REPORT TO COUNCIL
City of Sacramento

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STAFF REPORT
September 13, 2005

Honorable Mayor and
Members of the City Council

Subject: **PRESENTATION OF THE CAMPAIGN FINANCING MATCHING FUNDS INTERNAL AUDIT REPORT**

Location/Council District: Citywide

Recommendation: Receive and file

Contact: Martin Kolkin, City Auditor 808-5704

Presenter: Martin Kolkin

Department: City Manager's Office

Division: N/A

Organization No: 0310

Summary:

Based upon the results of the attached *Campaign Financing Matching Funds, Fiscal 2004*, internal audit report, the City Auditor determined that:

1) The one candidate that applied for and received public funds, $16,964, met the City's qualifications for matching funds;
2) The candidate's usage of matching funds complied with municipal criteria; and
3) City staff's review and payment processing of requests for matching funds complied with municipal requirements.

Additionally, the City Auditor recommends that the City Clerk or her representatives establish written procedures for the distribution of matching funds before the next election

Committee/Commission Action: None

Background:

In accordance with the approved Internal Audit Workplan, attached is the completed internal audit report of the Campaign Financing Matching Funds, Fiscal 2004.

Discussion

The audit report noted four audit findings, the actions taken, and the estimated completion dates. The City Auditor noted that $16,964 of City's Campaign financing matching funds were distributed for the March 2004 primary election.

Audit Findings	Action Taken	Estimated Completion Date
1. The one candidate that received public funds met City qualifications for matching funds;	No corrective action necessary to obtain comply with the ordinance.	N/A
2. The candidate's usage of matching funds complied with municipal criteria; &	No corrective action necessary to obtain comply with the ordinance.	N/A
3. City staff's review and payment processing of requests for matching funds complied with municipal requirements.	No corrective action necessary to obtain comply with the ordinance.	N/A
4 What are the Ordinance provisions regarding ethic statements and prohibitions on negative campaigning with matching funds?	There are no Ordinance provisions regarding requirements for ethic statements nor prohibitions on negative campaigning with matching funds.	N/A
5. No written procedures.	The City Clerk agreed that written procedures would be completed before the next election period.	Pending City Council review of the Campaign Financing Ordinance.

Financial Considerations:

None

Environmental Considerations:

This activity does not constitute a "project" and is therefore exempt from the California Environmental Quality Ace (CEQA), CEQA Guidelines Sections 15061(b) and 15378(b)(3).

Policy Considerations:

The City Auditor's presentation of the Campaign Financing Matching Funds, Fiscal 2004, internal audit report is consistent with the City of Sacramento's core values of accountability and fiscal responsibility.

ESBD Considerations: None

Respectfully Submitted by: _____

Martin Kolkin
City Auditor

Recommended Approval:

_____

Robert P. Thomas
City Manager

Table of Contents:

1. Campaign Financing Matching Funds Internal Audit Report Page 4

CITY OF SACRAMENTO
INTERNAL AUDIT

CAMPAIGN FINANCING
MATCHING FUNDS
FISCAL 2004

OFFICE OF THE
CITY MANAGER

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CALIFORNIA

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September 1, 2005

Honorable Mayor, City Council Members, and the City Manager:

The Sacramento City Auditor has completed a limited scope audit of the $16,964 of City's Campaign financing matching funds distributed for the March 2004 primary election. The audit was conducted in accordance with generally accepted government auditing standards and the responsibilities of the City Auditor.

This audit was performed to provide the Mayor, City Council Members, and the City Manager with an objective and independent evaluation of whether:

1. Candidates that received public financing funds met the City's qualifications for receiving matching funds;
2. Candidates' usage of matching funds complied with municipal criteria; and
3. The City staff's review and payment of matching funds fulfilled established municipal requirements.

Based upon the records examined and auditing techniques employed, I have concluded that the candidate that received public financing funds met the City's qualifications for receiving matching funds, the candidate's usage of matching funds complied with municipal criteria, and that the City staff's review and payment of matching funds met the requirements of the Campaign Spending Limits and Public Campaign Ordinance, number 2003-046.

Martin J. Kolkin
City Auditor

Campaign Financing Matching Funds, Fiscal 2004 Audit Report Number 2005-2 Executive Summary

The $16,964 of campaign financing matching funds distributed during the March 2004 primary election was audited.

