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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Memo	Jordan to Brzezinski, 11 pp. re:Appointment recommendation	1/11/78	C

FILE LOCATION

Carter Presidential Papers-Staff Offices, Office of Staff Sec.-Presidential Handwriting File [1/11/78-Not Submitted] [CF, O/A 548] Box 67

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THE WHITE HOUSE
WASHINGTON

1/10

Hold ID until SE talk
w/ Carjans today.

Per Deane

~~See~~

not
admin

[1/11 - continue to hold]

FILE - do not submit to
President per Eizenstat.
OK with Califano, acc. to
Eizenstat

Rick
1-11-78



THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

January 9, 1978

FOR THE PRESIDENT

FROM JOE CALIFANO

A handwritten signature in black ink, appearing to read "Joe Califano", is written over the typed name.

Jim McIntyre's memorandum to you raises certain questions regarding a separate Department of Education. It is my understanding that you have made the decision to try to create a separate Department. I have laid out my reservations and feel you have had ample opportunity to consider them. The only issue for me now is how best to achieve your goal of a separate department and how best to achieve important administrative and substantive goals during the one to two years that it will take to create a Department.

There are serious problems in the Education Division at HEW. Administratively, the Office has difficult problems with respect to loose management of funds in almost every program. The university audits have so far revealed only the tip of the iceberg. The student loan program is plagued by defaults of hundreds of millions of dollars, and it is imperative to try to collect promptly. Virtually every other program, including the Bureau of Indian Education, the bilingual program and many Title I programs have serious, longstanding financial management problems.

Substantively, there is significant bureaucratic resistance to the push for emphasis on basic skills and competency testing in elementary and secondary education. It will take energetic leadership to get this initiative and others of ours in place during the next year or two.

To achieve the administrative and substantive goals to which you and I aspire, the Administration must control the Education Division during the one to two year period.

In terms of substantive and administrative policy, it is imperative that you make my leadership clear if you wish to maintain the initiative, rather than turn it over to narrower interests. To underline this, let me note that before there is a Department of Education in being, we will have set for the next four years the basic education policy in elementary and secondary education (the renewals are this year) and in higher education (the renewals are next year).

The President
Page Two
January 9, 1978

I suggest that you make it clear, publicly and internally, that I am your representative in developing education policy and that you expect me, along with Jim McIntyre, to take the leadership in putting the Education Department together -- to scour the government and think through with Ribicoff and others on and off the Hill the components of the Department of Education.

Ideally, I would also like to put in place the internal HEW reorganization plan that we have developed. It would end the bifurcated leadership of the education division and would create a core structure that would be a very desirable base for a separate Department.

I realize there are two objections to this:

- There is some concern that the NEA will read this as an attempt to subvert the Department of Education.
- OMB does not want to give up a reorganization slot.

As far as the OMB objection is concerned, I think there are few proposals more important for consideration for the six reorganization slots than streamlining the Education Division now in a manner consistent with the separate Department.

As far as the NEA concern goes, I would like an opportunity to try the reorganization plan on them and others on the Hill as an interim measure. If they and others object so that it would be a controversial plan, then I would drop it. But I do not think we should make a judgment without a chance to try it out. Without the reorganization, Administration control of education policy will be distinctly more difficult to maintain over the next two years.

ID 780100

THE WHITE HOUSE

WASHINGTON

DATE: JAN 11 78

FOR ACTION: BOB LIPSHUTZ

Hold

*2/21/78 - Per Day Hinson,
No need to forward to the
President - RL's office
is working it out. The
President does NOT need
to review it.*

INFO ONLY: HAMILTON JORDAN

JODY POWELL

Self

FROM: RICK HUTCHESON WHITE HOUSE STAFF SECRETARY PHONE 456-7052

SUBJECT AIKENS LETTER DATED 1/9/78 RE FEC FINDINGS AND CONCLUSIONS ON AUDIT
OF THE COMMITTEE FOR JIM CARTER FROM 1/1/78 THRU 6/30/77

RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY

BY 1200 PM FRIDAY JAN 13 78

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD; DO NOT FORWARD.

