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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

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September 10, 2003

MEMORANDUM

AGENDA ITEM

For Meeting of: 9-17-03

TO: The Commission

THROUGH: James A. Pehrkon *[Signature]*
Staff Director

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SUBJECT: Oral Hearing- LaRouche's Committee for a New Bretton Woods (LRA # 565)

I. INTRODUCTION

On May 1, 2003, the Commission approved the Audit Report for LaRouche's Committee for a New Bretton Woods ("the Committee") and determined that the Committee must repay a total of \$233,411 to the United States Treasury. Attachment 1. On July 8, 2003, the Committee submitted written materials in an effort to demonstrate that a lesser repayment is required. In its written materials, the Committee requested an oral hearing. Attachment 2. On August 19, 2003, the Commission granted the Committee's request for an oral hearing and scheduled the hearing for September 17, 2003. This memorandum focuses on the issues that the Committee will address at the oral hearing.

II. REPAYMENT DETERMINATIONS FROM AUDIT REPORT

There are two repayment determinations in this matter. The first repayment is directly related to the Committee's payments pursuant to contracts that the Committee entered into with

1 seven vendors for the use of their facilities and campaign services.¹ The seven vendors billed the
2 Committee based on an activity ratio and variable mark-up charge.² According to the
3 Committee, the purpose of the mark-up was fourfold: 1) to cover costs not included in the
4 vendors' baseline charges and highly variable costs that were underestimated; 2) to compensate
5 for one-time start up costs and intangibles; 3) to serve as advance payment/bad debt reserve and
6 4) to generate a small profit. Attachment 1 at 10. The vendors marked up the Committee's
7 charges by 80% for April through September 1999, 50% for October through December 1999,
8 and 0% for January through December 2000. *Id.* The vendors charged the Committee a total of
9 \$413,883 for the mark-up charges. *Id.* at 14.

10
11 The Commission found that the Committee overpaid the vendors by \$253,753.
12 Therefore, the Commission determined that the Committee must repay the public funds that it
13 used to overpay the vendors. The amount that the Committee overpaid the vendors includes
14 \$214,544 in overpayments made to vendors as of the Candidate's date of ineligibility, August 16,
15 2000, and an additional \$39,209 in overpayments made after August 16, 2000, but during the
16 period when the Committee's account still contained public funds. 11 C.F.R. § 9038.2(b)(2)(iv).
17

18 The Commission's finding that the Committee overpaid the vendors by \$214,544 results
19 from differences between the Committee's actual payments to the seven vendors and the Audit
20 staff's calculation of the amount the Committee should have paid. The Committee paid the
21 vendors \$1,656,048 through August 16, 2000. However, under the Audit staff's calculations, the
22 Committee should have paid \$1,417,855 for this period. The Audit staff's calculation accounts
23 for the Commission's disallowance of \$94,007 in vendor costs and \$413,883 in vendor mark-up
24 charges. The \$94,007 amount includes \$31,070 paid to EIR News Services, Inc. (non-campaign
25 related farm rental expenses); \$34,828 to Southeast Literature Sales, Inc. (insufficient
26 documentation); and \$28,110 to American System Publication, Inc. (pre-paid billings and
27 insufficient documentation) [\$94,008 = (\$31,070 + \$34,828 + \$28,110)].³ Attachment 1 at 15.
28

29 The Commission determined that the Committee did not submit information
30 demonstrating that the mark-up percentages and resulting charges were for the purpose of
31 seeking the nomination. 11 C.F.R. § 9032.9(a). The Audit staff found no support for the
32 Committee's assertion that the mark-up charges accounted for variable costs and/or uncaptured
33 baseline vendor expenses. *Id.* at 13. Services incurred at the beginning of the contract period
34 were included in a lump sum charge; thereafter, specific expenses were included in the monthly

¹ The vendors were organized in 1987 to sell and distribute literature, and their primary purpose is the dissemination of political, philosophical, and scientific literature and ideas originated by Lyndon LaRouche and his political associates. Attachment 1 at 9.

² The activity ratio represented the number of contributions raised for the Committee through the use of vendor facilities compared with the total of all vendor sales and contributions transactions. Attachment 1 at 10. The Commission accepted the activity ratio. *Id.* at 14.

³ This Office notes that the apparent discrepancy (\$94,007 vs. \$94,008) results from rounding up during the Audit staff's calculations. Also, the Commission's disallowance of \$28,110 in American System Publication costs consisted of pre-April 1999 billings previously covered by a lump-sum contract (\$18,539) and insufficient documentation for other billings (\$9,571). On September 3, 2003, the Committee's attorney submitted a letter to this Office stating that the Committee was satisfied that the petty cash was taken into account in the Final Audit Report and that the Committee "no longer disputes the FAR's disallowance of \$28,110 in itemized costs related to ASP." Attachment 3 at 1.

1 billings. *Id.* However, the Committee did not provide an accounting of any additional one-time
2 startup costs and intangible costs that were excluded from those lump sum and monthly billings.
3 *Id.* Given the non-profit status of the vendors, the Audit staff also found that the mark-up did not
4 appear to relate to profit. *Id.* Therefore, the Commission disallowed the entire \$413,883 in
5 mark-up charges. *Id.*

6
7 Taking into account a refund from one vendor (\$80,472), other amounts due to the
8 vendors (\$6,653), and debts owed to third-parties (\$63,476) at the date of ineligibility, the
9 Commission found that the amount of overpayment totaled \$214,544 [(\$1,656,048 – \$1,417,855)
10 + (\$63,476) – (\$80,472 + \$6,653) = \$214,544]. Since the Committee overpaid the vendors, the
11 Commission found that the excessive amount was a non-qualified campaign expense. *See*
12 *Lenora Fulani for President Statement of Reasons in Support of Repayment Determination*, at
13 17-18 (March 6, 1997).

14
15 Non-qualified campaign expenses are subject to a pro rata repayment. 11 C.F.R.
16 § 9038.2(b)(2)(iii). The Committee's repayment ratio is .2764. Therefore, the Commission
17 determined that the Committee owed a repayment of \$70,139 (\$253,753 x .2764) to the United
18 States Treasury. 11 C.F.R. § 9038.2(b)(2)(i)(A).

19
20 The Commission also determined that the Committee must make a repayment in the
21 amount of \$163,272 for matching funds received in excess of the Committee's entitlement.
22 11 C.F.R. § 9038.2(b)(1). The Commission concluded that the Committee had net outstanding
23 campaign obligations totaling \$93,868 as of the Candidate's date of ineligibility. During the
24 period August 17, 2000 through October 1, 2000, the Candidate received private contributions
25 totaling \$66,043 and matching fund payments totaling \$50,968. Therefore, the Committee had
26 no net outstanding campaign obligations [(\$66,043 + \$50,968) – \$93,868 = \$23,143] as of
27 October 1, 2000. In fact, the Committee was in a positive financial position of \$23,143 by
28 October 1, 2000. However, the Committee received matching fund payments totaling \$163,272
29 from October 1, 2000 to April 2, 2001. Therefore, the Commission determined that the
30 Committee must repay \$163,272 to the United States Treasury. 11 C.F.R. § 9038.2(b)(1)(i).⁴

31 32 **III. COMMITTEE'S RESPONSE TO REPAYMENT DETERMINATIONS**

33
34 Although the Committee's response contains multiple grounds for disputing the
35 repayment determination,⁵ the Committee will address only two points at the oral hearing, both

⁴ This repayment determination is indirectly related to the Committee's contractual relationship with the vendors. If the Commission allows any portion of the vendor's mark-up charges, this would increase the outstanding obligations for qualified campaign expenses that are reflected on the Committee's Statement of Net Outstanding Campaign Expenses. *See* 11 C.F.R. § 9034.5(a)(1). The increase in outstanding obligations would reduce or eliminate the amount of public funds that the Committee received in excess of its entitlement. *See* 11 C.F.R. § 9038.2(b)(1). *See infra* note 8.

⁵ The Committee requests that miscellaneous adjustments be made to the Committee's net outstanding campaign obligations including: 1) accounting for a \$15,179 refund/balance receivable from EIR News Service, Inc.; 2) \$26,403 in additional debts as of the Candidate's date of Ineligibility; 3) a \$32,969 increase in actual winding down costs; and 4) a \$3,300 reduction in estimated winding down costs. Attachment 2 at 17-18, 23. Since the focus of this memorandum is to address the issues that we anticipate the Committee will raise at the oral hearing, we will not address these remaining issues at this time.

1 of which concern the Commission's disallowance of the vendors' mark-up charges. First, the
2 Committee contends that the original mark-up was "reasonable," and the Commission was
3 erroneous in determining that any mark-up over the vendors' actual costs constituted non-
4 qualified campaign expenses. Second, the Committee also contends that the application of a
5 hypothetical "reasonable" mark-up of 15% by the Committee would eliminate the repayment
6 obligation of the Committee.

7
8 The Committee's response highlights the grassroots nature of the campaign (*e.g.*
9 volunteer recruitment, ballot access through petitioning, delegate recruitment, major fundraising,
10 constituency leader outreach). Attachment 2 at 9-10. The Committee argues that, considering
11 the grassroots nature of the campaign, "[the mark-up] was a reasonable approach for ensuring
12 that all possible uncaptured direct, indirect and hidden costs--which by their nature are difficult
13 to itemize--would be paid by the campaign and not subsidized by the vendors." *Id.* at 10. These
14 "difficult to itemize" costs include "all non-fundraising campaign uses of telephones, overhead
15 and administrative costs including coordination of volunteer activities, and FEC accounting and
16 compliance, research, use charges for company lists and contacts, and a small profit." *Id.*

17
18 According to the Committee, if the vendors had charged actual costs and not applied a
19 markup, they would have "run afoul of the well-settled dictates of the Commission and the
20 FEC's own admonition against potential contributions in-kind." *Id.* at 8-9. Therefore, in order
21 to avoid a potential in-kind contribution, the Committee applied a markup charge. *See* 11 C.F.R.
22 § 100.7(a)(1)(iii). The Committee also contends that it paid the mark-up in advance because the
23 vendor contracts included the use of corporate facilities.⁶ *See* 11 C.F.R. § 114.2(f)(2)(i). The
24 Committee asserts that the mark-up was built into the contract because it was unclear how the
25 requirement for advance payment would apply to vendor contract costs, which were billed
26 monthly. *Id.* at 59.

27
28 The Committee also contends that, absent the mark-up charges, it would have incurred
29 debts and received extensions of credit from the vendors. *Id.* at 19. The Committee states the
30 campaign was paying down the vendors' bills regularly during the campaign and notes that its
31 payment record was comparable to, if not better than, similar committees. *Id.* Lastly, the
32 Committee contends that the generation of revenue from the mark-up charges is not
33 fundamentally inconsistent with the vendors' status as non-profit entities. *Id.* at 20. Money
34 generated by the mark-up charges was a "contribution to reserves" and could be used to expand
35 the vendors' operations. *Id.* at 20, 166-167.

36 37 **IV. CONSIDERATIONS FOR THE COMMISSION**

38
39 A qualified campaign expense is any expense that is incurred in connection with seeking
40 the presidential nomination of a political party. 11 C.F.R. § 9032.9(a)(2). The overall issue is
41 whether the Committee's payment of mark-up charges was made in connection with seeking the
42 nomination and, therefore, a proper use of public funds. 11 C.F.R. § 9032.9(a). The Office of

⁶ Section 114.2 prohibits corporations from facilitating the making of contributions to federal campaigns and using corporate resources to engage in fundraising activities. 11 C.F.R. § 114.2(f). However, corporations may provide goods and services in the ordinary course of its business, including fundraising services (*e.g.* organizing projects, using corporate lists to solicit contributions and the using meeting rooms), provided that the corporation receives *advance payment* for the fair market value of the services. 11 C.F.R. § 114.2(f)(2)(i) (*emphasis added*).

1 General Counsel recognizes that there are several principles that the Commission must address to
2 resolve this issue. The Commission may anticipate that vendors to a committee will mark-up
3 charges to make a profit and to cover indirect and hidden costs as well as costs that are difficult
4 to itemize. This is common in commercial transactions. However, the Commission must ensure
5 that publicly-funded presidential committees do not use the mark-up of expenses as a vehicle to
6 overpay its vendors. *See Lenora Fulani for President Statement of Reasons in Support of*
7 *Repayment Determination*, at 17 (March 6, 1997). The Commission's concerns are heightened
8 in this case, where the vendors have a prior association with the Committee and the vendors'
9 primary purpose is to disseminate the "political, philosophical, and scientific literature and ideas
10 originated by Lyndon LaRouche and his political associates." Attachment 1 at 9. In weighing
11 these concerns, the Commission should consider whether the mark-up charges were necessary to
12 ensure the Committee did not underpay the vendors for the campaign services and the use of its
13 facilities.⁷ *See Advisory Opinion 1994-33* (Commission recognizes need for adequate profit to
14 avoid a contribution in situations where a company enters into arrangements with a committee to
15 assist the committee in fundraising). The Commission should also consider whether the
16 "difficult to itemize" startup costs were covered by the lump sum payments and monthly billings.

17
18 If the Commission accepts the Committee's argument that a mark-up charge is warranted,
19 the remaining issue is how much should the vendors be allowed to mark-up the expenses. The
20 Committee claims that the vendors should be allowed a 15% mark-up. However, the Committee
21 acknowledges that "it is difficult to arrive at a precise industry standard for markup to cover
22 overhead and profit," and draws a comparison between the vendors and "campaign consultants
23 and other providers of services to campaigns." Attachment 2 at 165. Although the Committee
24 contends that a 15% mark-up is standard in the media buying service industry and the vendors'
25 level of activity is significantly greater than a media buyer's activity in purchasing time, the
26 Committee did not provide any documentation to support its assertion. *Id.* at 166. The
27 Committee merely notes that "anything less [than 15%] would result in a subsidy by the vendors
28 to [the Committee]" and that the Commission's acceptance of a 15% mark-up, totaling \$217,893,
29 would result in no repayment. *Id.* at 21.⁸
30

⁷ During the audit, the Committee recognized that the vendors did not provide services to any other clients. Attachment 1 at 11. The Commission has determined that "although [a] committee may have political or other associations with certain vendors, the parties must maintain an arm's length relationship in their financial transactions to ensure that public funds are properly spent to benefit the campaign and not gratuitously siphoned off to the Committee's vendors and associates." *See Lenora B. Fulani for President Statement of Reasons in Support of Repayment Determination*, at 18 (March 6, 1997). In its response, the Committee states that it sought, through the use of the mark-up charges, to protect itself against a potential charge that it underpaid for services rendered by the seven vendors that were politically associated with the Candidate. Attachment 2 at 8-9.

⁸ The Committee contends that if the Commission accepts a 15% mark-up, the \$163,272 repayment for matching funds received in excess of the Committee's entitlement would be eliminated. Attachment 2 at 23-24. *See supra* note 4. However, according to the Audit Division, the Committee's repayment for funds received in excess of entitlement would *not* be eliminated by a hypothetical 15% mark-up charge. Rather, the Audit staff calculated that a 17% mark-up charge would eliminate this part of the Committee's repayment obligation.

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Attachments

1. Audit Report on LaRouche's Committee for a New Bretton Woods, approved May 1, 2003.
2. Response of LaRouche's Committee for a New Bretton Woods to the Repayment Determination, dated July 8, 2003.
3. Letter from Bob Trout to Michelle Abellera, dated September 3, 2003.
4. Audit Division Memorandum to Lawrence H. Norton, dated September 4, 2003.

REPORT OF THE AUDIT DIVISION
ON

LaRouche's Committee for a New Bretton Woods

Approved May 1, 2003



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

ATTACHMENT 1
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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

**REPORT OF THE AUDIT DIVISION
ON
LAROCHE'S COMMITTEE FOR A NEW BRETTON WOODS
EXECUTIVE SUMMARY**

LaRouche's Committee for a New Bretton Woods (LCNBW) registered with the Federal Election Commission (the Commission) on September 10, 1997, as the principal campaign committee for Lyndon H. LaRouche, Jr., candidate for the Democratic Party's nomination for the office of President of the United States.

The audit was mandated by Section 9038(a) of Title 26 of the United States Code, requiring the Commission to audit committees authorized by candidates who receive Federal Funds. The Candidate received \$1,448,389 in matching funds from the U.S. Treasury.

The findings of the audit were presented to LCNBW at an exit conference held on August 29, 2001 and in the Preliminary Audit Report. LCNBW's responses to those findings are contained in the audit report.

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

APPARENT NON-QUALIFIED CAMPAIGN EXPENSES — 11 CFR §§9032.9(a)(1), 9033.1(b), 9038.2(c)(1), 9038.2(b)(2), 9038.2(b)(3), 2 U.S.C. §§441a(a)(1)(A), 441b(a), 116.3(a), 116.3(b), and 116.3(c). The audit identified non-qualified campaign expenses totaling \$1,626,290. In response to the Preliminary Audit Report, LCNBW provided documentation that reduced that amount to \$253,753. The Commission determined that LCNBW must make a pro rata repayment of \$70,139 to the United States Treasury.

MATCHING FUNDS RECEIVED IN EXCESS OF ENTITLEMENT — 11 CFR §§9034.1(b) and 9038.2(b)(1). The Audit staff calculated that LCNBW received matching funds in excess of entitlement totaling \$163,272. The excess resulted primarily from the disallowing of the markup charged by the seven regional vendors. The Commission determined that this amount is repayable to the U.S. Treasury.

STALE-DATED CHECKS — 11 CFR §9038.6. The Audit staff identified checks issued by LCNBW in the amount of \$3,281 that had not been negotiated. LCNBW must pay this amount to the United States Treasury.

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

**REPORT
OF THE AUDIT DIVISION
ON
LAROCHE'S COMMITTEE
FOR A NEW BRETTON WOODS**

I. BACKGROUND

A. AUDIT AUTHORITY

This report is based on an audit of LaRouche's Committee for a New Bretton Woods (LCNBW). The audit is mandated by Section 9038(a) of Title 26 of the United States Code. Section 9038(a) 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 (FECA), as amended.

B. AUDIT COVERAGE

The audit of LCNBW covered the period from its inception, September 10, 1997 through September 30, 2000. LCNBW reported an opening cash balance of \$0-; total receipts of \$4,833,426; total disbursements of \$4,818,815; and a closing cash balance of \$14,611. In addition, a limited review of LCNBW's disclosure reports filed through December 31, 2002 was conducted for purposes of determining its matching fund entitlement based on its financial position.

ATTACHMENT 1

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C. CAMPAIGN ORGANIZATION

LCNBW registered with the Federal Election Commission (the Commission) on September 10, 1997, as the principal campaign committee for Lyndon H. LaRouche, Jr., candidate for the Democratic Party's nomination for the office of President of the United States. LCNBW maintained its headquarters in Leesburg, Virginia. The Treasurer since LCNBW's inception is Ms. Kathy A. Magraw.

During the audit period, LCNBW maintained one checking account in Leesburg, Virginia. From this account the campaign made approximately 1,800 disbursements. LCNBW received about 36,700 contributions from 12,200 individuals, which totaled \$3,541,382. In addition, LCNBW accepted \$1,245 from five political committees.

In addition to the above, the Candidate was determined eligible to receive matching funds on September 30, 1999. LCNBW made 13 matching fund requests totaling \$1,465,530 and received \$1,448,389 from the United States Treasury. This amount represents 9% of the \$16,890,000 maximum entitlement that any candidate could receive. For matching fund purposes, the Commission determined that the candidacy of Lyndon H. LaRouche, Jr. ended August 16, 2000. On April 2, 2001, LCNBW received its final matching fund payment to defray qualified campaign expenses and to help defray the cost of winding down the campaign.

D. AUDIT SCOPE AND PROCEDURES

In addition to a review of expenditures made by LCNBW to determine if they were qualified or non-qualified campaign expenses, the audit covered 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, 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 LCNBW, to disclose its financial condition and to establish continuing matching fund entitlement (see Findings II.B. and II.C.);
9. compliance with spending limitations; and,
10. other audit procedures that were deemed necessary in the situation (see Finding II.A and Finding II.D.).

As part of the Commission's standard audit process, an inventory of campaign records was conducted prior to the audit fieldwork. This inventory was to determine if LCNBW's records were materially complete and in an auditable state. The records were found to be materially complete and the audit fieldwork commenced.

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 the audit report in an enforcement action.

II. FINDINGS AND RECOMMENDATIONS - AMOUNTS DUE TO THE U.S. TREASURY

A. APPARENT NON-QUALIFIED CAMPAIGN EXPENSES

Section 9032.9(a)(1) of Title 11 of the Code of Federal Regulations states that *qualified campaign expense* means a purchase, payment, distribution, loan, advance, deposit, or gift of money or anything of value incurred by or on behalf of a candidate or his or her authorized committees from the date the individual becomes a candidate through the last day of the candidate's eligibility as determined under 11 CFR 9033.5.

Section 9033.1(b)(1) of Title 11 of the Code of Federal Regulations states, in part, that the candidate has the burden of proving that disbursements by the candidate or any authorized committee(s) or agents thereof are qualified campaign expenses as defined in 11 CFR 9032.9.

Section 9038.2(c)(1) of Title 11 of the Code of Federal Regulations states in relevant part, that the Commission will provide the candidate with a written notice of its repayment determination. This notice will be included in the Commission's audit report prepared pursuant to 11 CFR 9038.1(d). The candidate shall repay to the United States Treasury in accordance with paragraph (d) of this section, the amount which the Commission has determined to be repayable.

Section 9038.2(b)(2) of Title 11 of the Code of Federal Regulations states in relevant part, that the Commission may determine that amount(s) of any payments made to a candidate from the matching payment account were used for purposes other than those set forth in paragraphs (b)(2)(i) (A)-(C) of this section: (A) defrayal of qualified campaign expenses, (B) repayment of loans which were used to defray qualified campaign expenses, and (C) restoration of funds which were used to defray qualified campaign expenses.

Section 9038.2(b)(3) of Title 11 of the Code of Federal Regulations explains that the Commission may determine that amounts expended by the candidate, the candidate's authorized committees, or agent were not documented in accordance with 11 CFR 9033.11. Such amounts are subject to repayment.

Section 441a(a)(1)(A) of Title 2 of the United States Code states that no person shall make contributions to any candidate and his authorized political committees with respect to any election for Federal office that, in the aggregate, exceed \$1,000.

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 in connection with any election for Federal office.

Section 116.3(a) of Title 11 of the Code of Federal Regulations states that a commercial vendor that is not a corporation may extend credit to a candidate, a political committee or another person on behalf of a candidate or political committee. An extension of credit will not be considered a contribution to the candidate or political committee provided that the credit is extended in the ordinary course of the commercial vendor's business and the terms are substantially similar to extensions of credit to nonpolitical debtors that are of similar risk and size of obligation.

Section 116.3(b) of Title 11 of the Code of Federal Regulations states that a corporation in its capacity as a commercial vendor may extend credit to a candidate, a political committee or another person on behalf of a candidate or political committee provided that the credit is extended in the ordinary course of the corporation's business and the terms are substantially similar to extensions of credit to nonpolitical debtors that are of similar risk and size of obligation.

Section 116.3(c) of Title 11 of the Code of Federal Regulations states that in determining whether credit was extended in the ordinary course of business, the Commission will consider: (1) whether the commercial vendor followed its established procedures and its past practice in approving the extension of credit; (2) whether the commercial vendor received prompt payment in full if it previously extended credit to the same candidate or political committee; and (3) whether the extension of credit conformed to the usual and normal practice in the commercial vendor's trade or industry.

Background and Historical Activity of Vendors

LCNBW entered into contractual agreements in 1999 with seven regional vendors, which operated offices in various states for LCNBW. According to LCNBW's response to the Preliminary Audit Report (PAR) five of the vendors (American System Publications, Inc. (ASP), Southeast Literature Sales, Inc. (SELS), Mid-West Circulation Corp. (MCC), Eastern States Distributors, Inc. (ESDI), and Southwest Literature Distributors, Inc. (SWLD)) were incorporated in 1987 as not for profit corporations. "EIR News Services, Inc. (EIRNS), and Hamilton System Distributors, Inc. (HSDI) were incorporated as for profit entities although they do not operate to generate a commercial profit." The response to the PAR further explains that EIRNS is a publishing corporation and was incorporated in 1985 and HSDI was incorporated in 1987. The response to the PAR goes on to state that the regional vendors have as their primary purpose the dissemination of political, philosophical, and scientific literature and ideas originated by Lyndon LaRouche and his political associates.

The seven regional vendors have worked for the LaRouche presidential committees in 1988, 1992, 1996¹, 2000, and are working on the 2004 campaign. The PAR response suggests that the reason that the activity levels apparent in the 2000 campaign are much greater than in previous campaigns is a change in campaign strategy. According to the PAR response, the three prior presidential campaigns had as a substantial focus national television and other major media addresses by the candidate with direct literature distribution activities serving to amplify the media addresses. The 2000 Presidential campaign adopted a strategy emphasizing grassroots political organizing which substantially increased the literature distribution services and facilities use provided to the campaign by the regional vendors.

The response also explained that over the 15 years or more of their existence the regional vendors' incomes have been derived from subscription and single-issue sales of books, videotapes, periodicals and other publications, and from contributions and donations by the general public. The literature distributors purchase wholesale literature from four publishing entities² and sell it retail to the general public. A management company for the publishers, Publication and General Management, Inc. (PGM), provides uniform computer reporting services by which subscription and other sales and contribution items are entered and reported at the point of sale or contribution and at PGM in Leesburg, Virginia.

The contracts were for services performed commencing July 1997 through "close of business of the day on which the Democratic Party nominates its candidate for President at its Year 2000 nominating convention, except for such activities as may be

¹ The amounts paid to the seven regional vendors in the 1996 election were substantially less than in the 2000 election.

² The publishing entities are EIRNS (publisher of a weekly print and web-based national and international news magazine, *EIR*), KMW Publishing Company (publisher of the weekly newspaper, the *New Federalist*), the Schiller Institute (publisher of *Fidelio* magazine), and 21st Century Associates (publisher of *21st Century Science and Technology* magazine).

necessary for winding down the campaign." The vendor services prior to April 1999 were included in each contract as a lump sum amount. Fees for services were calculated monthly starting in April 1999. LCNBW invoices were grouped in two broad categories: facilities contract expenses and other expenses. The facilities contract expenses were those expenses covered under the contract such as public relations, literature distribution, access to company existing networks, lists of customers and contacts, and office space and facilities. The other expenses were reimbursable items such as costs of room rentals and incidentals for public campaign meetings and press conferences, automobile rentals, mailings, and rentals of office space or accommodations retained for the exclusive use of LCNBW campaign activities.

Cost Allocation

The regional vendors allocated a portion of their costs to LCNBW based on an activity ratio, defined by LCNBW as "the number of contributions raised for the Committee through use of the facilities [divided] by the total of all sales and contribution transactions for the distribution company." Records used to derive the activity ratio and the calculations of the ratios were handled by PGM.

Markup

The LCNBW allocable amount was then marked up. The markup percentages were 80% for July 1997 through September 1999, 50% for October through December 1999, and no markup for January through December 2000. According to LCNBW representatives, the markup was based on an agreement between the vendor and LCNBW to provide sharply increased activities on behalf of LCNBW to ensure adequate payment during the startup of the active phase of the campaign. It was further agreed that the markup would be reduced and then eliminated once LCNBW was well established. In the response to the PAR, LCNBW discussed and enumerated the purpose for the markup:

The purpose of the 80% (September 1997 - September 1999) and 50% (October - December 1999) markups to the allocable charge was three-fold. First, it was assumed that not all costs which should be part of the base-line projections forward or back from April, 1999 would be captured in the initial reticulation of baseline charges and that some highly variable costs, such as automobiles (gasoline and repairs), and field, travel and meeting costs would be underestimated. Second, the markups assured that certain one-time start up costs, such as the use of company lists and contributor data for fund-raising and intangible costs were adequately compensated. Finally, the markups served as a method of advance payment on services to be rendered, a bad debt reserve in the circumstances of this political campaign, and a potential means to generate a small profit.

In its response to the PAR, LCNBW also discussed the markup in relation to the extension of credit by the vendors. Referencing section 116.3(a) of Title 11 of the

Code of Federal Regulations and various Commission Advisory Opinions³, LCNBW noted that if an entity was not in the business of providing the services it is providing to a campaign and cannot demonstrate a program of offering similar services on similar terms to others, then it must seek sufficient payment in advance of the services rendered to insure against any possible shortfall. LCNBW recognized that these vendors did not provide services to others but noted that the 80% and 50% markups utilized to arrive at the fees charged met the requirements set forth in the Advisory Opinions for advance payments.

Monthly Fee

In addition, a monthly fee was charged. From July 1997 through December 1998 the fee was \$150 per month. For calendar year 1999 a \$750 per month fee was charged. The information provided does not explain how the monthly fee relates to the enumerated reasons for the markup such as "a potential means to generate a small profit", underestimated startup costs, or intangibles.

Total Invoices

LCNBW was invoiced a total of \$2,456,680 by the regional vendors; \$2,049,972 were facilities contract expenses; and \$406,708⁴ were other expenses.⁵ LCNBW paid the seven regional vendors approximately \$2,051,364 in total as of August 16, 2000; \$1,657,057 in facilities contract expenses; and \$394,307 in other expenses.

Prior to the exit conference, the Audit staff concluded that the broadly worded contracts and nonspecific invoices did not satisfy the candidate's "burden of proving that disbursements by the candidate or any authorized committee(s) or agents thereof are qualified campaign expenses, especially given the less than arm's length nature of the relationship between LCNBW and the vendors⁶. At the exit conference, the Audit staff informed and presented LCNBW with a schedule listing the total amount for each of the seven regional vendors, that would be considered non-qualified campaign expense due to lack of documentation, unless upon review of vendor documentation, the Audit staff could be confident that these facilities contract expenses were in fact qualified campaign expenses. The Audit staff also discussed the Section 116.3, extension of credit, issue with LCNBW. LCNBW representatives made no comment on this issue at that time. The Audit staff requested and LCNBW provided additional records for two

³ LCNBW referred to Advisory Opinions. 1991-32, 1994-37 and 1997-15, in its response to the PAR.

⁴ Of the \$406,708 in other expenses, \$302,105 was billed by EIR News Services, Inc., most of this was for advertising and editorial services.

⁵ LCNBW did not prepare a spreadsheet with the breakdown of facilities contract and other expense for American System Publications, Inc. The Audit staff used the actual facilities contract invoices to determine which invoices were other expenses.

⁶ The response to the PAR noted that some of the billing adjustments that LCNBW agreed with were the result of errors made by the LCNBW Assistant Treasurer when calculating the amounts due to three of the vendors at March 31, 1999. It therefore appeared that the Assistant Treasurer also had responsibilities associated with the at least some of the vendors.

regional vendors, SELS and ESDI. The Audit staff determined that the vendors had over billed LCNBW and information and documentation provided was not sufficient to establish the payments to these vendors as qualified campaign expenses.

PAR Recommendation

In the PAR, the Audit staff recommended that, within 60 calendar days of service of the report:

- LCNBW provide documentation supporting amounts billed by the seven regional vendors. The documentation was to be similar to what was requested for ESDI and SELS.
- For the mark up percentages, provide additional explanation and documentation to demonstrate the derivation and changes to the percentage used.
- For the activity ratios used by the regional vendors, documentation should be provided to substantiate the figures used in the calculation of the ratios. The documentation should include samples of the literature distributed, and documentation for the numbers listed. PGM should be contacted to provide the worksheets for each billing period, itemizing the number of campaign transactions versus other transactions used by the regional vendors to calculate the activity ratio. Further an explanation and justification should be provided for weighting of factors in the calculation and for any activity that was excluded from the calculation.

Absent such documentation, the Audit staff stated that it would recommend that the Commission make a determination that \$438,285 [$\$1,626,290 \times .2695^7$] was repayable to the United States Treasury pursuant to 11 CFR 9038.2(b)(2).

Further, the Audit staff recommended that LCNBW provide additional documentation, to include statements from the vendors, which demonstrated that the credit extended was in the normal course of the vendor's business and did not represent a prohibited contribution by the vendor. The information provided was to include examples of other nonpolitical customers and clients of similar size and risk for which similar services have been provided and similar billing arrangements have been used. Also, provide information concerning billing policies for similar nonpolitical clients and work, advance payment policies, debt collection policies, and billing cycles.

Response to the PAR-Production of Regional Vendor Records

LCNBW responded to the PAR on October 4, 2002 by supplying selected records for all seven regional vendors. The records were made available for review in

⁷ This figure (.2695) represented LCNBW's repayment ratio as calculated at the time of the PAR.

Leesburg, Virginia prior to the response deadline. The materials presented included more documentation than had been provided by SELS and ESDI before the PAR, however less than requested in the PAR. LCNBW provided bank statements for all seven vendors. According to LCNBW these were the only bank accounts of the seven regional vendors. They also provided cancelled checks and additional documentation such as receipts, invoices, and memoranda to support the expenditures allocated to LCNBW. They did not submit any documentation except the bank statements for the disbursements that were not allocated to LCNBW. LCNBW did acknowledge a shortfall in documentation for baseline expenses for SELS and ESDI. According to the response LCNBW received \$80,472 in refunds from SELS.

The Audit staff calculated billable amounts using the records provided for each of the vendors. Based on these calculations, the Audit staff used the amounts documented by LCNBW for five vendors; for the remaining two vendors Audit staff figures were used.⁸ The vendors did not provide documentation for expenses outside those expenses used in their billing process. Therefore, no comment can be made concerning vendor expenses outside the transactions involving LCNBW. Further, some vendors had made disbursements in cash, primarily for field worker expenses, that cannot be verified. In some cases those expenses were apparently paid from daily cash receipts and therefore, did not pass through the regional vendor's account.

