



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – April 1, 2019

State Election Campaign Fund—Office of Campaign and Political Finance

For the period January 1, 2018 through December 31, 2018





Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

April 1, 2019

Mr. Michael J. Sullivan, Director
Office of Campaign and Political Finance
1 Ashburton Place, Room 411
Boston, MA 02108

Dear Mr. Sullivan:

I am pleased to provide this performance audit of the State Election Campaign Fund (Office of Campaign and Political Finance). This report details the audit objectives, scope, methodology, and finding for the audit period, January 1, 2018 through December 31, 2018. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Office of Campaign and Political Finance for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue horizontal line.

Suzanne M. Bump
Auditor of the Commonwealth

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
OVERVIEW OF AUDITED ENTITY	2
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY	5
DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE.....	8
1. The Office of the State Auditor’s prior audit finding regarding an inaccurate State Election Campaign Fund balance has been resolved.....	8
APPENDIX A	9
APPENDIX B	10

LIST OF ABBREVIATIONS

CTR	Office of the Comptroller of the Commonwealth
DOR	Department of Revenue
MCEF	Massachusetts Clean Elections Fund
MMARS	Massachusetts Management Accounting and Reporting System
MMDT	Massachusetts Municipal Deposit Trust
OCPF	Office of Campaign and Political Finance
OSA	Office of the State Auditor
OST	Office of the State Treasurer
SECF	State Election Campaign Fund

EXECUTIVE SUMMARY

In accordance with Section 42C of Chapter 10 of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of the State Election Campaign Fund (SECF) accounts and transactions for the 2018 statewide election.¹ The SECF provides limited public financing to eligible candidates seeking statewide elective offices. Its main funding source is voluntary taxpayer check-off contributions on state income tax returns. The Office of Campaign and Political Finance (OCPF) is responsible for certifying qualifying candidates and disbursing amounts from the fund based on state laws and regulations.² The objective of our audit was to determine whether the fund's accounting records were accurate and up to date; whether its disbursements were issued in compliance with fund regulations, including those regarding certification of candidates and amounts by OCPF, and were properly recorded; and whether the required candidate forms for the statewide election and SECF funding were properly filed and complete.

Below is a summary of our finding, with a link to the page listed.

Finding 1
Page 8

Our previous audit finding regarding an inaccurate SECF balance has been resolved.

1. Generally accepted government auditing standards require that audit organizations be free from organizational impairments to independence with respect to the entities they audit. For this reason, the accounts and transactions of candidates for State Auditor were not a subject of our review. However, in accordance with Section 42C of Chapter 10 of the General Laws, a post-audit of those accounts and transactions was conducted by the Office of the Comptroller of the Commonwealth, an independent governing body. On February 4, 2019, the Office of the Comptroller of the Commonwealth issued a letter to the director of OCPF regarding its post-audit of activity in the SECF regarding candidates for State Auditor for the 2018 primary and general elections. This letter stated that no funds had been made available to any candidates for State Auditor, that no payments had been made from state funds to any State Auditor candidate accounts, and that no areas of noncompliance had been identified.
2. Chapter 55C of the General Laws states that candidates for statewide elective office who agree to abide by certain statutory expenditure limits and who submit qualified contributions in the minimum amounts established by law are eligible for limited public financing. This law also regulates the distribution; accounting; and, in certain cases, repayment of public funds by candidates. Section 4 of Title 970 of the Code of Massachusetts Regulations governs certain procedures a candidate must follow to have their name appear on the ballot and to qualify for public funds.

OVERVIEW OF AUDITED ENTITY

The State Election Campaign Fund (SECF), established by Chapter 774 of the Acts of 1975 and codified in Sections 42 through 45 of Chapter 10 of the Massachusetts General Laws, was created to provide limited public financing for candidates seeking statewide offices. Candidates may receive funding amounts based on the statewide offices they seek in accordance with Sections 4 through 7 of Chapter 55C of the General Laws. For the 2018 statewide election, \$1,093,739.76 was distributed from the SECF to qualifying candidates seeking the office of Governor,³ as detailed later in this section.

Section 42 of Chapter 10 of the General Laws states,

The State Election Campaign Fund [consists] of all revenues received under section 6C of chapter 62, and all other monies credited or transferred to the fund from any other fund or source pursuant to law.

The SECF's principal source of revenue is voluntary contributions by individuals filing state income tax returns. Sections 46 and 47 of Chapter 43 of the Acts of 1994 amended prior legislation, as of the tax year ended December 31, 1994, to state that taxpayer contributions would no longer increase the amount of state tax owed or reduce tax refunds, a provision similar to those of the federal tax system.

The fund's name and provisions have changed several times since its inception. The passage of a ballot question on November 3, 1998 enacted Chapter 395 of the Acts of 1998, changing the name of the SECF to the Massachusetts Clean Elections Fund (MCEF), and repealed Sections 43 through 45 of Chapter 10 of the General Laws. The 2002 statewide election financing was processed under the MCEF laws with a new Section 42 of Chapter 10 of the General Laws, which implemented new responsibilities for the director of the Office of Campaign and Political Finance (OCPF), new public-funding requirements for candidates, and new guidelines for the distribution and use of the money in the fund.

Chapter 26 of the Acts of 2003, effective July 1, 2003, repealed the MCEF laws. The law rescinded the name change, repealed Chapter 55A of the General Laws, inserted a new Chapter 55C of the General Laws (Limited Public Financing of Campaigns for Statewide Elective Office), and amended Chapter 10 of the General Laws to include Sections 42 and 42A through 42C.

3. According to the Office of Campaign and Political Finance, there were not enough funds in the SECF for this campaign cycle for distribution to candidates seeking other statewide offices.

Although the enabling legislation did not specify principal oversight and maintenance responsibilities for the fund, four agencies share responsibility for the SECF, as follows.

- Department of Revenue (DOR): Each month, this department reports to the Office of the Comptroller of the Commonwealth (CTR) the total taxpayer contributions through an interface in the Massachusetts Management Accounting and Reporting System (MMARS) so that the SECF is properly credited (see [Appendix B](#)).
- CTR: Section 42A of Chapter 10 of the General Laws requires CTR to certify the SECF balance available for disbursement to political candidates as of June 30 each statewide election year. The money is then divided: 50% is allocated to the primary election account and 50% to the statewide election account. The money is further subdivided into candidate accounts for candidates for statewide office who have been certified by the director of OCPF as qualified to receive public financing.
- Office of the State Treasurer (OST): As the custodian of funds, the State Treasurer is required by Section 42 of Chapter 10 of the General Laws to deposit them as follows:

In accordance with sections 34 and 34A of chapter 29 in such manner as will secure the highest interest rate available consistent with safety of the fund and with the requirement that all amounts on deposit be available for immediate withdrawal at any time after June 30 in any year in which elections are held for statewide elective office.

OST also distributes to the candidates amounts certified by the director of OCPF.

- OCPF: Sections 3 and 4 of Chapter 55C of the General Laws establish specific responsibilities for the director of OCPF, including (1) reviewing and certifying candidates' eligibility, including their lists of qualifying contributions, statements of expenditure limits, bonds posted, and amounts of public financing to receive; (2) prescribing filing and eligibility requirements for candidates; (3) establishing guidelines for distributions to candidates; (4) establishing candidate expenditure limits and matching fund requirements; and (5) preparing and submitting a report related to fund matters on or before January 30 any year after a year in which elections are held for statewide office.

The SECF is processed in MMARS using DOR's monthly taxpayer contribution receipt information, OCPF's candidate disbursement information, and OST's monthly investment income information.

For the 2018 statewide election, as of June 30, 2018, SECF activity included the following:

Amount Certified by CTR as Available for Distribution	\$ 1,210,258
Net Amount Certified and Distributed by OCPF to Candidates	(1,087,992)
Remaining Amount Certified by CTR as Available / Not Distributed to Candidates	<u>\$ 122,265*</u>

* Discrepancies in totals are due to rounding.

In accordance with Section 42A of Chapter 10 of the General Laws, because of the limited amount of SECF money available for the 2018 election, only candidates for the Governor's race⁴ received public financing, distributed as follows.

Jay Gonzalez	\$ 928,897.56
Robert Massie	164,842.20
Total	<u>\$ 1,093,739.76</u>

As of December 31, 2018, the SECF had a balance of \$142,366 for use in the 2022 statewide election (see [Appendix A](#)).

4. The candidates for Governor and Lieutenant Governor run as a candidate team after the primary. In 2018, only two candidates for Governor requested funding.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

Section 42C of Chapter 10 of the Massachusetts General Laws requires the following:

The state auditor shall conduct a post-audit of all accounts and transactions involving the state election campaign fund for any year in which elections are held for statewide elective office and . . . publish a report of any post-audit required by this section on or before April 1 of the year following any year in which elections are held for statewide elective office.

In accordance with this statute and Section 12 of Chapter 11 of the General Laws, the Office of the State Auditor (OSA) has conducted an audit of certain activities of the State Election Campaign Fund (SECF) for the period January 1, 2018 through December 31, 2018.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Were all disbursements from the fund that were related to the 2018 statewide election made in compliance with Sections 1A through 8 of Chapter 55C of the General Laws?	Yes
2. Were receipts and disbursements recorded accurately in the Massachusetts Management Accounting and Reporting System (MMARS) and in accordance with the Office of the Comptroller of the Commonwealth's (CTR's) policies?	Yes
3. Was any unused money credited/refunded to the SECF in accordance with Section 9 of Chapter 55C of the General Laws?	Yes
4. Did the Office of Campaign and Political Finance (OCPF) follow up on prior audit findings?	Yes; see Finding <u>1</u>

We gained an understanding of internal controls we deemed significant to our audit objectives through inquiries and observations. We evaluated the design of controls over disbursements, recording of

receipts and disbursements in MMARS, candidate repayments to the fund, and follow-up on prior audit findings. We tested the effectiveness of controls over disbursements from the SECF and candidate repayments. We assessed whether these controls operated as management intended during our audit period. In addition, we performed the following procedures to obtain sufficient, appropriate audit evidence to address our audit objectives.

- We reviewed all 12 months of taxpayer contribution balances and Department of Revenue (DOR) receipt records from our audit period to determine whether OCPF accurately prompted the Office of the State Treasurer (OST) by email to invest the money and whether it was recorded in the Massachusetts Municipal Deposit Trust (MMDT) and MMARS account balances.
- We traced interest earned in the MMDT to MMARS entries recorded for the audit period.
- To review the fund balances, we completed a MMARS query of fund activity including receipts, interest, and disbursements from the prior audited balance date of February 1, 2015 through the end of our audit period.
- We reviewed all 17 candidates for the primary and general elections for Governor, Lieutenant Governor, Attorney General, Treasurer, and Secretary of State to determine whether required OCPF forms (20, 20R, 21, 22, 22T, 10, 30, 11, and 31) were completed, filed, signed, and submitted and were retained in compliance with state election regulation timelines for the candidates to receive public financing.
- We reviewed all seven primary and four statewide election candidates for Governor and Lieutenant Governor who were eligible to receive money to determine whether required forms were filed, signed, and submitted and whether each candidate had the required bonding on file to receive public financing in accordance with Section 8 of Chapter 55C of the General Laws and Section 4.09 of Title 970 of the Code of Massachusetts Regulations.
- We determined whether candidates for Governor / Lieutenant Governor who had received money had the proper forms (Candidate Statement of Contributions, Candidate Request for Limited Public Financing, and Candidate Public Financing Bond), and we reviewed these forms to determine whether they were signed by the candidates and submitted by the required date.
- We determined whether OCPF, OST, CTR, and DOR complied with date requirements related to availability of money, certification of candidates, certification of candidate amounts for the primary and statewide elections, reversion of undisbursed money to MMARS, and closure of all accounts that were established for candidates per the General Laws. We reviewed CTR's certification of the available balance, the Secretary of the Commonwealth's certification of candidates, OCPF's MMARS expenditure refund, and the OCPF document "Surplus Funds: Application of the Pay-Back Formula" to determine whether the dates were as stipulated by the General Laws.
- We reviewed all eight fund disbursements that occurred during the audit period to determine whether the candidates were found by OCPF to be qualified, the amounts were authorized, and the transactions were recorded in MMARS.

