December 29, 2015

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

Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Fair Political Practices Commission submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

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 these 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.

RISK ASSESSMENT PROCESS

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. The executive
managers and 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.
- Minimizes 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 of a quality commensurate with their responsibilities.
- Technology infrastructure supports the completeness, accuracy, and validity of information processed.

The executive management team has independently performed an internal control review in accordance with Government Code Section 13400 et seq. A matrix identifying threats to the agency and controls was first developed in 2009 by the Administration Division in coordination with key personnel from each division and with executive management meeting to provide input and finalize recommendations. The 2011, 2013, and the current 2015 report were spearheaded by the Administration Division with a review of the Commission’s control environment and critical mission. 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 2015 report. The discussion focused on the risks and controls to mitigate these risks in the Commission’s current environment.

**EVALUATION OF RISKS AND CONTROLS**

**Reporting- Internal- FI$Cal Conversion**

Internal FI$Cal reports are inadequate, inaccurate, misinterpreted, or untimely to meet internal user needs.

Examples:
- Information is not available or not structured in a way that is useful for management decision making
- Information in FI$Cal reports is inadequate, inaccurate, misinterpreted, or untimely
- Staff not aware of FI$Cal reporting capabilities, causing inefficient methods to gather or present needed information
- FI$Cal update frequency does not match user expectations or understanding, resulting in misinterpretation of available information

We are working with FI$Cal to identify reporting that will replace CALSTARS reporting.

**Reporting- External- FI$Cal Conversion**

FI$Cal reports are inadequate, inaccurate, misinterpreted, or untimely to convey the intended message due to the implementation or design of FI$Cal.

Examples:
- Vendors misinterpret reports generated from FI$Cal because of a lack of experience reading the
report
- External parties provide the incorrect information as a result of a misunderstood report

We are working with FI$Cal to mitigate this risk.

**Operations- Internal- FI$Cal Conversion**

Internal implementation of FI$Cal causing limitations of staff availability, information accuracy, security, or compatibility.

Examples:
- Operating inefficiency as a result of system or user error from implementation of FI$Cal
- Staff availability is reduced by time spent training for FI$Cal conversion
- FI$Cal system incompatibility with internal information systems
- Timing of FI$Cal updates do not align with user expectations, creating data entry errors

We are working with FI$Cal in order to mitigate this risk.

**Operations- External- FI$Cal Conversion**

Design or implementation of FI$Cal causing limitations of information availability, security, or access.

Examples:
- Loss of information, lack of availability, server down time, or slow response
- Information security breaches on FI$Cal servers

We are working with FI$Cal in order to mitigate this risk.

**Operations- Internal- Technology—Data Security**

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

Examples:
- Staff accidently 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 an 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.

**Reporting- External- Information Communicated—Inadequate, Inaccurate, Misinterpreted, Untimely**

Potential untimely processing of cases.
Controls are currently in place to mitigate this risk. The Enforcement Division conducts internal case review and caseload analysis which includes review by the manager and/or peers. Additional advice and review is performed by the Legal Division as needed. Written procedures are in place for clarity of actions.

**Operations- Internal- Physical Resources—Maintenance, Upgrades, Replacements, Security**

Potential improper treatment of confidential information.

To provide security of confidential information, the Commission has the Enforcement Division on a secured floor with additional restrictions on the file room and database. In addition, segregation of duties between the Enforcement Division and the accounting office ensure proper handling of receipts.

**Operations- Internal- Staff—Key Person Dependence, Succession Planning**

Potential loss of institutional knowledge due to heavy reliance on staff who may become temporarily or permanently unavailable.

Examples:
- Limited positions create challenges cross-training backups
- A few employees nearing retirement age without suitable replacements
- Staff expert is relied upon exclusively without any backup to assist in his/her absence

We have conducted hiring for our Legal Division Chief and our Enforcement Division Chief. These positions provide the organization the support, guidance and leadership necessary to achieve our entity's mission and goals. We have also backfilled from several recent retirements. And we have filled middle management positions, so that executive staff has back up. Additionally, we continue to cross-train at all levels of the organization as much as possible.

**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.

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.

In addition, 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.

**ONGOING MONITORING**

Through our ongoing monitoring processes, the Fair Political Practices Commission reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Fair Political Practices Commission is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.
Roles and Responsibilities

As the head of Fair Political Practices Commission, Erin Peth, Executive Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Donna Lee, Budget Analyst, Jue Wang, Administration Manager, as our designated agency monitor(s).

Frequency of Monitoring Activities

The monitors will update the executive management team every month.

Reporting and Documenting Monitoring Activities

The FPPC's Administration Division will coordinate all monitoring activities, and the executive management team will meet on a monthly basis during executive meetings to address and document all results and/or to develop corrective action plan to address result and outcome.

Procedure for Addressing Identified Internal Control Deficiencies

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 hold a series of meetings to 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.

CONCLUSION

The Fair Political Practices Commission strives to reduce the risks inherent in our work through ongoing monitoring. The Fair Political Practices Commission accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Erin Peth, Executive Director

cc: Department of Finance
   Legislature
   State Auditor
   State Library
   State Controller
   Secretary of Government Operations