The City Auditor determined that:

Audit Findings	Action Taken	Estimated Completion Date
1. The one candidate that received public funds met City qualifications for matching funds;	No corrective action necessary to obtain comply with the ordinance.	N/A
2. The candidate's usage of matching funds complied with municipal criteria; &	No corrective action necessary to obtain comply with the ordinance.	N/A
3. City staff's review and payment processing of requests for matching funds complied with municipal requirements.	No corrective action necessary to obtain comply with the ordinance.	N/A
4 What are the Ordinance provisions regarding ethic statements and prohibitions on negative campaigning with matching funds?	There are no Ordinance provisions regarding requirements for ethic statements nor prohibitions on negative campaigning with matching funds.	N/A
5. No written procedures.	The City Clerk agreed that written procedures would be completed before the next election period.	Pending City Council review of the Campaign Financing

OTHER CONCERNS

During the performance of this audit, several areas of concern came to the attention of the City Auditor:

- Candidates can spend public funds on wide range of campaign expenses to promote candidacy, including travel expenses outside of the City for transportation, lodging, and meals, except where specifically prohibited by The Political Reform Act;
- Candidates are not prohibited from using public funds for valid expenses[1] that also confer a substantial personal benefit on the candidate, such as purchasing goods and services from a business in which the candidate has an ownership interest; and
- Candidates that use matching funds are not required to specifically identify expenses that are paid for with public funds.

[1] Article 4 of Chapter 9.5 of the Political Reform Act, Gov. Code Section 89512 states "Expenditures which confer a substantial personal benefit shall be directly related to a political, legislative, or governmental purpose."

Campaign Financing Matching Funds, Fiscal 2004
Audit Report Number 2005-2
Table of Contents

PRELIMINARY SECTION

Purpose	1
Audit Scope & Methodology	1
Background	2
Table of Payments from the Campaign Reform Fund for FY 2004	2

CONCLUSIONS

1.	**Campaign Contributions**	**3**
	Qualifications for Matching Funds	3
2.	**Campaign Expenses**	**4**
	Spending Limitations	4
	Use of Public Matching Funds	4
	Expenditures Associated with Seeking or Holding Office	5
3.	**City Staff Review and Payment of Matching Funds**	**5**
	Formula for Payment of City Funds	5
	Procedures for Payment of City Funds	6
4.	**Ordinance Requirements for Ethic Statements and Ordinance Prohibitions on Negative Campaigning with Matched Funds**	**6**
5.	**Procedures**	**6**
Other Concerns		**6**
Table of DeLuz Campaign Contributions		**8**
Table of DeLuz Campaign Expenses, for the period 2/18/04 to 6/1/04		**9**

Campaign Financing Matching Funds, Fiscal 2004 Preliminary Section Report Number 2005-2

PURPOSE

At the request of the Mayor and City Council and at the direction of the City Manager, the City Auditor completed a limited scope examination of the Sacramento's Campaign Spending Limits and Public Campaign Ordinance ("Ordinance"), number 2003-046. This audit included an evaluation of whether:

1. Candidates that received public financing funds met the City's qualifications for receiving matching funds;

2. Candidates' usage of matching funds complied with municipal criteria; and

3. The review and payment processing of requests for matching funds fulfilled established municipal requirements.
4. Ordinance provisions required ethic statements or prohibited negative campaigning with matching funds.

AUDIT SCOPE & METHODOLOGY

The scope of this examination included, but was not limited to the following steps:

- An examination of the City of Sacramento's Financial System transactions involving matching funds, including: a review of municipal processing of matching funds requests, the underlying supporting documentation for campaign financing matching fund requests for the March 2004 election, and analytical procedures performed to validate that dollar limits were observed and contributors met the requirements of the Ordinance;
- Downloaded information filed on the City's On-Line Campaign Filing System, internet web address of http://www.cityofsacramento.org/olcf/;
- Inspection of supporting documentation of contributions and expenditures obtained from the recipient of matching funds, including check copies, bank statements, and vender invoices. Approximately 80% of all expenses incurred by the recipient were selected for audit sampling and 100% of recipient contributions were traced to deposits recorded on bank statements;
- Discussions with the candidate that received matching funds and his Campaign Treasurer; and
- Interviews and discussions with personnel from the City Attorney's Office, the Budget and Accounting Divisions, the Finance Department, the City Clerk's Department and the City Manager's Office.

