
Ethical Practices Board

Financial Audit

For the Period July 1, 1993 through March 31, 1995

June 1995

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Ethical Practices Board


Ms. Mary Ann McCoy, Executive Director
Ethical Practices Board

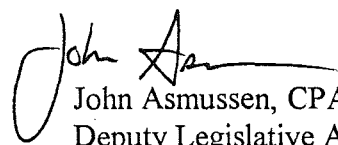
We have audited the Ethical Practices Board for the period July 1, 1993 through March 31, 1995, as further explained in the report. Our audit scope focused on the disbursement of public subsidy grants to state election candidates, which accounted for more than 80 percent of the board's financial activity. The attached summary highlights the audit objectives and conclusions. The audit objectives and conclusions are more fully discussed in the chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Ethical Practices Board complied with provisions of laws, regulations, contracts, and grants that are significant to the audit objectives.

This report is intended for the information of the Legislative Audit Commission and the management of the Ethical Practices Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 9, 1995.

We thank the Ethical Practices Board staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 21, 1995

Report Signed On: June 5, 1995

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155
612/296-4708

Ethical Practices Board

Financial Audit

For the Period July 1, 1993 through March 31, 1995

Public Release Date: June 9, 1995

No. 95-24

Agency Background

The Ethical Practices Board was established in 1974, as part of the Ethics in Government Act, under Minnesota Statute Chapter 10A. The Governor appoints the bipartisan six-member board to four-year terms, with the advice and three-fifths consent of the Senate and House of Representatives. The board appointed Mary Ann McCoy, the current executive director, on January 12, 1981.

The Ethical Practices Board is the service and regulatory agency that develops and implements the administration and enforcement of state laws for disclosure of public and local officials' financial interest and potential conflicts of interest. It provides oversight and enforcement of state laws for the disclosure of lobbying disbursements to influence state legislative, administrative, and official actions of governmental units. In addition, a major function of the board is to administer the distribution of public subsidy to qualified state candidates and the state committee of a political party.

The board receives support for its operational activities in the form of state appropriations and voluntary checkoffs of \$5 by Minnesota residents on state income and property tax refund forms.

Audit Scope, Objectives, and Conclusions

Our audit scope included a review of public subsidy grants to qualified state candidates and the state political parties for the period from July 1, 1993 to March 31, 1995. Our audit objective was to determine if the Ethical Practices Board had appropriately disbursed public subsidy grants in accordance with Minnesota Statute Chapter 10A. To accomplish this, we reviewed the board's procedures for allocating, monitoring, and disbursing the public subsidies. In addition, we reviewed the board's procedures related to the return of public subsidy, as mandated under Minnesota Statute Chapter 10A.324. The board had disbursed \$4,215,154 in public subsidies and received returns in the amount of \$62,045 during our audit period.

We found that the Ethical Practices Board complied with Minnesota Statute 10A, in the disbursing of public subsidy grants to qualified political candidates and the state committees of political parties.

Contact the Financial Audit Division for additional information.
296-1730

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Mark Mathison	Auditor-in-Charge

Exit Conference

We discussed a minor weakness involving an immaterial noncompliance with the following staff of the Ethical Practices Board on June 1, 1995:

Mary Ann McCoy	Executive Director
Jeanne Olson	Assistant Executive Director
Luann Swanson	Office Manager

Ethical Practices Board

Chapter 1. Introduction

The Ethical Practices Board was established in 1974, as a part of the Ethics in Government Act under Minnesota Statute Chapter 10A. The Governor appoints the bipartisan six-member board to four-year terms, with the advice and three-fifths consent of the Senate and the House of Representatives. The board appointed the executive director, Mary Ann McCoy, who has served as the executive director since January 12, 1981 and is leaving on June 30, 1995. Jeanne Olson, the assistant executive director, will assume the executive director position on July 1, 1995.

The Ethical Practices Board is the service and regulatory agency that develops and implements the administration and enforcement of state laws for the disclosures of public and local officials' financial interests and potential conflicts of interest. It provides oversight and enforcement of state laws for the disclosure of lobbying disbursements to influence state legislative actions, administrative actions, and the official actions of metropolitan governmental units. In addition, the board oversees the distribution of public campaign financing to qualified state candidates and the state committee of a political party.

The primary mission of the board is to promote public confidence in state government decisions, both through effecting timely compliance with disclosure and public financing laws and through developing programs that will increase public access to information filed with the board.

A major function of the board is to administer the public financing program, through the State Elections Campaign Fund. In addition to a \$1.5 million General Fund appropriation for each general election, each Minnesota taxpayer may designate on state income tax and property tax refunds that \$5 be paid from the General Fund to the State Elections Campaign Fund. Designations of these funds are either to the Democratic-Farmer-Labor, the Independent-Republican, or General Accounts.

The board also received an appropriation of \$434,000 in fiscal year 1994 and \$429,000 in fiscal year 1995 from the General Fund for operational expenses. Total expenditures of the board during the audit period were \$4,964,016. Of this amount, \$4,215,154, or 85 percent, was paid out in public subsidy grants.

