Fiscal Year | Business Unit | Department | Priority No. |
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2021-22 | 7730 | Franchise Tax Board | 3 |

Budget Request Name
7730-003-BCP-2021-GB

Program
6285

Subprogram

Budget Request Description
Political Reform Audit Program

Budget Request Summary
The Franchise Tax Board (FTB) requests $2.06 million General Fund and 11.0 permanent positions and 3.0 three year limited-term positions in 2021-22 and $1.94 million General Fund and 11.0 permanent positions and 3.0 three year limited-term positions in 2022-23 and 2023-24 and $1.56 million General Fund and 11.0 permanent positions in 2024-25 and on-going for the PRA Program to administer the provision as mandated in California Government Code Sections 90000-90009.
A. Budget Request Summary

The Franchise Tax Board (FTB) requests $2.06 million General Fund and 11.0 permanent positions and 3.0 three year limited-term positions in 2021-22 and $1.94 million General Fund and 11.0 permanent positions and 3.0 three year limited-term positions in 2022-23 and 2023-24 and $1.56 million General Fund and 11.0 permanent positions in 2024-25 and on-going for the PRA Program to administer the provision as mandated in California Government Code Sections 90000-90009.

B. Background/History

The PRA Program has been administered by the FTB since the passage of the 1974 Political Reform Act approved by the voters of the State of California. FTB’s audit program is required under and governed by the Fair Political Practices Act and the Fair Political Practices Commission (FPPC). There are 17 different types of workload and each has separate conditions for determining which entities are required to be audited. The workload includes audits on incumbents and candidates in the following:

- Legislature (Assembly and Senate)
- Special election
- Statewide election
- Judicial office
- Local office
- Primary Formed Committee
- Lobbying employer and firm
- Measure Committee
- General Purpose Committee

The FPPC selects a pool of entities and candidates that are subject to audit and notifies FTB of the candidate pool. The FTB PRA Program is responsible for identifying whether the audit is mandated for each entity based on criteria detailed in California Government Code Sections 90000-90009 of the Act.

The Political Reform Act has had numerous legislative and regulatory changes in its 45-year history. Each change has brought additional layers of complexity. The sophistication of filings continue to increase the complexity of the political audits and require increased skill sets by PRA staff. In addition, the size of the campaigns have grown significantly since 1974. The Fair Political Practices Commission, a nonpartisan watchdog agency, reports on the money spent in California political campaigns. The reports list the offices, candidates, and amount of increased historical spending and raised monies of the political campaigns. Based on the filing histories of the spending reported, it would seem to be more of a fact than opinion that the trend for more expensive campaigns is increasing. As an example, a gubernatorial campaign in 1990 spent approximately $23 million; in 2010, up to $140 million was spent.

The Political Reform Act requires that the audits are performed by professionals with specialized technical training and proficiency. The PRA Program is currently authorized for 13.0 positions. The training and knowledge transfer are conducted by PRA Program’s experienced Program Specialists only because of the specialty of the workload.
To accommodate the complexity, FTB requests additional resources to perform all mandated audits to continue to generate compliance among the regulated community of political filers.

C. State Level Considerations

The department’s political reform audits are mandated under the Political Reform Act of 1974. The audit results are issued in an Audit Report that goes to the Fair Political Practices Commission (FPPC) and the Office of the Attorney General (AG) or the District Attorney’s Office for their evaluation.

This proposal aligns with FTB’s Strategic Plan principle to operate with transparency to maintain public trust and confidence. The audits are a tool that assists with managing campaign financing, lobbying and governmental ethics. This PRA requests will also allow FTB to support the department’s Operational Excellence strategic goal, thus allowing FTB to optimize services and resources and better serve customers (taxpayers).

D. Justification

This proposal allows FTB to appropriately administer the PRA program and complete the mandated workloads. The objectives of the Political Reform Act include the full and truthful disclosure and appropriate financial reporting in election campaigns and lobbyist activities. The audits provide the opinions on whether the objectives were met and help to instill public trust of its elected officials and initiative campaigns.

The requested resources will be used to manage mandated workload volumes and address the additional workload complexities. The resources will align the existing complex workloads with the appropriate working classification levels.

Increased Complexity of Activity

Over the 45-year history of the Act, the increase in additional disclosure requirements, prohibitions, limitations, and filing requirements has added additional audit verifications for the following categories:

- Contribution and Expenditure Limits
- Pre-election Statements
- 24-hour Reports
- Ballot Measure Reports
- Extended Election Cycle Reporting Periods
- Multi-Purpose Organizations
- Gift, Meal and Travel Disclosures
- Independent Expenditures
- Net Debt Restrictions
Analysis of Problem

- Placement Agents

Analysis of Workload Volumes

The chart below shows the number of mandatory cases required to be completed by the PRA Program in each of the relevant cycles. The majority of these audits were not done due to the insufficient number of staff resources.