BACKGROUND

The Ordinance, effective October 10, 2003, provides Mayoral and City Council candidates with the opportunity[2] to receive financing from the municipal Campaign Reform Fund.

Purpose and Intent, Section 2.14.030 of the Ordinance

a. To encourage public trust in the electoral and decision-making processes of the City, and to ensure that individuals and interest groups have a fair and equal opportunity to participate in the elective and legislative process;
b. To reduce the potential for influence by large contributors with specific financial stake in matters before the City...;
c. To assist candidates for ... elective office in raising enough money...;
d. To limit overall expenditures and campaigns for ... elective offices...;
e. To provide a neutral source of campaign financing by providing a limited amount of public funds...;
f. To encourage smaller donations;
g. To allow municipal official and elected candidates to spend a smaller portion of their time on fundraising and a greater proportion of their time discussing important City issues;
h. To help restore public trust in the City's legislative and electoral institutions; and
i. To limit the use of loans and credit in the financing of political campaigns for municipal elective office.

Payments of Matching Campaign Financing Funds for the March 2004 Primary Election

In the March 2004 primary election, only one candidate, Mr. Craig DeLuz in Council District Two, filed an acceptance of campaign financing and indicated that the Qualifications for Matching Funds, Section 2.14.130 of the Ordinance had been met.

This candidate received three checks with an aggregate value of $16,964 of matching campaign reform funds for the March 2004 primary election.

Table of Payments Made from the Campaign Reform Fund for Fiscal Year 2004

Check Date	Amount
02/17/2004	$8,369
02/26/2004	5,300
04/08/2004	3,295
Total Matching Funds	$16,964

Source: City of Sacramento's Financial System.

[2] At the time of filing nomination papers, the candidate files with the City Clerk either a statement of acceptance or a statement of rejection of financing from the Campaign Reform Fund.

Campaign Financing Matching Funds, Fiscal 2004 Conclusions Report Number 2005-2

The City Auditor determined that 1) The one candidate that received public funds met City qualifications for matching funds; 2) The candidate's usage of matching funds complied with municipal criteria; and 3) City staff's review and payment processing of requests for matching funds complied with the municipal requirements.

1. **CAMPAIGN CONTRIBUTIONS**
During the March 2004 primary election, only one candidate, Mr. Craig DeLuz running in Council District Two received $16,964 of matching funds during the primary election.

1a. The City Auditor determined that Mr. DeLuz met the criteria for receiving matching funds.

Qualifications for Matching Funds, Section 2.14.130 of the Ordinance

A candidate shall qualify to receive payments from the Campaign Reform Fund for a primary or special election only if he or she meets all of the following requirements:

A1. The candidate has filed a statement of acceptance of financing and not rescinded such statement.

Mr. DeLuz filed a "Statement of Acceptance of Financing" on December 5, 2003 with the City Clerk's office and no statement of rescission was noted within the City Clerk's files.

A2. The candidate has raised and deposited... at least Seven Thousand Five Hundred Dollars ($7,500) if a candidate for a City Council position, consisting of contributions totaling Two Hundred and Fifty Dollars ($250) or less per source...

Mr. DeLuz filed a notification letter with the City Clerk that $7,500 of qualifying contributions had been deposited, dated February 9, 2004. An examination of Mr. DeLuz's bank statements and records verified the deposit of $7,500 of contributions.

A3. The candidate is opposed by a candidate who has qualified for payments from the Campaign Reform Fund or who has raised and deposited...Seven Thousand Five Hundred Dollars or more...for City Council position.

The City Auditor's examination of the "On-Line Campaign Filing System" determined that a candidate that had raised and deposited over $7,500 by February 9, 2004 opposed Mr. DeLuz.

> A4. The candidate has filed a statement agreeing to participate in at least one public forum at which all opponents... who qualify for the ballot are invited...

Mr. DeLuz filed an agreement to participate in at least one public forum with the City Clerk's office, dated December 5, 2003.

1b. Mr. DeLuz's campaign records and bank statements verify that his requests for matching funds were based upon individual campaign contributions totaling $250 or less and dated as contributed within 90 days of the primary election.

A listing of the DeLuz campaign contributions matched from the campaign reform fund is listed in Table 2, located on page 8 of this report.

