

O L A

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Campaign Finance and Public Disclosure Board

Fiscal Years 2005, 2006, and 2007



November 1, 2007

07-27

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 forty 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.

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.

To obtain a copy of this document in an accessible format (electronic ASCII text, Braille, large print, or audio) please call 651-296-1235. People with hearing or speech disabilities may call us through Minnesota Relay by dialing 7-1-1 or 1-800-627-3529.

All OLA reports are available at our web site: <http://www.auditor.leg.state.mn.us>

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



Financial Audit Division Report

**Campaign Finance and Public
Disclosure Board**

Fiscal Years 2005, 2006, and 2007

November 1, 2007

07-27

FINANCIAL AUDIT DIVISION

Centennial Building – Suite 140

658 Cedar Street – Saint Paul, MN 55155

Telephone: 651-296-4708 • Fax: 651-296-4712

E-mail: auditor@state.mn.us • Web site: <http://www.auditor.leg.state.mn.us>

Through Minnesota Relay: 1-800-627-3529 or 7-1-1



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

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

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

Members of the Campaign Finance and Public Disclosure Board

We conducted an audit of the Campaign Finance and Public Disclosure Board for fiscal years 2005, 2006, and 2007. Our audit scope focused on the distribution of the State Elections Campaign Fund's public subsidies to candidates and political parties, receipts from civil fines and late fees, and payroll and administrative expenditures. Our objectives focused on a review of the board's internal controls over these financial activities and its compliance with applicable finance-related legal requirements.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

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

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: August 10, 2007

Report Signed On: October 22, 2007

Campaign Finance and Public Disclosure Board

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	3
Chapter 2. State Elections Campaign Fund	7
Chapter 3. Fines and Late Fees	11
Chapter 4. Payroll and Administrative Expenditures	13
Status of Prior Audit Issues	15

Audit Participation

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

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Tim Rekow, CPA	Auditor-in-Charge
Lat Anantaphong	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Campaign Finance and Public Disclosure Board at an exit conference on October 15, 2007:

Jeanne Olson	Executive Director
Jeff Sigurdson	Assistant Executive Director

Campaign Finance and Public Disclosure Board

Report Summary

Conclusion:

The Campaign Finance and Public Disclosure Board had adequate internal controls and complied with the finance-related legal requirements we tested.

The report contains no findings related to internal controls or legal compliance.

Audit Scope:

Period Audited:

Fiscal Years 2005, 2006, and 2007

Areas Examined:

- State Elections Campaign Fund
 - Fines and Late Fees
 - Payroll and Other Administrative Expenditures
-

Agency Background:

The Campaign Finance and Public Disclosure Board is a six-member board that employs nine staff and receives an annual operating appropriation of about \$700,000. Its mission is to promote public confidence in state government decision making through public access to campaign, lobbying, and public official information filed with the board. Board staff distributed \$5 million of public subsidies for November 2006 elections.

Campaign Finance and Public Disclosure Board

This page intentionally left blank.

Campaign Finance and Public Disclosure Board

Chapter 1. Introduction

Agency Overview

The Campaign Finance and Public Disclosure Board is the service and regulatory agency that administers and enforces the Ethics in Government Act and is provided its authority in *Minnesota Statutes* 2006, chapter 10A. The Legislature established the Ethical Practices Board in 1974, which it renamed as the Campaign Finance and Public Disclosure Board in 1997. Agency staff supports a six-member bipartisan board, appointed by the Governor and confirmed by the House and Senate for four-year staggered terms. The board annually elects its leadership, holds regular public meetings, and annually reports on its activities to the Governor, the Legislature, and the public. The board appointed Jeanne Olson as the executive director in July 1995.

The board's mission is to promote public confidence in state government decision making through open access to campaign, lobbying, and public official information filed with the board and made available through web-based applications. The board has four core functions¹ to carry out its mission:

- registration and public disclosure by state legislative, constitutional, and judicial office candidates, political party units, political committees, and political funds;
- registration and public disclosure by lobbyists and their principals attempting to influence state legislative action, administrative action, and the official action of metropolitan governmental units;
- disclosure of economic interests, conflicts of interest, and representation of a client for a fee by public and metropolitan government officials; and
- distribution of public campaign subsidies that provide public funding to qualified state candidates and the state committees of political parties and allows these candidates and parties to give political contribution receipts to individual contributors.

