

City of Oakland Office of the City Auditor

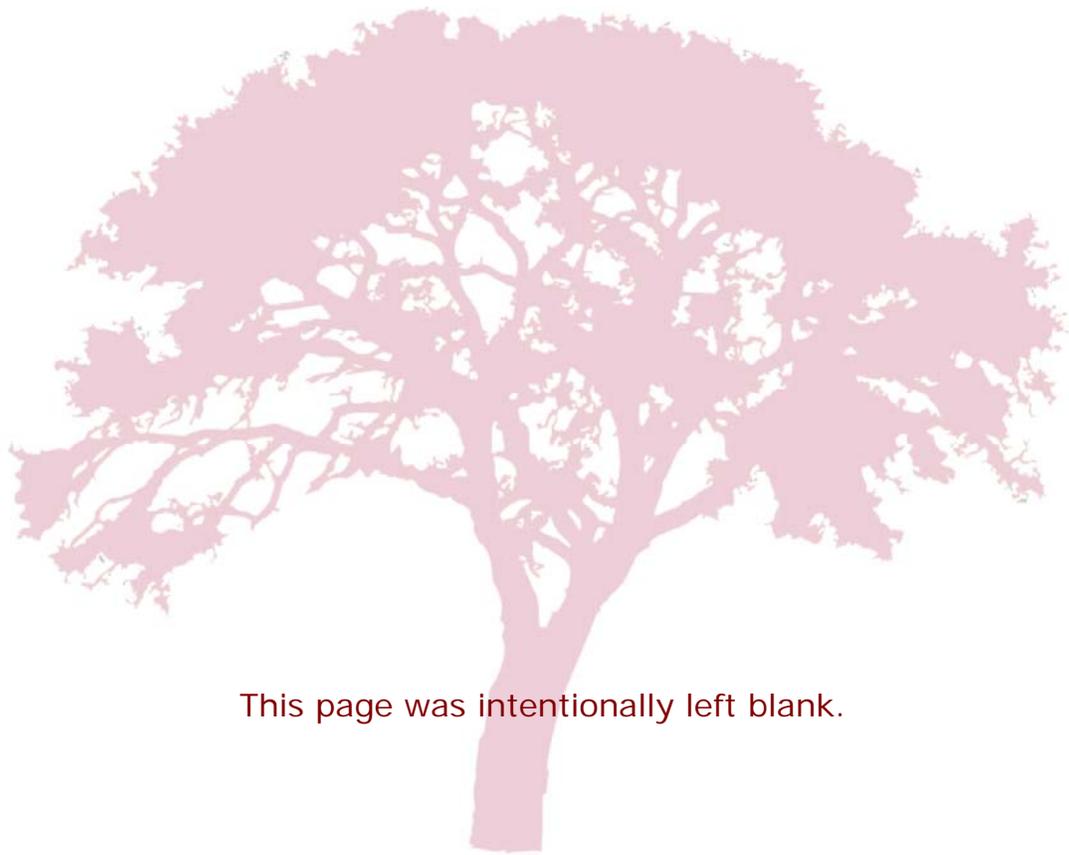
January 30, 2013

Limited Public Financing Act Performance Audit: November 2, 2010 Election



City Auditor
Courtney A. Ruby, CPA, CFE

PERFORMANCE AUDIT



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January 30, 2013

PUBLIC ETHICS COMMISSION
OFFICE OF THE MAYOR
HONORABLE CITY COUNCIL
CITY ADMINISTRATOR
CITIZENS OF OAKLAND
OAKLAND, CALIFORNIA

RE: LPFA PERFORMANCE AUDIT OF THE NOVEMBER 2, 2010 ELECTION

Dear Members of the Commission:

Attached is the LPFA Performance Audit of the November 2, 2010 election, as required by Oakland's Limited Public Financing Act (LPFA). In December 1999, the Oakland City Council adopted the LPFA, which implements the objectives of Oakland's Campaign Reform Act and incorporates requirements of the California Fair Political Practices Commission (FPPC). LPFA provides a limited amount of public funds to assist eligible candidates in running for City Council district offices. All qualifying campaign committees (candidates) may apply for public financing. The November 2, 2010 election was the first election that candidates received public financing in the form of reimbursements rather than matching funds. Candidates had to spend their own funds on campaign expenditures first and then submit requests to the City for reimbursement.

The LPFA requires the Office of the City Auditor to conduct post-election audits of all candidates accepting public financing. For the November 2, 2010, election, the following five candidates received public financing: Jose Dorado, Patricia Kernighan, Jennifer Pae, Elizabeth "Libby" Schaaf, and Daniel Swafford.

The audit's objectives were to determine if candidates were appropriately reimbursed in compliance with the LPFA requirements, and if the Public Ethics Commission staff's (PEC) reimbursement approval process was effective and ensured compliance with LPFA reimbursement requirements.

The audit found that the PEC's reimbursement process was inconsistent and insufficiently documented. Three of the five candidates received appropriate reimbursements but two candidates, Jose Dorado and Daniel Swafford, had conflicting records and may be owed additional amounts. The audit also found that the PEC's process to approve reimbursement requests was inconsistent and insufficiently documented. The PEC should clarify what is acceptable supporting documentation.

The Administration has agreed to implement 100 percent of the recommendations provided in the report. Based on conversations with PEC staff, the PEC restructured its processes regarding its oversight of LPFA requirements for the November 2012 election cycle.

The public financing program is provided to assist candidates who desire to become public servants in our community. This audit illustrates that this program is important to encouraging a diverse field of candidates, and as such, appropriate policies and procedures must be developed and consistently followed to ensure the program is maintained.