2. CAMPAIGN EXPENSES

2a. Mr. DeLuz's campaign expenses did not exceed the speeding limitations of the Ordinance.

Spending Limitations, Section 2.14.050 of the Ordinance

> No candidate for the office of the City Council member who files a statement of acceptance of financing from the Campaign Reform Fund...shall make campaign expenditures...in excess of...Seventy-five thousand dollars ($75,000) in a primary election period...

The City Auditor's examination of the Mr. DeLuz's campaign books and records determined that total expenses of $50,957[3] for the 2004 primary elections did not exceed the Ordinance's $75,000 spending limits

2b. The City Auditor determined that the DeLuz's campaign's use of matching funds complied with the criteria of the Ordinance. Campaign expenses from the candidate's initial deposit of matching funds, on 02/18/04, through the close of the DeLuz for City Council bank account, 06/01/04, are presented in Table 3, page 8 of this report.

Use of Public Matching Fund, Section 2.140.200 of the Ordinance

> A. Public matching funds shall be used exclusively for legitimate campaign expenses to promote the candidacy of the recipient candidate.

[3] Total Expenses include cash payments, unitemized expenses, and non-monetary adjustments.

B. All surplus public matching funds, or matching funds used in violation of the requirements of this Code, shall be returned or reimbursed to the City's Campaign Reform Fund.

Expenditures Associated with Seeking or Holding Office, Political Reform Act, Gov. Code Section 89512

> An expenditure to seek office is within the lawful execution of the trust imposed by Section 89510 if it is reasonably related to a political purpose.

This audit examined all expenses incurred from the candidate's initial deposit of matching funds, on 02/18/04, through the close of the *DeLuz for City Council* bank account, on 06/01/04.

The City Auditor noted a distinction between the requirements of the Ordinance, which require the use of matching funds exclusively for expenses that promoted candidacy, and the Political Reform Act, which more broadly allows expenses reasonably related to a political purpose. Accordingly, the City Auditor verified that at least $16,964 of the candidate's $29,808 of expenses, during that period, complied with the more restrictive language of the Ordinance, for the period 02/18/04 through 06/01/04.

3) CITY STAFF REVIEW AND PAYMENT OF MATCHING FUNDS

The City Auditor's examination determined that City staff's review and payment of requests for matching funds complied with the requirements of the Ordinance.

Formula for Payment of City Funds, Section 2.14.140 of the Ordinance

> A candidate who is eligible to receive payments from the Campaign Reform Fund shall receive payments...for a contribution or contributions totaling two hundred fifty dollars ($250) or less from a single source that is received within 90 days of the primary election...for each dollar received up to a maximum City match of Thirty Thousand Dollars ($30,000) per election period per candidate.

A review of City payment practices noted that City staff performed analysis to ensure that contributions to be matched did not exceed $250 per individual, contributions were received within 90 days[4] of the primary period, and the $30,000 maximum match was not exceeded. Additionally, the City Auditor noted that City staff reviewed recordkeeping and reporting requirements for contributions and searched for contributions by the candidate, spouse, or dependent children to verify compliance with the Ordinance.

[4] A $25 contribution, dated more than 90 days prior to the primary election, did not receive the $25 of requested matched funding.

Procedures for Payment of City Funds, Section 2.14.180

> ...The City Campaign Statements required by this section shall be current through two (2) calendar days before they are filed. Contributions made more than two (2) calendar days prior to the preceding Campaign Statement shall not be eligible for matching public funds.

Audit procedures determined that City staff's practices included an examination of contribution dates to ensure compliance with the Ordinance[5]

Additionally, the Internal Auditor noted that all matching fund requests were paid within five working days, as required by the Ordinance.

4) WHAT ARE THE ORDINANCE REQUIREMENTS FOR ETHIC STATEMENTS AND ORDINANCE PROHIBITIONS ON NEGATIVE CAMPAIGNING WITH MATCHED FUNDS

The City Auditor noted that within the Ordinance, there were no provisions that prohibit the use of negative campaigning tactics funded with matching funds; and There were no requirements that the recipient of public funds agree to act in an ethical manner or to sign an ethics statement.

5) PROCEDURES

The City Auditor noted that the process for distributing public funds did not have written procedures. Instead the Ordinance was used as a "checklist. Since the process is new and will likely change, this was an acceptable short-term alternative to written procedures.