Board staff review each registration and disclosure report filed by a candidate, political committee, political fund, political party unit, or public official to assure compliance with disclosure and legal requirements. In 2006 the board reviewed 1,605 campaign finance reports, 3,445 lobbyist disclosure reports, and 180 economic interest statements.²

The board provides computer software for reporting receipts and expenditures by principal campaign committees, political committees, political funds, and political party units and to assist them with the compliance and disclosure requirements of *Minnesota Statutes*. The board's

¹2008-2009 Biennial Budget, Agency Profile, Campaign Finance and Public Disclosure Board.

²This information was obtained from the board's annual report for fiscal year 2006.

Campaign Finance and Public Disclosure Board

website provides searchable databases to access information disclosed on reports and statements filed by candidates, political committees, political funds, political party units, and public officials.

The board receives a biennial appropriation to operate, while the funding for its State Elections Campaign Fund is generated from a General Fund appropriation plus taxpayer check-off designations collected by the Department of Revenue. The board also collects fines and fees from candidates and political parties who did not comply with statutory requirements. These monies are deposited into the General Fund and are not available for board spending.

All of the board's financial activities are accounted for in the state treasury using the state's accounting and personnel/payroll systems. Table 1-1 shows the sources and uses of the board's funds for fiscal years 2005, 2006, and 2007.

Table 1-1
Sources and Uses of Funds
Fiscal Years 2005 through 2007

	2005	2006	2007
Sources:			
State Appropriations ¹	\$ 712,000	\$ 694,000	\$ 844,000
Public Subsidy Appropriation ²	1,500,000	0	1,250,000
Tax Check-off Designations ³	2,429,697	132,065	1,702,744
Receipts ⁴	10,996	3,810	5,008
Transfers In	24,970	55,799	0
Balance Forward – In	93,833	2,102,791	2,111,163
Total Sources	<u>\$ 4,771,496</u>	<u>\$ 2,988,465</u>	<u>\$5,912,915</u>
Uses:			
Public Subsidy Payments	\$ 1,848,626	\$132,066	\$4,956,200
Payroll and Per Diems	570,608	587,080	609,830
Other Administrative Costs	184,471	93,156	274,230
Transfers Out ⁵	65,000	65,000	57,220
Appropriation Cancellation	0	0	385
Total Uses	<u>\$ 2,668,705</u>	<u>\$ 877,302</u>	<u>\$5,897,865</u>
Balance Forward – Out	<u>\$(2,102,791)</u>	<u>\$(2,111,163)</u>	<u>\$ (15,050)</u>

¹The state appropriation for fiscal year 2007 included a one-time appropriation of \$150,000 for a court-ordered payment required under a ruling by the 8th Circuit Court of Appeals.

²The Legislature provided a public subsidies appropriation for each general election, and the board transferred the money into a special revenue account (State Elections Campaign Fund) in the state treasury.

³Tax check-off designations are obtained from individual taxpayers who designate \$5 on their income or property tax returns. The taxpayer may designate their amount be paid into the account of a political party or the state elections general account. The board transfers revenues into various election accounts for distribution of the public subsidy.

⁴Receipts do not include \$479,123 of additional collections (mainly fines) deposited into the state's General Fund. These moneys were not available for use by the board.

⁵The board transferred money to the Office of Administrative Hearings pursuant to *Minnesota Statute* 2006, 211B.37 for hearings related to complaints on statewide ballot questions or elections for a statewide or legislative office.

Source: Minnesota Accounting and Procurement System for fiscal years 2005, 2006, and 2007, through August 31, 2007.

Campaign Finance and Public Disclosure Board

Audit Approach

The Office of the Legislative Auditor selected the Campaign Finance and Public Disclosure Board for audit based on an annual risk assessment of state agencies and programs. We used various criteria to determine the entities for selection, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the office's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*,³ published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the office complied with the finance-related legal requirements that are significant to the audit. In determining the Campaign Finance and Public Disclosure Board's compliance with legal requirements, we considered requirements of laws, regulations, contracts, and grant agreements.