Mark-Up Percentages

As LCNBW stated, part of the mark-up served as a method of advance payments, "a bad debt reserve". LCNBW did not specify what part of the 80% and 50% mark up was for this purpose. As discussed above, LCNBW listed a number of purposes served by the markup. However, there is no support for the assumption that "not all costs which should have been part of the base-line projections forward or back from April, 1999 would be captured in the initial reticulation of baseline charges and that some highly variable costs, such as automobiles (gasoline and repairs), field, travel, and meeting costs would be underestimated". As for the compensation for one-time startup costs and intangibles, no accounting of those costs was provided. The vendors had been providing services since 1997 at a very low level and were billed and paid for those services as a lump sum expense. Thereafter, specific expenses were included in the calculation of the monthly billings. As for a profit, the response points out that five of the vendors were non-profit corporations and the other two do not operate to generate a commercial profit. Thus little or none of the markup appears to relate to a profit. Further, in 1999 each vendor was paid a \$750 per month fee and it is not clear how those payments may relate to the listed justifications for the mark up. Given the above and the lack of any allocation of the mark up among the various enumerated purposes that it served, in the Audit staff's opinion, the mark up should be considered primarily advance payment that should have been applied to the billings later in the campaign. Based on these advance payments, the Audit staff is in agreement that LCNBW would not have large outstanding debts to these vendors over long periods of time and therefore LCNBW

⁸ Audit staff figures were used for ASP and SELS due to irreconcilable differences between the Audit calculated figures and the figures documented by LCNBW.

did not receive extensions of credit outside the normal course of business. However as advance billings or advance payments, it is necessary to adjust those amounts out of the total amount billed to avoid overpayments. When these adjustments are made LCNBW would have an accounts receivable from five of the vendors as of the date of ineligibility. The total amount of the mark-up resulting from the application of the 80% and 50% to the documented expenses of the regional vendors amounts to \$413,883.

Activity Ratio

LCNBW also submitted an Activity Ratio Detail Report showing each transaction on a daily basis to support how the activity ratio was calculated. Although LCNBW did submit the minimum amount requested in the PAR, it did not submit any documentation to support the accuracy of the daily entries on the Activity Ratio Detail Reports. The Assistant Treasurer for LCNBW stated there was no way to tie this activity into the bank statements of the vendors, since the activity reports did not have a relationship to the actual receipts deposited in the vendors account. According to LCNBW's response to the PAR "The PGM computer reporting system was then utilized to determine, for any given month, the number of financial transactions for a distributor which were campaign transactions and contributions and the number of financial transactions which constituted non-campaign sales, subscriptions, and contribution activities". The activity ratios for the seven vendors varied from 64% during the campaign to .7% for periods after the date of ineligibility.

After reviewing the material submitted by LCNBW the Audit Staff arrived at the following conclusions. LCNBW did submit a substantial amount of additional information to support the activity ratio. Each type of transaction is counted for each day; however, no source documentation is available to support the individual and daily entries. The Audit Staff acknowledges that it was necessary for LCNBW and the vendors to devise some method for allocating expenses that related, in part, to the campaign. Though source documentation for the daily entries would be desirable, the method the vendors' used does appear to be reasonable and is supported by a large volume of detailed information. Finally, the ratios appear to be mathematically correct.

The review of documentation resulted in differences between LCNBW's and the Audit staff's amounts of \$507,890. Of this amount \$413,883 results from the disallowance of the 80% and 50% mark-ups on vendor billings, as discussed above. The remaining difference of \$94,007 stems primarily from a lack of documentation from the regional vendors or the disallowance of some of the expenditures. Listed below are the regional vendor amounts as calculated by both LCNBW and the Audit staff, and the resulting differences.

Company	Committee Numbers	Audit Numbers	Difference
ASP	291,430	211,159	80,271
ESDI	229,062	179,369	49,693
EIRNS	344,342	239,245	105,097
HSDI	282,613	207,219	75,394
MCC	291,854	232,786	59,068
SELS	299,484	200,262	99,222
SWLD	186,960	147,815	39,145
Total	\$1,925,745	\$1,417,855	\$507,890

The differences for EIR, aside from the differences resulting from the disallowance of the mark-ups, consist of the rejection of expenses for rent (\$31,070) paid on a farm in Round Hill, VA. The connection between the campaign and those expenses is not clear.

The differences for ASP, aside from differences arising from mark-ups, result from a lack of documentation to justify LCNBW's submitted numbers (\$28,110). Of this difference, \$18,538 relates to billings from documentation supplied for periods prior to April 1, 1999 that the Audit staff did not accept, LCNBW submitted amounts prior to this date in lump-sum amounts. The Audit staff had already included those lump-sum amounts in its calculations.

In addition, with its response to the PAR, LCNBW submitted adjusted numbers for SELS that significantly lowered the billable amounts, however, the reviewed documentation was still insufficient to support the figures. LCNBW has admitted that there is still a shortage of documentation for this company (\$34,828)⁹.

Summary - Non-qualified Amount and Repayment Calculation

LCNBW paid the regional vendors a total of \$1,656,048 in facilities contract costs through August 16, 2000 (Mr. LaRouche's date of ineligibility). As of that date, the Audit staff calculated that LCNBW over-paid five of the regional vendors a total of \$301,669, \$214,544 after netting the refunded amount of \$80,472 received from SELS, and a total of \$6,653 in other amounts due for the regional vendors. In addition, LCNBW made payments to EIRNS, HSDI, and SELS totaling \$39,209 between August 17 and September 6, 2000, the period when LCNBW's accounts contained public funds. This amount is added to the over-payments to determine the total amount subject to a ratio repayment¹⁰.

⁹ LCNBW response acknowledges a remaining shortage of \$33,650, a difference of \$1,178 from Audit staff numbers.

¹⁰ If all or a portion of the overpayments are recovered from the vendors, the repayment will be reduced accordingly.

Recommendation #1

Based on the above, the Audit staff recommends that the Commission make a determination that \$70,139 [(\$214,544 + \$39,209) x .2764¹¹] is repayable to the United States Treasury pursuant to 11 CFR 9038.2(b)(2).

B. DETERMINATION OF NET OUTSTANDING CAMPAIGN OBLIGATIONS

Section 9034.5(a) of Title 11 of the Code of Federal Regulations requires that within 15 calendar days after the candidate's date of ineligibility, the candidate shall submit a statement of net outstanding campaign obligations which reflects the total of all net outstanding obligations for qualified campaign expenses plus estimated necessary winding down costs.

In addition, Section 9034.1(b) of Title 11 of the Code of Federal Regulations states, in part, that if on the date of ineligibility a candidate has net outstanding campaign obligations as defined under 11 CFR 9034.5, that candidate may continue to receive matching payments provided that on the date of payment there are remaining net outstanding campaign obligations.

The Candidate's date of ineligibility was August 16, 2000. The Audit staff reviewed LCNBW's financial activity through September 30, 2000, analyzed and estimated winding down costs (through December 31, 2003), and prepared the Statement of Net Outstanding Campaign Obligations (NOCO statement) that appears below. The deficit on the NOCO statement presented below is substantially less than the deficit on the NOCO statement provided by LCNBW. The majority of the difference is due to the reduction in accounts payable to the seven regional vendors discussed in section A above.

¹¹ This figure (.2764) represents LCNBW's repayment ratio as calculated pursuant to 11 CFR 9038.2(b)(2)(iii).

**LAROCHE'S COMMITTEE FOR A NEW BRETTON WOODS
STATEMENT OF NET OUTSTANDING CAMPAIGN OBLIGATIONS**

As of August 16, 2000

As Determined at December 31, 2002

Assets

Cash in Bank	\$24,038 a	
Accounts Receivable		
Vendor Deposits	\$23,866	
Vendor Refunds-Regional Vendors	\$214,544	
Capital Assets	\$5,823	
Total Assets		\$268,271

Obligations

Accounts Payable for Qualified Campaign Expenses	\$322,883	
Actual Winding Down Expenses	\$25,875 b	
Estimated through 12/31/03	\$10,100	
Due to the U.S. Treasury - Stale-dated Checks	\$3,281	
Total Obligations		\$362,139
Net Outstanding Campaign Obligations		(\$93,868)

FOOTNOTES TO THE NOCO

- a. This figure includes the amount of stale-dated checks, (\$3,281).
- b. The inclusion of estimated fundraising costs (\$39,082) is not included in the Audit staff's NOCO since sufficient moneys had been raised to eliminate the deficit.

C. MATCHING FUNDS RECEIVED IN EXCESS OF ENTITLEMENT

Section 9034.1(b) of Title 11 of the Code of Federal Regulations states that if on the date of ineligibility a candidate has net outstanding campaign obligations as defined under 11 CFR 9034.5, that candidate may continue to receive matching payments for matchable contributions received and deposited on or before December 31 of the Presidential election year provided that on the date of payment there are remaining net outstanding campaign obligations, i.e., the sum of the contributions received on or after the date of ineligibility plus matching funds received on or after the date of ineligibility is less than the candidate's net outstanding campaign obligations. This entitlement will be equal to the lesser of: (1) the amount of contributions submitted for matching; or (2) the remaining net outstanding campaign obligations.

Section 9038.2(b)(1) of Title 11 of the Code of Federal Regulations entitled *Bases for repayment - payments in excess of candidate's entitlement* states, in part, that 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. One example of such excessive payments is payments made to the candidate after the candidate's date of ineligibility where it is later determined that the candidate had no net outstanding campaign obligations as defined in 11 CFR 9034.5.

The Audit staff's NOCO statement as presented above, indicated a deficit of \$93,868 as of August 16, 2000, the Candidate's date of ineligibility. The calculation of matching funds received in excess of the Candidate's entitlement follows:

Net Outstanding Campaign Obligations (deficit) as of 8/16/00 per the Audit staff's calculation		(\$93,868)
Net Private Contributions Received 8/17/00 to 9/1/00		<u>36,412</u>
Remaining Entitlement on 9/1/00		(57,456)
Matching Funds received on 9/1/00		<u>50,968</u>
Remaining Entitlement on 9/1/00		(6,488)
Net Private Contributions Received 9/2/00 to 10/1/00		<u>29,631</u>
Remaining Entitlement on 10/1/00		-0-
Matching Funds received on 10/1/00 to 4/2/01		163,272
Amount in Excess of Entitlement		<u>(\$163,272)</u>

In the PAR, the Audit staff recommended that LCNBW provide documentation demonstrating that it was entitled to the matching funds it received. LCNBW did supply additional documentation and additional work was performed as stated in the previous finding. In addition, in its written response to the PAR, LCNBW stated that after reviewing the additional documentation, the Audit staff should determine

that no repayment is required other than that arising from the stale dated checks. This was not the case.

Recommendation #2

The Audit staff recommends that the Commission determine that LCNBW has received matching funds in excess of entitlement in the amount of \$163,272 and that an equal amount is repayable to the U.S. Treasury.

D. STALE-DATED CHECKS

Section 9038.6 of Title 11 of the Code of Federal Regulations states that if the committee has checks outstanding to creditors or contributors that have not been cashed, the committee shall notify the Commission. The committee shall inform the Commission of its efforts to locate the payees, if such efforts have been necessary, and its efforts to encourage the payees to cash the outstanding checks. The committee shall also submit a check for the total amount of such outstanding checks, payable to the United States Treasury.

The Audit staff identified 47 stale-dated checks totaling \$4,370. The checks were dated between April 22, 1999 and August 10, 2000 and had not cleared the bank as of September 30, 2001.

This matter was discussed at the exit conference and LCNBW was provided with a detailed schedule of stale-dated checks. LCNBW representatives had no response.

The Audit staff recommended in the PAR, that LCNBW provide evidence that the checks were not outstanding (i.e., copies of the front and back of the negotiated checks), or that the outstanding checks were voided and that no LCNBW obligation existed. Absent such evidence, the Audit staff recommended that LCNBW repay \$4,370 in stale-dated checks to the United States Treasury.

Subsequent to the receipt of the PAR, LCNBW submitted additional information with respect to some of the outstanding checks. The Audit staff updated the list of outstanding checks and determined that the revised amount was \$3,281.

Recommendation #3

The Audit staff recommends that the Commission determine that a payment of \$3,281 is due the United States Treasury.

IV. SUMMARY OF AMOUNTS DUE TO THE U.S. TREASURY

Finding II.A.	Apparent Non-Qualified Campaign Expenses	\$ 70,139
Finding II.C.	Matching Funds Received in Excess of Entitlement	\$ 163,272
Finding II.D.	Stale-Dated Checks	<u>\$ 3,281</u>
	Total	<u>\$ 236,692</u>



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20541

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FEDERAL ELECTION
COMMISSION
AUDIT DIVISION

2003 APR 17 P 3

April 17, 2003

MEMORANDUM

TO: Robert J. Costa
Deputy Staff Director

THROUGH: James A. Pehrkon *JAP*
Staff Director

FROM: Lawrence H. Norton *LHN*
General Counsel

Gregory R. Baker *GRB*
Acting Associate General Counsel

Lorenzo Holloway *LH*
Assistant General Counsel

Michelle E. Abellera *me*
Attorney

SUBJECT: Report of the Audit Division on LaRouche's Committee for a New Bretton Woods (LRA #565)

I. INTRODUCTION

The Office of General Counsel reviewed the proposed Report of the Audit Division ("Proposed Report") on LaRouche's Committee for a New Bretton Woods ("the Committee") submitted to this Office on February 11, 2003. This memorandum summarizes our comments on the Proposed Report. Our comments address two procedural issues and a repayment finding. We concur with any findings not specifically discussed in this memorandum. If you have any questions, please contact Michelle E. Abellera, the attorney assigned to this audit.

¹ The Office of General Counsel recommends that the Commission consider this document in open session. See 11 C.F.R. § 9038.1(c)(1)

II. FACTUAL BACKGROUND

The Committee, which sought to reach voters through grassroots organizing, operated a massive outreach campaign of policy broadsides and leaflets, pamphlets, books, and discussions. The Committee entered into contracts with seven regional vendors to distribute the literature.² The Committee estimates that the vendors distributed at least 8,502,500 leaflets (18 separate titles and topics), 4,674.00 pamphlets (17 separate titles), 76,976 videos (14 separate programs), 185,000 books and 80,000 releases and posters. The vendors also solicited and collected contributions for the Committee.

According to the Committee, the vendors have as their primary purpose the dissemination of political, philosophical and scientific literature and ideas originated by Lyndon LaRouche and his political associates. At the same time that the vendors were distributing literature on behalf of the campaign and generating/collecting campaign contributions, the vendors were also conducting non-campaign-related business activities for the Candidate.³ These business activities also involved literature distribution and sales. Furthermore, some of the same literature distributed in the vendors' normal course of Lyndon LaRouche business was also distributed for the campaign. The Committee indicates that the income of the vendors, for the 15 years or more of their existence, has been derived from subscription and single issue sales of books, videotapes, periodical and other publications, and contributions and donations by the general public.

Given that the vendors were involved in two activities at the same time, the Committee had to allocate the vendors' expenses to determine the amount the vendors should charge to the Committee for campaign-related activity. To properly allocate campaign-related expenses to the Committee, the vendors applied an activity ratio. The activity ratio represented the number of disbursement and contribution transactions for a vendor which were campaign transactions compared to the number of financial transactions which constituted non-campaign sales, subscription and contribution activities ("other transactions").

The vendors also charged the Committee a markup percentage. The Committee claims the markup percentage represented payment for underestimated and highly variable vendor costs, startup and intangible costs and advance payment/bad debt reserve. The vendors applied the markup percentage to their baseline monthly operational expenses for the months of April through September 1999 (80% markup) and October through December 1999 (50% markup)

² In addition to literature distribution, the vendors performed other services. See *infra* note 9

³ This Office notes that five of the vendors are incorporated as not-for-profit corporations, the two remaining vendors, although incorporated as for-profit entities, "do not operate to generate a commercial profit." Proposed Report at 5.

The Preliminary Audit Report ("PAR") concluded that the Committee incurred \$1,651,951 in non-qualified campaign expenses for services performed by the seven regional vendors. The PAR requested that the Committee provide documentation supporting the amounts billed by the vendors. The Committee was asked to validate the number of reported campaign transactions included in the activity ratio and to provide an explanation for the variable markup percentages.⁴ In addition, the Audit Division concluded that two vendors overbilled the Committee and that all seven vendors improperly extended credit to the campaign by allowing large debts to accumulate under the contract. The Audit staff requested that the Committee provide additional vendor documentation demonstrating that the vendors did not overbill and that credit was extended in the normal course of business. As a part of its response to the PAR, the Committee provided only selected records for all seven vendors, consisting of bank statements, canceled checks and additional documentation such as receipts, invoices and memoranda to support the expenditures allocated to the Committee.

III. PROCEDURAL ISSUES

The Committee's PAR response raises two procedural issues. First, the Committee argues that it sufficiently documented the vendor expenses with the materials supplied at the start of the audit fieldwork. The Committee argues that "vendors who are not agents of the campaign are not required under 11 C.F.R. § 9033.11 to keep the type of detailed records which are required of the campaign or its agents."⁵ The Committee argues that the documentation provided during the audit—the vendor contracts and the invoices and cancelled checks showing payment to the vendors—met all the specificity requirements of 11 C.F.R. § 9033.11. See 11 C.F.R. § 9033.11. Hence, it was unnecessary and unlawful for the Commission to request further documentation from third party vendors.⁶ Second, the Committee argues that because it provided new information which may be included in the proposed Audit Report, the Committee has a

⁴ The Audit Division requested "bank statements, deposit slips, canceled checks, debit and credit memoranda for all accounts; workpapers showing the computation of the activity ratio including but not limited to an explanation of how receipts were tracked, computerized records, documentation or explanation for the markup percentage charged, source documents and other related materials for all contract and lease agreements; audit reports or financial statements prepared by an external accounting firm, tax returns; invoices and receipts for all expenses, and documentation demonstrating the derivation of staff billing hours." PAR Attachment 1.

⁵ As the Committee explains, "an agent must hold express or implied authority to make expenditures on behalf of the campaign. Here, the contract specifies that the vendors are being reimbursed for use of their facilities and specific organizing services. Under the contract, only the Treasurer can authorize expenditures by the campaign."

⁶ The voluminous documentation required the Audit staff to travel to the Committee's headquarters in Leesburg, Virginia to review the materials. This additional fieldwork continued for three weeks. The Committee argues that, by conducting this "endless audit," the Commission has abused its statutory and regulatory authority. See 11 C.F.R. § 9033.1

right to respond to all issues—including changes from the PAR and any new findings—prior to the Commission's consideration of the Audit Report.

The documentation regulation is concerned with both ensuring that a payment actually was disbursed and that it was used for an appropriate purpose. *Fulani for President v. FEC*, 147 F.3d 924, 928 (D.C. Cir. 1998). The documentation requirement also satisfies the "public's right to know how tax monies are distributed." *Reagan-Bush Committee v. FEC*, 525 F. Supp. 1330, 1340 (D.D.C. 1981). Although the vendor contracts and invoices, taken as whole, may have met the minimum documentation requirements of 11 C.F.R. § 9033.11, the Commission may ask the Committee for additional information when there are remaining questions about the Committee's disbursements.⁷ 11 C.F.R. § 9033.1(b)(3). Furthermore, candidates are required to obtain and furnish to the Commission upon request all documentation relating to funds received and disbursements made on the candidate's behalf by other political committees and organizations associated with the candidate. 11 C.F.R. § 9033.1(b)(6).

Given the close relationship of the vendors and the Committee, as well as other LaRouche entities, the Commission had the authority to treat the vendors as "organizations associated with the candidate" and ask the Committee for additional vendor documentation. Thus, a review of vendor documentation was not only lawful but necessary to determine whether the vendors' expenses allocated to the campaign were for the purpose of seeking the nomination. See 11 C.F.R. § 9032.9(a)(2); *Fulani*, 147 F.3d at 928.

In addition, the Committee does not have a right to respond to the proposed Audit Report prior to the Commission's consideration. There are no provisions contained in the regulations that permit a committee to submit additional comments or responses prior to the Commission's consideration of the proposed Audit Report. See 11 C.F.R. § 9038.1(c)(2). The Committee is concerned that the additional vendor information will give rise to new findings that were not covered by its original response to the PAR. However, the regulations specifically state that "the Commission-approved audit report may address issues other than those contained in the [PAR]." 11 C.F.R. § 9038.1(d)(1).⁸

⁷ According to the Audit staff, all requests for additional documentation and information regarding vendor expenses were made through the Committee.

⁸ See also *Financial Control and Compliance Manual for Presidential Primary Candidates Receiving Public Financing* (April 2000), Chapter 10, Section D 2 h ("Occasionally the audit report may contain one or more findings that were not discussed at the exit conference or in the Preliminary Audit Report... These findings are generally the result of additional information that comes to light after the audit field work or information provided by the campaign in its response to the Preliminary Audit Report.") If the Committee disputes any repayment determination arising out of the Audit Report, it may request an administrative review pursuant to 11 C.F.R. § 9038.2(c)(2).

IV. NON-QUALIFIED CAMPAIGN EXPENSES

In the PAR, the Audit Division concluded that the Committee incurred \$1,651,951⁹ in non-qualified campaign expenses for services performed by the seven regional vendors. After reviewing the response to the PAR, the Audit Division now accepts all but \$484,033 of the vendor expenses as qualified campaign expenses. The Audit staff disallowed all markup charges, totaling \$390,026, and disallowed vendor expenses totaling \$94,007¹⁰ ($\$390,026 - \$94,007 = \$484,033$).

A. Activity Ratio

In response to the PAR, the Committee submitted Detailed Summary Reports showing individual and daily entries of campaign-related transactions and sales for all seven vendors. The Audit Division accepts the majority of vendor costs calculated under the activity ratio as qualified campaign expenses. The Committee submitted a substantial amount of additional information to support the activity ratio. The information was extremely detailed with respect to the date and type of each purported campaign-related transaction. The Audit staff concluded that the activity ratio was a reasonable method of allocating expenses and also noted the mathematical accuracy of the reported activity ratios.

While it is true that the Committee provided very detailed information related to the activity ratio calculation, the documentation is not complete: the missing piece to the equation is the information that would demonstrate that the vendors were justified in classifying any particular expenditure as campaign-related. For example, the Detailed Summary Report shows the vendor Eastern States Distributor, Inc. ("ESDI") conducted approximately 930 contribution and subscription transactions in the period December 17 through December 31, 1999. Of this amount, the Committee claims that approximately 207 transactions were campaign-related. Therefore, the Committee used these 207 transactions to calculate the activity ratio for the ESDI expenses charged to the Committee. Unfortunately, there is no information to support the vendor's conclusion that it made 207 campaign-related transactions from December 17 through December 31, 1999. This problem is exacerbated by the fact that we know that the vendors were engaged in similar, but non-campaign-related activity, at the same time.

⁹ The Committee was invoiced a total of \$2,450,531 by the regional vendors. The \$1,651,951 figure represents the portion of non-qualified campaign expenses paid while the Committee's bank account still contained federal funds. See 11 C.F.R. § 9036.21(b)(2)(iv).

¹⁰ The \$94,007 figure includes expenses for rent paid on a farm in Leesburg, Virginia (\$31,070) and disbursements to two vendors, American Systems Publications (\$26,110) and Southeast Literature Sales (\$34,827), for which no documentation was provided to demonstrate the disbursements were in connection with seeking the nomination.

This Office acknowledges that portions of the amount that the vendors charged to the Committee are undoubtedly campaign-related.¹¹ However, since the vendors were engaged in similar and overlapping activities at the same time, the line between advocacy made in connection with the nomination and general political advocacy is blurred. Thus, we remain concerned that the Committee may have paid the vendors for items that were general political advocacy.

As an alternative to the Audit Division's approach, the Commission could conclude that the expenses at issue should remain nonqualified campaign expenses. The basis for the disallowance of vendor expenses is threefold. First, the close relationship between the Committee and the seven vendors raises questions as to whether the vendors' contracts were arm's length transactions. Second, the vendors performed similar, and arguably indistinguishable, services and activities in both their campaign and non-campaign-related functions. Last, the Committee has the legal burden of documenting its expenses as qualified campaign expenses. 11 C.F.R. § 9033.11(a). The Committee did not submit information demonstrating that any particular vendor expenditure used in calculating the activity ratio was for the purpose of seeking the nomination.¹² 11 C.F.R. § 9032.9(a).

The Office of General Counsel recognizes that there are numerous vendor transactions. As a result, the Committee may find it difficult and burdensome to document the transactions.¹³ Nevertheless, the Commission's request for documentation beyond the minimum amount required by the regulations is consistent with past Commission practice.¹⁴ Also, the request for additional information is justified, given the

¹¹ For example, this Office notes that some literature advocating the election of the Candidate was produced solely for the election. In such instances, vendor expenses associated with the distribution of these materials and all resulting contributions are clearly campaign-related. Therefore, no further documentation is required for those transactions.

¹² For example, Publication and General Management, Inc. ("PGM"), a management company for the literature publishers, provided the Committee with uniform computer reporting services by which subscription and other sales and contribution items were entered and reported at the point of sale or contribution. According to the Committee, campaign-related receipts were "identified] vis-a-vis previously reported pledges (based on information submitted to PGM, electronically, by committee fundraising volunteers)." Thus, there exists some underlying documentation to support the Daily Summary Reports prepared by PGM. This documentation may provide additional information regarding the reporting, entry and calculation of campaign transactions, and therefore constitute sufficient evidence that the transactions were made in connection with seeking the nomination.

¹³ Should the Committee submit a request for review of the Commission's repayment determination, the Committee may submit this information as a part of its written materials. See 11 C.F.R. § 9038.2(c)(2)(i).

¹⁴ The request for additional documentation from the seven vendors is consistent with the Commission's past treatment of media vendors. According to the Audit staff, expenditures relating to the purchase of media airtime typically account for 50% of a campaign's disbursements. The media vendor invoices do not contain detailed information. Therefore, the Audit staff also requests and reviews additional

following factors: 1) the close relationship between the Committee and the vendors; 2) the vendors were engaged in campaign and non-campaign-related activity for the Committee at the same time; and 3) the transactions were characterized (campaign-related vs. non-campaign-related) at the vendor level.

B. Markup Charges

In its response to the PAR, the Committee stated that the purpose of the markup was threefold: 1) to cover costs not included in the vendors' baseline charges and highly variable costs that were underestimated; 2) to compensate for one-time start up costs; and 3) to serve as advance payment/bad debt reserve and to generate a small profit. However, the Committee did not provide any explanation or documentation demonstrating what portion of the 50% and 80% markups served each of the three purposes.

In the Proposed Report, the Audit Division rejects the markup percentage and all resulting charges.¹⁵ According to the Audit staff, the proffered reasons for the markup were not supported by the facts.¹⁶ This Office agrees with the Audit Division's disallowance of the markup percentages and corresponding charges, as the Committee has neither demonstrated nor explained how the markup charges correspond to their purported purposes. However, we recommend that the Audit Division revise the Proposed Report to include a full discussion of its reasons for rejecting the markup, addressing each purpose offered by the Committee.

media vendor records. These records consist of invoices from TV stations and invoices from subcontractors for production. See Bush-Cheney 2000, Inc. Audit (media vendor subcontracted approximately \$1.5 million of campaign work to other media vendors. Commission requested and reviewed subcontracts and underlying documentation)

¹⁵ According to the Audit staff, the total amount of markup charges resulting from application of the markup percentages to the vendors' documented expenses totals \$190,026. Taking into account the markup charges, the Audit staff recalculated the expenses billable to the Committee and concluded that the Committee over-paid five of the vendors a total of \$191,695.

¹⁶ For instance, the Committee included other charges (i.e. the monthly fee and the lump-sum charge for services performed prior to April 1999) that appear to have covered any underestimated charges and start-up costs. Furthermore, although the funds were deemed advanced payments, they were neither applied to the total amounts billed by the seven vendors nor refunded to the Committee at the close of the election. Also, the Audit staff deemed it unlikely that the markup constituted a source of "small profit" for the vendors, given their status and/or operation as non-profit entities.

ATTACHMENT

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20543

May 6, 2003

Ms. Kathy Magraw, Treasurer
LaRouche's Committee for a
New Bretton Woods
P.O. Box 89
Leesburg, VA 20178

Dear Ms. Magraw:

Attached please find the Final Audit Report on LaRouche's Committee for a New Bretton Woods. The Commission approved the report on May 1, 2003.

In accordance with 11 CFR §§9038.2(c)(1) and (d)(1), the Commission has made a determination that a repayment to the Secretary of the Treasury in the amount of \$236,692 is required within 90 calendar days after the service of this report (August 4, 2003).

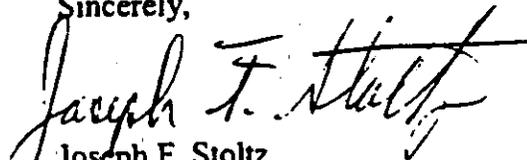
Should you dispute the Commission's determination that a repayment is required, Commission regulations at 11 CFR §9038.2(c)(2) provide you with an opportunity to submit in writing, within 60 calendar days after service of the Commission's notice (July 5, 2003), legal and factual materials to demonstrate that no repayment, or a lesser repayment, is required. Further, 11 CFR §9038.2(c)(2)(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 60-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 Greg Baker of the Office of General Counsel at (202) 694-1650 or toll free at (800) 424-9530. If the Candidate does not dispute this determination within the 60-day period provided, it will be considered final.

The Commission approved Final Audit Report will be placed on the public record on May 9, 2003. Should you have any questions regarding the public release of the report, please contact the Commission's Press Office at (202) 694-1220.

Any questions you have related to matters covered during the audit or in the report should be directed to Nicole Burgess or Rhonda Gillingwater of the Audit Division at (202) 694-1200 or toll free at (800) 424-9530.

Sincerely,


Joseph F. Stoltz
Assistant Staff Director
Audit Division

Attachment as Stated

cc: Mr. Odin Anderson, Counsel



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20543

May 6, 2003

Mr. Odin Anderson, Counsel
LaRouche's Committee for a
New Bretton Woods
Four Longfellow Place, Suite 302
Boston, MA 02114

Dear Mr. Anderson:

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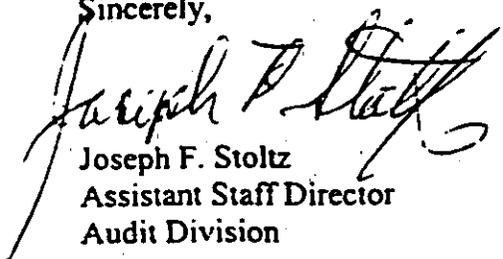
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ATTACHMENT

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Sincerely,



Joseph F. Stoltz
Assistant Staff Director
Audit Division

Attachment as Stated

cc: Ms. Kathy Magraw, Treasurer

CHRONOLOGY

LAROUCHE'S COMMITTEE FOR A NEW BRETTON WOODS

Audit Fieldwork	October 30, 2000 - August 29, 2001
Preliminary Audit Report to the Committee	July 17, 2002
Response Received to the Preliminary Audit Report	October 4, 2002
Final Audit Report Approved	May 1, 2003

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Introduction

The Final Audit Report ("FAR"), approved by the FEC on May 1, 2003, disallowed as a non-qualified campaign expense the entire markup portion of the invoices from seven regional vendors that provided facilities and services to LaRouche's Committee for a New Bretton Woods ("LCNBW"). The FAR then recharacterized these portions of the invoices as advance payments which, in turn, allowed the auditors to recalculate the Net Outstanding Campaign Obligations ("NOCO") at the candidate's date of ineligibility (August 16, 2000). Substantially owing to this series of arbitrary adjustments, the FEC made a repayment determination that the LCNBW received \$163,272 in matching funds in excess of entitlement and therefore should reimburse that amount to the U.S. Treasury.

The FAR failed to take proper account of the appropriate cost rationale underlying the markup on the costs of the seven regional vendors. Moreover, by failing to accept as a proper campaign expense *any* markup on the costs from the seven vendors, the FAR failed to account for overhead or other markup that would normally be included to arrive at the usual and normal charge for the services rendered. This result is contrary to The Federal Election Campaign Act of 1971 ("FECA"), 2 U.S.C. § 431, *et seq.*, the regulations thereunder, and a long line of FEC Advisory Opinions, which stipulate that these vendors were required to mark up their actual costs to a commercially reasonable rate. It also contradicts the explicit warning by the FEC's General Counsel that Mr. LaRouche's 1996 presidential campaign may have received prohibited contributions in-kind from these same

seven vendors. See 2 U.S.C. § 441b (2003); 11 C.F.R. § 100.7(a)(1)(iii)(A) (2001) and (B); See also FEC Memorandum, June 20, 1997, Ex. A.

This response to the FAR will demonstrate that LCNBW's original markup formula was reasonable under the circumstances of the campaign and under Commission precedent and should be accepted by the Commission. However, if the Commission does not accept LCNBW's original markup formula as reasonable under the circumstances, it must allow the vendors a reasonable markup of their costs which conforms to the FECA and the Commission's longstanding precedents. If the Commission applied only a modest 15% markup across the board to the vendor costs in order to cover indirect costs and other usual and normal markup over actual costs, LCNBW would be entitled to the matching funds it has received and would owe nothing to the U.S. Treasury.

Background

A. The Prohibition on Corporate Campaign Contributions.

Since 1907, federal law has barred corporations, even non-profit advocacy organizations, from contributing directly to candidates for federal office. *Federal Election Commission v. Beaumont*, 539 U.S. ___ (2003), No. 02-403 (June 16, 2003), WL 21372477. Thus, corporate contributions or expenditures by corporations "in connection with" federal elections are prohibited. 2 U.S.C. §441b(a) (2003) Because "contribution or expenditure" is defined as "anything of value," 2 U.S.C. §441b(b)(2)

(2003), an entire body of law encompasses the definition and regulation of corporate association with political candidates for federal public office.

In accordance with this statutory mandate, the FEC has for years maintained an unyielding insistence that corporations make no contributions whatsoever to political campaigns, cash, in-kind, or whatever. Furthermore, violations of this prohibition are punishable through both civil enforcement or criminal prosecution. 2 U.S.C. § 437g(d) (2003). In order to avoid committing this type of violation, a campaign organization must scrupulously ensure that use of corporate facilities, personnel, information technology, or any other assets are paid for in full, including not only actual cost but whatever markup, or burden, is required to ensure goods and services are provided at "the usual and normal charge."

The FEC has stated and restated this position through its advisory opinions. As long ago as 1975, the FEC advised that the provision of typewriters, copying services or air travel "at cost" would constitute an in-kind contribution because "the equipment described ... clearly has value over and above the cost of operating such equipment...." FEC Advisory Op. 1975-94, 1 CCH Fed. Election Camp. Fin. Guide ¶ 5188, p. 10,132 (February 9, 1976). The corporation supplying the equipment to the campaign was therefore required to burden its costs with some type of markup to reflect that value. The FEC required that the supplier be reimbursed by the campaign at usual and normal charge, defined as "the retail price of that good in the market from which it would ordinarily have been purchased." *Id.*; See 11 C.F.R. § 100.7(a)(1)(iii)(B)(2001). The FEC is fastidious in applying these rules even

when -- indeed, especially when -- the supplier is closely related to the candidate. For instance, when a candidate leases property from a company he owns with his wife, "the payment of less than the usual and normal charge for the rent utilities and equipment would result in an in-kind contribution...." FEC Advisory Op. 1994-8 (May 12, 1994). *See also* FEC Advisory Op. 1995-8 (April 21, 1995) (candidate proposed to pay rent "at or just below fair market rental value" for a building owned jointly with his wife; FEC ruled that if the rent were less than the usual and normal charge, the wife's half of any difference between the rental amount and the usual and normal charge for rent would be a contribution by the wife).

Furthermore, a campaign must pay for equipment and services in a commercially reasonable manner. This means that any corporate vendor of goods and services must not extend credit to a campaign except under the same terms as would be extended in other arms-length commercial transactions. *See Federal Election Commission v. NRA*, 254 F.3d 173 (D.C. Cir. 2001). Both the regulations, 11 C.F.R. § 16.3 (2003) and 11 C.F.R. § 16.4 (2003), and FEC Advisory Op. 1997-15 (September 19, 1997) and FEC Advisory Op. 2000-20 (September 15, 2000), emphasize this point.

It is against this background that the LCNBW sought to protect itself against a potential charge that it had underpaid for services rendered by the seven regional vendors that were politically associated with the candidate. Plainly, charging actual costs, without markup, would run afoul of the well-settled dictates of the Commission and the FEC's own admonition against potential contributions in-kind

made to LaRouche's 1996 presidential campaign. Therefore, in March 1999, the LCNBW developed a cost-plus-markup payment mechanism for vendor contracts by which the LCNBW could ensure that its incorporated vendors were compensated enough to avoid under payments. The formula called for a markup of 80% for vendor costs through September 1999, 50% for vendor costs from October 1999 through December 1999, and no markup thereafter. This matrix had the effect of generating an average 32% markup on vendor costs across the board for the entire period of the campaign cycle.

B. The 2000 Campaign.

In 2000, LaRouche was on the ballot in 35 states and participated in Democratic Party caucuses in 8 others. His insurgent campaign was totally dependent upon volunteers rather than an army of campaign "professionals." Unlike other campaigns whose treasurers incorporate companies and then take a 7 1/2 percent or more commission on matching funds submissions,¹ or which employ consultants who reap huge profits simply for picking up the telephone and making a media buy,² LaRouche was totally focused on a grassroots effort to defeat Al Gore by mobilizing the Democratic Party base of farmers, labor, and minorities.

¹ See Federal Election Commission, Report of the Audit Division on Buchanan for President, Inc., January 14, 1999, at 9, excerpt attached as Exhibit B.

² See generally, Susan B. Glasser, *Hired Guns Fuel Fundraising Race in Arena with Few Rules, Political Consultants Rake in Revenue*, Wash. Post, Apr. 30, 2000, at A1; Susan B. Glasser, *Winning a Stake in a Losing Race, Ad Commissions Enriched Strategists*, Wash. Post, May 1, 2000, at A1. Articles are attached as Exhibit C.

With most of the Democratic Party primaries front-loaded on March 7, 2000, it was obvious that the campaign infrastructure (volunteer recruitment, ballot access through petitioning, delegate recruitment, major fundraising, constituency leader outreach) had to be built up in 1999. A major share of these tasks were undertaken by volunteers using facilities provided by the regional vendors. When January rolled around, however, major efforts would have to shift, along with funding, into direct electoral activities in the states where LaRouche was on the ballot.

The campaign could readily anticipate that at this point, media and other costs would supersede payments to the vendors as a priority of the campaign, creating the danger of aging vendor payables or continued provision of services by the vendors without adequate payment.

With these considerations in mind, the LCNBW settled on the sequential markups of 80% and 50% on the seven vendors' bills in 1999 and the zero markup in 2000. Under the circumstances, this was a reasonable approach for ensuring that all possible uncaptured direct, indirect and hidden costs -- which by their nature are difficult to itemize -- would be paid by the campaign and not subsidized by the vendors. The types of costs which the Committee believes fall into this category are all non-fundraising campaign uses of the telephones, overhead and administrative costs including coordination of volunteer activities, and FEC accounting and compliance, research, use charges for company lists and contacts, and a small profit. (See Declaration of Richard E. Welsh, Ex. D). Front loading the markup ensured

that the vendors would receive adequate compensation when the campaign's finances and focus were on electoral activities during the 2000 phase of the campaign.

C. Audit Process and Chronology.

Unfortunately, the Committee never had an opportunity to explain this markup during the audit process. The FEC began its field audit in October, 2000; it released the Preliminary Audit Report (PAR) on July 17, 2002, and its Final Audit Report (FAR) on May 6, 2003. Throughout this 2 ½ year audit process, the LCNBW responded to audit team requests that were continually shifting in focus. Early in the process, the audit team concentrated on contributions and disbursements specific, apparently, to how fundraising was being conducted for the Committee, not how vendors were being compensated. See, e.g., campaign responses to FEC Audit Division dated April 9, 2001, Ex. E. Not until July of 2001, over nine months into the audit process, did the audit team voice any concern with vendor contract issues, and at that time, the concerns were specific as to whether the vendors were being adequately compensated or underpaid, resulting in illegal corporate contributions.³ In response, the Committee provided evidence that the contracts and billings adequately covered payment for all items. See Kathy Magraw Letter, August 8, 2001, Ex. G.

³ See FEC Letter, July 26, 2001, Ex. F ("Why didn't the vendors assess any interest or late payment fees for services they had already provided...?")

At the exit conference on August 29, 2001, the audit team requested a further breakdown of distributor invoices to a level which would reflect costs charged for facilities use during the contract. Although the backup documentation provided to the audit team revealed the 80%-50%-0% markup of costs, the Committee was not asked to document or explain the basis or rationale for the markup method of vendor payment. See Richard Welsh Letter, October 10, 2001, and enclosures, Ex. H.

The first indication that the audit team was interested in the vendor markup occurred via email from Nicole Clay to Richard Welsh on October 12, 2001, Ex. I. By letter dated October 29, 2001, Ex. J, now a full two months after the exit conference, the audit team requested extensive vendor information from two regional vendors, ESDI and SELS, to include all bank records, all computer records, work papers, source documents for all contract and lease agreements, external audit reports, tax returns, invoices and receipts of all expenses, and more. See Kathy Magraw Letter, November 9, 2001, Ex. K.⁴

After the release of the Preliminary Audit Report ("PAR") on July 17, 2002, almost one full year after the exit conference, the FEC requested, and the Committee produced more vendor information. The audit team spent three weeks reviewing this material in Leesburg from September 16, 2002, to October 4, 2002, with at least 6 auditors on-site. Despite the fact that the audit was still ongoing, the

⁴ The FEC audit team later agreed with the two vendors to accept a more limited document review. Exs. L and M.

FEC refused a LCNBW request for an extension of time within which to respond to the PAR. Ex. N. This forced the Committee to respond to the PAR on October 4, 2002, while the auditors were still on-site in Leesburg.

Despite the FEC's refusal to grant an enlargement of time to respond, and despite the fact that the LCNBW had already made its formal response to the PAR based on issues unrelated to the disallowance of the markup, audit activity continued through November 20, 2002. During this time, the Committee responded to a series of questions regarding the vendor -- campaign relationship. The FEC asked no questions, nor raised any concerns, to the Committee regarding the markup percentages, and throughout this period the Committee continued to inquire whether any further information should be provided. As can be seen from the email record relevant to the November 2002 time frame, the audit team's follow-up questions related to the activity ratio, an item approved in the FAR. See emails dated November 20 and 26, 2002, Ex. O. Furthermore, Joseph Stolz, Assistant Staff Director of the Audit Division, assured the campaign that because of this ongoing process, the Committee would have an opportunity to discuss all outstanding issues prior to the issuance of the FAR. This representation was never complied with, and a final email of January 3, 2003, from Richard Welsh to the audit team asking whether there were any other inquiries, went unanswered. Ex. P.

The FEC issued its Final Audit Report on May 6, 2003, nearly six months after actual audit activity ceased. In that report, for the very first time, the FEC revealed its decision to regard 100% of the markup amount as a non-qualified

campaign expense and arbitrarily assigned all of the dollars involved as an "advance payment." This submission constitutes the first meaningful opportunity the LCNBW has had to respond to that finding.

Discussion

The FEC's repayment determination is based on adjustments in the following areas:

- A. Disallowance of \$94,007 in the vendors' itemized costs;
- B. Disallowance of \$413,883, the entire amount of the vendors' markup;
- C. Recalculation of NOCO, resulting in \$163,272 in matching funds received in excess of entitlement; and
- D. Stale-dated checks in the amount of \$3,281.

In this Response, LCNBW does not challenge the following adjustments: (a) \$3,281 in stale-dated checks; (b) \$31,070 in the itemized costs for EIRNS for rent (see FAR at 13); and (c) \$34,828 in the itemized costs for SELS. See FAR at 13.

LCNBW disputes the disallowance of \$28,110 in itemized costs related to American System Publication, Inc ("ASP"). LCNBW also disputes the disallowance of the vendors' markups, which should properly be viewed as qualified campaign expenses. Finally, LCNBW disputes the FAR's calculation of NOCO which, because of the improper disallowance of vendor markup, incorrectly calculated LCNBW's obligations to the vendors.

A. Itemized Costs.

LCNBW disputes the disallowance of \$28,110 in itemized costs related to ASP. FAR at 13. The auditors provided LCNBW with their worksheets supporting

their conclusion that this vendor was "overpaid" by \$28,892. From those worksheets it is apparent that the auditors made two systematic errors in tallying the documented costs, which resulted in a finding that ASP had been "overpaid" by \$28,892:

- 1) Failure to record costs paid out of petty cash; and
- 2) Switching between accrual-basis and cash-basis standards, resulting in a loss of one month's worth of documented costs.

In addition, the auditors overlooked the landlord's statement of account (which had been provided to them), and as a result they failed to record any rent expense for several months. The landlord's statement of account is being provided again, as Exhibit Q.

1. Petty Cash

During the course of the field audit, the auditors were provided with purchase receipts and/or petty cash chits, from this vendor for each purchase, separated by month. The documents were further bundled by major cost category (e.g., Office Expenses, Auto, Meetings). Each bundle was provided with an associated adding machine tape. The totals from these tapes were posted to a master analysis sheet for each month, itemized by cost category and totaled for each cost category and for the month.

Despite this documentation, the auditors neglected to record petty cash costs for the months of April 1999 through December 2000. These documented costs amount to \$70,932. Attached as Exhibit R are the previously provided itemized

master analysis sheets for each month's petty cash expenses. The boxes of documents which these sheets summarize will again be made available for inspection at a mutually agreeable time.

2. Application of Cash versus Accrual Methods of Accounting.

For the month of April, 1999, the schedule of documents prepared by the FEC's auditors omitted all payments as if they were payments for a prior month's incurred cost (a bill dated in a prior month). In effect, the auditors applied an accrual method to expenses incurred before April 1999 but actually paid during that month. For all months thereafter, the auditors recorded the costs on a cash basis, that is, in the month the payment was made. Regardless of which method might be the more appropriate, it is clearly erroneous to apply different accounting methodologies in the middle of an accounting period. The effect of the auditors' use of inconsistent accounting methodologies was to remove a month (April 1999) from the calendar and thereby to deny all payments for that period. This lost month resulted in a failure of the auditors to recognize approximately \$24,000 in documented costs.

Therefore, either the disallowed April 1999 costs must be restored, or comparable costs from May forward must be moved back one month. That is, May payments for April-dated bills would be moved back to April (filling the gap created by disallowance of the April payments), June payments moved back to May, and so forth, through to the end of the audit period.

In the case of ASP's long distance telephone provider, MCI, the same improper mid-course change in accounting methodologies resulted in the discarding of documented costs for not one, but for three months, April through June, 1999. That is, payments made in April through June for MCI invoices dated respectively 3/1/99, 3/29/99, and 4/30/99 were disallowed. As with other types of cost, an accrual rather than cash basis might be appropriate (thus, the 3/1 and 3/29 invoices would legitimately be excluded from the period beginning April 1999); but again, it would then be mandatory to bring the April bill back into April (rather than in July, when it was paid), the May bill into May, and so forth.

This error involves telephones, the largest cost category for this vendor. As it stands, the erroneous Audit Report now shows three months as having no telephone costs at all where the actual telephone costs were \$35,758 or \$36,171 depending on what accounting methodology is used.

If these errors are corrected, ASP's documented expenses in relation to ASP's billings are no different than other literature distribution vendors which the Audit Staff deemed adequately documented and should be accepted as documented.

3. FEC Audit Error regarding EIR News Service.

The Final Audit Report fails to take account of \$15,179 refunded by EIR News Service from October 16, 2001 through February 5, 2002 although the FEC was alerted that the refund was taking place (August 8, 2001 Magraw letter) and it was duly reported on LCNBW's regular FEC reports. The deposit slips and copies

of checks concerning this refund are attached as Exhibit S. The amount shown for "payments net of refunds" in the table of Distributor Bills, Payments, and Balance Due, nets out this amount (See Chart, page 17 of the Draft). The balance receivable (refundable) from this vendor is reduced accordingly.

4. Miscellaneous Errors, Omissions and Corrections to NOCO.

In addition to the major issues discussed above, the revised Statement of Net Outstanding Campaign Obligations embodied in this Response shows a number of miscellaneous adjustments to the NOCO statement as adopted in the Final Audit Report. These consist of additional debts as of the Date of Ineligibility, totaling \$26,403, and additional Winding Down costs, totaling \$29,669 (comprising a \$32,969 increase of actual costs incurred to date, and a \$3,300 reduction of estimated future costs to the estimated termination date).

B. The Markup.

The FAR was arbitrary and unreasonable in allocating the entire amount of markup to "advance payments" to vendors as outlined in the FAR at 11-12, and in failing to recognize that vendors would appropriately bill for their actual costs plus a markup to cover indirect costs such as overhead and profit.

First, as outlined above, by disallowing any markup on vendor costs, the auditors have recalculated the qualified campaign expenses to a level that plainly underpays the vendors for the facilities use and services rendered. In this respect,

the FAR's determination of non-qualified campaign expenses, and derivatively its recalculation of NOCO, is not only unreasonable, but also contrary to law.

Second, the proffered reason for the reconfiguration is not supported by the record in this case and is contrary to other Commission Audit rulings. According to the Final Audit Report this reconfiguration of the vendors' bills by the Audit Division was reasonable because otherwise LCNBW would have "large outstanding debts to these vendors over long periods of time" and would have received "extensions of credit outside the normal course of business." FAR at 11-12.

However, as Exhibit F in the LCNBW's Response to the PAR demonstrated, the campaign was paying down these vendors' bills regularly throughout the campaign so that by October 30, 2000, only \$179,552.52 remained in the total balances to the vendors. *By October 30, 2000, 91 percent of the total amounts billed had been paid.* This payment record is better than that of the Clinton-Gore '96 General Committee to ATT in the 1996 campaign cycle and roughly comparable to the payment record of Gary Bauer to three vendors in the 2000 campaign cycle. Both the Clinton and Bauer campaigns were subject to an 11 C.F.R. § 116.3 (2003) finding concerning late payments. In both instances the Commission refused to find a corporate contribution, instead voting to receive the Audit Division's finding "without any determination on the merits of the analysis of the facts or the interpretation of the law contained therein."

By failing to seek clarification from the Committee, the auditors also fundamentally misconstrued what the Committee meant by the terms "advance

payment" in the response to the PAR. It is clear from the FEC's regulations and advisory opinions that most of the facilities costs at issue here could be billed and paid for in a commercially reasonable time, (e.g., meeting rooms, word processors, telephones, copying machines, facilities to produce materials). Other items must be paid for in advance. See, e.g., 11 C.F.R. § 114.2 (2003), 11 C.F.R. § 114.9 (2003); FEC Advisory Op. 1997-15 (September 19, 1997).

Because of the ambiguity in the FEC's regulations as applied to the volunteer activities and use of corporate facilities at issue here, the Committee simply did not know how the advance payment requirement would apply and therefore made advance payment a component of the markup. This was also entirely consistent with the obvious reality that in building the infrastructure for a grass roots campaign, the vendors would experience indirect and hidden costs -- which by their nature are difficult to itemize -- at the front end of the campaign. See Declaration of Richard E. Welsh, Ex. B.

The FAR also wrongly assumes that none of the markup should appropriately be considered "profit" or "fee" inasmuch as five of the vendors were organized as non-profit corporations and the other two "do not operate to generate a commercial profit." FAR at 11. This statement fundamentally misapprehends the nature of a non-profit, and fails to distinguish between a non-profit corporation making money in excess of actual costs in order, for example, to expand its operations, and a commercial corporation making a profit for the benefit of and potential distribution to its shareholders. See Declaration of William Caldwell, Ex. T.

In this case, the invoices from the regional vendors include markups that averaged 32% over the campaign cycle. If the Commission concludes that the rationale for the sequential 80%-50%-0 markup has not been adequately justified or was otherwise noncompliant, the Commission should nevertheless approve a reasonable markup over the actual vendor costs. A 32% markup over actual costs is more than reasonable. A markup of as low as 15% is clearly justified, and anything less would result in a subsidy by the vendors to the LCNBW. *Id.* As this Response demonstrates below, even if the Commission were to approve a markup over actual costs as low as 15%, the usual and normal industry standard, LCNBW would not have received any matching funds in excess of entitlement and would therefore owe no money to the U.S. Treasury.

C. Recalculation of the Qualified Campaign Expenses and NOCO.

The schedule below takes account of the actual itemized costs of the vendors as accepted by the auditing staff, subject to the corrections noted above for ASP. It then applies a uniform 15% markup to the itemized direct costs across the board for the entire period of the campaign cycle.

Vendor	Itemized Costs ⁵	Indirect Costs ⁶	Adjusted Billings ⁷	Payments Net of Refunds ⁸	Balance Due Vendor or (Receivable)
ASP	239,269	35,890	275,159	(237,051)	38,107
ESDI	180,724	27,109	207,833	(186,631)	21,202
EIRNS	243,961	36,594	280,555	(345,369)	(64,814)
HSDI	207,389	31,108	238,498	(215,212)	23,285
MCC	232,786	34,918	267,704	(201,700)	66,004
SELS	200,673	30,101	230,774	(259,008)	(28,234)
SWLD	147,815	22,172	169,987	(115,425)	54,562
Total	\$1,452,617	\$217,893	\$1,670,510	\$(1,560,396)	\$110,113

The foregoing chart demonstrates that the vendors in aggregate were not overpaid for their services. LCNBW incurred an additional \$110,113 in legitimate campaign expenses over what it paid as of the audit date. The vendors' billings, adjusted to reflect an reasonable 15% markup, are appropriately deemed to be qualified campaign expenses so that no repayment would be due on the grounds of an alleged overpayment to the vendors.

⁵ Itemized Costs are as approved by the auditing staff, subject to corrections by LCNBW to include itemized costs for ASP that the auditing staff failed to recognize.

⁶ Indirect Costs represents a standard markup of 15% of the itemized costs. Indirect costs would include such items as overhead and profit.

⁷ Adjusted Billings represents the sum of the itemized costs and the indirect costs (i.e., itemized costs, plus a 15% markup).

⁸ Payments Net of Refunds are the total payments to vendors net of refunds of \$80,472 that LCNBW received from SELS (acknowledged in the FAR at 13), and a \$15,179 refund that LCNBW received from EIRNS, which was reflected on LCNBW's regular FEC disclosure forms.

The foregoing also results in the following revised NOCO Statement for the campaign as of August 16, 2000:

Statement of Net Outstanding Campaign Obligations

As of August 16, 2000

As determined as of August 16, 2000

	<u>Final Audit Report</u>	<u>Corrections</u>	<u>Corrected</u>
ASSETS			
Cash in Bank	\$ 24,038		\$ 24,038
Accounts Receivable:			
Vendor deposits	23,866		23,866
Vendor refunds - regional vendors	214,544	(106,317)	108,227
Capital Assets	<u>5,823</u>		<u>5,823</u>
Total Assets	\$ 268,271		\$ 161,954
OBLIGATIONS			
Accounts Payable:			
Regional vendors	\$ 63,982	111,070	\$175,051
Other	<u>258,902</u>	26,403	<u>285,304</u>
<i>Total Accounts Payable</i>	\$322,883		\$460,356
Actual Winding Down Expenses	25,875	32,969	58,845
Estimated additional winding down	10,100	(3,300)	6,800
Due to US Treasury - stale-dated cks	<u>3,281</u>		<u>3,281</u>
Total Obligations	<u>362,140</u>		<u>529,282</u>
Net Outstanding Campaign Obligations	<u>\$ (93,869)</u>	<u>\$ (273,459)</u>	<u>\$(367,328)</u>

Once corrections are made for indirect costs, erroneous tallying of ASP documentation, and other errors or omissions in the Final Audit Report, the following table supersedes that shown on page 16 (of 31) of the FAR respecting LCNBW's entitlement to matching funds following the Date of Ineligibility.

Net Outstanding Campaign Obligations (deficit) as of 8/16/00	\$(367,327.64)
Net Private Contributions Received 8/17/00 to 4/2/01	131,729.83
Matching funds received 8/17/00 - 4/2/01 (lasts date matching funds were received)	<u>214,240.29</u>
Remaining entitlement on 4/2/01	<u>\$ (21,357.52)</u>

According to this revised NOCO statement, there was no payment of matching funds in excess of entitlement. Therefore, no repayment is due.

Conclusion

Even if the billings from the vendors were adjusted to reflect a mere 15% markup to account for overhead and profit in accordance with the usual and normal charge for the services, there would have been no overpayment to the vendors and no non-qualified campaign expense. Further, in light of such adjustment, the revised statement of Net Outstanding Campaign Obligations at August 16, 2000 would result in no payment of matching funds in excess of entitlement. The Commission should therefore conclude that no repayment is due from LCNBW.

Oral Hearing Requested

Pursuant to 11 C.F.R § 9038.2(c)(2)(ii) (2003), respondent respectfully requests that the Commission provide it with an opportunity to address the Commission in open session to demonstrate that no repayment, or a lesser repayment, is required. The issues respondent wishes to address at the hearing are as follows:

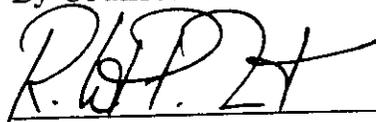
1. Under FECA and the FEC's own precedents, was it appropriate for the FEC to determine that *any* markup over the regional vendors' actual costs would constitute a non-qualified campaign expense?

2. Assuming some overhead and/or "profit" burden was appropriate to arrive at the usual and normal charge for the services of the regional vendors, does a markup as low as 15% nevertheless constitute overpayment to the vendors and hence a non-qualified campaign expense by the LCNBW?

Respectfully submitted,

LAROUCHE'S COMMITTEE
FOR A NEW BRETTON WCODS

By Counsel:



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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20461

*Rec'd in Audit
6/20/97
new*

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. Vosdingh
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. § 100.7(a).
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.

Approved 1/14/99



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20461

**REPORT OF THE AUDIT DIVISION
ON
BUCHANAN FOR PRESIDENT, INC.**

EXECUTIVE SUMMARY

Buchanan for President, Inc. (the Committee) registered with the Federal Election Commission on February 16, 1995 as the principal campaign committee for Patrick J. Buchanan, a primary candidate for the Republican Party's nomination for the office of President of the United States.

The audit was conducted pursuant to 26 U.S.C. §9038(a), which requires the Federal Election Commission to audit committees authorized by candidates who receive Federal funds. The Committee received \$10,983,475 in matching funds from the United States Treasury.

The findings of the audit were presented in the Exit Conference Memorandum received by the Committee on May 8, 1998. The audit report includes the Committee's response to the findings.

Use Of Candidate's Funds In Excess Of The Limitation - 11 CFR §9035.2(a)(1) and (2). The Candidate loaned the Committee \$40,000 and made a direct contribution of \$1,000, in addition to using his personal credit card to pay for campaign related expenses, exceeding his \$50,000 contribution limitation by a minimum of \$50,374.

Apparent Prohibited Contributions Resulting From Extension Of Credit By Commercial Vendor - 2 U.S.C. §441b(a), 11CFR §100.7(a)(4), 11CFR §116.3(c). The Committee used Matching Funds, Inc. (MFI) to prepare and file matching funds submissions. MFI did not make commercially reasonable attempts to collect \$183,009 for services rendered, thereby making an apparent prohibited contribution to the Committee.

Disclosure Of Occupation/Name Of Employer - 2 U.S.C. §434(b)(3), 2 U.S.C. §431(13)(A), 2 U.S.C. §437(h)(2)(i). A sample review of the Committee's contributions resulted in a material error rate with respect to the disclosure of contributors' occupations and names of employer. The projected dollar value of the errors in the population was \$2,422,604. The Audit staff concluded that the Committee did not exercise best efforts to

The Committee's analysis is inaccurate because expenses and reimbursements not related to the candidate's limit were included and other expenses were duplicated. It should also be noted that the list provided by the Committee indicates that American Express charges were incurred subsequent to February 29, 1996. The Audit staff was not provided with the statements and charge slips for American Express charges incurred subsequent to February 29, 1996 or for any Visa credit card charges in order to verify the accuracy of the listed transactions and to determine if the expenses charged to the Visa credit card were applicable to the candidate⁶. If the transactions listed by the Committee, for which complete documentation has not been made available, all relate to the candidate's limitation - "worst case scenario" - the largest amount by which the limitation would have been exceeded is \$66,549.

Notwithstanding the above, for purposes of this report and based on our revised analysis of complete documentation currently available⁷, the largest amount by which the candidate exceeded the \$50,000 expenditure limitation at 2 U.S.C. §9035(a) is \$50,374. Credit card charges included in documentation presented by the Committee in response to finding III.B. of this report, (Apparent Non-Qualified Campaign Expenses) may impact on this amount. If transactions pertaining to the American Express and Visa credit cards for which complete documentation is not now available are later found to be applicable to the candidate's \$50,000 limit, adjustments will be necessary. These adjustments would likely occur in the event that the Commission addresses this issue in another context.

B. APPARENT PROHIBITED CONTRIBUTION RESULTING FROM EXTENSION OF CREDIT BY COMMERCIAL VENDOR

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 election to any political office, and that it is unlawful for any candidate, political committee or any other person knowingly to accept or receive any contribution prohibited by this section.

Section 100.7(a)(4) of Title 11 of the Code of Federal Regulations states, in part, that the extension of credit by any person is a contribution unless the credit is extended in the ordinary course of the person's business and the terms are substantially

⁶ Because the Candidate was the sole holder on the American Express account, all charges, except charges unrelated to the campaign, made on this account are applicable to the candidate's limit. In the case of the jointly held Visa credit card, charges incurred by the candidate's spouse, solely related to her expenses would not be applicable to the candidate's limit. Conversely, charges incurred by the candidate using the Visa credit card for goods and services provided to the candidate irrespective of who signed the charge slip would be applicable.

⁷ This includes documentation available to the Audit staff at the time the Memorandum was forwarded to the Committee and information listed in the Committee's response in conjunction with collateral evidence in the Audit staff's possession.

similar to extensions of credit to nonpolitical debtors that are of similar risk and size of obligation. If a creditor fails to make a commercially reasonable attempt to collect the debt, a contribution will result.

Section 116.3(c) of Title 11 of the Code of Federal Regulations states, in part, that in determining whether credit was extended in the ordinary course of business, the Commission will consider whether the commercial vendor followed its established procedures and its past practice in approving the extension of credit; received prompt payment in full if it previously extended credit to the same candidate or political committee; and the extension of credit conformed to the usual and normal practice in the commercial vendor's trade or business.

The Committee used Matching Funds, Inc. (MFI) to prepare and file all submissions for matching funds. Scott Mackenzie, Committee Treasurer, is a principal of MFI. As stated in the contract between the two parties, in return for its services MFI was to receive a fee equal to 10 percent of the "Match Rate"⁸ applied to the amount of matching funds received. Invoices were to be submitted on a monthly basis beginning January 1, 1996 and continuing until the termination of the contract. Invoices were to be paid from the matching funds received or within thirty (30) days.

The Committee received and reported matching funds of \$10,983,475 as result of 19 original submissions and 6 resubmissions. Using a fee factor of 7.05%⁹, the Audit staff calculated MFI's fee for its services at \$774,846. As of the conclusion of fieldwork, MFI had billed the Committee \$597,336, including a software fee of \$5,500, for matching fund submissions 1 through 8, leaving an uninviced balance of \$183,009 [(\$774,846 + \$5,500) - \$597,336]. The Committee made payments totaling \$586,510 through June 25, 1997 and reported an outstanding debt to MFI of \$10,826 on its Second Quarter 1997 disclosure report.

Based on the above information, it appeared the Committee still owed MFI a total of \$193,835 (\$183,009 + \$10,826) for its services. At the conference held at the conclusion of fieldwork, the Committee was provided with the Audit staff's calculations. Subsequently, the Committee provided additional invoices from MFI reflecting amounts due for submissions 9 through 16; no documentation was provided for submissions 17 through 19 and resubmissions 1 through 6. Matching funds were certified payable for these submissions monthly from May, 1996 through March, 1997. The Committee reported an outstanding debt to MFI of \$183,009 (which included the previous outstanding debt of \$10,826) on its Year-End 1997 disclosure report. This lack of action on the part of MFI to invoice and seek payment appears to represent an apparent

⁸ The "Match Rate" is equal to the matching funds received divided by the net individual contributions (individual contributions less refunds of individual contributions) for the particular submission.

⁹ Match rate of 70.55% (reported matching funds of \$10,983,475 / net contributions of \$15,569,128) times 10%.

prohibited contribution resulting from an extension of credit not within the ordinary course of business.

In the Memorandum, the Audit staff recommended that the Committee file an Amended Schedule D-P, Debts and Obligations excluding Loans, to report the correct indebtedness to MFI of \$193,835 as of year-end 1997. Also, it was recommended that the Committee provide evidence, to include but not be limited to, statements and invoices detailing all billings and efforts to collect indebtedness, explanations to demonstrate that the extension of credit was in the ordinary course of business, examples of other customers or clients of similar size and risk for which similar services had been provided and similar billing arrangements had been used, information concerning billing policies for similar clients and work, and debt collection policies to demonstrate that the Committee did not receive an apparent prohibited contribution of \$183,009; or absent such evidence provide documentation which demonstrates that MFI billed the Committee in a timely manner for the full amount due for its services and made a reasonable attempt to collect the debt.

In response to the Memorandum, the Committee filed an Amended Schedule D-P, Debts and Obligation excluding Loans, to report the correct indebtedness to MFI of \$193,835 as September 30, 1997. In its response the Committee stated that it:

“strongly disagrees that the facts presented in the Exit Memorandum evidence the receipt of a corporate contribution by the Committee. Political committees have never been deemed to receive contributions because they do not pay every vendor or employee in full on time. If committees did not acquire debts and obligations other than loans in the course of their activities, most of which are with corporations, no schedule of debts and obligations would be needed. MFI also requests that we state its strong objection to the suggestion that its actions constituted a corporate contribution to the Committee.”

It is the opinion of the Audit staff the Committee’s response failed to demonstrate that MFI made commercially reasonable attempts to collect payment from the Committee. Furthermore, the response did not present evidence that MFI’s actions were in accordance with its own contractual terms. Therefore, pursuant to 11 CFR §100.7(a)(4), an apparent prohibited contribution in the amount of \$183,009 occurred.

C. DISCLOSURE OF OCCUPATION/NAME OF EMPLOYER

Section 434(b)(3)(A) of Title 2 of the United States Code requires a political committee to report the identification of each person (other than a political committee) who makes a contributions to the reporting committee during the reporting period, whose contribution or contributions have an aggregate amount or value in excess of \$200 within the calendar year.



Hired Guns Fuel Fundraising Race In Arena With Few Rules, Political Consultants Rake In Revenue

Susan B. Glasser Washington Post Staff Writer

Part 1 of 4

April 30, 2000; Page A1

In the business of politics, the money has never been better. Steve Forbes's top strategist collected \$223,000 in fees in just one month from the millionaire's failed presidential campaign. Vice President Gore spent more than \$10.3 million on media buys and "consulting" in the primaries this year. Even the accountants scored big, charging \$1.5 million to process the money raised by Sen. John McCain.

Presidential and congressional candidates will spend an estimated \$3 billion on their campaigns this year—50 percent more than in the 1996 election. No one stands to benefit more from this dizzying inflation than political consultants—the grand strategists and highly specialized technicians who make and remake candidates, decide which issues are important, raise the money and produce the television commercials that define political campaigns today.

Perhaps no other group is more of a factor in fueling the frenzied fundraising that has prompted calls for sweeping overhaul of the campaign financing system. And no group involved in the political process faces as little scrutiny: The 3,000 or so consulting businesses have no ethics cop or licensing board, operating in a secretive world where their fees and commissions are closely held and no regulations require their disclosure.

But economics are transforming this quintessential inside-the-Beltway industry. As record amounts of money flow through campaigns, the already cutthroat competition among political consultants has reached a new level.

Firms once accustomed to virtually dictating their terms have been forced to bargain and settle for less money. Others have turned to high volume, juggling as many as 40 campaigns in one election cycle. Still others have developed new markets by using their success in high-profile campaigns to take on corporate work that blurs the line between politics and lobbying.

Increasingly the goal, as media strategist Raymond D. Strother, head of the American Association of Political Consultants, puts it, is to "maximize profits." By their own account, consultants' personal financial interests drive everything from which politicians

ATTACHMENT

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they will work for to what advice they will give them. "Any consultant who says money doesn't affect the system is either naive or lying," said Strother.

Most consultants readily acknowledge what the result of this focus has been. In a recent survey of the industry conducted for American University, a large majority—73 percent of consultants—said unethical practices, such as the payment of kickbacks for steering business to favorite vendors, can and do happen.

For many who make their living from politics, the rewards have been considerable. The top media strategists, an upper echelon of three or four in each party, make \$1 million or more a year, ruling the industry and the political world like imperious aristocrats. They winter in Hawaii and summer in Italy. They have country retreats, shiny new sport-utility vehicles and famous wine collections.

For the less exalted pollsters, fundraisers and other specialists, the takings are almost as good. A significant second tier makes \$500,000 or more a year, according to industry players. The American University survey of consultants found that 20 percent made more than \$200,000 a year.