PLEASE NOTE OTHER COMMENTS BELOW:



FEDERAL ELECTION COMMISSION

1325 K STREET N.W.
WASHINGTON, D.C. 20463

January 9, 1978

Honorable Jimmy Carter
The White House
1600 Pennsylvania Avenue
Washington, D. C.

Dear President Carter:

Please be advised that on December 8, 1977 the Commission approved the interim report of the Audit Division on the Committee for Jimmy Carter covering the period from January 1, 1975 through June 30, 1977. The interim report covers the post-primary audit of the Committee for Jimmy Carter (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, as amended (the Act). The audit was conducted pursuant to Section 9038 of Title 26, United States Code (26 U.S.C. 9038) which directs the Commission to conduct an audit of the qualified campaign expenses of every candidate and his authorized committees who received matching fund payments and to determine the amount, if any, of repayment to the matching payment account.

The findings and conclusions presented in the interim audit report are detailed below. The Commission's determination concerning each item along with any required action is also included.

A. Disclosure of Purpose and Payee of Expenditures

Section 434(b)(9) of Title 2 of the United States Code provides that each report filed under this section "shall disclose the identification of each person to whom expenditures have been made by such committee or on behalf of such committee or candidate within the calendar year in an aggregate amount or value in excess of \$100.00, the amount, date and purpose of each such expenditure. . . .". In addition, on September 29, 1976, the Commission informed candidates and committees that a general description of the purpose of expenditures was insufficient to meet the requirements of the Act. Subsequently, the then proposed regulations were amended to include a requirement that the particulars of expenditures be shown on disclosure reports. (See 11 CFR 104.2(b)(9)).

In our test of your Committee's expenditures, certain groups of expenditures were noted where the purpose and/or amount appeared to be inconsistent with the reported payee. For example, amounts paid to business entities for "personal expense reimbursements", "refundable deposits" paid to individuals, and large expenditures for "meeting: fundraising" were identified. Further review of the supporting documentation of these expenditures showed that the disclosure of the items was not always adequate.

As a result of this initial review, four major categories of expenditures were identified for closer study. Of the 284 expenditures tested, 211 fell within these four categories, and 99 were found to be inadequately disclosed.

A discussion of each of the four categories follows:

1) Personal Expense Reimbursements

There were 66 items which were disclosed as personal expense reimbursements. Thirty-eight of these were considered disclosed improperly. Nine of the 38 were payments to business entities, while the other 29 were payments to individuals.

Examination of the supporting documentation for the expenditures showed that, rather than reimbursement for personal expenses, the reimbursement was for such expenses as advertising, printing, and the replenishment of petty cash funds.

2) Meetings: ORG/Get Out the Vote

There were 70 expenditures identified in this manner, 34 of which were disclosed insufficiently. For example, our review disclosed payments to individuals for advances, election day expenses, and the payment of rent classified in this manner.

3) Meetings: Fundraising

Our review also included 52 expenditures disclosed as "meetings: fundraising"; the individuals and/or vendors providing goods and/or services were not disclosed for 13 of the 52 items reviewed. Instead, the person who received the funds from the Committee to make the expenditures was disclosed. These payments represented items such as the purchase of promotional services, printing of tickets, and salaries.

4) Refundable Deposits

Twenty-three of the 284 items were disclosed as expenditures for refundable deposits. We found that 14 of these payments were used by the payee to make deposits on office space, room deposits and, in at least eight instances, for telephone deposits. Again, vendors providing services (i.e., phone company, hotel, real estate agent, etc.) should have been disclosed.