³The Treadway Commission and its Committee of Sponsoring Organizations were established in the mid-1980s by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity.

Campaign Finance and Public Disclosure Board

This page intentionally left blank.

Chapter 2. State Elections Campaign Fund

Chapter Conclusion

The Campaign Finance and Public Disclosure Board had adequate internal controls to ensure that it properly allocated amounts certified by the Department of Revenue, accurately distributed public subsidy payments to eligible candidates and political parties, and correctly recorded public subsidy payments in the accounting system.

For the items tested, the board complied with finance-related legal requirements and management's authorization.

Audit Objectives

Our review of the State Elections Campaign Fund focused on the following questions:

- Were the board's internal controls adequate to ensure that it properly allocated amounts certified by the Department of Revenue, accurately distributed public subsidy payments to eligible recipients, and correctly recorded public subsidy payments in the accounting system?
- For the items tested, did the board comply with *Minnesota Statutes*, board policies and procedures, and management's authorization for public subsidy payments?

Background

The Campaign Finance and Public Disclosure Board administers the State Elections Campaign Fund established in *Minnesota Statutes*.⁴ The purpose of this fund is to limit the overall spending for election campaigns by providing an optional public subsidy to lessen the reliance of candidates on large contributors. The board distributed \$1,848,626, \$132,066, and \$4,956,200⁵ through the State Elections Campaign Fund for fiscal years 2005, 2006, and 2007, respectively.

The board distributed fiscal year 2007 public subsidy payments, totaling nearly \$5 million, to state constitutional office and legislative candidates who met statutory eligibility requirements for the November 2006 general election. Approximately \$1.6 million was distributed to constitutional office candidates, such as the race for Governor. Another \$3.2 million was distributed to House of Representatives and Senate candidates. Additional payments of \$160,000 were also provided to state committees of the DFL, Republican, Green, and Independence parties to assist with expenditures, such as general advertising and sample ballots.

⁴*Minnesota Statutes* 2006, 10A.30.

⁵The fiscal year 2007 public subsidies were larger than prior years since the November 2006 election included the race for Governor, as well as several House of Representatives and Senate races.

Campaign Finance and Public Disclosure Board

For a candidate to qualify for a subsidy payment from the State Elections Campaign Fund, they must be a member of an eligible party, be opposed in the election, register a campaign committee with the board, file a public subsidy agreement that states the candidate will abide by campaign spending limits, and file an affidavit of contributions. In addition, a candidate had to appear on the general election ballot to be eligible for party account funds. The board reviews documentation for all eligibility requirements prior to making any State Elections Campaign Fund subsidy payments.

Table 2-1 summarizes the State Elections Campaign Fund's sources and uses for each party and the general account for fiscal year 2007.

	General Account	DFL¹	RPM¹	Green Party	IND¹	Total
Sources:						
Balance-In ²	\$1,087,190	\$ 448,326	\$ 381,280	\$ 78,089	\$ 75,834	\$2,070,719
Designations	354,212	1,021,008	722,818	122,355	99,883	2,320,276
Appropriation	1,250,000	0	0	0	0	1,250,000
Receipts	<u>5,008</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,008</u>
Total Sources	<u>\$2,696,410</u>	<u>\$1,469,334</u>	<u>\$1,104,098</u>	<u>\$200,444</u>	<u>\$175,717</u>	<u>\$5,646,003</u>
Uses:						
Distributions ³	\$2,629,547	\$1,431,241	\$815,535	\$ 11,479	\$68,398	\$4,956,200
Return to General Fund ⁴	0	35,635	286,363	188,651	106,883	617,532
Transfer-Out ⁵	<u>57,221</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>57,221</u>
Total Uses	<u>\$2,686,768</u>	<u>\$1,466,876</u>	<u>\$1,101,898</u>	<u>\$200,130</u>	<u>\$175,281</u>	<u>\$5,630,953</u>
Balance-Out	<u>\$ 9,642</u>	<u>\$ 2,458</u>	<u>\$ 2,200</u>	<u>\$ 314</u>	<u>\$ 436</u>	<u>\$ 15,050</u>

¹Democratic Farmer Labor (DFL) party, Republican Party of Minnesota (RPM), and Independence (IND) party.