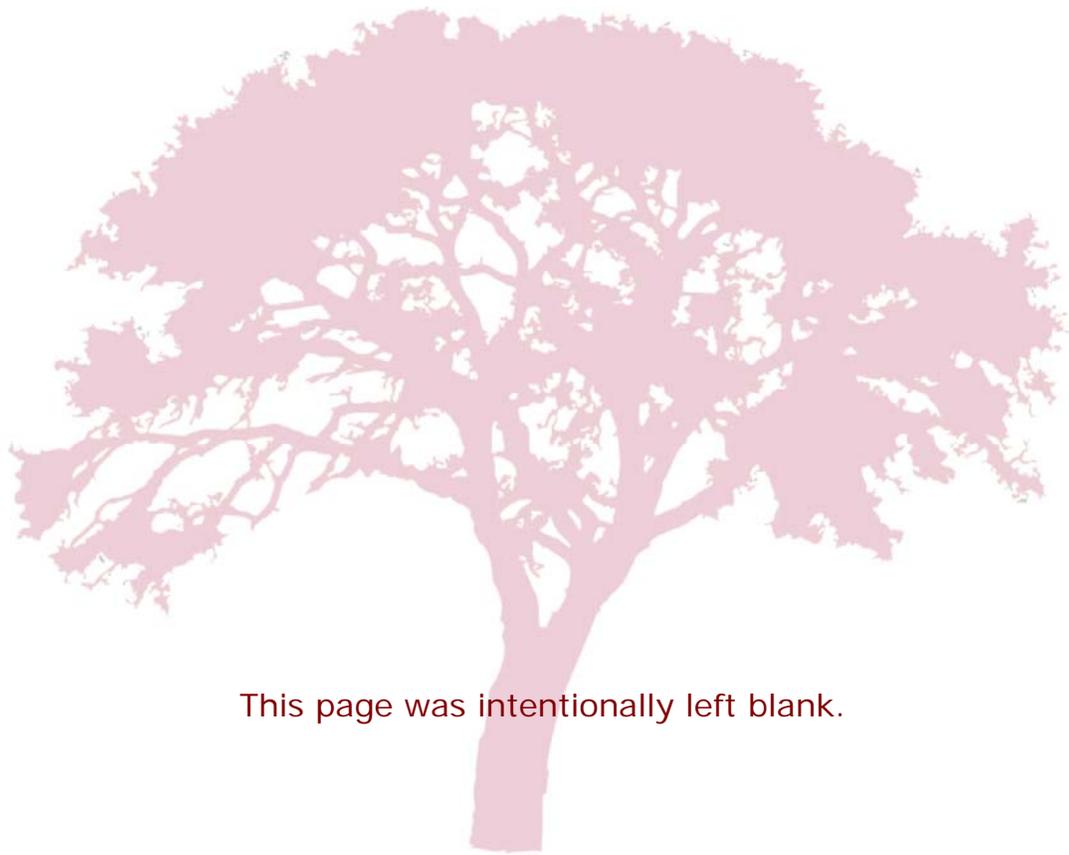
Respectfully submitted,

A handwritten signature in cursive script that reads "Courtney A. Ruby". The signature is written in black ink and is positioned above the printed name.

COURTNEY A. RUBY, CPA, CFE
City Auditor

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REPORT SUMMARY

LIMITED PUBLIC FINANCING ACT PERFORMANCE AUDIT: NOVEMBER 2, 2010 ELECTION

OVERVIEW

Five candidates running for Oakland City Council district offices received public financing during the November 2, 2010 election.

Objectives

The Office of the City Auditor conducted a performance audit of the implementation of the Limited Public Financing Act during the November 2, 2010 election cycle. The objectives of the audit were to determine if:

- Candidates were appropriately reimbursed in compliance with the Limited Public Financing Act (LPFA) requirements
- The Public Ethics Commission staff's (PEC) reimbursement approval process was effective and ensured compliance with LPFA reimbursement requirements

Key Findings

The findings from the audit include:

- Finding 1: The PEC's process to approve reimbursement requests was inconsistent and insufficiently documented
- Finding 2: Three of the five candidates received appropriate reimbursements; two candidates had conflicting records and may be owed additional amounts
- Finding 3: The PEC should clarify what is acceptable supporting documentation

Key Recommendations

To address the audit's findings, the report includes seven recommendations:

The PEC should:

- Develop and implement clear and well-documented policies and procedures regarding its administration and oversight of LPFA reimbursements. The policies and procedures should ensure that candidates meet all LPFA requirements and that the PEC's review and documentation are clear
- Consider requiring candidates to include approved reimbursement summaries for each reimbursement request to facilitate the PEC's review and tracking of all expenditures submitted for reimbursement
- Strengthen controls over the PEC's LPFA reimbursement process to better ensure that reimbursements are accurate and complete, e.g., incorporate how to track the maximum reimbursement amount per candidate that is determined at Commission meetings into the written policies and procedures
- Further review the reimbursements issued to Jose Dorado and Daniel Swafford to determine if they are correct
- Develop and communicate what is acceptable supporting documentation, including ensuring that:
 - All pages of an invoice are included and clear
 - Bank statements show enough information to verify the vendor, date, and amount paid
 - Copies of campaign literature are legible and complete
 - Printouts of web pages are submitted when requesting reimbursement for web design or other website costs

- Both the front and the back of canceled checks are submitted as support for reimbursement
- Appropriate support is provided to the City to link vendor invoices to a payee if the payee's name is different than the vendor/invoice name
- Ensure that candidates are complying with the Oakland Campaign Reform Act by including a required notice on fundraising materials
- Work with the City-wide Accounts Payable Unit regarding the reimbursement process. The City-wide Accounts Payable Unit should verify that all required supporting documentation is attached to a LPFA payment request, according to its procedures

Introduction

Five candidates received public financing during the November 2, 2010 election cycle. The LPFA required the PEC to review and approve reimbursement requests before candidates were given public financing. The PEC performed the review. Exhibit 1 shows how much public financing each candidate received during the November 2, 2010 election cycle.

EXHIBIT 1: Candidates Receiving Public Financing in the 2010 Election Cycle	
Candidate	Total reimbursement amount received
Jose Dorado	\$13,011
Patricia Kernighan	\$16,463
Jennifer Pae	\$16,061
Elizabeth "Libby" Schaaf	\$16,463
Daniel Swafford	\$14,111

Background

The City Council adopted the Limited Public Financing Act of the City of Oakland (LPFA) in December 1999. The LPFA was most recently amended in July 2010 with the adoption of Ordinance No. 13031 C.M.S. The LPFA provides for public financing of candidates running for City Council district offices. Candidates have to follow the LPFA qualification procedures as well as be opposed by another candidate to receive these funds. Qualifying campaign committees (candidates) apply for and receive these City monies. The Public Ethics Commission (Commission), a governing body composed of Oakland residents, oversees compliance with the LPFA. The commissioners are either appointed by the Mayor and confirmed by the City Council or selected by the Public Ethics Commission as a whole. The Commission is assigned city staff (PEC) who assist the work of the commissioners.

The November 2, 2010 election was the first election that candidates received public financing in the form of reimbursements rather than matching funds. Candidates had to spend their own funds on campaign expenditures first and then submit requests to the City for reimbursement. According to the LPFA, candidates could only be reimbursed for the following seven types of campaign expenditures:

- Candidate filing and ballot fees
- Printed campaign literature and production costs
- Postage
- Print advertisements
- Radio airtime and production costs
- Television or cable airtime and production costs
- Website design and maintenance costs

The LPFA also required that all requests for reimbursements be made on a form authorized by the PEC and include a copy of the following support:

- The billing invoice for which reimbursement is sought
- The check(s) by which the candidate's campaign committee made payment on the billing invoice

- When applicable, the campaign literature, advertisement, radio or television script, or website configuration (collectively, “campaign literature”)

The Commission had the authority under the LPFA to set the maximum reimbursement amount per candidate when insufficient funding existed in the election campaign account to meet the statutory maximum amount to potentially eligible candidates. The election campaign account was insufficiently funded to meet the statutory maximum amount for the November 2, 2010 election cycle so the Commission determined the maximum reimbursement amount. Exhibit 2 shows the different maximum reimbursement amounts that were approved during the November 2, 2010 election cycle.

EXHIBIT 2: Progression of maximum reimbursement amounts approved by the Commission		
Date	PEC Resolution No.	Maximum reimbursement per candidate
August 17, 2010	10-02	\$9,408
September 8, 2010	10-03	\$22,579
September 22, 2010	10-04	\$16,128
October 19, 2010	10-05	\$14,111
November 1, 2010	10-06	\$16,463

The maximum reimbursement amounts fluctuated as the Commission determined the number of eligible candidates qualified to receive public financing.

Since the November 2010 election cycle, the PEC has experienced a complete change in staff. Based on conversations with current PEC staff, the PEC restructured its processes regarding its oversight of LPFA requirements for the November 2012 election cycle.

