

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 07/23)

Fiscal Year 2024-25	Business Unit Number 7730	Department Franchise Tax Board
Hyperion Budget Request Name 7730-002-BCP-2024-GB		Relevant Program or Subprogram 6285

Budget Request Title
 Political Reform Audit Resources

Budget Request Summary

The Franchise Tax Board (FTB) requests an augmentation of \$1,813,000 in the Political Reform Act Fund and 13.0 permanent positions for Fiscal Year (FY) 2024-25 and \$1,752,000 in the Political Reform Act Fund in FY 2025-26 and ongoing for the Political Reform Audit (PRA) Program to administer the provisions in California Government Code Sections 90000-90009 as mandated by the Political Reform Act of 1974.

Requires Legislation (submit required legislation with the BCP) <input type="checkbox"/> Trailer Bill Language <input type="checkbox"/> Budget Bill Language <input checked="" type="checkbox"/> N/A	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

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

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

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.

Prepared By	Date	Reviewed By	Date
Department Director	Date	Agency Secretary	Date

Department of Finance Use Only

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

Principal Program Budget Analyst	Date submitted to the Legislature
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A. Problem Statement

The Franchise Tax Board (FTB)'s Political Reform Audit (PRA) Program is not appropriately resourced to adequately administer the provisions in the California Government Code Sections 90000-90009 as mandated by the Political Reform Act of 1974. With the current positions allocated to the PRA Program, FTB has audited, on average, a very small percentage of mandatory cases per year, however, analysis shows that the total number of mandatory audits exceeds 400 cases per year. FTB's inability to adequately administer the program hinders the Political Reform Act's goal of instilling public trust of California's elected officials and initiative campaigns, which is vital to the citizens of California and the transparency that California's government mandates.

Compliance with the law is obtained by the presence of formal auditing that includes the potential of enforcement, education, warning letters, and fines. Since it is known that FTB lacks the resources to complete all mandated audits, it may reduce personal commitment and law-abiding behavior by those that adhere to the Act. Potentially, the inability to complete all audits would lead to less communication and education of entities subject to audit, less oversight of campaign activity, inability to provide comprehensive campaign trends to FPPC, and not enable our stakeholder to enforce penalties to non-compliant entities. Additionally, the public approved the development of the audit program. If the program is not made whole, FTB is unable to provide the public the campaign oversight that they requested and what the law as enacted requires, which could lead to lack of public trust. In addition, the State of California will not meet the objectives of the Political Reform Act of 1974 to provide the full and truthful disclosure and appropriate financial reporting in election campaigns and lobbyist activities as voted for and approved by the citizens of California.

FTB requests \$1,813,000 in the Political Reform Act Fund and 13.0 permanent positions in Fiscal Year (FY) 2024-25 and \$1,752,000 in the Political Reform Act Fund in 2025-26 and on-going for the PRA Program to administer the provisions in California Government Code Sections 90000-90009 as mandated by the Political Reform Act of 1974.

The Political Reform Act has had numerous legislative and regulatory changes in its 49-year history. Since 2000, there have been 10 significant acts, bills, and regulation changes that have led to an increase in the PRA audit workloads without a corresponding increase in resources.

B. Justification

The PRA Program has been administered by the FTB since the passage of the Political Reform Act of 1974 approved by the voters of the State of California. The objectives of the Political Reform Act of 1974 include the full and truthful disclosure and appropriate financial reporting in election campaigns and lobbyist activities. FTB's audit program is required under and governed by the Political Reform Act and the Fair Political Practices Commission (FPPC).

The FPPC's objective is to ensure that public officials act in a fair and unbiased manner in the governmental decision-making process, to promote transparency in government, and to foster public trust in the political system. One way FPPC accomplishes this mission is by working with FTB in two important ways. First, the FPPC conducts draws to select jurisdictions for FTB to pursue for mandatory audits. Second, once FPPC receives FTB's

audit reports and findings, they determine the next actions to take to promote future compliance.

