Politically Connected Governments*

Christine Cuny Jungbae Kim Mihir N. Mehta

May 7, 2020

Abstract

This paper examines the consequences of powerful political connections for local governments. We find that governments located within the constituencies of, and thus connected to, powerful congressional members reduce their stewardship over public resources. Using plausibly-exogenous declines in the power of congressional representation, we show that the effect is causal. To better understand why connected local governments can reduce stewardship, we study electoral characteristics. Our findings suggest that the increased resources that come with powerful congressional representation allow local-government officials to reduce stewardship without material adverse effects on their reelection prospects. In sum, our findings provide evidence of a cost of political connections: they weaken local governments' incentives to act in a socially optimal manner.

Keywords: Governance, Stewardship, Political Economy, Financial reports, Congress, Political Connections, Audit

JEL Codes: G18, G38, H1, H7, H83, M40, M42

*Accepted by Christian Leuz. We are grateful for suggestions from an anonymous reviewer, Beth Blankespoor, Hans Christensen, Anna Costello, Wayne Guay, Rick Hall, Raffi Indjejikian, Venky Nagar, Anya Nakhmurina, Sugata Roychowdhury (discussant), Stephen Ryan, Marshall Vance, Joseph Weber, and Frank Zhou. We also thank participants at the Colorado Accounting Research Conference, London Business School Trans-Atlantic Doctoral Conference, New York University Summer Camp, Stanford University, University of Chicago, University of Michigan, University of Pennsylvania, and University of Washington for helpful comments. We thank Rohit Singla and DJ Stockbridge for research assistance. Mehta acknowledges funding from the Paton Accounting Center at the University of Michigan. This paper was previously circulated under the title "Friends in high places: An examination of politically connected governments." An Online Appendix to this paper can be downloaded at http://research.chicagobooth.edu/arc/journal-of-accounting-research/online-supplements.

1 Introduction

US local governments (i.e., cities and counties) oversee substantial resources that they use to provide essential public services such as water, sanitation, emergency response, roads, and education.[1] Ineffective management of these resources can have adverse effects on local citizens' welfare and local economic development (Wolfensohn, 1996; Ugur and Dasgupta, 2011). Thus, it is important to understand the factors that affect local governments' stewardship, which we define as their efforts to oversee and appropriately deploy public resources.

One factor that can affect a local government's stewardship is the power of its representation in Congress (i.e., its political connectedness).[2] Members of Congress maximize their chances of reelection by channeling federal resources and policy benefits to their constituents (Shepsle and Weingast, 1994). As a member rises to power in Congress, the magnitude and breadth of the benefits that they allocate to their constituency grows, directly and indirectly increasing the resources available to local governments within the constituency (e.g., Cohen et al. (2011)). This surplus of resources could influence local governments' governance efforts. In this paper, we examine whether and how local government stewardship changes in the presence of powerful congressional representation.

Ex ante, the effect of powerful congressional representation on local governments' stewardship is unclear. On the one hand, stewardship may be *weaker* when the local government is connected to powerful congressional members. Preferential access to federal resources and

[1] Commensurate with their important role, local governments were responsible for spending over \$1.5 trillion of government funds in 2015. To put this amount into perspective, consider that in the same year, US federal government revenues were approximately \$3.4 trillion.

[2] Local governments are "politically connected" to members of Congress in the sense that they both represent the same constituents. Thus, we use the terms "connection" and "representation" interchangeably throughout this paper.

the resulting improvement in the quality of services for local citizens could decrease voters' attention to stewardship. In turn, reduced voter attention to stewardship can reduce both local government officials' incentives to supply stewardship and congressional members' incentives to demand stewardship from their connected local governments.

On the other hand, local governments' stewardship may be *stronger* when the government is connected to powerful congressional members. These local governments are likely subject to greater scrutiny in the form of government audits and media attention. Higher quality stewardship reduces negative publicity and political challengers' ability to argue that incumbent politicians are misusing resources (Brender, 2003; Brender and Drazen, 2008).

Our basic concept of stewardship is the proper oversight and use of public funds. To operationalize this concept, we introduce a novel measure of stewardship. The Governmental Accounting Standards Board (GASB) highlights that financial and control system audits help local governments demonstrate "accountability to constituents, including stewardship over public resources." In this spirit, we measure stewardship as the first principal component of five metrics from local governments' audits.[3]

Using a sample of 56,042 observations between 1999 and 2016 that represent 7,166 unique local governments, we show that local governments' stewardship declines in the presence of powerful congressional representation. In economic terms, a one-standard-deviation increase in the strength of a local government's representation on the most influential congressional committees correlates with a 1.8 to 2.6 percent decline in each of the five components of

[3]The five metrics are: 1) an unmodified audit opinion; 2) no material weakness in control systems; 3) no significant deficiency in control systems; 4) no material non-compliance with applicable laws and regulations; and 5) the speed with which the auditor completes the audit. The coefficient of interest is similar in magnitude and the inference is the same using several alternative measures of stewardship.

stewardship.[4]

To establish causality, we use powerful politicians' unexpected departures from Congress (due to either sudden death or cabinet appointment) that dramatically decrease the power of connected local governments' representation in Congress. The sudden departure of a powerful member reduces the federal benefits available to local governments in their district (or state) and increases these governments' incentives to improve oversight of their more limited resources. We show that following an unexpected departure, connected local governments improve the stewardship of their resources. The evidence indicates that the power of congressional representation causally affects local governments' stewardship.

We also investigate channels through which the inverse relationship between stewardship and powerful congressional representation can manifest. In particular, reduced stewardship in the presence of a powerful connection could be driven by intentional, nefarious efforts by local government officials to misappropriate funds for personal gain. It could also be driven by ineptitude, leading to the unintentional misuse of funds. Our cross-sectional evidence is consistent with misappropriation; we find that the negative link between powerful congressional representation and local governments' stewardship attenuates in areas with a limited history of corruption.

Our study also provides insights into the role of elections in motivating local governments to provide stewardship. We previously discussed that a negative relation between stewardship and powerful congressional representation could be driven by reduced voter attention to stewardship. We support this explanation by showing that the negative relation atten-

[4]We present economic significance using the individual components of local government stewardship because our summary measure of stewardship is mean-zero, which makes it difficult to meaningfully interpret.

uates in politically competitive electorates. In these electorates, political challengers and the media are more likely to scrutinize the incumbent politician's effectiveness in managing local government resources. Therefore, voters in politically competitive areas are less likely to reduce their attention to stewardship in the presence of a powerful congressional member.

Next, we study election outcomes to better understand whether local government officials have election-related incentives to influence stewardship. We find that although stewardship correlates positively with local officials' vote share, congressional power and federal resources directed to the local area are more strongly correlated with local officials' vote share.[5] This finding suggests that local officials can reduce their supply of stewardship, and instead rely on the benefits of powerful congressional representation, without material adverse effects on their reelection prospects.[6]

Our study is relevant to the academic literature examining political connections, for several reasons. First, we show a cost of political connections, whereas prior studies generally show the benefits.[7] Second, we provide evidence about a largely unexplored type of "political connection" that manifests through the representation of shared constituents. In particular,

[5]These election tests rely on the sub-sample of local governments for which local election data is available, and the results should not be interpreted causally.

[6]We also study congressional members' election outcomes. We find that the stewardship of local governments in their constituencies is uncorrelated with congressional members' vote share. Thus, members of Congress do not appear to have election-based incentives to demand stewardship from local governments within their districts and states. Instead, our findings suggest that powerful congressional members can rely on their ability to allocate resources to their constituents to obtain reelection.

[7]Researchers have shown that corporate political connections are associated with higher profitability (Amore and Bennedsen, 2013) and receipt of government contracts (Tahoun, 2014), reduced likelihood of facing IRS tax audits and SEC investigations for financial misconduct (Hunter and Nelson, 1995; Correia, 2014), higher firm-specific investment (Wellman, 2017), more favorable accounting standard setting outcomes (Ramanna, 2008), greater propensity to hire a Big N auditor (Guedhami et al., 2014), financing choices (Tahoun and van Lent, 2018), and better merger antitrust review outcomes (Mehta et al., 2020). Two papers that document costs of political connections are (Leuz and Oberholzer-Gee, 2006) and (Bertrand et al., 2018). (Leuz and Oberholzer-Gee, 2006) show that politically connected firms make financing decisions that are potentially suboptimal in the long-run. (Bertrand et al., 2018) show that connected firms misuse their resources to help politicians.

local government officials and members of Congress each advance their political success by ensuring their shared constituents are satisfied. Third, our paper draws attention to the idea that a range of organizations are affected by political connections. By contrast, prior studies have largely focused on the effects of political connections for corporations. We are the first to provide evidence about the effects of powerful political connections in the context of US local governments.

Our study highlights room for improvement in the stewardship over public resources at the local government level, despite recent reports that show the US is in the bottom 10 percent of corrupt countries[8]. As such, the study is relevant to the literature examining state and local government reporting and governance choices (e.g., Zimmerman 1977; Gore 2004; Beck 2018).[9] Our findings complement this literature by showing a distinct channel – powerful representation in Congress – that adversely affects local governments' governance efforts.

2 Background and data

The United States is comprised of 3,142 counties and 19,492 municipalities. These local governments are responsible for managing the resources that are required to provide a broad range of public services.

[8]Source: Transparency International Corruption Perceptions Index 2017.

[9]Our study particularly complements recent papers that focus on the political determinants of governance characteristics. For instance, Kido et al. (2012) find that election-related incentives are positively associated with state governments' accounting manipulation. Naughton et al. (2015) show that politicians use accounting discretion to mask the size of pension deficits during periods of fiscal stress. Gore (2015) finds that governments obscure the number of resources available in the presence of strong labor unions and Cuny (2016) shows that politically-competitive county governments are more likely to withhold negative news than those that are not politically competitive. Costello et al. (2017) find that state governments undertake real actions such as increasing taxes, cutting expenditures, and selling assets to meet balanced budget requirements.

2.1 Stewardship

We follow Merriam-Webster and define stewardship as "the careful and responsible management of something entrusted to one's care." In the context of local governments, stewardship refers to whether officials carefully manage their resources for the benefit of citizens. Although this is an important issue, limited large-sample empirical evidence exists about the determinants of local stewardship. One possible reason for this lack of evidence is that local stewardship is difficult to measure. We overcome this measurement challenge by using audit outcomes.

2.1.1 Local Governments and Single Audits

To assure stakeholders that public funds are properly managed, all entities receiving over \$750,000 of direct federal allocations are required to undergo an annual Single Audit. We describe the Single Audit in detail in Appendix B. The results of the Single Audit must be reported to the Federal Audit Clearinghouse within nine months of the fiscal year-end.[10]

To provide a sense of the type of information contained in the audit reports, Appendix C provides examples of detailed adverse findings from several audit reports filed in 2016.[11] The city of Petersburg, Virginia's expenditures exceeded appropriations. The city of Elizabeth, New Jersey did not report several large sub-awards from the Department of Housing and Urban Development. The city of Oxnard, California received a qualified audit opinion because the auditors were unable to obtain sufficient audit evidence to support the capital

[10] Although the audit results are required to be made public, there is no similar requirement for the underlying financial statements during our sample period. Therefore, only the audit outcomes are easily observable for a large set of local governments.

