

December 28, 2017

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the State Board of Equalization submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Brenda Fleming, Chief Deputy Director, at (916) 327-4975, brenda.fleming@boe.ca.gov.

BACKGROUND

The Board of Equalization (BOE) is the nation's only elected tax board, composed of five Board Members who serve concurrent four-year terms. Four of the members are elected from districts, each representing approximately one fourth of the State's population (each with approximately 9.5 million people). The fifth member is the State Controller, an ex-officio member, representing the State at large.

Effective July 1, 2017, AB 102 restructured the BOE and established the California Department of Tax and Fee Administration and the Office of Tax Appeals. The State Constitution prescribes the Board's duties, powers, and responsibilities regarding the review, equalization, or adjustment of property tax assessments; the measurement of county assessment levels and adjustment of secured local assessment rolls; the assessment of pipelines, flumes, canals, ditches, and aqueducts lying within two or more counties and of property owned or used by regulated railway, telegraph, or telephone companies, car companies operating on railways in the state, and companies transmitting or selling gas or electricity; the assessment of taxes on insurers; and the assessment and collection of excise taxes on the manufacture, importation, and sale of alcoholic beverages in the state. The duties, powers, and responsibilities prescribed by statute that were formerly performed by the BOE are now charged to the California Department of Tax and Fee Administration and the Office of Tax Appeals.

Due to the July 2017 restructuring of the BOE, the agency's mission statement will be revised to align with its restructured responsibilities, goals and objectives, and a new strategic plan will be developed. In the interim, the existing mission statement – to serve the public through fair, effective, and efficient tax administration – will serve as the basis for identifying our risks and monitoring our controls.

Our core values – (1) We put people first, (2) We are committed to excellence, and (3) We keep getting better – will be reviewed along with the updated mission statement.

ONGOING MONITORING

As the head of State Board of Equalization, David Gau, Executive Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

Executive Monitoring Sponsor(s)

The executive monitoring sponsor responsibilities include facilitating and verifying that the State Board of Equalization internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Brenda Fleming, Chief Deputy Director.

Monitoring Activities

- *The effectiveness of internal controls will be confirmed by:*
 - *Establishing definitions, criteria and processes to determine and/or measure the effectiveness of internal control systems;*
 - *Performing management oversight of risks and controls using recurring management meetings (individual and team) specifically focused on risk management;*
 - *Creating and implementing quarterly reports to convey status, progress and any new risks or issues; comparing the outcomes to the expectations and correcting as needed.*
 - *Developing training and educational materials to ensure that all managers and employees are informed and able to perform their risk management roles and responsibilities.*

Addressing Vulnerabilities

- *As a recently restructured state entity, the BOE is identifying its vulnerabilities and risks using recurring planning and management meetings/discussions, reviewing its documentation, policies and procedures, reviewing new and/or modified responsibilities and assigned owners. The Senior Management team (serving as the core Risk Management team) is responsible for creating new or modifying existing processes to document vulnerabilities, as they continue to be identified, and subsequently addressing vulnerabilities. Working with other management team members and employees, our vulnerability reduction goals will be defined and will include roles, responsibilities, action plans and timelines.*

Communication

- *The BOE is organized into departments and divisions, each lead by a senior manager. The senior management team's roles and responsibilities, under the restructured organization, are being revised to align with a small state organizational structure (compared to the previous medium state organizational structure). The communication plans, communication channels, and frequency of communications are designed to convey messages throughout the agency timely and efficiently (via emails, bulletins and circulars to "All BOE Managers," or "All BOE Employees").*
- *A subset of the senior management team serves as the core Risk Management team, responsible for establishing a new risk management program. This team is responsible for our Risk Management program (steering committees, risk owners, monitoring effectiveness of controls, training, communications, and reporting).*
- *Training and educational materials will be developed and available on our SharePoint/ Intranet site for all BOE employees to access.*

Ongoing Monitoring Compliance

The State Board of Equalization is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the State Board of Equalization systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the State Board of Equalization risk assessment process: Executive Management, and Middle Management.

