STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
DF-46 (REV 03/25)

Fiscal Year	Business Unit Number	Department
2027-28	7730	Franchise Tax Board

Hyperion Budget Request Name	Relevant Program or Subprogram
7730-004-BCP-2027-GB	6285

Budget Request Title
Political Reform Audit Resources

Budget Request Summary
The Franchise Tax Board (FTB) requests approval to redirect $3,081,000 in FY 2027-28, $3,061,000 in FY 2028-29 and ongoing, and the full time equivalent of 14.0 permanent positions and 3.0 permanent intermittent positions from General Fund, Tax Program to Political Reform Audit (PRA) Program. This redirection of existing funding and positions will support the PRA Program in managing mandated workload volumes and addressing increasing workload complexities pursuant to California Government Code Sections 90000-90009 as mandated by the Political Reform Act of 1974.

Requires Legislation (submit required legislation with the BCP)	Code Section(s) to be Added/Amended/Repealed
☐ Trailer Bill Language ☐ Budget Bill Language ☐ N/A	

Does this BCP contain information technology (IT) components? ☐ Yes ☒ No	Department CIO	Date
If yes, departmental Chief Information Officer must sign.		

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

A. Problem Statement

Over the past several years, the Franchise Tax Board (FTB)'s Political Reform Audit (PRA) Program has experienced challenges in fulfilling its statutory responsibilities under California Government Code Sections 90000-90009 as mandated by the Political Reform Act of 1974 (Act). With the current level of staffing, the PRA Program has been able to complete, on average, approximately 30 percent of the mandatory cases each year. Insufficient resources limit FTB's ability to adequately administer the program, hindering the Political Reform Act's goal of instilling public trust of California's elected officials, initiative campaigns, and lobbying activity, which is essential to 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. 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 the Fair Political Practices Commission (FPPC) and prohibit our stakeholders from enforcing penalties to non-compliant entities. Without additional resources, FTB will continue to be unable to provide the level of campaign oversight required by law and expected by the public, increasing the risk of reduced transparency and diminished public trust. In addition, the State of California will not meet the objectives of the Political Reform Act of 1974 to provide full and truthful disclosure and appropriate financial reporting in election campaigns and lobbyist activities as voted for and approved by the citizens of California.

To address these deficiencies, FTB requests approval to redirect $3,081,000 in FY 2027-28, $3,061,000 in FY 2028-29 and ongoing, and the full time equivalent of 14.0 permanent positions and 3.0 permanent intermittent positions from FTB's Tax Program to the Political Reform Audit Program. This redirection of existing funding and positions will further support the PRA Program in managing mandated workload volumes and addressing increasing workload complexities pursuant to California Government Code Sections 90000-90009 as mandated by the Political Reform Act of 1974.

B. Justification

The PRA Program has administered audits required under the Political Reform Act of 1974 since the Act's voter approval. The Act's objectives include ensuring full and truthful disclosure in election campaigns and lobbying activities and promoting transparency and public trust in California's political system. FTB's audit responsibilities are established in California Government Code Sections 90000–90009 and governed in coordination with the FPPC.

The FPPC furthers its mission of promoting fair decision-making, transparency, and public confidence, through a partnership with FTB. FPPC selects jurisdictions and committees through periodic draws that determine mandatory audits. After FTB completes these audits, FPPC uses the findings to determine appropriate enforcement, compliance actions, and future oversight priorities.

The Political Reform Act requires the FTB to perform audits that demand specialized technical expertise. As workload continues to grow and regulatory requirements evolve, the PRA Program is unable to effectively manage its 17 unique audit workloads with only 13.0 authorized permanent positions; comprised of 9.0 auditor positions and 4.0 administrative-type positions. As a result, fulfilling statutory requirements is challenging due to unsustainable workload expectations.

The PRA Program's responsibilities include auditing the following:

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 are 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 for 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 are 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 expenditure. 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 filed 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 are 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 are 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 are 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, like 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 are 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 includes 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 comply during a draw generally held during December 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, meets 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 these criteria, the PRA Program is required to perform an audit.

Due to current resource constraints, FTB has managed to accomplish only a small fraction of its required tasks, making it impossible to meet statutory obligations in the long term. Except for the General Purpose Committees (Never Audited) workload, FTB is requesting the following resources be redirected to fulfill mandated audits and ensure compliance with California Government Code Sections 90000-90009:

Auditors:
Tax Auditors: 4.0 permanent positions
Associate Tax Auditor: 7.0 permanent positions
Program Specialist I: 1.0 permanent position
Tax Auditor to Associate Tax Auditor: 2.0 permanent upgrades

The auditors are trained to work across all the various PRA workloads; however, the Associate Tax Auditor and Program Specialist I auditor classifications are needed due to the complexity of these assignments.

New auditors, such as Tax Auditors, generally need one or two years to obtain the skill set required to be successful in this classification. In addition, the ability to hire at the Associate Tax Auditor classification or above allows PRA to consider candidates with auditing experience, resulting in a shorter learning curve and increased productivity at a faster rate; thus, resulting in more complete audits for all the mandated workloads.

Auditors at higher classifications can complete audits more efficiently and require less training and guidance, resulting in an overall increase in completed audits. Experienced auditors, such as those at the Associate Tax Auditor level, are particularly needed for the PRA workload. For example, the Statewide General workload includes some of the largest audit cases completed by the Program and typically involves team audits. Associate Tax Auditor-level auditors are expected to work independently, lead team audits, and understand audit concepts well enough to train new auditors.

