




FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

April 5, 2000

MEMORANDUM

TO: RON M. HARRIS
PRESS OFFICER
PRESS OFFICE

FROM: ROBERT J. COSTA 
ASSISTANT STAFF DIRECTOR
AUDIT DIVISION

SUBJECT: PUBLIC ISSUANCE OF THE FINAL AUDIT REPORT ON
MID-AMERICA CONSERVATIVE POLITICAL ACTION
COMMITTEE

Attached please find a copy of the final audit report on Mid-America Conservative Political Action Committee which was approved by the Commission on March 28, 2000.

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

Attachment as stated

cc: Office of General Counsel
Office of Public Disclosure
Reports Analysis Division
FEC Library
Information Division

22-07-025-3003

22.07.025.3005

REPORT OF THE AUDIT DIVISION
ON
MID-AMERICA CONSERVATIVE POLITICAL ACTION
COMMITTEE

Approved March 28, 2000



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

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

REPORT OF THE AUDIT DIVISION
ON
MID AMERICA CONSERVATIVE PAC

EXECUTIVE SUMMARY

The Mid America Conservative PAC (MacPac) registered with the Federal Election Commission on February 3, 1981 as a nonconnected organization that achieved multicandidate status on October 14, 1983.

The audit was conducted pursuant to Section 438(b) of Title 2 of the United States Code, which states that the Commission may conduct audits of any political committee whose reports fail to meet the threshold level of compliance set by the Commission.

After several attempts and numerous subpoenas to obtain the Committee records, the findings of the audit were presented to MacPac in an interim audit report sent to the Committee on February 2, 2000. MacPac did not submit any response.

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

Failure to Report Receipts and Disbursements, Failure to Maintain Records, and Misstatement of Financial Activity — 2 U.S.C. §432(c), 2 U.S.C. §434(b)(1), (2), and (4), 11 CFR §102.9(b)(2) and (d), 11 CFR §100.12, 11 CFR §104.14(b)(1). As previously mentioned, after several attempts and numerous subpoenas we were able to obtain a limited amount of records, mainly from the Committee's bank accounts. It was determined that MacPac understated receipts by \$187,795 and disbursements by \$191,632. Most of the disbursements went to Mr. Corey, his wife, cash, and various organizations he controlled as opposed to vendors itemized on the reports.

Excessive Contributions to Authorized Committees — 2 U.S.C. §441a(a)(2)(A) and (4). MacPac contributed \$6,593 in excess of the \$5,000 limitation to Corey for Senate. Corey for Senate Exploratory Committee only reported contributions totaling \$2,225.

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Excessive Cash Disbursements — 2 U.S.C. §432(h)(1), 11 CFR §102.11. Mr. Corey wrote 57 checks totaling \$22,325 to cash. Fifty-six were issued in amounts in excess of \$100. MacPac made excessive cash disbursements totaling \$16,625. Documentation was not available to determine the purposes for which these funds were used; and these expenditures were not reported by MacPac on the FEC disclosure report.

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

***REPORT OF THE AUDIT DIVISION
ON THE
MID AMERICA CONSERVATIVE PAC***

I. BACKGROUND

A. AUDIT AUTHORITY

This report is based on an audit of the Mid America Conservative PAC (MacPac), undertaken by the Audit Division of the Federal Election Commission (the Commission) in accordance 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.

B. AUDIT COVERAGE

The audit covered the period January 1, 1995 through December 31, 1996. During this period, MacPac reported a beginning cash balance of \$12,464; total receipts for the period of \$467,914; total disbursements for the period of \$459,152; and an ending cash balance of \$21,226.¹

C. COMMITTEE ORGANIZATION

MacPac registered with the Federal Election Commission on February 3, 1981. MacPac is a nonconnected organization that achieved multicandidate status on October 14, 1983, and maintains its headquarters in Cedar Falls, Iowa. The Treasurer since its inception was Leroy Corey.²

¹ Figures in this report have been rounded to the nearest dollar. These reported figures are substantially understated see section II.A. below.

² Mr. Leroy Corey died in an automobile accident on November 17, 1999.

To manage its financial activity, it appears that MacPac primarily used one checking account with Magna Bank³, two savings accounts with Norwest Bank⁴, and one checking account with Mercantile Bank Midwest.