But their very success has provoked a backlash. President Clinton is known to have been furious at the money his consultants demanded, and this year, according to several sources, his wife Hillary's New York Senate campaign is challenging the industry practice that poses the most obvious conflict—the tradition that consultants receive a commission for every television ad a campaign buys, a practice that gives them a vested interest in driving up the costs of elections.

And on the horizon looms the Internet, which has the potential to transform the political business the way it is transforming every other American industry. Dick Morris, the disgraced former Clinton adviser, compares the current crop of political consultants to "silent film stars [whose] skills will no longer be valuable in the Internet era."

This series of articles will examine the business of politics, its future, and the people who profit from it. Behind the curtain of secrecy, it's an almost operatic world: Consultants team up and break up, littering the Beltway with blood feuds that extend over decades and across campaigns; candidates fall in love with message gurus, then fire them in disputes over money that never become public; makers of attack ads wage subterranean negative campaigns against their rivals.

Mike Murphy, a leading GOP media consultant well known for sending out a tape of strategist Stuart Stevens's ads showing they were virtually the same for different clients, once described his industry as "like the Wild West, full of cowboys and outlaws."

"If I were a small-time congressional candidate looking for a consultant," said Murphy, whose own success can be measured by a house in Georgetown, a condo on Florida's Fisher Island near Mel Brooks and Oprah Winfrey, and an Audi and a Porsche, "I wouldn't hire one unless I had a metal detector and a polygraph on me. Frankly, I'm thinking of quitting and going into something legit—like dog track races."

The Adman Cometh

ATTACHMENT 2

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Washington's National Cathedral, draped outside in a gentle snow, was playing host to a wary collection of political Montagues and Capulets, gathered to celebrate the life of Robert David Squier, political consultant.

On that Friday morning in February, political Washington was there in force: the president and vice president Squier helped to reelect, the dozens of senators and House members, the social friends from Georgetown. The rivals came too: Carter Eskew, the former partner who replaced Squier on Gore's team last year, the Republicans who clashed with him. The vice president's hired guns gathered to the left of the center aisle, as Bill Bradley's loyalists eyed them from only a few feet away.

In the rigid class hierarchy of politics, Squier merited this royal sendoff. Until his death on Jan. 24, the day of this year's Iowa caucuses, Squier had been the public face of the consulting industry, the tan, urbane representation of the Adman.

He was not the first maker of political commercials, but he was almost certainly among the first to understand the vast amounts of money that could be made off politics. Early on, he realized that in the age of television, politicians were a commodity to be marketed like any other. Famous as a strategist, Squier was first and foremost a clever businessman. "He loved the business of politics," said his son Mark, himself a political admaker.

Joseph Napolitan came to mourn Squier in the cathedral too, never having expected to outlast the man he helped start in the fledgling business with a referral to run a county sheriff's race in Scranton, Pa. Squier lost that contest, though today Napolitan calls him "the best of all time."

But it was Napolitan, a Massachusetts pol who worked for John F. Kennedy in 1960, who first called himself a political consultant. Napolitan, who met Squier when they both worked on Hubert H. Humphrey's 1968 presidential campaign, said, "I just hit upon it as a term."

As the old political machines died out in the 1960s, professionals such as Napolitan moved in to take charge of campaigns—and found there was a recipe that could be bottled and sold. "They would say, 'That might work in New York, but it won't work here,'" Napolitan recalled. "The truth is, it was the same stuff and it worked everywhere."

But unlike Squier, he didn't figure out the fee structure that ultimately made political consulting so lucrative. "I never charged a commission on anything," he said. "I guess it was sheer stupidity on my part."

Today, Napolitan and the generation of campaign managers-for-hire who followed him—personified by the late Lee Atwater, who patented his slashing attack style in Republican races in South Carolina before helping George Bush become president in 1988, and James Carville, the Democrat who worked for Clinton in 1992—are dinosaurs of the consulting world.

The general consultants, as they came to be known, occupy the only part of the business

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that is not expanding, having been squeezed out by admakers whose compensation is tied to television spending. Their commission system is based on a simple premise: The more ads they produce and the campaign puts on TV, the more they make. And it's the media consultants who decide what goes on the air.

The most significant change since Napolitan's time, of course, is the dramatic overall increase in the amount of money spent on campaigns. And media costs account for much of it--political ads are expected to cost about \$600 million this election year, up 40 percent over four years ago. Indeed, they can eat up as much as 70 percent of a federal campaign's budget, with a consultant standing to earn between 7 and 15 percent of every TV dollar.

"There's a subtle incentive to drive up the costs," said James A. Thurber, who is leading American University's three-year study of consultants and their role in shaping modern campaigns.

Determining whether additional spending is warranted is virtually impossible--everything from how much consultants charge to their profit margins is guarded as zealously as a trade secret.

The Federal Election Commission has made no effort to require more disclosure--indeed, its most definitive word on the subject came during the 1984 presidential campaign. Under those rules, the FEC, which insists that candidates detail every \$200 charged to an American Express card, allows them to list \$2 million lump-sum payments to consulting firms without any meaningful explanation.

"The commission's disclosure requirements are inadequate," said Trevor Potter, a former FEC chairman who served as McCain's campaign counsel. "They are arguably requiring less disclosure than the statute mandates."

So while the arsenal of the modern campaign consultant has come to dominate the public dialogue about politics--already this year's White House race has spotlighted everything from negative ads to attack phone calls to high-tech fundraising--the strategists themselves are not scrutinized as the businessmen they are.

"It's shrouded in mystery because nobody will talk. None of these people wants anybody to know what they're getting," said a former senior White House official. "They are afraid of how it will affect their future income and their reputation within the fraternity."

For every service that consultants offer to candidates, there are standard practices that can add costs to an unsuspecting campaign's bottom line, from payments to fundraisers directly linked to the number of political action committee donations they collect to the array of services pollsters have devised that go well beyond the standard survey.

Money matters so much today that one-quarter of the consultants surveyed for American University said it's why they're in the business. And consultants are not shy about preaching the virtues of big-dollar democracy to their clients. In focus groups as part of the AU study, veteran pollster William R. Hamilton found that consultants impose a "socialization" process on their candidates--pushing the idea that attack ads

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and money are the indispensable ingredients of modern politics.

"They [the candidates] had to understand that money is necessary," Hamilton said in an interview before his death this month. "They didn't like it, but they saw it as necessary because there's no other way to get elected."

Money and Mistrust

Invariably, when consulting firms break up, it's over money--and who should get credit for making it. In 1998, prominent GOP media consultant Stuart Stevens even went to court seeking a restraining order against his former partner, claiming that Douglas McAuliffe was stealing several congressional clients.

"This is an unfortunate piece of litigation," retorted McAuliffe's lawyer, Benjamin L. Ginsberg. "Even more unfortunate is that it seems to be part of Mr. Stevens's pattern and practice in his dealings with rival Republican media consultants." The dispute, like virtually all others involving consultants, was eventually settled out of court.

Today, Stevens is a top media strategist for George W. Bush's presidential campaign; Ginsberg, the lawyer who trashed him in the National Journal, is Bush's campaign counsel.

A third Bush adviser, his chief campaign guru, Karl Rove, set the industry legal precedent for making sure clients pay up--even when their campaigns go bust. Rove went all the way to federal appeals court to make former Pennsylvania governor Richard L. Thornburgh--attorney general during Bush's father's administration--pay his final \$170,000 direct-mail bill from his losing race for the Senate in the 1991 special election.

With interest and attorneys' fees, Rove won a \$300,000-plus settlement, proving the point that consultants, as his lawsuit suggests, have reason to be wary of their political clients. Indeed, some media consultants require payments up front--and no checks, please--during the crucial final weeks of a campaign, when only wire transfers will do.

After \$25,000 worth of checks from politicians bounced in 1994, Democratic consultant Gary Nordlinger now specifies in his contract that all money in the last three weeks must be wired to him--and if it doesn't get there, his contract says, he can take money meant to be spent on air time to cover his costs.

Still, in many ways, the consultant has the upper hand. Candidates who complain about high fees or inattention can find themselves dropped by the consultant--who in many cases is more famous than the client. "And," said a former House member who is now a lobbyist, "if you pay a few bucks more, you don't begrudge it if you win."

When candidates don't bring in the money, retribution can be swift. Some politicians are fired by their consultants before any votes are cast. "If you don't have any money, you can't spend any money," said Sal Russo, a veteran GOP strategist who dropped presidential long shot Orrin G. Hatch (R) more than a month before the Utah senator abandoned the race.

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But clients can and do rebel. Consider just two of the biggest Senate races this year. Rep. Ron Klink (D) in Pennsylvania early on dumped David Doak, his media consultant, as well as his pollster, David Petts; a party official said Doak later told him that "Klink just didn't want to hear bad news," so he fired them.

In New Jersey, former governor Jim Florio (D) also parted ways with the team that was supposed to run his comeback bid; media strategist Karl Struble left in what sources said was a dispute over how much of a negative campaign Florio should wage in his run for a U.S. Senate nomination.

But dumping a name-brand consultant is also a risky move for a politician. In a world obsessed with fundraising, hiring the "right" media consultant is perceived as a way to pry loose additional dollars from the Washington money establishment.

Hard Bargains

At Bob Squier's pinnacle, in the 1980s, one-third of the U.S. Senate paid for his counsel-enough to launch a filibuster of his own. But the oligarchy he symbolized has gradually crumbled.

"Today, everyone with a camcorder is selling themselves as a media consultant," as Democratic media consultant David Axelrod put it.

As the costs of politics have risen, it's little-known consultants such as Mike Sullivan and Jim Ferrence who have often benefited the most. As a Las Vegas consulting team, the two helped steer Oscar Goodman, a lawyer who had represented organized crime figures, to the mayor's office in a \$1.3 million race--and then bragged about it in an ad in Campaigns & Elections magazine. "If we can elect a 'mob mouthpiece,' " blared the ad, "imagine what we can do for you."

Today, even Beltway veterans are scrapping with the Mike Sullivans and Jim Ferrences for everything from state senate races to county commission contests. "All the consultants have started to go down a level," said media consultant Doak, who advised House Minority Leader Richard A. Gephardt's 1988 presidential campaign.

Strother blames the number of consultants competing for business for the unethical practices that flourish. "People in the last few years came solely for the money," he said. "They're the ones who have real trouble with reform."

Still, from a candidate's point of view, things have gotten better. Gone are the days when Squier would end bargaining sessions by declaring: "The standard rate is 15 percent and it's nonnegotiable. If you don't like it, hire someone else."

Hard headed bargaining sessions over how much a media consultant is going to make are now routine, often resulting in a commission of 6 or 7 percent in high-spending races. "We're hammering them down a little bit on percentages," said Jim Jordan, political director of the Democratic Senatorial Campaign Committee, "in part because there's a new generation out there willing to do it for less."

But there are also lucrative new markets for media consultants that didn't exist a few

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years ago. Indeed, while campaigns make consultants famous, it is corporations that now make them really rich. Carter Eskew, for instance, had given up politics for far more lucrative corporate work until Gore persuaded him to join his campaign. Today 78 percent of consultants do corporate work, according to the American University survey, operating in a nebulous sphere of public affairs with even less disclosure than if they were lobbyists.

"A political consultant," as Nordlinger put it, "is a public affairs consultant who doesn't know it yet." From Microsoft to Wal-Mart, companies have discovered that the skills of the political consultant—what GOP pollster Bill McInturff calls "combat message development"—translate well to the lobbying world. Today, McInturff's firm makes more than 50 percent of its revenue from corporate work.

When Christian Coalition executive director Ralph Reed set up shop as a consultant in 1997, Bush's political team, sources said, helped Reed land a major account from Enron Corp., a Texas-based energy company that has been the largest contributor to Bush's campaigns over the years. With energy deregulation looming in state legislatures and Congress, Reed's job was the same sort of grass-roots politics he had been practicing for years. The only difference was the client.

This "issue advocacy" market didn't exist 10 years ago. But American University's Thurber argues that as consultants turn toward corporate work, "there are serious issues for democracy and transparency." They may not be registered lobbyists, buttonholing members of Congress who are also their political clients, but, Thurber said, "what they do is lobbying all the same."

The media consultants are also cashing in on "soft money," the unlimited contributions from corporations, unions and wealthy individuals that are now used to finance party advertising campaigns. President Clinton's 1996 reelection effort paved the way for this spending explosion, with Democrats arguing that as long as issue ads financed by soft money did not expressly advocate his election, they passed legal muster.

Republicans soon followed suit, and today both parties will launch such air wars not only in the presidential race but also in key Senate and House contests. Already, they have collected a record \$160 million in soft money for 2000.

"You've died and gone to heaven if you can get on that bandwagon," said a wry Struble, who will do the issue ads this year against Sen. Spencer Abraham (R-Mich.).

Inside deals flourish with such party money. "Washington's incestuous community takes care of its own," said Axelrod, who himself has landed a lucrative concession to produce the issue ads in the New York Senate race.

At the Democratic Congressional Campaign Committee, which has already raised more than \$20 million of its own soft money, the ad campaign will be divided between just two consultants: Tom O'Donnell "east of the Mississippi," and Bill Carrick west of it, according to numerous sources. Both are longtime advisers to Gephardt.

At the House GOP's campaign arm, the Republicans even have a media company on

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retainer, paying Smith & Harroff Inc. \$25,000 a month for what a party official described as "general message consulting." And that doesn't include money the firm will make from getting a share of the committee's issue ad business.

TV and a Changing Future

Even in today's consulting bull market, however, there are nagging signs that it is not just the increased competition that is changing the business of politics. Television itself is losing some of its influence, and political admakers are preoccupied with how to combat its dwindling effectiveness in swaying voters.

"Even the media guys will say, the influence of conventional television advertising is waning. There's just less bang for the buck from TV," Jordan said. "But at the same time TV is still far superior to any other method." While not enough people are wired for the Internet to provide the broad audience media strategists want, many consultants have a strong sense it will change the way they work. But for now, doubt about the effectiveness of television advertising only helps their bank accounts, because it means bigger and bigger buys.

"You have to buy more and more TV to get the same level of impact," said Mark Mellman, the favored pollster of the Democratic congressional leadership.

"It's an irony," Jordan added. "We're spending more even as there's an awareness that it's less effective."

NEXT: Perhaps no recent campaign underscored the limitations of television, or the internecine struggles it can produce, than a multimillionaire political amateur's unsuccessful attempt two years ago to become governor of California—a \$40 million, consultant-driven failure.

Staff researcher Madonna Lebling contributed to this report.

THE LESSER NOBLES: POLLSTERS, TELEMARETERS AND FUNDRAISERS

Political consultant is a generic term that obscures the degree of specialization that has developed in the business. It's the media strategists who get the most attention--and the most money--but a modern campaign hires many other specialists as well.

POLLSTERS

Pollsters in both parties say they expect to account for 5 to 10 percent of a standard campaign's budget. With \$1 million House races common and \$10 million Senate races no longer an exception, it adds up--especially for the four or five elite national polling firms in each party that dominate the biggest races.

The spending boom has also helped fuel the polling explosion. With more money being spent on television, politicians are unwilling to lay out huge sums without research to determine if the ads will actually work.

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With a few rare exceptions—Clinton pollster Mark Penn is most famous—pollsters don't share in the golden goose of buying air time for television ads. They are paid per poll, so volume counts. And increasingly, that's why they are turning to corporate clients who in recent years have added polling to their lobbying arsenals.

Neil Newhouse and Bill McInturff have the statistics to show just how much their business has gone corporate. When they opened Public Opinion Strategies in 1991 as a breakaway firm from famed Reagan pollster Richard Wirthlin's shop, such work accounted for 22 percent of their overall business. Today, it's 52 percent.

The high profile they get from working on presidential races—the firm did GOP nominee Robert J. Dole's surveys in 1996, and McInturff was John McCain's pollster this year—is the hook that snags corporate work. "Our success in the political world helps feed our success in the public affairs arena," Newhouse said.

In the meantime, polling firms have offered their political clients more and more sophisticated services. New technological tools mean new types of polls. Advances in commercial market research show up in politics soon after they are dreamed up, whether focus groups or "mall intercept tests."

"The definition of necessity," said Democratic pollster Mark Mellman, "is infinitely elastic." Twenty years ago, only presidential candidates and well-heeled senators or governors polled regularly. Today, survey research is a standard part of campaigns down to the state legislature.

Just 10 years ago, focus groups were a rarity; today, they are also a booming political business. Public Opinion Strategies went from billing \$42,000 for the work of focus groups in 1992 to more than \$1 million in each of the last two years.

"For 20 years," Mellman said, "people did polls without doing nightly tracking. Now you have to do that too."

Still, there is inevitable bitterness over a political fee structure that rewards the media consultants over the message testers. "The media consultants often will sit on their tails and not do anything while the pollster is charged with defining the parameters of the entire campaign," said Democratic pollster Jim Lauer. "We pick the targets, we pick the messages, we say where the demographics are. The media consultants sit down, write up three spots in 20 minutes, then send the script back. And then he gets the whole buy."

TELEMARKETERS

Ralph Reed may be famous on television, but his money comes from the phones.

The former Christian Coalition executive director was perhaps the most celebrated new political consultant to enter the business when he set up shop in the 1998 campaigns. But Reed isn't really an adman at all. In George W. Bush's presidential campaign, he's been a key strategist. And yet the fees his company, Century Strategies, has collected are for "telemarketing": \$300,000 and counting.

Reed is not the only political consultant to have discovered the business potential of the

telephone.

Indeed, for both raising money and spending it, the political telemarketing business has grown exponentially in recent years. Like Reed, many consultants send out mail as well as work the phones, but they agree that the growth is on the phone side.

Often, their job is to conduct politics under the radar of public attention, where turnout is suppressed and attack calls are made. There's even a polite word for the specialty in political circles, "negative persuasion." Others call it "push-polling." The goal of such "slam banks" is to spread a negative message to as many voters as possible, not test whether it will work.

It is fast, effective and virtually untrackable. It is also expensive: 50 cents or more a call in a business where orders for a phone blitz of 150,000 households in two days' time are not at all uncommon.

"I always try to spin it as persuasion phoning," said Mac Hansbrough, a Democratic veteran of the phone wars. Spin is one thing, but his pitch to campaigns is another. "Democrats," blares his ad in Campaigns & Elections magazine, "kick some Republican butt."

In Florida, Hansbrough has become a byword for negative campaigning thanks to the 1.1 million phone calls his firm made in 1994 attacking Bush brother Jeb Bush in his gubernatorial race against Democrat Lawton Chiles. About 70,000 of the calls were targeted at senior citizens, and they labeled Bush a tax cheat and warned that his running mate would abolish Social Security.

The advocacy calls for George W. Bush's campaign that became an issue in this year's South Carolina GOP primary were developed by Feather, Hodges, Larson & Synhorst. The firm maintains seven phone banks and 500 phones scattered from Phoenix to Minnesota. South Carolina, home of the Bush blitz, is one of the firm's "best" phone centers, said partner Jeff Larson. "Military wives from all over the country make calls for us there."

"Phones are great," he said, "because you can change your message right away." With better voter lists and a new trend toward recorded messages, today's political calls are "narrowcast"—antiabortion activists will hear one script, voters in one small area will hear directly from a local pol. "It's a blossoming business."

FUNDRAISERS

Without them, there wouldn't be more money in politics. But in the hierarchy of the political business, fundraisers still occupy an unhappy niche at the bottom of the ladder. "People view fundraisers as the used-car salesmen of politics," said Matt Keelan, who specializes in raising PAC money for House Republicans.

With the pressure on to raise ever-increasing sums, technology has made it possible to contact more potential donors more often and in more sophisticated ways. Nearly 200 companies advertise themselves as "fundraising consultants" in Campaigns & Elections;

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their services run the gamut from selling lists of donors' addresses to old-fashioned event planning. Some specialize in raising unlimited "soft money" donations for the political parties, while PAC consultants in both parties are now standard for most Senate races and highly competitive House contests.

"Fundraising's the easiest job to break into because nobody wants to do it," said Keelan. "They see it as the ugly part of politics."

Cheered on by party leaders who see money in the bank as the only reliable guarantee of success come November, the fundraisers impose a discipline on members of Congress that only the most zealous cash collectors had as recently as 10 years ago. "I recommend that candidates spend 35 to 50 percent of their time raising money," said Nancy L. Bocskor, a Republican. "Some form of fundraising should be going on every single day."

It's paying off. Ten years ago, a House member in a competitive race would raise \$100,000 from political action committees; today, that figure is closer to \$500,000.

All of that money has made the business of fundraising far more attractive.

"The money people make as fundraisers has shot through the roof in recent years," said a leading Democratic money consultant. "As a result, more people are staying in it. Today, the top-level fundraisers on our side are making \$120,000 to \$150,000 and the very top are making \$200,000 to \$250,000. Five years ago, they would have been making \$50,000 and wondering why they were doing this."

Among Republicans, there's even more incentive to drive up the PAC totals: most GOP fundraisers work on commission, collecting between 10 and 12 percent of every PAC check, plus bonuses. Democrats used to take a cut too until labor unions started protesting a decade ago; now, they work on monthly retainers.

The fundraisers are acutely conscious of their real class enemies--the admakers whose TV spots consume most of those painstakingly raised dollars.

"Just one day," Keelan said, "I'd like to be the guy who spends the money, not the guy who raises it."

THE MEDIA BARONS: TOP POLITICAL ADMAKERS

DEMOCRATIC

FIRM: Struble, Oppel

PRINCIPALS:

Karl Struble

Thomas Oppel

PRESENT AND PAST CLIENTS:

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Maria Cantwell for Senate (Wash.)

Baron Hill for Congress (Ind.)

Sander M. Levin for Congress (Mich.) Sen. Ernest F. Hollings (S.C.)

Sen. Thomas A. Daschle (S.D.)

Sen. Bob Kerrey (Neb.)

WHO THEY ARE:

The favored media consultant to Senate Minority Leader Thomas A. Daschle, Struble has a roster of Senate incumbent clients that is currently the longest of any Democratic consultant. With the House a more competitive electoral battleground than the Senate this year, Struble says the Democratic Congressional Campaign Committee (DCCC) has asked him to take on several high-priority races too.

FIRM: Shrum, Devine & Donilon

PRINCIPALS:

Robert Shrum

Tad Devine

Michael Donilon

PRESENT AND PAST CLIENTS:

Al Gore for president

Ron Klink for Senate (Pa.)

Bill Nelson for Senate (Fla.)

Sen. John Edwards (N.C.)

Al Checchi for governor (Calif.)

Sen. Edward M. Kennedy (Mass.)

WHO THEY ARE:

A wordsmith best known for polishing everything from State of the Union addresses for President Clinton to Kennedy family speeches, Shrum is a leading member of Vice President Gore's media team. Shrum's partnership with Carter-era pollster Pat Caddell broke up with an acrimonious lawsuit in the 1980s; later he broke with partner David

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Doak. Today his firm also does corporate work. When Pizza Hut found itself under attack from rival chain Papa John's, Shrum responded with negative ads.

FIRM: Squier, Knapp, Dunn

PRINCIPALS:

William N. Knapp

Anita Dunn

PRESENT AND PAST CLIENTS:

Al Gore for president

Sen. Bob Graham (Fla.)

Sen. John Breaux (La.)

Rep. Carolyn McCarthy (N.Y.)

WHO THEY ARE:

For years the leading Democratic firm. Before his death earlier this year, founder Bob Squier had been replaced on Gore's team by his former partner and bitter rival, Carter Eskew. Knapp has continued to work for Gore. Partner Anita Dunn served as communications director for Democrat Bill Bradley's losing presidential campaign.

FIRM: Doak, Carrier, O'Donnell & Assoc.

PRINCIPALS:

David Doak

Michele Carrier

Tom O'Donnell

PRESENT AND PAST CLIENTS:

Charles S. Robb for Senate (Va.)

Herb Kohl for Senate (Wis.)

Ike Skelton for Congress (Mo.)

Gov. Gray Davis (Calif.)

WHO THEY ARE:

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Doak, who had a bitter parting with partner Bob Shrum in the early 1990s, had one of his biggest wins in 1998 with dark-horse California gubernatorial candidate Gray Davis. One of his new partners is Tom O'Donnell, longtime adviser to House Minority Leader Richard A. Gephardt. Thanks to those ties, the firm is slated to work on the DCCC's soft money "issue ads" this year for races east of the Mississippi.

REPUBLICAN

FIRM: Murphy, Pintak, Gautier, Hudome

PRINCIPALS:

Mike Murphy

Cliff Pintak

John Gautier

Mike Hudome

PRESENT AND PAST CLIENTS:

Spencer Abraham for Senate (Mich.)

Phil English for Congress (Pa.)

Gov. Jeb Bush (Fla.)

Sen. Robert J. Dole (Kan.)

Gov. Christine Todd Whitman (N.J.)

President George Bush

WHO THEY ARE:

One of the "Three Amigos" who handled media for President George Bush in his 1992 reelection campaign and then a top strategist in Lamar Alexander's 1996 race, Murphy worked this year for John McCain, enhancing his reputation for both irreverence and self-promotion. Another media consultant, Greg Stevens, was already signed up to make McCain's ads, so Murphy served as a general strategist-cum-sidekick for the Arizona senator and became a fixture sitting next to him on his campaign bus, "The Straight Talk Express."

FIRM: Stevens & Schrieter

PRINCIPALS:

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Stuart Stevens

Russell Schriefer

PRESENT AND PAST CLIENTS:

George W. Bush for president

Robert J. Dole for president (primary only)

Gov. Tom Ridge (Pa.)

Gov. Paul Cellucci (Mass.)

Rep. Rick Lazio (N.Y.)

Ellen Sauerbrey for governor (Md.)

WHO THEY ARE:

A legendary ad man in the mode of the late Bob Squier, Stevens sees himself as something of a Renaissance man. A UCLA film school graduate, he has written for television shows such as "Northern Exposure" and "Til Fly Away," and wrote a classic series of articles in Esquire on living the high life in Europe. With his partner Russ Schriefer, Stevens landed the Bush campaign last year and is teamed with longtime Democratic consultant Mark McKinnon to do the Texas Republican's ads. Four years ago he landed a big account -- front-runner Robert J. Dole's presidential primary -- but was eased out after Dole won the nomination.

FIRM: National Media

PRINCIPALS:

Robin D. Roberts

Alex Castellanos

PRESENT AND PAST CLIENTS:

Jim Talent for governor (Mo.)

Sen. Richard G. Lugar for Senate (Ind.)

Sen. Lauch Faircloth (N.C.)

Gov. David Beasley (S.C.)

Sen. Strom Thurmond (S.C.)

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Sen. Phil Gramm (Tex.)

WHO THEY ARE:

Castellanos was one of several ad men who cycled in and out of the 1996 Dole campaign and is best known for his scathing attack ads. The firm itself is becoming known for its high-tech services as much as its TV spots. These include a sophisticated ad tracking system, which monitors where ads actually run, and media buying services. This year Castellanos is handling the buying of ad time for the Bush campaign, while two other media consultants -- Stuart Stevens and Mark McKinnon -- create the spots.

FIRM: Stevens, Reed, Curcio & Co.

PRINCIPALS:

Greg Stevens

Rick Reed

Paul Curcio

PRESENT AND PAST CLIENTS:

John McCain for president

Sen. George V. Voinovich (Ohio)

Rep. Ernie Fletcher (Ky.)

Sen. Don Nickles (Okla.)

WHO THEY ARE:

The other Stevens was the lead admaker for McCain's presidential campaign, having won the account over Smith & Harroff, the firm that for years had done McCain's senatorial races. Stevens Reed is known for its roster of Senate candidates.

THE SERIES

Today: Cowboys and Outlaws

Monday: A Campaign the Consultants Made

Tuesday: The TV Bazaar

Wednesday: The Internet Future

The series will be available on washingtonpost.com.

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Winning a Stake In a Losing Race Ad Commissions Enriched Strategists

Susan B. Glasser Washington Post Staff Writer

Column: CAMPAIGN 2000

Part 2 of 4

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Second of four articles

Three months before he faced California voters for the first and last time, Alfred A. Checchi's \$40 million gubernatorial campaign--the most expensive in American history--began to implode. In March 1998, the multimillionaire political novice suddenly started losing ground to Rep. Jane Harman, a late entrant to the Democratic primary field. And yet as Checchi's candidacy faltered, the debate seemed to some inside the campaign's Los Angeles headquarters as much about how to pay his political consultants as about how to stop the slide.

The all-star team Checchi had hired--Mark Penn, the president's own pollster, and Robert Shrum, the favored wordsmith of the Kennedy family--insisted that the problem with the campaign was not their exhaustively poll-tested television commercials. The problem was the firm placing the ads. Shrum demanded and won the right to control the time-buying himself--and with it, a commission that gave him a stake in every ad that ran and put hundreds of thousands of dollars more into his pocket.

To many of Checchi's other advisers, the move seemed to be a classic case of consultant greed, an instance where it appeared that a strategist's bottom line drove a campaign's decisions. To Penn and Shrum, it was simply business--politics is run by professionals like them, and anything having to do with a campaign's strategy should be theirs to handle. "The time buy should be done by political time-buyers," Shrum said in a recent interview, "just like any ads for politicians should be done by political consultants."

Internal clashes like those in the Checchi campaign highlight some of the broader ethical dilemmas of the burgeoning business of politics--from side deals among consultants to the vested self-interest media strategists have in creating ever more television ads, whether they work or not. And they suggest how even the most promising campaign can be diverted by the struggle over fees.

At a time of rapid increase in the costs of political campaigns, attention is rarely focused on those who make money off the process. But interviews with major players, internal documents and California public records that offer significantly more information about

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political spending than is available for federal races make the Checchi campaign a revealing window into how the business works.

Overall, Penn's polling firm and Shrum's media consulting firm collected as much as \$2 million from Checchi, not counting expenses, in ways ranging from a \$100,000 up-front payment to a separate \$75,000 deal with the direct-mail vendor.

They oversaw a campaign where a free-spending candidate's money was freely spent. Like other millionaires before and since, Checchi believed his huge bank account could unlock a political career for him in California. But as Michael Huffington learned in his losing \$29.4 million Senate race four years earlier, in the end money matters only so much.

Despite a nonstop \$25 million air war unlike any ever witnessed in the state, Checchi lost the June primary, taking only 13 percent of the vote, far behind winner Gray Davis and just narrowly ahead of Harman.

Nearly two years after Checchi's expensive foray into politics, questions about the campaign's failure still give rise to bitter charges and counter charges. Rivalries were so intense among Checchi's advisers that his campaign manager commissioned four secret focus groups to test Shrum and Penn's ads because he did not trust the numbers they were giving him. And yet when the focus groups supported his suspicions about the ads, Darry Sragow, the campaign manager, did not share the results with Checchi.

In separate interviews, Shrum and Penn defended their roles in the Checchi campaign and said that losing efforts often descend into recriminations. "When you lose," Shrum said, "there's plenty of blame to go around—and the consultants ought to share in that."

But on the subject of their own compensation, Shrum and Penn were reluctant to discuss specifics beyond insisting they had operated properly. Whatever fights there were over money, they said, were standard practice unrelated to the campaign's outcome.

Fighting over money was a theme from the start. Several key players in the campaign said that months of tough contract negotiations left Shrum and his partners unsatisfied with their pay from Checchi, a Beverly Hills corporate takeover artist worth as much as \$550 million. Used to winning clients like President Clinton in 1996, Penn said that although Checchi "paid me a great deal of money," running a losing campaign like his "is never a great economic deal for me. In the end, no losing campaign is."

Checchi himself is still defensive about the record amounts he spent, unwilling to discuss the role played by his consulting team. In a brief interview, Checchi said he needed to spend the money he did. "You have to understand: This is not Minnesota or Massachusetts," he said. "You wouldn't have to spend like this if you were well known," Checchi allowed. "But we were starting from scratch."

'Gold Rush Was On'

"The gold rush was on," as a top Checchi aide put it, as soon as the campaign opened in 1997. "I saw perfectly normal, sane people take leave of their senses when they started

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to negotiate."

Checchi, best known for his role in the takeover of Northwest Airlines, signed up his two top campaign aides for \$25,000 a month. His friend Bob Burkett, a Democratic fundraiser who also landed on the payroll, hired private investigator Terry F. Lenzner for \$60,000. Lenzner's Investigative Group International, the gumshoe firm that worked for Clinton's lawyers during the Paula Jones case, was supposed to try to dig up dirt on Checchi himself, sources said.

But the contract Shrum proposed for himself stood out. The veteran media strategist asked Checchi to pay his firm, Shrum Devine & Donilon, as much as \$3.5 million in the course of the primary—much of that sheer profit, since the firm's direct expenses and production costs would be paid separately. And Checchi, of course, was not the firm's only client—at the same time in 1998, Shrum and his partners were also working on expensive races in North Carolina, Maryland, Kentucky and several other states.

A top strategist for Vice President Gore in this year's presidential race and a fixture on the Georgetown social circuit with his wife, writer Marylouise Oates, Shrum knew Checchi before his campaign. "Al and Cathy were at our wedding," Shrum said. "Al Checchi was my friend before, Al is my friend now. I just wish I had figured out a way for him to win."

The deal Shrum suggested to his friend began with \$60,000 in consulting fees for the primary, according to sources familiar with it. But the real money was to have been a proposed 12 percent commission on the "gross" amount of television time bought. The campaign ended up paying media outlets about \$25 million for TV ads. But the actual gross value of the time Checchi bought was \$29.4 million because TV stations automatically discount 15 percent off the top of all ad purchases, leaving the rest for ad agencies. Shrum's 12 percent of the gross would have been \$3,529,412.

Many campaigns are ill-equipped to engage in tough bargaining over proposals such as Shrum's. The basic psychology of the commission works in the consultant's favor—better to pay just once for TV costs with the fees built in than write separate checks for the consultants' take. That way, politicians never really confront just how much money their strategists are making. Consultants benefit by linking their pay directly to the medium that eats up most of a campaign's costs: television.

"The goal of all political consultants is to change the dollar sign with the percentage sign," said Dick Morris, who persuaded Clinton to pay him 15 percent of an early ad buy in 1995 only to be knocked down later to 7 percent by furious White House aides. "Clinton would have gagged at the idea of paying a fee of \$3 million to \$4 million," Morris said. "As a percentage, it was easier to sell."