The Political Reform Act mandates FTB to conduct audits that require professionals with specialized technical training and proficiency. The audits provide opinions on whether the objectives were met and help to instill public trust of its elected officials and initiative campaigns. The PRA Program is currently authorized for 13.0 permanent positions. The 17 workloads within the program include audits on candidates and their controlled committees, other committees, and lobbying entities.

Candidates

- **Legislature (Assembly and Senate):** There are 80 Assembly districts and 40 Senate districts in California. Of these districts, 25 percent of the Assembly districts and 25 percent of half of the Senate districts are randomly selected for audit during a draw conducted by the FPPC, resulting in 20 Assembly districts and 5 Senate districts selected for audit. The FPPC generally holds the draw for these workloads in February during odd years. For the districts selected, the PRA Program must determine the candidates and whether each candidate meets the criteria for a mandatory audit, which is \$15,000 in either contributions received, or expenditures made. If the criteria is met, then the PRA Program is required to perform an audit.
- **Special Elections:** A State special election occurs when the Governor declares an election outside of the regular primary and general elections, for Legislature offices that become vacant. For the jurisdiction(s) that have a special election, the PRA Program must follow the same process as the Legislature workloads when determining if an audit is mandatory.
- **Statewide (Primary and General):** Statewide offices include Governor, Lieutenant Governor, Attorney General, Insurance Commissioner, Secretary of State, Superintendent of Public Instruction and Treasurer. The terms of these offices are 4 years with elections held every 4 years during even years. The Primary workload includes candidates who lose the Primary Election and do not advance to the General Election. The General workload includes candidates who won the Primary election and advanced to the General election, which is the top two candidates from each of the seven offices. For these offices, the FPPC does not hold a random draw. The PRA Program must identify all candidates and whether each candidate meets the criteria for a mandatory audit, which is \$25,000 in either contributions received, or expenditures made. If the criteria is met then the PRA Program is required to perform an audit.
- **Statewide (Random):** The scope of this workload includes candidates who raised less than \$25,000 in contributions and spent less than \$25,000 in expenditures. FPPC randomly selects 10 percent of these statewide candidates for audit. The draw generally occurs in August during odd years. If the PRA Program determines a candidate's committee met the \$2,000 threshold in contributions received, then the PRA Program is required to perform an audit.
- **Judicial Offices:** The scope of this workload includes Judicial Superior Court offices being filled via the election process. An election process occurs only when the office is being contested. The FPPC holds a draw in August, during odd years, to select 25 percent of the jurisdictions with elections. Since the FPPC draw is a selection from only jurisdictions where offices are contested, the number of jurisdictions selected varies.

These are 6 year term offices. For the jurisdictions selected, the PRA Program must determine the candidates and whether each candidate meets the criteria for a mandatory audit, which is \$15,000 in either contributions received, or expenditures made. If the criteria is met, then the PRA Program is required to perform an audit.

- **Local Offices:** The scope of this work includes local office candidates who file with their local filing officer, such as a city clerk or county registrar. The FPPC randomly selects 20 local jurisdictions during a draw held in August during odd years. The FPPC may select an additional 20 jurisdictions if the PRA Program completes the first 20 jurisdictions and has time to complete additional audits. For the jurisdictions selected, the PRA Program must determine the candidates and whether each candidate meets the criteria for a mandatory audit, which is \$2,000 in either contributions received, or expenditures made. If the criteria is met, then the PRA Program is required to perform an audit. Determining the candidates for this workload requires additional effort as the filing statements are retained with local filing officers and are not easily accessed through the Secretary of State like the other workloads.