The disclosure of the expenditures discussed above was incomplete in that there were less than accurate descriptions of the actual purpose and in many cases no identification of the persons providing goods and/or services to the campaign. We believe that these inaccuracies in disclosure were the direct result of the Committee's use of general ledger categories as the purpose for its expenditures. However, since the majority of the Committee's expenditures were made and disclosed prior to the issuance of the Commission's September 29, 1976 guideline, the Commission has determined that no action by your Committee will be required.

B. Disclosure of Committee Repositories

Section 433 of Title 2, United States Code, requires that a committee's statement of organization include a listing of all banks, safety deposit boxes, and other repositories used by the committee. In addition, any change in information previously submitted in a statement of organization shall be reported to the Commission within a 10-day period, following the change.

During the review of your Committee's records it was determined that expenditures in support of your candidacy had been made from at least two (2) bank accounts which had not been disclosed on the Committee's statement of organization or amendments thereto. Committee records show that the accounts were held in the name of individuals who were either employees of the Committee or authorized to make expenditures on your behalf. The records show the disbursement of Committee funds to these individuals for a number of purposes including personal expense reimbursements, miscellaneous administrative expenses and meetings: fundraising. In some instances, these disbursements drawn on other Committee accounts were deposited directly into the undisclosed accounts. In other instances, Committee disbursements could not be traced to deposits made to the undisclosed accounts due to insufficient documentation in Committee records. However, amounts similar to those disbursed to each account holder were disbursed from the accounts in question to defray the cost of campaign activity.

The Commission has determined that the Committee for Jimmy Carter is required to file an amended Statement of Organization disclosing the accounts discussed above (see Attachment I).

It should be noted that the matter of three (3) additional accounts is being handled by the Office of the General Counsel.

C. Disclosure of the Proceeds From the Sale of Items

Section 104.3(b) of Title 11, Code of Federal Regulations, provides in part that contributions of stocks, bonds, art objects and other similar items to be liquidated shall be reported as follows:

1. If the item has not been liquidated at the close of a reporting period, the committee shall record as a memo entry (not as cash) the item's fair market value on the date received, including the identification (and where in excess of \$100.00, the occupation and principal place of business) of the contributor.

2. When the item is sold, the committee or candidate shall record the proceeds. It shall report the (i) identification (and where in excess of \$100.00, the occupation and principal place of business) of the purchaser, if purchased directly from the candidate or committee, in which case he or she shall be considered to have made a contribution, and (ii) the identification of the original contributor.

Your committee collected a total of \$50,341.53 in proceeds from the sale of contributed items and disclosed the collections as refunds/rebates. The commodities sold were cotton, chickens and cattle. A Committee official stated that the cotton and chickens were donated to the campaign by various persons and were then sold through a commodities exchange. The exchange sold the commodities over the open market resulting in proceeds of \$23,587.98 and \$9,750.00 respectively.

The remaining \$17,003.60 resulted from an auction whereby your Committee sold cattle donated to the campaign by various persons. According to a Committee official, each head of cattle was sold to more than one person since the purchase price of one head was in excess of \$1000. He also stated that the donation of each commodity was attributed to more than one person wherever the market value of any item donated exceeded \$1000.

In accounting for the contributed items, the Committee disclosed each item as an in-kind contribution from the donor with an accompanying operating expenditure in an amount equal to the sale price of each item sold.

The official responsible for preparing the Committee's disclosure report stated he was unsure as to how such proceeds should have been disclosed. Since an in-kind contribution and accompanying expenditure had already been recorded, he disclosed the proceeds of the sale as refunds. By reporting the transactions in this fashion, he was able to avoid including the expenditure under the expenditure limitation a second time, since refunds are deducted from operating expenditures to determine total expenditures subject to the limitation.

Although the Committee's method of disclosing the above items results in no misstatement of expenditures subject to limitation, total receipts and expenditures are each overstated by \$50,341.53. The Commission has determined that the Committee for Jimmy Carter is required to file an amended report properly reflecting the transactions discussed above.