[11] The text of the audit reports is only available for fiscal years that began on or after December 26, 2014.

asset balances and the related depreciation expense. These examples help to illustrate that adverse audit outcomes demonstrate a lack of stewardship over public resources.

The Federal Audit Clearinghouse maintains a Single Audit database, in which the results of Single Audits are available to the public. The database includes the following relevant information: the fiscal year-end, the date of the audit report, the entity's direct federal expenditures, the identity of the auditor, the outcome of the auditor's risk assessment of the auditee, the audit opinion for the financial statement and compliance audits, and whether the auditor identified a material weakness or significant deficiency for each audit. We use these measures to evaluate stewardship of funds because of the breadth of coverage, the long time-series, and the availability of the data.

We identify all US cities and counties (entity types 100 and 200) in the Single Audit database for all years between 1999 and 2016. Next, we identify auditee ZIP Codes for each local government in the Single Audit database. The US Census provides ZIP Code level mapping to congressional districts.[12] We use this mapping to match each local government observation to a congressional district. We remove all local governments that report ZIP Codes that cross congressional district boundaries. Our final sample consists of 56,042 local government-year observations across 7,166 unique local governments.[13]

We collect all the financial statement audit outcome variables available in the Single Audit database that in aggregate, measure stewardship. First, we create an indicator that equals one if local government g's auditor issues an unmodified audit opinion on the year t financial statements (i.e., no adverse, qualified, or disclaimed opinion) and zero otherwise

[12]The ZIP Code mapping dataset is from https://www.census.gov/geo/maps-data/.

[13]The sample of 7,166 unique local governments represents approximately one-third of the cities and counties in the US. The remaining local governments do not receive enough direct federal funding to participate in the Single Audit database.

($No\_ModOpinion_{g,t}$). Panel A of Table 1 shows that 88 percent of government years are characterized by an unmodified audit opinion.

Second, we create an indicator equal to one for the 76 percent of government years in which the auditor does not identify a material weakness in the internal controls over financial reporting ($No\_MatWeakness_{g,t}$). Third, we create an indicator equal to one for the 63 percent of government years in which the auditor does not identify a significant deficiency in the internal controls over financial reporting ($No\_SigDeficiency_{g,t}$).[14] Fourth, we create an indicator equal to one for the 91 percent of government years in which the auditor does not identify material noncompliance with the laws or regulations imposed by states, federal agencies, and bondholders ($No\_NonCompliance_{g,t}$). Fifth, the time lag between period-end and the date of the audit report is divided by 365 and multiplied by negative one, so that higher values represent higher quality ($Timeliness_{g,t}$). The time-series variation in this measure captures the extent of problems the auditor encounters in the course of completing the audit. The average audit is completed 259 days after fiscal year-end.

To create a summary measure of local stewardship, $Stewardship_{g,t}$, we take the first principal component of these five measures.[15] Panel B of Table 1 illustrates that these variables

[14] A material weakness is a deficiency, or a combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely basis. A significant deficiency in internal controls is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We treat these internal control outcomes as separate because 18 percent of our government-year observations are characterized by both a significant deficiency and a material weakness. Nonetheless, our results remain significant at the 1 percent level when we measure the internal control outcomes (material weaknesses and significant deficiencies) as a single ordinal variable.

[15] Audit outcomes in the governmental sector differ from those in the public sector along two important dimensions. First, internal control weaknesses are more common in governments than in firms. While 24 percent of our sample has internal control weaknesses, Ge et al. (2017) find that only 10 percent of small firms (i.e., firms with a public float of less than $75 million) disclose internal control weaknesses over an eight-year window between 2007 and 2014. Second, governmental audit findings are less sticky. As part of the Single Audit, governments respond to each audit finding and develop a plan for remediation. Moreover, repeat findings are highlighted as such, which illustrates the emphasis on correction. Indeed, 31 percent of our government years are characterized by a change in $No\_ModOpinion$, $No\_MatWeakness$, $No\_SigDeficiency$,

are strongly correlated with one another. Material weaknesses and significant deficiencies are the strongest determinants of $Stewardship_{g,t}$. However, the correlations between the components of $Stewardship_{g,t}$ are imperfect, which indicates these constructs capture distinct elements of local governments' stewardship.

To provide some context for how *Stewardship* varies around the US, Table 2 ranks the 50 states by the average level of *Stewardship*, from highest to lowest. Local governments in Washington, Oregon, and Delaware demonstrate the strongest average *Stewardship*. By contrast, the local governments in West Virginia, Tennessee, and Mississippi demonstrate the weakest *Stewardship*, as measured by aggregating the Single Audit variables.

To alleviate concerns about the sensitivity of our tests to our primary measure, we also consider each component of *Stewardship* individually.[16] Moreover, Internet Appendix A describes three additional alternative measures and presents results using each of them as our proxy for stewardship. First, we create a summary measure that sums together the components of *Stewardship*. Second, we examine the outcomes of compliance audits that are specific to the federal funds directly allocated to a local government. Third, we construct a search-based measure of stewardship that counts news articles that mention a local government's corrupt behavior each year.

2.2 Congressional Representation

A well-developed literature in political economy shows that members of Congress support their constituencies in various ways, including projects, programs, grants, earmarks, and

or *No_NonCompliance*.

[16] For example, principal component analysis was developed for continuous variables and may not be ideally suited for use with binary variables.

allocations. More powerful members of Congress have a greater ability to support their constituency. This ability stems from two sources: seniority and membership on powerful congressional committees. Levitt and Poterba (1999) argue that senior committee members can determine a committee's actions and have the greatest ability to allocate federal government resources to their constituencies. They find that federal expenditures positively correlate with congressional seniority. However, Edwards and Stewart III (2006) find that not all committees are equally influential. Cohen et al. (2011) corroborate this idea and show that serving on relatively powerful committees increases congressional members' ability to direct federal resources to their states and districts.

2.2.1 Congressional Representation Data

Following prior work, we measure the strength of a local government's representation in Congress based on the seniority of related House members and Senators that serve on the 10 most powerful committees in each chamber. We also present results for the top 1, top 3, and top 5 committees, to be consistent with Cohen et al. (2011). We base the determination of the top 10 committees on the methodology from Edwards and Stewart III (2006).[17] They use transfers to each congressional committee as a proxy for committee power rankings. For instance, a member of Congress switching from committee A to committee B means that the congressional member values the latter more highly than the former. The demand for a given committee is the proxy for that committee's power.[18]

[17]Members of Congress serving on non-top 10 committees are also likely to have opportunities to channel federal resources to their constituencies. However, attempts to identify the most powerful of these other committees would be arbitrary.

[18]The 10 most powerful Senate committees using this method are Finance, Veterans Affairs, Appropriations, Rules, Armed Services, Foreign Relations, Intelligence, Judiciary, Budget, and Commerce. Similarly, the most powerful House committees are Ways and Means, Appropriations, Energy and Commerce, Rules,

We use congressional data from Professor Charles Stewart III to link House members and Senators to local governments located within their constituencies. The sample period covers the 105th Congress to the 114th Congress. We also collect data on the congressional committee assignments, appointment dates, and departure dates for each member of Congress. We collect the congressional member's appointment year in each chamber of Congress to calculate the member's relative seniority.

Each local government is connected to three members of Congress (two Senators and one House Representative). We measure each congressional member's power as the product of the member's tenure in Congress (in years), multiplied by the number of Top X committees on which the member sits ($PolRepX$). X is set to one of the 1, 3, 5, or 10 most powerful committees. We sum together *PolRepX* for the local government's three connected members of Congress and divide it by 100. We label this variable $CongressRepX_{g,t}$. Appendix D provides an example of the *CongressRepX* calculation for Shelby County, Alabama.

Panel A of Table 1 provides descriptive statistics for *CongressRepX*. Local governments in our sample are connected to members of Congress with 63 aggregate years of service on *Top10* committees, 33 years on *Top5* committees, 21 years on *Top3* committees, and 6 years on *Top1* committees. In Internet Appendix A, we consider the effects of powerful representation on non-top 10 committees and also ensure that our results are robust to alternative measures of representation.

Panel B of Table 1 shows that representation on powerful committees significantly negatively correlates with *Stewardship* and its components. Although admittedly anecdotal, the

International Relations, Armed Services, Intelligence, Judiciary, Homeland Security, and Transportation and Infrastructure.

recent water crisis in Flint, Michigan provides illustrative evidence of this negative correlation. At the commencement of the crisis in 2014, Flint had a $CongressRep1$ of 13 and a $CongressRep10$ of 96. Both of these values are above the 75^{th} percentile in our sample, indicating Flint had strong congressional representation in 2014. Flint's *Stewardship* was -0.23 in 2014 and -0.21 in 2015, both below our sample mean of 0.00.

2.3 Empirical Methodology

We estimate the following OLS specification to examine whether changes in local stewardship of funds are linked to changes in the power of congressional representation:

$$\begin{aligned} Stewardship_{g,t} = \alpha + \beta_1 CongressRepX_{g,t-1} + \beta_2 Bond_{g,t} + \beta_3 FederalExp_{g,t} \\ + \beta_4 Subsidy_{g,t} + \beta_g + \beta_t + \varepsilon_{g,t} \end{aligned} \tag{1}$$

where $Stewardship_{g,t}$ measures local government g's stewardship in year t. $CongressRepX_{g,t\text{-}1}$ measures the power of congressional representation in year *t-1*, and is equal to one of *CongressRep1*, *CongressRep3*, *CongressRep5*, or *CongressRep10*.

Because bond issuances can influence stewardship incentives, we collect data on local government bond issuances that occur during our sample period from the Thomson-Reuters SDC Platinum database. We hand-match the data from Thomson Reuters to the Single Audit database by local government name using the issuer's (auditee's) name, state, city, and ZIP Code. $Bond_{g,t}$ is an indicator equal to one if local government g issues a new bond in year t.

Political science models of nonpartisan distributive politics show that members of Congress attempt to maximize their chances of reelection by ensuring that federal resources and policy benefits are channeled to their constituents (e.g., Shepsle and Weingast, 1994). Although we cannot empirically observe all of the federal benefits that can accrue at the local level (e.g., capital projects, programs, grants, earmarks, and favorable federal policies), we obtain data on two potential benefits for a large sample of local governments during our sample period. First, we obtain federal expenditures from the Single Audit database. We use these federal fund allocations (*FederalExp*) to proxy for direct financial support from the federal government to local governments. Second, we examine corporate subsidies from the federal government to local companies to proxy for indirect financial support. Good Jobs First provides a list of company-specific financial assistance such as grants and tax credits. We obtain each recipient's headquarters information from COMPUSTAT and aggregate the dollar amount of corporate subsidies received in each year at the county-level (*Subsidy*).