- Least to Moderate Complexity (Tax Auditor/Associate Tax Auditor Level): Audit cases with a small to moderate number of transactions with 1,000 or less contributions received and/or expenditures made. These audits often report a total of less than $100,000 in expenditures made.

- High Complexity (Program Specialist I Level): Audit cases with transactions of 1,000 or more contributions received and/or expenditures made. These audits often report more than $1 million or more in expenditures made.

The level of complexity is initially 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 perform deeper analysis of 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 complexity because they usually involve fewer 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 be able to review and complete a significantly greater portion of required audits each year.

Quality Review: Program Specialist II: *1.0 permanent position*

Program Specialist 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 subject matter expert(s) and point of contact for internal and external customers. Adding an additional Program Specialist II ensures cases move through the review process timely and prevents a backlog in case review.

Administrator 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 Administrator 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 and that audit work is efficiently moving through the audit process.

Tax Technicians: *3.0 permanent intermittent positions*

Tax Technicians perform essential functions that enable the PRA Program to complete its mandated audits. Core duties include preparing and assembling audit case files, entering data for all 17 campaign and lobbying workloads, downloading and organizing required filings from the Secretary of State, communicating with filing officers and filers, and preparing and distributing final audit reports. These responsibilities require consistent technical accuracy and timely processing, consistent with the analytical expectations of the classification.

Without additional positions, audit case files and reports will not be completed on time, delaying mandatory audits and reducing overall program output. Other staff would need to be redirected to perform Tax Technician duties, resulting in fewer completed audits and creating operational risk for compliance with the Political Reform Act.

Information Technology Support: *Information Technology (IT)Specialist I: 3,700 hours*

The PRA program requires dedicated IT Specialist I resources to support ongoing maintenance and essential system enhancements that cannot be met with existing resources.

The Technology Services Division (TSD) has faced resource constraints that have prevented it from fully supporting the ongoing development and maintenance needs of the PRA program. As a result, TSD has been able to provide only essential emergency support to ensure system functionality, without the capacity to conduct regular maintenance, implement enhancements, or address required workload activities.

With the addition of these IT resources, TSD will have dedicated developer hours to serve the PRA system for necessary system support. These additional developer resources will provide essential ongoing maintenance and operations (M&O) activities and ensure the PRA system and its related infrastructure remain on supported server and software versions. This will enable FTB to continue safeguarding confidential information and delivering timely political auditing services. Additionally, these resources will contribute to the 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.

These dedicated technology resources will 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. Provide rapid issue diagnosis and resolution to avoid operational disruptions and apply security patches and monitoring for continuous security.
- Integrate new tools and services into the system as needed.
- Address critical customer optimization needs, including:
    - Continue to support and maintain case management functionality.
    - Improve the current case management system functionality.
    - Improved 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 need the ability to better 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.
    - Mature lead review – PRA needs to generate additional automated emails for case review to better track the review status of completed cases.
    - 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 outlined above reflect ongoing technical work required to effectively support the PRA program. TSD currently lacks the position authority and funding to meet these needs. Without this funding, TSD will be limited to minimal, reactive support, increasing the risk of system interruptions, delays in mandated audit activities, security gaps, and missed PRA metrics. The requested resources will help manage mandated workload volumes, address increasing workload complexities, and align complex assignments with the appropriate classification level.

<u>Operating Expense and Equipment</u>

FTB requests $300,000 in ongoing IT Operating Expense and Equipment (OE&E) to address existing operational gaps in support of technology solutions, including the PRA case management system. Currently, the program lacks both budgetary flexibility and dedicated IT OE&E resources, which causes major constraints that delay audit intake, case development, statutory reporting, and system modernization efforts. Without sustained IT OE&E funding, the PRA Program is unable to maintain or expand system capabilities, resulting in continued manual processing burdens and limiting FTB's ability to meet Political Reform Act requirements.

This funding will allow the program to pursue technology solutions—including essential system licensing, automation tools, and workflow improvements—that are needed to manage 17 complex audit workloads effectively. Establishing a stable OE&E baseline is necessary to modernize PRA case management systems and ensure timely, compliant audit operations.

<u>Ongoing Training</u>

FTB requests an annual training budget of $14,000 to support ongoing technical development. Ongoing training is essential to ensure staff gain the necessary knowledge and skills to accurately review required filings and detect potential issues such as fraud, omissions, inconsistencies, inappropriate transactions, or compliance reporting errors in political disclosure documents. As reporting requirements grow more complex and new schemes emerge, ongoing training is vital to keep staff well-informed and equipped with the latest tools and methodologies. This increases effectiveness and enhances the reliability of audit results. Continuous learning directly strengthens our ability to uphold transparency, promote trust and accountability in public office, ensuring that disclosures are both accurate and thoroughly reviewed.

<u>Ongoing Travel</u>

FTB requests an appropriation of $28,000 for PRA staff to conduct field audits at the candidate's or representative's place of business or at an FTB field office. Although many audits are conducted electronically, there are candidates, representatives, and local offices who continue to maintain paper records and request audits to be conducted in person, which requires auditors to travel. Travel is conducted only within California, typically located in the Northern and Southern regions.

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 and professionalism to maintain public trust and confidence." The audits are a tool that assists 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 best serve our internal and external customers and stakeholders." 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 the information technology resource will be the responsibility of FTB's Chief Information Officer (CIO) or a delegate. Fiscal oversight of the resource 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 2027 – All documents to redirect positions from Tax Program to PRA Program are prepared and approved by the FTB Budget Officer and submitted to DOF.

June 2027 – DOF notifies FTB of positions approval.

July 1, 2027 – Funding and positions are coordinated internally. FTB begins hiring and onboarding.

F. Supplemental Information (If Applicable)

None.