

Financial Audit

**Campaign Finance and Public
Disclosure Board**
July 1, 1999, through June 30, 2001



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us



OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Douglas Kelly, Chair
Campaign Finance and Public Disclosure Board

Ms. Jeanne Olson, Executive Director
Campaign Finance and Public Disclosure Board

We have audited the financial activities of the Campaign Finance and Public Disclosure Board for the period from July 1, 1999, through June 30, 2001, as further explained in the report. Our audit scope focused on the disbursement of State Elections Campaign Fund monies to candidates and political parties, payroll and per diem, and professional/technical expenditures. The following Report Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. The standards require that we design the audit to provide reasonable assurance that the Campaign Finance and Public Disclosure Board complied with provisions of laws, regulations, contracts, and grants that are significant to the objectives of the audit. The management of the Campaign Finance and Public Disclosure Board is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Campaign Finance and Public Disclosure Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 7, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 3, 2002

Report Signed On: February 1, 2002

Campaign Finance and Public Disclosure Board

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
April Snyder	Auditor-in-Charge
Kristen Peterson	Auditor

Exit Conference

We discussed the results of the audit with the following representative of the Campaign Finance and Public Disclosure Board at an exit conference on January 29, 2002:

Jeanne Olson	Executive Director
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Campaign Finance and Public Disclosure Board

Report Summary

Conclusions

The Campaign Finance and Public Disclosure Board allocated and disbursed approximately \$3.5 million to eligible candidates for public office. However, it distributed \$12,782 that it should have retained to offset administrative costs, resulting in an overpayment to each Senate or House of Representatives candidate of approximately \$35. The board decided not to pursue recovery of the overpayment because of the administrative costs and complexities of seeking repayment, and since each candidate and political party received an equal benefit. We agreed with the board's decision.

The Campaign Finance and Public Disclosure Board accurately reported payroll and per diem expenditures in the accounting records and, for the items tested, complied with applicable legal provisions and management's authorization. The board limited access to the state's personnel/payroll system to only the employees that required access to perform job responsibilities, and that access was limited to only the required areas.

The Campaign Finance and Public Disclosure Board accurately reported professional/technical expenditures in the accounting records and, for the items tested, complied with applicable legal provisions and management's authorization.

Background

The Legislature established the Campaign Finance and Public Disclosure Board in 1974 through the enactment of the Ethics of Government Act, Minnesota Statutes Chapter 10A. The board, a six-member bipartisan citizen body, is responsible for administration of this Act. The Governor appoints board members for four-year staggered terms, and the Senate and House of Representatives must confirm the appointments by a three-fifths vote. The board elects its leadership annually, holds regular public meetings, and reports on its activities annually to the Governor, the Legislature, and the public. The board appointed Jeanne Olson as the executive director in July 1995.

The Campaign Finance and Public Disclosure Board is the service and regulatory agency that:

- enforces state laws requiring the disclosure of public and local officials' financial interests and potential conflicts of interest;
- oversees and enforces state laws for the disclosure of lobbying expenditures to influence state legislative, administrative, and official actions of governmental units;
- reviews and monitors receipts and expenditures reported by political parties, campaign committees, and political funds for compliance with disclosure law requirements and adherence to applicable expenditure limits; and
- administers the State Elections Campaign Fund distributions to qualified state candidates and the state committees of political parties.

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Chapter 1. Introduction

The Legislature established the Campaign Finance and Public Disclosure Board in 1974 through the enactment of the Ethics of Government Act, Minnesota Statutes Chapter 10A. The board, a six-member bipartisan citizen body, is responsible for administration of this Act. The Governor appoints board members for four-year staggered terms, and the Senate and House of Representatives must confirm the appointments by a three-fifths vote. The board elects its leadership annually, holds regular public meetings, and reports on its activities annually to the Governor, the Legislature, and the public. The board appointed Jeanne Olson as the executive director in July 1995.

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- administers the State Elections Campaign Fund distributions to qualified state candidates and the state committees of political parties.