- To determine the MMARS fund balance as of December 31, 2018, we reconciled the 47 months of taxpayer contribution receipt balances recorded in MMARS by CTR, as reported by DOR. We reconciled the MMDT investment statements for contributions, interest, and other adjustments to determine whether MMARS reflected the interest accrued on investments. We reconciled all eight disbursements made during the audit period to determine whether they were accurately recorded in MMARS. We reviewed correspondence among OST, CTR, and OCPF regarding adjustments and confirmation of balances to reconcile the MMARS balances to the MMDT balances. We needed to use the last reconciled balance from our prior audit as of February 1, 2015 to determine the accurate December 31, 2018 balance.
- We verified that unspent candidate money was processed and reverted to the SECF within two weeks after the election and reflected in MMARS and MMDT investment account balances.
- We verified that the adjustments to the MMARS account as stated in our prior audit, No. 2015-0969-3S, were made by OCPF by reviewing deposit slips and documents related to any OCPF MMARS expenditure refunds for the required dates.
- We reviewed OCPF's internal control plan for the SECF to determine whether it had a policy to address audit findings and corrective action plans.

In 2018, OSA performed a data reliability assessment of MMARS focused on testing selected system controls (access controls, application controls, configuration management, contingency planning, and segregation of duties) for the period April 1, 2017 through March 31, 2018. Further, as part of our current audit, we compared the MMARS data to source documentation, including receipts and disbursements from SECF, from the audit period. We also reviewed selected security management controls established by OCPF to ensure that they addressed security awareness and personal security and tested those controls.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Office of the State Auditor's prior audit finding regarding an inaccurate State Election Campaign Fund balance has been resolved.

In our previous audit, we found that the Office of Campaign and Political Finance (OCPF) had not ensured the accuracy of the State Election Campaign Fund (SECF) balance recorded in the Massachusetts Management Accounting and Reporting System and the Office of the State Treasurer's (OST's) Massachusetts Municipal Deposit Trust (MMDT) investment account. We recommended that OCPF implement a formalized fund balance reconciliation process comprising the records of OCPF, OST, and the Office of the Comptroller of the Commonwealth, to be completed at least quarterly in each nonelection year and monthly in each statewide election year, to ensure the accuracy of fund balances. We also recommended that communication among the agencies regarding the fund balances be improved and any variances identified.

During our current audit, we noted that OCPF had implemented controls and procedures for reconciling contributions and interest, including a Microsoft Excel worksheet to track contributions received by the Department of Revenue (including receipt dates) and investment interest earned in the MMDT. All variances identified were communicated to all appropriate parties and corrections were made. This issue has been resolved.

Auditee Response

I, and our staff, wish to thank you for taking the time to carefully listen to and/or read our responses to your questions during this process. The administration of the SECF, as a unique legislative creation, is not an easy concept to fully comprehend.

We are pleased that the draft audit confirms our position that the SECF is efficiently administered and that we have followed up on the issue raised from our prior audit in 2016 (see Finding 1).

We look forward to the next statewide election in 2022 and the continued efficient administration of the SECF.

APPENDIX A

State Election Campaign Fund⁵ Revenue, Expenses, and Changes in Equity February 1, 2015 through December 31, 2018

Fund Equity Balance—February 1, 2015	<u>\$ 219,695</u>
Revenue	
Taxpayer Contributions—February 1, 2015 through December 31, 2018	<u>\$ 971,337</u>
Investment Income	
Investment Income—February 1, 2015 through December 31, 2018	\$ 32,447
Adjustments from Prior Audit	6,879
Total Investment Income	<u>\$ 39,326</u>
Total Fund Equity, Revenue, and Investment Income	<u>\$1,230,358</u>
Expenses	
Distributions to Candidates—July 1, 2018 through October 31, 2018	\$ 1,093,740
Less Repayment by Candidates	(5,748)
Total Expenses	<u>\$1,087,992</u>
Fund Equity Balance—December 31, 2018	<u>\$ 142,366</u>

Note: For the 2018 statewide election, the State Election Campaign Fund disbursed \$1,093,740 in limited public financing to qualifying candidates.

5. Our review was not intended to enable us to express, and we do not express, an opinion on the State Election Campaign Fund. These disclosures of revenue, expenditures, and changes in fund balance during the period February 1, 2015 through December 31, 2018 are solely for informational purposes.

APPENDIX B

State Election Campaign Fund—Taxpayer Participation Amounts Collected

Tax Year	Amount Collected	Increase/(Decrease)
2014	\$247,016	\$1,908
2015	\$245,890	(\$1,126)
2016	\$244,435	(\$1,455)
2017	\$245,338	\$903
2018	\$242,130	(\$3,208)