

December 26, 2017

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Fair Political Practices Commission submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Loressa Hon, Chief of Administration, at (916) 322-7578, LHon@fppc.ca.gov.

BACKGROUND

The Fair Political Practices Commission (FPPC) was created by the Political Reform Act of 1974 (Act), a ballot initiative passed by California voters. The mission of the Fair Political Practices Commission is to promote the integrity of representative state and local government in California through fair, impartial interpretation and enforcement of political campaign, lobbying, and conflict of interest laws. To meet its responsibilities under the Act, the Commission adopts and amends regulations. It also develops required forms, prepares manuals and instructions, aids agencies and public officials with record keeping and reporting, and maintains a central file of statements of economic interests for certain state and local officials. The Commission staff also investigates alleged violations of the Political Reform Act, imposes penalties when appropriate, and assists state and local agencies in the development and enforcement of conflict-of-interest codes. In an effort to reduce violations, the FPPC educates the public and public officials on the requirements of the Act and provides written and oral advice to public agencies and officials and conducts seminars and training sessions.

The FPPC regulates: • campaign financing and spending • financial conflicts of interest • lobbyist registration and reporting • post-governmental employment • mass mailings at public expense • gifts and honoraria given to public officials and candidates. The Commission and its staff have a strong focus on integrity and accountability. Management and staff have a strong work ethic and strongly believe in the mission of the agency.

FPPC's principle areas of responsibility are described as follows:

Legal Division is headed by the General Counsel and is comprised of staff attorneys, Political Reform Consultants and support staff.

- Representing the Commission in Court - Unlike most state agencies, which are represented in court by the Attorney General, the Commission is specifically authorized to be represented by its own lawyers. This is only one of the many provision of the Act designed to ensure the independence of the Commission. However, in instances where the staff's time constraints or the litigation costs may be too burdensome, the Commission may request representation by the Attorney General's office. The Act provides that, upon request, the Attorney General must provide

legal advice and representation without charge to the Commission. In these cases, the Commission's staff attorneys provide expertise and ensure that the representation conforms to Commission policy.

- Advice - The Legal Division staff receives a large number of requests via email for advice from state and local officials, candidates and campaign committees, and lobbyists. Many of these questions concern conflicts of interests – officials asking whether they must disqualify themselves from certain decisions. Staff attorneys and Political Reform Consultants also assist the External Affairs and Education Division in providing informal advice in response to telephone requests when the questions are relatively straightforward. In response to some requests, the legal staff can give written advice, which are also known as Advice Letters.
- Regulations - Drafting regulations to implement the campaign, lobbying, and conflict of interest provisions of the Act is an important part of the Legal Division's work. The FPPC regulations must comply with the Administrative Procedure Act, which provides procedures and standards for state agencies to follow in adopting regulations.
- Legislation - The Legal Division is involved in drafting Commission sponsored legislation and provides analysis on other bills that impact the Act.
- Developing State and Local Conflict of Interest Codes - The Legal Division Political Reform Consultants prepare recommendations to the Executive Director or Commission Counsel for code adoptions and amendments for all state and multi-county agencies. The Political Reform Consultants also serve as a resource to all government agencies as they work to develop their own conflict of interest codes via webinars and training materials.

External Affairs and Education Division provides daily assistance to members of the public and the FPPC's regulated community. This assistance is provided through training, public outreach, and telephone advice.

- Training, Assistance and Public Outreach - The External Affairs and Education Division prepares and conducts extensive Training and Outreach, including workshops and webinars, to help interested parties better understand their obligations under the Act. The division develops the Forms and Manuals used in campaign and personal financial disclosure, and it provides telephone advice for FPPC filers, their staff and filing officers throughout the state.
- Public Affairs and Media Relations -The External Affairs and Education Division provides the public and media with timely and available information on actions, decisions, events and policies of the Commission. The Media Relations, Public Affairs and Communications office helps educate the public and media on the FPPC'S role and the spirit of the Political Reform Act. The office also provides media availability of FPPC leadership and subject matter experts.

Enforcement Division is a team of lawyers, investigators, auditors, political reform consultants and support staff that investigate and administratively prosecute suspected violations of the Political Reform Act.

