date. The Audit staff reviewed the Committee's financial activity through August 31, 1996, analyzed estimates of winding down costs prepared by the Committee and developed the figures shown below.

**Committee to Reverse the Accelerating Global
Economic and Strategic Crisis: A LaRouche Exploratory Committee**

**Statement of Net Outstanding Campaign Obligations
as of April 25, 1996
as determined March 19, 1997**

ASSETS

Cash in Bank	\$208,347 ^(a)	
Accounts Receivable	<u>548</u>	
Total Assets		\$208,895

LIABILITIES:

Accounts Payable for Qualified Campaign Expenses	\$ 49,636	
Matching Funds Repayable	1,037	
Actual Winding Down Costs (April 26, 1996-March 19, 1997)	245	
Estimated Winding Down Costs	<u>4,446 ^(b)</u>	
Total Obligations		<u>\$ 55,364</u>

NET OUTSTANDING CAMPAIGN OBLIGATIONS - SURPLUS
as of March 19, 1997

\$153,531

^(a) The Committee's Cash in Bank Figure has been adjusted to reflect Pre Date of Ineligibility stale-dated checks.

^(b) Some estimates were used in determining this amount. This estimate is subject to change. Committee records and disclosure reports will be reviewed and changes made as necessary.

2. Repayments to the U.S. Treasury

Section 9038.2(b)(4) of Title 11 of the Code of Federal Regulations states, in part, that the Commission may determine that the candidate's net outstanding campaign obligations, as defined in 11 CFR 9034.5, reflect a surplus.

Section 9038.3(c)(1) of Title 11 of the Code of Federal Regulations states, in part, that if on the last day of candidate eligibility the candidate's net outstanding campaign obligations reflect a surplus, the candidate shall within 30 days of the ineligibility date repay to the Secretary an amount which represents the amount of matching funds contained in the candidate's surplus. The amount shall be an amount equal to that portion of the surplus which bears the same ratio to the total surplus that the total amount received by the candidate from the matching payment account bears to the total deposits made to the candidate's accounts.

Section 9038.2(b)(1)(i) and (iii) of Title 11 of the Code of Federal Regulations entitled Bases for repayment - Payments in excess of candidate's entitlement states, in part, the Commission may determine that certain portions of the payments made to a candidate from the matching payment account were in excess of the aggregate amount of payments to which such candidate was entitled. Examples of such excessive payments include, but are not limited to, the following: payments made to the candidate after the candidate's date of ineligibility where it is later determined that the candidate had no net outstanding obligations as defined in 11 CFR §9034.5 and payment or portions of payments made on the basis of matched contributions later determined to have been non-matchable.

a. Surplus Repayment

The Audit staff's calculation of the Committee's Net Outstanding Campaign Obligations as of April 25, 1996 showed it to be in a surplus position in the amount of \$153,531 (see Section III. A.1. above). Of this surplus amount, \$25,681 ($\$153,531 \times .167272$)² is repayable to the U.S. Treasury. As shown below the net repayable amount of the surplus is \$1,541:

² This figure (.167272) represents the Committee's repayment ratio as calculated pursuant to 11 CFR §9038.3(c)(1).

Repayable to the U.S. Treasury as of April 25, 1996	\$25,681
Less Repayment Received June 11, 1996 ³	<u>(24,140)</u>
Surplus Repayable to the U.S. Treasury	<u>\$ 1,541</u>

b. Refunded Contributions and Non-sufficient Fund Checks
Submitted for Matching

The Audit staff reviewed the refunds of contributions and contributions which later were returned from the bank for insufficient funds to determine if those contributions had been submitted for matching funds. Eight such contributions were matched for \$1,037. The Audit staff supplied a list of these contributions to a Committee representative at the end of fieldwork.

In the Exit Conference Memorandum the Audit staff recommended that the Committee provide evidence that the amount of matching funds contained in the candidate's surplus on the date of ineligibility did not exceed the amount repaid by the Committee or that it has not received matching fund payments in excess of entitlement. Absent such a demonstration, the Audit staff noted that it would recommend that the Commission make a determination that \$26,718 (\$25,681 + \$1,037) is repayable to the United States Treasury pursuant to 11 CFR §§9038.2(b)(1) and (4).

In response to the Exit Conference Memorandum the Committee stated that it raises no objection to the recommendation and that it would pay the cited balance owed upon its confirmation by the Commission.

