



August 16, 2012

Chair Ann Ravel and Commissioners
Fair Political Practices Commission
428 J Street, Suite 620
Sacramento, CA 95814

Dear Chair Ravel and Commissioners:

We would like to thank you and Gary Winuk, Chief of the Enforcement Division, for inviting us to speak before the Commission about the Franchise Tax Board's (FTB) Political Reform Audit Program (the program). We look forward to providing you with a brief overview of the program and responding to any questions you may have about our work. We have included some general information about the program below.

Background

The Political Reform Act of 1974 (the Act) requires FTB to perform audits of the campaign statements and reports filed by state and local committees, lobbyists, lobbying firms, and lobbyist employers. FTB was selected to perform these audits to ensure the audit function's independence and objectivity. Consequently, FTB established our program in 1975 to perform the audits and prepare reports regarding the accuracy and completeness of the filings. The program has continued to serve in this capacity for more than 35 years.

While the program originally consisted of four district offices with a staff of nearly 100, its size was significantly reduced after a performance audit determined that the use of random selection, audit sampling, and materiality analysis could streamline the audit process and reduce the number of audits performed without compromising the program's mission. Over the years, budget cuts have resulted in further staff reductions. The program's current staffing level is 13 positions. Although these staff reductions have presented serious challenges, particularly as statutory and regulatory requirements have become more complex, we continue to fulfill our responsibilities under the Act by producing informative and useful audit reports in a timely manner.

Who We Audit

We audit various types of entities, including committees controlled by candidates for local, state, and statewide office, state ballot measure committees, state general purpose committees, primarily formed committees, lobbyists, lobbying firms, and lobbyist employers. In most cases, entities are randomly selected for audit by the Commission. We are required to issue audit reports for these randomly-selected entities within one year of the date of selection. We do not audit candidates for the Board of Equalization, State Controller, or the Board of Administration of the Public Employees Retirement System. Those audits are conducted by Commission staff.

Depending on the filer's preference, the audits may be conducted in the field, at FTB, via correspondence, or using a combination of these methods. We work closely with the regulated community to make the audit process as painless as possible by maintaining flexibility in scheduling audit appointments, accommodating their schedules while conducting field work, and offering them an opportunity to provide comments for inclusion in the audit report and supporting work papers.

Audit Purpose

The purpose of our audits is to determine whether an entity is in compliance with the Act's disclosure and recordkeeping requirements. Specifically, our audit reports conclude whether the filer is in substantial compliance with these requirements, whether they are in compliance with exceptions, or whether they are not in compliance. Any material exceptions identified during the audit are included in the report along with comments from the filer. Audit reports are generally sent to the Commission, the Attorney General, the Secretary of State, and the entity being audited. They may also be sent to local filing officers and district attorneys depending on the entity being audited. Not only do our audits provide the Commission and others with critical information upon which to base possible enforcement actions, but they also serve to educate less experienced filers about the Act's requirements and inform those in the regulated community about recent statutory or regulatory changes.

Audit Process

In the course of performing our audits, we adhere to generally accepted auditing standards and the auditing standards set by the Commission. We employ various audit procedures depending on the audit objectives, the nature of the entity being audited, the results of prior audits and an internal control review, interviews with the filers and risks observed, among other factors. Examples of common procedures include reconciling bank statements with campaign statements, verifying whether reports and statements were timely filed with the appropriate filing officer, and tracing contributions and expenditures from source documents to campaign statements to determine compliance with recordkeeping and disclosure requirements. More extensive procedures are generally performed. Auditors maintain detailed work papers to support every audit report. Senior audit staff review all work papers and audit reports as part of the program's quality review process. In addition, FTB executives review all audit reports before they are released.

Program Benefits

The program inherently promotes compliance due to the educational nature of our work. Accordingly, the majority of our audits result in substantial compliance opinions. However, our audits have also identified many serious violations of the Act, including money laundering, embezzlement, personal use of campaign funds, unreported contributions and expenditures, unregistered lobbyists, and a variety of other compliance issues. Enforcement agencies have used findings from our audits in criminal proceedings on a number of occasions. As a result, program staff have been asked to testify in court proceedings and provide detailed case information to enforcement agencies.

Despite the reduction in our staffing level and the increasing complexity of our audits, we have consistently met statutory deadlines for completing audits of randomly-selected entities. On an annual basis 200 to 300 audits are completed. Approximately 70 percent of these are subject to statutory deadlines. In addition to completing our audits, we have provided assistance to local filing officers and ethics commissions in the form of training and sharing audit procedures.

We look forward to maintaining our excellent working relationship with the Secretary of State, the Commission and its staff, and the regulated community while continuing to produce informative audit reports that further the state's efforts to increase compliance with the Act.

Sincerely,

Andrea VanWalleghem
Director, Internal Audit Bureau

Pamela Parra
Manager, Political Reform Audit Program

cc: Gary Winuk, Chief of Enforcement, Fair Political Practices Commission