Other Committees

- **Primarily Formed Committees:** The scope of this workload includes committees primarily formed to support or oppose the legislature, statewide, and judicial candidates being audited. The PRA Program is responsible for identifying these committees and determining whether each committee meets the criteria for a mandatory audit, which is \$10,000 in expenditures. If the criteria is met, then the PRA Program is required to perform an audit.
- **Measure Committees (Primary, General, & Recall):** The scope of these workloads includes committees primarily formed to support or oppose state measures voted on during the regular primary or general elections held during even years. A Recall Election occurs when voters try to remove an officeholder from their office and may be held on a different election date than the regular elections, similar to a special election. The PRA Program must identify the committees and then determine whether each committee meets the criteria for a mandatory audit, which is \$10,000 in either contributions received, or expenditures made. If the criteria is met then the PRA Program is required to perform an audit.
- **General Purpose Committees (In Compliance, Not in Compliance, and Never Audited):** The scope of these workloads include various types of committees such as political action, political party, and small contributors. The FPPC randomly selects 25% of the committees that have been through an audit and are in compliance during a draw generally held during November in odd years. In addition, at the same time as the draw, the FPPC provides a list of the committees that are not in compliance. The remaining committees are committees that have never been audited and are all subject to audit. The PRA Program must determine whether each committee, within all three workloads, meet the criteria for a mandatory audit, which is they raised or spent \$10,000 or more to support or oppose state candidates and/or measures during a calendar year. If so, then the PRA program is required to audit the committee.

Lobbying Entities

- Lobbyist Employers & Lobbying Firms: The FPPC randomly selects 25 percent of the registered Lobbying Firms and Lobbyist Employers during a 2 year Legislative Session. The FPPC generally holds the draw in February during odd years, for registered entities and their lobbyists registered during the preceding two years. To determine if an audit is mandatory, the PRA Program must determine whether each lobbying entity has a qualified registered lobbyist. Lobbying Firms and their registered lobbyist(s) must receive \$2,000 or more in a calendar month for lobbying activity. Lobbyist Employers must have a registered lobbyist(s) who spends at least one-third of their compensated time in one calendar month for lobbying activity. If they meet this criteria, the PRA program is required to perform an audit.

Since 2000, there have been 10 regulatory changes resulting in additional disclosure requirements, prohibitions, limitations, and filing requirements. These changes have either resulted in increased audits or an expansion of audit verifications without the PRA Program receiving additional authorized positions. Table 1 below shows the impacts these changes have had on the PRA workload.

Table 1

Year	Act/Bill/Regulation Change	Impact to PRA
2000	Campaign Contributions and Spending Limits Act of 2000	Additional Audit Verification
2007	Assembly Bill 1759 Umberg Reports (Ballot Measure Reports)	Additional Audit Verification
2008	Regulation 18421.7 Reporting an Expenditure for Gift Meal or Travel	Additional Audit Verification
2008	Regulation 18530.4 Legal Defense Audits	Increase in Audits
2011	Assembly Bill 1743 Placement Agents: Lobbying Registration Requirement	Increase in Audits
2014	Senate Bill 27 Political Reform Act of 1974 Amendment	Increased in Audits
2015	Assembly Bill 594 Chapter 364 Political Reform Act of 1974: Campaign Statements	Additional Audit Verification
2016	Regulation 18616 Reports by Lobbyist Employers and Persons Spending \$5000 or More to Influence Legislative or Administrative Action	Additional Audit Verification
2018	Regulation 18402 Committee Names	Additional Audit Verification
2019	Regulation 18422 Multipurpose Organization Political Activity Transparency- Amended	Additional Audit Verification

A few examples of bill and/or regulation changes are discussed below:

Regulation 18421.7 Reporting an Expenditure for Gift Meal or Travel and the *Campaign Contributions and Spending Limits Act of 2000* both greatly impacted the PRA program. One increased disclosure and filing requirements while the other imposed limits on contributions.

Regulation 18421.7. Reporting a Gift, Meal, or Travel added to the disclosure requirements for state candidates making these types of expenditures disclosable. Filers are now required to disclose a description of the expenditure, in addition to the name of the payee, amount, and the type of transaction. This information is also required to be maintained within the filer's records and available for examination to verify the required

disclosures. This extra requirement imposed on the filers adds an additional area to verify during the audit process, resulting in additional analysis, verification, and documentation within the audit workpapers to explain the audit steps taken and the results of the verification. The addition of various disclosure and filing requirements increases the verification process; thus, increasing the complexity and time to complete an audit.

