

Franchise Tax Board and Office of the Secretary of State Bribery (Case I2009-0634)

REPORT NUMBER I2012-1, CHAPTER 1, ISSUED DECEMBER 2012

This report concludes that a Franchise Tax Board (board) employee, an Office of the Secretary of State (secretary of state) employee, and a courier service owner engaged in an elaborate scheme that enabled the courier service owner to steal nearly a quarter of a million dollars from the State. The three individuals were convicted of bribery and ordered to pay a total of \$227,430 in restitution to the board and the secretary of state. The failure of the board and the secretary of state to maintain adequate controls contributed to these individuals' ability to perpetrate fraud. Consequently, as of October 2012 both entities determined that their existing internal control environments had weaknesses contributing to the fraud and reacted appropriately to strengthen their processes.

Both state agencies strengthened their internal controls in response to the bribery scheme. The board implemented an automated process that eliminated the need for businesses to pay for the services that had led to the bribery and it established a reconciliation process to ensure the proper accounting for transactions related to the services. The secretary of state strengthened its controls for cash receipts and related transactions. Furthermore, it ordered two of its regional offices to cease providing the services that had led to the bribery. As of October 2012 we determined that the board and the secretary of state have addressed fully the improper activities identified in this report. Thus, the California State Auditor made no recommendations to them.

