

# Campaign Finance and Public Disclosure Board

## Financial Audit

For the Period July 1, 1995, through June 30, 1997

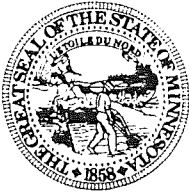
September 1997

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

97-51





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Legislative Audit Commission

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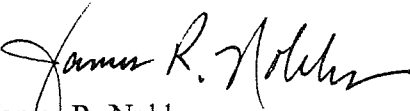
Mr. G. Barry Anderson, Chair  
Campaign Finance and Public Disclosure Board

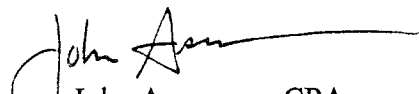
Ms. Jeanne Olson, Executive Director  
Campaign Finance and Public Disclosure Board

We have audited the Campaign Finance and Public Disclosure Board for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope focused on the disbursement of public subsidy grants to state election candidates and state committees of political parties and payroll and per diem expenditures. The following Summary highlights the audit objectives and conclusions. We discuss our audit objectives and conclusions more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. 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 Campaign Finance and Public Disclosure Board complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Campaign Finance and Public Disclosure Board is responsible for establishing and maintaining the internal control structure and ensuring compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and 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 September 10, 1997.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: August 1, 1997

Report Signed On: September 3, 1997



# SUMMARY

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## **Campaign Finance and Public Disclosure Board**

### **Financial Audit**

**For the Period July 1, 1995, through June 30, 1997**

Public Release Date: September 10, 1997

No. 97-51

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### **Agency Background**

The Ethical Practices Board was established in 1974, as part of the Ethics in Government Act, under Minnesota Statute Chapter 10A. Effective July 1, 1997, the Ethical Practices Board was renamed the Campaign Finance and Public Disclosure Board. The Governor appoints the bipartisan six-member board to staggered four-year terms, with the advice and three-fifths consent of the Senate and House of Representatives. The board appointed the executive director, Jeanne Olson, who assumed the executive director position on July 1, 1995.

The Campaign Finance and Public Disclosure 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.

### **Audited Areas and Conclusions**

Our audit scope included public subsidy grants to qualified state candidates and the state committees of political parties and payroll and per diem expenditures for the period from July 1, 1995, to June 30, 1997.

We concluded that the Campaign Finance and Public Disclosure Board designed and implemented internal controls that provided reasonable assurance that public subsidy grants were properly allocated and disbursed to eligible candidates and state committees of political parties, and that expenditures were accurately reported in the state's accounting system. In addition, for the items tested, the board complied with material finance-related legal provisions for public subsidy grants.

We concluded that the Campaign Finance and Public Disclosure Board designed and implemented internal controls that provided reasonable assurance that payroll and per diems were properly authorized and supported and were accurately reported in the state's accounting system. In addition, for the items tested, the board complied with material finance-related legal provisions and applicable bargaining unit agreements.



# **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:

John Asmussen, CPA  
Tom Donahue, CPA  
Scott Tjomsland

Deputy Legislative Auditor  
Audit Manager  
Auditor-in-Charge





# Campaign Finance and Public Disclosure Board

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## Chapter 1. Introduction

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The Ethical Practices Board was established in 1974, as a part of the Ethics in Government Act, under Minnesota Statute Chapter 10A. Effective July 1, 1997, the Ethical Practices Board was renamed the Campaign Finance and Public Disclosure Board. The Governor appoints the bipartisan six-member board to staggered four-year terms, with the advice and three-fifths consent of the Senate and the House of Representatives. The board appointed the executive director, Jeanne Olson, who assumed the executive director position on July 1, 1995.

The Campaign Finance and Public Disclosure 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 board's mission, as stated in its annual report, is "to promote public confidence in state government decision making through development and administration of disclosure, public financing, and enforcement programs which will ensure 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 returns or property tax refund returns that \$5 be paid from the General Fund to the State Elections Campaign Fund. Designations of these funds are either to the account of a political party or to the general account.

The board also received an appropriation of \$441,000 in fiscal year 1996 and \$446,000 in fiscal year 1997 from the General Fund for operational expenses. Table 1-1 shows the expenditures of the Campaign Finance and Public Disclosure Board for the two years ended June 30, 1997.

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**Table 1-1**  
**Campaign Finance and Public Disclosure Board Expenditures**  
**July 1, 1995 - June 30, 1997**

| <u>Expenditure Type</u> | <u>Fiscal Year 1996</u> | <u>Fiscal Year 1997</u> | <u>Total</u>       |
|-------------------------|-------------------------|-------------------------|--------------------|
| Public Subsidy Grants   | \$118,443               | \$4,116,116             | \$4,234,559        |
| Payroll and Per Diems   | 339,901                 | 363,433                 | 703,334            |
| Other                   | 82,838                  | 87,502                  | 170,340            |
| Total                   | <u>\$541,182</u>        | <u>\$4,567,051</u>      | <u>\$5,108,233</u> |

Source: Minnesota Accounting and Procurement System.