The board received an appropriation of \$712,000 in fiscal year 2000 and \$707,000 in fiscal year 2001 for operational expenses. In fiscal year 2000, the board was appropriated \$38,000 for legal costs resulting from the court case *Republican Party of Minnesota vs. Campaign Finance and Public Disclosure Board*. In addition, after determining that their operating appropriation for fiscal year 2001 would not be sufficient due to rising personnel and operating costs, the board received a deficiency appropriation of \$35,000.

Table 1-1 shows the General Fund appropriations and expenditures of the board for the two fiscal years ended June 30, 2001. The board also collected fines from candidates and political committee parties who did not follow statutory requirements. The board deposited these fines in the state's General Fund as non-dedicated receipts, and they were not available for use by the board.

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Table 1-1
Summary of General Fund Financial Activity
Fiscal Years 2000-2001

	<u>2000</u>	<u>2001</u>
Sources:		
General Appropriation	\$712,000	\$707,000
Legal Cost Appropriation	38,000	0
Deficiency Funding	0	35,000
Balance Forward In	0	<u>109,404</u>
Total Sources	<u>\$750,000</u>	<u>\$851,404</u>
Uses:		
Payroll and Per Diems	\$473,770	\$480,796
Professional/Technical Services	0	234,000
Other Expenditures	166,826	99,999
Total Expenditures	\$640,596	\$814,796
Balance Forward Out	109,404	35,000
Appropriation Cancellations	0	<u>1,608</u>
Total Uses	<u>\$750,000</u>	<u>\$851,404</u>

Source: Minnesota Accounting and Procurement System (budgetary basis).

Chapter 2 discusses the State Elections Campaign Fund and Chapter 3 discusses administrative expenditures.

Chapter 2. The State Elections Campaign Fund

Chapter Conclusion

The Campaign Finance and Public Disclosure Board allocated and disbursed approximately \$3.5 million to eligible candidates for public office. However, it distributed \$12,782 that it should have retained to offset administrative costs, resulting in an overpayment to each Senate or House of Representatives candidate of approximately \$35. The board decided not to pursue recovery of the overpayment because of the administrative costs and complexities of seeking repayment, and since each candidate and political party received an equal benefit. We agreed with the board's decision.

The Campaign Finance and Public Disclosure Board administers the State Elections Campaign Fund. The fund provides grants as an alternative source of campaign financing to lessen the reliance of candidates on large contributors and to limit the overall spending for election campaigns.

Grants are available to state constitutional office candidates and state legislative candidates who meet statutory eligibility requirements and to state committees of political parties to assist with expenditures, such as general advertising and sample ballots. To qualify for a grant from the State Elections Campaign Fund, a candidate must be opposed in the election, register a campaign committee with the Board, and file a Public Subsidy Agreement (which states the candidate will abide by campaign limits), and an Affidavit of Contribution. In addition, a candidate's name had to appear on the general election ballot to be eligible for party account funds and had to receive a minimum percent of the vote in the general election to be eligible for general account funds.

Before 1996, only the Democratic-Farmer-Labor party and the Republican Party of Minnesota met the eligibility requirements for these grants. Since January 1996, other parties have met grant requirements, including the Reform Party of Minnesota (which subsequently changed its name to the Independence Party of Minnesota), the Grassroots Party, the Libertarian Party, the Green Party Minnesota, the Constitution Party, and the Progressive Minnesota Party.

The State Elections Campaign Fund received most of its funding from the state's General Fund based on taxpayers' designations on their state tax returns. Each taxpayer could designate that the state's General Fund provide \$5 either to the account of a political party or to the State Elections Campaign Fund's general account. The Department of Revenue certified to the board the amount and allocation of the taxpayer designations. The Campaign Finance and Public Disclosure Board set up separate accounts for each party and the general account fund. In addition to taxpayer designations, the Legislature also appropriated to the State Elections Campaign Fund's general account \$1.5 million for each general election. Statutes allowed the board to carry forward funds allocated to offices not up for election (and thus unused) and any

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taxpayer designations certified by the Department of Revenue after the board disbursed grants. Finally, the board accepted anonymous contributions or donations, which it deposited into the general account. Table 2-1 summarizes the funding from these various sources for the 2000 elections.

