

**STATE OF CALIFORNIA**  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 10/20)

<b>Fiscal Year</b> 2022-23	<b>Business Unit</b> 7730	<b>Department</b> Franchise Tax Board	<b>Priority No.</b> 005
<b>Budget Request Name</b>		<b>Program</b>	<b>Subprogram</b>

**Budget Request Description**  
 Political Reform Audit

**Budget Request Summary**

The Franchise Tax Board (FTB) requests \$2.1 million General Fund and 12.0 permanent positions and 2.0 three year limited-term positions in 2022-23; and \$1.9 million General Fund and 12.0 permanent positions and 2.0 three year limited-term positions in 2023-24 and 2024-25; and \$1.6 million General Fund and 12.0 permanent positions in 2025-26 to administer the provision as mandated in California Government Code Sections 90000-90009.

<b>Requires Legislation</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<b>Code Section(s) to be Added/Amended/Repealed</b>	
<b>Does this BCP contain information technology (IT) components?</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	<b>Department CIO</b>	<b>Date</b>

**For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.**

**Project No.**                      **Project Approval Document:**  
**Approval Date:**

**If proposal affects another department, does other department concur with proposal?**  Yes  No  
*Attach comments of affected department, signed and dated by the department director or designee.*

<b>Prepared By</b> Pam Parra	<b>Date</b>	<b>Reviewed By</b> Rosita Mindermann	<b>Date</b>
<b>Department Director</b>	<b>Date</b>	<b>Agency Secretary</b>	<b>Date</b>

**Department of Finance Use Only**

**Additional Review:**  Capital Outlay  ITCU  FSCU  OSAE  Dept. of Technology

<b>PPBA</b>	<b>Date submitted to the Legislature</b>
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## **A. Budget Request Summary**

The Franchise Tax Board (FTB) requests \$2.1 million General Fund and 12.0 permanent positions and 2.0 three year limited-term positions in 2022-23; and \$1.9 million General Fund and 12.0 permanent positions and 2.0 three year limited-term positions in 2023-24 and 2024-25; and \$1.6 million General Fund and 12.0 permanent positions in 2025-26 to administer the provision as mandated in California Government Code Sections 90000-90009.

## **B. Background/History**

The Political Reform Audit (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 Political Reform 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 for the following:

- Legislature (Assembly and Senate)
- Special election
- Statewide election
- Judicial office
- Local office
- Primary Formed Committee
- Lobbying employers and firms
- 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 skillsets by PRA staff. In addition, campaigns have grown significantly since 1974. The Fair Political Practices Commission (FPPC), 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 political campaigns. Based on the filing histories of the spending reported, 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 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 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.

As of August 1, 2021, SB 459 is currently pending before the legislature and if adopted would necessitate additional resources. The resources requested in this proposal are needed regardless of any changes to reporting requirements and audits envisioned under SB 459.

**Resource History**  
(Dollars in thousands)

<b>Program Budget</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21 (P 06)</b>	<b>2021-22</b>
Authorized Expenditures	\$1,440	\$1,638	\$1,546	\$1,544	\$1,699	\$1,699
Actual Expenditures	\$1,468	\$1,481	\$1,582	\$1,332	\$643	\$0
Revenues						
Authorized Positions	13.0	13.0	13.0	13.0	13.0	13.0
Filled Positions	12.6	11.1	12.6	10.3	-	-
Vacancies	0.4	1.9	0.4	2.7	13.0	13.0

**C. State Level Consideration**

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 FPPC and the Office of the Attorney General (AG) or the District Attorney's Office for evaluation. In addition to the audit reports, the FPPC requested background on the FTB and workload challenges.

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 resource request 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 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 increased 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 Workload Volumes**

The workload history chart (Attachment I) shows the number of mandatory cases required to be completed by the PRA program in each of the relevant cycles. As shown in the Workload Measures chart, FTB is able to annually perform 20 – 50% of audits mandated with existing resources. 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 – One permanent position*

*Associate Tax Auditor – One permanent position*

FTB requests 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 requests 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 team leaders on larger, complex audits, and are 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 requests 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, as well as other committees 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 – Two three year limited-term positions, One permanent position*

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 improvements over the next three years and maintain improvements annually which will 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. The additional permanent position will allow ongoing support and maintenance of enhancements to the existing system.

## **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.

**Projected Outcomes** – Please see Attachment I.

## **F. Analysis of All Feasible Alternatives**

**Alternative 1:** Approve FTB's request for \$2.1 million General Fund and 12.0 permanent positions and 2.0 three year limited-term positions in 2022-23; and \$1.9 million General Fund and 12.0 permanent positions and 2.0 three year limited-term positions in 2023-24 and 2024-25; and \$1.6 million General Fund and 12.0 permanent positions in 2025-26 to administer the provision as mandated in California Government Code Sections 90000-90009. These resources will allow FTB to meet the increased demands for the complex political audit workloads that are under greater scrutiny of both civil and political oversight organizations. By adding resources to the Political Reform Audit program, the department will perform mandated audits to ensure legal practices under the act are documented. This, in turn, will allow the department to meet the increased state and federal policies, mandates, laws, and regulations while completing audit functions that allow government representatives to focus on laws that will best serve all of California.

**Alternative 2:** Approve FTB's request for \$2.1 million General Fund and 8.0 permanent positions and 6.0 three year limited-term positions in 2022-23; and \$1.9 million General Fund and 8.0 permanent positions and 6.0 three year limited-term positions in 2023-24 and 2024-25; and \$1.1 million General Fund and 8.0 permanent positions in 2025-26 to administer the provision as mandated in California Government Code Sections 90000-90009. This option does not address the on-going and increasingly complex nature of the workload. In addition, managing workloads will be impacted as limited-term staff look for other permanent positions. This alternative would lead to a reduction in the amount of required work the department could accomplish and will not allow FTB to gain compliance with state mandates.

**Alternative 3:** Approve FTB's request for \$2.1 million General Fund and 14.0 three year limited-term positions in 2021-22; and \$1.9 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 ongoing 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. This alternative would lead to a reduction in the amount of required work the department could accomplish and will not allow FTB to gain compliance with state mandates.

**Alternative 4:** Do not approve the request for additional resources. Should the BCP be denied, it will negatively impact the Program and the department will not meet the established and/or

new mandates and requirements set forth by law. FTB will not be able meet the requirements to complete audits to identify compliance issues and notify appropriate agencies before they become political crises.

Moreover, denial of this proposal compromises FTB's requirements, integrity, and ability to perform mandated functions. As such, FTB and the state would be open to various liabilities.

### **G. Implementation Plan**

- June 2022 – All documents to establish positions are prepared and approved by the FTB Budget Officer and submitted to DOF.
- June 2022 – DOF notifies FTB of positions approval.
- July 2022 – Positions are established and FTB begins hiring.

### **H. Supplemental Information**

None

### **I. Recommendation**

**Alternative 1:** Approve FTB's request for \$2.1 million General Fund and 12.0 permanent positions and 2.0 three year limited-term positions in 2022-23; and \$1.9 million General Fund and 12.0 permanent positions and 2.0 three year limited-term positions in 2023-24 and 2024-25; and \$1.6 million General Fund and 12.0 permanent positions in 2025-26 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.