D. HISTORY AND AUDIT SCOPE

On September 11, 1998, the Commission voted to audit MacPac and the Audit staff notified MacPac's Treasurer by letter dated September 15, 1998. In the audit notification letter, the Audit staff suggested an initial start date of October 13, 1998. In addition to the suggested start date the audit notification letter serves to inform the Treasurer as to the scope of the audit and the records that will be necessary for the Audit. As of September 21, MacPac's treasurer, Mr. Leroy Corey had not responded to the letter.

On September 23, 1998, the Audit staff telephoned Mr. Corey, he stated that he had received the audit notification letter and would need to request a delay of the scheduled start date. He also agreed to send the Audit staff bank statements and any computer spreadsheet information for receipts that he had available. The Audit staff spoke with Mr. Corey again on September 30, 1998 at which time he again agreed to send copies of the contribution data on a disk and copies of disbursement checks.

On October 1, 1998, the Audit staff received a written request for a delay of the start of the audit. In his request, the Treasurer suggested a new start date around mid-November citing family problems. The audit was rescheduled to commence on November 9, 1998. Mr. Corey was informed via teleconference and by letter that the new start date for the audit would be November 9, 1998. Mr. Corey agreed to the new date. The Audit staff again requested the computerized contribution information.

As of October 8, 1998, the Audit staff had not received any of the documentation promised and again questioned Mr. Corey, who responded by stating that he would work on gathering the information over the weekend and get it to the Audit staff by the middle of following week.

Between October 14, 1998 and November 4, 1998, the Audit staff made numerous calls to Mr. Corey's office trying to determine if any attempts to send the requested records had been made. Each time, for various reasons, Mr. Corey was unavailable and a message was left with his office staff requesting that he contact the Audit staff. Mr. Corey did fax several written responses to questions, but did not send any of the requested records. Finally, on November 4, 1998, the Audit staff informed office staff

³ Magna has since become a branch of Union Planters Bank.

⁴ The Audit staff investigated several other banks to determine if MacPac held any accounts during the 1995 - 1996 election cycle. Mr. Corey never returned a signed standard statement verifying that all bank records had been provided to the Audit staff.

that unless they were able to speak directly with Mr. Corey, they would be at his office on November 9, 1998 as agreed.

In response to this call, Mr. Corey contacted the Audit Division on November 6, 1998, both by phone and fax. He informed the Audit staff that due to continuing family problems he would not be available for the audit and that he did not have any materials to give the Audit staff. He stated that many of the records had been stored in a basement and had been destroyed during a flood. It should be noted that during the phone call Mr. Corey stated that he would not cooperate with the Audit staff nor even allow them entrance into his office if they were to arrive on November 9, 1998. He further stated that he would need to postpone the audit until the end of the month. Given the circumstances, the Audit staff had no choice but to reschedule the start of the audit until November 30, 1998.

On November 30, 1998 the Audit staff arrived in Cedar Falls to start the audit but were unable to meet with Mr. Corey until the following day. Finally, on December 1, 1998, the Audit staff met with Mr. Corey at which time the available records were provided.

As part of the Commission's standard audit process, an inventory of committee records is conducted prior to the audit fieldwork. This inventory is conducted to determine if records are materially complete and in an auditable state. During the entrance conference, the Audit staff received the following records: a handwritten log of operating and independent expenditures for 1995 and 1996, a tape of an advertisement against the Harkin for Senate Committee, a copy of the Liberate America newspaper, 1995 and 1996 contribution log by solicitation letter, 1995 log of total contributions per day, copies of solicitation letters and blank response devices, and a log of solicitation letters sent to contributors. Based on the review of the available records presented at an entrance conference, it was apparent that Mr. Corey had not obtained the records needed for the audit.

On December 2, 1998, Mr. Corey was presented with a detailed list of the necessary records and informed that these records should be provided by January 8, 1999. It was reiterated that if the requested records were not received by this date, the Commission would be requested to issue subpoenas for the necessary records. Mr. Corey agreed to obtain and send the records to the FEC.

During December 1998, and the beginning of January 1999, the Audit staff made numerous phone calls to MacPac headquarters but were told that Mr. Corey was either in a meeting or out of the office. The Audit staff did receive some limited documentation during the 30 day period, such as copies of a newspaper called The American Conservative, a daily contribution log, bank statements for July 1995 through January 1997, rental agreements and a radio advertisement script. The computerized contribution records were not received until February 1999, and were incomplete. No other computerized file was sent.