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Chapter 2: Public Subsidy Grants

Chapter Conclusion

The Ethical Practices Board complied with Minnesota Statute Chapter 10A in the distribution of public subsidy grants to qualified candidates and state committees of political parties.

The Ethical Practices Board distributes public subsidy grants to eligible state constitutional office candidates and legislative candidates. The purpose of the grants is to lessen the reliance of candidates on large contributors. Grants provide an alternative source of campaign financing and limit the overall spending for election campaigns. To receive public financing, a candidate must file for candidacy, establish a campaign committee, file a Public Subsidy Agreement, which states that the candidate will abide by campaign limits, and file required reports with the Ethical Practices Board. The board also distributes a portion of the public subsidy funding to state committees of political parties to assist with expenditures, such as general advertising and conducting sample ballots.

The state General Fund provides the funding for these subsidy grants. Each Minnesota resident, who files an income tax return or a renter and homeowner property tax refund, may designate that \$5 be paid from the General Fund into the State Elections Campaign Fund. These taxpayers designate the funds be used for a political party account or a general account. In addition to taxpayer designations, Minnesota Statutes provide an appropriation of \$1.5 million into the general account for each general election. The board may also receive anonymous contributions, which it deposits into the general account, to be equally distributed to all candidates. Table 2-1 shows a summary of funding in the state elections campaign accounts.

Table 2-1: Source of Public Subsidy Funding
July 1, 1993 - March 31, 1995

Source of Funding	<u>IR Account</u>	<u>DFL Account</u>	<u>General Account</u>	<u>Total</u>
Carry Forward Balance	\$ 289,130	\$ 268,371	\$ 337,480	\$ 894,981
Taxpayer Checkoff	930,246	1,204,353	1,033,645	3,168,244
Appropriations (1)	0	0	1,503,592	1,503,592
Misc. Receipts	0	0	1,892	1,892
Total Funding Sources	<u>\$1,219,376</u>	<u>\$1,472,724</u>	<u>\$2,876,609</u>	<u>\$5,568,709</u>

Notes: (1) Includes an additional subsidy of \$3,592 for independent expenditures per Minn. Stat. Section 10A25, Subd. 13. This statute was later determined unconstitutional.

Source: Statewide Accounting System and Department of Revenue Certifications.

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Minnesota statutes require the board to allocate and disburse the funding to eligible candidates. If a candidate refuses a subsidy payment, the board shall reallocate the funds to other candidates, carry the funds forward to the next election, or cancel the funds back into the state's General Fund. After the board has issued all subsidy disbursements, the board monitors candidates to determine if they need to return all or a portion of the public subsidy received. Candidates need to return public subsidies when the amount received exceeds their campaign expenditures. The board deposits all returns of public subsidies to the state's General Fund.

Our audit objective was to determine if the board had distributed public subsidy grants in accordance with Minnesota Statute Chapter 10A. We designed our audit to determine, if candidates receiving grants were eligible; if the board properly allocated and disbursed the correct amounts; and if the board properly controlled returns of public subsidies.

We obtained an understanding of the management controls over public subsidy allocations and disbursements. We analyzed and reviewed taxpayer designations that the Minnesota Department of Revenue certified. We conducted testing of payments to the state committees of political parties. We reviewed and sampled subsidy payments to candidates. We also reviewed candidates return of public subsidy and the controls associated with the receipt of these funds. Finally, we analyzed the distribution of funding to the allotment of funds and determined if the board properly returned funds back to the state General Fund. Table 2-2 shows the board's allocation of funds.

**Table 2-2: Allocation of Public Subsidy
July 1, 1993 - March 31, 1995**

	<u>IR Account</u>	<u>DFL Account</u>	<u>General Account</u>	<u>Total Subsidy</u>
Allocated and Disbursed				
Constitutional Office	\$ 414,583	\$ 507,467	\$1,038,323	\$1,960,373
House Candidates	372,412	528,721	1,171,711	2,072,844
State Committee of Party	101,121	80,816	0	181,937
Allocated For Future Elections				
Senate Candidates(1)	217,394	283,035	585,427	1,085,856
All Candidates	61,289	3,320	2,790	67,399
Returned to General Fund				
Refused/Ineligible Subsidy	23,762	31,849	47,349	102,960
Administration Fee (2)	28,815	37,516	31,009	97,340
Total	<u>\$1,219,376</u>	<u>\$1,472,724</u>	<u>\$2,876,609</u>	<u>\$5,568,709</u>

Notes: (1) Because there were no Senate elections, these amounts were not paid in the audit period and will carry forward for distribution to Senate Candidates of the 1996 election.
(2) The General Fund retains three percent of taxpayer checkoffs for administrative fees.

Source: Ethical Practices Board.

We found that the board properly disbursed \$4,215,154 of public subsidy grants, during the period July 1, 1993 through March 31, 1995, to eligible candidates and committees of political parties. Additionally, we determined that the board properly received and deposited \$62,045 of returned public subsidies into the General Fund. As such, we concluded that the board complied with Minnesota Statute 10A, as it pertains to the allocation and disbursement of public subsidy grants.