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</thead>
<tbody>
<tr>
<td>Candidate</td>
<td>137</td>
<td>118</td>
<td>163</td>
<td>191</td>
<td>139</td>
</tr>
<tr>
<td>Committees &amp; Lobbyists</td>
<td>0</td>
<td>667</td>
<td>0</td>
<td>673</td>
<td>0</td>
</tr>
</tbody>
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The regulatory changes along with the size of the campaigns have grown, impacting and increasing the complexity of the mandated workloads.

To comply with California Government Code Sections 90000-90009 and in order to complete the audit reviews timely, FTB requests:

Tax Auditor and Associate Tax Auditor – Two permanent positions

FTB is requesting one Tax Auditor and one Associate Tax Auditor to adequately address the mandated inventory levels of the PRA Program. Staff in this classification are required to be knowledgeable on 17 different campaign and lobbying workloads. These positions are needed to complete the less complicated mandated audit cases that are not currently being performed.

Program Specialist I – Four permanent positions

FTB is requesting four Program Specialist I positions to complete the mandated audit cases that are not currently being performed. Staff in this classification are required to be knowledgeable on 17 different campaign and lobbying workloads, and perform the larger scale and more complex audits. They are the team leader on the larger complex audits responsible for directing, monitoring, and developing team members. They also identify and transfer material issues to audit reports using the referenced materials and guidelines.

Program Specialist II – Four permanent positions

FTB is requesting four additional Program Specialist II positions to conduct reviews and consult on the most highly sensitive cases. These positions also provide the final review of completed audits for candidates and their controlled committees, other committees and lobbying entities filing before the audit reports are shared with externals. These positions will also work to develop best practice and policy matters. Due to the specialized workload, these positions develop and provide new staff training as well as annual training. In addition, these positions serve as a point of contact for internal and external customers. With the appropriate amount of resources, FTB will be able to complete the mandatory workloads in a timely manner as required under the Political Reform Act.

Administrator II – One permanent position
The request for additional staff in the PRA Program creates the need for an additional supervisor to accommodate the staff increase. This position will manage the additional staff, provide leadership and professional technical expertise that ensure the development, oversight, and compliance of the Political Reform Act. The administrator also oversees the day to day operations, including planning, organizing and directing the work of staff.

**IT Specialist I – Three limited-term positions**

The IT Specialist I’s will be dedicated to enhancing existing systems, supporting PRA workloads which are necessary to stay current with the growing complexity of political audits and to enhance performance and effectiveness of program activities.

These positions will design and implement system enhancements over the next three years and ensure the system meets information security standards.

Some of the planned enhancements include:

- **Security Audit Logging** – Tracking of users’ access of accounts and the viewing of data for security purposes
- **Work Papers** – Ability to include audit documents with the case management system. This will allow users to manage all documents associated with an audit in one place.
- **Enhanced Reports** – Ability to perform data analysis on historical data for better reporting.

The benefits of the enhancements will improve the timeliness of audits, detailed reporting, and higher level of data security.

Also included in this request is $37,000 for on-going maintenance of the program.

**E. Outcomes and Accountability**

This proposal will ensure FTB has sufficient resources to administer the provisions under California Government Code Sections 90000-90009 under the Political Reform Act. The management of resources received from this proposal will be the responsibility of the Chief of Administrative Services Division or a delegate. The fiscal oversight of the resources is the responsibility of the Chief Financial Officer.

**F. Analysis of All Feasible Alternatives**

**Alternative #1**: Approve FTB’s request for $2.06 million General Fund and 11.0 permanent positions and 3.0 three year limited-term positions in 2021-22 and $1.94 million General Fund and 11.0 permanent positions and 3.0 three year limited-term positions in 2022-23 and 2023-24 and $1.56 million General Fund and 11.0 permanent positions in 2024-25 and on-going for the PRA Program to administer the provision as mandated in California Government Code Sections 90000-90009.

**Alternative #2**: Approve FTB’s request for $2.06 million General Fund and 14.0 three year limited-term positions in 2021-22 and $1.94 General Fund and 14.0 three year limited-term positions for 2022-23 and 2023-24 for the PRA Program to administer the provision as mandated in California Government Code Sections 90000-90009. This option does not address the on-going nature of the workload and does not constitute a permanent solution. In addition, managing workloads will be further impacted as limited-term staff look for other permanent positions.
Alternative #3: Do not approve this proposal.

G. Implementation Plan

- June 2021 – All documents to establish positions are prepared and approved by the FTB Budget Officer and submitted to DOF.
- June 2021 – DOF notifies FTB of positions approval.
- July 2021 – Positions are established and FTB begins hiring.

H. Supplemental Information

None

I. Recommendation

Alternative #1: Approve FTB’s request for $2.06 million General Fund and 11.0 permanent positions and 3.0 three year limited-term positions in 2021-22 and $1.94 million General Fund and 11.0 permanent positions and 3.0 three year limited-term positions in 2022-23 and 2023-24 and $1.56 million General Fund and 11.0 permanent positions in 2024-25 and on-going for the PRA Program to administer the provision as mandated in California Government Code Sections 90000-90009. This alternative will allow FTB to adequately manage the PRA Program as intended when the program was implemented.