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## Chapter 2. Public Subsidy Grants

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### *Chapter Conclusions*

*The Campaign Finance and Public Disclosure Board designed and implemented internal controls that provided reasonable assurance that public subsidy grants were properly allocated and disbursed to eligible candidates and state committees of political parties, and that expenditures were accurately reported in the state's accounting system. In addition, for the items tested, the board complied with material finance-related legal provisions for public subsidy grants.*

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The Campaign Finance and Public Disclosure Board distributes public subsidy grants to eligible state constitutional office candidates and state legislative candidates. The purpose of the grant 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, that obligates the candidate to abide by campaign limits, and file required reports with the Campaign Finance and Public Disclosure 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 General Fund provides the funding for subsidy grants. Each Minnesota taxpayer may designate on state income tax returns or renter and homeowner property tax refund returns that \$5 be paid from the General Fund to the State Elections Campaign Fund. Designations of these funds are either to the account of a political party or to the general account. These taxpayers designate the funds be used for a political party account or the general account. The Department of Revenue notifies the board of the amount of funds available in the State Elections Campaign Fund via a certification report. In addition to taxpayer designations, Minnesota statutes provide for an appropriation of \$1.5 million from the General Fund into the general account for each general election. The board may also receive anonymous contributions or donations, which it deposits into the general account.

Traditionally, only the Democratic-Farmer-Labor (DFL) and the Republican Party Minnesota (RPM) parties were eligible for public subsidy grants. However, beginning January 1996, the Reform Party of Minnesota (REF), Grassroots Party (GRT) and the Libertarian Party (LIB) were added to the program. Table 2-1 shows a breakdown, by account, of the sources of public subsidy funding.

# Campaign Finance and Public Disclosure Board

**Table 2-1**  
**Source of Public Subsidy Funding**  
**July 1, 1995 - June 30, 1997**

| <u>Account</u> | <u>Carry Forward</u> | <u>Taxpayer Checkoff</u> | <u>Appropriations</u> | <u>Misc. Receipts</u> | <u>Total</u>       |
|----------------|----------------------|--------------------------|-----------------------|-----------------------|--------------------|
| DFL            | \$ 287,804           | \$1,121,555              | \$ 0                  | \$ 0                  | \$1,409,359        |
| RPM            | 279,311              | 961,080                  | 0                     | 0                     | 1,240,391          |
| REF            | 0                    | 48,820                   | 0                     | 0                     | 48,820             |
| GRT            | 0                    | 45,905                   | 0                     | 0                     | 45,905             |
| LIB            | 0                    | 17,400                   | 0                     | 0                     | 17,400             |
| General        | <u>588,493</u>       | <u>812,960</u>           | <u>1,500,000</u>      | <u>2,199</u>          | <u>2,903,652</u>   |
| Total          | <u>\$1,155,607</u>   | <u>\$3,007,720</u>       | <u>\$1,500,000</u>    | <u>\$2,199</u>        | <u>\$5,665,527</u> |

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

Minnesota statutes required the board to disburse party account funds to eligible candidates based on designations made by taxpayers within the constituency of a candidate's office. The statutes also required the board to disburse general account funds equally to all eligible candidates for each type of office. Table 2-2 shows the allocation of public subsidy funds for each account.

**Table 2-2**  
**Allocation of Public Subsidy**  
**July 1, 1995 - June 30, 1997**

| <u>Account</u> | <u>Admin. Costs(1)</u> | <u>Disbursed to Candidates</u> | <u>Disbursed to Parties</u> | <u>Carried Forward to Next Election</u> | <u>Returned to General Fund</u> | <u>Total</u>       |
|----------------|------------------------|--------------------------------|-----------------------------|-----------------------------------------|---------------------------------|--------------------|
| DFL            | \$33,647               | \$968,807                      | \$115,192                   | \$221,839                               | \$69,874                        | \$1,409,359        |
| RPM            | 28,833                 | 826,616                        | 129,495                     | 203,386                                 | 52,061                          | 1,240,391          |
| REF            | 1,465                  | 959                            | 4,736                       | 10,116                                  | 31,544                          | 48,820             |
| GRT            | 1,377                  | 0                              | 4,453                       | 9,096                                   | 30,979                          | 45,905             |
| LIB            | 522                    | 35                             | 1,688                       | 3,491                                   | 11,664                          | 17,400             |
| General        | <u>24,389</u>          | <u>2,188,915</u>               | <u>0</u>                    | <u>690,348</u>                          | <u>0</u>                        | <u>2,903,652</u>   |
| Total          | <u>\$90,233</u>        | <u>\$3,985,332</u>             | <u>\$255,564</u>            | <u>\$1,138,276</u>                      | <u>\$196,122</u>                | <u>\$5,665,527</u> |

Notes: (1) The General Fund retains three percent of taxpayer checkoffs for administrative costs, prior to the transfer of funds to the board for allocation.

