



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

Making government work better

Official Audit Report – Issued April 1, 2015

State Election Campaign Fund—Office of Campaign and Political Finance

For the period February 1, 2011 through January 31, 2015





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

Making government work better

April 1, 2015

Michael J. Sullivan, Director
Office of Campaign and Political Finance
One 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, findings, and recommendations for the audit period, February 1, 2011 through January 31, 2015. 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 "SMBump".

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. Prior Audit Finding Unresolved—Inaccurate State Election Campaign Fund Balance	8
2. Prior Audit Finding Resolved—Candidate Campaign Expenditure Reports Not on File.....	10
APPENDIX A	11
APPENDIX B	12

LIST OF ABBREVIATIONS

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
OSC	Office of the State Comptroller
OST	Office of the State Treasurer
SECF	State Election Campaign Fund

EXECUTIVE SUMMARY

In accordance with Chapter 10, Section 42C, of the Massachusetts General Laws, the Office of the State Auditor conducted an audit of the State Election Campaign Fund (SECF) accounts and transactions for the 2014 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; its disbursements were issued in compliance with fund regulations, including those regarding certification of candidates and amounts by OCPF, and were properly recorded; and the required candidate forms for the statewide election and SECF funding were properly filed and complete.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 8	OCPF has improved oversight and communication in some areas discussed in our previous report. However, there are still variances in the fund balances recorded by different agencies. As a result, candidates for statewide office may not receive the appropriate amount of SECF funds, and the SECF may not earn the correct amounts from investments.
Recommendations Page 9	<ol style="list-style-type: none">1. OCPF should implement a formalized fund balance reconciliation process, comprising the records of OCPF, the Office of the State Treasurer, and the Office of the State Comptroller, to ensure the accuracy of the fund balance.2. Communication among the agencies should be improved in regard to the fund balances and variances identified.3. Reconciliations should be completed at least quarterly in each non-election year and monthly in the statewide election year to ensure the accuracy of the fund balance invested during the election cycle and the fund balance for the statewide election distributions.
Finding 2 Page 10	Our previous audit finding, regarding candidate forms not being filed properly, 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 Chapter 10, Section 42C, of the General Laws, a post-audit of those accounts and transactions was conducted by the Office of the State Comptroller (OSC), an independent governing body. On March 16, 2015, OSC issued a letter to the director of OCPF regarding its post-audit involving activity in the SECF in relation to candidates for State Auditor for the 2014 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. The regulation 970 Code of Massachusetts Regulations 4.00 governs certain procedures a candidate must follow in order to have his or her 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 as Chapter 10, Sections 42 through 45, of the Massachusetts General Laws, was created to provide limited public financing for candidates seeking statewide office. Candidates may receive funding amounts based on the statewide office they seek in accordance with Chapter 55C, Sections 4 through 7, of the General Laws. For the 2014 statewide election, approximately \$1,055,121 was distributed from the SECF to qualifying candidates seeking the office of Governor,³ as detailed later in this section.

The SECF consists of all revenue received under Chapter 62, Section 6C, of the General Laws and all other amounts 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. Chapter 43, Sections 46 and 47, of the Acts of 1994 amended prior legislation, as of the tax year ended December 31, 1994, to state that taxpayer contributions from individuals and joint filers would no longer increase the amount of state tax owed or reduce a tax refund, a provision similar to those of the federal tax system.

The fund has undergone several changes to its name and provisions 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 Chapter 10, Sections 43 through 45, of the General Laws. The 2002 statewide election financing was processed under the MCEF laws with a new Chapter 10, Section 42, 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 funds.

Chapter 26 of the Acts of 2003, effective July 1, 2003, repealed the MCEF laws. The law rescinded the name change and required that fund balances be transferred back to the SECF; 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): This department reports the total contributions made by taxpayers to the Office of the State Comptroller (OSC) every month through an interface in the Massachusetts Management Accounting and Reporting System (MMARS) so that the SECF is properly credited.
- OSC: Chapter 10, Section 42A, of the General Laws requires OSC to certify the SECF balance available for disbursement to political candidates as of June 30 in a statewide election year. The funds are then divided: 50% is allocated to the primary election account and 50% to the state election account. The funds are 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 Chapter 10, Section 42, of the General Laws to deposit the fund

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: Chapter 55C, Sections 3 and 4, 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 stipulations for 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 on any year after a year in which elections were 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 2014 statewide election, the SECF activity included the following:

Funds Certified by OSC as Available for Distribution	\$1,235,905
Net Funds Certified and Distributed by OCPF to Candidates	1,055,121
Funds Reverted to SECF Account	<u>\$ 180,784</u>

In accordance with Chapter 10, Section 42A, of the General Laws, because of the limited amount of SECF funds available for the 2014 election, only candidates for the Governor’s race⁴ received public financing, distributed as follows:

Martha Coakley	\$ 605,844.83
Don Berwick	298,392.49
Jeff McCormick	150,884.00
Total	<u>\$1,055,121.32</u>

As of January 31, 2015, the SECF had a fund balance of \$219,695 for use in the 2018 statewide election (Appendix A).

4. The candidates for Governor and Lieutenant Governor run as a candidate team after the primary.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

Chapter 10, Section 42C, of the Massachusetts General Laws requires the Office of the State Auditor (OSA) to

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 Chapter 11, Section 12, of the General Laws, OSA has conducted an audit of certain activities of the State Election Campaign Fund (SECF) for the period February 1, 2011 through January 31, 2015.

We conducted this 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 the SECF's accounting records complete, accurate, and up to date?	No; see Finding <u>1</u>
2. Did the Office of Campaign and Political Finance (OCPF) complete fund disbursements for the 2014 election in compliance with regulations, including certifying candidates and qualifying amounts and properly recording disbursements and reversions?	Yes
3. Were required candidate and OCPF forms properly completed in compliance with state finance regulations and maintained on file?	Yes

To achieve our audit objectives, we gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls. In addition, we performed procedures such as the following:

- We reviewed the prior OSA report, No. 2011-0969-3S, for prior findings.
- We reviewed relevant statutes and regulations related to our audit objectives.

-
- We interviewed OCPF management and other personnel regarding SECF oversight and procedures, as well as procedures for qualifying candidate recipients in compliance with regulations.
 - We interviewed relevant management personnel at the Office of the State Treasurer (OST) to gain an understanding of the Massachusetts Municipal Deposit Trust (MMDT) fund investment activity and balance procedures.
 - We interviewed relevant management personnel at the Office of the State Comptroller to gain an understanding of the fund balance activity and procedures in the Massachusetts Management Accounting and Reporting System (MMARS).
 - We reviewed 8 randomly selected monthly taxpayer contribution balances, out of a total of 48 made during the audit period, from Department of Revenue (DOR) receipt records to determine whether OCPF properly and accurately prompted OST by e-mail to invest the funds and whether those funds were properly recorded in the MMDT and MMARS account balances.
 - To review the fund balances, we completed a MMARS query of fund activity, including receipts, interest, and disbursements.
 - We reconciled the 48 months of receipt balances from the audit period, reported by OCPF to DOR records, to the MMARS revenue query and the MMDT investment account statements.
 - We reviewed the MMDT investment statements from February 1, 2011 through January 31, 2015 for interest and other adjustments, created a schedule of monthly amounts for the fund balance review, and compared it to the MMARS fund activity balance to ensure the accuracy of the recorded MMDT balance as of June 30, 2014 and January 31, 2015.
 - To ensure the accuracy of the recorded SECF balance, we compared the MMARS fund activity to the MMDT activity for the period February 1, 2011 through January 31, 2015. We then completed our own schedule of fund activity, including monthly contribution receipts, investment income, disbursements, and fund balance, to compare the MMARS and the MMDT accounts.
 - We randomly selected two fund disbursements out of five that occurred during the audit period to test whether they were accurate, properly authorized, and properly recorded in MMARS.
 - We reviewed all five of the fund disbursements from the audit period to determine whether the candidate was properly qualified by OCPF, the amount was properly authorized, and the transactions were properly recorded in MMARS.
 - We verified that unspent candidate funds were properly processed and reverted back to the SECF balance in MMARS and the MMDT investment account.
 - To test for the compliance of candidate and OCPF forms, we selected two candidate files to review certain required OCPF and candidate forms for proper completion, signatures, and retention.
 - We reviewed 9 primary and 10 general-election candidates for the Governor / Lieutenant Governor race to determine whether required forms were filed, properly signed, and submitted in order for the candidates to receive public financing.

- We reviewed the files of all 32 eligible candidates to determine whether forms were properly completed and filed promptly in compliance with state election regulation timelines.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Prior Audit Finding Unresolved—Inaccurate State Election Campaign Fund Balance

Our previous audit report (2011-0969-3S) disclosed that improvements in communication and coordination were needed between the Office of Campaign and Political Finance (OCPF), the Office of the State Treasurer (OST), and the Office of the State Comptroller (OSC) to ensure the accuracy of the State Election Campaign Fund (SECF) balance recorded in the Massachusetts Management Accounting and Reporting System (MMARS) and OST's Massachusetts Municipal Deposit Trust (MMDT) investment account. Specifically, improvements were needed in timely notification regarding transfer of receipts to, and withdrawals from, the investment account at the OST. Although those communications have improved, we noted during our current audit that variances in the fund balances still existed because of a lack of timely periodic fund balance reconciliations by OCPF between the state agencies' accounts to identify variances within the account balances. As a result, candidates for statewide elections eligible to receive state election campaign funds may not receive the appropriate amounts from this fund. In addition, inaccuracies in the MMDT investment fund balance could result in higher or lower investment earnings than the fund should actually have received.

Our current audit revealed that OCPF has improved oversight and communication over the administration of the SECF with regard to receipts, investments, and disbursements, including receiving the Department of Revenue's monthly Blue Book⁵ of contribution receipts, notifying OST each month by e-mail of receipts to invest in the MMDT account, and receiving the MMDT investment account statements to track receipts and interest. However, the SECF balances still have unresolved variances resulting in inaccurate MMARS and MMDT fund balances. Our current audit showed that improvements were still needed in periodically reconciling the total fund balance between state agencies to ensure its accuracy.

Specifically, we noted the following:

- As of January 31, 2015, the MMARS fund balance was overstated by \$791.72; it should have been recorded as \$219,695.33. In addition, the OST MMDT account balance was overstated by \$615.73, though it should also have been \$219,695.33. This resulted from variances (identified in our prior

5. The Blue Book is the Department of Revenue's monthly report of revenue received by the state.

report) not being resolved and from variances between the MMARS and MMDT accounts in the current year not being reconciled.

- The MMARS balance as of January 31, 2015 is recorded as \$220,487.05, but the MMDT balance is recorded as \$220,311.06. The difference occurred because of a variance between OSC's and OST's recorded balances.
- For the statewide election balance on June 30, 2014, OSC certified the balance as \$1,235,905; however, OST collected \$1,244,215.95 (\$8,310.95 more than the certified balance). This net variance total resulted from the following:
 - A variance of \$1,074.34 in the MMARS balance was identified in the prior audit as excess interest posted to the MMARS balance, but the MMARS balance has not been adjusted accordingly. This \$1,074.34 was reflected in the recorded MMDT balance but not in MMARS.
 - A credit of \$9,263 for January 2011 was recorded individually in the MMDT investment account on March 4, 2011, but was also included in an adjustment of \$25,132.97 processed by OSC on November 20, 2012, resulting in a duplicate credit. The extra \$9,263 was reflected in the recorded MMDT balance but not in MMARS.
 - A \$122.29 interest credit adjustment posted to the MMDT account by OST was included in the \$25,132.97 adjustment on November 20, 2012; it was reflected in the recorded MMDT balance but not posted in MMARS.

Prior audits from the Office of the State Auditor have also revealed unreconciled variances resulting in inaccurate fund balances. This has been an ongoing issue through the past two election cycles. Although OCPF conveys communication between OST and OSC regarding monthly receipts and fund disbursements, there is no process in place to reconcile the total fund balance recorded per OCPF, the balance of OST's MMDT investment account, and the OSC MMARS balances to identify variances between records; therefore the variances continue uncorrected. Further, although these state agencies share information regarding the fund, there is insufficient communication regarding the total fund balance and any variances.

