



San Francisco Ethics Commission

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February 3, 2025

To: Members of the Ethics Commission
From: Eamonn Wilson, Audit Manager
Subject: **Agenda Item 4 – Audits Division Update**

Summary and Action Requested

This report provides general programmatic updates about the Ethics Commission’s Audits Division (the “Division”). No action is required by the Commission, as this item is for informational purposes only.

Staffing Update

As part of the Commission’s fiscal year 2024-25 budget, the Division’s three 1822 Administrative Analyst positions were converted into 1684 Auditor II positions. This reclassification will better enable the Division to increase the efficiency of our audits while ensuring that we perform audit work in accordance with auditing standards and best practices.

As of February 3, 2025, the Division is fully staffed with three new 1684 Auditor IIs. Eva Lopez started on December 16, 2024; Dennis Fiorentinos started on January 27, 2025; and Emma O’Donnell started on February 3, 2025. All three of the Division’s auditors are experienced financial auditors who joined the Commission from “big four” auditing firms. While they are new to campaign finance audits, they each have relevant experience identifying noncompliance by analyzing the financial records of multi-million-dollar entities against established regulations. The Division’s new auditors will bring their expertise, along with fresh perspectives and strategies, to the performance of the Commission’s audits.

Audits Division Goals

The Division is updating its practices in furtherance of two primary goals: first, to increase the efficiency of the audit process with the aim of improving timeliness, and second, to ensure that audits are performed in accordance with auditing standards and best practices.

Goal 1: Complete Audits for All Publicly Financed 2024 Candidates by January 2026

Background

Under San Francisco Campaign & Governmental Conduct Code (“C&GCC”) section 1.150, the Ethics Commission is required to audit the committees of all candidates who have received public financing. A total of 27 candidates received public financing in connection with the November 5, 2024, elections, including 23 supervisory candidates and 4 mayoral candidates. This election saw San Francisco’s highest ever number of publicly financed candidates, the most public funds ever disbursed, and the most money spent by candidates in an election.

The Division's principal goal this year will be to complete audit reports for all 27 publicly financed candidate committees (the "mandatory audit committees") by January 31, 2026. By adopting this goal, the Division is aiming to complete the largest number of audits we have ever been required to complete in significantly less time than we have in past audit cycles. This ambitious goal is designed to set a pace for the Division's completion of audits on an ongoing basis, such that we can fulfill our statutory requirements and provide vital transparency into campaign finance activity as promptly as possible.

Steps to Ensure Timely Completion of Audits

In addition to the broader restructuring of our audit protocols described in Goal 2 below, we have taken several steps specifically aimed at meeting the January 31, 2026, target date:

- **Audit Initiation.** C&GCC section 1.150 requires that audits of publicly financed candidate committees begin within 60 days after the filing deadline of the committees' first post-election Form 460. For the current mandatory audit committees, that deadline was January 31, 2025. The filed reports cover financial activity through the end of calendar year 2024.

On January 13, 2025, the Division initiated the audit process for all 27 mandatory audit committees, well in advance of the 60-day maximum. We sent a letter to the treasurer of each committee notifying them of the statutory audit requirement and that the Commission had formally begun the audit process.

- **Records Request.** As part of the audit initiation notice, the Division sent all 27 mandatory audit committees a detailed request for supporting records, with a deadline to submit the requested records by Friday, February 14, 2025. C&GCC Regulation 1.170-1, adopted in April 2024, allows the Commission to specify and require the method by which audit records are provided. Accordingly, this year the Division is using a secure online records portal to which committees have been instructed to upload digital versions of records. This portal will allow auditors to avoid receiving support documentation via hard copy, thumb drives, or email.

The records submission deadline is earlier than in past years but is in line with City law: C&GCC section 1.109(a) requires committees to maintain detailed records as necessary to prepare campaign statements, and section 1.109(b) requires committees to provide such records within 10 business days of a request by the Commission. City law also provides the Commission with the authority to enforce the timely provision of records: C&GCC section 1.171 allows the Commission to issue subpoenas for audit records, and section 1.170(f) allows the Commission to seek penalties for a failure to furnish requested records.

- **Preliminary Analysis.** Auditors can immediately begin analyzing the mandatory audit committees' financial activity once the post-election Form 460s have been electronically filed. On February 3, Auditors downloaded filing data for every mandatory audit committee that timely filed its post-election Form 460. Using this information, auditors can determine sample sizes and develop sampling plans, determine materiality thresholds, assess the committees' likely risk levels, and begin to identify potential noncompliance. By the time the committees provide their support documentation, the Division will have a strong understanding of the relative volume and complexity of each committee's activity.

- **Scheduling and Assignments.** Beginning this audit cycle, auditors will be assigned multiple audits at a time. This will allow auditors to simultaneously perform the same audit tests for multiple committees, while also ensuring that auditors have work to complete during any delays in a given audit, such as awaiting further records from a committee.

Audit fieldwork will be assigned to auditors in “tranches” of committees, with a target report publication date for each tranche and intermediary milestone dates. Committees with better organized records and/or a lower estimated risk level will generally undergo fieldwork first. Fieldwork for committees assigned to a subsequent tranche will begin as reporting is completed for audits in the prior tranche.

Goal 2: Develop a Manual of Audit Procedures by January 2026

Background

Through analysis by the Division’s current staff and feedback from previous auditors, it is clear that the Division’s existing protocols have deficiencies that have directly contributed to the Division’s struggle to complete its audits timely, and that have more generally resulted in an audit program that has failed to incorporate established auditing standards. Consequently, the Division’s second primary goal is to develop a new Audit Manual that prioritizes compliance with industry best practices and that will ensure consistency in the Division’s performance of its audits moving forward.

Given the short period between the Division becoming fully staffed and the prompt start of audit fieldwork needed to accomplish Goal 1, we will use the Division’s existing procedures as a foundation for our audit work, rather than developing new procedures from the ground up. However, Division staff have already begun revising these procedures based on our research into auditing standards, comparable agencies, and prior iterations of the Division’s own protocols.

The Division will continue to revise our protocols throughout fiscal year 2025 as our new auditors encounter nuances in the course of their work and apply their auditing expertise. By the time we complete our 2024 mandatory audits in January 2026, our goal is to have turned these revised protocols into a consolidated Audit Manual that will govern our performance of candidate committee audits moving forward. This manual will in turn serve as the foundation on which we will develop manuals for discretionary audits of other types of committees.

Audit Manual Considerations

In developing our Audit Manual, we are focused on incorporating several key elements:

- **Auditing Standards.** Our primary auditing standards will be Generally Accepted Government Audit Standards (“GAGAS”), commonly referred to as the “Yellow Book,” produced by the federal Government Accountability Office (“GAO”). The Yellow Book provides a high-level yet comprehensive framework that guides the process of conducting an audit. The standards emphasize due diligence, objectivity, and quality management, and consider topics such as evaluating the sufficiency of evidence, professional judgment, supervisory reviews, and reporting. Audit agencies at every level of government rely on the Yellow Book, and some jurisdictions are statutorily required to do so.

For more specific methodologies that may be employed in order to comply with the Yellow Book, the Division will look to other auditing standards, such as those of the American Institute of Certified Public Accountants (“AICPA”), and the procedures of other audit agencies.

- **Audit Criteria.** “Criteria” refers to the standards, rules, or other requirements against which an auditee is evaluated for compliance. In our case, the audit criteria are principally the state and local campaign finance laws and regulations within the Commission’s jurisdiction. We will develop our audit protocols with the criteria as the foundation to ensure that each test we perform is relevant and complete.

While obtaining a complete understanding of the universe of campaign finance rules is vital, these rules are numerous and complex, and prioritization is a necessity. As the Division develops its procedures, we will prioritize testing specific criteria based on consideration of the relative labor-intensity of that testing, and the degree of concern to the Commission’s stakeholders, namely San Francisco voters and the committees of opposing candidates.

- **Methodologies.** The Division’s audit work will include thoroughly documenting methodologies, including recording the rationale for each assumption made by auditors in the course of performing their testing. A thoroughly documented methodology provides assurance about the accuracy and completeness of the work performed and ensures that all audit work is replicable by any other auditor.
- **Documentation.** The Division is developing documentation management policies for consistent naming, organization, and retention of audit workpapers. This is aimed at ensuring the consistency and replicability of the audit process, both across auditors and across years.
- **Workpaper Review.** The audit process will integrate regular supervisory reviews, in which the Audit Manager reviews relevant workpapers as procedures are completed. Reviews ensure transparency and accuracy and provide assurance that the conclusions included in the audit report are supported by evidence. Regular reviews also serve as natural check-in points to ensure our audits remain on schedule.
- **Sampling.** To improve efficiency, we have explored methodologies to perform sampling of transactions for testing. This will allow us to identify noncompliance without needing to review all of a committee’s transactions, which may number in the thousands. Sampling is a common practice used in many types of audits, and the Yellow Book allows for a variety of selection methods, including both statistical and non-statistical methods.
- **Materiality.** Finally, the Division is exploring how materiality thresholds can be applied to a campaign finance audit. “Materiality” in this context can roughly be defined as the degree to which identified noncompliance is indicative of a committee’s overall compliance with the campaign finance rules. The materiality threshold is the level (for example, the dollar amount or the number of transactions) below which noncompliance does not have a material impact.

By developing a methodology to determine materiality, the Division could focus its resources on only the most serious violations, and also create greater standardization across audits when determining which findings should be included in a final audit report.

Other 2025 Considerations

In addition to the Division's primary focus on improving the efficiency of its mandatory audit program, we will also use this year to prepare for other goals and requirements:

- **Discretionary Audits.** The Division has the authority to perform discretionary audits of non-publicly financed candidate committees, such as independent expenditure committees, ballot measure committees, and other candidate committees. We will begin to analyze the volume of discretionary audits we will be able to conduct, with the aim of initiating several audits in early 2026 once we have completed our record number of mandatory audits.
- **Lobbyist Audit.** Under C&GCC section 2.135(c), the Commission is required to conduct an audit of at least one randomly selected lobbyist each year. Lobbyist audits are significantly less labor-intensive than campaign finance audits, but staff time will still need to be allocated. We will strive to complete one lobbyist audit later during 2025 using existing protocols, then will aim to review and update our lobbyist audit procedures during 2026.
- **Public Financing Program.** The Division is also responsible for administering San Francisco's public financing program. During an election year, candidates applying for public funds submit contribution records to the Commission. Contributions that meet statutory requirements are eligible to be matched with public funds. The Commission's auditors are responsible for reviewing each submitted contribution and determining their eligibility. This is a time- and labor-intensive process. In years with a large number of publicly financed candidates, the Division's time is almost entirely dedicated to reviewing matching requests.

During calendar year 2025, the Division will begin preparing for the 2026 elections for even-numbered supervisorial districts. We will review and update our public financing protocols with a primary goal of increasing efficiency. Particular emphasis will be placed on identifying procedures that can be automated. We will also reconsider the instructions communicated to committees on how to organize records for submission.