Risk Identification

- *One of the many benefits of an organizational restructure is the opportunity to review work flows, processes, policies, documentation, roles and responsibilities. As the restructured BOE is being implemented, BOE is leveraging the opportunity to identify and document risks, along with the controls to mitigate them. The risks, controls, processes and policies are located in BOE's SharePoint site for management and staffs' access. The on-going monitoring processes will be created and implemented as the risks are documented. The Risk Management program team, working with the management team and employees is responsible for identifying risks, using brainstorming sessions, meetings and some questionnaires. One of the items is carried over from the previous (2013) SLAA report.*

Risk Ranking

- *The ranking was performed during brainstorming sessions and meetings with the Executive and senior management team and are based on likelihood and impact.*

RISKS AND CONTROLS

Risk: Operations-Internal-Staff - Key Person Dependence, Workforce Planning

- *The BOE relies on employees with many years of experience and specific subject matter expertise in the administration of its property tax and board proceedings functions. The agency is vulnerable to a loss of subject matter expertise and/or gaps in its knowledge and skills should these key employees retire, leave the agency, or are temporarily absent.*
- *The risk has and/or can concur as a result of the degree of complexity and the years of experience needed to develop the expertise; and the state's limitations to provide competitive salaries and commensurate career development.*
- *The loss or gap in specific expertise, knowledge and/or skills significantly impacts BOE's ability to perform key functions required in the property tax industry.*

Control A

Prior to July 2017, BOE created a Workforce Development and Succession Plan that identified critical

positions and established knowledge transfer strategies within each department/division. BOE will modify the plan to reflect the current structure of the agency effective July 1, 2017, but will continue to use applicable established succession planning strategies to ensure that historical and institutional knowledge and specialized processes and procedures are documented and communicated to employees. BOE's SharePoint site will be the central location for employees to easily access subject-matter information and documentation.

Control B

The established workforce development plan will continue to be used to ensure qualified candidates are identified, trained, and equipped with the knowledge, skills and abilities necessary for success when tasked with assuming leadership roles and/or mission-critical positions.

Risk: Operations-External-Service Provider - Internal Control System Adequacy

AB 102 mandates the newly created CDTFA provide administrative functions to the restructured BOE. The BOE is reliant on the CDTFA for administrative functions to be delivered as a service. The administrative services include: Accounting; Budgets; Business Services (Contract Services, Deliveries/Transport, Facilities Operations, Mail, Purchasing Goods, Reproduction, Travel); Human Resource and Related Services (Labor Relations and Equal Employment Opportunity); and Information Technology. Risks associated with this arrangement are still being assessed but include the following:

- *CDTFA, a tax entity, is also responsible for providing administrative functions to BOE, which is a separate state entity. Since this role/function is not typical for a tax agency, the lack of policies, procedures, and staffing for this role/function is impacting the services provided to BOE.*
- *Delays in service-delivery/responsiveness, and added complexity impacts BOE's ability to efficiently manage its administrative roles, duties and responsibilities. In some cases, the delay in services is preventing the BOE from being able to conduct its constitutionally mandated duties.*
- *The service provider's capacity (due to its workload and operational priorities) to provide staff resources allocated to BOE administrative functions is limited, which impacts response times that meet BOE's priorities and operational deadlines.*
- *Information communicated across separate organizations with competing priorities for information systems and staff resources, impacts BOE's abilities to provide information and/or access to information to its employees, control agencies, and the Legislature in a timely manner.*

The risk has and/or can occur as a result of the restrictions that prohibit the BOE from directly performing its administrative functions and its requirement to rely on services from another state entity with heavy workload and limited staff resources.

BOE's ability to efficiently and timely perform its own administrative functions is impaired.

Control A

In collaboration with CDTFA, develop service-level agreements for each administrative area with defined roles and responsibilities, response times, and communication methods to facilitate service improvement and performance of administrative functions.

Control B

Schedule recurring meetings for each administrative area to review workload, priorities, staff resources, planned work and accomplishments to support workload planning; minimize competing priorities and minimize miscommunications

CONCLUSION

The State Board of Equalization strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

David Gau, Executive Director

CC: California Legislature [Senate (2), Assembly (1)]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency