

December 31, 2019

Keely Martin Bosler, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Ms. Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), 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, 2019.

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

GOVERNANCE

Mission and Strategic Plan

- **Mission:** Our mission is to serve Californians through fair, effective and efficient tax administration which supports state and local governments.
- **Vision:** To rebuild, revitalize and modernize the Board of Equalization (BOE), to enrich its employees and strengthen its organizational capabilities to deliver gold-standard services.
- **Strategic Plan:** The goals for the strategic planning period of 2020-2025 are focused on rebuilding, revitalizing and modernizing the BOE to continue the successful administration of our constitutional tax programs. Specifically,
 - Revitalize our workforce and rebuild our state agency infrastructure.
 - Modernize our core tax administration functions and business processes by leveraging technology systems and process improvement opportunities.
 - Establish our standards for subject matter expertise and training programs.

Control Environment

As the head of the BOE, Brenda Fleming, Executive Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems. Executive monitoring sponsor responsibilities include facilitating and verifying that the BOE's internal control monitoring practices are implemented and functioning as intended. One or more components of this section were addressed in a prior Implementation Plan and, therefore, the related information does not carry forward.

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.
- Ensuring items are being documented and included in BOE's work plan as corrective actions or process improvement activities.
- BOE actively tracks and ensures all staff is up to date on State mandatory ethics training, to reinforce the agency's standards of conduct, to clarify what practices are and are not permissible, and to address possible ethical dilemmas.
- All levels of BOE management and personnel are responsible for ensuring that suitable internal controls are in place within their respective program areas. BOE frequently evaluates internal control systems to ensure that risks are adequately addressed. Weekly Executive Team meetings are held so that potential issues are raised with supervisors for communication to staff.
- Monitoring roles are clearly defined in duty statements, policies and procedures. The executive director and management maintain clear open communication with all employees of the agency and regularly receives feedback.
- Agency management values, demonstrates, and communicates the importance of upholding standards for integrity and ethical behavior, and therefore, has established the following core values: perform public service with integrity, put people first, commit to excellence, and keep getting better. These core values help focus the employees' actions while striving to achieve the agency's mission.
- Management establishes competency expectations for employees through Duty Statements, Individual Development Plans, and Probation Reports. The agency recruits, hires, on-boards, and provides training to all employees to help meet competency expectations. The agency provides routine training for all critical operations to develop the necessary competence level, knowledge, skills, and abilities. The goal of this training is to assist in the smooth transition to key positions as employees advance through the organization. Cross training is encouraged for staff development and addresses the immediate needs for sudden departures of key positions.

Information and 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").

- Formal and informal meetings with stakeholders, elected officials (board members, assessors, and legislators).
 - Interested parties meetings, board meetings, organized assessors meetings.
- Training and educational materials will be developed and available on BOE's SharePoint/ Intranet site for all employees to access.

- Training materials for all areas in the process of being consolidated.

Update With Progress—December 30, 2019

- BOE will continue to work with the California Department of Tax and Fee Administration (CDTFA) in finalizing the BOE intranet site for BOE employees and Board Member Offices.
- BOE met the July 1, 2019, due date for AB 434.
- BOE Taxpayer Rights Advocate (TRA) continues to monitor the TRA SharePoint site and researches taxpayer inquiries for potential taxpayer training and communication opportunities.
- BOE utilizes information and working meetings to timely communicate with staff.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the State Board of Equalization monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:
Brenda Fleming, Director.

The BOE performs regular monitoring activities agency-wide to ensure effectiveness as well as the sustainability of our tax programs. Monitoring activities are performed as part of BOE's processes of internal controls in both administrative and service delivery capabilities to address both internal and external risks. Recurring meetings are held to identify, discuss, and address entity-wide risks and controls. The items are being documented and included in BOE's work plan as corrective actions or process improvement activities. Training sessions for staff and management are being held to support entity-wide awareness of risk management responsibilities, and to facilitate the implementation of best practices.

Update With Progress– December 30, 2019

- The BOE management team continues to meet on a recurring basis to establish criteria and processes for monitoring internal control activities.
- Recurring staff meetings and communications are being conducted to facilitate the exchange of risks and internal controls information.
- The BOE is implementing formal knowledge transfer training along with our continuous informal training.
- Time lines were developed to ensure statutory required workload is being completed.
- Templates will be developed for reporting and tracking progress and updates.
- The risk management team will be organized to support on-going risk identification and monitoring activities.
- The BOE management team will collaborate with its administrative functions service-provider to enhance communications and create service level agreements.
- The BOE will actively track of Individual Development Plans and Probation Reports.

RISK ASSESSMENT PROCESS

The following personnel were involved in the State Board of Equalization risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, ongoing monitoring activities, other/prior risk assessments, external stakeholders, performance metrics, and other.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

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. BOE strives to improve our recruitment approaches to achieve better outcomes and accomplish more efficient and timely recruitment processes.

BOE continues to develop and implement succession plans for essential roles and subject matter areas that ensure continuity of knowledge and mitigate risks related to knowledge loss/gaps in order to create a culture of professional growth and development for future property tax leaders and experts. 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.

Update With Progress—December 30, 2019

BOE staff continues to revise and update training materials and manuals as appropriate to ensure that new rules, regulations, and legislation are current in the training material. In addition, BOE has drafted a new employee onboarding process to help new employees come up to speed. BOE is researching alternatives on how to develop and implement employee cross-functional training for staff.

The agency recently released the State Board of Equalization Rightsizing Plan 2020-2025, which outlines the path to rebuilding, revitalizing and modernizing the BOE to continue the successful administration of our constitutional tax programs and duties, in support of state and local government. The rightsizing plan is a road map to reorganize the agency by appropriately adjusting and balancing our budget and workforce to achieve the maximum efficiency in performing constitutional and business functions. Specifically, the rightsizing plan will provide the positions and funding needed to restore essential roles not provided in AB 102. In addition, an employee retention program is being drafted to utilize proven-best practices and policies for workforce development and career planning.

RISKS AND CONTROLS

Risk: Operations —External—Service Provider

The BOE continues to rely on the CDTFA for administrative functions to be delivered as a service. These 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 continue to include the following:

- CDTFA is responsible for providing administrative functions to BOE, which is a separate state entity, and all human resource (HR) transactions must be approved by the State Personnel Board (SPB).
- 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.

Control: Operations —External—Service Provider

In collaboration with CDTFA, BOE update 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.

Update With Progress—December 30, 2019

- BOE continues to have productive reoccurring team meetings with CDTFA on various administrative functions.
- BOE sent a letter/request to SPB for reinstatement of our HR delegated authority.
- BOE is documenting HR meetings to ensure critical tasks are completed.
- BOE is communicating the agency's needs to CDTFA.
- BOE is currently reviewing and updating the Interagency Agreements. Once approved, the BOE will continue to meet with CDTFA to ensure that BOE's services are met in a timely manner. BOE continues to work on filling staffing needs identified in our 2020-2025 Strategic Plan.

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 risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Brenda Fleming, 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