But Checchi viewed himself as a hard-headed businessman. He wasn't going to pay retail if he could help it. He authorized a Washington election lawyer, Leslie J. Kerman, to negotiate on his behalf. She wanted Shrum and his partners to accept a flat fee, giving them no incentive in how much the campaign would spend on television.

After months of contentious talks—and, sources said, repeated threats by the consultants

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to quit the race because the pay was too low—they agreed on a deal. According to the contract, Shrum's firm would earn a \$500,000 flat fee—\$100,000 up front, \$25,000 a month from July through December 1997 and \$50,000 a month from January through May of 1998. The general election flat fee would have totaled \$450,000—with the promise of another \$150,000 bonus if Checchi won.

While Shrum also pushed hard for a stake in the lucrative media time-buying, campaign manager Sragow was insistent that the placement of the ads should be done by a large commercial firm with clout in the California market. But the haggling wasn't over by the time the early air war hit California television in November of 1997. So at least to start, Shrum controlled the time-buying, taking a 2.9 percent commission in addition to his flat fee.

If everything went as planned in the primary, Shrum and his partners would have been in line to take in more than \$1.2 million including fees—still a considerable amount, but almost \$2.4 million less than he had proposed. And it was far less than he was rumored to be making by the Washington gossip circuit, where high fees are a matter of bragging rights for the consultants collecting them.

Shrum said he could not recall the details of his original proposal to the campaign. Despite having agreed to the \$500,000 flat fee for the primary, he insisted, "The fee was substantially larger than that."

Penn, a regular, rumpled presence at high-level White House meetings who had never met Checchi before, had a separate deal. Like most pollsters, he charged by the poll—his price list to the campaign said focus groups were \$5,000 a pop, "mall" tests of up to 75 Californians were \$5,500 each and surveys ranged from \$12,000 for a 35-question poll to \$49,000 for up to 200 questions. Overall, his firm Penn, Schoen & Berland was paid close to \$1.2 million by Checchi in a business where a 25 percent profit margin is common practice.

But in an unusual arrangement that he also secured from Clinton's 1996 campaign, Penn would also get a cut of the television money from Shrum, giving him, too, a financial stake in the ads whose effectiveness his polls were supposed to gauge.

Expenses were an entirely separate matter for both Penn and Shrum. While they haggled over fees, both lived well on Checchi's dime, spending thousands of dollars to stay at swank hotels such as the Beverly Hills Peninsula, Regent Beverly Wilshire, Los Angeles Four Seasons and Santa Monica's Shutters on the Beach. At the Loews Hotel Santa Monica, Shrum's firm rang up one bill for \$15,820.

The Battle of the Buy

The air war commanded by Shrum and Penn commenced on Nov. 18, 1997, earlier than any candidate for governor had ever started. By the time it was over the following June, Checchi had run as many as 40 different spots introducing himself, attacking Harman and talking such poll-tested issues as the death penalty for repeat child molesters.

Publicly, the Checchi campaign's tactics were a source of considerable controversy. Garry South, campaign director for eventual winner Gray Davis, termed the millionaire's

ads hitting Harman a case of consultant-imposed "murder suicide."

Backstage, the most persistent fight concerned control of the television time buying. In the initial negotiations, Shrum had fought hard to keep that control—and with it, his commission. But Sragow continued to press hard for a commercial firm to handle the buy, insisting that Shrum was being overcharged by the television stations. He finally succeeded in hiring Western International Media—but not for long.

By March, Penn and Shrum seized on some numbers in Penn's internal surveys to revisit the issue. "Some numbers weren't as high as they should have been," Penn said, "relative to the recollection of ads." They pressed the point at a campaign strategy meeting, according to participants. No one from Western was on hand to dispute them.

So while Checchi was being hammered for the tone and substance of the ads, Shrum and Penn said the problem was that the seemingly omnipresent spots weren't being seen by the right people. On March 9, according to campaign records, Shrum prevailed once more, and for the rest of the campaign, all the money for the TV ads passed through his firm.

Overall, he and his team bought \$20 million of Checchi's \$25 million in ads—for commissions worth about \$600,000. Out of that, Shrum paid \$160,000 to a small Virginia firm that actually placed the ads on television, while Penn got \$140,000. The rest was left for Shrum's firm. With so much to be earned from controlling the flow of TV money, fierce fights over the time-buying are frequent. Consultants whose firms do the buying in-house question the ethics of rivals who subcontract it out, suggesting they cut side deals and pocket the extra money. Others insist the real ethical issue is political firms that offer the service in-house because it's a profit center.

"It's common for people to get control of the buy for 5 percent, then subcontract it out to a big commercial clearinghouse. . . . The consultant's getting 3 points for doing nothing," argued consultant Mike Mihalke, an advocate for in-house buying. "Show me a shop that does it in-house and I'll show you an inferior time buy," countered strategist Karl Struble.

Either way, the fight inside the Checchi campaign was a distraction at a crucial time. Days after Shrum's battle was won, on March 18, a new public poll confirmed Checchi's problem: He had fallen behind late entrant Harman. Soon, Shrum would be attacking Harman, a former client, in an expensive new air war. "It was a major cataclysm in the campaign," Sragow said later.

The Production Business

Control over who was buying the television time was not the only flash point between Shrum and his rivals. When it came to money, Checchi's advisers could hardly avoid the question of the growing tab for production costs.

One reason was the sheer number of ads Shrum produced—about 100, of which about 40 were run on TV, the rest having been discarded after Penn tested them with shopping mall interviews of randomly selected Californians.

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Shrum's contract included a standard provision stipulating that production should be done "at cost," meaning no markups. The question of production is a sensitive one in the political business today, and numerous consultants said in interviews that jacked-up production costs have become a way to recover profits at a time of falling commissions.

"I view it as an unethical way to get around not charging the full commission," said Democrat Raymond D. Strother, chairman of the American Association of Political Consultants.

That possibility led several of Checchi's other advisers to question why they were paying so much. In the view of one senior campaign official, who had clashed with Shrum, "We were producing ads so they could be tested, so Penn could make more money, so Bob could make more money."

In early 1998, most of the production costs of editing all those ads started flowing from Shrum's firm to an unfamiliar entity called Georgetown Post. Although in the past Shrum had used other editing houses, Georgetown Post was located in the same Wisconsin Avenue building as Shrum's firm, leading campaign officials to ask about the arrangement. Bills from Georgetown Post totaled \$400,000 in less than five months--\$290,000 of that between March 18 and May 16.

Shrum heatedly insisted then and in an interview that neither he nor anyone else in his firm had any financial stake in the company, "none whatsoever."

Checchi's final public report about his campaign's finances before the June primary showed that the consultants had made money yet another way from the race. The report showed that Penn had received \$45,000 and Shrum had taken in \$30,000 as subcontractors from the Lord Butcher Co., a direct-mail firm hired for a \$2 million-plus campaign to woo absentee voters. Campaign sources said both men urged Checchi aides to hire the firm, despite its principals' past work for Republicans and public controversy about its fundraising tactics.

Penn said he and Shrum formed a "team" with the firm's head, William A. Butcher, to get the work. Although they were already being paid as the campaign's lead consultants, Penn said they were entitled to additional compensation because this was "a different service."

Penn said he worked on "targeting" the direct mail, while Shrum helped write the copy. "It wasn't a secret," Shrum said. "Everybody knew."

But Checchi's other advisers saw the payments as a referral fee for Penn and Shrum, and said they weren't told about it until it was already "a fait accompli." Said one, "Why should we have to pay twice for their services?"

'Smoking Gun'

Checchi himself was not aware of many of these scraps until after the campaign was over, according to his former aides. But he was briefed on the most pointed accusation

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of all--that the television campaign dreamed up by Shrum and endorsed by Penn's numbers was a failure.

Checchi's friend Patrick Caddell played the role of the Greek chorus in this particular drama.

The bad-boy pollster of the Carter administration, Caddell had famously left the political consulting business in a huff in the 1980s, saying it had become irrevocably tainted by the bottom line. He even filed a lawsuit, eventually settled out of court, against his then-partners Shrum and David Doak (who was advising Checchi rival Gray Davis in the 1998 California race).

The year before the election, Caddell met with Checchi and urged him not to hire Shrum, the former partner he still very publicly detested. Checchi didn't listen.

But by April of 1998, Caddell had what he considered a "smoking gun"--and he took it to Checchi's house on a Sunday morning. Caddell handed Checchi a memo commissioned by Sragow but never shown to the candidate--results of a secret study purporting to show that his expensive television campaign was a flop. Five months earlier, Sragow had commissioned four surreptitious focus groups by pollster Alex Evans, going around Penn and Shrum because he did not trust the numbers they were giving him. And yet when Evans reported back that Sragow's suspicions were justified, the campaign manager never passed the findings along to Checchi.

By April, as Checchi's poll numbers were sagging, Evans called Caddell seeking advice about the buried memo. Caddell volunteered to play the intermediary.

"The result of the research was unambiguous," Evans wrote to Checchi about the Nov. 11 and 12, 1997, focus groups. "If aired the Television [ads] would do as much harm as good."

The five-page memo summarizing the focus groups offered a variety of criticisms about Checchi's ads. "Why is a non-politician who is 'different' just sounding like all the other politicians?" wondered one woman. Even the issues he endorsed in his ads seemed to lose as many votes as they gained, the memo said.

The problem, Evans wrote in an accompanying letter to Checchi, was not poor placement of television time, as Shrum had argued the month before. "I have never, ever seen such a strategically flawed campaign," Evans wrote.

Sragow told reporters a different story. In an interview with the Sacramento Bee the week after Checchi lost, he said all the polls and focus groups of Checchi's ads had shown they were working. "The numbers were so compelling that the decision was to stay the course."

At a conference at the University of California at Berkeley after the election, Sragow admitted his end-run around Penn but did not answer when asked directly whether he had told Checchi about it. "We had polling coming out our ears; we had mall tests coming out our ears. And the numbers I was getting were very different," Sragow said.

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Penn himself called Sragow's backstage maneuvering "typical of Democratic campaigns," and argued that Checchi's introductory ads "did as good a job as advertising can do."

Shrum agreed. "The ads at the beginning of the campaign worked extraordinarily well since Checchi went from nothing to being a major factor in the race to leading the race," he said. As for Checchi's ultimate collapse, Shrum said California had a case of Checchi fatigue after an air war that went on "for much too long, in my opinion."

Checchi himself was never dislodged from his faith in the Washington strategists he saw as key to his fading candidacy. Said Sragow, "He chose to respect the numbers he was being given by the president's pollster."

But in the end, and in ways Checchi had not expected, his money had become his message. And he himself had come to define prodigal spending, political style--a development summed up in the pointed slogan Shrum's former partner Doak wrote for unlikely victor Gray Davis: "Experience money can't buy."

Staff researcher Madonna Lebling contributed to this report.

The Series

Sunday: Cowboys and Outlaws

Today: A Campaign the Consultants Made

Tuesday: The TV Bazaar

Wednesday: The Internet Future

The Players

Al Checchi

A corporate takeover artist, Checchi had never before run for office when he entered the California gubernatorial race in 1997. He spent \$40 million--all his own money--but finished with only 13 percent of the vote in the Democratic primary.

Robert Shrum

Today a top adviser to Vice President Gore, Shrum served as the admaker and chief strategist for Checchi. He is best known as a graceful speechwriter--as well as for his acrimonious breakups with former partners Patrick Caddell and David Doak, both of whom would play a role in the 1998 California race.

Mark Penn

Penn, who handled the polling for Checchi, is President Clinton's pollster and was brought to the White House, along with his partner Doug Schoen, by Dick Morris. This

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election cycle, Penn was ousted as Gore's pollster but is working for Hillary Rodham Clinton's New York Senate race.

Darry Sragow

Checchi's campaign manager, Sragow is a veteran California consultant who had worked both with and against Shrum in previous Golden State races.

Lord Butcher Co.

A direct-mail firm that has since split up, it was hired for \$2 million to increase Checchi's support among absentee voters. Shrum and Penn helped the firm land the account with Checchi's campaign. They were separately paid a total of \$75,000 from Lord Butcher to help with the mailings.

Georgetown Post

A Washington, D.C., television post-production firm, where many of the ads Shrum produced for Checchi were edited.

[Return to Search Results](#)

Washington Post NEWS STYLE SPORTS CLASSIFIEDS MARKETPLACE

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DECLARATION OF RICHARD E. WELSH

I, RICHARD E. WELSH, declare as follows:

1) I am the Assistant Treasurer of LaRouche's Committee for New Bretton Woods ("LCNBW"). I am fully familiar with the contract between LCNBW and seven literature distribution companies ("the vendors") and its administration.

2) In response to the Preliminary Audit Report, LCNBW stated that the contract rates agreed to between the vendors and LCNBW were designed to ensure that "all campaign related costs incurred by the vendors would be captured and duly compensated." (Response to PAR, p. 5). These rates included, for present purposes, the 80% markup in operation from April, 1999, when intense campaign activities commenced, until September of 1999 and the 50% markup in effect from October to December 1999.

3) In the Final Audit Report, the FEC stated for the first time that the markups in the vendor rates above cost could not be justified because the campaign had not specified what costs were not captured by its allocation formula, had not provided an "allocation of the markup among the various enumerated purposes that it served," and because non-profit companies cannot make a profit. On these grounds, the FEC deemed all of the markups to be advance payments although they were never characterized as such by the campaign. The FEC thus disallowed any markup over

the actual costs incurred by the regional vendors.

4) The Final Audit Report was the first time LCNBW was informed of these specific FEC concerns about the markup.

5) The overriding concern which led to the markup rates in the vendors billings for the active campaign period of 1999 was avoidance of the prohibition in the Federal Election Campaign Act against corporate contributions, i.e., that the distributors would provide something of value to the campaign without appropriate compensation. In the Audit of Mr. LaRouche's 1996 campaign, the FEC's General Counsel suggested that these same vendors may have made corporate contributions to that campaign because they were not adequately compensated.

6) In establishing the 80% markup rate for the period April 1999 through September 1999, and the 50% markup for October through December, 1999 the following thoughts and constraints were foremost:

A) The FECA and regulations thereunder require that all costs, including indirect costs be captured and compensated. In April of 1999 there was concern that not all costs would be captured by the methodology employed by the campaign including such costs as non-fundraising use of the telephones, mail, and office equipment, etc., for outreach to Democratic Party constituency leaders and press; administration and coordination of volunteer efforts; research; and FECA compliance. It seemed

obvious to us that in building the infrastructure for a grass roots campaign, many indirect or hidden costs would be incurred at the front end of the campaign.

B) The FECA and regulations thereunder also require that vendors charge commercially reasonable and market rates for goods and services provided to campaigns and FEC Advisory opinions state that providing goods and services at cost or at less than market value represents a corporate contribution;

C) The FECA, regulations thereunder, and FEC Advisory Opinions state that most of the costs specified in the facilities contract between the vendors and the campaign could be paid in a commercially reasonable time, but other provisions of the law, regulations, and opinions concerning activities by corporations and trade unions specify that certain other costs must be paid in advance. It was unclear how this law applied to the costs specified in the contract;

D) The markup was intended to provide a mechanism whereby the campaign could ensure that the vendors were compensated for both direct and indirect costs (including profit) sufficiently in 1999 so that when the actual elections in calendar year 2000 commenced, the campaign could devote its resources to direct electoral activities while paying the distributors at a lower rate.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on July 2, 2003

Richard E. Welsh
Richard E. Welsh

LaRouche's

COMMITTEE FOR A
NEW BRETTON WOODS

P.O. Box 89 Leesburg, VA 20178

To: Nicole Clay
Audit Division
Federal Election Commission

Fax #: 202-219-3483

From: Richard Welsh

Re: Answers to questions submitted by email

Date: April 9, 2000

Pages including this cover: 6

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Questions of 3/9/01

1. *How were the contributions solicited? Where was the geographic locale of the fundraising? Who performed the fundraising?*

Contributions were solicited by campaign volunteers, located throughout the country. Many, though not all, volunteers were in the cities identified in the Region Codes discussed in Question #4, below. Solicitations occurred by telephone, and by appeals to passers-by in public venues where concentrations of population occur (e.g., transportation depots; traffic stops; motor vehicle offices, employment offices, and post offices; urban concentrations such as shopping and government office districts; factories and other large employers). In such "field" solicitations, campaign organizers might carry signs or posters, and would generally pass out campaign literature. Less formal solicitations occurred in casual discussions between campaign supporters and their family, friends, neighbors, co-workers, and so forth.

2. *Please identify the fields/codes on the receipt data processing sheets that accompany each contribution.*

Comp: Committee identifier, i.e., 622 = LaRouche's Committee for a New Bretton Woods. Since there are no affiliated committees, that is the only number that will appear in this field.

Date: Deposit date of instrument

Bnk: Bank.

Client: Unique system-generated number for each contributor

Cash Num: Unique system-generated number for each cash receipt (item deposited); same as "Receipt Item"

\$ Received: amount of the contribution item deposited

Fees: Field not used

Total remitted: Field not used; would report totals of a deposit if the report covered more than one item (e.g., an entire batch)

The last line shows, in order, entries for the following fields:

Region of origin (alpha, 3-character)

Initials of volunteer raising the contribution (alpha, 3-character)

Deposit (batch) number within date

Instrument type (Check, Money Order, Cash)

Instrument number

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Exhibit E

3. *According to the file layouts, there are four source codes for contributions, campaign generated, federal funds, other, and unsolicited mail. Please approximate a percentage of each source received. Please explain in further detail what each source means.*

These fields were inherited from prior versions of the software, and were never used for any analytic purposes. Aside from federal funds and campaign-generated, there was probably no data entry to them, except perhaps by accident. Unsolicited contributions were very rare in any event, and were for the most part coded as campaign-generated, because, as noted, there was no policy of using the fields. Unsolicited contributions would constitute a small fraction of one percent of total contributions.

4. *In the prior audit of the '96 LaRouche Committee, I noticed that the city/regional codes listed on your receipts processing sheet represent the city/region where the contribution was sent, is this still their representation?*

No. This code identifies the location of the campaign volunteer who obtained the contribution. The contribution might be sent there, and forwarded from there to the Committee, or it might be sent directly by the contributor to the Committee.

Question of 3/13/01

1. *Did the Committee use the void information fields: void-num and void-trn-num, to record voided receipts? If so, what type of "voided receipts" would be captured in this field?*

Yes. Voided Receipt means a deposited contribution or any other receipt, that was returned by the issuing bank for NSF or comparable reasons. The date of the voiding transaction is the date of the debit memo issued by the Committee's bank (date deducted from the Committee's bank account).

Questions of 3/22/01

Contribution Question:

1. *Could you please identify: Line 21 Other Receipts - \$20, this was reported on the 4th Quarter 1999 report. We could not locate the backup documentation for this receipt.*

This was a \$20.00 check deposited in error to the Committee's bank account, intended for a different payee. The deposit was to Crestar Bank, 10/15/99, deposit #1, line item #1. The check is from H. Bruce Coslor of Nebraska. Upon identifying the error, the Committee issued a payment to the intended recipient, KMW Publishing Company, Inc., check #1538, \$20.00, issued 10/19/99. The payment was reported on the same quarterly report as an "Other Disbursement."

Disbursements Questions:

1. *Please explain in the procedure for making a "payment" and "expenditure" from the purchase order to the actual issuance of a check; please include how/when allocation to the states were recorded.*

We don't fully understand what is sought in this question, as it is phrased rather broadly. Can you break it down, or refine it?

Regarding the allocation portion: For simple one-to-one allocations, e.g., rental of a room for a campaign meeting in a particular state, the allocation is recorded along with the recording of the disbursement (or invoice) itself, as part of that transaction.

For more complex, that is, multi-state, allocations, there are primarily two varieties. First, for reimbursement to companies whose office facilities were used by the Committee, these were posted at the time of posting the invoices, using the allocation ratios provided by those companies. (In some cases of these, the invoices may have been posted first, and then updated later with the allocations, if the allocation ratios were not available at start-up; the Committee filed a number of amendment reports to adjust previous allocations).

For campaign literature shipped to multiple states, recording of allocations had to wait until the literature had been shipped, since this could occur over a period of weeks or even months following its production, and the recording of typesetting and printing invoices (and their payments) that, necessarily, occurred

up-front. In these cases, allocations were entered when the information had come in, by calling up the production cost transactions (generally, vendor invoices), changing the allocation code from NAL ("Needs Allocation") to ALL ("Allocated"), which then takes the operator to the Allocation Entry screen, and at that point entering the allocation amounts. As noted above, allocation amendment reports were submitted on a number of occasions to deal with this circumstance (as noted also in documents previously submitted during this Audit).

2. *Please document the Committee's petty cash procedures.*

The Committee only used petty cash (as opposed to checks), on four occasions. The procedure was to draw cash from the bank (posted as an internal transfer, out of Crestar Bank into Petty Cash "bank"); issue it to the responsible person for disbursement, and upon completion of the activity for which it was issued, post the ultimate expenditure as a disbursement from Petty Cash "bank," and redeposit any surplus to Crestar Bank (as internal transfer from Petty Cash to Crestar). The four occasions were:

June, 1999: \$100.00 issued for a campaign event in Michigan; \$42.00 paid to the meeting site (Vendor "Coffee & Cream," COFF482) June 5; \$58.00 redeposited June 11;

June 25, 1999: \$25.00 transferred to petty cash and issued in same amount as a per diem to campaign volunteer Hugo Lopez Ochoa;

September-October, 1999: \$50 transferred to petty cash; \$40 issued as per diem to campaign volunteer Stu Rosenblatt, leaving \$10 in fund; this supplemented with a \$390 transfer, to make up per diem disbursements in the amount of \$100 each to four campaign volunteers for a number of days spent representing the campaign at the AFL-CIO convention in California;

June, 2000: \$900 issued to campaign volunteer Rochelle Ascher for logistics surrounding the campaign-initiated Democratic Platform Hearings in Washington, DC, mainly ground transport for attending delegates. Receipts provided by Ascher and posted as of June 30; balance of \$250 transferred back to Crestar Bank July 14.

The above can be found in the Check Register and Bank Balances reports previously submitted.

3. *How did the Committee account for voided checks and stop payments?*

When a check was voided (e.g., having been lost by the vendor, or in the mail before reaching the vendor), a voiding transaction was posted against it. This created a new transaction, which appeared in relevant reports a negative

disbursement (bank activity reports, vendor ledgers, and Schedule B reports of FEC Reports of Receipts and Expenditures). If the voiding occurred within the FEC reporting period in which the original check had been issued, neither the original check nor the reversal appeared in reports. The voiding (negative disbursement) appears in such reports, only if the original disbursement had already been previously reported. In cases where a check had been issued but not sent (e.g., having some error in its preparation), or voided prior to preparation (e.g., it was damaged), then that check number would simply be posted as a zero-item, to "vendor" VOIDCHK, to preserve a complete record of the check number sequence.

4. *Did the Committee advance funds to personnel? If so please give the details.*

The Committee's policy was not to issue advances, but rather to reimburse volunteers for outlays on behalf of the Committee. One exception was the advance to Ascher noted above, regarding Petty Cash for a complex Washington, DC event. There may have been one or two other exceptions; if so, the disbursement would have been posted to the expense at issue (e.g., travel); and any excess, reimbursed to the person. There were no advances, other than the one cited, in excess of the final costs.

5. *Does the Committee have a budget and/or commitment files? If so were copies of these records submitted with the vendor files?*

It does not have such files.

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Exhibit E



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

July 26, 2001

Ms. Kathy A. Magraw, Treasurer
LaRouche's Committee for a New Bretton Woods
P.O. Box 89
Leesburg, VA 20178

Dear Ms. Magraw:

The Audit staff has made several requests for additional records and information that have not been addressed by LaRouche's Committee for a New Bretton Woods (LCNBW). On June 25, 2001, more detailed backup documentation was requested to support the monthly invoices received by LCNBW from American System Publications, Inc., Eastern States Distributors, Inc., EIR News Service, Inc., Hamilton System Distributors, Inc., Midwest Circulation Corporation, Southeast Literature Sales, Inc., and Southwest Literature Distributors, Inc. As noted in LCNBW's contractual agreement with the vendors (see attached sample copy) at item nine paragraph two, the "Committee may, from time to time, request that Company provide Committee with documentation for costs incurred by Company for which Company is billing Committee, as described in Sections 6 and 10". Attached are copies of the spreadsheets and the invoices in question.

In addition to the request for more detailed records, several questions have developed regarding LCNBW's contractual agreement and business relationship with these vendors. Most of the invoices are dated significantly later than the invoice shows the service was performed. You are requested to provide any earlier invoices, correspondence, phone conversation memoranda, etc., that demonstrates attempts to estimate the amount due to the vendors or the vendors' effort to collect the amounts billed. According to page 5 of "The Guide to Records Inventory Supplement" dated December 7, 2000;

For a number of vendors, the nature of the service billed did not permit invoices to be issued as quickly as payment had to be made. (This was primarily due to the requirement that the vendor amass data from a completed time period, analyze it, and bill on that basis, while the level of activity was high enough, that payment could not wait.) In these cases, disbursements to the vendor were therefore posted as Transaction Type 'Expenditure' rather than 'Payment.'

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Exhibit F

Amounts were determined based on estimated costs, following consultation with the vendors, pending finalization of actual costs.

It appears LCNBW entered invoice numbers and estimated amounts owed to these vendors long before receiving the attached invoices. Please explain, in detail, this process.

The contracts that LCNBW entered into with each of the aforementioned vendors were effective beginning July 1, 1997, however the contracts are dated April 30, 1999. It is after the contract date that the first substantial payments to these vendors were noted. Did the vendors attempt to collect fees before April 1999? Why didn't the vendors assess any interest or late payment fees for the services that they had already provided and on the uncollected balances owed throughout the campaign? Please provide any additional documentation that would explain LCNBW's relationship with these vendors, and a detailed history for each of the vendors.

When did the LaRouche presidential committees start using the services of these vendors, and are these vendors currently being used in the LaRouche 2004 campaign? LCNBW has accumulated additional debt with six of the vendors since the date of ineligibility. What actions are being taken to satisfy the outstanding debt to these vendors with regard to LCNBW?

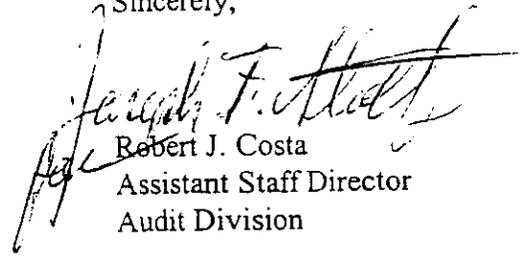
The vendor invoices supplied by LCNBW usually cover monthly activity, however a few of the invoices cover shorter periods, for example 4/1 to 4/6, 4/7 to 4/30, 12/1 to 12/16, 12/17 to 12/31, please explain this practice. Was it done at LCNBW's request? The payments to EIR News Services, Inc., were timelier than payments to the other vendors with the same contractual agreement and EIR News Service has no outstanding invoices. Rather, the work performed by the Audit staff suggests that EIR News Services, Inc., was overpaid. Please explain why this vendor was overpaid and paid more timely than the other vendors.

In addition to the records and information discussed above, it has also been requested that LCNBW update all receipts and disbursements records supplied including canceled checks from April 1, 2001 to the present, vendor invoices from October 1, 2000 to the present, bank statements from April 2001 through July 2001, any electronic data files, contributor check copies, and deposit slips from October 1, 2000 to the present.

All responses and documentation should be forwarded to the Federal Election Commission, Audit Division at 999 E Street, N.W., Washington, D.C., 20463 no later than August 9, 2001. Failure to comply may result in a recommendation to the Commission that subpoenas be issued to LCNBW and the vendors. In that case the audit report will explain that it was necessary to resort to a compulsory process to obtain the records needed to complete the audit.

If you have any questions concerning this request, please call Nicole Clay or Russ Bruner at (202) 694-1200 or toll free at (800) 424-9530.

Sincerely,



Robert J. Costa
Assistant Staff Director
Audit Division

cc: Richard Welsh

LA ROUCHE

IN 2004

P.O. Box 730 Leesburg, VA 20178 1-800-929-7566

www.larouchein2004.com

August 8, 2001

Robert J. Costa, Assistant Staff Director
Audit Division
Federal Election Commission
999 E Street, NW
Washington, DC 20463

Dear Mr. Costa:

This letter, with accompanying documents, completes the committee's response to your request of July 26, 2001. The first batch of documents was provided to you by UPS overnight shipment August 2. Please let us know if anything further is required. Questions and documentation are addressed below, keyed to the questions in your letter as shown in italics.

On June 25, 2001, more detailed backup documentation was requested to support the monthly invoices received by LCNBW from [seven named vendors].

Your letter clarifies this June 25 e-mail request, which asked for "more documentation related to the invoices...." Whatever additional documentation we have, is provided with this delivery, as identified below in answer to the more specific questions and requests.

Most of the invoices are dated significantly later than the invoice shows the service was performed. You are requested to provide any earlier invoices, correspondence, phone conversation memoranda, etc., that demonstrates attempts to estimate the amount due to the vendors or the vendors' efforts to collect the amounts billed.

There are no earlier invoices than those already provided at the start of the audit.

Documents used in the estimation of amounts due are provided as follows.

The first is an Excel spreadsheet, titled "Base Amounts." This was prepared with information provided verbally by the vendors, showing each vendor's estimated monthly cost of operating the facilities used by the campaign (e.g., rent & utilities, telephone, costs of getting to public access sites). Invoices to the campaign were based on charging out these costs, in a ratio proportionate to the

campaign's usage of those facilities (see below for further explanation of this procedure).

The second is a manual spreadsheet, created in or about January, 2000, showing estimated or actual billings (depending on what had been received to that point from each vendor), payments through December 31, 1999, and resulting debt as of that date, with further entries added over ensuing months to reflect estimated billings, by month, for the period January 1 – April 6, 2000.

The committee has no documents demonstrating vendors' efforts to collect amounts billed, or logs of telephone calls other than as reflected in these documents.

It appears LCNBW entered invoice numbers and estimated amounts owed to these vendors long before receiving the attached invoices. Please explain, in detail, this process.

As explained in the committee's document transmittal form of December 7, 2000 ("Guide to Records Inventory Supplement"), quoted in your letter immediately preceding the above request, until the end of 1999, the Committee did not reflect these costs by invoice postings, but rather, by posting of disbursements (using the transaction type "expenditure" rather than "payment" against an invoice).¹ The first invoice transaction posted was as of December 31, 1999, reflecting the debt to the vendors as of that date. The manual spreadsheet was used to calculate these amounts, which were based in some cases on invoices received from the vendors, and in others on charge amounts that still had to be estimated. Invoice numbers, for the estimate entries, were entered, based on the transaction date, in the form of YYMMDD, i.e., 991231, since the ADP system requires a number for the invoice transaction type.

Subsequent to December 31, 1999, checks issued to the vendors were posted as "payment" transaction types rather than "expenditures," and invoice transactions were posted monthly. The invoice postings were based on estimated amounts, as described above. When vendor invoices were received, the balance due was reconciled to these, and entries posted to reflect the reconciled balance. The committee cut off this reconciliation period as of August 16, 2000, so as to ensure a correct balance for NOCO purposes as of the candidate's Date of Ineligibility.

¹ These are technical terms pertaining to the Committee's ADP system, explained at the start of the audit. A "payment" is a disbursement to a vendor, against an invoice that has been previously posted. An "expenditure" is a disbursement to a vendor, where no invoice has previously been posted. In conventional general ledger-based terminology, the first would be a payment against a payable, the second an expensed payment.

Did the vendors attempt to collect fees before April 1999? Why didn't the vendors assess any interest or late payment fees for the services that they had already provided and on the uncollected balances owed throughout the campaign?

The vendors did not attempt to collect fees before April 1999. There was no provision in the contract for interest or late payment fees.

Please provide any additional documentation that would explain LCNBW's relationship with these vendors, and a detailed history for each of the vendors.

These companies were formed at various times in or about 1987, for the purpose of selling and distributing literature (subscriptions, single copies, and bulk copies). Their personnel, for the most part, have been actively engaged for many years in discussing and spreading the philosophical, economic, and political ideas of Lyndon LaRouche, and were therefore best situated to provide the services required by this and prior political campaigns by Mr. LaRouche. The specific relationship between the companies and the campaign, regarding what activities and procedures the companies and their employees and associates were to do, or not do, are detailed in the contract, previously provided.

Regarding the financial relationship between them and the campaign, the companies charged the campaign for the campaign's use of their facilities (rent and utilities, telephone, local travel, etc.), plus a markup. The campaign did not pay for time of the companies' employees and associates, because this was provided by these individuals on a volunteer basis, for which they were not compensated by the companies. (Volunteers operating out of these offices probably also included other persons in those geographic regions not connected to the companies.)

The charge for use of facilities was calculated by applying to each company's monthly operating costs, a percentage derived as the ratio of campaign financial transactions (generated by volunteers using the company facilities), to the total number of transactions generated there. This total (the denominator) consists of the campaign contributions, plus the company's own literature sales and contribution transactions.

When did the LaRouche presidential committees start using the services of these vendors, and are these vendors currently being used in the LaRouche 2004 campaign?

These vendors were used starting in 1988, and they are currently being used by the 2004 campaign committee.

LCNBW has accumulated additional debt with six of the vendors since the date of ineligibility. What actions are being taken to satisfy the outstanding debt to these vendors with regard to LCNBW?

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Exhibit G

The answer to both issues is the same: the committee uses the facilities of these vendors, to raise the funds required to pay down the debt (though obviously the funds raised exceed the costs involved). The committee uses the funds raised to pay down these, as well as other vendors' debts, other than small amounts required for continuing administrative costs. Discussions are in progress regarding how the rate of fundraising might be increased.²

The vendor invoices supplied by LCNBW usually cover monthly activity, however a few of the invoices cover shorter periods, for example 4/1 to 4/6, 4/7 to 4/30, 12/1 to 12/16, 12/17 to 12/31, please explain this practice. Was it done at LCNBW's request?

Monthly was the agreed standard. The irregular periods cited were, in the first instance, to provide for a cutoff as of what was then presumed to be the candidate's Date of Ineligibility (April 6, 2000), subsequently superseded by his reinstatement. The second irregular period was caused by a change in the ADP system used to record and track the financial activity (number of transactions), used in calculating the campaign's pro-rata use of company facilities. December 16, 1999 was the last date of the old system, December 17 the first date of the new.

The payments to EIR News Services, Inc. were timelier than payments to the other vendors with the same contractual agreement and EIR News Service has no outstanding invoices.

