



September 18, 2020

Margaret Von Lienen
Director, Exempt Organizations and Government Entities
Internal Revenue Service
1111 Constitution Ave., NW
Washington, D.C., 20224

Re: Complaint against the National Security and Opportunity Fund

Dear Ms. Von Lienen:

The American Democracy Legal Fund respectfully requests an immediate investigation into the committee known as the National Security and Opportunity Fund (NSOF), a 501(c)4 founded to support John James' unsuccessful 2018 campaign for United States Senate in Michigan. NSOF was founded with the sole purpose of electing John James to the Senate, and subsequently all of its activities and expenses were directed towards that goal. The facts laid out below clearly demonstrate that NSOF has violated its tax exempt 501(c)4 status by spending far more than 50% of its resources on independent electoral expenditures.

In 2017, John James' brother, Lorrion James, founded NSOF, a dark money group dedicated to advancing his older brother's Senate candidacy. The group's FEC filings contain numerous irregularities that likely indicate a pattern of violations.

Lorrion created the National Security and Opportunity Fund (NSOF) in May 2017, roughly six weeks before John James announced his candidacy. He served as the new organization's founding president, and was joined on the board by Detroit businessman Anthony Fracchia and Toledo entrepreneur Jeff Green. (Green appears to have attended Michigan State University, but his ties to James remain unclear.) The fund, which was organized as a 501(c)4 nonprofit organization, was domiciled in Lorrion's Detroit apartment building.[1] As a 501(c)4, NSOF is permitted to engage in political activity as long as its political expenses do not exceed 50% of its budget. Furthermore, any spending on a political campaign must be declared as an independent expenditure with the FEC.[2]

In its articles of incorporation, which were signed by Lorrion James, NSOF reported that its primary function would be "to research and promote issues that concern the national security of the United States of American and economic opportunity in the state of Michigan." [3] The fund has used similar language in other filings, such as its 2017 form 990 (the annual tax form nonprofits file with the IRS). [4] However, this description appears to be willfully misleading: The fund's sole purpose was to promote John James's candidacy.

NSOF's creators purchased a website domain for the fund (www.nsofund.com) almost a week before its corporate registration was approved by Michigan's Department of Licensing and Regulatory Affairs. [5] In its initial days, the website was limited to a home page that sought to collect email addresses and cell

phones of readers interested in an unnamed candidate for Senate who promised to be “laser-focused on creating economic opportunities [and] a combat veteran who understands national security.”[6]

Almost immediately after its foundation, NSOF began running digital ads seeking to build support for James’s candidacy, though again referring only to him through anonymous descriptions. However, the group leaked information about its activities to local and national media outlets, and at least three reports in the summer of 2017 refer to NSOF working explicitly on James’s behalf.[7]

None of this initial reporting mentioned Lorrón’s role. Instead, early reports on NSOF referred to two separate spokesmen for the group: Fracchia, the Detroit businessman who serves on the board alongside Lorrón, and Stu Standler, the owner of the Green River Strategies, the consulting firm at the center of the 2018 FEC complaint regarding Outsider PAC.[8] Another early report suggested that NSOF was the work of a group of local business leaders seeking to draft James.[9]

NSOF intensified the pace of its activities in 2018, cutting spots that attacked James’s primary opponents and Debbie Stabenow. One of its spots lampooned Stabenow as “Debbie Do-Little,” and contrasted her with James’s reputation as a “tested leader” and “job creator.”[10] Its website began to post pro-James videos and re-publish articles favorable to his candidacy.[11] The group continued to pop up in reporting on the election, and it cycled through different employees; one 2018 story focused on the work of Matthew Frendewey, a veteran GOP official in Michigan, as a consultant for NSOF.[12]

Despite NSOF’s demonstrable actions in favor of James’s campaign in 2017 and through the first half of 2018, the group did not file any paperwork with the FEC until October 23, 2018. In that report, NSOF disclosed a payment of \$158,000 to Upfront Strategies, a Washington media specialist, to produce digital ads attacking Stabenow.[13] On November 2, the organization reported paying Upfront an additional \$25,000 for the same purpose.[14] NSOF has never disclosed any other electoral activity, despite its long prior record of work on behalf of James.

Although NSOF’s 2018 year-end report with the SEC included the \$183,000 in independent expenditures, it provided no record of any incoming contributions. The FEC sent NSOF a letter in April 2019 demanding the disclosure of all donors who provided more than \$200 to finance independent expenditures.[15]

Two days later, NSOF responded with a single sentence: “As a matter of policy, National Security and Opportunity Fund does not accept funds earmarked for independent expenditure activity or for other political purposes in support or opposition to federal candidates.”[16] Several weeks later, NSOF responded with a more detailed explanation, affirming that as a 501(c)4 it “does not solicit or accept funds for the purpose of influencing any election for Federal office.”[17] The FEC does not appear to have followed up further, and the group’s donors remain unknown.