²The board carried forward allocated funds for offices not up for election in November 2004 and additional taxpayer designations certified by the Department of Revenue after the board disbursed the 2004 public subsidies.

³The board distributed public subsidy payments for the November 2006 election campaigns.

⁴The board returned funds to the state's General Fund if a political party did not have an eligible candidate for a particular office or district, a candidate's actual campaign expenditures were less than the public subsidy payment, or the candidate's political committee year-end balance exceeded the maximum statutory amount.

⁵The board transferred \$65,000 to the Office of Administrative Hearings pursuant to *Minnesota Statutes* 2006, 10A.31, subd. 4(b), and the office returned the unused portion of \$7,779 on August 6, 2007.

Source: Board records and Minnesota Accounting and Procurement System for fiscal year 2007, as of August 31, 2007.

In addition to a \$1.25 million appropriation, the State Elections Campaign Fund received \$2.3 million of funding from taxpayers' designations on their 2005 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 board relied on amounts certified by the Department of Revenue for allocation of the taxpayer designations. The

Campaign Finance and Public Disclosure Board

Campaign Finance and Public Disclosure Board set up separate accounts for each party and the general account. The board carried forward unused funds allocated to offices not up for election and any taxpayer designations certified by the Department of Revenue after the board disbursed payments. Finally, the board accepted \$5,008 of anonymous contributions or donations that it deposited into the general account.

*Minnesota Statutes*⁶ 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. For the general account, the board equally allocated 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.

We noted no weaknesses in the board's internal control processes or noncompliance with legal requirements for this area.

⁶*Minnesota Statutes* 2006, 10A.31.

Campaign Finance and Public Disclosure Board

This page intentionally left blank.

Chapter 3. Fines and Late Fees

Chapter Conclusions

The Campaign Finance and Public Disclosure Board had adequate internal controls to ensure that it accurately assessed, safeguarded, and deposited receipts from fines and late fees and properly recorded those receipts in the accounting system.

For the items tested, board staff complied with board authorization and finance-related legal requirements.

Audit Objectives

Our review of the Campaign Finance and Public Disclosure Board's receipts focused on the following questions:

- Did the board have adequate internal controls to ensure that it accurately assessed, safeguarded, and deposited fines and late fees and properly recorded receipts in the accounting systems?
- For the items tested, did the board comply with board authorization and promptly deposit funds into the state treasury?

Background

*Minnesota Statutes*⁷ identified various fines that the board can collect from political office candidates, committees, lobbyists, and public officials for compliance and report filing violations. Table 3-1 summarizes the civil penalties and late fees the board collected for fiscal years 2005, 2006, and 2007.

⁷*Minnesota Statutes* 2006, 10A.

Campaign Finance and Public Disclosure Board

Table 3-1
Fine Receipts by Type
Fiscal Years 2005 through 2007

Type of Fine	2005	2006	2007
Civil Penalties ¹	\$50,315	\$223,806	\$80,115
Late Fees	18,518	9,652	19,708
Total Fines	<u>\$68,833</u>	<u>\$233,458</u>	<u>\$99,823</u>

¹In fiscal year 2006, the board collected a \$190,000 penalty from an unregistered association.

Source: Minnesota Accounting and Procurement System for fiscal years 2005, 2006, and 2007, through August 31, 2007.

Civil Penalties

Civil penalties are generally derived from violations related to excessive contributions or expenditures for a candidate that signed a public subsidy agreement. Maximum civil fines are \$1,000 in nonelection years, \$3,000 in election years, and up to four times the contribution or expenditure excess amounts. Generally, the board will impose a fine of one times the violation for a first offence, two times for a second offence, three times for the third, and four times for the fourth or greater violation. Once board members determined and assessed the authorized amount of each fine, board staff collected it from the candidate, party, or organization involved.

Late Fees

Board statutes outline various late fees that can be collected from individuals and entities that did not submit timely registration forms and various reports. Late fee amounts are \$5/day with a maximum of \$100 in nonelection years and \$50/day with a maximum of \$500 in election years. After the \$100 or \$500 maximum is reached, the statutes give the board the ability to assess a civil penalty of up to \$1,000 if an entity still has not properly filed the required registrations or reports.

We noted no weaknesses in the board's internal control processes or noncompliance with legal requirements for this area.