With regard to EIR News Service, the alleged disparity is only apparent. First, please note that only about half of the charges from EIR News Service pertained to the use of facilities, as covered by the cited contract; the remainder, consisted of advertising in company publications, fees for editorial and press relations services, and per-usage charges for the company's postage meter, that is, for the account as a whole, EIR News Service provided far more than those contained in "the same contractual agreement." Viewed against all vendors, the rate of payment to EIR News Service is about in the middle, slightly faster than telephone companies, slower than some internet service providers, and slower than the campaign's printer, PMR Printing Company, which held a pre-paid deposit against future work. Even within the narrower domain of the seven companies providing office facilities, EIR News is not distinguished from six others, but merely at one end of a spectrum in which the differences between the other companies, are as great as that between EIR News and the next fastest. See enclosed table.

² In the course of reviewing these accounts, an error has been found in calculating the amounts due to three of the vendors, as of the start-up period of the contract (Hamilton Systems, Eastern States, and Southeast Literature), based on misreading a decimal position. An accounting will be provided to the auditors under separate cover, and corrected in the Committee's next quarterly report. The total correction is a reduction of the debt by approximately \$48,000.

Rather, the work performed by the Audit staff suggests that EIR News Services, Inc. was overpaid. Please explain why this vendor was overpaid and paid more timely than the other vendors.

EIR News Service was overpaid, due to errors of totaling billings coming in during a hectic period of campaign activity (bills including both the office facilities use, and advertising and other activity). Arrangements have been made for the overpayment to be refunded.

In addition to the records and information discussed above, it has also been requested that LCNBW update all receipts and disbursements records supplied including canceled checks from April 1, 2001 to the present, vendor invoices from October 1, 2000 to the present, bank statements from April 2001 through July 2001, any electronic data files, contributor check copies, and deposit slips from October 1, 2000 to the present.

These were provided by UPS shipment August 2, 2001, with the exception of the July bank statement, not yet received by the Committee, and electronic data files, which await both clarification as what files, or types of files, are requested, and also the return of the campaign's provider of IT services, who has been on vacation.

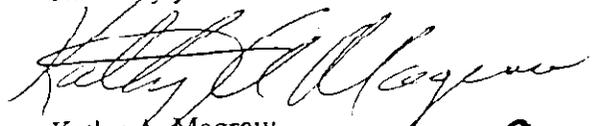
In addition to documents and questions contained in your letter, the following items, previously requested by auditor Nicole Clay, are provided:

Letter from vendor PMR Printing Company, verifying application of deposit to open invoices

Answer to the e-mail question of June 21, 2001: *[W]here did the LaRouche 2000 Presidential Committee get the names of contributors (mailing lists)?*

Three sources: names already known to campaign volunteers working for the contracting office-facility companies (see contract, second "whereas"); new persons met in the course of campaign field work at public-access sites (DMV's, traffic stops, transportation hubs, shopping malls, etc.); and new persons calling or writing in after receiving leaflets, or seeing or hearing campaign advertising via print, broadcast, or web-based media.

Sincerely yours,


Kathy A. Magraw
Treasurer

ATTACHMENT 2
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LaRouche's

COMMITTEE FOR A
NEW BRETTON WOODS

P.O. Box 89 Leesburg, VA 20178

October 10, 2001

Nicole Clay
Audit Division
Federal Election Commission
999 E Street NW
Washington, DC 20463

Dear Ms. Clay:

Enclosed please find the information requested at the exit conference, regarding analysis of charges to the campaign for office and other facilities, in further detail than that given on the vendors' invoices.

The documents consist of one spreadsheet for each vendor showing their baseline expenses for each billing period, the proportion of use of those facilities represented by campaign activity, any markup, and the resulting amount charged to the committee.

Representation of those periods where partial months, or more than one month, were used for billing, should be self-explanatory, but please call or e-mail me if anything is unclear.

Sincerely yours,



Richard Welsh
Assistant Treasurer

ATTACHMENT

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American System Publications

Billing Period	Invoice Amount	Activity ratio	Markup factor	Fraction of month	Total Costs	Expenses						
						Rent & util	Other office expenses	Telephone	Automobile	Meetings, travel, & field costs	Postage & shipping	Miscellaneous
4/1-4/30/99	2,5742	0.074	1.80	1.00	43,106	5,392	2,980	16,301	4,818	2,326	10,822	467
5/1-5/31/99	0,333	0.314	1.80	1.00	36,550	6,431	2,238	13,987	3,501	6,692	3,246	455
6/1-6/30/99	26,856	0.319	1.80	1.00	45,900	7,562	3,542	14,376	4,794	8,221	6,962	442
7/1-7/31/99	1,115	0.243	1.80	1.00	33,800	6,000	2,000	13,500	4,300	4,000	4,000	700
8/1-8/31/99	18,042	0.259	1.80	1.00	38,700	6,000	3,000	13,500	5,000	5,500	5,000	700
9/1-9/30/99	13,235	0.190	1.80	1.00	38,700	6,000	3,000	13,500	5,000	5,500	5,000	700
10/1-10/31/99	17,997	0.309	1.50	1.00	38,700	6,000	3,000	13,500	5,000	5,500	5,000	700
11/1-11/30/99	17,997	0.309	1.50	1.00	38,700	6,000	3,000	13,500	5,000	5,500	5,000	700
12/1-12/16/99	8,389	0.280	1.50	1.00	19,974							
12/17-12/31/99	8,427	0.300	1.50	1.00	18,726							
12/1-12/31/99					38,700	6,000	3,000	13,500	5,000	5,500	5,000	700
1/1-1/31/00	12,771	0.330	1.00	1.00	38,700	6,000	3,000	13,500	5,000	5,500	5,000	700
2/1-2/29/00	18,189	0.470	1.00	1.00	38,700	6,000	3,000	13,500	5,000	5,500	5,000	700
3/1-3/31/00	16,254	0.420	1.00	1.00	38,700	6,000	3,000	13,500	5,000	5,500	5,000	700
4/1-4/6/00	3,173	0.410	1.00	1.00	7,740							
4/7-4/30/00	13,622	0.440	1.00	1.00	30,960							
4/1-4/30/00					38,700	6,000	3,000	13,500	5,000	5,500	5,000	700
5/1-5/31/00	16,171	0.418	1.00	1.00	38,700	6,000	3,000	13,500	5,000	5,500	5,000	700
6/1-6/30/00	14,009	0.362	1.00	1.00	38,700	6,000	3,000	13,500	5,000	5,500	5,000	700
7/1-7/31/00	20,627	0.533	1.00	1.00	38,700	6,000	3,000	13,500	5,000	5,500	5,000	700
8/1-8/16/00	5,883	0.342	1.00	1.00	19,974							
8/17-9/30/00	2,699	0.047	1.00	1.00	57,426							
8/1-9/30/00					77,400							
Avg/mo 8/1-9/30					38,700	6,000	3,000	13,500	5,000	5,500	5,000	700

ATTACHMENT Exhibit H 2

Eastern States Distributors

Billing Period	Invoice Amount	Activity ratio	Markup factor	Fraction of month	Total Costs	Expenses						
						Rent & util	Other office expenses	Telephone	Automobile	Meetings, travel, & field costs	Postage & shipping	Miscellaneous
4/1-4/30/99	5,367	0.071	1.80	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
5/1-5/31/99	1,395	0.282	1.80	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
6/1-6/30/99	13,565	0.178	1.80	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
7/1-7/31/99	20,333	0.268	1.80	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
8/1-8/31/99	12,357	0.163	1.80	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
9/1-9/30/99	2,822	0.169	1.80	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
10/99-11/99		0.318	1.50	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
11/1-11/30/99		0.318	1.50	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
10/1-11/30/99	20,106	0.318	1.50	1.00	84,300							
12/1-12/16/99	7,892	0.240	1.50	8/15	21,755							
12/17-12/31/99	6,730	0.220	1.50	15/31	20,395							
12/1-12/31/99					42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
1/1-1/31/00	13,067	0.310	1.00	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
2/1-2/29/00	10,959	0.260	1.00	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
3/1-3/31/00	8,852	0.210	1.00	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
4/1-4/6/00	2,699	0.320	1.00	0.200	8,430							
4/7-4/30/00	10,116	0.300	1.00	0.800	33,720	5,600	4,500	18,000	4,800	4,000	2,500	2,750
4/1-4/30/00					42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
5/1-5/31/00	8,852	0.210	1.00	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
6/1-6/30/00	7,587	0.180	1.00	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
7/1-7/31/00	12,625	0.300	1.00	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750

Eastern States Distributors

Billing Period	Invoice Amount	Activity ratio	Markup factor	Fraction of month	Total Costs	Rent & util	Other office expenses	Telephone	Automobile	Meetings, travel, & field costs	Postage & shipping	Miscellaneous
8/1-8/16/00	5,856	0.260	1.00	0.516	21,755							
8/17-8/31/00		0.050	1.00	0.484	20,395	5,600	4,500	18,000	4,800	4,000	2,500	2,750
8/1-8/31/00					42,150							
8/17-8/31/00		0.050	1.00	0.484	20,395							
9/1-9/30/00		0.050	1.00	1.00	42,150	5,600	4,500	18,000	1,800	4,000	2,500	2,750
8/17-9/30/00	7,410				62,545							
10/1-10/31/00		0.007	1.00	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
11/1-11/30/00		0.007	1.00	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
12/1-12/31/00		0.007	1.00	1.00	42,150	5,600	4,500	18,000	4,800	4,000	2,500	2,750
10/1-12/31/00	860	0.007	1.00	1.00	126,450							

EIR News Service

Billing Period	Invoice Amount	Activity ratio	Markup factor	Fraction of month	Total Costs		Rent & util	Other office expenses	Telephone	Meetings, travel, & field costs
4/1-4/30/99	17,040	0.155	1.80	1.00	51,756	16,000	3,956	29,800	2,000	
5/1-5/31/99	38,010	0.408	1.80	1.00	51,756	16,000	3,956	29,800	2,000	
6/1-6/30/99	26,640	0.286	1.80	1.00	51,756	16,000	3,956	29,800	2,000	
7/1-7/31/99	6,955	0.182	1.80	1.00	51,756	16,000	3,956	29,800	2,000	
8/1-8/31/99	20,909	0.218	1.80	1.00	51,756	16,000	3,956	29,800	2,000	
9/1-9/30/99	19,778	0.234	1.80	1.00	46,956	16,000	3,956	25,000	2,000	
10/1-11/30/99	46,956	0.333	1.50		46,956	16,000	3,956	25,000	2,000	
11/1-11/30/99	46,956	0.333	1.50		46,956	16,000	3,956	25,000	2,000	
12/1-12/31/99	2,997	0.333	1.50	1.00	93,912	16,000	3,956	18,000	2,000	
1/1-1/31/00	17,581	0.260	1.50	0.52	39,956	16,000	3,956	18,000	2,000	
2/1-2/29/00	17,581	0.250	1.50	0.48	39,956	16,000	3,956	18,000	2,000	
3/1-3/31/00	17,581	0.440	1.00	1.00	39,956	16,000	3,956	18,000	2,000	
4/1-4/6/00	2,317	0.370	1.00	1.00	39,956	16,000	3,956	18,000	2,000	
4/7-4/30/00	15,264	0.290	1.00	0.20	39,956	16,000	3,956	18,000	2,000	
5/1-5/31/00	17,181	0.420	1.00	0.80	39,956	16,000	3,956	18,000	2,000	
6/1-6/30/00	13,585	0.430	1.00	1.00	39,956	16,000	3,956	18,000	2,000	
7/1-7/31/00	18,779	0.340	1.00	1.00	39,956	16,000	3,956	18,000	2,000	
8/1-8/16/00	6,978	0.470	1.00	1.00	39,956	16,000	3,956	18,000	2,000	
8/17-8/30/00	19,978	0.310	1.00	1.00	19,978					
8/1-8/31/00	39,956	0.050	1.00	1.00	39,956	16,000	3,956	18,000	2,000	
8/17-8/30/00	19,978	0.050	1.00	1.00	19,978					
9/1-9/30/00	59,934	0.050	1.00	1.00	59,934	16,000	3,956	18,000	2,000	

Hamilton System Distributors

Billing Period	Invoice Amount	Activity ratio	Markup factor	Fraction of month	Total Costs	Expenses							
						Rent & util	Field & office	Other office expenses	Telephone	Automobile	Meetings, travel, & field costs	Postage & shipping	Miscellaneous
4/1-4/30/99	6,365	0.104297	1.80	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
5/1-5/31/99	28,762	0.357319	1.80	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
6/1-6/30/99	23,074	0.298580	1.80	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
7/1-7/31/99	24,127	0.299737	1.80	1.00	44,720	6,995	8,355	975	13,000	4,526	3,392	2,489	1,988
8/1-8/31/99	25,357	0.321212	1.80	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
9/1-9/30/99	13,971	0.173189	1.80	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
10/1-10/31/99	21,087	0.359070	1.50	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
11/1-11/30/99	21,037	0.359070	1.50	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
12/1-12/16/99	17,617	0.220000	1.50	0.52	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
12/17-12/31/99	3,570	0.110000	1.50	0.48	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
1/1-1/31/00	16,994	0.380000	1.00	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
2/1-2/29/00	2,522	0.280000	1.00	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
3/1-3/31/00	8,050	0.180000	1.00	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
4/1-4/6/00	1,789	0.200000	1.00	0.20	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
4/7-4/30/00	9,072	0.253722	1.00	0.80	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
5/1-5/31/00	5,767	0.129416	1.00	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
6/1-6/30/00	6,357	0.142158	1.00	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
7/1-7/31/00	13,220	0.295618	1.00	1.00	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
8/1-8/16/00	3,854	0.166966	1.00	0.52	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988
8/17-9/30/00	2,063	0.031089	1.00	1.48	44,720	6,995	8,355	975	16,000	4,526	3,392	2,489	1,988

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Mid-West Circulation Corp

Billing Period	Invoice Amount	Activity ratio	Markup factor	Fraction of month	Total Costs	Expenses							Miscellaneous
						Rent & util	Other office expenses	Telephone	Automobile	Meetings, travel, & field costs	Postage & shipping	Interest & svc chgs	
4/1-4/30/99	4,980	0.1826	1.80	1.00	15,152	4,489	2,211	2,584	1,691	294	3,427	456	-
5/1-5/31/99	25,972	0.5040	1.80	1.00	28,598	8,813	1,993	8,851	3,162	2,068	3,023	334	354
6/1-6/30/99	22,885	0.3687	1.80	1.00	34,104	8,214	2,140	15,628	4,369	67	3,560	126	-
7/1-7/31/99	4,600	0.2604	1.80	1.00	30,803	10,399	1,991	6,233	2,094	4,466	2,593	374	2,653
8/1-8/31/99	15,321	0.2921	1.80	1.00	27,333	8,074	2,594	5,464	5,545	4,504	1,729	330	-
9/1-9/30/99	15,369	0.2724	1.80	1.00	31,285	4,243	2,473	17,824	258	460	1,497	634	2,989
10/1-10/31/99	6,917	0.4510	1.50	1.00	25,003	8,007	2,071	6,180	1,871	2,774	2,559	234	1,307
11/1-11/30/99	17,120	0.4510	1.50	1.00	25,307	10,466	1,614	6,425	1,544	590	2,449	353	1,866
12/1-12/16/99	4,909	0.2500	1.50	0.52	25,363	6,546	1,966	5,900	1,904	4,601	1,344	354	2,748
12/17-12/31/99	7,988	0.4300	1.50	0.48	25,363	6,546	1,966	5,900	1,904	4,601	1,344	354	2,748
1/1-1/31/00	6,148	0.4800	1.00	1.00	18,433	7,646	1,173	199	706	3,647	2,267	331	2,464
2/1-2/29/00	15,202	0.5700	1.00	1.00	26,670	3,898	4,486	8,198	2,816	3,357	1,369	262	2,284
3/1-3/31/00	18,498	0.5800	1.00	1.00	31,893	11,168	2,101	8,165	4,340	700	1,668	94	3,657
4/1-4/6/00	3,949	0.6400	1.00	0.20	27,973	7,692	2,602	11,185	1,259	36	1,448	99	3,652
4/7-4/30/00	12,866	0.5910	1.00	0.80	27,973	7,692	2,602	11,185	1,259	36	1,448	99	3,652
5/1-5/31/00	21,565	0.6005	1.00	1.00	41,074	7,469	2,645	18,694	2,583	7,257	2,069	357	-
6/1-6/30/00	5,713	0.5500	1.00	1.00	28,569	7,441	4,467	303	5,870	7,308	2,027	88	1,065
7/1-7/31/00	14,517	0.6002	1.00	1.00	23,854	4,259	2,278	10,474	2,053	152	4,327	136	175
8/1-8/16/00	7,860	0.4670	1.00	0.52	32,392	7,527	3,107	15,301	1,980	2,496	1,890	91	-
8/17-8/31/00	2,898	0.1735	1.00	0.48	32,392	7,527	3,107	15,301	1,980	2,496	1,890	91	-
9/1-9/30/00	2,539	0.1735	1.00	1.00	14,636	3,512	2,131	131	5,024	3,169	2,363	-	306
8/17-9/30/00	5,237	0.1735	1.00	1.48	47,028								

ATTACHMENT Exhibit H 2
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Southeast Literature Sales

Billing Period	Invoice Amount	Activity ratio	Markup factor	Fraction of month	Total Costs	Expenses						Miscellaneous
						Rent & util	Other office expenses	Telephone	Automobile	Meetings, travel, & field costs	Postage & shipping	
4/1-4/30/99	10,013	0.103	1.80	1.00	54,010	5,577	5,276	11,214	4,613	2,937	2,034	22,360
5/1-5/31/99	36,302	0.498	1.80	1.00	42,729	5,852	1,689	10,924	4,007	892	730	18,635
6/1-6/30/99	21,588	0.462	1.80	1.00	41,593	5,871	2,088	9,715	4,754	826	1,120	17,219
7/1-7/31/99	26,252	0.314	1.80	1.00	46,448	6,080	2,116	10,151	4,119	1,396	2,070	20,517
8/1-8/31/99	31,363	0.353	1.80	1.00	49,360	5,939	1,496	10,039	4,213	1,466	1,123	25,084
9/1-9/30/99	26,723	0.276	1.80	1.00	53,791	6,467	1,482	9,443	4,419	7,466	755	23,759
10/99-11/99	72,885	0.639	1.50	1.00	76,042	10,148	5,623	15,435	8,139	4,144	949	31,604
12/1-12/16/99	9,471	0.370	1.50	1.00	18,762	4,625	2,036	1,233	3,597	5,665	1,608	(0)
12/17-12/31/99	3,476	0.427	1.50	1.00	16,282	-	133	6,214	1,396	908	93	7,537
1/1-1/31/00	15,826	0.400	1.00	1.00	39,567	5,153	3,003	6,807	3,092	600	388	20,524
2/1-2/29/00	22,483	0.480	1.00	1.00	46,840	5,523	5,103	8,626	5,448	1,492	682	19,966
3/1-3/31/00	16,988	0.480	1.00	1.00	35,392	4,968	2,135	7,759	3,573	1,084	824	15,048
4/1-4/6/00	5,757	0.480	1.00	1.00	11,994	4,550	592	20	663	585	174	5,411
4/7-4/30/00	512,416	0.528	1.00	1.00	24,197	389	1,444	8,307	3,293	739	377	9,648
5/1-5/31/00	25,595	0.504	1.00	1.00	50,983	5,078	2,875	22,390	3,056	1,568	646	15,370
6/1-6/30/00	21,476	0.424	1.00	1.00	50,653	5,193	2,876	7,793	6,058	802	617	27,314
7/1-7/31/00	22,535	0.546	1.00	1.00	41,383	5,588	2,168	7,175	4,867	2,535	881	18,169
8/1-8/16/00	7,739	0.404	1.00	1.00	18,428	4,700	1,632	165	1,971	740	413	8,807
8/17-9/30/00	17,369	0.133	1.00	1.00	55,166	6,160	3,519	15,609	6,309	6,480	596	16,493
10/1-12/31/00	8,589	0.062	1.00	1.00	138,527	15,101	8,521	22,857	10,543	4,470	1,675	75,357

Southwest Literature Distributors

Billing Period	Invoice Amount	Activity ratio	Markup factor	Fraction of month	Total Costs	Cost Breakdown						
						Rent & util	Other office expenses	Telephone	Automobile	Meetings, travel, & field costs	Postage & shipping	Miscellaneous
Apr-99	2,871	0.076	1.80	1.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
May-99	12,500	0.323	1.80	1.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
Jun-99	12,338	0.386	1.80	1.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
Jul-99	10,594	0.266	1.80	1.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
Aug-99	12,694	0.328	1.80	1.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
Sep-99	11,942	0.245	1.80	1.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
10/1-11/30/99	23,349	0.362	1.50	2.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
12/1-12/16/99	14,827	0.290	1.50	0.52	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
12/17-12/31/99	5,452	0.350	1.50	0.48	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
1/1-1/31/00	8,170	0.380	1.00	1.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
2/1-2/29/00	8,500	0.400	1.00	1.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
3/1-3/31/00	8,600	0.400	1.00	1.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
4/1-4/6/00	3,789	0.430	1.00	0.20	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
4/7-4/30/00	12,384	0.400	1.00	0.80	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
5/1-5/31/00	10,320	0.480	1.00	1.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
6/1-6/30/00	9,460	0.440	1.00	1.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
7/1-7/31/00	10,750	0.500	1.00	1.00	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
8/1-8/16/00	4,013	0.350	1.00	0.52	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700
8/17-9/30/00	11,935	0.060	1.00	1.48	21,500	3,000	4,300	4,500	500	3,000	2,500	3,700

Richard Welsh

From: Nicole Clay [nclay@fec.gov]
Sent: Friday, October 12, 2001 11:07 AM
To: Richard Welsh
Subject: Questions

Goodmorning Richard. I have some questions regarding the materials that you sent.

Towards the end of the contract the vendors no longer charged a markup, why did the vendors charge a markup?

Some of the vendor costs do not fluctuate, why? Certain costs like telephone, utilities, office expense and travel, did not vary during from month to month?

Why did the costs for EIR decrease?

Could you please explain the calculation of the amount invoiced by EIR from 8/1/00 through 9/30/00? It appears that you were invoiced at a higher rate for an entire month for half of the vendor's cost for the month in August. And in September you were invoiced at a lower rate for only a month for the vendor's cost for a month and a half. Could you please explain why.

Thank you for your prompt response. Could you also send copies of your bank statements, reconciliations July 2001 thru the present and check register July 27, 2001 to the present, so that I can update your NOCO statement. Thank you, please feel free to email or call if you have any questions. I will be talking to Joe and Russ over the next few days and I will let you know if we need more information.

Nicole



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20541

October 29, 2001

Ms. Kathy A. Magraw, Treasurer
LaRouche's Committee for a New Bretton Woods
P.O. Box 89
Leesburg, VA 20178

Dear Ms. Magraw:

As discussed at the exit conference on August 29th, the Audit staff would like to review the financial records of two regional vendors, Eastern States Distributors, Inc. and Southeast Literature Sales, Inc. We would like LaRouche's Committee for a New Bretton Woods (LCNBW) to establish an initial point of contact to expedite our pending review. Both regional vendors should make the following records available:

1. bank statements, deposit slips, canceled checks, debit and credit memoranda for all accounts
2. workpapers showing the computation of the activity ratio including but not limited to an explanation of how receipts were tracked;
3. computerized records;
4. documentation or explanation for the markup percentage charged;
5. source documents and other related materials for all contracts and lease agreements;
6. audit reports or financial statements prepared by an external accounting firm;
7. tax returns;
8. invoices and receipts for all expenses; and
9. documentation demonstrating the derivation of staff billing hours.

In addition, several inquiries were made during the exit conference, relating specifically to the business operations of the regional vendors. Please explain why no interest or late charges were incurred on the delinquent LCNBW account. Publication and General Management, Inc. provided the ADP system for these vendors--were they billed separately and is this system included as an expense billed to LCNBW? When the regional vendors are not working for a LaRouche presidential campaign, how do they raise funds to cover their expenses?

As mentioned in the conversation between Nicole Clay of my staff and Richard Welsh on October 25th, we request your response by November 9th, regarding the availability and location of the records as well as the date that the records will be available for review. The Audit staff is available to travel to the business locations of Eastern States Distributors, Inc. and Southeast Literature Sales, Inc., to perform the review. We will need space for three auditors. Please establish a person on the regional level that we may contact directly, and staff that were instrumental in the preparation of the records.

If you have any questions concerning this request, please call Nicole Clay or Russ Bruner at (202) 694-1200 or toll free at (800) 424-9530.

Sincerely,



Robert J. Costa
Assistant Staff Director
Audit Division

cc: Richard Welsh

ATTACHMENT 2

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Exhibit J

LaRouche's

COMMITTEE FOR A

NEW BRETTON WOODS

P.O. Box 89 Leesburg, VA 20178
1-800-929-7566
www.larouchecampaign.org

By Fax and First Class Mail

November 9, 2001

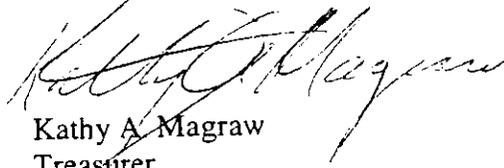
Robert J. Costa
Audit Division
Federal Election Commission
999 E Street, NW
Washington, DC 204763

Dear Mr. Costa:

As reflected in the attached correspondence, your requests concerning an audit of Southeast Literature Sales (SELS) and Eastern States Distributors (ESD) has been forwarded to them for a response, which I believe will be forthcoming next week.

I do want to note that contrary to the statement in your letter, no audit of SELS and ESD, nor the broad nature of your request, was discussed at the exit conference. Staff only stated that some further documentation would be required for the invoices presented by the two (to be specified) distributing companies which provided services to the campaign. Understandably, SELS and ESD request some time to consider the issues your request presents.

Sincerely yours,



Kathy A. Magraw
Treasurer

cc: Odin Anderson, Esq.

ATTACHMENT

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Exhibit K

WINDELS MARX LANE & MITTENDORF, LLP

120 ALBANY STREET PLAZA

NEW BRUNSWICK, N.J. 08901

William C. Cagney

Certified by the Supreme Court of New Jersey
As a Civil and Criminal Trial Attorney

wcagney@windelsmarx.com

TEL: (732) 846-7600

FAX: (732) 846-8877

NEW YORK, NY

PRINCETON, NJ

STANFORD, CT

BONITA SPRINGS, FL

November 17, 2001

VIA FAX & REGULAR MAIL

Kathy A. Magraw, Treasurer
LaRouche's Committee for a New Bretton Woods
P.O. Box 89
Leesburg, VA 20178

Dear Ms. Magraw:

I write on behalf of Eastern States Distributors, Inc., whom I represent, to respond to your letter dated November 5, 2001, and the accompanying letter dated October 29, 2001, from the Federal Election Commission ("FEC") to you as Treasurer of LaRouche's Committee for a New Bretton Woods ("LCNBW").

In general, ESDI will provide to LCNBW, for production to the FEC, those financial records requested by the FEC which ESDI is obligated to provide LCNBW under the Contract for Campaign Organizing Services and Facilities ("Contract") dated April 30, 1999. The financial records include documents supporting ESDI's bills to LCNBW under Paragraphs 6, 7, and 10 of that Contract, as follows:

1. Source documentation and related materials for all relevant contracts and lease agreements under ¶10 of the Contract;
2. Invoices and receipts for expenses under ¶¶6, 7, and 10 of the Contract; and
3. Workpapers showing computation of the activity ratio.

ESDI expects to provide these financial records to you by late December, but perhaps early January 2002, given the holiday season and the daunting task of pulling numerous documents from among voluminous business records. ESDI, for obvious reasons, prefers that the FEC make any further arrangements, such as accommodating the FEC's Audit Staff, directly with LCNBW. Finally, I merely note that the FEC's request for certain financial records beyond those responsibly within the purview of its audit of LCNBW are not being produced to LCNBW, including tax returns, bank records, audits, and staff hours, although ESDI remains open to considering supplemental requests for additional records and additional information, with reasons stated, while I note my concern with the obvious Constitutional issues implicated by expansive requests and

WINDELS MARK LANE & MITTENDORF, LLP

Kathy A. Magraw, Treasurer

November 17, 2001

Page 2

broadening questions, including First Amendment associational privileges of ESDI, its customers, vendors, and associates, as well of LCNBW, its contributors, supporters, and associates.

The FEC also reportedly made several inquiries relating specifically to the business operations of ESDI. In response, ESDI offers the following information. ESDI is a Pennsylvania not-for-profit corporation, which was organized in November 1986 for the distribution of literature and for the dissemination of political, scientific, and cultural ideas and which since then has been engaged in core First Amendment activities primarily by the distribution and sale of publications to the general public, from which its revenues are derived. These publications are political literature, including New Federalist, a weekly newspaper, Executive Intelligence Review, a periodic news magazine and intelligence review, 21st Century Science Magazine, various pamphlets, and special reports. During the LCNBW campaign, pursuant to the Contract, ESDI facilities were also utilized by campaign volunteers for campaign activities.

ESDI did not contract for or bill any interest or late charges on any delinquent LCNBW bill or account because it was not its practice to do so with respect to any delinquent accounts. ESDI did charge a markup from April 1999 through September 1999, in the amount of 80%, and from October 1999 through December 1999, in the amount of 50%. ESDI negotiated these markups to insure adequate payment for the increased use of ESDI facilities during these periods, prior to the front-loaded year 2000 primary elections. Any markup was eliminated in 2000.

ESDI reported LCNBW transactions and all its transactions to Publication and General Management, Inc. ("PGM"), which in turn provided ESDI with worksheets for each billing period itemizing the number of campaign transactions and the number of all other transactions, from which the percentage utilized in the bill was derived. ESDI was not billed by PGM for this service.

Please contact me about a specific schedule of delivery for the aforementioned financial records.

Very truly yours,


WILLIAM C. CAGNEY

WCC:jfp

40078765:1

ATTACHMENT

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Exhibit L

KNIGHT, MANZI, NUSSBAUM & LAPLACA, P.A.

Attorneys at Law

November 19, 2001

14440 Old Mill Road
Upper Marlboro, Maryland
20772

Telephone: 301-952-0100
Facsimile: 301-952-0221
Baltimore: 410-792-3786
E-mail: kmnl@kmnl-law.co

VIA FACSIMILE TRANSMITTAL

(1-703-771-9492)

And By Regular Mail

Ms. Kathy A. Magraw, Treasurer
LaRouche's Committee for a
New Bretton Woods
P.O. Box 89
Leesburg, VA 20178

William E. Knight
Robert A. Manzi *
Ronald M. Miller *
William C. Brennan, Jr. *
Harry J. Trainor, Jr.
Andrew W. Nussbaum *
Raymond G. LaPlaca *
John F. Shay, Jr.
Sheldon L. Gnatt *
Daniel A. LaPlaca
Roger C. Thomas
Monica M. Halcy Pierson
Daniel F. Lynch III

Francine Silver Taylor *
Amy B. Glaser *
John M. McKenna
Terry L. Bell
Linda M. Gantt
Shelley L. Johnson

Paul M. Nussbaum
(1928-1997)

* Also Admitted in the
District of Columbia

Dear Ms. Magraw:

I represent Southeast Literature Sales ("SELS"). I have received and reviewed your letter dated November 5, 2001 and the accompanying letter from the Federal Election Commission. SELS will provide documents supporting its charges to LaRouche's Committee for a New Bretton Woods ("LBW") for use of its facilities by LBW and the disbursements made to SELS by LBW, under the contract. At this time, SELS respectfully declines the FEC's request for an onsite audit of SELS and the FEC's other requests for documents which appear to have no relation to the use of SELS' facilities by the campaign. SELS remains open to reconsidering its position if reasons are advanced by the FEC as to why the documents that SELS is providing do not satisfy any concerns the FEC has about LBW's use of SELS' facilities during the 2000 Presidential campaign.

Accordingly, SELS will provide to you, for delivery to the FEC: (1) Source documents and other related materials for all contracts and lease agreements used in calculating the charges by SELS to LBW for facilities use under the contract; (2) Invoices, bills, receipts, and payments for SELS' facilities use billed to LBW under the contract, e.g. for SELS rent, telephone, automobile charges, etc.; and (3) Work papers showing the computation of the activity ratio.

In the October 29, 2001 letter to LBW, the FEC asks certain questions about the activities of "vendors." It is unclear from the letter whether these questions are addressed to SELS or to LBW. After consultation and discussions with my client (SELS), I can advise you of the following:

The FEC has asked what SELS does. SELS is a Maryland not-for-profit corporation established and active since 1987. SELS engages in the sales and distribution of political literature to the public, including a weekly newspaper, *The New Federalist*, a news magazine, *Executive Intelligence Review*, a science magazine, *21st Century*, and a variety of special reports, pamphlets, and books. Its revenues are derived from the sales of these publications.

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Exhibit M

Ms. Magraw
November 19, 2001
Page 2

As you know, during 1999 and 2000, LBW contracted for the use of SELS' facilities by volunteers for the campaign. The contract established that payment for this use was to be based on an allocation formula. SELS' baseline monthly facilities operating expenses were calculated on a monthly basis. This baseline figure was then multiplied by a percentage, consisting of the total number of LBW campaign contribution transactions resulting from the use of SELS' facilities by the campaign, divided by the total number of sales transactions engaged in by SELS for all of its customers for each monthly period.

The FEC has asked for an explanation of how SELS tracked the "receipts" used for the percentage figure in the allocation formula. SELS reported LBW transactions and its publication sales transactions to Publication and General Management, Inc. PGM, in turn, provided SELS with work sheets for each billing period itemizing the number of campaign transactions versus other transactions. SELS used this percentage in billing the campaign. SELS was not billed by PGM for this service.

The FEC has also asked about the basis of markup charged in April of '99 through September of '99 (80%) and in October of '99 through December of '99 (50%). SELS and LBW negotiated this markup to insure adequate payment from LBW during a period in which LBW had greatly increased its campaign activities in preparation for the 2000 Presidential Primary Elections. As you know, most major primaries occurred during the first three months of 2000. This markup was eliminated in 2000. SELS did not charge late fees or interest when the LBW account was delinquent because it was not and is not its practice to charge late fees or interest.

