



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

November 25, 1985

MEMORANDUM

TO: FRED EILAND
PRESS OFFICER

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

SUBJECT: PUBLIC ISSUANCE OF FINAL AUDIT REPORT -
FUND FOR A CONSERVATIVE MAJORITY

Attached please find a copy of the final audit report of Fund For A Conservative Majority which was approved by the Commission on November 19, 1985.

Informational copies of the report have been received by all parties involved and the report may be released to the public.

Attachment as stated

cc: FEC Library
RAD
Public Record
Office of General Counsel

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

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REPORT OF THE AUDIT DIVISION
ON THE
FUND FOR A CONSERVATIVE MAJORITY

I. Background

A. Overview

This report is based on an audit of the Fund for a Conservative Majority ("the Committee") undertaken by the Audit Division of the Federal Election Commission to determine whether there has been compliance with the provisions of the Federal Election Campaign Act of 1971, as amended ("the Act"). The audit was conducted pursuant to Section 438(b) of Title 2 of the United States Code which states, in part, that the Commission may conduct audits and field investigations of any political committee required to file a report under Section 434 of this title. Prior to conducting any audit under this subsection, the Commission shall perform an internal review of reports filed by selected committees to determine if the reports filed by a particular committee meet the threshold requirements for substantial compliance with the Act.

The Committee registered with the U.S. Senate and U.S. House of Representatives on April 17, 1972 as the Young America's Campaign Committee. On January 10, 1977, the Commission received an amended Statement of Organization changing the name to "Fund for a Conservative Majority". The Committee maintains its headquarters in Washington, D.C.

The audit covered the period January 1, 1981 through December 31, 1982. The Committee reported an opening cash balance on January 1, 1981 of \$14,722.42; total receipts for the period of \$2,945,884.88; total disbursements for the period of \$2,950,895.58; and a closing cash balance on December 31, 1982 of \$9,711.72.

This audit report is based on documents and workpapers supporting each of its factual statements. They form part of the record upon which the Commission based its decisions on the matters in this report and were available to the Commissioners and appropriate staff for review.

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B. Key Personnel

The Treasurers of the Committee during the period of audit were Mr. Kenneth Boehm, January 1 to October 24, 1981, and Mr. Robert Heckman from October 24, 1981 through the end of the period covered by the audit.

C. Scope

The audit included such tests as verification of total reported receipts, disbursements and individual transactions; review of required supporting documentation; analysis of Committee debts and obligations; and such other audit procedures as deemed necessary under the circumstances. As noted in II.B. below, the Committee's contribution records were not complete.

II. Audit Findings and Recommendations

A. Matter Referred to the Office of General Counsel

A matter noted during the audit was referred to the Office of General Counsel.

B. Failure to Retain Contribution Records

Section 432(c) (1) through (3) of Title 2 of the United States Code states that the treasurer of a political committee shall keep an account of all contributions received by or on behalf of such political committee; the name and address of any person who makes any contribution in excess of \$50, together with the date and amount of such contribution; the identification of any person who makes a contribution or contributions aggregating more than \$200 during a calendar year, together with the date and amount of any such contribution.

Section 432(d) of Title 2 of the United States Code states that the treasurer shall preserve all records required to be kept by this section and copies of all reports required to be filed by this subchapter for 3 years after this report is filed.

The Committee's records of contributions from individuals were stored in an automated file maintained by their computer firm. In addition, the Committee advised the Audit staff that the source documents from which the automated file had been created were stored in a warehouse. The Committee made available to the Audit staff a magnetic tape of the Committee's 1981 and 1982 contributions. The magnetic tape contained 126,845 contributions totaling \$2,580,853.00 (or an average contribution of \$20.35). However, the Committee's disclosure reports for the same period disclosed total contributions of \$2,795,190.46. Therefore, records for \$214,337.46 in reported contributions are

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not contained on the magnetic tape. Inquiries about the difference were made of both Committee officials and a representative of the computer firm. The representative of the computer firm suggested that the difference could be related to the practice of removing a contributor's entire history from the master file if the Committee requested that an individual be removed from its mailing list. No explanation was received from the Committee as a result of that inquiry.

In an attempt to verify the cause of the difference between the reported contributions and the automated contribution file, the Audit staff selected samples of contributor source documents (contributor cards, etc.) at the Committee's storage facility. Two samples were selected, one of documents in what appeared to be contribution batches and a second from batches of documents marked "delete."

In the sample of contribution batches, 8.45% of the items were not located in the automated file. It was not apparent why these items could not be located. However, given the computer firm representative's suggested explanation for the shortage in the automated file, any of the contributors selected in the sample who had been deleted from the Committee mailing list would have been removed from the file. Further, it was not possible to determine whether a specific contribution was deposited into a Federal or non-Federal account. It was noted that some of the contributor cards stated that corporate contributions were acceptable, indicating that when such contributions were received they would be deposited into a non-Federal account. Therefore, this test provided no definite explanation for the shortage in the automated file.

In the sample of documents selected from "delete" batches 17.54% of the items were located in the automated contributor file. However, in the majority of the cases, the explanation for these "delete" items appearing in the file was apparent (i.e., the deleted item was undeliverable as addressed, the deleted item was marked "duplicate," the deleted item was in a 1981 delete batch and entire contribution history was in 1982, etc.). Only 1.75% of the sample items were located in the automated file with no apparent explanation. The results of this sample support the suggested explanation of the representative of the Committee's computer firm.

