



State of Washington PUBLIC DISCLOSURE COMMISSION

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January 17, 2013

TO: Commission Members
FROM: Andrea McNamara Doyle, Executive Director
RE: Audit initiative update

Background

At the August 23, 2012, Commission meeting, I provided you background information regarding the Commission's past audit practices and current resource constraints affecting our ability to continue the agency's previous audit efforts.¹ I also presented a plan for a modified, scaled-back audit program that relies primarily on an automated review of selected filings ("e-audits"). At that meeting, you expressed an interest in receiving an update on the e-audit initiative after the end of the election cycle. You also expressed interest in revisiting whether staff could undertake additional post-election limited scope audits in a manner similar to what has been done in the past. This memorandum provides an update and some additional options for your consideration.

E-audit Results

Staff has created customized database queries that allow us to electronically audit certain types of campaign reports to determine whether required filings have been submitted and whether required information has been included on the reports. For the 2012 election cycle, we audited the following five requirements:

1. **Mandatory electronic filing.** For this audit, we identified in October those candidates and committees that had reported spending more than \$5,000 during 2012, but who had filed paper Receipts & Expenditure Summary Reports (C-4 reports) instead of electronically filing them as is required once they have spent \$5,000 in the previous year or expect to spend \$5,000 or more in the current year (RCW 42.17A.245). The e-audit originally identified five candidates and seven committees that exceeded the \$5,000 threshold during the 2012 election cycle but were still paper filing.

Upon closer review, and follow up with the campaigns, staff has resolved all but one situation. Our review determined that several committees reached the threshold with their last reports before the election, and they will be instructed to begin e-filing in the next election cycle (11 candidates, two continuing political

¹ Another copy of my August memorandum is attached for ease of reference.

committees, and five local ballot measure campaigns); a few had made reporting errors that, once corrected, brought them under the e-filing threshold; and three others have taken the necessary steps to re-file their reports electronically.

2. **Contributor data on contribution reports (C-3 reports).** For this audit, we analyzed how fully candidates and committees were completing the required contributor information (name & address for contributions over \$25, and occupation & employer for contributions over \$100). During the 2012 election cycle, ninety-nine percent of the 503 candidates, and ninety-six percent of the 509 committees, provided 90 percent or more of the required contributor data. Two percent of committees provided between 80-90 percent of the required contributor data, and two percent provided less than 80 percent of the required contributor data.
3. **21-day pre-election C-4 reports.** For this audit, we identified those candidates and committees that had failed to timely file the Receipts & Expenditure Summary Reports (C-4 reports) due 21 days before the 2012 general election.
4. **7-day pre-election C-4 reports.** Like the 21-day pre-election report audit, we identified missing 7-day pre-election C-4 reports.
5. **Post-election C-4 reports.** This audit identified campaigns missing their December 10, 2012 post-election C-4 reports as of early January, 2013.

From the 21-day, 7-day, and post-election C-4 audit results, reminder warning letters have been sent to most of the 37 candidates who were still missing one or more of these reports as of early January (a few were not contacted because of unique circumstances). We will monitor responses to the reminders and anticipate increased compliance rates as a result. Reminder/warning letters have not yet been sent to the other committees (non-candidate committees) that were missing one or more of the 21-day, 7-day, or post-election C-4 reports as of early January. As time and resources allow, we expect to re-run this e-audit and contact the remaining committees with delinquent 21-day, 7-day, and post-election reports.

Options for post-election limited scope audits

As I relayed during the August discussion, staff reductions have significantly impacted our ability to conduct audits. This is because the PDC no longer has any staff positions assigned exclusively (or primarily) to auditing, and any auditing activity must be done by our remaining compliance and/or outreach staff. At this juncture, any compliance staff time devoted to auditing is time that cannot be spent investigating active complaints or conducting group enforcement; and any outreach staff time spent on auditing is time

that cannot be spent assisting filers with compliance questions. Our backlog of pending complaints has grown since August; and with it, the likelihood of missing our performance targets for completing investigations has also increased. Any addition of new limited scope audits to our agency work plan will necessarily result in one or more of the following negative impacts in other areas: further delays in the resolution of cases, an increase in the backlog of complaint reviews, a reduction of group enforcement activity, and/or delays in responding to filer assistance requests.

While quantifying the workload shift is inherently imprecise, we know from past experience that limited scope post-election audits of candidates take about 5-12 hours each (5-10 hours for legislative candidates, and 7-12 hours for statewide executive candidates), plus additional time for pre-audit planning and file review, correspondence with filers, and preparation of the audit reports (estimated at about the same amount as the audit itself, 5-12 hours each). Although no historical data is available regarding the amount of time needed to conduct post-election audits of non-candidate political committees (e.g., independent expenditure committees and/or ballot measure committees), presumably a limited scope audit could be designed to fit within these same time estimates. Using these estimates, by assigning one investigator or filer assistant to perform limited scope audits, we could expect to complete approximately 10 post-election audits at the cost of about 100-200 hours of investigative or filer assistance activity.

Before undertaking such an effort, however, the Commission and staff must be prepared to accept greater customer frustration and dissatisfaction caused by greater delays in staff responsiveness and slower resolution of enforcement matters. Although it is hard to predict with precision, it is not hard to imagine that increased frustration and dissatisfaction on the part of the public and filers who rely on the PDC could manifest itself in many ways, from erosion of public confidence in the political process and government, to the potential for increased litigation (e.g., filing of 45-day citizen action complaints). The question to be answered, then, is whether the benefits to be achieved from undertaking a small scale limited scope audit plan are sufficient to risk these tradeoffs in customer satisfaction?

- If the Commission believes the answer is yes, then it would also be helpful to hear whether you think the audit plan would be more beneficial if all the audits are focused on the same class of filers or spread among different classes of filers (e.g., statewide executive candidates, legislative candidates, local candidates, independent expenditure committees, ballot measures committees, etc).
- If the Commission believes the answer is no, then should staff expand the e-audit initiative to additional types of filings, which is significantly less time intensive and can achieve at least some of the same benefits as limited scope audits?



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TO: Members, Public Disclosure Commission
FROM: Andrea McNamara Doyle, Executive Director
DATE: August 16, 2012
SUBJECT: Audit planning

Agenda Item

This agenda item is a follow-up to the Commission's strategic planning discussions at the retreat on July 26, 2012. At that meeting, the Commission discussed Strategic Plan Goals 1-1 and 1-5 related to audits¹ and, more specifically, staff's request for guidance from the Commission regarding the relative priority of audits in light of reduced staff resources. At the conclusion of the discussion, the Commission asked staff to bring forward some audit plan options for the Commission's consideration at a future meeting. This memorandum provides some additional background on the Commission's past audit practices and plans, as well as current capabilities and limitations.

Background

Statutory authority for audits

The Commission's audit functions are spelled out in the law as both mandatory and permissive. RCW 42.17A.105 provides: "The commission *shall*: ...(6) Conduct a sufficient number of audits and field investigations to provide a statistically valid finding regarding the degree of compliance with the provisions of this chapter by all required filers..." (emphasis added). The law also allows the Commission to undertake audits "as it deems appropriate," and "from time to time, on its own motion." RCW 42.17A.110 (as amended by 2011 c. 60 and 2011 1st sp.s. c 43).

Purposes of Commission audits

Commission staff had previously identified the primary purposes of conducting audits to:

- Verify, to the maximum extent possible within PDC resources, that statements and reports filed are accurate and timely;
- Determine whether filers are in substantial compliance with the law; and

¹ Goal 1-1 states: Review sampling of F-1s to gauge overall compliance rate; Goal 1-5 states: Implement audit plan for campaign, lobbying, & personal financial affairs filers.

- Evaluate record keeping and reporting procedures used by filers and suggest corrective action to insure future compliance with the law.²

Other important purposes served by conducting audits were more recently identified at the Commission retreat and in further discussions among staff. These additional purposes include:

- Reducing the potential for violations through the deterrent effect achieved by the existence of an audit program;
- Assisting filers in avoiding violations through collaborative review of reports and procedures; and
- Providing management with information regarding the effectiveness of current outreach, training, and filer assistance efforts, and identifying areas for improvement.

Past practices & current capabilities

In the past, the agency has undertaken four types of audit examinations: a general review of the reports submitted by filers and the PDC database; the desk audit; the field audit; and on-site visits.

General Review. Reports filed with the Commission may be reviewed electronically, or manually by a political finance or customer filing specialist, or data entry personnel. This review provides assurances that the reports have been timely filed, completely filled out (Note - no verification is made to the accuracy of the information included in the report); and consistently filed with previously filed reports.

Examples of the types of general audit reviews that can currently be done electronically, through periodic database queries, include the following:

Late/Missing Candidate and Political Committee Reports

- C-1/F-1 (candidate registration/financial affairs)
- C-4 (receipts & expenditures: monthly, 21-day & 7-day pre-election; 10-day post-election)

Late/Missing Lobbyist Reports

- L-1 (bi-annual registration renewals for continuing lobbyists)
- L-2 (monthly expense reports)
- L-3 (annual lobbyist employer reports)

Late/Missing Personal Financial Affairs Reports

- F-1 (annual elected and appointed officials)

Missing/Non-Compliant Data

- Contributor data on C-3 reports
- Overlimit contributions on candidate C-3 reports
- Line value comparisons on candidate & committee C-3 & C-4 reports

² These purposes were identified in the agency's audit manual, an informal working document used to guide staff's auditing efforts.

Additional types of general reviews are and can be done manually by staff, including data entry staff who review certain elements of both electronically filed and paper filed reports, and filer assistance and compliance staff who review reports in response to questions and inquiries.

The results of these types of general reviews have been handled in various ways, from informal contact with filers requesting corrective actions, to warning letters and group enforcement proceedings. They have not typically been presented to the filers, the Commission, or the public as “audits” in the traditional sense, although they serve many of the purposes of audits.

Desk Audit. The desk audit consists of a planned, in-house review of reports for completeness and accuracy. A desk audit requires a more in-depth (and, by necessity, manual) look at the reports submitted by the filer. Reports may be checked for omissions or errors, completeness, and whether reports on their face appear to be logical. A desk audit may include occasional verification of information from outside sources, and are used in many ways, including the following:

- To identify exceptions or misunderstandings the filer has experienced with a reporting requirement;
- As a limited scope review when resources do not allow a more complete audit;
- To identify filers whose reports have a higher probability of material exceptions and to determine whether the reports should be examined further;
- As part of the preliminary work for a full or limited scope audit;
- To ensure compliance with contribution limits; and
- To verify the statistical accuracy of PDC staff generated reports from the database.

Desk audits have resulted in correspondence with filers regarding needed corrective actions, and referrals to the Executive Director or Director of Compliance if it appears a more thorough audit, or potentially an investigation, is warranted. The time needed for desk audits varies but is generally less than one to three hours each, plus the time involved in following up on the results.

Full or Limited Scope Audits (previously referred to as a Field Audit). A full or limited scope audit has included a preliminary review of reports on file with PDC, a review of database queries and filings, and an examination of the campaign or lobbying records of the filers. The full or limited scope audit has also included independent verification of specific contribution and expenditure information reported by the filer. Neither the full or limited scope audits have involved the review of every campaign contribution or expenditure.

A full audit can include a detailed review of 10-25 campaign expenditures including invoices, and possibly bank statements, a confirmation of contribution and expenditure information, and determining whether filer was in substantial compliance with overall campaign finance reporting requirements.

Most limited scope audits include a review of 3-5 expenditures, and an in-house confirmation of 3-5 contributions. Examples of the types of verification conducted during limited scope candidate audits include:

- Invoices and cancelled checks for political advertisements;
- Invoices submitted by political consultants and political consulting firms;
- Cancelled checks for other campaign expenditures;
- Photocopies of checks for contributions received from political committees, caucus political committees, political party organizations and other contributors;
- Receipts for other campaign related expenses such as candidate reimbursements, automobile repair, travel, parking, etc...; and
- Other documentation included Last Minute Contribution (LMC) memoranda, mileage logs, e-mail communications.

The full or limited scope audits are used to determine if a filer has substantially complied with the reporting requirements of the act. The audits have consisted of three phases, including an initial review or desk audit to establish the scope, the full or limited scope audit, and preparation of the audit report with exhibits, findings, and corrective actions as needed. Exit interviews may also be conducted with the filers, and typically the results are presented formally to the Commission. Enforcement actions may be initiated at the discretion of the Executive Director.

The amount of staff time needed to conduct limited scope audits has varied based on the scope of the inquiry. Past experience has shown the following:

- 2008 legislative candidate audits took 5-10 hours each, plus additional time for pre-audit planning and file review, correspondence with the filers, and preparation of the audit reports.
- 2008 statewide executive candidate audits took 7-12 hours each, plus the additional pre-audit planning, file review, correspondence with filers, and preparation of the audit reports.
- 2005-2006 lobbyist and lobbyist employer audits took between 3-7 hours each, plus additional staff time for drafting the audit summary letters for each filer.

On-site visits – The “on-site visits” involved PDC staff members conducting inspections to verify that the campaign or committees “books of accounts” were kept and properly maintained. Very limited information is available regarding the agency’s past practices with this type of audit.

Opportunities and trade-offs

In the absence of any remaining staff positions devoted exclusively to audits, staff seeks to develop an audit plan that make the most efficient and effective use of the agency’s limited resources. Recognizing that all time devoted to audits is time that can no longer be spent on other core functions (e.g., when done by compliance staff, it is time that cannot be spent conducting investigations; when done by outreach staff, it is time that cannot be spent assisting filers), staff seeks an approach that strikes the best balance and best serves the public interest.

At the Commission meeting, I will provide some options with time estimates and possible schedules for your consideration and direction.