D. Failure of Committee to Obtain and Keep Adequate Documentation

Introduction

Section 432(d) of Title 2 of the United States Code requires that it shall be the duty of the Treasurer, to obtain and keep a receipted bill, stating the particulars, for every expenditure made by or on behalf of a political committee in excess of \$100 in amount, and for any such expenditure in a lesser amount if the aggregate amount of such expenditures to the same person during a calendar year exceeds \$100.

Section 9038(b)(2) of Title 26 of the United States Code provides that if the Commission determines that any amount of any payment made to a candidate from the matching payment account was used for any purpose other than -

a) to defray the qualified campaign expenses with respect to which such payment was made; or

b) to repay loans the proceeds of which were used, or otherwise to restore funds (other than contributions to defray qualified campaign expenses which were received and expended) which were used, to defray qualified campaign expenses, it shall notify such candidate of the amount so used, and the candidate shall pay to the Secretary or his delegate an amount equal to such amount.

Finally, Section 9032(9) defines qualified campaign expense in part as a purchase, payment, distribution, loan, advance, deposit, or gift of money or anything of value incurred by a candidate, or his authorized committee, in connection with his campaign for nomination for election.

In an attempt to determine whether the Committee had obtained and kept receipted bills as required, a sample of items was chosen from the expenditure sections of the Committee's reports and traced to the Committee's records file. We found that 67 of the 552 items tested, or approximately 12% of the items sampled, were not supported by a receipted bill or an acceptable contemporaneous memorandum. However, each of the 67 items was supported by a cancelled check.

In addition, the Committee used a committee check request voucher and a notarized statement in lieu of receipted bills. Those documents contained a check number, the account to be charged and a general purpose for which the money was to be spent. Each notarized statement had been endorsed by the payee and included a clause stating that the funds had been expended on qualified campaign expenses. However, neither the Committee request voucher nor the notarized statement showed an itemization of expenses incurred. Due to the high number of insufficiently documented items noted in the sample, the test was expanded to include a review of items reported in the same manner. An additional 79 items supported by documentation similar to that noted above were identified during the review. Attachment II lists by category the total of 146 insufficiently documented items. A detailed listing has been provided to your Committee.

The documentation supporting these expenditures does not show a sufficiently detailed purpose and is insufficient to establish connection with the campaign. Therefore, the Commission has concluded that acceptable documentation should be produced for the inadequately supported items within 30 days of the receipt of this letter. Should an acceptable showing be made, the expenditures could be deemed adequately supported with no further action required. Should an acceptable showing not be made, additional audit work would be required to identify any other inadequately supported expenditures. Such expenditures may be considered non-qualified campaign expenses, requiring an equal amount to be repaid to the United States Treasury.

Please be advised that a number of items similar to those discussed above are being considered by the Office of the General Counsel as MUR 217.

E. Refund of Matching Fund Payment

The calculation of any necessary repayment of matching funds received by your Committee in addition to the \$126,515 received by the Commission on August 29, 1977, cannot be finalized prior to the disposition of the matters discussed in D above.

If you should have any questions, please contact either Joe Stoltz or Bob Costa at (202) 523-4155.

Sincerely,



Joan D. Aikens
Vice Chairman
Federal Election Commission

Attachments as stated

cc: Robert J. Lipshutz
Treasurer

CERTIFIED MAIL:
RETURN RECEIPT REQUESTED

ATTACHMENT I

SCHEDULE OF REPOSITORIES

REPOSITORY #	ACCOUNT #	NAME OF HOLDER	NAME/ADDRESS OF REPOSITORY
1	(none available)	Scott Burnett	Citizens State Bank, Arlington, Kansas
2	501-557-3	Wallace Hyde	Bank of Asheville, Asheville, North Carolina

