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# Campaign Finance and Public Disclosure Board

## Financial Audit

For the Period July 1, 1997 through June 30, 1999

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September 1999

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

**99-46**

# SUMMARY

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

### **Financial Audit For the Period July 1, 1997, through June 30, 1999**

Public Release Date: September 2, 1999

No.99-46

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#### **Agency Background**

The Legislature established the Ethical Practices Board in 1974, as part of the Ethics in Government Act, under Minnesota Statute Chapter 10A. (Effective in July 1997 the Legislature changed the board's name to the Campaign Finance and Public Disclosure Board to better describe its responsibilities.) The Governor appoints the 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 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, monitors, and compiles 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.

The board receives state appropriations for its operational activities.

#### **Audited Areas and Conclusions**

Our audit scope included the State Elections Campaign Fund and payroll and per diem expenditures for the period from July 1, 1997, to June 30, 1999.

We concluded that the Campaign Finance and Public Disclosure Board properly recorded, allocated, and distributed State Elections Campaign funds to eligible candidates and state committees of political parties. In addition, for the items tested, the board complied with material finance-related legal provisions for the State Elections Campaign fund.

We concluded that the Campaign Finance and Public Disclosure Board accurately recorded payroll and per diem expenditures in the accounting records. In addition, for the items tested, the board complied with applicable statutory provisions and bargaining unit agreements.



STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Sidney Pauly, 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, 1997, through June 30, 1999, as further explained in the report. Our audit scope focused on the disbursement of State Elections Campaign Fund monies to candidates and political parties, and payroll and per diem expenditures. The attached Summary highlights the audit objectives and conclusions. We more fully discuss the audit objectives and conclusions in the 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 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 ensuring compliance 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. We do not, however, limit the distribution of this report, which was released as a public document on September 2, 1999.

We thank the Campaign Finance and Public Disclosure Board staff for their cooperation during this audit.

James R. Nobles  
Legislative Auditor

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: August 6, 1999

Report Signed On: August 30, 1999

# Campaign Finance and Public Disclosure Board

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## Table of Contents

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	Page
Chapter 1. Introduction	1
Chapter 2. The State Elections Campaign Fund	2
Chapter 3. Payroll and Per Diem Expenditures	5
Status of Prior Audit Issues	7

### **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
Jason Stauffenecker	Auditor-in-Charge

### **Exit Conference**

We discussed the results of the audit at an exit conference with the following staff from the Campaign Finance and Public Disclosure Board on August 24, 1999:

Jeanne Olson	Executive Director
Gary Goldsmith	Assistant Executive Director
Luann Swanson	Office Supervisor

# Campaign Finance and Public Disclosure Board

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## Chapter 1. Introduction

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The Legislature established the Ethical Practices Board in 1974, as part of the Ethics in Government Act, under Minnesota Statute Chapter 10A. (Effective in July 1997 the Legislature changed the board's name to the Campaign Finance and Public Disclosure Board to better describe its responsibilities.) The Governor appoints the 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's membership represents various political parties, as established in statute. The board appointed Jeanne Olson as the executive director in July 1995.

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

The Campaign Finance and Public Disclosure Board performs the following functions:

- 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, monitors, and compiles 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.

The board received an appropriation of \$593,000 in fiscal year 1998 and \$483,000 in fiscal year 1999 for operational expenses.

Table 1-1 shows the expenditures of the Campaign Finance and Public Disclosure Board for the two years ended June 30, 1999.

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**Table 1-1**  
**Campaign Finance and Public Disclosure Board Expenditures**  
**July 1, 1997 - June 30, 1999**

<u>Disbursement Type</u>	<u>Fiscal Year 1998</u>	<u>Fiscal Year 1999</u>	<u>Total</u>
State Elections Campaign Fund	\$ 98,589	\$3,993,277	\$4,091,866
Payroll and Per Diems	378,384	384,305	762,688
Other (1)	<u>155,659</u>	<u>121,323</u>	<u>276,982</u>
Total	<u>\$632,631</u>	<u>\$4,498,905</u>	<u>\$5,131,536</u>

Note (1) For the fiscal year 1998 and 1999 period, the Legislature appropriated \$122,000 for the board to improve its computer operations. The "Other" category includes the purchase of computer equipment and system development costs. Although the costs occurred in both fiscal years, a higher percentage occurred in fiscal year 1998.

Source: Minnesota Accounting and Procurement System.

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## Chapter 2. The State Elections Campaign Fund

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### *Chapter Conclusions*

*The Campaign Finance and Public Disclosure Board properly recorded, allocated, and distributed State Elections Campaign Fund monies to eligible candidates and state committees of political parties. For the items tested, the board complied with legal provisions applicable to the State Elections Campaign Fund.*

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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 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 conducting sample ballots. To qualify for a grant from the State Elections Campaign Fund, a candidate had to file with the board, establish a campaign committee, and file a Public Subsidy Agreement (which states the candidate will abide by campaign limits), and an Affidavit of Contribution. In addition, a candidate 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.

Prior to 1996, only the Democratic-Farmer-Labor (DFL) party and the Republican Party of Minnesota met the eligibility requirements for these grants. Since January 1996, the board also paid grants to the Reform Party of Minnesota, the Grassroots Party, and the Libertarian Party, when those parties also met the grant requirements.

The State Elections Campaign Fund receives most of its funding from the state's General Fund based on taxpayers' designations on their state tax returns. Each taxpayer can 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 certifies to the board the amount of the taxpayer designations, less three percent that the state's General Fund retains to offset administrative costs. 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 allow the board to carry forward funds allocated to offices not up for election (and thus unused) and any taxpayer designations certified by the Department of Revenue after the board disbursed grants. Finally, the board may accept anonymous contributions or donations, which it deposits into the general account. Table 2-1 summarizes the funding from these various sources for fiscal years 1998 and 1999.