These federal allocations can themselves affect local governments' ability to maintain stewardship over public resources. Hence, we control for $FederalExp_{g,t}$ and $Subsidy_{g,t}$ in all regressions. $FederalExp_{g,t}$ is the natural logarithm of directly-allocated federal funds expended by local government g in year t. $Subsidy_{g,t}$ is the natural logarithm of federal subsidies to corporations headquartered within the jurisdiction of local government g in year t. We set government years with missing subsidy data to zero and include an indicator equal to one if the data is missing in all regressions.

Because the treatment (congressional representation) varies at the district level, standard errors are clustered by congressional district. We include local government fixed effects and year fixed effects in all specifications so that we do not need to otherwise control for time-invariant local government characteristics that could affect stewardship.

3 Results

3.1 Primary Results

Panel A of Table 3 presents the results from the multivariable tests that examine the link between stewardship and powerful congressional representation. The coefficient on *CongressRep1* in Column (1) is negative and statistically significant. This finding is consistent with the idea that local stewardship of funds weakens in the presence of senior congressional representation on powerful committees. The evidence in Columns (2) through (4) supports this finding across representation on *Top3*, *Top5*, and *Top10* congressional committees.

Economically interpreting these coefficients is difficult because *Stewardship* is mean-zero. To provide some insights about the economic effects, Panel B of Table 3 presents our primary regression results (from Equation (1)), in which we replace $Stewardship_{g,t}$ with each of the five components of $Stewardship_{g,t}$. In the interest of brevity, we present results for two of the primary independent variables: *CongressRep3* and *CongressRep10*.[19] We find that a one-standard-deviation increase in the power of congressional representation on a top 3 committee reduces the likelihood of an unmodified audit opinion by 1.8 percent, no material weakness by 2.3 percent, no significant deficiency by 2.4 percent, no material non-compliance by 1.8 percent, and report timeliness by 2.6 percent.

In terms of control variables, the coefficient on *FederalExp* is negative but generally statistically insignificant, and the coefficient on *Subsidy* is generally significantly negative, indicating that additional resources add complexity that can be difficult to manage. In sum,

[19]Results are consistent across the remaining independent variables of interest (*CongressRep1* and *CongressRep5*, untabulated).

the results from Table 3 provide evidence that local governments in the constituencies of powerful congressional committee members maintain relatively weak stewardship of funds.

3.2 Identification

The evidence provided thus far is associational. Omitted variables, such as local economic conditions, could exist that jointly determine changes in the power of representation on powerful committees and changes in a local government's stewardship of funds. We use departures from Congress to measure plausibly exogenous declines in representation on powerful congressional committees.

The newly tenured congressional member that takes the seat of a recently-departed powerful member has the lowest seniority ranking and thus the weakest ability to influence allocations to his or her constituency (e.g., Levitt and Poterba (1999)). Therefore, we expect local governments within the affected constituency to be more careful with the limited funds allocated to them (i.e., to improve stewardship).

To ensure that we can attribute changes in stewardship to changes in congressional representation, our departure cases need to occur for reasons that are likely uncorrelated with the factors that affect local stewardship of funds.[20] We identify members that depart from Congress for one of two reasons. First, the member unexpectedly dies while in office. We define death as unexpected if a member of Congress dies within six months of announcing

[20]Recent studies impose varying criteria to determine appropriate congressional departure cases. Bertrand et al. (2018) use the departures of House members that occur because of death, resignation, or primary defeat to identify variation in corporations' charitable donations within congressional districts. However, in our setting, poor underlying state or district economic conditions may affect both congressional reelection prospects and local government incentives to ensure funds are properly used and controlled. Mehta et al. (2020) use politician transfers from Judiciary committees to more powerful committees to identify variation in the ability of corporations to obtain political influence. Because committee transfers do not affect a congressional member's link to his or her constituency, such an approach is not feasible in our setting.

an illness. Second, the President appoints the member to a cabinet position that results in their resignation from Congress. Departures for these two reasons remove the congressional member's ability (and incentive) to allocate resources to their constituencies.

Using Factiva and LexisNexis, we identify 21 unexpected death events and two cabinet appointments during our sample period.[21] In Internet Appendix B, we provide details for these 23 cases, including the congressional member's name, chamber of Congress, constituency, year of departure, the reason for departure, and the number of local governments affected by the departure. In total, the departing congressional members are connected to 695 unique sample local governments.

We create an indicator, $DepartX_{g,t\text{-}4\ to\ t\text{-}1}$, equal to one for local governments in the constituency of a congressional member serving on a powerful committee who exogenously departed Congress in the prior four years (i.e., from t-4 to t-1), and zero otherwise. We use a four-year window because this is the average of the length of Senate terms (6 years) and House terms (2 years). The value of X indicates whether the departure represents a member of Congress serving on the top 1, 3, 5, or 10 most powerful congressional committees. Approximately 1 percent of our local government years are characterized by the departure of a *Top1* committee member, and 3 percent are characterized by a *Top10* committee member's departure.

Table 4 presents the regression results. We replace the independent variable of interest from Equation (1), *CongressRepX*, with *DepartX*. A positive coefficient on *DepartX* indicates that local governments exhibit stronger stewardship after they experience a plausibly

[21] Our empirical results for the departure tests remain statistically significant at the 5 percent level if we exclude the two departures due to the cabinet appointments and only use the 23 unexpected death cases. Our empirical results remain significant at the 1 percent level if we include Hillary Clinton's 2008 cabinet appointment as an unexpected departure from Congress. We tabulate these results in Internet Appendix B.

exogenous loss of an influential connection to a powerful congressional committee (and thus a loss of the benefits that come with powerful representation).

The coefficients on *DepartX* are all positive and statistically significant.[22] This evidence indicates that declines in the power of congressional representation causally increase local stewardship. In economic terms, the loss of representation on the top-ranking congressional committee (i.e., *Depart1*) correlates with a 42 percent improvement in stewardship, relative to the median level of *Stewardship*. The loss of representation on a top 10 committee correlates with a 29 percent improvement in stewardship. In sum, local governments within the constituency of a recently departed congressional member are more careful with the limited funds allocated to them.

In additional analyses presented in Internet Appendix B, we run our main specification (Equation 1) using exogenous departures as an instrument for congressional representation. We find that *DepartX* is a strong instrument for *CongressRepX* in three of four specifications (the Weak Instrument F-statistic ranges from 13.24 to 31.92), and the coefficient on the instrumented variable in the second stage is statistically significant at the 1 percent level across all specifications. In sum, the evidence in this section provides support of a causal link between the power of local governments' representation in Congress and local government stewardship.

[22]In untabulated analyses, we find that our results are statistically significant at the 5 percent level or better in 7 out of 8 specifications when using two alternative clustering levels: district-year and state.

3.3 Potential Channels Through Which Reduced Stewardship Manifests

Our main results show a negative relation between stewardship and the power of congressional representation. This reduction in stewardship is consistent with local government officials' intentional misappropriation of public resources, but it is also consistent with ineptitude, leading to unintentional misuse of funds.

To differentiate between these possibilities, we explore the variation in the local area's culture of corruption. If our results vary along this dimension, the reduction in stewardship is consistent with misappropriation. Therefore, we study two dimensions of corruption that can be measured at the local level: prevalence of court cases and instances of political fraud.

We collect the number of criminal and civil court filings for each US court district between 1998 and 2017 from the Federal Court Management Statistics.[23] $Court\ Cases_c$ is the number of civil and criminal court cases (in thousands) in county c's U.S Court District from 1998 to 2017.[24] Table 1 shows that the average court district in our sample has 92,630 court cases over this period.

Next, we follow Parsons et al. (2018) and collect the number of political fraud cases for each court district between 1998 and 2017 from the US Department of Justice Reports to Congress on the Activities and Operations of the Public Integrity Section.[25] $DOJ\ Enforcements_c$ is the number of federal, state, and local public officials convicted of a corruption-related crime in county c's U.S. Court District from 1998 to 2017. Table 1 shows

[23]http://www.uscourts.gov/statistics-reports/analysis-reports/federal-court-management-statistics.

[24]We assume that because of the variation in the number of court districts across states, the geographic area and population covered by each court district is approximately similar, eliminating the need for scaling.

[25]https://www.justice.gov/criminal/pin.

that the average court district in our sample has 226.29 DOJ enforcements against public officials over this period.

Low values along these two dimensions represent relatively lower levels of corruption.[26] To examine whether our results vary based on the level of local-area corruption, we interact $CongressRepX_{g,t\text{-}1}$ from Equation (1) with an indicator, $LowCorrupt_c$, that equals one for a county in the lowest quartile of each of measure. A positive coefficient on the interaction term indicates that for a given level of powerful congressional representation, local governments in low corruption environments display better stewardship.

Panel A of Table 5 presents the regression results. In the interest of brevity, we only present the results for the Top 3 and Top 10 committees.[27] The results show that a culture of anti-corruption at the local level strongly offsets local governments' propensity to reduce their stewardship in the presence of powerful congressional representation. The coefficient on *CongressRepX*LowCorrupt* is positive and significant in all four columns.

In Columns (1) and (2), the sum of the coefficients on *CongressRepX* and *CongressRepX*LowCorrupt* are not statistically or economically different from zero. This insignificance indicates that local governments in counties with a limited history of court cases do not reduce stewardship in the presence of powerful congressional representation. Similarly, Columns (3) and (4) show that local governments in counties with a limited history of political fraud do not reduce stewardship in the presence of powerful congressional representation.

Internet Appendix A provides additional support for the misappropriation of resources.

[26]Our measures of corruption are time-invariant because they are intended to capture a culture of corruption in the local area. In Internet Appendix C, we find that our results are qualitatively similar when using time-varying measures of *Court Cases* and *DOJ Enforecements*.

[27]Untabulated results indicate that the inferences are similar for the Top 5 committees.

In particular, we find that our main results are statistically significant at the one (ten) percent level in 2 out of 4 (1 out of 4) specifications and statistically significant at the ten percent when we measure stewardship as the count of news articles that mention local governments' corruption.

We next examine whether ineptitude can explain reduced stewardship in our setting. If this is the case, our findings should be pronounced among the smallest local governments. Small governments are the least likely to have adequate resources allocated to their accounting systems and personnel. Therefore, those governments are least equipped to handle the influx of funds that arise from powerful congressional representation.

We obtain the census population data by ZIP Code from incomebyzipcode.com and use the ZIP Codes from the Single Audit database to link population to the cities and counties in our sample. We create an indicator equal to one for local governments in the lowest population quartile, *Small*.[28]

Panel B of Table 5 shows that our main results are not pronounced among the smallest local governments. By contrast, our results attenuate for these small local governments. This finding refutes the idea that ineptitude can explain the reduction in stewardship. In sum, the results in this subsection indicate that the negative link between stewardship and powerful congressional representation is due to local government officials' misappropriation of public resources for personal gain.

[28]The mean of *Small* is slightly larger than 25 percent because we also identify cities and counties with missing population information as "Small." We assume that those governments with missing data are likely to be the smallest municipalities.

3.4 Additional Analyses

We undertake several additional analyses related to the link between the power of congressional representation and local stewardship. First, we consider whether the connections between local officials and congressional members in our setting are personal. These parties are "connected" in the sense that they both represent the same constituents and thus have shared political representation. However, in many settings, connections represent personal, quid-pro-quo relationships between two parties (e.g., Correia (2014); Tahoun and van Lent (2018)).

The analyses that are tabulated in Internet Appendix D show the connections in our setting are unlikely to be personal. In particular, we find that powerful congressional members do not protect local officials with low stewardship from prosecution by the Department of Justice. Furthermore, we find that congressional members provide more direct funding to local areas to which they are aligned politically rather than to their hometown. Finally, we find that local governments that improve stewardship are no more likely to receive direct federal funding than those that do not.

Next, we examine the role of bondholders, auditors, and the media as monitors over local governments' stewardship. The findings tabulated in Internet Appendix E indicate that the presence of bondholders, high-quality auditors, and the media marginally attenuates the likelihood that local governments reduce stewardship in the presence of powerful congressional representation.

We also discuss a battery of robustness results in Internet Appendix F. In short, we ensure our results are not attributable to increased auditor effort to detect poor stewardship, not solely driven by powerful congressional representation on the two appropriations committees, which have the strongest ability to distribute financial benefits, are not driven by the largest states, and are similar (albeit at lower significance levels) when we include state-by-year fixed effects that remove the effects of time-varying state-level characteristics.

4 Mechanism

We examine whether reduced voter attention to stewardship is a possible mechanism that can explain why the link between powerful congressional representation and local stewardship is negative. We expect the reduction in stewardship in the presence of powerful congressional representation to attenuate in local areas that are politically competitive. In these areas, political challengers and the media are more likely to highlight the incumbent politician's ineffectiveness in managing local government resources. Therefore, voters are more likely to be aware of poor stewardship when political competition is high.

We gather election outcomes at the county-level from the CQ Voting and Elections dataset. These data are available from 1998 to 2016 and include the number of votes and party affiliation for each senatorial candidate. We use the closeness of votes at the county level in Senate elections as our proxy for political competition in the local area. $PolComp_{c,t}$ is an indicator equal to one if county c's vote count for the Democratic candidate is within one percent of the vote count for the Republican candidate in the next senatorial election.

The interaction between $CongressRepX_{g,t\text{-}1}$ and $PolComp_{c,t}$ indicates whether the relationship between powerful congressional representation and stewardship varies with the political competitiveness of the constituency. A positive coefficient on this interaction term means that reduced voter attention to stewardship is a mechanism that drives our results. In particular, a positive coefficient shows that connected local governments are less likely to reduce stewardship if the local area is politically competitive.

We present the empirical results in Table 6. The coefficients on the interaction term bear positive and statistically significant signs in three out of four columns. Moreover, the sum of *CongressRepX* and the interaction between *CongressRepX* and *PolComp* is not significantly different from zero in any specification, which indicates that local political competition can fully offset the bad behavior of connected local governments. This offset is consistent with the idea that reelection concerns mitigate the negative relation between local officials' efforts to supply stewardship and the presence of powerful congressional representation.

Our findings above suggest that local government officials have election-related incentives to influence stewardship. In Section 4.1, we examine the role that local-government stewardship and powerful congressional representation play in local officials' reelection outcomes. It is also possible that congressional members' reelection outcomes are related to the stewardship of local governments located within their constituencies. Finding evidence of such a relation would support the idea that members of Congress have reelection-related incentives to ensure that the benefits they direct to their constituencies via local governments are appropriately deployed. We consider this possibility in Section 4.2.

4.1 Local Elections and Stewardship

We obtain local government officials' election outcomes from OurCampaigns.com. These crowd-sourced data allow us to identify election dates, officials participating in the race, the number of votes won, and the total number of votes. We acknowledge that a limitation of this analysis is that we cannot obtain data for all local government elections. However, our sample size is comparable to recent studies (e.g., Nakhmurina (2019)). In total, we obtain data on 4,641 elections that take place during our sample period.

We impose two restrictions on the data. First, we exclude elections that do not include an incumbent local government official. Second, we carefully examine the titles of incumbent officials to identify senior local government officials that are likely to be responsible for stewardship of public resources.[29] After applying these restrictions, our final sample includes 1,550 local elections.

Formally, we estimate the following regression:

$$\begin{aligned} Share\_Local_{p,g,t} = \alpha + \beta_1 Reported\_Stewardship_{g,t-1} + \beta_2 CongressRepX_{g,t-1} \\ + \beta_3 Controls_{g,t-1} + \beta_t + \varepsilon_{g,t} \end{aligned} \tag{2}$$

The dependent variable captures the vote share of the incumbent. Specifically, $Share\_Local_{p,g,t}$ is the proportion of votes won by the incumbent local official p who is part of local government g in an election held in year t (Abramowitz, 1988; Cox and Munger, 1989; Krebs, 1998). $Reported\_Stewardship_{g,t\text{-}1}$ is local government g's *Stewardship* reported in the financial statements filed in the 12-month period immediately preceding local official p's election in year t. We measure all other independent variables with a one-period lag from the election date. Panel A of Table 7 shows that local government officials that seek reelection win an average of 63 percent of votes.

[29]Therefore, we only include elections for local government officials with the following titles: Alderman, Chairman, Chief Executive Officer, Mayor, President, or Supervisor. We exclude elections for all other officials based on our determination that those officials are unlikely to have a material role in the stewardship of resources (e.g., Sheriff, County Clerk, etc.).

We include three variables to capture the association between powerful congressional representation and election outcomes. As previously defined, $CongressRepX_{g,t}$ captures the power of congresssional representation. In this specification, the variable is a proxy for the range of possible benefits that can be received by a local government for distribution to constituents. We expect greater benefits to be positively related to the proportion of votes won by the incumbent.

We also control for the level of two measurable federal resources that can affect citizen's satisfaction with incumbent local officials: $FederalExp_{g,t}$ and $Subsidy_{g,t}$. By including these two measurable federal resources, $CongressRepX_{g,t}$ captures all other possible direct and indirect benefits that accrue to the local government because of powerful congressional representation.

To control for other factors that could influence elections, we also control for county-level political competition ($PolComp_{c,t\text{-}1}$); economic conditions ($Income_{c,t\text{-}1}$ and $Unemployment_{c,t\text{-}1}$); and education levels ($Education_c$).[30] We include year fixed effects to absorb any macro-level economic events that occur during the year.

We can compare the summary statistics in Panel A of Table 7 to those in Panel A of Table 1 to get a sense for the selection bias in the OurCampaigns.com data. For the sub-sample of local governments represented in the OurCampaigns.com dataset, political competition ($PolComp$) and congressional representation ($CongressRepX$) are similar to that for the

[30] $PolComp_{c,t}$ is an indicator equal to one if county c's vote count for the Democratic candidate is within one percent of the vote count for the Republican candidate in the next senatorial election $Income_{c,t}$ is the natural logarithm of county c's per-capita income in year t obtained from the BEA (Bureau of Economic Analysis). $Unemployment_{c,t}$ is the percentage of the working population in county c that is unemployed in year t obtained from the BLS (Bureau of Labor Statistics). $Education_c$ is the average percentage of the adult population in county c over the period 2013 to 2017 that has a four-year university degree obtained from the USDA's (US Department of Agriculture) Economic Research Service. This variable is time-invariant because these data are only available as a five-year average that is measured over the period 2013 to 2017.

full sample, but *Stewardship* and federal expenditures ($FederalExp$) are higher than the full sample average. Although these statistics do not indicate a particular selection bias, we nonetheless caution that our results may not generalize to all local elections.

In Column (1), Panel B, of Table 7, we present regression results for Equation 2 that exclude *CongressRepX* to minimize the concern that our results are biased due to collinearity between *Stewardship* and *CongressRepX*. We show that *Stewardship* is positively correlated with local officials' vote share. Local voters are more satisfied with the performance of their local officials when those officials demonstrate strong stewardship. In economic terms, a one-standard-deviation higher level of stewardship correlates with a 1.4 percentage-point higher vote share. This correlation further supports the evidence presented in subsection 3.3 that stewardship captures corrupt local spending rather than simply a decision to not spend money on accounting control systems and civil servants, which are unlikely to be of first-order importance to voters.

In Columns (2) through (5), we add *CongressRepX* to the regression.[31] The results show that congressional representation on Top1, Top3, and Top5 committees is statistically more significantly correlated with local election outcomes than local governments' stewardship. In economic terms, congressional representation on Top1 and Top3 committees is an order of magnitude larger than that of *Stewardship*. A one-standard-deviation higher level of stewardship correlates with a 1.36 percentage-point higher vote share. By contrast, a one-standard-deviation higher level of representation on a Top1 (Top3) committee correlates with a 2.82 percentage-point (2.64 percentage-point) higher vote share.[32] F-tests of differences

[31] The VIF (Variance Inflation Factor) in each of the columns is approximately 4, which indicates that multicollinearity is unlikely to bias the coefficients.

[32] These economic magnitudes are similar if we base the calculations on descriptive statistics for the subsample for which we have local election data.

between the coefficients indicate that the relation between election outcomes and representation on Top1, Top3, and Top5 committees is significantly different to that of stewardship.

The coefficients on *FederalExp* and *Subsidy* are also positive and statistically significant. For example, the coefficient of 0.011 on *FederalExp* in Column (2) indicates that a one-standard-deviation increase in federal expenditures correlates with a 1.57 percentage-point greater vote share. The coefficient of 0.018 on *Subsidy* indicates that a one-standard-deviation increase in subsidies correlates with a 4.84 percentage-point larger vote share. The positive coefficients on these variables, along with that on *CongressRepX*, indicate that the benefits of powerful congressional representation are an important aspect of local officials' reelection prospects. The coefficients on the other control variables are generally consistent with prior studies.[33]

In sum, this table provides initial evidence that local officials' reelection prospects are related to their level of stewardship. Importantly, although local officials benefit from demonstrating stewardship over public resources, they enjoy much larger benefits from powerful congressional representation. This evidence, in conjunction with the evidence presented in Table 6, shows that local officials can reduce the supply of stewardship, and instead rely on the benefits of powerful congressional representation, without materially adverse effects on their reelection prospects.

[33] Interestingly, the coefficient on *Income* is negative. A possible explanation for this result is the greater supply of political challengers who seek to govern wealthy local areas, which increases competition. Another possible explanation is wealthier citizens' propensity to express dissatisfaction with local officials.

4.2 Congressional Elections and Stewardship

We obtain election outcomes for Senators and House Representatives from Charles Stewart's website.[34] These data comprise election dates, the names of the politicians participating in the election, the number of votes won, and the total number of votes. We identify all elections in which an incumbent congressional member participated. In total, there are 2,780 reelection campaign cases during our sample period: 172 Senate elections and 2,608 House elections. We use the election data to construct a vote share variable. In particular, $Share\_Congress_{p,t}$ is the proportion of votes won by the incumbent member of Congress p in an election held in year t.

We examine the relation between congressional members' reelection prospects and local stewardship in Table 8, as follows:

$$\begin{aligned} Share\_Congress_{p,t} = \alpha + \beta_1 Wtd\_Stewardship_{p,t-1} + \beta_2 PolRepX_{p,t-1} \\ + \beta_3 Wtd\_Controls_{p,t-1} + \beta_t + \varepsilon_{p,t} \end{aligned} \tag{3}$$

$Wtd\_Stewardship_{p,t\text{-}1}$ is the population-weighted average of the stewardship of all local governments within the constituency of a congressional member p. We measure *Wtd_ Stewardship* based on the financial statements filed immediately preceding the election. We also measure all other independent variables with a one-period lag from the election date.

Because powerful members of Congress have a greater ability to direct benefits to their constituencies, we control for congressional power. $PolRepX_{p,t\text{-}1}$ is a proxy for congressional member p's power in Congress and is measured as the product of member p's tenure (in years) and the number of Top X committees on which the member sits.

[34] https://polisci.mit.edu/people/charles-stewart-iii

We include several control variables that can explain the congressional reelection outcomes. $Wtd\_FederalExp_{p,t\text{-}1}$ and $Wtd\_Subsidy_{p,t\text{-}1}$ control for the monetary benefits that powerful members of Congress bring to their constituencies. We take the population-weighted average of federal expenditures and corporate subsidies for each election (i.e., the state-wide average for Senate elections and the district-wide average for House elections). We also control for political competition ($Wtd\_PolComp_{p,t\text{-}1}$), per-capita income ($Wtd\_Income_{p,t\text{-}1}$), unemployment ($Wtd\_Unemployment_{p,t\text{-}1}$), and education ($Wtd\_Education_{p,t\text{-}1}$). Each of these variables is measured at the county level and aggregated by population-weighting at the state level for Senators and the district level for House members.

Column (1) presents the results of Equation 3 that exclude *PolRepX* to minimize collinearity concerns. We find no evidence that stewardship is statistically correlated with congressional members' vote share. A possible reason that voters do not penalize congressional members for poor local stewardship is that those members transfer benefits to their constituencies in many different forms (i.e., direct allocations to local governments, subsidies to local area corporations, etc.). Because of the diversity of allocation channels, local misappropriation may have little effect on congressional members' reelection prospects.

We continue to find no relation between reelection outcomes and stewardship when we include congressional power in Columns (2) through (5). However, the coefficients on *PolRepX* are consistently positive and statistically significant. We also find that direct federal fund allocations and local-area corporate subsidies are strongly positively correlated with congressional election outcomes. In terms of control variables, we find limited evidence of a link between economic variables and vote share.

In sum, the evidence in Table 8 indicates that members of Congress do not have election-based incentives to demand stewardship from local governments within their electorates and instead rely on their ability to increase the welfare of their constituents to obtain reelection. Under the assumption that members of Congress are aware of this, they are unlikely to demand local governments' stewardship.

Taken together, the evidence in Tables 6 through 8 shows that local government officials have election-related incentives to maintain stewardship over public resources. Furthermore, these incentives relate to local government officials' reelection prospects but not those of the congressional members that represent the local area.

5 Conclusion

Local governments play a critical role in citizen welfare because they oversee the provision of essential services. Members of Congress channel federal resources to their constituencies to help fund these services. However, federal resources are not equally distributed; prior research shows that local governments in the constituencies of powerful congressional representatives receive disproportionately more resources. We study local governments' stewardship over public resources. Our findings show that local governments located in the constituencies of powerful congressional members provide less stewardship. We validate that the negative relation is casual by using plausibly exogenous departures from Congress.

We also provide initial evidence that local governments' stewardship over resources is important to voters' satisfaction with local officials. In particular, we find that local government stewardship is positively correlated with local officials' reelection outcomes. By contrast, we find no link between members of Congress' reelection outcomes and the stewardship demonstrated by local governments within their constituencies.

Our paper extends the literature that examines the consequences of links to powerful politicians. We provide evidence of an adverse outcome arising from political connections and shed light on a unique type of "political connection." A further contribution of our study is that it provides a novel measure of stewardship that researchers can use for a broad cross-section of government entities. This audit-based measure facilitates future research at the local government level, which is often constrained by data availability.

Given the increased interest in the financial health of local governments, our paper provides timely and novel insights into the factors that influence local governments' stewardship efforts. Overall, our evidence shows that powerful congressional representation weakens local governmental incentives to act in a socially optimal manner.

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Appendix A: Definitions of variables

Variable	Definition
Bond	$Bond_{g,t}$ is an indicator equal to one if local government g issues a new municipal bond in year t.
CongressRepX	$CongressRepX_{g,t\text{-}1}$ is the sum of $PolRepX_{p,t\text{-}1}$ for the three members of Congress (two Senators and a House Representative) that represent the area in which local government g is located, divided by 100. For each member of Congress, p, $PolRepX_{p,t\text{-}1}$ is the product of the member's tenure in Congress (in years) and the number of Top X committees on which the member sits in year t-1. X is set to one of the 1, 3, 5, or 10 most powerful committees.
Court Cases	$Court\ Cases_c$ is the number of civil and criminal court cases (in thousands) in county c's U.S Court District from 1998 to 2017.
DepartX	$DepartX_{g,t\text{-}4\ to\ t\text{-}1}$ is an indicator equal to one if a member of Congress, who represents the local area in which local government g is located, serving on a *TopX* congressional committee unexpectedly dies or is appointed to a cabinet position between years t-4 and t-1. X is set to one of the 1, 3, 5, or 10 most powerful committees.
DOJ Enforcements	$DOJ\ Enforcements_c$ is the number of federal, state, and local public officials convicted of a corruption-related crime in county c's U.S. Court District from 1998 to 2017.
Education	$Education_c$ is the average percentage of the adult population in county c over the period 2013 to 2017 that has a four-year university degree.
FederalExp	$FederalExp_{g,t}$ is the natural logarithm of directly-allocated federal funds expended by local government g in year t.
Income	$Income_{c,t}$ is the natural logarithm of county c's per-capita income in year t.
No_NonCompliance	$No\_NonCompliance_{g,t}$ is an indicator equal to one if local government g's auditor does not identify material noncompliance with laws or regulations in their audit of the year t financial statements, and zero otherwise.
No_ModOpinion	$No\_ModOpinion_{g,t}$ is an indicator equal to one if local government g's auditor provides an unmodified audit opinion (i.e., no adverse opinion, disclaimer of opinion, or qualified opinion) on the year t financial statements, and zero otherwise.

No_ MatWeakness	$No\_MatWeakness_{g,t}$ is an indicator equal to one if local government g's auditor does not identify a material weakness in the internal controls over the year t financial statements, and zero otherwise.
No_ SigDeficiency	$No\_SigDeficiency_{g,t}$ is an indicator equal to one if local government g's auditor does not identify a significant deficiency in internal controls over the year t financial statements, and zero otherwise.
PolComp	$PolComp_{c,t}$ is an indicator equal to one if county c's vote count for the Democratic candidate is within one percent of the vote count for the Republican candidate in the next senatorial election.
Share_ Congress	$Share\_Congress_{p,t}$ is the proportion of votes won by the incumbent member of Congress p in an election held in year t.
Share_ Local	$Share\_Local_{p,g,t}$ is the proportion of votes won by the incumbent local official p, who is part of local government g, in an election held in year t.
Small	$Small_{c,t}$ is an indicator equal to one if county c is in the lowest population quartile in year t.
Stewardship	$Stewardship_{g,t}$ is the first principal component of the following five outcomes from the audit of local government g's year t financial statements: an unmodified audit opinion; no material weakness; no significant deficiency; no material noncompliance; the lag between period-end and the audit report date, multiplied by negative one.
Subsidy	$Subsidy_{g,t}$ is the natural logarithm of federal subsidies to corporations headquartered within the jurisdiction of local government g in year t.
Timeliness	$Timeliness_{g,t}$ is the number of days between the date local government g's auditor signed the year t audit report and the fiscal year-ending date, divided by 365 and multiplied by negative one so that higher numbers represent timelier reports.
Unemployment	$Unemployment_{c,t}$ is the percentage of the working population in county c that is unemployed in year t.

Appendix B: Description of the Single Audit and Sample Schedule of Findings and Questioned Costs

The Single Audit is comprised of two components: a financial statement audit and a compliance audit. The financial statement audit is analogous to an audit for a publicly-listed corporation and includes an examination of the financial statements, accompanying notes, and internal control systems. The compliance audit focuses on the local government's use of direct federal fund allocations. The compliance audit specifically evaluates whether the usage of the funds is consistent with the conditions underlying the allocations and is compliant with applicable laws and regulations.

Before executing the Single Audit, the auditor must evaluate the local government and identify it as a high-risk or low-risk auditee. For high-risk (low-risk) local governments, the auditor is required to audit at least 40 percent (20 percent) of all the federal assistance received during the year. Upon completion of the audit, the auditor provides the local government with opinions on both types of audits and a summary of the findings.

Below, we provide a sample schedule of the auditor's findings and questioned costs. The auditors issued unmodified financial statement and compliance audit opinions for the county of Johnson, Iowa in 2016. However, the auditors identified a material weakness in internal controls over financial reporting. They go on to explain the nature, the cause, and the effect of the weakness and provide recommendations for remediation. The county also responds to the findings and explains their plans for remediation.

JOHNSON COUNTY, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Part I: Summary of the Independent Auditor's Results

a. Unmodified opinions were issued on the financial statements.

b. A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.

c. The audit did not disclose any non-compliance which is material to the financial statements.

d. No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.

e. An unmodified opinion was issued on compliance with requirements applicable to each major program.

f. The audit disclosed no audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.515.

g. The major programs were CFDA Numbers:

   10.557 Special Supplemental Nutrition Program for Woman, Infants and Children
   93.074 Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements

h. The dollar threshold used to distinguish between Type A and Type B programs was $750,000.

i. Johnson County, Iowa did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

16-II-A Financial Reporting – During the year ended June 30, 2016, it was determined that certain capital asset's transactions from prior to July 1, 2015 were mistakenly omitted from the capital assets listing. The effects of these omissions are shown in Note 17 of the current year financial statements.

Recommendation – The County should maintain an updated listing of capital assets that reconciles to the audited financial statements.

Response – The County will review its process for capital assets and ensure in the future that it maintains an updated capital asset listing and that it reconciles to the audited financial statements.

Conclusion – Response accepted.