Objectives, Scope

& Methodology

Audit Objectives

The objectives of the audit were to determine if:

- Candidates were appropriately reimbursed in compliance with LPFA requirements
- The PEC’s reimbursement approval process was effective and ensured compliance with LPFA reimbursement requirements

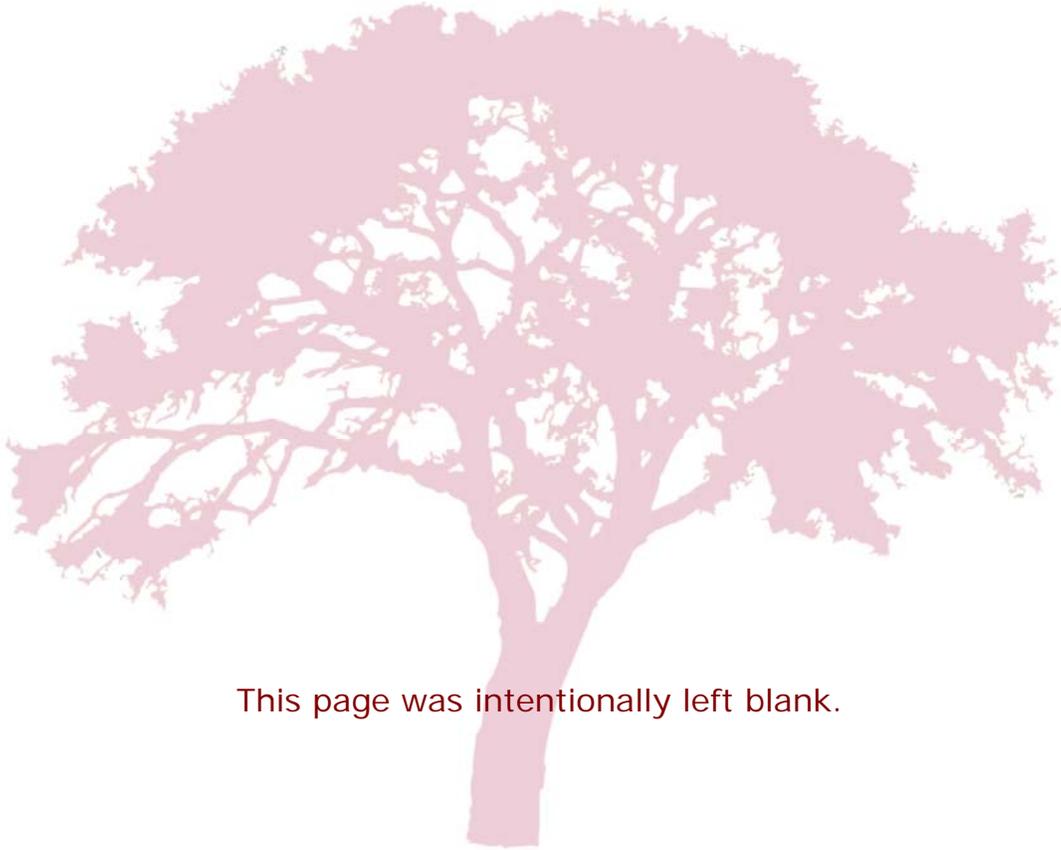
Audit Scope

The audit scope included expenditures submitted by candidates for reimbursement in the November 2, 2010 election cycle and the PEC’s procedures for processing the reimbursement requests.

Audit Methodology

To determine whether requests for public financing complied with the reimbursement provisions of the LPFA, the audit interviewed current and former PEC staff and obtained and reviewed files from the PEC, which contained the reimbursement requests from the candidates and the administrative documents prepared by the PEC. These files had limitations. The type of documentation included in each file was inconsistent and the documents were organized in a manner that made verifying compliance with the LPFA requirements difficult. For example, the PEC's summaries of reimbursements were inconsistently completed and most copies of the campaign literature were in a stack separate from the copies of the invoices and checks, which made it difficult to determine which campaign literature supported which invoice and check. Neither the candidates nor the PEC notated the copies of the invoice or the campaign literature to indicate the association between them. Further, meetings with former PEC staff did not clarify which campaign literature belonged to which invoices and checks. In light of this, the audit applied its own test to determine whether the reimbursements were appropriate. The audit tested whether the expenditures were one of the seven types of approved expenses and whether each expenditure included a copy of the invoice, evidence of payment, and a copy of the campaign literature. The audit applied judgment to pair copies of the campaign literature that could reasonably match the descriptions of the invoices. This test provides reasonable assurance that the reimbursements received by the candidates were appropriate.

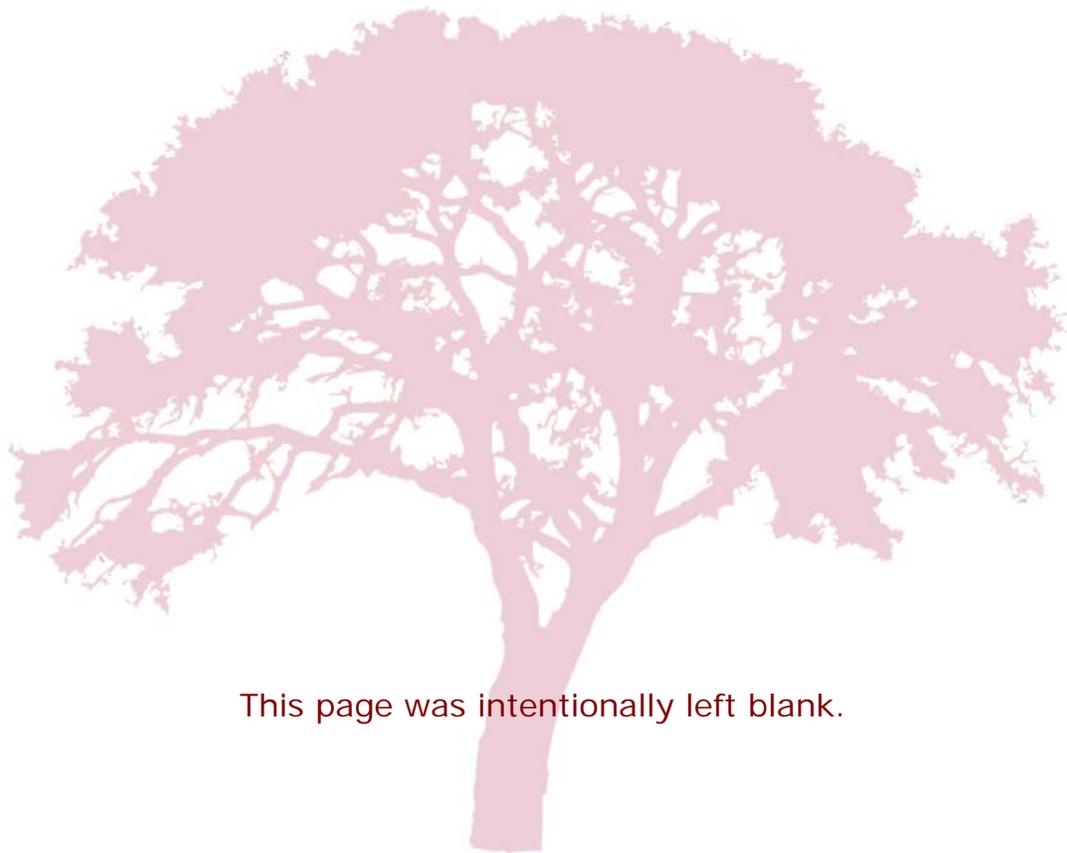
The Office conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that the Office plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit findings and conclusions based on the audit objectives. The Office believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.



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AUDIT RESULTS



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Finding 1

The PEC's process to approve reimbursement requests was inconsistent and insufficiently documented.

The PEC did not have documented policies and procedures regarding its process for approving reimbursement requests. The PEC used a checklist developed to track compliance with various LPFA provisions, including the reimbursement provisions. However, the checklist was inconsistently and insufficiently completed for each candidate. Further, the level of review documented for the candidates' reimbursement requests in the files indicates that the reimbursement process was not consistently followed. For example:

- The files did not include the PEC's approved reimbursement summary for five out of nine reimbursement checks
- Most of the copies of invoices and campaign literature in the files were organized in a manner that made it difficult to determine if the campaign literature supported the invoices and checks
- The file for one candidate contained a letter from the PEC to the candidate stating that an additional reimbursement was due, however, the check for this reimbursement was never issued
- The files inconsistently included documentation regarding compliance with the LPFA provision for an expenditure ceiling

The files did not include the PEC's approved reimbursement summary for five out of the nine reimbursement checks. According to former PEC staff, the PEC documented its review of each reimbursement request by preparing a summary list that showed the individual invoices and amounts that had been approved for reimbursement. Five out of nine reimbursement checks were not accompanied by these approved reimbursement summaries. Had the PEC consistently completed these reimbursement summaries, the audit would have been easily able to identify which expenditures had been approved for reimbursement.

Most of the copies of invoices and campaign literature in the files were organized in a manner that made it difficult to determine if the campaign literature supported the invoices and checks. The campaign literature was in a stack separate from the copies of the invoices and checks, which made it difficult to tell which campaign literature supported which invoice and check. Neither the candidates nor the PEC notated the copies of the invoice or the campaign literature to indicate the association between them. Further, former PEC staff were unable to clarify which campaign literature belonged to which invoices and checks.

The file for one candidate contained a letter from the PEC to the candidate stating that an additional reimbursement was due; however, the check for this reimbursement was never issued. The PEC issued a letter to the candidate stating that the candidate would receive a third reimbursement check in the amount of \$1,100. However, the reimbursement check in this amount was never issued from the Oracle financial system.

The files inconsistently included documentation regarding compliance with the LPFA provision for an expenditure ceiling. Only one out of five files contained the PEC's documentation showing that the candidate met the LPFA expenditure

ceiling provision. In one other file, the PEC noted that the candidate met the provision, however, the audit did not find documentation to support the note. Per the LPFA, candidates are required to make qualified campaign expenditures of at least five percent of the expenditure ceiling for the office being sought.

The November 2, 2010 election cycle was the first election that the PEC was required by the LPFA to review candidates' requests for reimbursement. According to former PEC staff, they did not have experience in reimbursement but were asked to design a process to review and approve reimbursements under the LPFA. Overall, the PEC's review process and documentation were inconsistent and the organization of its LPFA files and reimbursements was ineffective. As a result, the payment of public funds to candidates in the 2010 election lacked transparency. Further, inadequate documentation and controls over the reimbursement process increase the risk of noncompliance with LPFA reimbursement provisions.

Recommendations

We recommend that the Administration and the Executive Director of the PEC:

- Develop and implement clear and well-documented policies and procedures regarding its administration and oversight of LPFA reimbursements. The policies and procedures should ensure that candidates meet all LPFA requirements and that the PEC's review and documentation are clear
- Consider requiring candidates to include approved reimbursement summaries for each reimbursement request to facilitate the PEC's review and tracking of all expenditures submitted for reimbursement

Finding 2

Three of the five candidates received appropriate reimbursements; two candidates had conflicting records and may be owed additional amounts.

The PEC's files for each candidate did not consistently contain documentation noting which expenditures were reimbursed. Further, the PEC's files were organized in a manner that made verifying compliance with the LPFA requirements difficult. As a result, the audit applied its own test to determine whether the reimbursements were appropriate. The audit found that three of the five candidates, Patricia Kernighan, Jennifer Pae and Libby Schaaf, received appropriate reimbursements. In two cases, for Jose Dorado and Daniel Swafford, the audit found a different result than the PEC's records, which means that these two candidates may be owed additional amounts.

The audit test found that of the expenditures Jose Dorado submitted for reimbursement, \$13,011 complied with the LPFA requirements, which means that each expenditure was one of the seven types of approved expenses and included a copy of the invoice, evidence of payment, and a copy of the campaign literature. The amount that the City paid to Jose Dorado, \$13,011, agrees with the audit finding. However, the PEC's file for the candidate contained a letter from the PEC to Jose Dorado regarding a third reimbursement request that he had submitted for an additional \$1,632. In this letter, the PEC approved an additional reimbursement of \$1,100, up to the maximum

reimbursement amount allowed of \$14,111. The reimbursement that Jose Dorado was approved for from the City was \$14,111, which was the maximum reimbursement allowed until Resolution No. 10-06 was adopted November 1, 2010. This resolution increased the maximum amount a candidate could be reimbursed to \$16,463. In this case it appears that, per the PEC's records, Jose Dorado should have been reimbursed additional funds, however, the audit found that the additional \$1,632 request for reimbursement did not appear to include the required campaign literature to support the expense. However, due to documentation limitations in the PEC's files, the audit test can only state that the candidate may be owed additional amounts. The PEC should review these results to obtain further clarification.

The reimbursement that Daniel Swafford received from the City was \$14,111, which was the maximum reimbursement allowed until Resolution No. 10-06 was adopted November 1, 2010. This resolution increased the maximum amount a candidate could be reimbursed to \$16,463. The audit test found that Daniel Swafford may potentially be entitled to up to \$2,266 in additional reimbursements. However, due to documentation limitations in the PEC's files, the audit test can only state that the candidate may be owed additional amounts. The PEC should review these results to obtain further clarification.

It appears that the changing maximum reimbursement amounts during the November 2, 2010 election cycle impacted the accuracy of the reimbursement amounts that were approved. There were five different maximum reimbursement amounts during the election cycle. The maximum reimbursement amounts fluctuated as the Commission determined the number of eligible candidates qualified to receive public financing.

Recommendations

The Administration and the Executive Director of the PEC should:

- Strengthen controls over the PEC's LPFA reimbursement process to better ensure that reimbursements are accurate and complete, e.g., incorporate how to track the maximum reimbursement amount per candidate that is determined at Commission meetings into the written policies and procedures
- Further review the reimbursements issued to Jose Dorado and Daniel Swafford to determine if they are correct

Finding 3

The PEC should clarify what is acceptable supporting documentation.

The audit identified additional areas where documentation clarity and consistency could be improved. Due to the PEC's unclear documentation, the audit did not verify whether or not the cases below were part of the PEC's reimbursements to candidates. However, the PEC can use the following examples to help provide greater clarity to candidates going forward on what is acceptable supporting documentation and what is not.

- A candidate submitted a request that included two pages of an invoice sent from the vendor by email. The first page showed the product cost of \$613.

The second page showed a total amount due of \$269. The invoice did not show how the charge of \$613 on the first page related to the lesser amount due on the second page of the invoice. Candidates should ensure that all pages of an invoice are included and clear.

- A candidate submitted a request for an expenditure paid with a debit charge card and submitted a bank statement showing the amount of the transaction but not the vendor's name. Candidates should ensure that bank statements show enough information to verify the vendor, date, and amount paid.
- The PEC file contained an illegible photocopy of a newspaper advertisement as support for an invoice for a newspaper advertisement purchased by the candidate. However, there were multiple advertisements purchased by the candidate and it was unclear which invoice this illegible photocopy supported. Candidates should ensure that copies of campaign literature are legible and complete.
- Two candidates submitted reimbursement requests for costs incurred for their campaign websites. Neither candidate included a printout of their campaign website pages to serve as the copy of the campaign literature supporting the purchase of website services. Candidates should include a printout of their website pages when requesting reimbursement for web design or other website costs.
- Four candidates submitted copies of checks to show proof of purchase, however the copies only showed the fronts of the checks. Without seeing further proof that the check was paid, such as the back of the check endorsed by the vendor, the City cannot ascertain if a check was actually paid. Candidates should submit the front and back of canceled checks for reimbursement.
- A candidate wrote a check payable to the individual who operated a business rather than to the business on the invoice. In some cases, depending on the relationship of the individual to the business, this is acceptable, but it is more work for the City to reconcile. Candidates should provide appropriate support to link vendor invoices to the payee whose name appears on the check submitted for reimbursement.