501(c)4 organizations are typically allowed to spend up to 50% of their budgets on independent electoral expenditures without naming their donors. But such a designation would not seemingly be appropriate for NSOF, whose sole purpose has been to spend money on behalf of James’s electoral campaign.

The data contained in NSOF’s form 990 from 2017—the sole tax return available—also reflect inconsistencies with its FEC filings. In that document, the group itemized \$10,896 of expenses related to “political campaign activities,” which it described specifically as “media advertisements related to activities in Michigan.”[18] There does not appear to be any interpretation of that line item that would not also require a separate FEC disclosure, but no such disclosure exists.

In its 2017 form 990, NSOF also disclosed its hiring of a fundraising specialist called Campaign Resource Group, which bills itself as the “leading conservative fundraising consulting firm” in Michigan.[19] CRG, which enjoys deep ties to the political operation of Michigan Gov. Rick Snyder, boasts a long list of Republican candidates among its clients, including John James.[20] NSOF’s work with CRG may represent both a violation of the FEC’s prohibition on outside groups coordinating with political campaigns and an activity that should have been disclosed to the FEC as an independent expenditure.

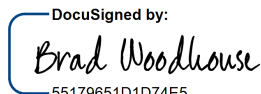
Finally, the group does not appear to have filed its 990 for the 2018 tax year, which could provide further evidence of incomplete FEC disclosures. NSOF’s 2017 tax year ended on December 31, 2017, and the IRS received the group’s 990 for that year in November 2018.[21] At a minimum, it appears that NSOF’s 2018 form is several months overdue.

While Michigan records continued to list NSOF as an active corporation, it appears to have all but ceased activity after James’s loss in 2018. It stopped producing content after November 2018, and there is no evidence that Lorrion has yet revived the organization for the 2020 campaign. It is plausible that after the fund suspended operations, it also neglected to make the required tax filings.

Conclusion

In light of the evidence that NSOF violated its nonprofit 501(c)4 status by spending more than 50% of its activities on electoral politics with the explicit goal of electing John James to the Senate, we request that the IRS open an immediate investigation into its activities.

Respectfully submitted,

DocuSigned by:

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Brad Woodhouse
President

[1] https://cofs.lara.state.mi.us/CorpWeb/CorpSearch/CorpSummary.aspx?ID=802004847&SEARCH_TYPE=3&CanReturn=True

[2] <https://www.propublica.org/article/irs-political-dark-money-groups-501c4-tax-regulation>

[3] https://cofs.lara.state.mi.us/CorpWeb/CorpSearch/CorpSummary.aspx?ID=802004847&SEARCH_TYPE=3&CanReturn=True

[4] 2017 Form 990, available at <https://apps.irs.gov/app/eos/>

[5] <https://research.domaintools.com/research/whois-history/search/?q=nsosfund.com>

[6] <https://web.archive.org/web/20170621012144/https://nsosfund.com/>

[7] <https://www.detroitnews.com/story/news/politics/2017/07/18/john-james-republican-senate-stabenow-businessman/103787684/>

<https://www.politico.com/tipsheets/morning-score/2017/06/02/virginia-democrats-fight-for-african-american-vote-ahead-of-primary-220627>

<https://www.wzzm13.com/article/news/local/michigan/former-justice-bob-young-makes-it-official-hes-running-for-us-senate/69-452800933>

[8] <https://www.wzzm13.com/article/news/local/michigan/former-justice-bob-young-makes-it-official-hes-running-for-us-senate/69-452800933>

<https://www.crainsdetroit.com/article/20170601/news/630301/detroit-businessman-john-james-courtied-us-senate-run>

[9] <https://www.detroitnews.com/story/news/politics/2017/07/18/john-james-republican-senate-stabenow-businessman/103787684/>

[10] <https://www.youtube.com/watch?v=lquC5nHy-bY>

[11] <https://web.archive.org/web/20180821234757/http://www.nsofund.com/>

[12] <https://www.detroitnews.com/story/news/politics/2018/04/26/pensler-complaint-fec/34268319/>

[13] <https://docquery.fec.gov/pdf/842/201811059133587842/201811059133587842.pdf>

[14] <https://docquery.fec.gov/pdf/225/201810249130819225/201810249130819225.pdf>

[15] <https://docquery.fec.gov/pdf/268/201904300300038268/201904300300038268.pdf>

[16] <https://docquery.fec.gov/pdf/846/201905319149842846/201905319149842846.pdf>

[17] <https://docquery.fec.gov/pdf/159/201907099150529159/201907099150529159.pdf>

[18] 2017 Form 990, available at <https://apps.irs.gov/app/eos/>

[19] <https://www.campaignresourcegroup.com/team>

[20] <https://www.campaignresourcegroup.com/clients>

[21] 2017 Form 990, available at <https://apps.irs.gov/app/eos/>