Recommendations

1. OCPF should implement a formalized fund balance reconciliation process, comprising OCPF, OST, and OSC records, to ensure the accuracy of the fund balance.
2. Communication among the agencies should be improved in regard to the fund balances and variances identified.
3. Reconciliations should be completed at least quarterly in each non-election year and monthly in the statewide election year to ensure the accuracy of the fund balance invested during the election cycle and the fund balance for the statewide election distributions.

Auditee's Response

While OCPF clearly does not have principal oversight for the fund, the Office of the State Auditor, in its report, has apparently determined that the Office should be primarily responsible for the reconciliation process and has recommended that OCPF should implement a formalized fund balance reconciliation process. OCPF disagrees that it should be the implementing agency of such a process, but in the interest of accuracy, it will create a process that includes a quarterly request in non-election years to all interested agencies to meet and ensure that the fund balance is accurate. That process will include a request for a monthly meeting during the first six months of an election year, and quarterly for the remainder of that year. A monthly meeting during the entire election year is unnecessary since the fund is certified for use on June 30 of said year.

Auditor's Reply

While OCPF may not have sole responsibility for the administration of this fund, it is one of the four agencies involved in its administration, was the subject of our audit, and plays a key role in the oversight of the SECF. In addition, OCPF is involved in communicating fund activity and tracking receipts and interest from the MMDT account statements. Consequently, it is essential that OCPF's control activities include a fund-reconciliation process to ensure the accuracy of the SECF balance. Based on its response, OCPF is taking the necessary measures to address our concern and should collaborate with OST and OSC to resolve this issue fully.

2. Prior Audit Finding Resolved—Candidate Campaign Expenditure Reports Not on File

During our previous audit, OCPF could not provide candidate forms and supporting schedules required to be filed for the 2010 state election in compliance with 970 Code of Massachusetts Regulations 4.13 et seq. for four candidates required to file a Form CPFA 30 (Post Primary Expenditure Statement) for the 2010 primary election, and one candidate form lacked the required supporting schedules. We recommended that OCPF implement controls and procedures to ensure that forms were properly filed in compliance with requirements and documents were properly tracked for receipt and secured on file. During our current audit, we noted that OCPF had implemented controls and procedures over the forms, including a database worksheet to track forms received by candidates (including receipt dates), and maintains files for each candidate containing the forms received. All required forms were located on file. This issue has been resolved.

APPENDIX A

State Election Campaign Fund⁶ Revenue, Expenses, and Changes in Fund Equity February 1, 2011 through January 31, 2015

Fund Equity Balance—February 1, 2011	<u>\$ 242,040</u>
Revenue	
Taxpayer Contributions—February 1, 2011 through January 31, 2015	<u>1,026,873</u>
Investment Income	
Investment Income—February 1, 2011 through January 31, 2015	5,621
Additional Interest Per the Office of the State Treasurer—Prior Audit Adjustment	122
Additional Interest Not Credited to Massachusetts Management Accounting and Reporting System—February 1, 2011 through January 31, 2015	160
Total Non-Taxpayer Contributions	<u>5,903</u>
Total Fund Equity, Revenue, and Investment Income	<u>1,274,816</u>
Expenses:	
Distributions to Candidates—July 1, 2014 through October 31, 2014	1,065,705
Less: Repayment by Candidates	(10,584)
Total Expenses	<u>1,055,121</u>
Fund Equity Balance—January 31, 2015	<u>\$ 219,695</u>

Note: For the 2014 statewide election, the State Election Campaign Fund disbursed \$1,055,121 in limited public financing to qualifying candidates.

6. 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, 2011 through January 31, 2015 are solely for informational purposes.

APPENDIX B

State Election Campaign Fund Taxpayer Participation Rates and Amounts Collected⁷

Tax Year	Number of Donations	Participation Rate	Amount Collected
2010	195,037	5.59%	\$272,463
2011	184,808	5.24%	\$258,910
2012	176,555	4.93%	\$247,366
2013	175,552	4.89%	\$245,108

7. Source: Massachusetts Department of Revenue, "Massachusetts Office of Campaign and Political Finance Report on the Limited Public Financing System for Candidates for Statewide Office in the 2014 Election."