The interim audit report recommended that the Committee provide an explanation of the difference between the reported amounts and the amounts in the automated file. The report further recommended that if contributors who are removed from the Committee's mailing list are expunged from the master file, a procedure be instituted to assure that the record of the

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individual's previous contributions is maintained either in the automated file or in printed form.

In their October 22, 1985 response to the interim audit report the Committee explained that the computer firm currently being used for data processing and the maintenance of its donor file first undertook that responsibility in June, 1983. The computer firm used prior to that time, including the years 1981 and 1982 is now defunct. As a result, the file known as the master file had to be converted by the current computer firm to its particular file maintenance format. From the time of that conversion to the present, the current computer firm has been responsible for keying all data entry transactions directly to the FCM donor file. The Committee also noted that the transfer by FCM of the FCM donor file from the previous computer firm to the current firm was due, in part, to the recommendations made by the Audit staff following the audit of FCM's records for 1980.^{1/}

The Committee also states that exhaustive analyses have been undertaken to determine the reason or reasons why the automated file for 1981 and 1982 failed to disclose 7.7% of the contributions received by FCM in those years. The Committee further states that it has not been possible to identify a specific reason, because those responsible for the creation of

^{1/} During the audit of the Committee's 1980 activity a number of problems with the Committee's contribution system were noted:

1. the Committee maintained two contribution files which did not cross-aggregate to determine a contributor's total contributions.
2. The contribution system was capable of storing only 5 contributions per contributor.
3. The contribution system would not itemize more than one contribution per contributor per reporting period.

The 1980 interim audit report recommended that in addition to filing amended reports "that the Committee develop and implement a method of record maintenance and reporting which would provide for the proper disclosure of contributions and ensure the proper recordkeeping and itemization of contributions in the future."

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the file, e.g., employees of previous computer firm, could not be located. It appears, however, that the problem may be due to one or more of the following factors:

- (1) There may have been a failure by the previous firm to properly key enter all source documents into the automated file and a failure by that firm to find the omissions by not reconciling the keyed transactions.
- (2) As a result of the 1980 audit, FCM, at the recommendation of the Audit staff, had two contributor files merged into a single master file. That merger took place before June, 1983, when the master file was transferred to the current firm. It is possible that some data may have been lost in that process.
- (3) Contributor data on the master file, while it was in the custody of the previous firm, may have been lost if a contributor's entire history was expunged from the file when he or she was removed from the mailing list. Representatives of the current computer firm concur with the suggestion by the Audit staff that this was the reason for the problem.
- (4) Some contributor data may have been lost when the automated file had to be converted to the file maintenance format used by the current computer firm. This does not appear to be a viable possibility, however, because the previous firm reported 137,109 names on the file it delivered to the current firm which reported 137,101 names on the file after the conversion.
- (5) Some contributor data may have been lost when the current firm had to reformat its file to the specifications of the Audit staff. The automated file used by the Audit staff in producing the Interim Report was not a mirror image of the master file, because of technical specifications. Thus, some variation in data could result.

The Committee's response noted that of the factors listed above, two do not relate to technical problems associated with automated tape mergers, conversions and reformatting. Those factors are the possible loss of data due to key entry omissions and errors; and, the possible expungement of contributor history when a contributor was deleted from a mailing list. The Committee also states that the procedure followed by the current

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computer firm in maintaining the FCM master file is designed to prevent these problems from occurring. In support of this statement, the Committee's response includes a letter from the current computer firm describing the safeguards built into their process. These procedures include a number of steps to verify the accuracy of data entry; and, include a system which codes (and which does not remove or expunge) the history of a contributor who has been removed from the mailing list. As a result it appears that the problems identified by the Audit staff are not being repeated.

Recommendation

Given the above explanation and the small size of the Committee's average contribution, the Audit staff recommends that the Commission take no further action on this matter.

C. Itemization of Contributions

Section 434(b)(3)(A) of Title 2 of the United States Code requires disclosure of the identification of each person who makes a contribution 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, together with the date and amount of any such contribution. Section 431(13)(A) of Title 2 of the United States Code states the term "identification" means, in the case of any individual, the name, the mailing address, and the occupation of such individual, as well as the name of his or her employer.

As noted in Finding II.B. above, the Committee provided a magnetic tape containing the contributions contained in their file for 1981 and 1982. Though the contributions contained on the magnetic tape totaled \$214,337.46 less than the reported contributions the automated file was used to test for itemization of contributions.^{2/} A sample of contributions requiring itemization was selected and traced to the Committee disclosure reports. The rate of failure to itemize in the sample was 36.3%. Analysis of the sample results did not indicate the reason for the failure to itemize.

The interim audit report recommended that the Committee file comprehensive amendments to their 1981 and 1982 disclosure reports itemizing all contributions which aggregate in excess of \$200 for any contributor in a calendar year.

^{2/} The Committee's disclosure reports contained a total of 1,238 itemized contributions for calendar year 1981 and 1982. The automated contribution file contains 126,845 contributions totaling \$2,580,853.00 or an average contribution of \$20.35.

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On October 21, 1985, the Committee filed the recommended amendments to their reports.

Recommendation

The Audit staff recommends no further action on this matter.

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