



INTERIM AUDIT RESPONSE

Conservative Majority Fund



DECEMBER 7, 2016

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Treasurer

Finding 1. Misstatement of Financial Activity

Audit Finding

The audit team reviewed the financial activity of Conservative Majority Fund, and compared the entries reported to the FEC with the bank records; and their findings were as follows:

2012 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ 7/09/2012	\$0	\$0	\$0
Receipts	\$2,814,767	\$2,816,253	(\$1,486)
Disbursements	\$2,745,851	\$2,747,337	(\$1,486)
Ending Cash Balance @ 12/31/2012	\$68,916	\$68,916	\$0

The discrepancy of \$1,486 was a simple case of bank charges mistakenly being reported as contra-receipts (not-sufficient-funds checks or credit card chargebacks, that reduce receipts) instead of as bank service charges. Yet the auditors assert that the committee misstated its disbursements by \$2,163,830.

Committee Response

The auditors noted that there were payments reported to sub-vendors of InfoCision Management Corp. (IMC) when they should have been reported as disbursements to IMC. In addition, some of the disbursement dates were incorrectly recorded. The committee has amended its 2012 reports to correct these errors.

Finding 2. Disclosure of Occupation and Name of Employer

Audit Finding

The audit team reviewed all contributions from individuals requiring itemization and found that five hundred & twenty-seven (527) contributions totaling \$86,745 lacked adequate disclosure of the contributor's occupation and name of employer.

Committee Procedures

- All written solicitation requests by the committee included a Reply Form containing the donor's full name and mailing address.
- The reply form stated the following: *Federal Law requires us to obtain and report the name, mailing address, occupation and name of employer of individuals whose contributions aggregate in excess of \$200 in a calendar year.*
- Space is afforded on the Reply Form for the donor to provide the occupation and employer information.
- In the event the donor fails to offer the requested information, the committee, within thirty (30) days of receipt of the contribution, sends the donor a letter requesting the missing information.
- Once the donor information is obtained the committee amends its reports to display the required information.

Summary

Although the committee obtained most of the missing information, it had not amended its reports at the time the Interim Audit Report was issued. This has since been rectified and the committee has amended its reports.

The amended reports disclose occupation and name of employer information for all but thirty (30) donors whose contributions totaled \$8,330.

Finding 3. Reporting of Apparent Independent Expenditures

Audit Finding

The audit staff reviewed disbursements to verify that the Independent Expenditures were reported accurately. As part of that review, the auditors examined 237 InfoCision invoices billed to Conservative Majority Fund (CMF). The audit staff determined that the committee's reporting of independent expenditures totaling \$1,347,233 was under-reported and the actual figure should have been \$1,816,390. The committee has re-examined the independent expenditures reported and determined that it has over-reported these expenditures and the actual figure is \$835,226 related to IMC and another \$79,631 paid directly to Rapid Response Television.

Invoices Unrelated to CMF Program

The Conservative Majority Fund filed its Statement of Organization on July 2, 2012 and it was received and processed at the FEC on July 9th. While CMF was beginning its program, a 527-organization called New Conservative Coalition (NCC) was closing. The two organizations had Kelley Rogers involved as Treasurer of NCC and Executive Director of CMF.

Whereas InfoCision (IMC) sent invoices to Kelley Rogers each month as Treasurer of NCC, they also send him CMF invoices for approval. However, they mistakenly sent ten (10) NCC invoices to Kelley Rogers marked as CMF.

266624	7/12/2012	6/15 - 6/21/2012	\$248.87
266625	7/12/2012	6/15 - 6/21/2012	\$20,611.21
266626	7/12/2012	6/15 - 6/21/2012	\$13,834.92
266627	7/12/2012	6/15 - 6/21/2012	\$127.50
266628	7/12/2012	6/15 - 6/21/2012	\$3,048.76
267114	7/12/2012	6/22 - 6/30/2012	\$578.04
267115	7/12/2012	6/22 - 6/30/2012	\$18,023.38
267116	7/12/2012	6/22 - 6/30/2012	\$17,100.75
267117	7/12/2012	6/22 - 6/30/2012	\$96.50
267118	7/12/2012	6/22 - 6/30/2012	\$20,320.09

The audit staff currently considers these invoices to be part of the CMF program, however these invoices are related to NCC except for a Take2 Direct charge of \$1,579.33 that was included on Invoice #267118.

Therefore, it is the committee's assertion that the above invoices totaling \$93,990.02 and paid by NCC on July 20, 2012 by check #5063 (see attachment) belong to NCC except for the Take2 Direct charge. The committee is considering the Take2 amount to be an In-Kind contribution with the excessive porting (\$579.33) payable as a refund.