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

In addition to other filing requirements, candidates had to appear on the ballot of the general election to be eligible for party account funds and had to receive ten percent of the vote in the general election to be eligible for general account funds. If a party did not have an eligible candidate for an office, the board returned party account funds allocated to that office to the General Fund. During the audit period, the board returned \$196,122 in party account funds to the General Fund as shown in Table 2-2. If an eligible candidate was unopposed in both the primary and general elections, the board reallocated party account funds allocated to that office to the state committee of the party. The board carried forward both funds allocated to offices not up for election in November 1996 and additional taxpayer designations certified by the Department of

## **Campaign Finance and Public Disclosure Board**

Revenue after the board disbursed subsidy grants. As shown in Table 2-2, the board carried forward \$1,138,276 to the next election.

After it disbursed all subsidy grants, the board reviewed candidate expenditure reports to determine if candidates had to return all or a portion of a subsidy received. The board required candidates to return all or a portion of a subsidy when the amount of a subsidy received exceeded total campaign expenditures or when funds that remained in a candidate's campaign committee account exceeded the maximum amount.

### **Audit Objectives and Methodology**

Our audit of public subsidy grants focused on the following questions:

- Did the Campaign Finance and Public Disclosure Board design and implement internal controls that provided reasonable assurance that public subsidy grants were properly allocated and disbursed to eligible candidates and state committees of political parties and that expenditures were accurately reported in the state's accounting system?
- Did the Campaign Finance and Public Disclosure Board comply with material finance-related legal provisions for public subsidy grants?

To answer these questions, we interviewed board employees to gain an understanding of controls over public subsidy grants. We analyzed and reviewed taxpayer designations that the Minnesota Department of Revenue certified. We reviewed a sample of candidates who received subsidy grants to determine if candidates were eligible for the subsidy, if the board properly calculated the amount of the subsidy, if the board made subsidy payments from the correct account, and if candidates were required to return any of the subsidy. We also reviewed subsidy payments to state committees of political parties to determine if the board properly allocated and distributed subsidy funds. Finally, we analyzed the allocation of funds to each account and determined if the board properly allocated funds to each account, properly carried forward funds to the next general election, and properly returned funds to the General Fund.

### **Conclusions**

The Campaign Finance and Public Disclosure Board designed and implemented internal controls that provided reasonable assurance that public subsidy grants were properly allocated and disbursed to eligible candidates and state committees of political parties and that expenditures were accurately reported in the state's accounting system. In addition, for the items tested, the board complied with material finance-related legal provisions for public subsidy grants.

# Campaign Finance and Public Disclosure Board

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## Chapter 3. Payroll and Per Diems

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### *Chapter Conclusions*

*The Campaign Finance and Public Disclosure Board designed and implemented internal controls that provided reasonable assurance that payroll and per diem expenditures were properly authorized and supported and were accurately reported in the state's accounting system. In addition, for the items tested, the board complied with material finance-related legal provisions and applicable bargaining unit agreements.*

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Payroll and per diems represent the largest administrative expenditures for the Campaign Finance and Public Disclosure Board. The board had eight full-time employees and one intermittent employee who worked part-time. The board employs all of its employees in the unclassified service. During fiscal year 1997, the board paid its employees a total of \$357,933. The following organizations represented the board's employees:

- The Managerial Plan,
- The Middle Management Association (MMA),
- The Minnesota Association of Professional Employees (MAPE), and
- The American Federation of State, County and Municipal Employees (AFSCME).

In accordance with Minn. Stat. Section 15.0575, Subd. 3, the board paid per diems to board members at the rate of \$55 per day, for time spent on board activities. In addition to monthly board meetings, the board occasionally held special meetings with legislators or other organizations. During fiscal year 1997, the board paid \$5,500 in per diems.

### **Audit Objectives and Methodology**

Our audit of payroll and per diems focused on answering the following questions:

- Did the Campaign Finance and Public Disclosure Board design and implement internal controls that provided reasonable assurance that payroll and per diems were properly authorized and supported and accurately reported in the state's accounting system?
- Did the Campaign Finance and Public Disclosure Board comply with material finance-related legal provisions and applicable bargaining unit agreements?

## **Campaign Finance and Public Disclosure Board**

To answer these question, we interviewed board employees to gain an understanding of controls over payroll and per diems. We reviewed support documentation the board used to process payroll and per diems. We reviewed employee leave balances, achievement awards, separation pay, and employee pay rates to determine if the board complied with statutory provisions and bargaining agreements. Finally, we performed various analytical procedures to determine the reasonableness of the board's payroll and per diem expenditures.

### **Conclusion**

The Campaign Finance and Public Disclosure Board designed and implemented internal controls that provided reasonable assurance that payroll and per diems were properly authorized and supported and were accurately reported in the state's accounting system. In addition, for the items tested, the board complied with material finance-related legal provisions and applicable bargaining unit agreements.