Recommendation

The City Auditor notes that that written procedures establish specific actions to be taken and ensure desired results are achieved. This is particularly important in new or changing environments. Accordingly, the City Auditor recommends that the City Clerk or her representatives establish written procedures for the distribution of matching funds before the next election.

Status of Corrective Action

The City Clerk concurred with this recommendation.

OTHER CONCERNS

During the performance of this audit, several areas of concern came to the attention of the City Auditor.

- Candidates can spend public funds on wide range of campaign expenses to promote candidacy, including travel expenses outside of the City for transportation, lodging, and meals, except where specifically prohibited by The Political Reform Act;

[5] Two contributions totaling $290, dated more than 2 calendar days prior to the preceding Campaign Statement, did not receive matching funds.

- Candidates are not prohibited from using public funds for valid expenses[6] that also confer a substantial personal benefit on the candidate, such as purchasing goods and services from a business in which the candidate has an ownership interest; and
- Candidates that use matching funds are not required to specifically identify expenses that are paid for with public funds;

[6] Article 4 of Chapter 9.5 of the Political Reform Act, Gov. Code Section 89512 states "Expenditures which confer a substantial personal benefit shall be directly related to a political, legislative, or governmental purpose."

Table of
DeLuz Campaign Contributions Matched from the Campaign Reform Fund

Contributor	Amount of City's Match
Ken Barnes	$ 250
Black America's PAC	250
Capitol Mobile Home Sales	250
Citizens for Social Reform PAC	250
Commercial Salvage	250
Ward Connerly	250
Delta Restaurant Supply & Rentals	250
Diversified Mgmt. Consultants, Inc.	250
E. Stockton T. & R. Center	250
Friends of Bonnie Garcia	250
Friends of Jim Brulte	250
Gateway Pacific Contractors, Inc.	250
E. Pete Gonsalves	250
Gun Owners of CA Camp. Comm.	250
Guy Houston For Assembly	250
Jason Leineke	250
Hal Murray	250
Pacific Properties	250
Mary Parker	250
Donald Pearson	250
Robert Ronyak II	250
Roscoe D. Cook, Inc.	250
RTR	250
Sac. Area Fair. Emplymnt PAC	250
Donald Sanchez	250
Linda Sharpe	250
Sommerkal Construction	250
Gerald Sommers	250
Step One Real Estate	250
Strategic Land Development LLC	250
Taxpayers for Russ Bogh	250
Vasko Electric, Inc.	250
W. E. C. A. - Good Gov't PAC	250
Goree & Thompson Real Estate Inc	200
Teresa Keinhofer	200
Anthony Lewis	200
Michael McCollum	200
George Park	200
David Sander	200
Shalawn Smith	200
Judy Thompson	200
Visiting Angels, LAS	200
Andrew Levy	170
Bruce Booher	150
Dr. Phillip Goudeaux, Sr.	150
Victor Jenkins	150
Kenneth Campbell	125
Cinda Dettner	125
Dr. Michael Preskar	125
Lillian Zimmerle	125
Louis Zimmerle	125
Mark Herrenschmidt	115
Walter Allen	100
Jeffrey Atteberry	100
Angela Azevedo	100
Richard Botkin	100
Marc Burgat	100
CDD Trucking	100

Contributor	Amount of City's Match
Jonie Dodgens	100
Reggie Fair	100
David Fontaine	100
Robert Graves	100
Michael Gunning	100
Bryan Hall	100
Scott Johnson	100
Sheri Kerth	100
Yolanda Knaak	100
David Lukenbill	100
Donna McCray	100
Marcia Mickle	100
Rabeen Naidu	100
Dr. Alan Nakanishi	100
Ron Nelson	100
Linda Meyers Park	100
George Park, Jr.	100
Cicely Pinckney	100
Kip Randall	100
A.L. Rawls	100
Abu-Art Robinson	100
Sharon Susnara	100
Glenn Swenson	100
JudyTafoya	100
Tyler Wade	100
Robert Washington Jr.	100
W.B. Wilson	100
Walter Edwards	99
Steven Rex Moore	99
M.P. Allen General Contractors	99
Dr. James Pollock	99
Robert C. Cline Company	99
Penney Sanderson	99
Derby Enterprises	75
James Bopp	50
Mitzi Copenhaver	50
Brett Daniels	50
Birgitta Ellis	50
Hubert Foster	50
Yvette Gauff	50
Robert Gilliam	50
Lynn Kyme	50
Patricia Lastufka	50
Eddie Lewis	50
Dwayne Little	50
Demetra Moore	50
David Morgan	50
Lisa Parker	50
Kenneth Payne	50
Thaddeus Taylor	50
Malcom Tucker	50
Rosana Womack	50
Total Contributions of Less than $50	685
Total Matched Contributions	$16,964