Table 2-1
State Elections Campaign Fund
Sources of Funding for the 2000 Elections

Account	Taxpayer Check-off	Appropriations	Carry Forward ⁽¹⁾	Misc. Receipts	Total Available
Dem.-Farmer-Labor	\$ 555,314	\$ 0	\$242,123	\$ 0	\$ 797,437
Republican	750,010	0	192,727	0	942,737
Independence	418,039	0	17,754	0	435,793
Grass Roots	26,405	0	0	0	26,405
Libertarian	40,430	0	0	0	40,430
Green	36,680	0	0	0	36,680
Constitution	15,940	0	0	0	15,940
Progressive	5,285	0	0	0	5,285
General Account	<u>610,400</u>	<u>1,500,000</u>	<u>504,223</u>	<u>1,549</u>	<u>2,616,172</u>
Total	<u>\$2,458,503</u>	<u>\$1,500,000</u>	<u>\$956,827</u>	<u>\$1,549</u>	<u>\$4,916,879</u>

Note (1): The board carried forward funds from the 2000 election that had been allocated to offices not up for election in November 1998 or November 2000 and additional taxpayer designations certified by the Department of Revenue after the board disbursed grants.

Source: Minnesota Accounting and Procurement System and Department of Revenue Certifications.

Statutory provisions required that the board distribute political party account funds to eligible candidates based on the designations made by the taxpayers within the candidates' constituencies. Statutes required the board to retain three percent of the taxpayer designations in the state's General Fund to offset administrative costs. Statutes also required the board to allocate equally the general account funds, less three percent for administrative costs, to all eligible candidates for each type of office. The board reallocated funds to the state committee of a party if an eligible candidate was unopposed in both the primary and general elections. Table 2-2 shows the allocation of public grant funds for each account.

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**Table 2-2
State Elections Campaign Fund
Allocations For the 2000 Elections**

Account	3% Retained to offset Administrative Costs	Disbursed to Candidates	Disbursed to Parties	Carried Forward ⁽¹⁾	Returned to General Fund ⁽²⁾	Total
DFL	\$16,656	\$ 585,255	\$ 57,353	\$ 111,328	\$ 26,844	\$ 797,437
Republican	22,497	627,331	106,078	154,454	32,376	942,737
Independence	12,371	34,567	40,567	81,617	266,671	435,793
Grass Roots	792	0	1,828	0	23,785	26,405
Libertarian	813	0	1,706	0	37,911	40,430
Green	1,100	481	3,558	7,303	24,238	36,680
Constitution	478	0	1,491	0	13,971	15,940
Progressive	159	0	491	0	4,636	5,285
General Account	5,530 ⁽³⁾	1,979,965	0	630,676	0	2,616,172
Total	<u>\$60,397</u>	<u>\$3,227,599</u>	<u>\$213,073</u>	<u>\$985,379</u>	<u>\$430,432</u>	<u>\$4,916,879</u>

Notes:

- (1) The board carried forward funds that it had allocated to offices not up for election in November 2000 and additional taxpayer designations certified by the Department of Revenue after the board disbursed grants.
- (2) The board returned funds to the state's General Fund if a political party and, therefore, the party's candidate, no longer met qualifications, a political party did not have an eligible candidate, a candidate's total campaign expenditures exceeded the grant, or the candidate's political committee account exceeded the maximum statutory amount.
- (3) By statute, the state's General Fund should retain three percent of the funds designated by taxpayers in each account. The General Account should have retained \$18,312; instead, board staff erroneously paid \$12,782 to candidates. The \$12,782 was the portion of the 3% administrative fee attributable to the offices up for election, the Senate and House of Representatives. The board did not pay the other portion, because it was attributable to the offices not up for election, the Governor/Lieutenant Governor, Attorney General, Secretary of State, and State Auditor.

Source: Minnesota Accounting and Procurement System and Department of Revenue certifications.