The document requests in the FEC's October 29, 2001 letter raise serious First Amendment concerns. The officers and employees of SELS are members of a controversial political movement led by Lyndon LaRouche. The publications SELS sells espouse these views. For decades federal and state agencies have investigated LaRouche and anyone associated with him including financial supporters, landlords, vendors, and banks based solely on the views expressed in the publications. Individuals who contributed to Mr. LaRouche's Presidential campaign chose to make their political association public. Many other individuals who associate with or support SELS and Lyndon LaRouche and who did not contribute to LaRouche's presidential campaign do not wish to make their association public. These associational privacy concerns and others are put directly in issue by the FEC's requests.

From what I understand from my client, the underlying documents SELS used to establish its facilities operating expenses for monthly billing purposes represents a substantial quantity of documents. I also understand that LBW has already provided the FEC with SELS invoices to LBW, the contract, and LBW's payments to SELS. I am confident that the documents SELS has agreed to provide, together with my availability to inquire and answer any questions the FEC may have of my client based upon this production, will satisfy any concerns the FEC has under applicable law.

SELS is not a large operation and the holidays are now bearing down upon us. I anticipate that we can provide the documents requested by the first week of January. Please let me know if this is satisfactory.

Very truly yours,

William C Brennan, Jr.

William C. Brennan, Jr.

ATTACHMENT

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ANDERSON, ROSSI & DAVIS
ATTORNEYS AT LAW

FOUR LONGFELLOW PLACE - SUITE 3005 - BOSTON, MASSACHUSETTS 02114
(617) 742-8200 - FACSIMILE: (617) 742-7876

September 6, 2002

Joseph Stoltz
Assistant Staff Director
Audit Division
Federal Election Commission
999 B Street NW
Washington, D.C. 20463

By Facsimile and Overnight Mail

Re: Request for an Extension of Time in which
To Respond to the Preliminary Audit Report Concerning
LaRouche's Committee for a New Bretton Woods

Dear Mr. Stoltz:

As you know, I represent LaRouche's Committee for a New Bretton Woods ("LBW"). On July 17, 2002 the Audit Division issued its Preliminary Report concerning LBW. Under the normal FEC procedures, LBW's response to the Preliminary Report would be due September 19, 2002.

The main issue raised in the Preliminary Report concerns documentation for expenses incurred pursuant to a contract between LBW and seven vendors operating in different regions of the United States. After conducting an audit of certain operating accounts of two of these vendors, SELS and ESDI, the Audit Division in the Preliminary Report requested that additional documentation be produced for these two vendors and that all pertinent documents concerning expenses subject to the contract between LBW and the other five vendors be produced. Since the Preliminary Report was issued, LBW has undertaken to procure and produce these records which are voluminous.

Based on discussions between Nicole Burgess of the Audit Division and Richard Welsh of LBW it now appears that the earliest the FEC could audit the remaining documents from the five vendors would be the week of September 16, 2002 in Leesburg, Virginia. Based on this, the September 19th date for a Response to the Preliminary Audit Report is not reasonable or feasible.

In order to allow for the FEC's review of the documents provided, to allow LBW an opportunity to respond to any remaining questions the Audit Division may have, and to allow for changes or supplementation by the FEC of the Preliminary Audit Report, I propose the following alternative schedule:

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Exhibit N

September 16th-20th. Audit of the records of the five remaining vendors in Leesburg, Virginia and production of additional documentary materials requested by the Audit Division.

September 27th. Notification by the FEC to LBW of any remaining issues to be addressed concerning its contract with the vendors following the audit in Leesburg, Virginia.

October 4th. Any changes or supplementation to the Preliminary Audit Report by the FEC delivered to LBW.

October 18th. LBW's response to the Preliminary Audit Report as amended and the FEC's September 26th identification of remaining issues, if any, concerning the contract with the vendors.

Obviously, there is some wiggle room in these dates for what we may both agree are contingencies arising from such a large document production. Please let me know whether the above schedule or some reasonable alternative is acceptable to the FEC by September 12th, if not sooner.

Very truly yours,



Odin P. Anderson

cc: Ms. Nicole Burgess
Richard Welsh
Kathy Magraw

ATTACHMENT

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Exhibit N

Richard Welsh

From: rgillingwater@fec.gov
Sent: Wednesday, November 20, 2002 7:06 AM
To: Richard Welsh
Subject: Re: Question and document wrap-up



Ratio reports.doc
(20 KB)

Hi Richard. Thank you for the information. I have passed it onto Russ Bruner. Will get back to you today.

Richard Welsh <rwelsh@levitjames.com> on 11/19/2002 04:36:43 PM

To: Rhonda Gillingwater <rgillingwater@fec.gov>, Nicole Burgess
<nburgess@fec.gov>
cc:

Subject: Question and document wrap-up

See attached reply to question on activity ratio reports.
(See attached file: Ratio reports.doc)

ATTACHMENT

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Richard Welsh

From: rgillingwater@fec.gov
Sent: Wednesday, November 20, 2002 11:03 AM
To: Richard Welsh
Cc: rbruner@fec.gov
Subject: Re: Question and document wrap-up



November 20 request for doc.do... Ratio reports.doc
(20 KB)

Richard:

Here are the remaining requests. Please let me know when we can expect them.

Thank you

Rhonda Gillingwater

(See attached file: November 20 request for doc.doc)

Richard Welsh <rwelsh@levitjames.com> on 11/19/2002 04:36:43 PM

To: Rhonda Gillingwater <rgillingwater@fec.gov>, Nicole Burgess
<nburgess@fec.gov>

cc:

Subject: Question and document wrap-up

See attached reply to question on activity ratio reports.
(See attached file: Ratio reports.doc)

ATTACHMENT

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Richard Welsh

From: Richard Welsh [rwelsh@levitjames.com]
Sent: Tuesday, November 26, 2002 2:38 PM
To: rgillingwater@fec.gov
Subject: RE: Question and document wrap-up

Rhonda:

I don't know what you mean by question #2 ("why does EIR pay rent for PGM"). Can you be more specific, and point me to the relevant documents? We are assembling a consolidated final reply to all matters raised, and would like to include this with the others.

Thank you.

Richard Welsh

-----Original Message-----

From: rgillingwater@fec.gov [mailto:rgillingwater@fec.gov]
Sent: Wednesday, November 20, 2002 11:03 AM
To: Richard Welsh
Cc: rbruner@fec.gov
Subject: Re: Question and document wrap-up

Richard:

Here are the remaining requests. Please let me know when we can expect them.

Thank you

Rhonda Gillingwater

(See attached file: November 20 request for doc.doc)

Richard Welsh <rwelsh@levitjames.com> on 11/19/2002 04:36:43 PM

To: Rhonda Gillingwater <rgillingwater@fec.gov>, Nicole Burgess
<nburgess@fec.gov>

cc:

Subject: Question and document wrap-up

See attached reply to question on activity ratio reports.
(See attached file: Ratio reports.doc)

ATTACHMENT

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Richard Welsh

From: Richard Welsh [rwelsh@levitjames.com]
Sent: Friday, January 03, 2003 9:24 AM
To: 'rgillingwater@fec.gov'; 'nburgess@fec.gov'
Subject: LaRouche's Committee for a New Bretton Woods

Hi, and happy new year.

Any news, status reports, or further inquiries on the audit?

Thanks,
Rich Welsh

ATTACHMENT 2
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Exhibit P

Statement

L. & S Investment
 3231 Fletcher Drive
 Los Angeles, Calif 90065
 (323) 255-9800

DATE
 11/5/01

TO

American System Publications
 P.O. Box 65718
 Los Angeles, California 90065
 Attn: Mureen Calney

		AMOUNT DUE	AMOUNT ENC		
		\$3,000.00			
DATE	TRANSACTION	AMOUNT	BALANCE		
12/31/00	Balance forward		6,000.00		
01/12/01	PMT #116440	-4,000.00	2,000.00		
01/15/01		3,000.00	5,000.00		
02/15/01		3,000.00	8,000.00		
02/16/01	PMT #25157	-4,000.00	4,000.00		
03/15/01	INV #1913	3,000.00	7,000.00		
03/19/01	PMT #25330	-1,000.00	6,000.00		
03/06/01	PMT #25403	-3,000.00	3,000.00		
04/15/01		3,000.00	6,000.00		
04/23/01	PMT #24488	-3,000.00	3,000.00		
CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
0.00	0.00	0.00	0.00	3,000.00	\$3,000.00

ATTACHMENT

Page

99

of

168

Exhibit Q

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 4/99

	<u>Los Angeles</u>	<u>San Leandro</u>	<u>Seattle</u>	<u>TOTAL (all offic)</u>
Rent & Utilities:		118.97 179.32	191.42	191.42
Other Office Expense:	595.15		120.61	1013.15
Telephone:				
Auto:	1060.99	31.- 86.77 23.20	157.71	1359.97
Travel, Meetings, Field:		25.- 85.45 8.-	208.74 13.45	1540 118.76
Postage & Freight:		37.76 28.06	0.32	66.14
Miscellaneous:				

2/15/98

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 5/99

	<u>Los Angeles</u>	<u>San Leandro</u>	<u>Seattle</u>	<u>TOTAL (all offc)</u>
Rent & Utilities:				
Other Office Expense:	<u>9.24</u> <u>72.99</u> 288.41	<u>59.06</u>	<u>15.25</u> <u>61.65</u>	<u>516.60</u>
Telephone:				
Auto:	<u>825.22</u> <u>219.49</u>	<u>272.42</u>	<u>158.49</u>	<u>1475.62</u>
Travel, Meetings, Field:	<u>402.61</u> <u>76.50</u> 551.56	<u>20.00</u>	<u>64.00</u>	<u>1114.67</u>
Postage & Freight:	<u>32.85</u>	<u>120.06</u>	<u>75.23</u>	<u>228.14</u>
Miscellaneous:	<u>20.00</u>			<u>20.00</u>

2000-05-02

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 6/99

	<u>Los Angeles</u>	<u>San Leandro</u>	<u>Seattle</u>	<u>TOTAL (all offc)</u>
Rent & Utilities:			<u>13.72</u>	<u>13.72</u>
Other Office Expense:	<u>672.13</u>	<u>23.73</u>	<u>173.41</u> 48.88	<u>917.95</u>
Telephone:				
Auto:	<u>126.02</u> <u>903.83</u>	<u>284.51</u> <u>50.00</u>	<u>57.59</u>	<u>1421.95</u>
Travel, Meetings, Field:	<u>22.89</u> <u>99.35</u>		<u>45.56</u>	<u>167.80</u>
Postage & Freight:	<u>27.58</u> <u>138.47</u>	<u>46.20</u>	<u>54.80</u>	<u>267.05</u>
Miscellaneous:				

2788 47

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 7/99

	<u>Los Angeles</u>	<u>San Leandro</u>	<u>Seattle</u>	<u>TOTAL (all offic)</u>
Rent & Utilities:				
Other Office Expense:	525.51 10.97 3.19 48.16 424.63	586.3	10.51	1081.60
Telephone:	1.00			1.00
Auto:	1123.44 142.14	429.81	112.10	1807.49
Travel, Meetings, Field:	235.51 10.00 113.70		20.05 124.42 182.05	685.23
Postage & Freight:	63.98	33.00	592.88 100.53	790.39
Miscellaneous:				

4365.71

LBW Worksheet
 RE: American System Publications

Month: 8/99

PETTY CASH

TOTAL (all offc)

Seattle

San Leandro

Los Angeles

Rent & Utilities:

	<u>2.16</u>	<u>52.90</u>	<u>598.88</u>
	<u>21.80</u>		

Other Office Expense:

Telephone:

	<u>123.55</u>	<u>1611.91</u>
	<u>220.87</u>	

Auto:

	<u>82.13</u>	<u>626.64</u>
	<u>3.00</u>	

Travel, Meetings, Field:

	<u>41.00</u>	<u>198.08</u>	<u>548.62</u>
	<u>349.77</u>	<u>31.79</u>	

Postage & Freight:

Miscellaneous:

ATTACHMENT

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Exhibit R

2

3386.05

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 9/99

TOTAL (all offic)

Seattle

San Leandro

Los Angeles

Rent & Utilities:

	<u>11.47</u>	<u>10.75</u>	<u>495.48</u>
	<u>25.95</u>	<u>1.00</u>	

Other Office Expense:

	<u>32.36</u>	<u>405.96</u>	<u>7.99</u>
--	--------------	---------------	-------------

Telephone:

	<u>76.99</u>	<u>195.45</u>	<u>1464.41</u>
--	--------------	---------------	----------------

Auto:

	<u>210.02</u>
--	---------------

Travel Meetings, Field:

	<u>493.87</u>	<u>249.66</u>	<u>442.85</u>	<u>1262.64</u>
	<u>23.96</u>	<u>34.32</u>	<u>12.76</u>	
	<u>45.25</u>			<u>225.42</u>

Postage & Freight:

	<u>34.32</u>
--	--------------

Miscellaneous:

ATTACHMENT

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Exhibit R

3447.85

LBW Worksheet
 RE: American System Publications

PEITY CASH

Month: 10/99

TOTAL (all offc)

Seattle

San Leandro

Los Angeles

Rent & Utilities:

44.10
357.05

284.44
6.62 4.32

9.72
7.50 88.48

802.23

Other Office Expense:

Telephone:

926.77
105.91

15.12
319.51

1.40
112.79

1481.50

Auto:

19.44
35.40 346.22

9.39
83.25

81.75
39.12 28.50

643.07

Travel, Meetings, Field:

62.75

7.59

17.37

88.21

Postage & Freight:

Miscellaneous:

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Exhibit R

2

3015.01

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 11/99

	<u>Los Angeles</u>	<u>San Leandro</u>	<u>Seattle</u>	<u>TOTAL (all offic)</u>
Rent & Utilities:			<u>89.00</u>	<u>89.00</u>
Other Office Expense:	<u>8.36</u> <u>22.79</u> <u>548.74</u>	<u>44.22</u>	<u>3.00</u>	<u>677.11</u>
Telephone:				
Auto:	<u>40.43</u> <u>84.63</u> <u>904.97</u>	<u>400</u> <u>2400</u>	<u>262.25</u> <u>128.66</u>	<u>1420.94</u>
Travel, Meetings, Field:	<u>249.25</u> <u>34.75</u> <u>315.39</u>	<u>26.08</u> <u>394.32</u>		<u>1019.79</u>
Postage & Freight:	<u>16.25</u> <u>4.95</u> <u>64.89</u>	<u>6.17</u>	<u>898.88</u>	<u>991.14</u>
Miscellaneous:				

1/197.98

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 12/99

TOTAL (all offc)

Seattle

San Leandro

Los Angeles

Rent & Utilities:

575.53
6.84

1.00 202.53
20.25 7.11

1015.36

Other Office Expense:

202.10

Telephone:

1349.18
224.58

59.73
218.50 200.00

2535.91

Auto:

38.98 151.63
174.86 143.03
24.02 32.00

94.75
0.81

742.61

Travel, Meetings, Field:

25.13
11.68 45.72

77.50
45.05

586.74
1.13

718.02

Postage & Freight:

Miscellaneous:

2

5011.90

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 1/00

TOTAL (all offic)

Seattle

San Leandro

Los Angeles

Rent & Utilities:

184.26
4.66

423.13

Other Office Expense:

25.43

208.78

Telephone:

134.19
4.95

1604.67

Auto:

176.55 3.12
24.00 12.46
31.28
54.25 30.00

386.49

Travel, Meetings, Field:

45.73

14.40

4.58

64.71

Postage & Freight:

Miscellaneous:

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 2/00

	<u>Los Angeles</u>	<u>San Leandro</u>	<u>Seattle</u>	<u>TOTAL (all offic)</u>
Rent & Utilities:				
	5.90		91.37	614.85
	8.07	107.77	17.90	
Other Office Expense:				
Telephone:				
			343.81	1916.35
			131.86	
Auto:				
	1404.68	36.00		408.34
	66.38		58.00	
	180.12	11.83	44.58 34.04	
Travel, Meetings, Field:				
			70.91	786.97
			716.06	
Postage & Freight:				
Miscellaneous:				

3726.51

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 3/00

	<u>Los Angeles</u>	<u>San Leandro</u>	<u>Seattle</u>	<u>TOTAL (all offc)</u>
Rent & Utilities:	<u>2.35</u> <u>285.85</u>	<u>47.71</u> <u>147.25</u>	<u>4.89</u> <u>14.28</u>	<u>502.33</u>
Other Office Expense:		<u>60.80</u>		<u>60.80</u>
Telephone:	<u>1378.19</u> <u>24.68</u>		<u>74.21</u> <u>181.80</u> 13317	<u>1922.33</u>
Auto:	<u>180.74</u> <u>9.33</u> 283.10 <u>83.86</u> 81.64	<u>38.96</u> <u>22.47</u>	<u>3.00</u> <u>3.80</u>	<u>706.90</u>
Travel, Meetings, Field:			<u>120.22</u> <u>595.01</u>	<u>723.63</u>
Postage & Freight:	<u>8.10</u>			
Miscellaneous:				

3915.99

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 4/00

TOTAL (all offic)

Seattle

San Leandro

Los Angeles

Rent & Utilities:

	<u>449.57</u>	<u>10.51</u>	<u>39.64</u>	
	<u>29.24</u>			<u>520.96</u>

Other Office Expense:

Telephone:

	<u>1738.74</u>	<u>60.00</u>	<u>139.17</u>	
	<u>158.34</u>	<u>185.51</u>	<u>150.52</u>	<u>2432.28</u>

Auto:

	<u>34.72</u>	<u>4.50</u>	<u>5.50</u>	
	<u>114.91</u>	<u>16.86</u>		<u>812.34</u>
	<u>40.89</u>	<u>2.00</u>	<u>5.50</u>	
	<u>373.70</u>	<u>4.93</u>		<u>353.26</u>
		<u>13.00</u>	<u>23.00</u>	
			<u>77.83</u>	

Travel, Meetings, Field:

	<u>33.79</u>	<u>6.60</u>	<u>34.37</u>	
			<u>278.50</u>	<u>353.26</u>

Postage & Freight:

Miscellaneous:

ATTACHMENT

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Exhibit R

2

4/16/89

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 5/00

TOTAL (all offc)

Seattle

San Leandro

Los Angeles

Rent & Utilities:

35.20 6.48 646.32
 30.13 6.44 26.65

753.23

Other Office Expense: 2.00

Telephone:

1698.82
 28.69

1949.51

Auto:

8.00 228.45 75.80
 242.35
 59.24 144.97

783.81

Travel, Meetings, Field:

11.84

11.84

Postage & Freight:

Miscellaneous:

3/98 39

ATTACHMENT

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Exhibit R

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 6/00

	<u>Los Angeles</u>	<u>San Leandro</u>	<u>Seattle</u>	<u>TOTAL (all offic)</u>
Rent & Utilities:				
Other Office Expense:	<u>2.76</u>			<u>843.87</u>
Telephone:				
Auto:	<u>2692.94</u> <u>241.92</u>			<u>2934.86</u>
Travel, Meetings, Field:	<u>43.29</u>			<u>1273.48</u>
Postage & Freight:	<u>825.82</u> <u>112.54</u>			
Miscellaneous:				

5053

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 10/00

Los Angeles San Leandro Seattle TOTAL (all offic)

Rent & Utilities: _____

26.60 20.00
30.00 581.20

Other Office Expense: _____

336.68 994.48

Telephone: _____

81.73
2667.07

3170.35

Auto: _____

199.29 145.33
416.38 58.55

1232.41

Travel, Meetings, Field: _____

4.95 223.91 16.90

245.76

Postage & Freight: _____

Miscellaneous: _____

5/6/3

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 11/00

TOTAL (all offic)

Seattle

San Leandro

Los Angeles

Rent & Utilities:

110.75
369.35 35.00

239.32

754.42

Other Office Expense:

Telephone:

229.14
2657.22

2886.36

Auto:

274.62 16.29
316.63 476.93

542.23
25.61

1712.31

Travel, Meetings, Field:

29.56

29.20

58.76

Postage & Freight:

Miscellaneous:

ATTACHMENT

5,111.85

4315.21

no 932 98

LBW Worksheet
 RE: American System Publications

PETTY CASH

Month: 12/00

	<u>Los Angeles</u>	<u>San Leandro</u>	<u>Seattle</u>	<u>TOTAL (all offic)</u>
Rent & Utilities:	_____	_____	_____	_____
Other Office Expense:	<u>275.25</u> <u>24.82</u>	<u>370.32</u>	_____	<u>670.39</u>
Telephone:	<u>18.98</u>	_____	_____	<u>18.98</u>
Auto:	<u>129.44</u> <u>2381.51</u>	_____	_____	<u>2510.95</u>
Travel, Meetings, Field:	^{108.86} <u>92.97</u> <u>194.52</u> <u>591.05</u> <u>51.11</u>	<u>43.93</u>	_____	<u>1082.44</u>
Postage & Freight:	<u>56.86</u>	<u>6.53</u>	_____	<u>63.39</u>
Miscellaneous:	<u>9.09</u>	_____	_____	<u>9.09</u>

4325-21
 11/932 98

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 10/16/01
Deposit # 1
of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
P O BOX 89
LEESBURG, VA 20178

CURRENCY ▶
 CHECK ▶

10/16/01

100000

CRESTAR
Crestar Bank
Alexandria, Virginia

#1

100000

⑆056001079⑆ 202836274⑈

SUNTRUST

K
Receipt

The deposit or payment for which this receipt is issued is accepted subject to the rules and regulations of this bank. Deposits may be subject to verification and extended holds.

DEPOSIT AMOUNT: \$1,000.00
ACCOUNT NUMBER: 6274
6786 000119 04 1660 10/16/01 01:17
BUSINESS DATE: 10/16/01
BATCH ID: 67864207

065351

ATTACHMENT
Page 118 of 168

0206

Exhibit S

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 10/22/01
Deposit # 1
of Items 1

EIR NEWS SERVICE, INC.

P. O. BOX 17390
WASHINGTON, D.C. 20041-0390

4-87



allfirst

Allfirst Bank
Baltimore, MD 21201

7-11/520
BRANCH 442

305-0002347-XD-0157516-622 -0539501

DATE 10/22/2001 # 0539501

PAY *****1,000.00 \$ U.S.

TO THE
ORDER
OF

LAROUCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178

Catherine Jenkins

⑈53950⑈ ⑆0520001⑆ 970076153⑈

ATTACHMENT 2
Page 122 of 168

Exhibit S

SERVICE, INC.

P O BOX 17390
INGTON, D.C. 20041-0390

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY. NO RECEIPT DESIRED.

539501

DESCRIPTION	AMOUNT
305-0002347-XD-0157516-622 -0539501	
10/22/01 REFUND OVERPAYMENT	\$1,000.00

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
P O BOX 89
LEESBURG, VA 20178

10/23/01

1000 -

1000 -

CRESTAR
Crestar Bank
Alexandria, Virginia

⑆056001079⑆ 202836274⑈

SUNTRUST

Receipt

The deposit or payment for which this receipt is issued is accepted subject to the rules and regulations of this bank. Deposits may be subject to verification and extended holds.

DEPOSIT AMOUNT: \$1,000.00
ACCOUNT NUMBER: 6274
6786 000095 04 1660 10/23/01 01:22
BUSINESS DATE: 10/23/01
BATCH ID: 67864215

ATTACHMENT

Page 123 of 168

Exhibit S

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 10/30/01
Deposit # 2
of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
P O BOX 89
LEESBURG, VA 20178

10/30/01

CRESTAR
Crestar Bank
Alexandria, Virginia

⑆056001079⑆ 202836274⑈

1000 —

1000 —

#2

SUNTRUST

Receipt

The deposit or payment for which this receipt is issued is accepted subject to the rules and regulations of this bank. Deposits may be subject to verification and extended holds.

DEPOSIT AMOUNT: \$1,000.00
ACCOUNT NUMBER: 6274
6786 000096 06 6678 10/30/01 01:19
BUSINESS DATE: 10/30/01
BATCH ID: 67861584

0206

ATTACHMENT 2
Page 124 of 168

Exhibit S

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 10/30/01
Deposit # 2
of Items 1

EIR NEWS SERVICE, INC.
P.O. BOX 17390
WASHINGTON, D.C. 20041-0390

RIGGS
The First National Bank of Washington, D.C.
W. W. CORCORAN OFFICE
1503 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20004-1078

15-3
540-01

305-0002347-XD-0157517-622 -0512781

DATE 10/29/2001 # 0512781

PAY *****1,000.00 \$ U.S.

TO THE
ORDER
OF

LAROCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178

Katherine Jenkins

⑈ 512781 ⑈ ⑆054000030⑆ 01⑈17060026⑈

EIR NEWS SERVICE, INC.
P.O. BOX 17390
WASHINGTON, D.C. 20041-0390

THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW.
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY, NO RECEIPT DESIRED.

512781

DESCRIPTION	AMOUNT
305-0002347-XD-0157517-622 -05127B1 10/29/01 REFUND OVERPAYMENT	81,000.00

ATTACHMENT 2
Page 126 of 168

Exhibit S

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 11/6/01
Deposit #
of Items

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
P O BOX 89
LEESBURG, VA 20178

11-6-01

1000 -

CRESTAR
Crestar Bank
Alexandria, Virginia

1000 -

⑆056001079⑆ 202836274⑈

#1

SUNTRUST

Thank you for banking with SunTrust
For Account Information, call the number in your area.

GA - 1-800-688-7878 TN/AL - 1-888-390-2265 FL or Chattanooga - 1-800-786-8787 MD, VA, Washington DC - 1-888-786-8787

DEPOSIT AMOUNT: \$1,000.00
ACCOUNT NUMBER: 6274
6786 000078 01 7172 11/06/01 01:26
BUSINESS DATE: 11/06/01
BATCH ID: 67861744

0206

ATTACHMENT 2
Page 127 of 168

This is your receipt showing bank, date, time, type of account and amount. All deposits are credited to your account subject to verification and final payment.
101829 (8/01)

Exhibit S

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 11/6/01
Deposit # 1
of Items 1

1434

EIR NEWS SERVICE, INC.
58 SYCOLIN RD.
LEESBURG, VA 20175-4105

7-11/520
442

PAY TO THE ORDER OF LaRouche's Committee for a New Bretton Woods DATE 11-5-01 \$ 1000.00
One thousand & 00/100 DOLLARS

 **allfirst** Allfirst Bank
Baltimore, MD 21201

FOR REFUND OVERPAYMENT Christine Jenkins 2347-157518

⑈001434⑈ ⑆052000113⑆ 970076153⑈

ATTACHMENT 2
Page 128 of 168

Exhibit S

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 11/14/01
Deposit # 1
of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
P O BOX 89
LEESBURG, VA 20178

11-14-01

1000.-

CRESTAR
Crestar Bank
Alexandria, Virginia

1000 -

⑆05600⑆1079⑆ 202836274⑆

#1

SUNTRUST

Thank you for banking with SunTrust
For Account Information, call the number in your area:

GA - 1-800-688-7878 TN/AL - 1-888-390-2265 FL or Chattanooga - 1-800-786-8787 MD, VA, Washington DC - 1-888-786-8787

DEPOSIT AMOUNT: \$1,000.00
ACCOUNT NUMBER: 6274

⑆786⑆000058⑆03⑆1238⑆11-14-01⑆01⑆91
BUSINESS DATE: 11/14/01
BATCH ID: 67861948

ATTACHMENT 2
Page 129 of 168

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 11/14/01
Deposit # 1
of Items 1

EIR NEWS SERVICE, INC.

P O BOX 17390
WASHINGTON, D.C. 20041-0390

4-87



allfirst

Allfirst Bank
Baltimore, MD 21201

7-11/520
BRANCH 442

305-0002347-XD-0157519-622 -0539527

DATE 11/13/2001 # 0539527

PAY *****1,000.00 \$ U.S.

TO THE
ORDER
OF

LAROLICHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178

⑈539527⑈ ⑆052000113⑆ 970076153⑈

ATTACHMENT

Page 130 of 168

Exhibit S

EIR NEWS SERVICE, INC.

P. O. BOX 17390
WASHINGTON, D.C. 20041-0390

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW.
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY. NO RECEIPT DESIRED.

539527

DESCRIPTION	AMOUNT
305-0002347-XD-0157519-622 -0539527 11/13/01 REFUND OVERPAYMENT	\$1,000.00

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 11/20/01
Deposit # 1
of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
P O BOX 89
LEESBURG, VA 20178

DATE 11-20-01

CRESTAR
Crestar Bank
Alexandria, Virginia

CURRENCY ▶
COIN ▶
TO DEPOSIT ▶

1000. -

S

1000. -

#1

⑆056001079⑆ 202836274⑆

SUNTRUST

Thank you for banking with SunTrust
For Account Information, call the number in your area:

GA - 1-800-688-7878 TN/AL - 1-888-390-2265 FL or Chattanooga - 1-800-786-8787 MD, VA, Washington DC - 1-888-786-8787

DEPOSIT AMOUNT: \$1,000.00
ACCOUNT NUMBER: 6274

6786 000069 02 1228 11 20/01 01:14
BUSINESS DATE: 11-20-01
BATCH ID: 67861953

0206

ATTACHMENT 2
Page 132 of 168

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 11/20/01
Deposit #
of Items

EIF NEWS SERVICE, INC.

P. O. BOX 17390
WASHINGTON, D.C. 20041-0390

4-87



allfirst

Allfirst Bank
Baltimore, MD 21201

7-11/520
BRANCH 442

305-0002347-XD-0157520-622 -0539546

DATE 11/19/2001 # 0539546

PAY *****1.000.00 \$ U.S.

TO THE
ORDER
OF

LAROCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178

⑈539546⑈ ⑆052000113⑆ 970076153⑈

SERVICE, INC.
P.O. BOX 17390
WASHINGTON, D.C. 20041-0390

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW.
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY, NO RECEIPT DESIRED

539546

DESCRIPTION	AMOUNT
305-0002347-XD-0157520-622 -0539546	91,000.00
11/19/01 REFUND OVERPAYMENT	

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 11/27/01
Deposit # 1
of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
P O BOX 89
LEESBURG, VA 20178

11-27-01

CRESTAR
Crestar Bank
Alexandria, Virginia

AMOUNT
C
D
S
TOTAL FROM
RECEIPTS

1000.00

\$

1000.00

⑆056001079⑆ 202836274⑈

#1

SUNTRUST

Thank you for banking with SunTrust
For Account Information, call the number in your area:

GA - 1-800-688-7878 TN/AL - 1-888-390-2265 FL or Chattanooga - 1-800-786-8787 MD, VA, Washington DC - 1-888-786-8787

DEPOSIT AMOUNT: \$1,000.00
ACCOUNT NUMBER: 6274
6786 000078 01 7172 11/27/01 01:19
BUSINESS DATE: 11/27/01
BATCH ID: 67861769

0206

ATTACHMENT

Page 135 of 168

This is your receipt showing bank, date, time, type of account and amount. All deposits are credited to your account subject to verification and final payment.

101829 (8/01)

Exhibit S

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 11/27/01
Deposit # 1
of Items 1

EIR NEWS SERVICE, INC.

P. O. BOX 17390
WASHINGTON, D.C. 20041-0390

4-07



allfirst

Allfirst Bank
Baltimore, MD 21201

7-11/520
BRANCH 442

305-0002347-XD-0157521-622 -0539584

DATE 11/26/2001 # 0539584

PAY *****1,000.00 \$ U.S.

TO THE
ORDER
OF

LAROUCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178

⑈539584⑈ ⑆052000113⑆ 970076153⑈

ATTACHMENT

Page 136 of 168

Exhibit S

EWS SERVICE, INC.
P. O. BOX 17390
WASHINGTON, D.C. 20041-0390

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY, NO RECEIPT DESIRED

539584

DESCRIPTION	AMOUNT
305-0002347-XD-0157521-622 -0539584	
11/26/01 REFUND OVERPAYMENT	91,000.00

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 12/4/01
Deposit # 1
of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
P O BOX 89
LEESBURG, VA 20178

12-4-01

CRESTAR
Crestar Bank
Alexandria, Virginia

\$ 1000. -

⑆056001079⑆ 202836274⑈

#1

SUNTRUST

Thank you for banking with SunTrust
For Account Information, call the number in your area:

GA - 1-800-688-7878 TN/AL - 1-888-390-2285 FL or Chattanooga - 1-800-786-8787 MD, VA, Washington DC - 1-888-786-8787

DEPOSIT AMOUNT: \$1,000.00
ACCOUNT NUMBER: 6274
6786 000082 04 1660 12/04/01 01:18
BUSINESS DATE: 12/04/01
BATCH ID: 67864834

6206

ATTACHMENT 2
Page 138 of 168

This is your receipt showing bank, date, time, type of account and amount. All deposits are credited to your account subject to verification and final payment.

101829 (8/01)

Exhibit S

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 12/4/01
Deposit # 1
of Items 1

EIR NEWS SERVICE, INC. 4-87
P. O. BOX 17390
WASHINGTON, D.C. 20041-0390



Allfirst Bank
Baltimore, MD 21201

7-11/520
BRANCH 442

305-0002347-XD-0157522-622 -0539603 DATE 12/03/2001 # 0539603

PAY *****1,000.00 \$ U.S.

TO THE
ORDER
OF

LAROUCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178

⑈539603⑈ ⑆052000113⑆ 970076153⑈

SERVICE, INC.

P.O. BOX 17390
WASHINGTON, D.C. 20041-0390

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW.
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY, NO RECEIPT DESIRED.

539603

DESCRIPTION	AMOUNT
305-0002347-XD-0157522-622 -0539603	
12/03/01 REFUND OVERPAYMENT	91,000.00

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 12/11/01
Deposit # 1
of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
P O BOX 89
LEESBURG, VA 20178

12-11-01

CURRENCY ▶

DON. ▶

1000

CRESTAR
Crestar Bank
Alexandria, Virginia

1000 -

⑆056001079⑆ 202836274⑈

#1

SUNTRUST

Thank you for banking with SunTrust
For Account Information, call the number in your area:

GA - 1-800-688-7878 TN/AL - 1-888-390-2265 FL or Chattanooga - 1-800-786-8787 MD, VA, Washington DC - 1-888-786-8787

DEPOSIT AMOUNT: \$1,000.00
ACCOUNT NUMBER: 6274

6786 000113 04 1660 12/11/01 01:27
BUSINESS DATE: 12/11/01
BATCH ID: 67864242

0206

ATTACHMENT

Page 141 of 168

2

This is your receipt showing bank, date, time, type of account and amount. All deposits are credited to your account subject to verification and final payment.
101829 (8/01)

Exhibit S

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 12/11/01
Deposit #
of Items

EIR NEWS SERVICE, INC.
P.O. BOX 17390
WASHINGTON, D.C. 20041-0390

RIGGS
The Riggs National Bank of Washington, D.C.
1919 W. W. CORCORAN OFFICE, N.W.
3903 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20006-1078

15-3
540-01

305-0002347-XD-0157523-622 -0513105

DATE 12/10/2001 # 0513105

PAY *****1,000.00 \$ U.S.