ATTACHMENT II

SUMMARY OF UNSUPPORTED EXPENDITURES

CATEGORY	NO. OF ITEMS	AMOUNT
Meetings - Fundraising	16	\$216,480.57
Refundable Deposits	11	48,550.00
Personal Expense Reimbursements	40	17,481.34
Meetings: ORG/Get Out The Vote	14	15,915.00
Rent and Utilities	4	7,284.00
Meals and Lodging- Convention	5	6,508.35
Telephone	6	4,056.52
Equipment, Office Materials and Supplies	5	2,822.67
Mailing Lists	1	2,550.47
Advances - Other	3	2,300.00
Promotional Items - Buttons, Shirts	8	2,073.19
Printing	2	1,199.95
Advertising	3	1,201.00
Administrative Expenses	2	1,144.63
Postage and Delivery	2	970.00
Telethon	1	500.00
Security, Per Diem Convention	20	2,770.00
Consultants Fees	1	205.00
Transportation	1	403.00
Petty Cash	<u>1</u>	<u>400.00</u>
Totals	<u>146</u>	<u>\$334,815.69</u>

ID 780100-

THE WHITE HOUSE
WASHINGTON

DATE: JAN 11 78

FOR ACTION: BOB LIPSHUTZ

INFO ONLY: HAMILTON JORDAN

JODY POWELL

FROM: RICK HUTCHESON WHITE HOUSE STAFF SECRETARY PHONE 456-7052

SUBJECT AIKENS LETTER DATED 1/9/78 RE FEC FINDINGS AND CONCLUSIONS ON AUDIT
OF THE COMMITTEE FOR JIM CARTER FROM 1/1/78 THRU 6/30/77

RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY

BY 1200 PM FRIDAY JAN 13 78

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD; DO NOT FORWARD.

PLEASE NOTE OTHER COMMENTS BELOW:

mmk
Darryl + Bob are working on
this - no need for me to see
at this time.

7800091

WASHINGTON

X

DATE: JAN 11 78

FOR ACTION: PHIL WISE

FRAN VOORDE

INFO ONLY:

FROM: RICK HUTCHESON WHITE HOUSE STAFF SECRETARY PHONE 456-7052

SUBJECT MCINTYRE MEMO DATED 1/11/78 RE PRESIDENTIAL MEETING WITH OMB STAFF

RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY

BY 1200 PM FRIDAY JAN 13 78

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD; DO NOT FORWARD.

PLEASE NOTE OTHER COMMENTS BELOW:

THE WHITE HOUSE
WASHINGTON

<input checked="" type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		McINTYRE
		SCHULTZE

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		GAMMILL

<input checked="" type="checkbox"/>	KRAFT <i>D. S.</i>
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	MOE
<input type="checkbox"/>	PETERSON
<input type="checkbox"/>	PETTIGREW
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	STRAUSS
<input checked="" type="checkbox"/>	VOORDE
<input type="checkbox"/>	WARREN



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

January 11, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: JIM McINTYRE

Jim

If your schedule permits on Friday, January 20, I would suggest you invite to the Oval Office a selected group of OMB budget staff (policy and career) to comment on their work on the '79 budget.

Normally, this would be done on the day of the budget document signing (Monday, January 23 this time). You will be away on that date and the OMB staff flying to St. Simons for your signing presumably will be limited. The January 20 Oval Office visit would provide a chance to recognize the appropriate budget staff and, of course, be a great boost to their morale.

WASHINGTON

DATE: JAN 11 78

FOR ACTION: PHIL WISE

FRAN VOORDE

INFO ONLY:

FROM: RICK HUTCHESON WHITE HOUSE STAFF SECRETARY PHONE 456-7052

SUBJECT MCINTYRE MEMO DATED 1/11/78 RE PRESIDENTIAL MEETING WITH OMB STAFF

RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY

BY 1200 PM FRIDAY JAN 13 78

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD; DO NOT FORWARD.

PLEASE NOTE OTHER COMMENTS BELOW:

RICK

WE ARE WORKING THIS OUT WITH MCINTYRE'S STAFF.

TIM KRAFT