# Campaign Finance and Public Disclosure Board

**Table 2-1  
State Elections Campaign Fund  
Sources of Funding for the 1998 Elections**

<u>Account</u>	<u>Taxpayer Check-off</u>	<u>Appropriations</u>	<u>Carry Forward (1)</u>	<u>Misc. Receipts</u>	<u>Total Available</u>
DFL	\$1,041,170	\$ 0	\$ 221,839	\$ 0	\$1,263,009
Republican	819,675	0	203,387	0	1,023,062
Reform	74,150	0	10,116	0	84,266
Grass Roots	80,990	0	9,096	0	90,086
Libertarian	51,830	0	3,491	0	55,321
General Account	<u>661,710</u>	<u>1,500,000</u>	<u>690,573</u>	<u>\$790</u>	<u>2,853,073</u>
Total	<u>\$2,729,525</u>	<u>\$1,500,000</u>	<u>\$1,138,502</u>	<u>\$790</u>	<u>\$5,368,817</u>

Note (1): The board carried forward funds from the 1996 election that had been allocated to offices not up for election in November 1996 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.

According to statute, the board distributes political party account funds to eligible candidates based on the designations made by the taxpayers within the candidates' constituencies. The board distributes general account funds to all eligible candidates (for each type of office) equally. 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.

**Table 2-2  
State Elections Campaign Fund  
Allocations For the 1998 Elections**

<u>Account</u>	<u>Retained by the General Fund (1)</u>	<u>Disbursed to Candidates</u>	<u>Disbursed to Parties</u>	<u>Carried Forward (2)</u>	<u>Returned to General Fund (3)</u>	<u>Total</u>
DFL	\$31,235	\$ 854,665	\$100,993	\$242,222	\$ 33,894	\$1,263,009
Republican	24,590	689,212	101,455	192,832	14,972	1,023,060
Reform	2,225	18,767	7,419	23,431	32,651	84,493
Grass Roots	2,430	0	7,856	0	79,800	90,086
Libertarian	1,555	142	5,028	0	48,596	55,321
General Account	<u>19,851</u>	<u>2,328,774</u>	<u>0</u>	<u>504,223</u>	<u>0</u>	<u>2,852,848</u>
Total	<u>\$81,886</u>	<u>\$3,891,560</u>	<u>\$222,751</u>	<u>\$962,708</u>	<u>\$209,914</u>	<u>\$5,368,817</u>

Notes:

- (1) By statute, the state's General Fund retains three percent of the funds designated by taxpayers.
- (2) The board carried forward funds to the 2000 election that had been allocated to offices not up for election in November 1998 and additional taxpayer designations certified by the Department of Revenue after the board disbursed grants.
- (3) The board returned funds to the state's General Fund if a political party did not have an eligible candidate for an office.

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

After it disbursed all grants, the board reviewed candidates' expenditure reports to determine if candidates had to return any of the grant funds received. State statutes require a candidate to return all or a portion of a grant when the amount of a grant received exceeded the total

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

campaign expenditures or when funds that remained in a candidate's campaign committee account exceeded the maximum statutory amount. The board deposits returned funds in the state's General Fund. For the 1998 election, candidates returned nearly \$50,000.

### **Audit Objectives and Methodology**

The objectives of our review of the State Elections Campaign Fund were as follows:

- Did the Campaign Finance and Public Disclosure Board properly allocate and disburse State Elections Campaign Fund monies to eligible candidates and state committees of political parties, and did it accurately report those expenditures in the accounting records?
- Did the Campaign Finance and Public Disclosure Board comply with statutory requirements for the State Elections Campaign Fund?

To meet these objectives, 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.

### **Conclusions**

The Campaign Finance and Public Disclosure Board properly recorded, allocated, and distributed State Elections Campaign Fund monies to eligible candidates and state committees of political parties. In addition, for the items tested, the board complied with legal provisions applicable to the State Elections Campaign Fund.



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## Chapter 3. Payroll and Per Diem Expenditures

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### *Chapter Conclusions*

*The Campaign Finance and Public Disclosure Board accurately reported payroll and per diem expenditures in the accounting system. The board complied with applicable statutory provisions and bargaining unit agreements for the items tested.*

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Payroll and per diem expenditures were the Campaign Finance and Public Disclosure Board's largest type of administrative expenditure. The board had eight full-time employees and, for part of the audit period, one intermittent, part-time employee. During fiscal year 1998 and 1999, the board paid its employees approximately \$375,000 and \$381,000 respectively. 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).

The board's six board members received per diems of \$55 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 years 1998 and 1999, the board members received per diem payments totaling \$6,380.

### **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 record payroll and per diem expenditures in the accounting records?
- Did the board's payroll and per diem expenditures comply with applicable statutory provisions and bargaining agreements?

To meet these objectives, we interviewed board employees to gain an understanding of controls over payroll and per diems, and we reviewed supporting documentation. We reviewed personnel transactions and employee pay rates to determine if the board complied with statutory provisions and bargaining agreements.

# **Campaign Finance and Public Disclosure Board**

## **Conclusions**

We concluded that the board accurately recorded payroll and per diem expenditures in the accounting records. We also concluded that the board complied with applicable statutory provisions and bargaining agreements for the items tested.

# Campaign Finance and Public Disclosure Board

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## Status of Prior Audit Issues As of August 6, 1999

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### Most Recent Audit

**Legislative Audit Report 97-51**, issued in September 1997, covered the two fiscal years ended June 30, 1997. The audit scope included State Election Campaign Fund grants, and payroll and per diem expenditures. The report did not include any findings related to the Campaign Finance and Public Disclosure Board.

#### 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 applied 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.