Recommendations

The Administration and the Executive Director of the PEC should:

- Develop and communicate what is acceptable supporting documentation, including ensuring that:
 - All pages of an invoice are included and clear
 - Bank statements show enough information to verify the vendor, date, and amount paid
 - Copies of campaign literature are legible and complete
 - Printouts of web pages are submitted when requesting reimbursement for web design or other website costs
 - Both the front and the back of canceled checks are submitted as support for reimbursement
 - Appropriate support is provided to the City to link vendor invoices to a payee if the payee's name is different than the vendor/invoice name

Other Reportable Matters

Finding 4

Not all candidates complied with the Oakland Campaign Reform Act (OCRA) requirements. OCRA requires that the following notice be included on all fundraising materials sent by elected officials, candidates for office, and their controlled committees:

The Oakland Campaign Reform Act limits campaign contributions by all persons (OMC [3.12.050](#) and [3.12.060](#)) and prohibits contributions during specified time periods from contractors doing business with the City of Oakland, the Oakland Redevelopment Agency or the Oakland Unified School District (OMC [3.12.140](#), paragraphs A., B., and C.)

Recommendation

The Administration and the Executive Director of the PEC should:

- Ensure that candidates are complying with the Oakland Campaign Reform Act provision concerning the notice on fundraising materials

Finding 5

The City-wide Accounts Payable Unit did not follow its procedures for processing LPFA reimbursements. The City-wide Accounts Payable Unit's reimbursement processing procedures require that copies of receipts, proofs of payment, and other documentation (depending on the nature of the reimbursement) be attached to the payment request forms. However, the PEC did not attach copies of the invoices, checks, or campaign literature. The PEC only attached copies of the checklists used as tracking mechanisms and letters from the PEC to the candidates notifying them of forthcoming reimbursement checks.

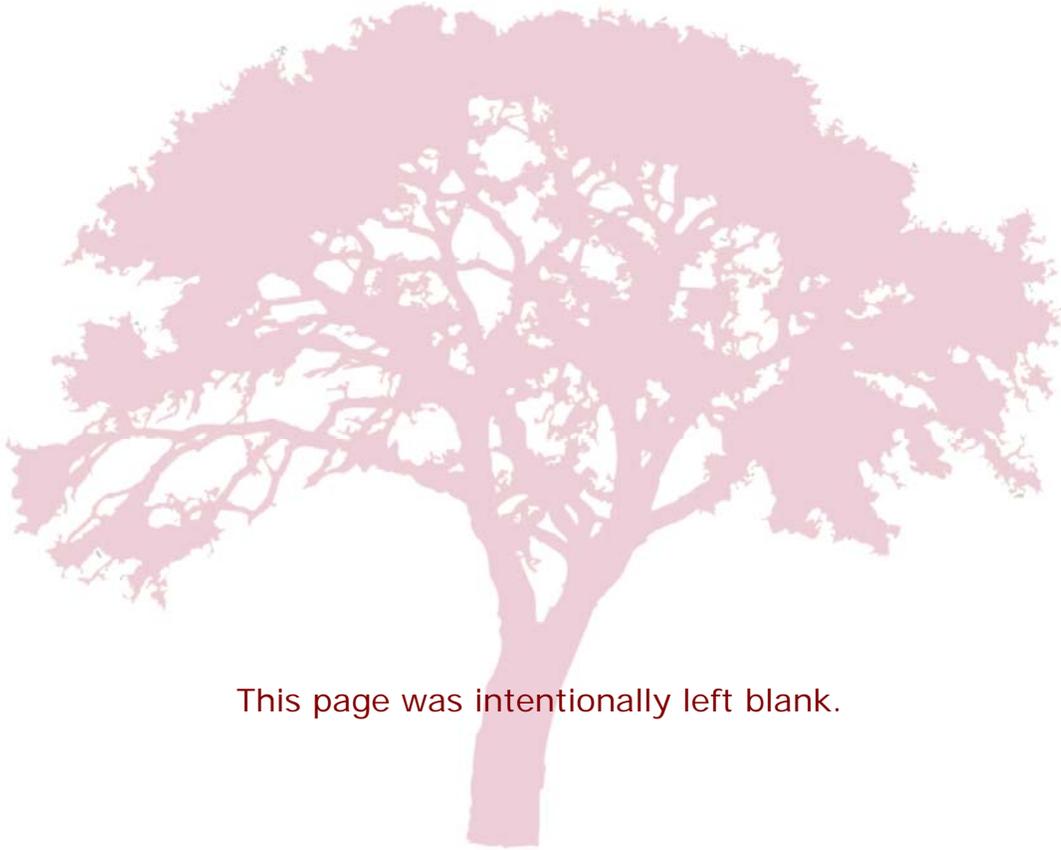
Recommendation

The Administration and the Executive Director of the PEC should:

- Work with the City-wide Accounts Payable Unit regarding the reimbursement process. The City-wide Accounts Payable Unit should verify that all required supporting documentation is attached to a LPFA payment request, according to its procedures.

Conclusion

During the November 2, 2010 election cycle, the Public Ethics Commission's Limited Public Financing Act reimbursement approval process was inconsistent and insufficiently documented. The lack of clear policies and procedures for the review and documentation of LPFA reimbursements may have resulted in some candidates not receiving the approved maximum reimbursement amount. The PEC should develop and implement comprehensive and well-documented policies and procedures regarding its administration and oversight of LPFA reimbursements, including definitions of acceptable supporting documentation, a method of tracking the approved maximum reimbursement amount per candidate, requirements that candidates' fundraising materials comply with the Oakland Campaign Reform Act, and guidelines to comply with the City-wide Accounts Payable Unit's required documentation process for reimbursements.