Completed Calls

The category of completed calls included Inbound and Outbound phone calls; list rentals and training. A completed call is any phone call that results in a "yes", "no" or "maybe" decision to contribute to the organization.

Inbound phone calls occur when an individual sees one of the advertisements run by CMF and calls the "800" number displayed on the ad. When the call is received by IMC, the communicator immediately begins the process of convincing the caller to donate to CMF. Therefore, CMF concludes these are entirely fundraising and not considered as independent expenditures (IE).

- **Inbound Calls billed by IMC: \$85,198.14 IE portion: \$ - 0 -**

Outbound phone calls are calls made by IMC communicators to prospects identified on specific caller lists. These calls had a dual purpose: (1) To provide an anti-Obama message to foil his 2012 re-election; and (2) To solicit funds to continue contacting prospective voters to the dangers of an Obama re-election. Outbound calls include a one-minute taped anti-Obama message (IE); and the calls generally average five (5) minutes in length. Therefore, the committee has allocated 80% of the cost of the call to fundraising and 20% to Independent Expenditures. All calls made after the General Election are considered 100% fundraising.

- **Outbound Calls billed by IMC: \$1,542,299.79 IE portion: \$153,256.23**

Rental Lists were procured by IMC to supplement their in-house lists for outbound calls. Given that outbound calls had a dual purpose of delivering a political message and soliciting contributions, the committee has allocated 50% each to Independent Expenditures and fundraising.

- **Rental Lists billed by IMC: \$100,445.13 IE portion: \$50,222.57**

Training Hours were billed to train the communicators on soliciting contributions from prospective donors. In this case, a single training hour was billed and allocated to fundraising.

- **Training Hours billed by IMC: \$22.00 IE portion: \$ - 0 -**

Total Completed Calls billed by IMC: \$1,727,957.06 IE portion: \$203,478.80

Other Vendors

Per the agreement between IMC and CMF; they were free to utilize outside vendors at their discretion. Those outside services were billed accordingly.

Take2 Direct was hired by IMC and produced and aired Direct Response Television (DRTV) ads. These ads contained an anti-Obama political message and the committee has allocated 100% of these billings to Independent Expenditures.

- **Take2 Direct Services billed by IMC: \$629,729.96 IE portion: \$629,729.96**

Outside Services is a line item billed by IMC to cover the legal services of Baker Hostetler (\$80,294.55); the management services of Strategic Campaign Group (\$40,001.00); commissions paid to Political Media Company (\$28,960.39) and Treasurer/compliance services of Mackenzie & Company (\$17,647.52). All of these services/commissions are considered administrative and not allocated as Independent Expenditures.

- **Outside Services billed by IMC: \$166,903.46 IE portion: \$ - 0 -**

Prospecting - Other is a line item billed by IMC to cover a direct mail piece produced and mailed by Lynnburn Communications Inc. (\$21,500.00); a check to open the escrow bank account (\$100); and a payment to Authorize.net (\$57.65) to secure the domain name. The mailing produced by Lynnburn is a fundraising expense and the other two disbursements are administrative in nature.

- **Prospecting - Other billed by IMC: \$21,657.65 IE portion: \$ - 0 -**

Creative Services were billed by IMC to create a CMF logo and to design the stationary and reply forms to be utilized by the program. These are considered administrative expenses.

- **Prospecting - Other billed by IMC: \$637.50 IE portion: \$ - 0 -**

Total Other Vendors billed by IMC: \$818,928.57 IE portion: \$629,729.96

Letters and Postage

As part of the CMF program to disseminate political messages as independent expenditures and solicit funds to broadcast those messages, IMC would send fulfillment and follow-up letters to prospective donors.

Fulfillment Letters are generated after the communicator receives a positive “yes” or a “maybe” to a solicitation request. These letters (carrier envelope, postage, letter addressed to the prospect, reply form and return envelope) are dropped in the mail the morning after the completed call. The purpose of the letter is to retrieve the pledge made by the donor prospect and is therefore considered a fundraising expense.

- **Fulfillment Letters billed by IMC: \$143,665.42 IE portion: \$ - 0 -**

Follow-up Letters are generated approximately two (2) weeks after the fulfillment letter reminding the prospective donor of the pledge made and attempting to collect that pledge. Just like fulfillment letters, these are considered a fundraising expense.

- **Follow-up Letters billed by IMC: \$57,960.08 IE portion: \$ - 0 -**

Fulfillment Materials billed by IMC covered the costs of stationary, envelopes, packaging materials, labels, etc. These costs are administrative in nature and not considered as independent expenditures.