Source: Sacramento City Clerk's Office and Candidate Records

Table of
DeLuz Campaign Expenses Paid
During the Period 02/18/04 to 06/01/04

Date	Amount	Payee	Description
02/18/04	8,844	Matsonian Group, LLC	Consulting
02/19/04	126	Home Depot	Office Rug
02/21/04	150	California Republican Party	Convention Dinner
02/23/04	3,500	Matsonian Group, LLC	Consulting
02/23/04	250	Cash	Petty Cash
02/23/04	286	Hyatt Regency SFO Airport	CA GOP Convention
02/25/04	9	Kinko's	Copy Expense
02/26/04	104	Budget Rent-a-Car Sacramento	Rental
02/27/04	10	Wells Fargo	Monthly Service Fee
03/01/04	6,000	Matsonian Group, LLC	Postage - MSI, Inc.
03/02/04	27	Merchant Service Fee	Unitemized Expense
03/03/04	5	American Express Collection	Monthly Service Fee
03/03/04	39	Taka's Japanese Cuisine	Unitemized Expense
03/04/04	2,500	Matsonian Group, LLC	Postage - MSI, Inc.
03/04/04	370	Matsonian Group, LLC	Fundraiser
03/08/04	755	Wells Fargo	Returned Item - 3/12/04 deposit and fee
03/10/04	984	Matsonian Group, LLC	Staffing
03/13/04	750	Matsonian Group, LLC	Staffing Reimbursement
03/18/04	515	Barnes Corporation	NxGen Payment Services
03/19/04	86	Priceline Hotel	Hotel
03/24/04	40	Dotster Inc	Unitemized Expense
03/31/04	10	Wells Fargo	Monthly Service Fee
04/01/04	30	Dotster Inc	Information Technology Cost
04/02/04	24	NOVA Information Systems	Professional Services
04/05/04	5	American Express Collection	Monthly Service Fee
04/05/04	10	Staples	Supplies
04/05/04	6	Kinko's	Copy Expense
04/07/04	5	Express Vendor - Washington DC	Metrorail Fare
04/08/04	19	Hms Host-Ord Airport #59 Chicago, IL	Meal Costs
04/08/04	12	Amtrak Balt Wash int MD	Unitemized Expense
04/08/04	10	Hyatt Hotel - Washington DC	Internet Access
04/09/04	34	Budget Rent-a-Car Washington DC	Rental
04/09/04	31	Hyatt Hotel - Washington DC	Unitemized Expense
04/09/04	15	Hms Host-Ord Airport #59 Chicago, IL	Meal Costs
04/09/04	10	Express Vendor - Washington DC	Unitemized Expense
04/14/04	140	Intercation Inc.	Web Hosting Fee
04/16/04	92	Kenneth J. Barnes	Reimburse Copying Expenses
04/09/04	3,017	Matsonian Group, LLC	Mailer Design and Phone Bank
04/09/04	250	Christopher Prudhome	Staffing
04/16/04	79	Royal Oaks UPS	Postage
04/26/04	242	Budget Rent-a-Car Sacramento	Rental, online credit of $241.91 on 4/28/04
04/30/04	10	Wells Fargo	Monthly Service Fee
05/03/04	242	See 4/26/04	Online charge, see 4/26/04
05/04/04	5	American Express Collection	Monthly Service Fee
05/05/04	42	Taka's Japanese Cuisine	Unitemized Expense
05/28/04	10	Wells Fargo	Monthly Service Fee
06/01/04	40	Metro PCS	Unitemized Expense
06/01/04	15	Target	Unitemized Expense
06/01/04	53	Postage	Unitemized Expense
	29,808	Total Campaign Expenses 2/18/04 through 6/1/04	

Source: Dates on cleared checks were obtained from Mr. Deluz's check duplicates and bank statement dates for all other expenses. All checks and expenses were determined to be paid out of the campaign bank account.