- Enforcement Process - The Enforcement Division analyzes and processes over 1,500 complaints and referrals per year about potential violations of the Act. Complaints and referrals are received from citizens, other government agencies, and the media. The Enforcement Division also investigates on its own initiative. The division also operates a campaign audit program of both mandatory and discretionary audits. A matter will be fully investigated if there is sufficient information to believe that a violation of the Act has occurred.
- Administrative Enforcement Case Resolutions - A complaint can be resolved in several ways depending on the strength of the evidence, the particular facts, and the amount of public harm involved. If there is insufficient evidence to prosecute, a case may be closed with a letter finding no violation or an advisory letter. If the seriousness of the offense and public harm are low, a warning

letter may be issued identifying a violation of the Act but concluding a monetary fine is not warranted. Finally, if the case merits pursuit of a fine, the Enforcement Division will prosecute the violators and may seek penalties of up to \$5,000 per violation, which must be approved by the Commissioners.

- Collaboration - During an investigation the Enforcement Division may uncover evidence of criminal misconduct, or an outside agency may uncover evidence of local violations of the Act. It is common in these circumstances for each agency to notify the other and collaboratively enforce California law. In addition, the FPPC also assists district attorneys and authorized city attorneys in analyzing, investigation and prosecuting local violations of the Act.

Administration and Technology Division oversees personnel functions, budgeting, accounting, business services, print services, and employee-employer relations services. The division also is in charge of the information technology, which plays a crucial role in fulfilling the Commission's goal to increase transparency through technology unit.

- Processing Statements of Economic Interests - Form 700. The Administration Division administers and acts as filing officer for over 25,000 Statements of Economic Interests from all levels of government across California.

ONGOING MONITORING

As the head of Fair Political Practices Commission, Erin Peth, Executive Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

EXECUTIVE MONITORING SPONSOR(S)

The executive monitoring sponsor responsibilities include facilitating and verifying that the Fair Political Practices Commission internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Loressa Hon, Chief of Administration, and Jue Wang, Administration Manager.

MONITORING ACTIVITIES

The FPPC's Administration Division will coordinate all monitoring activities and is integrating formal ongoing monitoring activities into existing practices used to manage its resources and operations, such as conducting separate evaluations and regularly meeting with the executive management team on a monthly basis during strategic planning meetings to address and document all results and/or to develop corrective action plan to address results and outcomes. The frequency of monitoring activities will be evaluated on a case by case basis, determined by factors such as risk priority, critical budget and project deadlines, timelines, urgency, staff experience, subject matter difficulty, and uniqueness.

ADDRESSING VULNERABILITIES

FPPC has established a bi-annual internal control (IC) review lead by the executive management team that was designed to provide reasonable assurance on the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. IC over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Through a risk assessment and evaluation review, executive management team will discuss the timeframe for deficiencies to be remedied and will work to remedy any issues identified. The FPPC has a policy that all deficiencies will be mitigated as soon as possible.

COMMUNICATION

FPPC plans to communicate monitoring activities to key members of management through verbal and written communication. Every division at FPPC will maintain monitoring documentation to meet business needs. Recipients of monitoring reports are at all levels of management with the emphasis placed on monitoring and control oversight at the lowest management level possible. The frequency and type of reporting will depend on the nature of operations, priorities, and the organization's needs.

ONGOING MONITORING COMPLIANCE

The Fair Political Practices Commission is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the Fair Political Practices Commission systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Fair Political Practices Commission risk assessment process: Executive Management, Middle Management, and Front Line Management.

RISK IDENTIFICATION

Due to the nature of the Commission and its mission of promoting integrity in government, the ongoing evaluation of the integrity of its systems and controls is of utmost importance. Beginning January 2017, the executive management team of the Commission has implemented a monthly meeting on Strategic Planning, which covers the Commission's objectives, mission and priorities. Risk assessments were prepared, evaluated and revised on a as needed basis. The Commission is aware that management is responsible for establishing and maintaining a system of internal controls within our agency. The agency meets the objectives of internal control, which are to provide reasonable, but not absolute, assurance that: Assets are safeguarded against loss from unauthorized use or disposition. Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements. Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, and certain other state laws and regulations, as well as the Commission's policies and procedures. There is a basic foundation upon which a structure of public accountability must be built in order to minimize fraud, errors, abuse, and waste of government funds. System requirements are communicated to employees. FPPC has a plan of organization that provides segregation of duties appropriate for proper safeguarding of FPPC assets. FPPC has a plan that limits access to state agency assets to authorized personnel who require these assets in the performance of their assigned duties. Personnel have been trained, commensurate with their responsibilities. Technology infrastructure supports the completeness, accuracy, and validity of information processed.