Chapter 4. Payroll and Other Administrative Expenditures

Chapter Conclusions

The Campaign Finance and Public Disclosure Board had adequate internal controls to ensure that it accurately compensated employees for work performed, maintained accurate leave records, authorized pay increases, and properly recorded payroll expenditures in accounting and personnel systems.

The board had adequate internal controls to ensure that it properly procured goods and services, accurately paid for goods received and services rendered, and properly recorded administrative expenditures in the accounting system.

For the items tested, the board complied with finance-related legal requirements and management's authorization for payroll and expenditure transactions.

Audit Objectives

Our review of the board's payroll and other administrative expenditures focused on the following questions:

- Did the board have adequate internal controls to ensure it accurately compensated employees for work performed, maintained accurate leave records, authorized pay increases, and properly recorded payroll expenditures in accounting and personnel systems?
- Did the board have adequate internal controls to ensure that it properly procured goods and services, accurately paid for goods and services received, and properly recorded administrative expenditures in the correct fund in the accounting system?
- For items tested, did the board comply with employee bargaining unit contracts, state and agency policies and procedures, contract statutes, and management's authorization?

Background

The largest administrative cost for the board is payroll, which averaged about \$589,000 or 76 percent of annual expenditures; other administrative costs averaged about \$184,000 annually for the three-year audit period. Table 4-1 shows payroll and other administrative costs by type for fiscal years 2005, 2006, and 2007.

Campaign Finance and Public Disclosure Board

Table 4-1
Payroll and Other Administrative Expenditures by Type
Fiscal Years 2005 through 2007

<u>Expenditure Type</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Payroll and Board Per Diems	\$570,608	\$587,079	\$609,830
Professional-Technical Services ¹	33,971	2,046	155,883
Space Rent	31,692	33,535	32,047
Supplies and Equipment	38,077	15,365	40,274
Services	35,864	25,450	28,518
Travel	7,858	8,530	9,562
Other	37,009	8,230	7,946
Total Administrative Expenditures	<u>\$755,079</u>	<u>\$680,236</u>	<u>\$884,059</u>

¹Professional-technical services in fiscal year 2007 included \$150,000 of court-ordered payments required under a ruling by the 8th Circuit Court of Appeals.

Source: Minnesota Accounting and Procurement System for fiscal years 2005, 2006, and 2007, through August 31, 2007.

Payroll Expenditures

The Campaign Finance and Public Disclosure Board had nine employees, most of who were represented by various bargaining units, including the Middle Management Association, the Minnesota Association of Professional Employees, and the American Federation of State, County, and Municipal Employees. A few employees were in the unrepresented Managerial Plan. These contracts or plans set the parameter for salary ranges and increases, allowable reimbursements, and other personnel items. The board also paid six appointed board members who received per diem payments of \$55 for each day spent on board activities or special meetings with legislators or other organizations.

The board used the state's personnel/payroll system to record payroll expenses; the system interfaces with the state's accounting system. One employee had incompatible system access to the personnel/payroll system, allowing the employee the ability to update or change personnel records and perform payroll functions. To mitigate the risk posed by this incompatible access, the board established detective controls to identify any unauthorized changes. Detective controls included an independent staff review of bi-weekly payroll reports for accuracy of personnel and payroll data by someone that did not have access to the system.

Other Administrative Expenditures

The Campaign Finance and Public Disclosure Board incurred other administrative expenditures for rent, professional and technical services, communications and other services, and supplies and equipment, among other things. Two board employees had incompatible access to the state's accounting system, allowing them to initiate procurement, receiving, and disbursement transactions. To mitigate the risk resulting from this incompatible access, the board developed detective controls to identify unauthorized transactions. The detective controls included an independent review of expenditure reports for propriety and supporting documentation by someone that did not have access to the system.

We noted no weaknesses in the board's internal control processes or noncompliance with legal requirements for this area.

Campaign Finance and Public Disclosure Board

Status of Prior Audit Issues As of August 10, 2007

Most Recent Audit Report 02-99, issued in February 2002, covered the two fiscal years ended June 30, 2001. The audit scope included the State Election Campaign Fund's public subsidies and administrative expenditures. The report did not contain any findings or recommendations for improvement.

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.