After January 8, 1999, the Audit staff, in conjunction with the Commission's Office of General Counsel, prepared subpoenas to Mr. Corey, Magna Bank, several additional banks that were possibly used by MacPac, and several additional incorporated entities for which Mr. Corey acted as sole director or member, and that received payments from MacPac. It is only through the subpoena process that the Audit staff was finally able to obtain documentation for MacPac activity.

As previously stated, Mr. Corey died in an automobile accident in November, 1999. The Acting Treasurer, Les Borsay, sent a Declaration dated February 8, 2000, that states, "it is my intention as the acting treasurer of MACPAC to terminate the committee under federal law as soon as permitted by the FEC. I have no plans, and am aware of no plans, to revive MACPAC, to collect contributions, or make contributions or expenditures, in its name." Based on this information the interim audit report was sent to Mr. Borsay. There was no response by the Committee to the interim audit report.

The scope of this audit is therefore limited to the review of bank records (bank statements⁵, checks drawn on MacPac's account and a sample of the items deposited into MacPac's account⁶) secured via subpoena, disclosure reports, some records provided by Mr. Corey and conversations between the Audit staff and Mr. Corey.

E. AUDIT PROCEDURES

The audit included testing of 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 (see Finding II.A.);

⁵ Bank statements for the period of July, 1995 through January 1997 were supplied by Mr. Corey, the remaining statements (January 1995 through June 1995) were supplied by Union Planters Bank.

⁶ Magna Bank was willing to provide copies of deposits. However, a limited review of the records provided evidence that the average contribution was very small, and therefore the volume of documents very large, making the cost and time required to produce those copies prohibitive.

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4. proper disclosure of disbursements including the itemization of disbursements when required, as well as, the completeness and accuracy of the information disclosed (see Finding II.A.);
5. proper disclosure of campaign debts and obligations;
6. the accuracy of total reported receipts, disbursements and cash balances as compared to bank records (see Finding II.A.);
7. adequate recordkeeping of committee transactions (see Finding II.A.); and
8. other audit procedures that were deemed necessary in the situation (see Findings II.B. and C.).

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

II. AUDIT FINDINGS AND RECOMMENDATIONS

A. FAILURE TO REPORT RECEIPTS AND DISBURSEMENTS, FAILURE TO MAINTAIN RECORDS, AND MISSTATEMENT OF FINANCIAL ACTIVITY

Section 432(c) 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 by any person; 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; the identification of any political committee which makes a contribution, together with the date and amount of any such contribution; and the name and address of every person to whom any disbursement is made, the date, amount, and purpose of the disbursement, and the name of the candidate and the office sought by the candidate, if any, for whom the disbursement was made.

Section 102.9(b)(2) and (d) of Title 11 of the Code of Federal Regulations states in part, in addition to the account to be kept under 11 Code of Federal Regulations 102.9(b)(1), a receipt or invoice from the payee or a canceled check to the payee shall be obtained and kept for each disbursement in excess of \$200 by or on behalf of, the committee.

In performing recordkeeping duties, the treasurer or his or her authorized agent shall use his or her best efforts to obtain, maintain, and submit the required information and shall keep a complete record of such efforts. If there is a showing that best efforts have been made, any records of a committee shall be deemed to be in compliance with this act. With regard to the requirements of 11 CFR 102.9(b)(2) concerning receipts, invoices and canceled checks, the treasurer will not be deemed to have exercised best efforts to obtain, maintain and submit the records unless he or she has made at least one written effort per transaction to obtain a duplicate copy of the invoice, receipt, or canceled check.

Section 100.12 of Title 11 of the Code of Federal Regulation defines *identification* in the case of an individual, his or her full name; mailing address; occupation; and the name of his or her employer; and, in the case of any other person, the person's full name and address.

Section 104.14(b)(1) of Title 11 of the Code of Federal Regulations states in part, each political committee required to file any report or statement shall maintain all records relevant to such reports or statements as follows: maintain records, including bank records, with respect to the matters required to be reported, including vouchers, worksheets, receipts, bills, and accounts, which shall provide in sufficient detail the necessary information and data from which the filed reports and statements may be verified, explained, clarified, and checked for accuracy and completeness.

Sections 434(b)(1), (2) and (4) of Title 2 of the United States Code state, in part, that a political committee shall disclose the amount of cash on hand at the beginning of the reporting period and the total amount of all receipts and all disbursements for the reporting period and calendar year.

As previously discussed, on December 1, 1998, the Audit staff met and received from Mr. Corey a receipts log sheet which listed contribution totals for MacPac, and other organizations he controlled. No contributor identification was documented on these logs. Examples of solicitation devices and response cards were also provided. At a later date, MacPac forwarded a computerized file of contributions, but the Audit staff was unable to associate it with the disclosed contributions. The information on this file did not cover the entire election cycle.

As for disbursement records, Mr. Corey provided hand-written disbursement logs which appear to mirror schedules B from MacPac's disclosure reports. The only reliable disbursement information available to the Audit staff are copies of disbursement checks obtained from Magna Bank via subpoena. The Audit staff has received check copies for approximately 95% of MacPac's expenditures.

Although Mr. Corey repeatedly stated that he was willing to obtain and/or provide both receipt and disbursement source documentation, he did not.

During the December 1, 1998 entrance conference, Mr. Corey stated MacPac only had one bank account, and none of his other companies' finances passed through that account. Incomplete bank statements were forwarded to the Audit staff on January 13, 1999. Contrary to his previous statements, in the correspondence accompanying the bank statements, Mr. Corey stated that it appears that the MacPac account was used not only for MacPac but "for something else too". Mr. Corey explained that records would have been maintained to support the additional activity passing through the account, and that he would look for those records. However he noted that the records may have been destroyed with the water problem but, he would do his best to compile them. No additional records were provided.

As noted above, in addition to records provided by Mr. Corey and MacPac's bank, subpoenas were issued to other organizations that MacPac had dealings with. Mr. Corey also owned or was an officer of these organizations. They are as follows:

- American Conservative Corporation, a not-for-profit corporation, which publishes a newspaper called the American Conservative. Mr. Corey was president of the American Conservative Corporation. MacPac paid American Conservative Corporation for printing, newspaper advertisements, and mailing costs.
- American Communications Corporation is a for profit corporation. Mr. Corey was the president. MacPac paid American Communications Corporation for printing, equipment leases, office management and labor services.
- Freedom Center Foundation, Inc., is another not-for-profit organization, established by Mr. Corey. Freedom Center Foundation paid for contract labor and equipment leases.

The subpoenas to these organizations produced very little useful information⁷. The information presented below comes primarily from records provided by Magna Bank.

RECEIPTS

In an attempt to determine the source of MacPac's revenues and the correct reportable receipt figure, copies of deposits to MacPac's account were requested from the Union Planters bank. However, the bank informed the staff that due to high volume and a small average transaction amount, the records would require a substantial period of time to produce and the cost would be considerable. Given that information the

⁷ In addition Mr. Corey was president of University Properties, L.C. One payment by MacPac to University Properties, L.C. has been documented during the audit period.

subpoena was limited to two months and part of a third that had already been copied by the bank. Receipts for those periods totaled \$122,431, which represented 19% of the total receipts for the two year cycle. The bank was able to produce records for \$110,753, which represents 90% of the dollar amount deposited during the periods covered. Approximately 97% of the dollar value of the documented receipts were checks made payable to MacPac. The remaining 3%, totaling \$2,933, were written to, the American Conservative, Leroy and Sue Corey, Sue Corey, Bob Dole, Senator Dole, Students for America and The Corey Family. Based on this review it is concluded that all of the funds deposited into MacPac's accounts should have been included in MacPac's reported activity. MacPac reported total receipts of \$467,914 for 1995 and 1996. After reviewing MacPac's bank records it was determined that the correct figure was \$655,710⁸, a difference of \$187,795.

DISBURSEMENTS

The Audit staff reviewed the disbursements reported and the copies of the canceled checks provided by MacPac's bank. Legible copies of checks were provided for all but \$29,832 of the debits on the account. In an attempt to determine which disbursements had been reported and which had not, a summary by major vendor was prepared based upon available records, the largest differences are presented below.

Vendor	Report Total	Bank Total	Difference Report Under/(Over) the Bank
Leroy Corey Freedom Center Foundation	\$32,200 13,462	\$217,538 85,448	\$185,338 72,026
SFA ⁹	0	49,245	49,245
Rental Account ¹⁰	0	47,735	47,735
Sue Corey	0	40,021	40,021
ACIO Pac ¹¹	0	37,646	37,646

⁸ There was minimal activity in the other three MacPac accounts, therefore the total receipts, disbursements, and cash figures were adjusted for the additional activity.

⁹ Students for America, was listed as an affiliated committee on MacPac's the 1985 Statement of Organization. It is not registered with the FEC or the Iowa Ethics and Campaign Disclosure Board. According to Mr. Corey, this organization was no longer in existence during the audit period.

¹⁰ The nature of this account is not clear. It could be related to University Properties, L.C., but no documentation is available.

¹¹ AC-Impartial Observer PAC is not registered with the FEC or the Iowa Ethics and Campaign Disclosure Board.

Vendor	Report Total	Bank Total	Difference Report Under/(Over) the Bank
Cash	0	22,325	22,325
Corey For Senate	2,225	11,593	9,368
Postmaster ¹²	152,753	0	(152,753)
ACC Corporation ¹³	80,005	0	(80,005)

After reviewing MacPac's accounts, it was determined that all of the disbursements drawn on the accounts should have been included on MacPac's disclosure reports. The reported total was \$459,152, the correct total is \$650,784, a difference of \$191,632.

In addition to the receipt and disbursement differences discussed above, based on the available records, MacPac's January 1, 1995, reported cash on hand of \$12,464, was overstated by \$14,480. The correct balance was \$-2,016. Similarly, December 31, 1996 reported cash on hand was \$21,226. The correct reportable amount was \$2,910 an overstatement of \$18,317.

In the interim audit report the Audit staff recommended that MacPac:

- Provide an explanation for the reporting discrepancies discussed above including the variance in the reported amounts and in the payees on the disclosure reports versus the checks drawn on the MacPac account;
- provide evidence that it has materially complied with the Act's recordkeeping requirements, or has exercised best efforts to obtain, maintain and submit the required records;
- provide a description of procedures that will be put into place in order to prevent a recurrence of these problems; and,
- file comprehensive amended reports for 1995 and 1996, which include corrected Summary & Detailed Summary pages, as well as Schedules A and B (by reporting period).

¹² MacPac reported payments to the post office, as independent expenditures against Clinton/Gore and Harkin for Senate, however there were no payments made to this vendor, during the audit period.

¹³ Per Mr. Corey, the American Communications Corporation name was changed to the American Conservative Corporation because the acronym was confusing to the MacPac personnel. However the Audit staff does not have any documentation to support this statement.

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B. EXCESSIVE CONTRIBUTIONS TO AUTHORIZED COMMITTEES

Sections 441a(a)(2)(A) and (4) of Title 2 of the United States Code state in part, that no multicandidate political committee shall make contributions to any candidate and his authorized political committees with respect to any election for Federal office which, in the aggregate, exceed \$5,000. Further, it states that the term "multicandidate political committee" means a political committee which has been registered under section 433 of this title for a period of not less than 6 months, which has received contributions from more than 50 persons, and, except for any State political party organization, has made contributions to five or more candidates for Federal Office.

The review of disbursements records indicated that MacPac made contributions to only two other committees. A \$1,600 in-kind contribution for mailing expenses to People for Lightfoot, Inc., which was not reported, and 22 contributions totaling \$11,593 to Corey For Senate, an authorized committee for MacPac Treasurer Leroy Corey's 1996 bid for the U.S. Senate. Mr. Corey eventually dropped out of the race and did not run in the primary election¹⁴.

Of the 22 checks, 17 totaling \$8,875 were written in 1995 for the 1996 Primary Election. The payee on these checks was either "Senate Exploratory Committee" or "Senate Committee". Nine of these checks were endorsed with "Corey for Senate", three checks were endorsed with a Senate Exploratory Committee endorsement and one check was endorsed with "University Property". The Audit staff was unable to determine the endorsement on the remaining four checks. Additionally, ten checks had a memo entry designating the money as a contribution, and the remaining seven checks did not contain a memo entry. All checks written in 1995 appear to have been deposited into the same account.

Corey for Senate Exploratory Committee reported three contributions totaling \$2,225, from MacPac on its Mid Year 95 Report, none of the other contributions received were reported.

The remaining five checks totaling \$2,718 were written during December of 1996, endorsed with "Corey Senate" and apparently deposited in a different account. Three of these checks had a memo entry designating the money as both a contribution and an expense reimbursement. The remaining two checks did not contain memo entries.

MacPac contributed \$6,593 in excess of the \$5,000 limitation to Corey for Senate, of that amount \$3,875 was contributed in 1995 and the remaining \$2,718 was contributed in December 1996, six months after the Iowa Senatorial Primary.

¹⁴ Leroy Corey failed to file Statements of Organization and Candidacy for the 1996 Iowa Senatorial race. Corey for Senate raised \$331,583 during 1995 and 1996.

In the interim audit report the Audit staff recommended that MacPac provide evidence demonstrating that the contributions in question were not excessive. Absent such evidence, the Audit staff recommended that MacPac obtain a refund from Corey for Senate in the amount of \$6,593 and provide evidence of the refund (a copy of the front and back of the negotiated refund check) for our review.

C. EXCESSIVE CASH DISBURSEMENTS

Section 432(h)(1) of Title 2 of the United States Code states in part, that each political committee shall maintain at least one checking account and such other accounts as the committee determines at a depository designated by such committee. No disbursements may be made (other than petty cash disbursements) by such committee except by check drawn on such accounts.

Section 102.11 of Title 11 Code of Federal Regulations states in part, if a petty cash fund is maintained, it shall be the duty of the treasurer of the political committee to keep and maintain a written journal of all disbursements. This written journal shall include the name and address of every person to whom any disbursement is made, as well as the date, amount, and purpose of such disbursement. In addition, if any disbursement is made for a candidate, the journal shall include the name of that candidate and the office (including State and Congressional district) sought by such candidate.

A review of all check copies supplied by Magna Bank determined that Mr. Corey wrote 57 checks totaling \$22,325 to cash. Fifty-six of these checks were issued in amounts in excess of \$100. According to the Mr. Corey, MacPac did not maintain a petty cash fund. Documentation was not available to determine the purpose for which these funds were used; and these expenditures were not disclosed on MacPac's FEC reports. Therefore, it appears that MacPac has made excess cash disbursements totaling \$16,625 (\$22,225 - \$5,600).

MacPac was audited for the 1981 and 1982 election cycle and during the audit it was discovered that Mr. Corey, had written checks to cash to pay postal expenses totaling \$42,309. At that time, Mr. Corey told the Audit staff that he intended to create a petty cash fund to provide for incidental disbursements. Although this was mentioned in the audit report, no other action was taken on it at that time.

In the interim audit report the Audit staff recommended that MacPac provide an explanation for the continuing practice of making excessive cash expenditures and provide evidence that proper petty cash procedures have been implemented. The Audit staff further recommended that documentation be provided for these disbursements and amended Schedules B (by reporting period) should be filed properly disclosing these payments.

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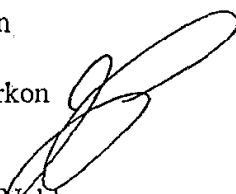


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
January 13, 2000


MEMORANDUM


TO: Robert J. Costa
Assistant Staff Director
Audit Division

THROUGH: James A. Pehrkon 
Staff Director

FROM: Lawrence M. Noble
General Counsel

BY: Kim Leslie Bright 
Associate General Counsel

Rhonda J. Vosdingh 
Assistant General Counsel

Joel J. Roessner 
Attorney

SUBJECT: Proposed Interim Audit Report on the Mid-America Conservative Political Action Committee (LRA #532)

I. INTRODUCTION

The Office of General Counsel has reviewed the proposed Interim Audit Report on the Mid-America Conservative Political Action Committee ("Report") dated December 17, 1999. The following memorandum summarizes our comments on the proposed Report.¹ We concur with the findings in the proposed Report that are not discussed in the following memorandum. If you have any questions, please contact Joel J. Roessner, the attorney assigned to this audit.

¹ The Office of General Counsel recommends that the Commission consider this document in closed session because the Commission may eventually decide to pursue an investigation of matters contained in the report. 11 C.F.R. §§ 2.4(a) and (b)(6).

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II. ISSUANCE OF FINAL AUDIT REPORT

In the cover memorandum to the draft Report you note that on November 17, 1999, Mr. Leroy Corey, the Treasurer of the Mid-America Conservative Political Action Committee ("MACPAC"), was killed in an automobile accident. Because Mr. Corey appears to have been the only person who actively ran MACPAC, the Audit Division does not expect a response to the Report. The Audit staff therefore recommends that, in lieu of issuing an interim audit report, the Commission should issue a final audit report which explains that Mr. Corey died and that there is no one to answer the findings in the report.

