



## **Report on Form 807 Discretionary Audit**

**Conducted by the FPPC Audits & Assistance Division**

**Team Members:**

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## **Background**

In November 2023, under the direction of the Executive Director of the Fair Political Practices Commission (Commission), the Audits and Assistance Division initiated a discretionary audit to verify compliance with reporting requirements provided for in Government Code Section 89506(f) and Regulation 18940. Under Section 90003 of the CA Political Reform Act (PRA), the Commission, in addition to the audits and investigations required by Section 90001, may conduct investigations and audits with respect to any reports or statements required by this title.

In 2015, the state adopted new reporting requirements mandating that certain 501(c)(3) and 501(c)(4) of Title 26 of the United States Code nonprofit organizations disclose donors of \$1,000 or more who accompany an elected officeholder for any portion of specified travel. This disclosure must be provided on a Nonprofit Travel Payments, Advances and Reimbursements Donor Disclosure List (Form 807). The current law does not cover all non-profit organizations.

This new reporting requirement was introduced as part of a broader effort to enhance transparency and accountability in government, specifically concerning nonprofit organizations sponsoring travel for elected officials. Currently, only 501(c)(3) or 501(c)(4) nonprofit organizations that meet each of the following criteria are subject to this reporting obligation:

- a) Regularly organize and host travel that is reasonably related to a legislative or governmental purpose, or to an issue of state, national, or international public policy, for state and local elected officials;
- b) Make travel payments, advances, or reimbursements totaling more than \$10,000 in a calendar year, or totaling more than \$5,000 in a calendar year for a single state or local elected official; and
- c) Have donors of \$1,000 or more who accompanied an elected state or local official, either personally or through an agent, employee, or representative, for any portion of travel.

An organization “regularly organizes and hosts travel for elected officials” if the organization’s expenses that relate to the following types of activities with regard to elected officials were greater than 1/3 of its total expenses reflected on the organization’s IRS Form 990:

- Travel
- Study tours
- Conferences, conventions, and meetings

In May 2023, CalMatters, an online news outlet, reported that nonprofits paying for official travel had only filed two Form 807s since the reporting requirement went into effect in 2016. The Commission subsequently directed the Audits & Assistance Division on November 9, 2023, to conduct an audit of entities that may be subject to this reporting obligation. The purpose of the audit was to gather information regarding the application of the current reporting requirements that could assist the Commission and Legislature in evaluating the effectiveness of those

requirements and what steps the Commission and Legislature should take, if any, to improve compliance. As of the date of this report, eight Form 807s have been filed with the Commission.

## **Audit Process**

### **1. Data collection and sample selection**

The Commission’s Executive Researcher obtained a download of the 2022 Form 700s filed with the Commission by Assemblymembers, Senators, Constitutional Officers, and Coastal Commissioners in office at the time. The filers disclosed relevant information, including trips, travel, reimbursements, study expenses, etc., on Schedule E of their Form 700s.

The Audits & Assistance Division reviewed and analyzed the downloaded data and grouped the details by organizations disclosed on Form 700s. Ten organizations (with expenses of \$20,000 or more) were selected for testing - eight non-filers and two that had filed a Form 807 for either 2021 or 2022.

The organizations selected were as follows:

	<b>Organization Selected</b>	<b>Type of Organization</b>
1	California Foundation on the Environment & the Economy	501(c)(3)
2	California Jewish Legislative Caucus Leadership Foundation*	501(c)(3)
3	California Latino Legislative Caucus Foundation	501(c)(3)
4	Foundation for California's Technology & Innovation Economy	501(c)(3)
5	Independent Voter Project	501(c)(4)
6	Association of California Life & Health Insurance Companies	501(c)(6)
7	The Climate Registry	501(c)(3)
8	Governor’s Cup Foundation Inc.	501(c)(3)
9	California Independent Petroleum Association	501(c)(6)
10	California Problem Solvers Foundation*	501(c)(3)

\*Filed a Form 807 for 2021 and/or 2022.

### **2. Methodology (Fieldwork)**

a) On January 4, 2024, the Audits and Assistance Division sent out the initial contact letters to the above organizations requesting the following information:

- Form 990, 990-EZ, 990-PF, and any Forms 990-T filed, including extensions and amendments.
- Form 990 schedules (except portions of Schedule B), attachments and supporting documents.
- Application for exemption and all supporting documents, such as Form 1023.
- The determination letter from the IRS that shows the organization has tax-exempt status

b) Several organizations complied with the request and submitted the required documents in a timely manner. However, a small number of organizations failed to comply. Staff collaborated with the Commission's Enforcement Division to issue subpoenas to obtain the necessary records. This created a roadblock in the audit process and prolonged the audit fieldwork. The last of the documents were received in December 2024.

- Verified if the organization had an approved tax-exempt status per the IRS determination letter provided by the organization.
- Reviewed Form 990, 990-EZ, 990-PF, and any Form 990-T filed for 2021 and 2022. We cross-referenced the amounts to supporting documentation, Form 700, and Form 807, where possible. Form 700 serves as an individual-level disclosure, while Form 807 focuses on the nonprofit's perspective. These forms are cross-referenced to confirm consistency in reporting. Form 700 is broader, covering all gifts, income, and assets of the official—not just travel.

Form 807 narrowly focuses on travel payments from nonprofits, particularly those with donors contributing \$1,000 or more. If a nonprofit (which files Form 990) sponsors travel for an official, the nonprofit's expenses related to that sponsorship should appear in its Form 990. The elected official receiving the travel benefit would report the same trip as a gift or income in Form 700, depending on its nature.

- Calculated and verified if the amounts reported for travel and/or other direct expenses met the one-third filing threshold per the requirements of Form 807.

Reviewed source documents provided by the organizations and traced amounts reported on Form 700/Form 807 and Form 990 where the documents were provided.

### **3. Audit Results**

This audit was conducted in accordance with the FPPC regulations and the generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA).

**The team’s audit results are summarized in the table below:**

	<b>Organization Selected</b>	<b>Type of Organization</b>	<b>Audit Results</b>
1	California Foundation on the Environment & the Economy	501(c)(3)	Per the records and documents reviewed, the organization did not meet the 1/3 filing threshold.
2	California Jewish Legislative Caucus Leadership Foundation	501(c)(3)	Per the records and documents reviewed, the organization did not meet the 1/3 filing threshold.
3	California Latino Legislative Caucus Foundation	501(c)(3)	Per the records and documents reviewed, the organization did not meet the 1/3 filing threshold.
4	Foundation for California's Technology & Innovation Economy	501(c)(3)	Per the records and documents reviewed, the organization did not meet the 1/3 filing threshold.
5	Independent Voter Project	501(c)(4)	Per the records and documents reviewed, the organization did not meet the 1/3 filing threshold.  Per The Independent Voter Project (IVP), IVP decided to file the Form 807 for 2021 and 2022 even though IVP holds the opinion that they are exempt from the statutory requirements. IVP noted that <i>“It is also our intention to file on a timely basis the information for 2023 and annually from this point forward.”</i>
6	Association of California Life & Health Insurance Companies	501(c)(6)	The organization’s representative responded to the audit request noting the information was disclosed on the Lobbyist Employer Form 635. Also noted that the IRS 501(c)(6) organizations are not required to file the Form 807. No additional documents requested per management decision regarding 501(c)(6) organizations.
7	The Climate Registry	501(c)(3)	Per the records and documents reviewed, the organization did not meet the 1/3 filing threshold.
8	Governor’s Cup Foundation Inc.	501(c)(3)	Per the records and documents reviewed, the organization did not meet the 1/3 filing threshold.
9	California Independent Petroleum Association	501(c)(6)	The organization’s representative responded to the audit request noting he is unable to share client information without express written permission of the client. No additional documents requested per management decision regarding 501(c)(6) organizations.
10	California Problem Solvers Foundation	501(c)(3)	Organization filed a Form 807 for 2021. Noted they were below the one-third filing threshold for 2022.

## Findings and Recommendations

1. Eliminate the one-third, \$10,000, \$5,000 and \$1,000 filing thresholds. Staff recommends replacing these thresholds with a desired flat amount. For example, a flat amount such as if the nonprofit organization makes direct expenditures of \$XX,XXX in travel payments, advances and reimbursements, then the organization must file a Form 807.
  - This allows for easier tracing from Form 700s to Form 807s. The one-third filing threshold serves as a balance between promoting transparency and reducing the administrative burden on smaller nonprofits. However, it can create gaps in reporting, as some organizations with significant donor activity may not meet the threshold and remain exempt from disclosure.
2. Require organizations to disclose the direct costs made for officials' travel, hotel, round(s) of golf, etc. and enhance the recordkeeping requirements. This would include the names of individuals for whom the expense was made.
  - Throughout the audit, we noted documents were not maintained for indirect costs. As such, it was difficult for staff to verify amounts related to indirect costs as those do not include the names of each individual.
  - If recordkeeping requirements are streamlined, filers/organizations will maintain complete records and will be immediately able to submit these when requested by an auditor. During the audit, staff ran into multiple instances where complete records were either not maintained, or not turned in for the audit on a timely basis. This prolonged the audit process, resulting in audit staff collaborating with the Enforcement Division staff and issuing subpoenas for those missing records. The last of the subpoenaed records were received in December 2024, over a year after the audit was initiated.
3. Expand who must report under Government Code Section 89506(f) and Regulation 18940.
  - Currently, the law only requires 501(c)(3) or 501(c)(4) nonprofit organizations that meet each of the criteria listed above (in background section), to file a Form 807.

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