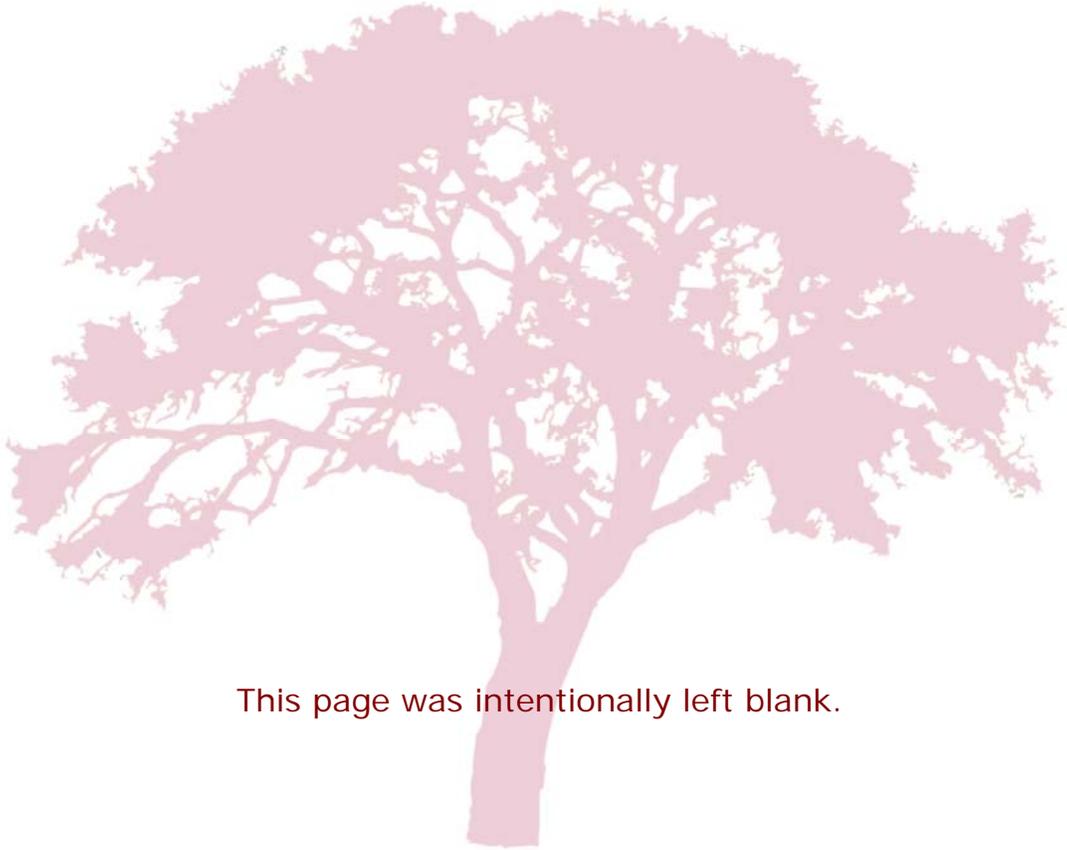


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FINDINGS

The audit found the following:

Finding 1	The PEC's process to approve reimbursement requests was inconsistently and insufficiently documented
Finding 2	Three of the five candidates received appropriate reimbursements; two candidates had conflicting records and may be owed additional amounts
Finding 3	The PEC should clarify what is acceptable supporting documentation
Finding 4	Not all candidates complied with the Oakland Campaign Reform Act (OCRA) requirements
Finding 5	The City-wide Accounts Payable Unit did not follow its procedures for processing LPFA reimbursements

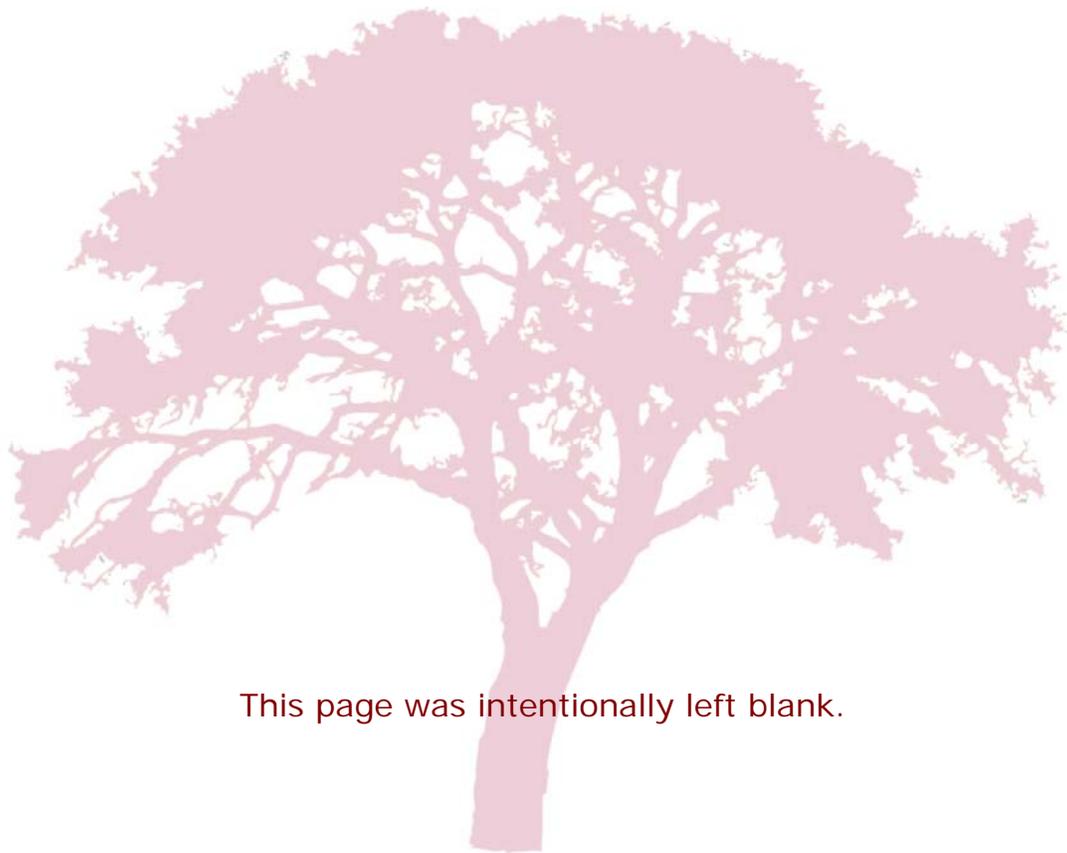


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RECOMMENDATIONS

We recommend that the Administration and the Executive Director of the PEC:

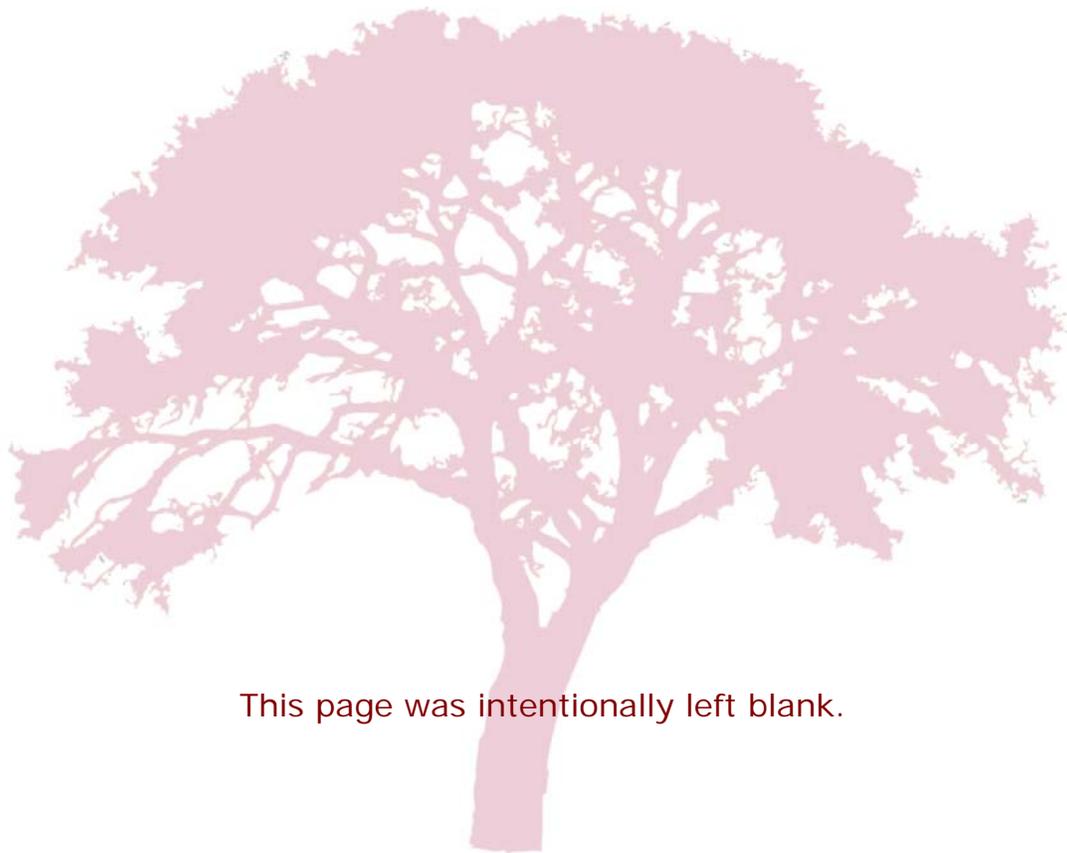
Recommendation #1	Develop and implement clear and well-documented policies and procedures regarding its administration and oversight of LPFA reimbursements. The policies and procedures should ensure that candidates meet all LPFA requirements and that the PEC's review and documentation are clear
Recommendation #2	Consider requiring candidates to include approved reimbursement summaries for each reimbursement request to facilitate the PEC's review and tracking of all expenditures submitted for reimbursement
Recommendation #3	Strengthen controls over the PEC's LPFA reimbursement process to better ensure that reimbursements are accurate and complete, e.g., incorporate how to track the maximum reimbursement amount per candidate that is determined at Commission meetings into the written policies and procedures
Recommendation #4	Further review the reimbursements issued to Jose Dorado and Daniel Swafford to determine if they are correct
Recommendation #5	Develop and communicate what is acceptable supporting documentation, including ensuring that: <ul style="list-style-type: none"> • All pages of an invoice are included and clear • Bank statements show enough information to verify the vendor, date and amount paid • Copies of campaign literature are legible and complete • Printouts of website pages are submitted when requesting reimbursement for web design or other website costs • Both the front and the back of canceled checks are submitted as support for reimbursement • Appropriate support is provided to the City to link vendor invoices to a payee if the payee's name is different than the vendor/invoice name
Recommendation #6	Ensure that candidates are complying with the Oakland Campaign Reform Act provision concerning the notice on fundraising materials
Recommendation #7	Work with the City-wide Accounts Payable Unit regarding the reimbursement process. The City-wide Accounts Payable Unit should verify that all required supporting documentation is attached to a LPFA payment request, according to its procedures



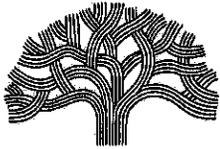
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**ADMINISTRATION'S
RESPONSE**



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CITY OF OAKLAND

INTER OFFICE MEMORANDUM

TO: Courtney Ruby
City Auditor

FROM: Scott P. Johnson,
Assistant City Administrator
Whitney Barazoto,
Executive Director
Public Ethics Commission

SUBJECT: Responses to the Limited
Public Financing Act (LPFA) program

DATE: January 16, 2013

Thank you for conducting the performance audit of the Limited Public Financing Act (LPFA) program as it was administered in the fall of 2010 by the Public Ethics Commission (PEC). The Limited Public Financing Act program implements the Limited Public Financing Act, originally adopted in 1999, but amended most recently in 2010, to offer financial assistance by way of reimbursement for certain expenses to district city council candidates running for election in the City of Oakland. As you know, the 2010 program that you audited was the first time the program was administered by PEC staff in its new form. We appreciate your independent review of the LPFA program and in general, we agree with many of your recommendations. We were pleased to receive a preliminary overview of your recommendations in mid-2012, which allowed us to incorporate them into the administration of the 2012 LPFA program. This response outlines the tools we created for the program for the 2012 election and additional actions we plan to take in the future.

To provide context, the PEC office was effectively closed due to budget reductions and turnover during the time you conducted your audit. The Commission's only two staff both left the Commission around June 2011, leaving a void in staffing and also resulting in an office move that led to the displacement of some of the PEC's hard files. In addition, it should be noted that the period under audit was prior to the new administration. Given this transition, and the fact that the management of the LPFA program was considerably before our time, we are not in a position to validate the information on which the findings in your audit are based. Without commenting on your findings, however, we have taken action in response to your specific recommendations, which we found helpful as we administered the program in 2012.

In summary, for the 2012 LPFA program, PEC staff created new tracking sheets to better monitor candidate eligibility, ensure that all required documentation was submitted, and track

candidate claims and reimbursements. Specific tools created for these purposes include the following:

1. Checklist for LPF Eligibility – This new list of the eligibility requirements provides staff with a procedural guideline of the steps that must be completed before reimbursement can be processed, creates a record of when items were received and verified by staff, and serves as a “table of contents” for the file that includes a number of different pieces of required information.
2. Summary Sheet for Itemizing Expenses – The summary sheet includes an item number, date of expenditure, check number, payee name, expenditure category, and expenditure amount for each individual item submitted in the total reimbursement claim.
3. Master Data Spreadsheet – This spreadsheet tracks all submissions of each candidate and allows staff to see at a glance the status of each participants claims and payments, as well as the total amount of funds in the Election Campaign Fund account.

In addition, staff conducted a detailed training for candidates on the LPFA program requirements and communicated with candidates/treasurers by phone and email when documentation was missing. Staff also began drafting a staff manual to provide guidance on how to administer the LPFA program for projected completion before the next election cycle. As the PEC continues to grow in the coming months and years, we see the potential of incorporating additional measures that ensure compliance with the full range of PEC-enforced laws, such as the fundraising notice you mentioned in your audit.

Attached is a table of your recommendations and the specific action taken by PEC staff in response.

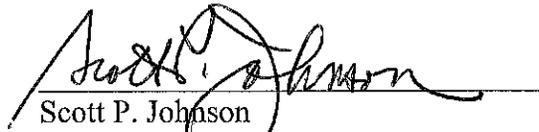
All of the above new measures were of tremendous value as we administered the program this year, and we believe they address all of the issues you raise in your audit, with one exception: recommendation 4. This recommendation suggests we review the requests of two candidates to determine if additional reimbursement amounts should be issued to the candidates. We do not believe additional reimbursement would be appropriate at this late date, given that Limited Public Financing Act sets a limit of 10-days for a candidate to appeal the approval or denial of their reimbursement claim.

Again, we appreciate your work in auditing the Limited Public Financing Act program and especially the sharing of your recommendations with our staff prior to the administration of the 2012 LPFA program. We look forward to continuing to review and enhance our performance in administering this important program within City government.

Respectfully submitted,



Whitney Barazoto
Executive Director
Public Ethics Commission



Scott P. Johnson
Assistant City Administrator

Attachment 1

	Auditor's Recommendation	PEC Staff Action	Status
1	Develop and implement clear and well-documented policies and procedures regarding its administration and oversight of LPFA reimbursements. The policies and procedures should ensure that candidates meet all LPFA requirements and that the PEC's review and documentation is clear	Staff created a Checklist for LPF Eligibility to provide a guide and record for staff to ensure all requirements are met and all documentation is included. Staff updated the LPFA program handbook for candidates for the 2012 election and has begun to draft a staff manual to guide staff in implementing the program.	Agree, partially completed; draft of staff manual is in progress.
2	Consider requiring candidates to include summary lists for each reimbursement request to facilitate the PEC's review and tracking of all expenditures submitted for reimbursement	Staff created, and candidates used, a summary sheet for candidates to itemize each reimbursement request.	Agree and completed
3	Incorporate how to track the maximum reimbursement amount per candidate that is determined at PEC meetings into the written policies and procedures	Staff informed candidates by email about the maximum reimbursement amount and included the amount on several of the tracking documents, such as the procedural Checklist for LPF Eligibility and the Master Data Sheet that keeps a running tally of all claim amounts and payments.	Agree and completed
4	PEC should perform another review of the Jose Dorado and Daniel Swafford candidates reimbursement request submissions and determine if an additional reimbursement amounts should be issued to the candidates	Review and reimbursement would not be appropriate at this late date, given that the Limited Public Financing Act sets a limit of 10-days for a candidate to appeal the approval or denial of their reimbursement claim.	Disagree. Action is not appropriate
5	Develop and communicate what is acceptable supporting documentation, including ensuring that: <ul style="list-style-type: none"> • All pages of an invoice are included and clear • Bank statements show enough information to verify the vendor, date and amount paid • Copies of campaign literature are legible and complete • They submit a printout of their web page when requesting reimbursement for web design or other website costs • Both the front and the back of canceled checks are submitted as 	The updated LPFA program handbook for candidates includes much of this information. Copies of all materials were collected and collated according to the new itemization of information on the summary sheets mentioned in #2 above. When items were missing from the candidate's submission, staff worked with the candidate to get the necessary documentation. In addition, staff retained copies of submitted vendor request forms and claims submitted to accounting in a file for each candidate, where summary sheets and accompanying documentation are neatly attached.	Agree and completed

	<p>support for reimbursement</p> <ul style="list-style-type: none"> • Appropriate support is provided to the City to link vendor invoices to a payee if the payee's name is different than the vendor/invoice name 		
6	Ensure that candidates are complying with the Oakland Campaign Reform Act provision concerning the notice on fundraising materials.	PEC staff will incorporate this in future administration of the program by adding it to the candidate handbook and the Checklist for LPF Eligibility	Agree Staff will take action in future administration of the program.
7	Work with the City-wide Accounts Payable Unit regarding the reimbursement process. The City Wide Accounts Payable Unit should verify that all required supporting documentation is attached to a LPFA payment request, according to its procedures.	PEC staff met with accounting staff before administering the program and established a process and group of forms for submitting reimbursement requests. Copies of all necessary documents were included with the submission to accounting.	Agree and completed

SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

The "Summary of Actions Necessary to Close the Report" provides our analysis of the City Administration's (Administration) proposed actions required to close the report. At the time of the Administration's response, 6 recommendations are resolved and 1 recommendation is resolved and closed. **The Administration has agreed to implement 100 percent of the recommendations that were provided in the report.**

<p><u>Recommendation #1</u></p> <p>Develop and implement clear and well-documented policies and procedures regarding its administration and oversight of LPFA reimbursements. The policies and procedures should ensure that candidates meet all LPFA requirements and that the PEC's review and documentation is clear</p>	<p>Resolved – The Administration agrees with this recommendation and stated that PEC staff have created a LPFA eligibility checklist, updated the LPFA program handbook and have begun to draft a staff manual.</p> <p>To close this recommendation, the Administration should provide a copy of the LPFA eligibility checklist, updated LPFA program handbook, and staff manual to the Office by July 31, 2013.</p>
<p><u>Recommendation #2</u></p> <p>Consider requiring candidates to include approved reimbursement summaries for each reimbursement request to facilitate the PEC's review and tracking of all expenditures submitted for reimbursement</p>	<p>Resolved – The Administration agrees with this recommendation and stated that PEC staff has created a summary sheet for candidates to itemize each reimbursement request.</p> <p>To close this recommendation, the Administration should provide a copy of the summary sheet to the Office by July 31, 2013.</p>
<p><u>Recommendation #3</u></p> <p>Strengthen controls over the PEC's LPFA reimbursement process to better ensure that reimbursements are accurate and complete</p>	<p>Resolved – The Administration agrees with this recommendation and throughout its response has clearly stated that PEC staff has created key tracking tools to help ensure the accuracy of reimbursements.</p> <p>To close this recommendation, the Administration should provide a copy of the tracking documents to the Office by July 31, 2013.</p>
<p><u>Recommendation #4</u></p> <p>Further review the reimbursements issued to Jose Dorado and Daniel Swafford to determine if they are correct.</p>	<p>Closed – The Administration stated that it disagreed with this recommendation. However, the Office's review of the recommendation found the Administration to be in agreement with the recommendation's intent. The Administration "further reviewed" the reimbursement issue and determined that the Limited Public Financing Act sets a limit of 10 days for a candidate to appeal the approval or denial of their reimbursement claim. The Office considers this recommendation resolved.</p> <p>No further actions necessary.</p>
<p><u>Recommendation #5</u></p> <p>Develop and communicate what is acceptable supporting documentation, including ensuring that:</p>	<p>Resolved – The Administration agrees with this recommendation and stated the updated LPFA program handbook for candidates includes much of the information contained in the recommendation. Further, the Administration stated that when documentation was missing from a candidate's</p>

<ul style="list-style-type: none"> • All pages of an invoice are included and clear • Bank statements show enough information to verify the vendor, date and amount paid • Copies of campaign literature are legible and complete • Printouts of website pages are submitted when requesting reimbursement for web design or other website costs • Both the front and the back of canceled checks are submitted as support for reimbursement • Appropriate support is provided to the City to link vendor invoices to a payee if the payee's name is different than the vendor/invoice name 	<p>submission, PEC staff worked with the candidate to obtain the necessary documentation.</p> <p>To close this recommendation, the Administration should provide a copy of the LPFA program handbook to the Office by July 31, 2013.</p>
<p><u>Recommendation #6</u></p> <p>Ensure that candidates are complying with the Oakland Campaign Reform Act provision concerning the notice on fundraising materials</p>	<p>Resolved – The Administration agrees with this recommendation and stated that PEC staff will incorporate guidance on this issue into the LPFA program handbook and the LPFA eligibility checklist.</p> <p>To close this recommendation, the Administration should provide a copy of the LPFA program handbook and the LPFA eligibility checklist to the Office by July 31, 2013.</p>
<p><u>Recommendation #7</u></p> <p>Work with the City-wide Accounts Payable Unit regarding the reimbursement process. The City-wide Accounts Payable Unit should verify that all required supporting documentation is attached to a LPFA payment request, according to its procedures</p>	<p>Resolved – The Administration agrees with this recommendation and stated that PEC staff worked with accounting staff to establish a process and forms for submitting reimbursement requests. Copies of all necessary documents were included as part of the reimbursement packets submitted to the Accounts Payable Unit.</p> <p>To close this recommendation, the Administration should provide documentation of the process and forms established by the PEC and accounting staff. The Administration should also provide evidence that the Accounts Payable Unit verified that all required supporting documentation was included to each payment request in the November 2012 election. The documents should be provided to the Office by July 31, 2013.</p>

Unresolved status indicates no agreement on the recommendation or the proposed corrective action. Implementation of proposed corrective action is directed in the City Auditor's Analysis and Summary of Actions Necessary to Close the Report.

Partially Resolved status indicates partial agreement on the recommendation or the proposed corrective action. Implementation of the proposed corrective action is clarified in the Analysis and Summary of Actions Necessary to Close the Report.

Resolved status indicates agreement on the recommendation and the proposed corrective action. Implementation of the proposed corrective action forthcoming from the auditee.