The opinion of the Office of General Counsel is that MACPAC is a legal entity separate from Mr. Corey which, as a matter of law, will continue to exist until it is terminated.² This Office is aware of no precedent or procedure for treating an interim audit report as a final audit report. This Office's view is that the Commission should continue to treat MACPAC as it would any other registered political committee until such termination occurs. Specifically, the proposed Report should be issued as an interim audit report, and the Committee should be allowed an opportunity to respond prior to the issuance of the final audit report. This Office notes that MACPAC at present is involved in litigation with the Commission, and that Mr. Corey's office manager has indicated that MACPAC has outstanding debts which exceed its liabilities. Accordingly, the Office of General Counsel does not concur with the Audit Division's suggestion that the Commission should proceed directly to the issuance of a final audit report without first issuing an interim audit report.

III. FAILURE TO REPORT RECEIPTS AND DISBURSEMENTS, FAILURE TO MAINTAIN RECORDS, AND MISSTATEMENT OF FINANCIAL ACTIVITY (II.A.)

In the cover memorandum to the proposed Report you note that subpoenas issued in this matter are outstanding, and state that this Office will be notified if new material is provided and "adjustments" are made to the Report. In fact the response to the subpoena issued to Norwest Bank remains outstanding.³

At the time it prepared and requested that the Commission issue bank subpoenas in this audit, the understanding of this Office was that the information sought by the bank subpoenas was needed for the Audit staff to ascertain what receipts and disbursements occurred during 1995

² MACPAC may be terminated under one of two provisions. First, MACPAC may terminate by filing a termination report. 2 U.S.C. § 433(d)(1); C.F.R. § 102.3(a)(1). MACPAC would be eligible to file a termination report only if it will no longer receive contributions or make disbursements, and if has no outstanding debts and obligations. *Id.* Second, MACPAC may be administratively terminated by the Commission. 2 U.S.C. § 433(d)(2); 11 C.F.R. § 102.4. Such administrative termination may be done at the request of a committee, or on the Commission's own initiative. 11 C.F.R. § 102.4(a). The administrative termination of a committee is based on several factors related to the insolvency and inactivity of the committee. *Id.*

³ The subpoena was mailed on December 16, 1999, and ordered that a response be submitted within 30 days of receipt.

and 1996, and to resolve the discrepancy between the activity reported to the Commission and the activity which appears to have actually occurred. If, in fact, this information was not needed, the bank subpoenas should not have been issued. Because you state that, based on the responses to the outstanding subpoenas, the Report is subject to revision and change, it appears that the information is in fact necessary to the audit. The MACPAC audit therefore appears not to be complete, and the opinion of this Office is that it is premature to submit the Report for review by this Office, approval by the Commission and/or a response from MACPAC.

IV. EXCESSIVE CASH DISBURSEMENTS (I.L.C.)

The proposed Report indicates that the Audit staff identified 56 checks payable to cash in amounts in excess of \$100. The total amount of these checks was \$22,225, and the audit staff determined that it appears that MACPAC made excessive cash disbursements totaling \$16,625. This Office suggests that the Report include an explanation that the \$5,600 difference between the total amount of the checks (\$22,225) and the excessive disbursement amount (\$16,625) reflects that part of each check which was not an excessive cash disbursement (i.e., \$100 × 56 checks).

02.07.025.3024



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

March 30, 2000

Mr. Les Borsay, Acting Treasurer
Mid-America Conservative
Political Action Committee
3722 Cedar Heights Drive
Cedar Falls, IA. 50613

Dear Mr. Borsay:

Attached please find the Report of the Audit Division on Mid-America Conservative Political Action Committee. The Commission approved the report on March 28, 2000.

The Commission approved Final Audit Report will be placed on the public record on April 5, 2000. 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 Clay or Russ Bruner of the Audit Division at (202) 694-1200 or toll free at (800) 424-9530.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Costa".

Robert J. Costa
Assistant Staff Director
Audit Division

Attachment as stated

22.07.025.3025

EE.07.025.3026

CHRONOLOGY

MID-AMERICA CONSERVATIVE POLITICAL ACTION COMMITTEE

Audit Fieldwork	November 30, 1998 - November 12, 1999
Interim Audit Report to the Committee	February 2, 2000
Response to the Interim Audit Report Due	March 1, 2000
Response Received	No Response
Final Audit Report Approved	March 28, 2000

22.07.025.3027

22.07.025.3028

22.07.025.3030