Recommendation #1

The Audit staff recommends that the Commission determine that the Committee is required to repay \$26,718 to the United States Treasury pursuant to 11 CFR §§9038.2(b)(1) and (4). On June 11, 1996 the Committee made a repayment of \$24,140 to the United States Treasury, and thus \$2,578 is still owed.

³ After the Date of Ineligibility an additional matching fund payment of \$147,905 was certified to the Committee. Since the Committee was in a surplus position, it repaid both that amount and an estimate of surplus funds totaling \$172,045 (\$147,905 + \$24,140).



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

*Read in Audit
6/20/97
[Signature]*

June 20, 1997

MEMORANDUM

TO: Robert J. Costa
Assistant Staff Director
Audit Division

THROUGH: John C. Surina
Staff Director

FROM: Lawrence M. Noble
General Counsel

Kim Bright-Coleman
Associate General Counsel

Rhonda J. Vosdigh
Assistant General Counsel

Delbert K. Rigsby
Attorney

SUBJECT: Proposed Audit Report for Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee (LRA #484)

I. INTRODUCTION

The Office of General Counsel has reviewed the proposed Audit Report on the Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee (the "Committee"). The following memorandum summarizes our comments on the proposed Report.¹ If you have any questions concerning our comments, please contact Delbert K. Rigsby, the attorney assigned to this audit.

¹ Since this document concerns the audit of a publicly financed presidential candidate, this Office recommends that the Commission consider this document in open session. 11 C.F.R. § 9038.1(e). See also 11 C.F.R. § 2.4, which states that this discussion is not exempt from disclosure under the Commission's Sunshine Regulations.

II. COMMENTS ~~==~~

This Office concurs with the findings in the proposed Audit Report. This Office notes that questions arose during the course of the audit regarding the Committee's fundraising operations. The proposed Report, however, does not contain any discussion of this issue. The Committee received approximately \$3.2 million in contributions.² It appears that the Committee incurred very few expenses, such as office rent, salaries, telephone solicitation costs, and printing costs for campaign literature, to obtain such contributions. The Committee entered into contracts with seven vendors, all closely connected with Lyndon LaRouche, pursuant to which the vendors would provide fundraising services and receive a monthly fee and reimbursement for certain expenses.³ A more detailed review of the Committee's fundraising operations may enable the Audit Division to determine whether the arrangements between the vendors resulted in the Committee receiving excessive or prohibited contributions from the vendors or whether the vendors performed duties not outlined in the contracts, which could be considered excessive in-kind contributions by the vendors to the Committee. 2 U.S.C. § 441a(a)(1)(A); 11 C.F.R. § 100.7(a)(1)(iii). The audit of the Committee was conducted pursuant to 26 U.S.C. § 9038(a) and 11 C.F.R. § 9038(a). The scope and procedures were consistent with those applied in audits of other publicly funded presidential candidates. However, the audit did not reveal any evidence of wrongdoing by the Committee. Thus, the Audit Division decided not to allocate its limited resources to review the Committee's fundraising operations. This Office agreed with the Audit Division's decision.

² The Committee also received approximately \$625,000 in matching funds.

³ During the 1992 Presidential primary election cycle, the LaRouche campaign also utilized vendors to raise contributions and the Audit Division made no findings regarding that campaign's fundraising operations.



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

July 18, 1997

Ms. Kathy Magraw, Treasurer
Committee to Reverse the Accelerating
Global Economic and Strategic Crisis:
A LaRouche Exploratory Committee
P.O. Box 730
Leesburg, VA 22075

Dear Ms. Magraw:

Attached please find the Audit Report on the Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee. The Commission approved this report on July 17, 1997. As noted on page 3 of this report, the Commission may pursue any of the matters discussed in an enforcement action.

In accordance with 11 CFR §§9038.3(c)(1) and 9038.2(b)(1) and (4), the Commission has made a determination that a repayment to the Secretary of the Treasury in the amount of \$26,718 is required within 90 calendar days after service of this report (October 20, 1997). The audit report also notes that \$24,140 has been paid, leaving a balance of \$2,578.