- **Fulfillment Materials billed by IMC: \$5,130.38 IE portion: \$ - 0 -**

Total Letters & Postage billed by IMC: \$206,755.88 IE portion: \$ - 0 -

Credit Card Processing

IMC was tasked with the responsibility of taking credit card information from donors and imputing that data into the system whereby the funds would be processed by the credit card companies and deposited to the CMF escrow account.

Credit Card Acquisition/Processing is the effort to acquire and process credit card donations via the phone. This occurs when the communicator is speaking directly to the donor and that person is providing the necessary credit card information. This is entirely a fundraising function.

- **Credit Card Acquisition/Processing billed by IMC: \$103,416.36 IE portion: \$ - 0 -**

Credit Card Fulfillment/Processing is the act of acquiring and processing credit card donations via the mail. These contributions occur when the donor sends back the Fulfillment/Follow-up reply form and instead of including a check, has provided credit card information. This also is entirely a fundraising function.

- **Credit Card Fulfillment/Processing billed by IMC: \$2,856.45 IE portion: \$ - 0 -**

Total Credit Card Processing billed by IMC: \$106,272.81 IE portion: \$ - 0 -
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Donor Premiums

One of the methods used to induce a prospect to donate is the use of premiums. CMF offered two (2) premiums: a bumper sticker for lower level donations and an American Flag for high-dollar donors.

Flags and Mailing Costs were billed by IMC for CMF high-dollar donors who requested and received an American Flag. The charges on IMC's invoices appeared as Flag Premium, Flag Postage and Product Cost. These premiums and mailing costs are fundraising expenses.

- **Flags and Mailing Costs billed by IMC: \$60,039.77 IE portion: \$ - 0 -**

Bumper Stickers were offered to donors contributing \$25 or more to CMF. Although premiums should be attributed to fundraising, the bumper stickers contained a political message and therefore are considered 100% attributable as an independent expenditure. However, the costs incurred after the election to mail bumper stickers are considered fundraising expenses.

- **Bumper Stickers billed by IMC: \$2,382.62 IE portion: \$2,087.12**

Total Donor Premiums billed by IMC: \$62,422.39 IE portion: \$2,087.12

Direct Mail Related Costs

IMC incurred costs of \$22,780.95 related to direct mail on CMF's behalf and those costs included the following:

- **Direct Mail Postage** **6,661.52**
- **Lock Box Services** **5,800.86**
- **Direct Mail Labor** **5,280.25**
- **Direct Mail Materials** **4,395.47**
- **PO Box Rental Fees** **550.00**
- **Miscellaneous** **83.57**
- **Shipping Charges** **9.28**

All the cost items listed above and billed to CMF have either a fundraising or administrative component and are not allocable in any way to independent expenditures.

Total Direct Mail Related Costs billed by IMC: \$22,780.95 IE portion: \$ - 0 -
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IVR Program

IVR stands for Interactive Voice Response. This was used on inbound lines where the caller was responding to an automated operator and given options prior to being transferred to a live communicator.

Primarily, this is used for people that call back the phone number on their caller ID. The automated operator informs the caller that Conservative Majority Fund tried to reach them and the committee is locating people opposed to Barack Obama's re-election. They are provided with the option of being transferred to a live communicator; entering their phone number to the Do Not Call list; or they could just hang up.

This program was also used as part of the DRTV campaigns. Once the person called the inbound number, they were sent to an IVR and asked to sign-up as an activist. They were also provided with the option of being connected to a live operator to donate.

The IVR Program allowed the committee to screen people that didn't wish to donate, without utilizing a live communicator. Given that the purpose of the program was to screen prospective donors, the committee views this solely as a fundraising function.

Total IVR Program billed by IMC: \$14,967.38 IE portion: \$ - 0 -
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Thank You Calls

After pledging to contribute, IMC placed thank you calls to confirm the donation and to express the committee's gratitude for the donor's generosity. These calls were billed at \$0.50 each and are divided into the following classifications:

- Agreed to Donate
- No to Donate
- Hang Up
- Answering Machine

In addition, IMC billed the committee \$121 for training. The thank you calls as well as the training are fundraising expenses.