The *Campaign Contributions and Spending Limits Act of 2000* imposed limits on how much a candidate can accept from each donor per election. This added an additional step in the audit process for an auditor to verify that all contributions from donors are within the limit. If a candidate accepts a contribution exceeding the limits, it is a violation of the Political Reform Act, and the auditor must present the issue as a finding in their workpapers. Additionally, as costs rise for items such as advertisement, campaign activities to obtain more donors increases, which also adds to the volume of items being reviewed by the auditor.

As a result, FTB has only been able to complete a minimal portion of the mandated work, with the current 10 permanent resources, which is unacceptable. To adequately staff the program to complete mandated audits and comply with California Government Code Sections 90000-90009, FTB is requesting the following additional resources:

Auditors:

Tax Auditor (TA): 5.0 permanent positions

Associate Tax Auditor (ATA): 4.0 permanent positions

While all auditors have some familiarity on the 17 workloads, different auditor classifications are needed depending on the complexity of the specific workload.

- Least Complex (TA Level): Audit cases with a small number of transactions such as 100 or less contributions received and/or expenditures made. These audits often report a total of less than \$100,000 in expenditures made.
- Moderately Complex (ATA Level): Audit cases with transactions of less than 500 in contributions received and/or expenditures made.
- High Complexity (PS I Level): Audit cases with transactions of 1000 or more in contributions received and/or expenditures made. These audits often report more than \$1 million in expenditures made.

The level of complexity is determined during the case building process, prior to assignment to the auditors, by calculating the total receipts and the total expenditures made for the audit period. After assignment, auditors analyze the transactions with more analysis and application of the law and regulations. This may result in an audit case of low complexity becoming more complex during the audit process due to issues such as inaccurate or nondisclosures, and/or missing records identified by an auditor. For example, audits of local candidates are generally identified as low complex audits due to the small number of transactions disclosed, but often become more complex since these audits are more likely to have less experienced filers. These audits result in various findings, and the auditors spend additional time than estimated in presenting the findings and educating the filers on the disclosure and recordkeeping requirements.

Auditor tasks include:

- Communicating verbally and in writing with filers and their representatives in preliminary audit discussions and post audit conferences.
- Analyzing filers' disclosures of contributions received and expenditures made on campaign disclosure statements and reports to prepare workpaper schedules.
- Conducting field work that includes reviewing source documentation at filers' offices and/or electronically in office and verifying the activity disclosed on the campaign disclosure statements and reports. Sampling is considered for audit cases identified with a large volume of transactions.
- Identify and transfer material issues to audit reports using the referenced materials and guidelines.

With the requested resources, PRA auditors will review and complete over 400 audits per year. Due to resource constraints, FTB has not been able to audit the General Purpose Committees that have never been audited. For purposes of this proposal, FTB is requesting two permanent positions to address this workload and will continue to assess and evaluate the appropriateness of the resources dedicated to the workload.

Quality Review:

Program Specialist II (PS II): 1.0 permanent position

PS II's conduct quality reviews and consult on the most sensitive cases, provide the final review of all completed audits before they are shared with external stakeholders, and develop best practices and policy matters. In addition, these positions serve as a point of contact for internal and external customers.

Administrative Support:

Administrator I (AD I): 1.0 permanent position

The request for additional staff in the PRA Program creates the need for an additional supervisor to accommodate the increased staff. The AD I will oversee the day-to-day operations, including planning, organization, and directing the work of staff. Additionally, this position will provide leadership and professional technical expertise to ensure compliance with the Political Reform Act.

Information Technology Support:

In 2019, the PRA technology solution was moved from an outdated system to a case management solution to ensure the aging database did not lose critical information and to establish a baseline of automated workflows. This project was approved through the PAL process and was implemented on December 31, 2019. While this project was successful and met its objectives and moved to Maintenance & Operations (M&O) in 2020, due to workload constraints, Technology Services Division (TSD) was not able to pursue implementing all desired changes the PRA program needed to achieve efficiencies – only those most critical due to end of life issues with prior systems.

Additionally, due to insufficient resources, TSD has not been able to effectively meet all the maintenance needs for the PRA program. Through the years, TSD has been limited to minimal maintenance and support for PRA.