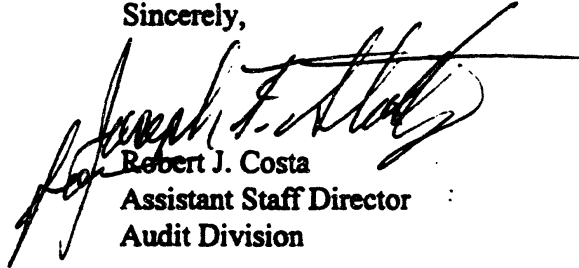
Should the Candidate dispute the Commission's determination that a repayment is required, Commission regulations at 11 CFR §9038.2(c)(2) provide the Candidate with an opportunity to submit in writing, within 30 calendar days after service of the Commission's notice (August 20, 1997), legal and factual materials to demonstrate that no repayment, or a lesser repayment, is required. Further, 11 CFR §9038.2(c)(ii) permits a candidate who has submitted written materials to request an opportunity to address the Commission in open session based on the legal and factual materials submitted.

The Commission will consider any written legal and factual materials submitted within the 30 day period when deciding whether to revise the repayment determination. Such materials may be submitted by counsel if the Candidate so elects. If the Candidate decides to file a response to the repayment determination, please contact Kim L. Bright-Coleman of the Office of General Counsel at (202) 219-3690 or toll free at (800) 424-9530. If the Candidate does not dispute this determination within the 30 day period provided, it will be considered final.

The Commission approved audit report will be placed on the public record on July 25, 1997. Should you have any questions regarding the public release of this report, please contact Ron Harris of the Commission's Press Office at (202) 219-4155.

Any questions you may have related to matters covered during the audit or in the audit report should be directed to Cornelia Riley or Russ Bruner 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

N.F.U.H. JUN 20 1997



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

July 18, 1997

Mr. Lyndon H. LaRouche, Jr.
c/o Ms. Kathy Magraw, Treasurer
Committee to Reverse the Accelerating
Global Economic and Strategic Crisis:
A LaRouche Exploratory Committee
P.O. Box 730
Leesburg, VA 22075

Dear Mr. LaRouche:

Attached please find the Audit Report on the Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee. The Commission approved this report on July 17, 1997. As noted on page 3 of this report, the Commission may pursue any of the matters discussed in an enforcement action.

In accordance with 11 CFR §§9038.3(c)(1) and 9038.2(b)(1) and(4), the Commission has made a determination that a repayment to the Secretary of the Treasury in the amount of \$26,718 is required within 90 calendar days after service of this report (October 20, 1997). The audit report also notes that \$24,140 has been paid, leaving a balance of \$2,578.

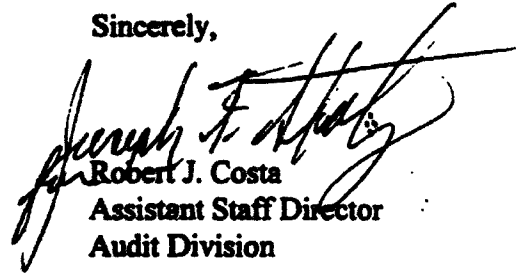
Should you dispute the Commission's determination that a repayment is required, Commission regulations at 11 CFR §9038.2(c)(2) provide you with an opportunity to submit in writing, within 30 calendar days after service of the Commission's notice (August 20, 1997), legal and factual materials to demonstrate that no repayment, or a lesser repayment, is required. Further, 11 CFR §9038.2(c)(ii) permits a candidate who has submitted written materials to request an opportunity to address the Commission in open session based on the legal and factual materials submitted.

The Commission will consider any written legal and factual materials submitted within the 30 day period when deciding whether to revise the repayment determination. Such materials may be submitted by counsel if you so elect. If you decide to file a response to the repayment determination, please contact Kim L. Bright-Coleman of the Office of General Counsel at (202) 219-3690 or toll free at (800) 424-9530. If you do not dispute this determination within the 30 day period provided, it will be considered final.

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Sincerely,



Robert J. Costa
Assistant Staff Director
Audit Division

Attachment as stated

RECEIVED JUL 25 1997

CHRONOLOGY

**COMMITTEE TO REVERSE THE ACCELERATING GLOBAL
ECONOMIC AND STRATEGIC CRISIS
A LAROUCHE EXPLORATORY COMMITTEE**

Audit Fieldwork	10/23/96 — 4/8/97
Exit Conference Memorandum to the Committee	4/8/97
Response Received to the Exit Conference Memorandum	4/16/97
Audit Report Approved	7/17/97

6-FURTHER UNUSABLE

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