Total Thank You Calls billed by IMC: \$5,424.50 IE portion: \$ - 0 -

Summary

InfoCision Billings to CMF

Completed Calls	1,727,957.06	1,524,478.26	203,478.80	77,209.82	1,805,166.88
Other Vendors	818,928.57	189,198.61	629,729.96	-	818,928.57
Letter and Postage	206,755.88	206,755.88	-	9,056.57	215,812.45
Credit Card Processing	106,272.81	106,272.81	-	4,852.15	111,124.96
Donor Premiums	62,422.39	60,405.47	2,016.92	-	62,422.39
Direct Mail Related	22,780.95	22,780.95	-	353.21	23,134.16
IVR Program	14,967.38	14,967.38	-	714.95	15,682.33
Thank You Calls	5,424.50	5,424.50	-	224.00	5,648.50
IMC TOTALS	2,965,509.54	2,130,283.86	835,225.68	92,410.70	3,057,920.24

In addition to the independent expenditures made through IMC, there were two (2) payments made directly to Rapid Response Television totaling \$79,630.60 for TV Media. These payments are considered 100% independent expenditures. Total independent expenditures reportable by CMF total \$914,856.

Independent Expenditure Variance		
Audit Staff Independent Expenditures		\$1,816,390
CMF Independent Expenditures (IMC)	\$835,226	
CMF Independent Expenditures (RRTV)	\$79,631	
Total CMF Independent Expenditures		\$914,856
FEC v. CMF Variance		\$901,534

Finding 4. Reporting of Debts and Obligations

Audit Finding

The audit staff identified debts totaling \$67,800 that were not disclosed on Schedule D as required on the committee's year-end disclosure report.

Facts and Conclusion

CMF reported debts owed to IMC totaling \$260,450 on its year-end disclosure report. The \$67,800 pertains to New Conservative Coalition (NCC) invoices erroneously billed to, but not paid by CMF. These invoices were paid by NCC as demonstrated in the attachments. Therefore, it is the committee's conclusion that all debts and obligations owed to IMC have been properly reported.

Finding 5. Recordkeeping for Communications

Audit Finding

The audit staff reviewed disbursements to verify the accuracy of the information and proper classification of transactions disclosed on reports. The auditors assert that \$304,399 was disbursed for which sufficient records were not provided.

Rapid Response Television (RRTV)

CMF made two (2) disbursements to RRTV totaling \$79,630.60 for which no documentation was provided. The committee has been able to locate invoices to support the RRTV payments and has provided copies in the attachments.

Rapid Response Television		
Invoice #00133 - TV Media	10/17/2012	\$30,429.49
Invoice #00142 - TV Media	10/19/2012	\$49,201.11
TOTAL		\$79,630.60

The two disbursements are reported as independent expenditures on the amended FEC Disclosure Report. A copy of the bank statement displaying these charges is provided in the attachments.

Incomplete Copies of Communications Provided

Disbursements totaling \$224,768 for television advertisements were paid to Take2Direct LLC without providing copies of the commercials. Take2Direct aired the following anti-Obama commercials:

- Shady Past;
- Gun Rights;
- ObamaCare; and
- Voter Fraud.

Copies of the above commercials have been provided to the audit staff. There was some confusion as to whether Take2 had produced a pre and post 2012 election Gun Rights ad. However, Take2 has confirmed that there was only one gun rights advertisement produced.

In Summary

The audit staff has identified five (5) areas of concern and CMF has addressed each of these.

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The committee agrees with the audit staff that FirstMerit Bank charges of \$1,486 were incorrectly reported as Schedule A contra-receipts when they should have been identified as Schedule B disbursements. CMF strongly disagrees with the assertion that the committee misstated its disbursements by \$2,163,830 as the auditors themselves state that there is no discrepancy between what was reported and the bank statements, aside from the FirstMerit Bank charges. Any reporting errors (dates, names, etc.) are corrected in the amended reports.

Finding 2. Disclosure of Occupation and Employer

The initial disclosure reports filed by CMF identified 527 itemized contributions totaling \$86,745 or 30% of total itemized contributions, that lacked disclosure of the contributor's occupation and name of employer. The committee utilized "best efforts" procedures and received the missing data on 90% of those previously missing the required information. The amended FEC Disclosure Reports identify all but thirty (30) donors whose aggregate contributions total \$8,330.

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This is where the committee and the audit staff have our greatest area of disagreement. CMF reported independent expenditures totaling \$1,347,233 and the audit staff contends that \$1,816,390 should have been reported. After reviewing the detail related to the disbursements reported, it is the committee's belief that \$914,856 is the actual amount of independent expenditures and this is reflected on the amended disclosure reports.

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The committee believes that the \$260,450 reported as owed to InfoCision at the end of 2012 is an accurate reflection of the debt owed. Therefore, CMF is not amending that portion of its report.

Finding 5. Recordkeeping for Communications

There were problems retrieving information from the media vendor hired by InfoCision, however CMF now believes that all documentation needed by the audit staff has been provided.

Finally, if there are any questions or clarifications needed, CMF is more than willing to do everything needed to satisfy your requests.