For the 2000 election, board staff allocated all the general account funds for applicable elective offices, including the \$12,782 that it should have retained to offset administrative costs. The board's error resulted in an overpayment to each of the 371 Senate or House of Representative candidates of about \$35. The overpayment occurred due to a flaw in the allocation spreadsheet that board staff did not detect until after it distributed the funds. Board staff detected the error when it performed its biennial reconciliation of the State Election Campaign Fund. After discussion of the consequences of the overpayment and the remedies for the error, the board decided not to pursue recovery of the overpaid funds. Key to their decision were the administrative costs and complexities of seeking repayment, that each candidate and political party received an equal benefit, and that candidates should not be penalized for a board error. We agreed with the board's decision.

The objective of our review of the State Elections Campaign Fund was as follows:

- Did the Campaign Finance and Public Disclosure Board properly distribute State Elections Campaign Fund monies to eligible parties and candidates in accordance with applicable legal provisions?

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To meet this objective, we interviewed board employees to gain an understanding of controls over the State Elections Campaign Fund. We analyzed and reviewed taxpayer designations certified by the Minnesota Department of Revenue. We determined whether the board properly allocated funds to each account, properly carried forward funds to the next general election, and properly returned funds to the state's General Fund. We also reviewed documentation for a sample of candidates who received grants to verify that the board properly determined the candidates' eligibility, properly calculated the grant amounts, paid the grants from the correct account, and determined whether the candidates had to return any of the grant funds. Finally, we reviewed grant payments to state committees of political parties to determine if the board properly allocated and distributed those grant funds.

Conclusion

The Campaign Finance and Public Disclosure Board allocated and disbursed approximately \$3.5 million to eligible candidates for public office. However, it distributed \$12,782 that it should have retained to offset administrative costs, resulting in an overpayment to each Senate or House of Representatives candidate of approximately \$35. The board decided not to pursue recovery of the overpayment because of the administrative costs and complexities of seeking repayment, and since each candidate and political party received an equal benefit. We agreed with the board's decision.

Chapter 3. Administrative Expenditures

Chapter Conclusions

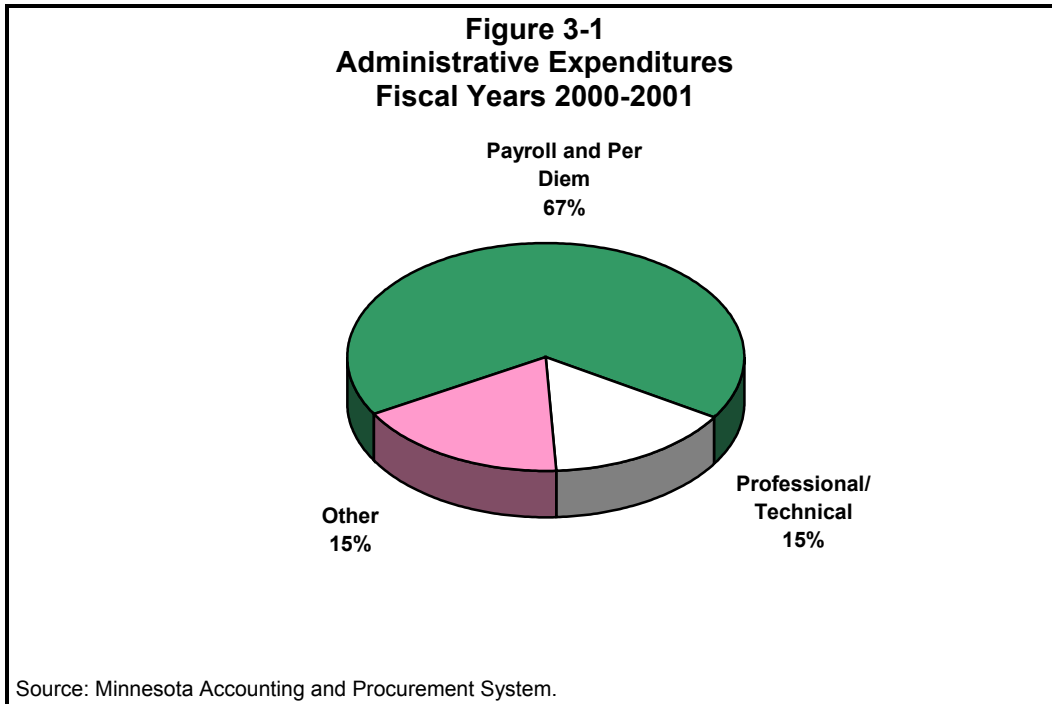
The Campaign Finance and Public Disclosure Board accurately reported payroll and per diem expenditures in the accounting records and, for the items tested, complied with applicable legal provisions and management's authorization. The board limited access to the state's personnel/payroll system to only the employees that required access to perform job responsibilities, and that access was limited to only the required areas.