With these two additional IT resources, TSD will be able to provide necessary ongoing M&O activities to ensure the PRA system and related infrastructure are on supported server and software versions, which will ensure that FTB can continue to safeguard confidential information and provide timely political auditing services. Additionally, these positions will contribute appropriate service levels necessary to prevent or reduce outages, work stoppages, security variances, and incidents. This M&O work is ongoing and will last throughout the life of the PRA program.

Over the next several years, these technology positions will also perform related optimization M&O activities to help PRA:

- Improve employee efficiency, accuracy, compliance, and effective customer services through automation.
- Reduce risk of work outages, work stoppages, and adverse customer impacts.
- Address critical customer optimization needs, such as these prioritized needs:
 - Continue to support and maintain case management functionality – Case management is used to upload correspondence, create case assignments, and refer cases to the appropriate area for completion of the case assignment. PRA needs the ability to track the case real-time throughout the audit process and know exactly what stage of the audit process the case is in (i.e., preliminary review, fieldwork, audit report, review). Currently, staff must go into each individual audit case in a shared network drive to see the status of a case. Current monthly inventory report only provides a point in time status of audit cases.
 - Security Audit Logging – PRA needs the ability to track users' access of accounts and the viewing of data for security purposes.
 - Mature services for mandated PRA metrics – PRA needs the ability to track the status and number of cases included in all workloads in real-time; provide alerts for the workloads that are approaching the statute of limitations; provide alerts on when a new workload is available to work; determine how many cases can be completed in each workload; develop Key Performance Indicators (KPI) and Peer Group Averages (PGA) for each workload. Currently, metrics are tracked and monitored manually on Excel spreadsheets.
 - Manage work paper metrics based on case information – Allow users to manage all documents associated with an audit in one place. Currently, the auditors create their workpapers in Word and Excel and everything is saved to a shared network drive. There is no version history.
 - Mature lead review – PRA would like to generate automated emails for case review rather than track the review status of completed cases on an Excel spreadsheet.
 - Add a field for case hours - Provide time tracking as part of each audit case's workpapers to track the case hours. Currently, the auditors track hours worked on their cases manually.

- Historical metrics for statistical and reporting purposes – PRA needs to have all historical information housed in one place to generate required reports. Currently, historical data is saved in Excel spreadsheets, Access reports, etc.

The needs listed above are multi-year and/or ongoing technical workloads needed to effectively support the PRA program. TSD does not currently have position authority or funding to support our PRA partners with the needs listed above. If these positions are denied, TSD would continue to provide minimal and substandard support. The requested resources within this proposal 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.

C. Departmentwide and Statewide Considerations

FTB'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, Secretary of State, and the Office of the Attorney General or the District Attorney's Office for their evaluation.

This BCP request aligns with FTB's Foundational Principles which states, "Operate with transparency to maintain public trust and confidence." The audits are a tool that assist with managing campaign financing, lobbying and governmental ethics.

This BCP request aligns with FTB's Strategic Goal #4 Operational Excellence which states the FTB will, "Optimize our processes, products, services, and resources to better service our internal and external customers." FTB's ability to better service our external customers rely on services being optimized by the FTB Political Reform Audit Program.

D. Outcomes and Accountability

This proposal will ensure FTB has sufficient resources to administer the provisions in California Government Code Sections 90000-90009 as mandated by the Political Reform Act of 1974.

The management of resources received from this proposal will be the responsibility of the Chief of Administrative Services Division or a delegate.

The management of this information technology resources will be the responsibility of FTB's Chief Information Officer (CIO) or a delegate. The fiscal oversight of the resources is the responsibility of both the CIO and the Chief Financial Officer (CFO).

FTB will continue to carry out its mission in a manner that is fair, equitable, and consistent with the California Taxpayer's Bill of Rights Act.

E. Implementation Plan

June 2024 – All documents to establish positions are prepared and approved by the FTB Budget Officer and submitted to DOF.

June 2024 – DOF notifies FTB of positions approval.

July 1, 2024 – Funding is provided, and positions are established. FTB begins hiring and onboarding.

F. Supplemental Information (If Applicable)

None.

Pending Board Approval

Pending Board Approval