RISK RANKING

A collaboration effort through executive management team resulted in the selection of risks and controls to test. The result of the control testing were communicated to all senior management for their review and feedback. The review identified and evaluated potential risks to the Commission and tests the critical controls necessary to mitigate the threats identified during the risk assessment process. In addition, executive management held a series of meetings to discuss the 2017 report. The discussion focused on the risks and controls to mitigate these risks in the Commission's current environment. A consensus was reached that the significant Commission wide risks and corresponding controls were

properly identified and articulated. A matrix identifying threats to the agency and controls was developed by the Administration Division in coordination with key personnel from each division and with executive management meeting to provide input and finalize recommendations. The current 2017 report were spearheaded by the Administration Division with a review of the Commission's control environment and critical mission.

RISKS AND CONTROLS

RISK: OPERATIONS -INTERNAL-STAFF—KEY PERSON DEPENDENCE, WORKFORCE PLANNING

The Commission relies on specific individuals with significant knowledge and expertise in key areas which makes the department vulnerable if they leave, retire, or are temporarily absent.

1. Small agency with limited positions create challenges on cross-training and backups
2. A few middle management employees that had retired during this calendar year with suitable replacements but less expertise
3. Staff expert is relied upon exclusively without any backup to assist in his/her absence

Develop and maintain documentation that captures key, relevant, and/or historical information and specialized unit processes.

- Determine where information and documentation is maintained using established file structure.
- Identify and inventory information and documentation available.
- Identify information and documentation gaps.
- Develop and/or revise information and documentation to close gaps.

CONTROL A

Continue to develop and implement a comprehensive workforce development plan to prepare staff to fill key positions.

- Identify gaps in the workforce development plan and develop solutions to address the gaps.
- Continue to provide Leadership Development Training for multiple levels of staff.
- Continually assess employee demographic information and career plans to anticipate staff attrition.
- Discuss topics monthly at strategic planning meetings.

RISK: OPERATIONS -INTERNAL-TECHNOLOGY—DATA SECURITY

Potential internal acts threatening the integrity, safety, or privacy of information.

- Staff accidentally altering important files
- Unintentional release of confidential information
- Failing to follow internal security procedures such as inappropriate password sharing or failing to lock computer
- Access levels allow users to view unauthorized information
- Inadequate process to discourage or identify unauthorized access

In order to mitigate this risk, we have hired a new Information Security Officer (ISO). The ISO has attended training, including the Department of Technology's security training. He is also working on our department's risk assessment review.

CONTROL A

Replaced the Commission cybersecurity software, as well as replaced our firewall.

RISK: OPERATIONS -EXTERNAL-LITIGATION

A lawsuit could be filed for use of improper legal basis when regulations are created or amended, or for issues related to the Public Records Act.

Regulation are created or amended, or for issues related to the Public Records Act.

In order to mitigate the risk, internal review is conducted which includes other divisions, past practices are applied and public opinion is solicited. Program staff also consults the FPPC's General Counsel and, as necessary, the expertise of the Attorney General's Office.

CONTROL A

The FPPC holds an Interested Person Meeting and provides an Information Page For Interested Persons Meetings and Opportunities for Public Comment. The website is intended to assist members of the public and regulated community who wish to join our Interested Persons process, or who simply wish to find up-to-date information on key policy discussions underway at the FPPC.

RISK: OPERATIONS -INTERNAL-WORKPLACE ENVIRONMENT

Workload performed by mid and upper-level management causes management burnout and hinders staff development.

Adhere to the Commission's policy to delegate work to the most appropriate level of staff to foster ownership and responsibility for assignment areas.

Communicate job expectations and departmental policy to mid and upper-level management.

CONTROL A

Provide ongoing coaching and leadership strategies for mid and upper-level management.

CONCLUSION

The Fair Political Practices Commission strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Erin Peth, Executive Director

CC: California Legislature [Senate (2), Assembly (1)]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency
