

January 18, 2012

Statement of Economic Interests Electronic Filing Pilot Program

LEGISLATIVE ANALYST'S OFFICE

Pursuant to Chapter 96, Statutes of 2011 (AB 182, Davis)



Summary

As part of legislation authorizing seven local governments to participate in a pilot program regarding electronic filing (e-filing) of Statements of Economic Interests (SEI) forms, our office was required to submit a report to the Legislature evaluating the pilot program. This report presents our findings. To conduct our evaluation, we used information reported by participating governments and the Fair Political Practices Commission (FPPC). Based on this information, we conclude that e-filing can create operational efficiencies through reduced personnel and other operational costs. We recommend that the Legislature allow participating governments to continue e-filing on an ongoing basis, and that it consider allowing other governments to collect SEIs electronically. We also recommend that the Legislature authorize FPPC to establish any guidelines relating to implementation of the e-file systems.

Background

The Political Reform Act of 1974 requires California state and local government officials to annually disclose certain personal financial holdings by completing an SEI. The FPPC regulates and oversees the administration of the Act and, among other things, develops the SEI forms filed by officials to satisfy the disclosure requirements. The FPPC indicates that many tens of thousands of public employees and officials are required to file an SEI under the Act. The SEI filing process is decentralized so that most individuals submit their SEI to a “filing officer” at their own agency. The filing officer maintains record of the SEI and provides public access to the SEI upon request. The FPPC indicates that it serves as filing officer for approximately 20,000 statements for certain state and local officials.

Chapter 96, Statutes of 2011 (AB 182, Davis) authorized six counties and one city to participate in a pilot program permitting the e-filing of employees’ SEIs. Specifically, the Counties of Los Angeles, Merced, Orange, Santa Clara, Stanislaus, and Ventura and the City of Long Beach were authorized to participate in the pilot. (Stanislaus County did not participate in the pilot for reasons discussed later in this report.) The pilot program began on January 1, 2009 and will expire on December 31, 2012. The pilot program includes the reporting periods of 2008 through 2011. The law required the participating governments to submit reports to the FPPC describing their experiences with the pilot. Specifically, the governments were required to report any (1) operational efficiencies and related savings; (2) implementation and operating costs; (3) safety, security, or privacy issues encountered; (4) feedback from e-filing participants; and (5) other relevant information on the implementation of the pilot. The FPPC was required to transmit to our office the reports it received and any comments it had on the reports. Our conclusions are based on information provided to us from the reporting entities and FPPC.

Operational Efficiencies

Fewer Staff Needed to Operate E-File System. The participating governments indicated that the paper-based filing process is time-consuming. Governments commit significant amounts of staff time (often resulting in overtime costs or hiring temporary

employees) reviewing SEIs, working with filers to correct errors, and maintaining the paper file systems. After implementing an e-file system, all of the governments saw significant decreases in staff hours, overtime costs, and temporary employee costs. The governments reported that the e-file systems reduced staffing costs by simplifying the review process and significantly reducing the number of errors in filers' SEIs.

Pilot Resulted in Operational Savings. Compared with paper filing, all of the participating governments indicated that e-filing is more efficient and results in operational savings. Although reduced personnel costs were the most significant source of savings for the participating governments, they also reported other operational savings (such as reduced mailing and supply costs). Most of the governments were able to reduce their operational expenditures associated with SEIs by more than 30 percent by the end of the pilot period. Orange County reported it reduced its operational expenditures by 68 percent with its e-filing system.

Implementation Costs

Implementation Costs. Implementation costs include costs associated with purchasing or developing software, purchasing hardware, acquiring necessary licenses, et cetera. As is generally the case with procuring a new information technology system, the governments that participated in the pilot incurred up-front implementation costs. The participating governments reported that initial implementation costs typically were between \$100,000 and \$200,000 in the first year of the pilot but much lower in subsequent years.

Costs Too High for Two Small Counties. The Counties of Merced and Stanislaus were not able to participate fully in the pilot program citing insufficient funds and resources to cover implementation costs. Stanislaus County did not participate in the pilot program at all. Merced County, in contrast, began participating in December 2010 after it negotiated an agreement with a vendor to pay no implementation cost in the first year of the system but \$10,000 every subsequent year for the vendor's services.

Security Issues Encountered

No Security Issues Encountered. None of the governments reported any security issues with the e-file systems.

Feedback From E-Filing Participants

Mostly Positive Response From Participants. The governments reported that, on the whole, public officials and employees who filed using the e-file systems considered e-filing to be a useful and easy process. There were, however, some negative responses from participants, primarily related to password and log on requirements.

LAO Conclusions About Pilot Program

Many Benefits Associated With E-Filing. The participating governments cited many benefits to adopting an e-file system. It is reasonable to conclude that, at least in the case of these governments, e-filing is a more efficient process than a paper-based process. The

e-file systems reportedly reduced personnel costs and other operational expenditures associated with processing the SEIs.

Implementation Costs for Local Governments a Concern. We think it is significant that two of the counties, at least initially, considered the implementation costs of the e-file system to be prohibitive. Although there may be significant long-term savings in adopting an e-file system, some governments (especially smaller entities) may not be able to afford the initial implementation costs.

LAO Recommendations for Legislature

Allow Participating Entities to Continue E-Filing. The pilot appears to have been a success in that the e-file systems generated savings and improved accuracy. Accordingly, we recommend that the governments that are participating in the e-file pilot be allowed to continue their e-file systems.

Allow Other Entities to E-File. Given the potential savings and improved accuracy, we recommend the Legislature consider giving all governments the *option* to establish an e-file system.

Authorize FPPC to Establish Parameters of E-File Systems. As part of its role in overseeing and administering the Political Reform Act of 1974, the FPPC establishes the forms and guidelines used to submit paper SEIs. In its report to the Legislature, the FPPC recommended that it be authorized to establish any guidelines and specifications to be followed by governments when developing and using e-file systems. We think this recommendation is reasonable.



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