Appendix C: Examples of Single Audit Findings

CITY OF PETERSBURG, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016 (Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2016-017 Compliance Finding - Expenditures in Excess of Appropriations

Criteria: Per the Code of Virginia, an expenditure should not be incurred until first an appropriation is made authorizing the expenditures.

Condition: The City had expenditures in excess of appropriations for the following functions in the general fund:

Function		Expenditures in Excess of Appropriations
General Government Admin	$	59,453
Public Safety	$	303,053
Health and Welfare	$	449,464
Debt Service	$	1,307,841

Cause: The City did not have procedures in place to monitor appropriations and expenditures.

Effect: The City incurred expenditures without a corresponding appropriation authorizing the expenditure.

City of Elizabeth

Schedule of Federal and State Award Findings and Questioned Costs

June 30, 2016

F 2016-004
Reporting (L)
Federal Program:
Department of Housing and Urban Development
Emergency Solutions Grant (14.231)

Criteria:	As an additional condition to form HUD 7082, the grantee is required to comply with 2 CFR part 170 Reporting Subaward Information.
Condition:	The grantee did not report eight subawards that were $25,000 or greater.
Context:	The grantee did not report any subawards that were $25,000 or greater.
Effect:	The condition to comply with 2 CFR part 170 was not satisfied.
Cause:	The grantee has not assigned a responsible individual to report subawards.
Questioned Costs:	None
Recommendation:	The grantee should assign an individual to report subawards.
Client Response:	Included in the client prepared corrective action plan.

CITY OF OXNARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Basis for Qualified Opinions

The City's accounting systems do not provide the necessary information to audit capital assets and construction in progress. As such, we were unable to obtain sufficient audit evidence to support the capital asset and construction in progress balances and the related depreciation expense in the Governmental Activities, Business-type Activities, Water Fund, Wastewater Fund, Environmental Resources Fund, and Private Purpose Trust Fund. The effect on the assets, net position, and change in net position are not reasonably determinable.

Appendix D: Example of *CongressRepX* Calculation

The county of Shelby is located in Alabama's 6th congressional district. In 2004, the House representative for Alabama's 6th district (Congressman Spencer Bachus) served on three committees (Judiciary, Transportation and Infrastructure, and Financial Services) of which only the first two are on the list of the 10 most powerful committees. As of 2004, Congressman Bachus served in the House for 12 years. Similarly, Alabama's Senators, Jeffrey Sessions and Richard C. Shelby served on three and one, respectively, of the top 10 most powerful Senate committees and served in the Senate for 7 and 17 years respectively. The value of *CongressRep10* for Shelby county in 2004 represents the aggregate years of service on the most powerful congressional committees ($12*2 + 7*3 + 17*1 = 62$). We divide this value by 100 for ease of interpretation in relation to the dependent variables.

To illustrate the calculation further, we calculate *CongressRep3* for Shelby County. Of the three committees on which Congressman Spencer Bachus served, none are on the list of the three most powerful committees. Senators Jeffrey Sessions and Richard C. Shelby serve on none and one of the top 3 most powerful Senate committees respectively. The value of *CongressRep3* for Shelby county in 2004 is 17, which represents the aggregate years of service on the most powerful congressional committees ($12*0 + 7*0 + 17*1$).

Table 1: Descriptive Statistics

Panel A presents summary statistics that describe the variables used in the study for our sample of 56,042 local-government observations. Panel B presents Pearson product-moment correlations among the main variables used in the study. All variables are defined in Appendix A.

Panel A: Descriptive Statistics					
Variable	Mean	Std Dev	25th Pctl	50th Pctl	75th Pctl
Stewardship	0.00	1.36	-0.63	0.47	1.07
No_ ModOpinion	0.88	0.32	1.00	1.00	1.00
No_ MatWeakness	0.76	0.43	1.00	1.00	1.00
No_ SigDeficiency	0.63	0.48	0.00	1.00	1.00
No_ NonCompliance	0.91	0.29	1.00	1.00	1.00
Timeliness	-0.71	0.40	-0.75	-0.64	-0.51
CongressRep1	0.06	0.09	0.00	0.00	0.11
CongressRep3	0.21	0.17	0.09	0.17	0.30
CongressRep5	0.33	0.24	0.16	0.28	0.44
CongressRep10	0.63	0.40	0.34	0.56	0.83
Depart1	0.01	0.11	0.00	0.00	0.00
Depart3	0.02	0.15	0.00	0.00	0.00
Depart5	0.03	0.16	0.00	0.00	0.00
Depart10	0.03	0.16	0.00	0.00	0.00
Bond	0.25	0.43	0.00	0.00	1.00
FederalExp	8.13	1.43	7.03	7.89	8.93
Subsidy	0.93	2.69	0.00	0.00	0.00
Court Cases	92.63	76.12	41.11	66.10	122.58
DOJ Enforcements	226.29	193.26	88.00	136.00	337.00
Small	0.30	0.00	0.00	0.00	1.00
PolComp	0.02	0.13	0.00	0.00	0.00

Table 1, continued

Panel B: Correlation Matrix

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1)	*Stewardship*	1									
(2)	*No_ ModOpinion*	0.55***	1								
(3)	*No_ MatWeakness*	0.77***	0.22***	1							
(4)	*No_ SigDeficiency*	0.68***	0.16***	0.44***	1						
(5)	*No_ NonCompliance*	0.59***	0.23***	0.27***	0.18***	1					
(6)	*Timeliness*	0.37***	0.12***	0.15***	0.11***	0.09***	1				
(7)	*CongressRep1*	-0.03***	-0.02***	-0.04***	0.00	0.03***	-0.09***	1			
(8)	*CongressRep3*	-0.07***	-0.03***	-0.06***	-0.03***	-0.02***	-0.10***	0.84***	1		
(9)	*CongressRep5*	-0.09***	-0.03***	-0.08***	-0.04***	-0.03***	-0.10***	0.71***	0.84***	1	
(10)	*CongressRep10*	-0.05***	-0.01*	-0.06***	-0.04***	-0.01**	-0.02***	0.30***	0.39***	0.50***	1

Table 2: Local Stewardship, by State

This table presents the mean level of *Stewardship* across the local governments within each state and is ordered from highest to lowest stewardship. $Stewardship_{g,t}$ is the first principal component of the following five outcomes from the audit of local government g's year t financial statements: an unmodified audit opinion; no material weakness; no significant deficiency; no material noncompliance; the lag between period-end and the audit report date, multiplied by negative one.

State	Obs	Mean Stewardship	State	Obs	Mean Stewardship
Washington	1,458	0.72	Arkansas	435	0.07
Oregon	968	0.64	Arizona	891	0.06
Delaware	131	0.63	Wyoming	425	0.04
Colorado	1,267	0.61	Alabama	1,064	-0.01
Utah	520	0.60	South Dakota	217	-0.02
New Hamphsire	254	0.55	Massachussetts	871	-0.03
Idaho	461	0.54	Nebraska	392	-0.06
Virginia	2,260	0.52	Kentucky	701	-0.16
Maryland	673	0.50	Illinois	1,884	-0.17
Texas	2,648	0.50	Minnesota	2,029	-0.19
Florida	2,586	0.42	Ohio	2,390	-0.19
Alaska	582	0.41	Georgia	1,268	-0.25
North Carolina	2,196	0.39	Rhode Island	133	-0.26
California	5,086	0.37	New Jersey	724	-0.29
Kansas	711	0.25	Vermont	150	-0.42
Connecticut	307	0.23	Iowa	1,297	-0.49
Mane	361	0.22	Louisiana	1,099	-0.50
North Dakota	482	0.17	Oklahoma	517	-0.67
Nevada	390	0.17	Indiana	1,522	-0.78
Hawaii	68	0.16	Montana	563	-0.82
South Carolina	829	0.15	Pennsylvania	1,685	-0.82
New York	2,118	0.15	New Mexico	615	-0.88
Wisconsin	1,748	0.13	Mississippi	1,072	-1.05
Missouri	1,103	0.09	Tennessee	2,235	-1.24
Michigan	2,148	0.08	West Virginia	508	-1.41

Table 3: Local Stewardship and Congressional Representation

This table examines the relation between local stewardship and the power of congressional representation, as follows:

$$Stewardship_{g,t} = \alpha + \beta_1 CongressRepX_{g,t-1} + \beta_2 Bond_{g,t} + \beta_3 FederalExp_{g,t} + \beta_4 Subsidy_{g,t} + \beta_g + \beta_t + \varepsilon_{g,t}$$

The dependent variable in Panel A, *Stewardship*$_{g,t}$, is the first principal component of five outcomes from the audit of local government g's year t financial statements. The dependent variables in Panel B are the five components of *Stewardship* individually. These include: *No_ModOpinion* in Columns (1) and (2), *No_MatWeakness* in Columns (3) and (4), *No_SigDeficiency* in Columns (5) and (6), *No_NonCompliance* in Columns (7) and (8), and *Timeliness* in Columns (9) and (10). These variables are defined in Appendix A. *CongressRepX*$_{g,t\text{-}1}$ is the sum of *PolRepX*$_{p,t\text{-}1}$ for the three members of Congress (two Senators and a House Representative) that represent the area in which local government g is located, divided by 100. For each member of Congress, p, *PolRepX*$_{p,t\text{-}1}$ is the product of the member's tenure in Congress (in years) and the number of Top X committees on which the member sits in year *t-1*. X is set to one of the 1, 3, 5, or 10 most powerful committees. *Bond*$_{g,t}$ is an indicator equal to one if local government g issues a new municipal bond in year t. *FederalExp*$_{g,t}$ is the natural logarithm of directly-allocated federal funds expended by local government g in year t. *Subsidy*$_{g,t}$ is the natural logarithm of federal subsidies to corporations headquartered within the jurisdiction of local government g in year t. We include local government fixed effects and year fixed effects in all specifications. Robust standard errors, clustered by congressional district, are reported in parentheses. One, two, and three stars indicate that the estimated coefficient is different from zero at a 10%, 5%, and 1% level of statistical significance (two-tailed), respectively.