TO THE
ORDER
OF

LAROCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178



⑈513105⑈ ⑆054000030⑆ 01⑈17060026⑈

ATTACHMENT

Page 142 of 168

Exhibit S

513105

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW.
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY, NO RECEIPT DESIRED.

SERVICE, INC.
/390
JTON, D.C. 20041-0390

DESCRIPTION	AMOUNT
305-0002347-XD-0157523-622 -0513105	
12/10/01 REFLIND OVERPAYMENT	\$1,000.00

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 12/18/01
Deposit # 1
of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
P O BOX 89
LEESBURG, VA 20178

12-18-01

100.

CRESTAR
Crestar Bank
Alexandria, Virginia

TOTAL FROM RECEIPTS

\$

1000.-

⑆056001079⑆ 202836274⑈

#1

SUNTRUST

Thank you for banking with SunTrust
For Account Information, call the number in your area:

GA - 1-800-688-7878 TN/AL - 1-888-390-2285 FL or Chattanooga - 1-800-786-8787 MD, VA, Washington DC - 1-888-786-8787

DEPOSIT AMOUNT: \$1,000.00
ACCOUNT NUMBER: 6274
6786 000070 04 1660 12/18/01 01:29
BUSINESS DATE: 12/18/01
BATCH ID: 67864057

0206

ATTACHMENT

Page 144 of 168

Exhibit S

This is your receipt showing bank, date, time, type of account and amount. All deposits are credited to your account subject to verification and final payment.

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 12/18/01
Deposit # _____
of Items 1

EIR NEWS SERVICE, INC. 4-87
P. O. BOX 17390
WASHINGTON, D.C. 20041-0390



Allfirst Bank
Baltimore, MD 21201

7-11/520
BRANCH 442

305-0002347-XD-0157524-622 -0539631

DATE 12/17/2001 # 0539631

PAY *****1.000.00 \$ U.S.

TO THE
ORDER
OF

LAROCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178

⑈539631⑈ ⑆052000113⑆ 970076153⑈

ADVANCE, INC.

BOX 17390

TON, D.C. 20041-0390

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY, NO RECEIPT DESIRED.

539631

DESCRIPTION		AMOUNT
305-0002347-XD-0157524-622	-0539631	
12/17/01 REFUND OVERPAYMENT		\$1,000.00

Deposit Batch Control and Contribution Record
 LaRouche's Committee for a New Bretton Woods

Crestar Bank
 Battlefield Shopping Center
 Leesburg, VA 20176
 Account #202836274

Bank #571
 Deposit Date 1/8/02
 Deposit # 1
 # of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS

P O BOX 89
 LEESBURG, VA 20178

DATE 1-8-02

CURRENCY

COIN

C _____
 H _____
 E _____
 C _____
 K _____
 S _____

1000 -

TOTAL FROM REVERSE

\$

1000. -

#1

⑆05600⑆079⑆ 202836274⑈

CRESTAR
 Crestar Bank
 Alexandria, Virginia

SUNTRUST

Thank you for banking with SunTrust
 For Account information, call the number in your area:

GA - 1-800-688-7878 TN/AL - 1-888-390-2265 FL or Chattanooga - 1-800-786-8787 MD, VA, Washington DC - 1-888-786-8787

DEPOSIT AMOUNT: \$1,000.00
 ACCOUNT NUMBER: 6274
 6786 000055 02 1228 01 08/02 01:14
 BUSINESS DATE: 01/08/02
 BATCH ID: 67861623

0206

ATTACHMENT

Page 147 of 168

2 ✓

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 1/8/02
Deposit # 1
of Items 1

EIR NEWS SERVICE, INC. 4-87
P. O. BOX 17390
WASHINGTON, D.C. 20041-0390



allfirst

Allfirst Bank
Baltimore, MD 21201

7-11/520
BRANCH 442

305-0002347-XD-0157525-622 -0539660 DATE 01/07/2002 # 0539660

PAY *****1.000.00 \$ U.S.

TO THE
ORDER
OF

LAROCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178

Catherine Jenkins

⑈539660⑈ ⑆052000113⑆ 970076153⑈

ATTACHMENT

Page 148 of 168

Exhibit S

S SERVICE, INC.
P O BOX 17390
WASHINGTON, D.C. 20041-0390

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY, NO RECEIPT DESIRED.

539660

DESCRIPTION	AMOUNT
305-0002347-XD-0157525-622	-0539660
01/07/02 REFUND OVERPAYMENT	\$1,000.00

ATTACHMENT 2
Page 149 of 168

Exhibit S

Deposit Batch Control and Contribution Record
 LaRouche's Committee for a New Bretton Woods

Crestar Bank
 Battlefield Shopping Center
 Leesburg, VA 20176
 Account #202836274

Bank #571
 Deposit Date 1/15/02
 Deposit # 1
 # of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
 P O BOX 89
 LEESBURG, VA 20178

DATE 1-15-02
THE DEPOSIT MUST BE AVAILABLE FOR WITHDRAWAL

CURRENCY ▶

COIN ▶

1000.-

1000.-

#1

CRESTAR
 Crestar Bank
 Alexandria, Virginia

⑆056001079⑆ 202836274⑈

SUNTRUST

Thank you for banking with SunTrust
 For Account Information, call the number in your area:

GA - 1-800-688-7878 TN/AL - 1-888-390-2265 FL or Chattanooga - 1-800-786-8787 MD, VA, Washington DC - 1-888-786-8787

DEPOSIT AMOUNT: \$1,000.00
 ACCOUNT NUMBER: 6274
 6786 000088 04 1660 01/15/02 01:22
 BUSINESS DATE: 01/15/02
 BATCH ID: 67864093

0206

ATTACHMENT

Page 150 of 160

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 1/15/02
Deposit # 1
of Items 1

EIR NEWS SERVICE, INC.
P.O. BOX 17390
WASHINGTON, D.C. 20041-0390

RIGGS
The Riggs National Bank of Washington, D.C.
W. W. CONGDON OFFICE
1803 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20008-1078

15-3-01
540

305-0002347-XD-0157526-622 -0513373

DATE 01/14/2002 # 0513373

PAY *****1,000.00 \$ U.S.

TO THE
ORDER
OF

LAROCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178

Katherine Jenkins

⑈513373⑈ ⑆054000030⑆ 01⑈17060026⑈

ATTACHMENT 2
Page 15 of 168

Exhibit S

NEWS SERVICE, INC.
P.O. BOX 17390
WASHINGTON, D.C. 20041-0390

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW.
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY. NO RECEIPT DESIRED.

513373

DESCRIPTION	AMOUNT
305-0002347-XD-0157526-622 -0513373	
01/14/02 REFUND OVERPAYMENT	\$1,000.00

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 1/23/02
Deposit # 1
of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS

P O BOX 89
LEESBURG, VA 20178

DATE 1-23-02
CHECKS AND OTHER ITEMS ARE RECEIVED FOR DEPOSIT SUBJECT TO THE PROVISIONS OF THE UNIFORM COMMERCIAL CODE AND ANY APPLICABLE COLLECTION AGREEMENT DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

CURRENCY ▶

COIN ▶

C _____
H _____
E _____
C _____
K _____
S _____

1000.—

TOTAL FROM REVERSE ▶

\$

1000.—

⑆056001079⑆ 202836274⑈

#1

CRESTAR

Crestar Bank
Alexandria, Virginia

CHARLAND

SUNTRUST

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For Account Information, call the number in your area:

GA - 1-800-688-7878 TN/AL - 1-888-390-2265 FL or Chattanooga - 1-800-786-8767 MD, VA, Washington DC - 1-888-766-8787

DEPOSIT AMOUNT: \$1,000.00
ACCOUNT NUMBER: 6274

6736 000060 05 6594 01/23 02 01:36
BUSINESS DATE: 01/23/02
BATCH ID: 67881669

0206

ATTACHMENT

Page 153 of 168

This is your receipt showing bank, date, time, type of account and amount. All deposits are credited to your account subject to verification and final payment.

Exhibit S

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 1/23/02
Deposit # 1
of Items 1

EIR NEWS SERVICE, INC.
P.O. BOX 17390
WASHINGTON, D.C. 20041-0390

RIGGS
The Riggs National Bank of Washington, D.C.
W. W. CORCORAN OFFICE
1803 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20006-1079

15-3 01
540

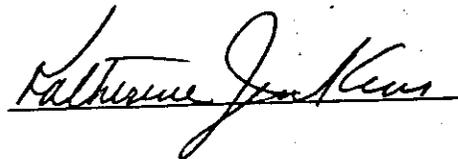
305-0002347-XD-0157527-622 -0513446

DATE 01/22/2002 # 0513446

PAY *****1,000.00 \$ U.S.

TO THE
ORDER
OF

LAROCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178



⑈513446⑈ ⑆054000030⑆ 01⑈17060026⑈

513446

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW.
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY. NO RECEIPT DESIRED.

WS SERVICE, INC.
OX 17390
HINGTON, D.C. 20041-0390

DESCRIPTION	AMOUNT
305-0002347-XD-0157527-622 -0513446	
01/22/02 REFUND OVERPAYMENT	31,000.00

Deposit Batch Control and Contribution Record
 LaRouche's Committee for a New Bretton Woods

Crestar Bank
 Battlefield Shopping Center
 Leesburg, VA 20176
 Account #202836274

Bank #571
 Deposit Date 1/29/02
 Deposit # 1
 # of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
 P O BOX 89
 LEESBURG, VA 20178

DATE 1-29-02
AND OTHER ITEMS ARE RECEIVED FOR DEPOSIT SUBJECT TO THE PROVISIONS OF THE FEDERAL RESERVE REGULATION AND ANY APPLICABLE COLLECTION AGREEMENT THAT MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

CRESTAR
 Crestar Bank
 Alexandria, Virginia

CURRENCY ▶
 COIN ▶
 D _____
 H _____
 E _____
 C _____
 K _____
 S _____
 TOTAL FROM REVERSE ▶
 \$

1000.-
 1000.-

⑆056001079⑆ 202836274⑈

#1

SUNTRUST

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GA - 1-800-888-7878 TN/AL - 1-888-390-2265 FL or Chattanooga - 1-800-786-8787 MD, VA, Washington DC - 1-888-786-8787

DEPOSIT AMOUNT: \$1,000.00
 ACCOUNT NUMBER: 6274
 6786 000061 02 1228 01 29 02 01:25
 BUSINESS DATE: 01/29/02
 BATCH ID: 67864404

0206

ATTACHMENT 2
 Page 156 of 168

This is your receipt showing bank, date, time, type of account and amount. All deposits are credited to your account subject to verification and final payment.
 101829 (8/01)

Exhibit S

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 1/29/02
Deposit #
of Items

EIR NEWS SERVICE, INC.
P.O. BOX 17390
WASHINGTON, D.C. 20041-0390

RIGGS
The First National Bank of Washington, D.C.
W. W. CORCORAN OFFICE
803 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20008-1079

153 01
540

305-0002347-XD-0160093-622 -0513515

DATE 01/28/2002 # 0513515

PAY *****1,000.00 \$ U.S.

TO THE
ORDER
OF

LAROCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178

Katherine Jenkins

⑈ 513515⑈ ⑆ 054000030⑆ 010017060026⑈

ATTACHMENT

Page 157 of 168

Exhibit S

S SERVICE, INC.
X 17390
INGTON, D.C. 20041-0390

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW.
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY, NO RECEIPT DESIRED.

513515

DESCRIPTION	AMOUNT
305-0002347-XD-0160093-622 --0513515	
01/28/02 REFUND OVERPAYMENT	\$1,000.00

ATTACHMENT

Page 158 of 168

Exhibit S

Deposit Batch Control and Contribution Record
 LaRouche's Committee for a New Bretton Woods

Crestar Bank
 Battlefield Shopping Center
 Leesburg, VA 20176
 Account #202836274

Bank #571
 Deposit Date 2/7/02
 Deposit # 1
 # of Items 1

LAROUCHES COMMITTEE FOR A NEW BRETTON WOODS
 P O BOX 89
 LEESBURG, VA 20178

DATE 2-7-02
CHECKS AND OTHER ITEMS ARE RECEIVED FOR DEPOSIT SUBJECT TO THE PROVISIONS OF THE UNIFORM COMMERCIAL CODE AND ANY APPLICABLE COLLECTOR AGREEMENT. DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL.

CRESTAR
 Crestar Bank
 Alexandria, Virginia

CURRENCY ▶
 COIN ▶
 C _____
 H _____
 E _____
 K _____
 S _____
 TOTAL FROM REVERSE ▶

1000.-

\$ 1000.-

⑆056001079⑆ 202836274⑈

#1

SUNTRUST

Thank you for banking with SunTrust
 For Account Information, call the number in your area:

GA - 1-800-688-7878 TN/AI - 1-888-380-2285 FL or Chattanooga - 1-800-786-8787 MD, VA, Washington DC - 1-888-786-8787

DEPOSIT AMOUNT: \$1,000.00
 ACCOUNT NUMBER: 6274
 6786 000088 01 7123 02/07/02 01121
 BUSINESS DATE: 02/07/02
 BATCH ID: 67863502

ATTACHMENT 2
 Page 159 of 168

0206

Exhibit S

DEPOSIT TICKET

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 2/7/02
Deposit # 1
of Items 1

EIR NEWS SERVICE, INC.
P.O. BOX 17390
WASHINGTON, D.C. 20041-0390

RIGGS
The First National Bank of Washington, DC
1600 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20008-1078

15-3 01
540

305-0002347-XD-0160094-622 -0513581

DATE 02/05/2002 # 0513581

PAY *****1,000.00 \$ U.S.

TO THE
ORDER
OF

LAROCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178

Caltheene Jenkins

⑈ 51358 ⑈ ⑆ 054000030 ⑆ 01 ⑆ 17060026 ⑈

ATTACHMENT 2
Page 160 of 168

Exhibit S

513581

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW.
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY, NO RECEIPT DESIRED.

EIR NEWS SERVICE, INC.
P.O. BOX 17390
WASHINGTON, D.C. 20041-0390

DESCRIPTION	AMOUNT
305-0002347--XD--0160094-622 -0513581	\$1,000.00
02/05/02 REFUND OVERPAYMENT	

Deposit Batch Control and Contribution Record
LaRouche's Committee for a New Bretton Woods

Crestar Bank
Battlefield Shopping Center
Leesburg, VA 20176
Account #202836274

Bank #571
Deposit Date 2/15/02
Deposit # 1
of Items 1

EIR NEWS SERVICE, INC.

P. O. BOX 17390
WASHINGTON, D.C. 20041-0390

4-87



Allfirst Bank
Baltimore, MD 21201

7-11/520
BRANCH 442

305-0002347-XD-0160095-622 -0539816

DATE 02/14/2002 # 0539816

PAY *****179.37 \$ U.S.

TO THE
ORDER
OF

LAROCHE'S COMMITTEE FOR A NEW
BRETTON WOODS
PO BOX 89
LEESBURG VA 20178

⑈539816⑈ ⑆052000113⑆ 970076153⑈

ATTACHMENT

Page 163 of 169

Exhibit S

539816

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW.
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY. NO RECEIPT DESIRED.

EIR NEWS SERVICE, INC.

P. O. BOX 17390
WASHINGTON, D.C. 20041-0390

DESCRIPTION	AMOUNT
305-0002347-XD-0160095-622 -0539816	
02/14/02 REFUND OVERPAYMENT	\$179.37

DECLARATION OF WILLIAM J. CALDWELL

I, William J. Caldwell, declare as follows:

1) I am a licensed Certified Public Accountant, and my curriculum vita is attached to this Declaration. As noted in the attached C.V., I have experience in providing accounting services for federal election campaigns and vendors associated with federal election campaign activities.

2) I have reviewed a copy of the Federal Election Commission Report of the Audit Division on LaRouche's Committee for a New Bretton Woods dated May 1, 2003 ("FAR"). I was retained by the LaRouche Committee for a New Bretton Woods ("LCNBW") to assist in responding to the findings of the FAR.

3) The sequential 80% - 50% - 0 markup regimen over the period of the 2000 campaign works out to an average monthly markup of 32% on actual costs by the seven regional vendors. It is well known that campaign consultants and other providers of services to campaigns can be handsomely compensated, oftentimes making a generous markup over actual costs. It is difficult to arrive at a precise industry standard for markup to cover overhead and profit, but in my opinion a 32% markup would not be regarded as out

of line with what other vendors might charge for the type of campaign activities at issue in the FAR.

4) In viewing the matter conservatively, I believe no one would seriously contend that it would be excessive for the seven regional vendors to have charged a 15% markup on their actual costs. If, for example, one looks at the markup that a media buying service charges over the actual costs for the media buy, a 15% markup is standard in the industry. The regional vendors' level of activity involved in the services provided to LCNBW is significantly greater than what a media buyer does in purchasing media time. In short, I believe that a markup of at least 15% by the regional vendors would be entirely justified.

5) In the FAR, the auditors commented that that little or none of the markup appeared to relate to profit since five of the vendors were non-profit corporations and the other two "do not operate to generate a commercial profit." FAR at 11. I believe that this statement in the FAR fundamentally misapprehends the nature of a non-profit corporation. Simply because a corporation is organized as a non-profit does not mean that the entity would not appropriately seek to generate more in revenue than its costs, in effect generating a "profit," or, in the parlance of non-profits, a contribution to reserves. For example,

while a non-profit corporation would not be making a profit for distribution to shareholders, a non-profit might nevertheless seek a "profit" in order to expand its activities. In short, simply because the seven regional vendors do not operate as commercial corporations to maximize profits for their shareholders does not mean that they cannot appropriately apply a markup consistent with what would be charged by a commercial corporation. It is fully in accordance with generally accepted accounting principles for a non-profit entity to add a markup not only to cover indirect costs such as overhead but also to make a contribution to reserves in order to generate capital for future operations.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on July 7, 2003



William J. Caldwell, CPA

ATTACHMENT 2
Page 167 of 168

William J. Caldwell, CPA
Director of Tax
Omega Tax & Accounting Partners, Inc.
7272 Wisconsin Avenue
Suite 300
Bethesda, MD 20814

William J. Caldwell is Director of Tax for Omega Tax & Accounting Partners, Inc. He has held the position since his arrival at the Company in 2002. His responsibilities include oversight of the tax planning and compliance function of the firm. He serves as "Acting CFO" for approximately two dozen companies who have outsourced that function to Omega Tax & Accounting Partners, Inc. The industries that these clients represent are; Political Consultants, Media companies, Engineering Firms as well as a host of other business.

Prior to joining Omega Tax & Accounting Partners, Inc. Mr. Caldwell was a principal with Bond Beebe, a regional CPA and Advisory firm. During Mr. Caldwell's 15 years there he worked on the Audits of such clients as Republican Senatorial Task Force, Democratic Women's Club as well as the audits of the Campaigns of Senator Benson and Senator Packwood. In addition to this audit experience Mr. Caldwell was involved in reviewing the form 1120-POL for numerous clients as well as dozens of income tax returns for political consultants and companies involved in purchasing media for campaigns.

Mr. Caldwell is a graduate of the University of Minnesota (1986) with a Bachelor of Science degree in Accounting. He is a licensed CPA in good standing with the States of Virginia and Maryland as well as the District of Columbia.

**TROUT & RICHARDS
P.L.L.C.**

ATTORNEYS AT LAW

SUITE 1220

1350 CONNECTICUT AVENUE, N.W.

WASHINGTON, D.C. 20036

(202) 463-1920

FAX (202) 463-1925

WWW.TROUTRICHARDS.COM

September 3, 2003

ROBERT P. TROUT

ADMITTED IN DC, VA & MD

DIRECT DIAL (202) 463-1921

RTROUT@TROUTRICHARDS.COM

111 ORONOCCO STREET
ALEXANDRIA VIRGINIA 22314
(703) 519-8840

By FAX and MAIL

Michelle Abellera
Albert Veldhuyzen
Federal Election Commission
999 E Street, N.W.
Washington, D.C. 20463

**Re: Response to Final Audit Report
LaRouche's Committee for a New Bretton Woods
(LCNBW)**

Dear Ms. Abellera and Mr. Veldhuyzen:

This letter follows up on earlier conversations I had with Mr. Veldhuyzen, and it supplements the Response of LCNBW to FEC Repayment Determination ("Response") filed on July 8, 2003. In the Response we referred to what we believed were certain accounting errors and omissions specifically related to ASP, one of the regional vendors. See Response at 10-13. Having recently met with the audit staff, LCNBW is now satisfied that the petty cash for ASP was taken into account in the Final Audit Report and that LCNBW was mistaken in its criticism of the FAR in that regard. Because the other disputed issue relating to ASP (switching between accrual basis and cash basis accounting) does not have a substantial impact on the relevant calculations, LCNBW no longer disputes the FAR's disallowance of \$28,110 in itemized costs related to ASP.

To avoid any question about the impact of LCNBW's acceptance of the FAR's determination regarding ASP, I am attaching a revised chart to substitute for what is found at pages 18-20 of the Response. Attachment A substitutes for the chart found at

Attachment 3
Page 1 of 5

TROUT & RICHARDS, PLLC.

Michelle Abellera
Albert Veldhuyzen
September 3, 2003
Page 2

page 18 of the Response; Attachment B substitutes for the NOCO Statement at page 19; and Attachment C substitutes for the chart at page 20. As you can see from these attachments, these revisions do not affect the bottom line of the repayment determination, to wit, there was no payment of matching funds in excess of entitlement, and no repayment is due.

As we made clear in our Response and in our letter of July 8, 2003, the important issue affecting the repayment determination is the appropriateness of a markup over the regional vendors' actual costs. The revised calculations described above do not affect that issue, which remains the focus of our request for oral hearing.

If you have any questions regarding this matter, please give me a call. We would appreciate your making sure that this letter and its attachment are made part of the file in this matter.

Sincerely,



Robert P. Trout

RPT/ban
Enclosure
1-abell-veld.doc

Attachment 3
Page 2 of 5

ATTACHMENT A**Distributor Bills, Payments, and Balance Due**

Company	Itemized costs	Indirect Costs	Adjusted Billings	Payments, net of refunds	Balance Due or (Receivable)
ASP	211,159	31,674	242,833	(237,051)	5,781
ESDI	180,724	27,109	207,833	(186,631)	21,202
EIRNS	243,961	36,594	280,555	(345,369)	(64,814)
HSDI	207,390	31,108	238,498	(215,212)	23,286
MCC	232,786	34,918	267,704	(201,700)	66,004
SELS	200,673	30,101	230,774	(259,008)	(28,234)
SWLD	147,815	22,172	169,987	(115,425)	54,562
Total	1,424,508	213,676	1,638,184	(1,560,398)	77,788

ATTACHMENT B

Statement of Net Outstanding Campaign Obligations

As of August 16, 2000

As Determined at September 3, 2003

	<u>Final Audit Report</u>	<u>Corrections</u>	<u>Corrected</u>
ASSETS			
Cash in Bank	\$ 24,038		\$ 24,038
Accounts Receivable			
Vendor deposits	23,866		23,866
Vendor refunds - regional vendors	214,544	(121,496)	93,048
Capital Assets	<u>5,823</u>		<u>5,823</u>
Total Assets	\$ 268,271		\$ 146,775
OBLIGATIONS			
Accounts Payable:			
Regional vendors	\$ 63,982	106,853	\$170,835
Other	<u>258,902</u>	(1,723)	<u>257,178</u>
Total Accounts Payable	\$322,883		\$428,013
Actual Winding Down Expenses	25,875	68,425	94,300
Estimated additional winding down	10,100	(8,200)	1,900
Due to US Treasury - stale-dated cks	<u>3,281</u>		<u>3,281</u>
Total Obligations	<u>362,140</u>		<u>527,495</u>
Net Outstanding Campaign Obligations	<u>\$ (93,869)</u>	<u>\$ (286,851)</u>	<u>\$(380,720)</u>

Attachment 3
Page 4 of 5

ATTACHMENT C

Net Outstanding Campaign Obligations (deficit) as of 8/16/00	\$(380,719.70)
Net Private Contributions Received 8/17/00 to 4/2/01	131,729.83
Matching funds received 8/17/00-4/2/01	<u>214,240.29</u>
Remaining entitlement on 4/2/01	<u>\$(34,749.58)</u>



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

September 4, 2003

MEMORANDUM

TO: Lawrence H. Norton
General Counsel

THROUGH: James A. Pehrkon
Staff Director

Robert J. Costa *RC*
Deputy Staff Director

FROM: Joseph F. Stoltz *JFS*
Assistant Staff Director
Audit Division

Nicole Burgess *NB*
Lead Auditor

2003 SEP - 5 P 4: 32
RECEIVED
FEDERAL ELECTION
COMMISSION
OFFICE OF GENERAL
COUNSEL

SUBJECT: Review of documentation provided by LaRouche's Committee for a New Bretton Woods in support of the Administrative Review

On July 8, 2003, LaRouche's Committee for a New Bretton Woods (LCNBW) submitted a written request for an Oral Hearing. LCNBW addressed several issues in its Response to the Final Audit Report. However, only the issue of the markup on the regional vendors billings will be discussed at the Oral Hearing.

A. NON-QUALIFIED CAMPAIGN EXPENSE

- LCNBW stated in its memo that the Audit staff did not include in its calculations costs paid out of petty cash for American System Publication, Inc. (ASP). On August 5, 2003, LCNBW submitted two boxes of petty cash receipts as backup documentation for our review (see LCNBW's Exhibit R). Also submitted was a "Master Analysis Sheet" showing LCNBW's calculations. It should be noted that the Master Analysis Sheet submitted as Exhibit R is identical to that provided during the audit. It covers the period April 1999 through September 30, 2000. A review of the documentation shows that the Audit staff calculations included the petty cash amounts totaling \$68,576, through September 30, 2000. The petty cash costs incurred by ASP for October, 2000 through December, 2000 totaled \$15,775, these costs were not included in

the Audit staff calculations given that LCNBW did not include the period October 1, to December 31, 2000, in its calculations. The Audit staff has telephoned and emailed LCNBW assistant treasurer, Richard Welsh, in an attempt to give LCNBW an opportunity to explain its assertion. Also, workpapers relative to this matter were sent to LCNBW via overnight mail on August 13, 2003. After review of this material, LCNBW concurs.

- Second, LCNBW stated the Audit staff switched between the accrual-basis and the cash-basis standards, resulting in a loss of one month's documented costs. The contractual agreement between LCNBW and ASP states:

“Committee shall also compensate Company for use of Company's facilities and other costs incurred by campaign volunteers, to be billed monthly by Company, commensurate with the level of campaign activity. For the period ending March 31, 1999, Committee shall pay Company the sum of \$8,848, for all services and facilities.”

LCNBW's assertion that the Audit staff switched to a cash basis accounting is without merit. As noted in the contractual agreement, costs incurred prior to April 1, 1999 were to be included in the lump sum billing (\$8,848) for activity between January 1, 1999 and March 31, 1999. The Audit staff analysis assumed that all costs incurred prior to April 1, 1999, were covered by the lump sum payment noted in the contract, and included all expenses incurred on or after April 1, 1999 in the monthly billings. Thus no months were excluded¹. In a recent letter from LCNBW's counsel it was stated that this issue is no longer contested.

- LCNBW stated that the Audit staff omitted payments to L&S Investments for rent related to ASP space. LCNBW submitted a payment history from L&S Investments that included activity between October 25, 1999 and April 23, 2001. The Audit staff reviewed this activity and included two additional payments totaling \$6,000 to the schedule of expenses incurred by ASP for August and September, 2000. There is no indication in the workpapers that the vendor statement provided with the response was included in the records presented for review during the audit.

- EIR News Service, Inc. refunded LCNBW \$15,179 between October, 2001 and February, 2002. LCNBW supplied deposits slips and check copies to document the receipt of these refunds. Further, the Audit staff identified an additional \$12,150, refund reported as being received by LCNBW in the second quarter of 2003. As a result, the Audit staff reduced the non-qualified expense by \$27,329 (\$15,179 + \$12,150).

¹ To further insure that all relevant costs for the period were included, the Audit staff reviewed material from October through December and included in its expenditures, those items which could have been incurred prior to October.

- LCNBW has cited several regulations and advisory opinions in defense of the markup applied to invoices from its regional vendors. The primary focus of the argument is the need to cover overhead and unidentified costs and the need to insure that the corporate vendors do not subsidize the campaign by providing services at less than the usual and normal charge defined as, the retail price of goods and services in the market from which they would normally be purchased.

Before discussing the specifics of its contentions, one comment in the introduction should be addressed. The response notes that in the Final Audit Report the markup is re-characterized as advance payments. That characterization is not that of the audit staff, but of LCNBW. It was used to explain why the vendors had not advanced credit to LCNBW, and was one of three justifications for the markup enumerated by LCNBW. The report concludes that the other reasons are not borne out by the evidence, but accepts the advance payment contention to eliminate the extension of credit issue.

With respect to overhead and unidentified costs, it is noted that many of the costs included in both the LCNBW and the audit calculations are overhead expenses, for example, rent, utilities, telephones, office supplies etc. With respect to unidentified costs, they are just that; unidentified, except in the most general terms.

The issue of usual and normal charge is more difficult. In response to the Preliminary Audit Report (PAR), LCNBW explained:

“Five of the vendor literature distributors, American System Publications, Southwest Literature Distributors, Midwest Circulation Corporation, Eastern States Distributors, and Southeast Literature Distributors were incorporated in 1987 as not-for-profit corporations. EIR News Service and Hamilton Systems were incorporated as for-profit entities although they do not operate to generate a commercial profit. EIR is a publishing company and was incorporated in 1985, Hamilton Systems was incorporated in 1987. The vendors have as their primary purpose the dissemination of political, philosophical, and scientific literature and ideas originated by Lyndon LaRouche and his political associates.”

The response also explains that each vendor was formed to disseminate political ideas, not to amass capital. It goes on to state that over the years of their existence, the vendors have derived their income from the sale of subscriptions and single issue of books, videotapes, periodical and other publications, and from contributions and donations from the general public. A number of publications are mentioned, all of which are associated with Mr. LaRouche.

Given that the vendors apparently have no customers other than Mr. LaRouche, both when he is running for President and when he is not, establishing the “usual and normal charge” for the services supplied is very difficult. Further, since the vendors’ existence is devoted to Mr. LaRouche, both as a candidate and in other

capacities, the arms length nature of the contracts cannot be assumed. Also, as explained in the final audit report, the allocation of the vendors' costs between campaign activity and Mr. LaRouche's other activities cannot be verified beyond the mathematical accuracy of the calculations.

LCNBW's response does not provide any documentation to explain or allocate the markup beyond that which was available at the time of the Final Audit Report. LCNBW calculates that if the markup is spread evenly over the entire program, the markup paid amounts to 32%. It then proffers a 15% markup as "clearly justified" and sufficient to eliminate the repayment. Neither percentage is documented in the response or other materials any more than the original calculation, especially given the non-profit nature of the vendors and their dedication to Mr. LaRouche. Therefore, in the opinion of the Audit staff, the markup should continue to be considered primarily advance payment that should have been applied to the billings later in the campaign. No adjustment was made for markup to the NOCO.

RECAP OF ADJUSTMENTS

L&S INVESTMENTS	\$ 1,167	(\$6,000 x respective activity ratio)
EIR NEWS SERVICE	\$27,329	(refunds)
AMERICAN SYSTEM PUBLICATION	\$ 711	(October through December additional expenses)

B. NET OUTSTANDING CAMPAIGN OBLIGATIONS

According to LCNBW, there were additional debts of \$26,403 and additional winding down of \$29,669 however no backup documentation was submitted to support these figures. These adjustments were not made to the Statement of Net Outstanding Campaign Obligations (NOCO) prepared by the Audit staff. The Audit staff did update the NOCO for the latest reported winding down expenses. The actual winding down was increased by \$20,745, and the estimated winding down was increased by \$10,950.² See attached NOCO.

Should you have any questions please contact Nicole Burgess, Rhonda Gillingwater or Joseph Stoltz at extension 1200.

² Estimated winding down was increased by \$16,000 for legal fees that could be incurred by LCNBW, based on prior expenses reported. Prior estimates were reduced to account for actual expenses.

Attachment I

**LAROUCHE'S COMMITTEE FOR A NEW BRETTON WOODS
STATEMENT OF NET OUTSTANDING CAMPAIGN OBLIGATIONS**

As of August 16, 2000
As Determined at June 30, 2003

Assets

Cash in Bank	\$24,038	a	
Accounts Receivable			
Vendor Deposits	\$23,866		
Vendor Refunds-Regional Vendors	\$212,666	b	
Capital Assets	<u>\$5,823</u>		
Total Assets			\$266,393

Obligations

Accounts Payable for Qualified Campaign Expenses	\$322,883		
Actual Winding Down Expenses	\$46,620	c	
Estimated through 12/31/03	\$21,050		
Due to the U.S. Treasury - Stale-dated Checks	<u>\$3,281</u>		
Total Obligations			<u>\$393,835</u>
Net Outstanding Campaign Obligations			<u><u>(\$127,442)</u></u>

FOOTNOTES TO THE NOCO

- a. This figure includes the amount of stale-dated checks, (\$3,281).
- b. Accounts Receivable has been understated by \$80,472. It has not been corrected on this NOCO. The net effect in final audit report would have been an increase of \$42,271 in the repayment. The difference is primarily in amounts received in excess of entitlement.
- c. The inclusion of estimated fundraising costs (\$34,609) is not included in the Audit staff's NOCO since sufficient moneys had been raised to eliminate the deficit.

Attachment II

IV. SUMMARY OF AMOUNTS DUE TO THE U.S. TREASURY

Finding II.A.	Apparent Non-Qualified Campaign Expenses	\$ 67,988
Finding II.C.	Matching Funds Received in Excess of Entitlement	\$ 154,046
Finding II.D.	Stale-Dated Checks	<u>\$ 3,281</u>
	Total	<u>\$ 225,315</u>