The Campaign Finance and Public Disclosure Board accurately reported professional/technical expenditures in the accounting records and, for the items tested, complied with applicable legal provisions and management's authorization.

Payroll, per diem, and professional/technical contract expenditures represent the largest administrative expenditure categories for the Campaign Finance and Public Disclosure Board. During the audit period, the board spent approximately \$949,561 on payroll, \$5,005 on per diems, and \$234,000 for a professional/technical contract for development related to the upgrade and redesign of its campaign finance software. Other expenses included rent, repairs, supplies, equipment, employee development, and communications.

The board uses the state's payroll/personnel system (the State Employees Management System) to record payroll and personnel transactions. The payroll/personnel system interfaces with the state's accounting system (the Minnesota Accounting and Procurement System). The board also used the state's accounting system to pay vendors and to record all expenditures.

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Payroll and Per Diem

The board's nine full-time employees and one student worker are represented by various bargaining units, including the Managerial Plan, the Middle Management Association, the Minnesota Association of Professional Employees, and the American Federation of State, County, and Municipal Employees. The six board members receive per diem payments of \$55 for each day spent on board activities. In addition to monthly board meetings, the board occasionally holds special meetings with legislators or other organizations.

Audit Objectives and Methodology

The objectives of our review of payroll and per diem expenditures were as follows:

- Did the Campaign Finance and Public Disclosure Board accurately report payroll and per diem expenditures in the accounting records and comply with applicable legal provisions and management's authorization?
- Did the board limit access to the state's personnel/payroll system to only the employees that required access to perform job responsibilities? Was access limited to only the required areas?

To meet these objectives, we interviewed board employees to gain an understanding of the internal control structure for processing payroll and per diem payments. We reviewed employee access to the state's personnel/payroll system to update human resource and payroll data. We

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reviewed and tested personnel transactions, employee compensation, and per diem payments to determine if the board complied with statutory provisions and bargaining agreements.

Conclusions

The Campaign Finance and Public Disclosure Board accurately reported payroll and per diem expenditures in the accounting records and complied with applicable legal provisions and management's authorization for the items tested. The board limited access to the state's personnel/payroll system to only the employees that required access to perform job responsibilities, and that access was limited to only the required areas.

Professional/Technical Services Expenditures

The board contracted for professional/technical services to upgrade and redesign its campaign finance software. The contract totaled \$234,000.

Audit Objectives and Methodology

Our review of professional/technical expenditures addressed the following objective:

- Did the Campaign Finance and Public Disclosure Board accurately report professional/technical expenditures in the accounting records and comply with applicable legal provisions and management's authorization?

To address this objective, we interviewed staff to gain an understanding of the internal control structure related to professional/technical expenditures. We performed tests to determine whether the board followed proper contract procedures. We reviewed transactions for accuracy and compliance with applicable legal provisions, internal policies, and management's authorization.

Conclusions

The Campaign Finance and Public Disclosure Board accurately reported professional/technical expenditures in the accounting records and, for the items tested, complied with applicable legal provisions and management's authorization.

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Status of Prior Audit Issues As of January 3, 2002

Most Recent Audit Report 99-46, issued in September 1999, covered the two fiscal years ended June 30, 1999. The audit scope included State Election Campaign Fund grants and payroll and per diem expenditures. The report did not contain any findings.

State of Minnesota Audit Follow-up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applicable to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.