Panel A: Stewardship				
	(1)	(2)	(3)	(4)
CongressRep1	-0.678***			
	(0.226)			
CongressRep3		-0.557***		
		(0.114)		
CongressRep5			-0.246***	
			(0.065)	
CongressRep10				-0.203***
				(0.040)
Bond	0.001	0.002	0.001	-0.000
	(0.014)	(0.014)	(0.015)	(0.015)
FederalExp	-0.012	-0.008	-0.009	-0.010
	(0.012)	(0.012)	(0.012)	(0.012)
Subsidy	-0.018**	-0.020**	-0.017**	-0.017**
	(0.008)	(0.008)	(0.008)	(0.008)
Gov't FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	56,042	56,042	56,042	56,042
R-squared	0.568	0.569	0.568	0.568

Table 3, continued

Panel B: Components of Stewardship										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	No_ModOpinion		No_MatWeakness		No_SigDeficiency		No_NonCompliance		Timeliness	
CongressRep3	-0.090***		-0.102***		-0.091***		-0.094***		-0.108***	
	(0.030)		(0.034)		(0.031)		(0.027)		(0.024)	
CongressRep10		-0.032***		-0.034**		-0.066***		-0.018**		-0.032***
		(0.011)		(0.013)		(0.013)		(0.008)		(0.010)
Bond	0.008**	0.007**	-0.010*	-0.010**	0.003	0.002	0.005	0.005	-0.008	-0.008
	(0.004)	(0.004)	(0.005)	(0.005)	(0.006)	(0.006)	(0.003)	(0.003)	(0.005)	(0.005)
FederalExp	0.002	0.002	-0.002	-0.002	0.004	0.004	-0.001	-0.001	-0.016***	-0.016***
	(0.003)	(0.003)	(0.004)	(0.004)	(0.004)	(0.004)	(0.003)	(0.003)	(0.004)	(0.004)
Subsidy	-0.003**	-0.003*	-0.005	-0.004	-0.005	-0.005	0.001	0.002	-0.008***	-0.008***
	(0.001)	(0.001)	(0.003)	(0.003)	(0.004)	(0.004)	(0.001)	(0.001)	(0.003)	(0.003)
Gov't FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Obs	56,042	56,042	56,042	56,042	56,042	56,042	56,042	56,042	56,042	56,042
R-squared	0.560	0.560	0.473	0.473	0.489	0.490	0.448	0.447	0.424	0.424

Table 4: Plausibly Exogenous Variation in the Power of Congressional Representation

This table examines the relation between local stewardship and plausibly exogenous declines in the power of congressional representation, as follows:

$$Stewardship_{g,t} = \alpha + \beta_1 DepartX_{g,t-4\,to\,t-1} + \beta_2 Bond_{g,t} + \beta_3 FederalExp_{g,t} + \beta_4 Subsidy_{g,t} + \beta_g + \beta_t + \varepsilon_{g,t}$$

$Stewardship_{g,t}$ is the first principal component of the following five outcomes from the audit of local government g's year t financial statements: an unmodified audit opinion; no material weakness; no significant deficiency; no material noncompliance; the lag between period-end and the audit report date, multiplied by negative one. $DepartX_{g,t\text{-}4\ to\ t\text{-}1}$ is an indicator equal to one if a member of Congress, who represents the local area in which local government g is located, serving on a *TopX* congressional committee unexpectedly dies or is appointed to a cabinet position between years *t-4* and *t-1*. X is set to one of the 1, 3, 5, or 10 most powerful committees. $Bond_{g,t}$ is an indicator equal to one if local government g issues a new municipal bond in year t. $FederalExp_{g,t}$ is the natural logarithm of directly-allocated federal funds expended by local government g in year t. $Subsidy_{g,t}$ is the natural logarithm of federal subsidies to corporations headquartered within the jurisdiction of local government g in year t. We include local government fixed effects and year fixed effects in all specifications. Robust standard errors, clustered by congressional district, are reported in parentheses. One, two, and three stars indicate that the estimated coefficient is different from zero at a 10%, 5%, and 1% level of statistical significance (two-tailed), respectively.

	(1)	(2)	(3)	(4)
	Stewardship			
Depart1	0.197***			
	(0.060)			
Depart3		0.128***		
		(0.037)		
Depart5			0.135***	
			(0.035)	
Depart10				0.137***
				(0.034)
Bond	0.003	0.002	0.002	0.002
	(0.015)	(0.015)	(0.015)	(0.015)
FederalExp	-0.010	-0.010	-0.009	-0.009
	(0.012)	(0.012)	(0.012)	(0.012)
Subsidy	-0.017**	-0.017**	-0.017**	-0.017**
	(0.008)	(0.008)	(0.008)	(0.008)
Gov't FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	56,042	56,042	56,042	56,042
R-squared	0.568	0.567	0.567	0.567

Table 5: Misappropriation or Ineptitude?

This table examines whether the negative relation between local stewardship and the power of congressional representation is consistent with misappropriation or ineptitude, as follows:

$$Stewardship_{g,t} = \alpha + \beta_1 CongressRepX_{g,t-1} + \beta_2 CongressRepX_{g,t-1} * Var_c + \beta_3 Var_c$$
$$+\beta_4 Bond_{g,t} + \beta_5 FederalExp_{g,t} + \beta_6 Subsidy_{g,t} + \beta_g + \beta_t + \varepsilon_{g,t}$$

Stewardship$_{g,t}$ is the first principal component of the following five outcomes from the audit of local government g's year t financial statements: an unmodified audit opinion; no material weakness; no significant deficiency; no material noncompliance; the lag between period-end and the audit report date, multiplied by negative one. *CongressRepX*$_{g,t\text{-}1}$ is the sum of *PolRepX*$_{p,t\text{-}1}$ for the three members of Congress (two Senators and a House Representative) that represent the area in which local government g is located, divided by 100. For each member of Congress, p, *PolRepX*$_{p,t\text{-}1}$ is the product of the member's tenure in Congress (in years) and the number of Top X committees on which the member sits in year *t-1*. X is set to one of the 1, 3, 5, or 10 most powerful committees. In Panel A, *Var* is equal to *LowCorrupt*$_c$, an indicator equal to one if county c is in a the lowest quartile of each of two corruption variables. In Columns (1) and (2), *Court Cases*$_c$ is the number of civil and criminal court cases (in thousands) in county c's U.S Court District from 1998 to 2017. In Columns (3) and (4), *DOJ Enforcements*$_c$ is the number of federal, state, and local public officials convicted of a corruption-related crime in county c's U.S. Court District from 1998 to 2017. In Panel B, *Var* is equal to *Small*$_c$, an indicator equal to one if county c is in the lowest population quartile in year t. *Bond*$_{g,t}$ is an indicator equal to one if local government g issues a new municipal bond in year t. *FederalExp*$_{g,t}$ is the natural logarithm of directly-allocated federal funds expended by local government g in year t. *Subsidy*$_{g,t}$ is the natural logarithm of federal subsidies to corporations headquartered within the jurisdiction of local government g in year t. We include local government fixed effects and year fixed effects in all specifications. Robust standard errors, clustered by congressional district, are reported in parentheses. One, two, and three stars indicate that the estimated coefficient is different from zero at a 10%, 5%, and 1% level of statistical significance (two-tailed), respectively.

Table 5, continued

Panel A: Misappropriation				
	(1)	(2)	(3)	(4)
	Court Cases		DOJ Enforcements	
CongressRep3	-0.688***		-0.685***	
	(0.137)		(0.142)	
CongressRep10		-0.269***		-0.264***
		(0.050)		(0.050)
CongressRep3*LowCorrupt	0.560***		0.458**	
	(0.199)		(0.196)	
CongressRep10*LowCorrupt		0.241***		0.215***
		(0.069)		(0.067)
Bond	0.002	-0.001	0.002	-0.001
	(0.015)	(0.015)	(0.015)	(0.015)
FederalExp	-0.009	-0.010	-0.008	-0.010
	(0.012)	(0.012)	(0.012)	(0.012)
Subsidy	-0.020**	-0.017**	-0.020**	-0.017**
	(0.008)	(0.008)	(0.008)	(0.008)
CongressRepX+CongressRepX*LowCorrupt=0	-0.128	-0.028	-0.227	-0.049
P-value: CongressRepX+CongressRepX*LowCorrupt=0	0.399	0.593	0.120	0.304
Gov't FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	56,042	56,042	56,042	56,042
R-squared	0.569	0.569	0.569	0.568

Table 5, continued

Panel B: Ineptitude				
	(1)	(2)	(3)	(4)
	Stewardship			
CongressRep1	-0.652***			
	(0.238)			
CongressRep3		-0.647***		
		(0.127)		
CongressRep5			-0.321***	
			(0.073)	
CongressRep10				-0.260***
				(0.046)
CongressRep1*Small	-0.090			
	(0.239)			
CongressRep3*Small		0.311**		
		(0.135)		
CongressRep5*Small			0.237**	
			(0.098)	
CongressRep10*Small				0.190***
				(0.058)
Small	0.006	-0.067	-0.085	-0.125**
	(0.047)	(0.049)	(0.052)	(0.055)
Bond	0.001	0.003	0.001	0.000
	(0.014)	(0.014)	(0.015)	(0.014)
FederalExp	-0.012	-0.08	-0.009	-0.009
	(0.012)	(0.012)	(0.012)	(0.012)
Subsidy	-0.018**	-0.020**	-0.018**	-0.017**
	(0.008)	(0.008)	(0.008)	(0.008)
CongressRepX+CongressRepX*Small	-0.742	-0.336	-0.084	-0.070
P-Value: CongressRepX+CongressRepX*Small=0	0.009	0.012	0.354	0.177
Gov't FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	56,042	56,042	56,042	56,042
R-squared	0.568	0.569	0.568	0.568

Table 6: Political Competition

This table examines whether the relation between local stewardship and the power of congressional representation is moderated by political competition, as follows:

$$Stewardship_{g,t} = \alpha + \beta_1 CongressRepX_{g,t-1} + \beta_2 CongressRepX_{g,t-1} * PolComp_{c,t}$$
$$+\beta_3 PolComp_{c,t} + \beta_4 Bond_{g,t} + \beta_5 FederalExp_{g,t} + \beta_6 Subsidy_{g,t} + \beta_g + \beta_t + \varepsilon_{g,t}$$

$Stewardship_{g,t}$ is the first principal component of the following five outcomes from the audit of local government g's year t financial statements: an unmodified audit opinion; no material weakness; no significant deficiency; no material noncompliance; the lag between period-end and the audit report date, multiplied by negative one. $CongressRepX_{g,t\text{-}1}$ is the sum of $PolRepX_{p,t\text{-}1}$ for the three members of Congress (two Senators and a House Representative) that represent the area in which local government g is located, divided by 100. For each member of Congress, p, $PolRepX_{p,t\text{-}1}$ is the product of the member's tenure in Congress (in years) and the number of Top X committees on which the member sits in year *t-1*. X is set to one of the 1, 3, 5, or 10 most powerful committees. $PolComp_{c,t}$ is an indicator equal to one if county c's vote count for the Democratic candidate is within one percent of the vote count for the Republican candidate in the next senatorial election. $Bond_{g,t}$ is an indicator equal to one if local government g issues a new municipal bond in year t. $FederalExp_{g,t}$ is the natural logarithm of directly-allocated federal funds expended by local government g in year t. $Subsidy_{g,t}$ is the natural logarithm of federal subsidies to corporations headquartered within the jurisdiction of local government g in year t. We include local government fixed effects and year fixed effects in all specifications. Robust standard errors, clustered by congressional district, are reported in parentheses. One, two, and three stars indicate that the estimated coefficient is different from zero at a 10%, 5%, and 1% level of statistical significance (two-tailed), respectively.

Table 6, continued

	(1)	(2)	(3)	(4)
	Stewardship			
CongressRep1	-0.686***			
	(0.226)			
CongressRep3		-0.570***		
		(0.115)		
CongressRep5			-0.255***	
			(0.065)	
CongressRep10				-0.209***
				(0.041)
CongressRep1*PolComp	0.389			
	(0.443)			
CongressRep3*PolComp		0.531**		
		(0.211)		
CongressRep5*PolComp			0.541**	
			(0.172)	
CongressRep10*PolComp				0.338**
				(0.112)
PolComp	-0.057	-0.147**	-0.199***	-0.227***
	(0.060)	(0.068)	(0.073)	(0.078)
Bond	0.001	0.002	0.001	-0.000
	(0.014)	(0.014)	(0.015)	(0.015)
FederalExp	-0.012	-0.008	-0.009	-0.010
	(0.012)	(0.012)	(0.012)	(0.012)
Subsidy	-0.018**	-0.019**	-0.017**	-0.017**
	(0.008)	(0.008)	(0.008)	(0.008)
CongressRepX+CongressRepX*PolComp	-0.297	-0.039	0.286	0.129
P-Value: CongressRepX+CongressRepX*PolComp=0	0.559	0.865	0.124	0.265
Gov't FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	56,042	56,042	56,042	56,042
R-squared	0.568	0.569	0.568	0.568

Table 7: Local Elections and Stewardship

Panel A presents the summary statistics that describe the variables used to study our sample of 1,550 local elections. Panel B presents regression results that examine the relation between the success of local officials' reelection campaigns, their stewardship, and the power of congressional representation, as follows:

$$\begin{gathered}Share\_Local_{p,g,t} = \alpha + \beta_1 Reported\_Stewardship_{p,t-1} + \beta_2 CongressRepX_{p,t-1} \\ +\beta_3 FederalExp_{p,t-1} + \beta_4 Subsidy_{p,t-1} + \beta_5 PolComp_{p,t-1} \\ +\beta_6 Income_{p,t-1} + \beta_7 Unemployment_{p,t-1} + \beta_8 Education_p + \beta_{t-1} + \varepsilon_{p,t-1}\end{gathered}$$

$Share\_Local_{p,t}$ measures the proportion of votes won by the incumbent local official, p, out of the total number of votes cast in year t. $Reported\_Stewardship_{g,t\text{-}1}$ is local government g's *Stewardship* reported in the financial statements filed in the 12-month period immediately preceding local official p's election in year t. *Stewardship* is the first principal component of the following five variables found in the financial statement audit report: an unmodified audit opinion; no material weakness; no significant deficiency; no material noncompliance; and the lag between period end and the audit report date, multiplied by negative one. $CongressRepX_{g,t\text{-}1}$ is the sum of $PolRepX_{p,t\text{-}1}$ for the three members of Congress (two Senators and a House Representative) that represent the area in which local government g is located, divided by 100. For each member of Congress, p, $PolRepX_{p,t\text{-}1}$ is the product of the member's tenure in Congress (in years) and the number of Top X committees on which the member sits in year *t-1*. X is set to one of the 1, 3, 5, or 10 most powerful committees. $FederalExp_{g,t}$ is the natural logarithm of directly-allocated federal funds expended by local government g in year t. $Subsidy_{g,t}$ is the natural logarithm of federal subsidies to corporations headquartered within the jurisdiction of local government g in year t. $PolComp_{c,t}$ is an indicator equal to one if county c's vote count for the Democratic candidate is within one percent of the vote count for the Republican candidate in the next senatorial election. $Income_{c,t}$ is the natural logarithm of county c's per-capita income in year t. $Unemployment_{c,t}$ is the percentage of the working population in county c that is unemployed in year t. $Education_c$ is the average percentage of the adult population in county c over the period 2013 to 2017 that has a four-year university degree. We include year fixed effects in all columns. Robust standard errors are reported in parentheses. One, two, and three stars indicate that the estimated coefficient is different from zero at a 10%, 5%, and 1% level of statistical significance (two-tailed), respectively.

Table 7, continued

Panel A: Descriptive Statistics					
Variable	Mean	Std Dev	25th Pctl	50th Pctl	75th Pctl
Share_Local	0.63	0.20	0.53	0.60	0.75
Reported_Stewardship	0.31	1.11	-0.21	0.97	1.10
CongressRep1	0.07	0.10	0.00	0.00	0.11
CongressRep3	0.22	0.16	0.11	0.19	0.31
CongressRep5	0.33	0.19	0.19	0.31	0.43
CongressRep10	0.66	0.36	0.39	0.61	0.90
FederalExp	9.35	1.39	8.28	9.45	10.39
Subsidy	0.49	1.12	0.00	0.00	0.07
PolComp	0.02	0.13	0.00	0.00	0.00
Income	10.66	0.29	10.47	10.66	10.84
Unemployment	5.98	2.25	4.30	5.40	7.10
Education	35.15	9.73	29.5	34.2	40.6

Table 7, continued

Panel B: Regressions					
	(1)	(2)	(3)	(4)	(5)
			Share_local		
Reported_Stewardship	0.009**	0.010**	0.009**	0.010**	0.009**
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
CongressRep1		0.313***			
		(0.051)			
CongressRep3			0.155***		
			(0.032)		
CongressRep5				0.076***	
				(0.026)	
CongressRep10					0.009
					(0.015)
FederalExp	0.011***	0.011***	0.013***	0.012***	0.012***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Subsidy	0.018**	0.018**	0.015**	0.016**	0.017**
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
PolComp	-0.071	-0.062	-0.080*	-0.076*	-0.071
	(0.045)	(0.044)	(0.045)	(0.045)	(0.045)
Income	-0.186***	-0.192***	-0.185***	-0.191***	-0.187***
	(0.030)	(0.030)	(0.030)	(0.030)	(0.030)
Unemployment	-0.011***	-0.009***	-0.009***	-0.012***	-0.011***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Education	0.003***	0.004***	0.003***	0.003***	0.003***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Year FE	YES	YES	YES	YES	YES
Observations	1,550	1,550	1,550	1,550	1,550
R-squared	0.054	0.074	0.067	0.058	0.054

Table 8: Congressional Elections and Stewardship

Panel A presents the summary statistics that describe the variables used to study our sample of 2,780 congressional elections. Panel B presents the regression results that examine the relation between the success of congressional members' reelection campaigns, their congressional power, and the connected local governments' stewardship, as follows:

$$\begin{aligned} Share\_Congress_{p,t} = \alpha + \beta_1 Wtd\_Stewardship_{p,t-1} + \beta_2 PolRepX_{p,t-1} \\ +\beta_3 Wtd\_FederalExp_{p,t-1} + \beta_4 Wtd\_Subsidy_{p,t-1} + \beta_5 Wtd\_PolComp_{p,t-1} \\ +\beta_6 Wtd\_Income_{p,t-1} + \beta_7 Wtd\_Unemployment_{p,t-1} + \beta_8 Wtd\_Education_p + \beta_{t-1} + \varepsilon_{p,t-1} \end{aligned}$$

$Share\_Congress_{p,t}$ is the proportion of votes won by the incumbent member of Congress p in an election held in year t. $Wtd\_Stewardship_{p,t\text{-}1}$ is the average *Stewardship* of the financial statements filed in the 12-month period immediately preceding member p's election in year t, weighted by population, of all local governments g in congressional member p's jurisdiction. *Stewardship* is the first principal component of the following five variables found in local government g's financial statement audit report: an unmodified audit opinion; no material weakness; no significant deficiency; no material noncompliance; and the lag between period end and the audit report date, multiplied by negative one. $PolRepX_{p,t\text{-}1}$ is the product of congressional member p's tenure in Congress (in years) and the number of Top X committees the member sits on. X is set to one of the 1, 3, 5, or 10 most powerful committees. $Wtd\_FederalExp_{p,t\text{-}1}$ is the average *FederalExp*, weighted by population, of all local governments g in congressional member p's jurisdiction in year *t-1*. $Wtd\_Subsidy_{p,t\text{-}1}$ is the average *Subsidy*, weighted by population, of all local governments g in congressional member p's jurisdiction in year *t-1*. $Wtd\_PolComp_{p,t\text{-}1}$ is the average *PolComp*, weighted by population, of all counties c in congressional member p's jurisdiction in year *t-1*. $Wtd\_Income_{p,t\text{-}1}$ is the average *Income*, weighted by population, of all counties c in congressional member p's jurisdiction in year *t-1*. $Wtd\_Unemployment_{p,t\text{-}1}$ is the average *Unemployment*, weighted by population, of all counties c in congressional member p's jurisdiction in year *t-1*. $Wtd\_Education_p$ is the average *Education*, weighted by population, of all counties c in congressional member p's jurisdiction. We include year fixed effects in all columns. Robust standard errors are reported in parentheses. One, two, and three stars indicate that the estimated coefficient is different from zero at a 10%, 5%, and 1% level of statistical significance (two-tailed), respectively.

Table 8, continued

Panel A: Descriptive Statistics					
Variable	Mean	Std Dev	25th Pctl	50th Pctl	75th Pctl
Share_ Congress	0.66	0.13	0.58	0.65	0.72
Wtd_ Stewardship	0.12	0.74	-0.25	0.25	0.66
PolRep1	0.01	0.05	0.00	0.00	0.00
PolRep3	0.06	0.10	0.00	0.02	0.12
PolRep5	0.07	0.10	0.00	0.02	0.12
PolRep10	0.13	0.14	0.04	0.10	0.18
Wtd_ FederalExp	8.50	1.25	7.67	8.26	8.98
Wtd_ Subsidy	0.51	1.11	0.00	0.00	0.24
Wtd_ PolComp	0.01	0.08	0.00	0.00	0.00
Wtd_ Income	10.55	0.27	10.36	10.52	10.71
Wtd_ Unemployment	6.50	2.29	4.84	5.98	7.77
Wtd_ Education	29.75	9.35	22.8	28.5	35.0

Table 8, continued

Panel B: Regressions					
	(1)	(2)	(3)	(4)	(5)
	Share_Congress				
Wtd_Stewardship	-0.004	-0.005	-0.004	-0.004	-0.004
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
PolRep1		0.140***			
		(0.049)			
PolRep3			0.063***		
			(0.023)		
PolRep5				0.059***	
				(0.022)	
PolRep10					0.031**
					(0.016)
Wtd_FederalExp	0.004**	0.005**	0.005**	0.005**	0.004**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Wtd_Subsidy	0.012***	0.012***	0.012***	0.012***	0.012***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Wtd_PolComp	-0.014	-0.013	-0.012	-0.013	-0.015
	(0.035)	(0.035)	(0.035)	(0.035)	(0.035)
Wtd_Income	0.005	0.008	0.007	0.005	0.003
	(0.021)	(0.021)	(0.022)	(0.022)	(0.022)
Wtd_Unemployment	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Wtd_Education	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Year FE	YES	YES	YES	YES	YES
Observations	2,780	2,780	2,780	2,780	2,780
R-squared	0.032	0.034	0.034	0.034	0.033