

December 20, 2023

Joe Stephenshaw, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Director Joe Stephenshaw,

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, 2023.

Should you have any questions please contact Lisa Renati, Chief Deputy Director, at (916) 274-3563, lisa.renati@boe.ca.gov.

GOVERNANCE

Mission and Strategic Plan

In 1879, the California State Board of Equalization (BOE) was established under the California Constitution to regulate county assessment practices, equalize county assessment ratios, and assess properties of intercounty railroads. In subsequent constitutional amendments, the Board was directed to administer the Alcoholic Beverage Tax and Tax on Insurers. The BOE's five Board Members serve concurrent four-year terms and comprise the only elected tax board in the United States. One Member is elected from each of the BOE's four Equalization Districts, each representing approximately 9.5 million constituents. The State Controller, elected at large, serves as the BOE's fifth member. The Board hears and decides specified taxpayer appeals related to the Property Tax, Alcoholic Beverage Tax, and Tax on Insurers programs and appoints an Executive Director to head the agency and manage the activities of BOE staff.

BOE's history of continued excellence is driven by core values and defined roles and responsibilities guiding the actions of its employees. The BOE's managers lead by example, conducting day-to-day operations with the highest professionalism and fostering an environment of collaboration and organizational effectiveness throughout the entire agency.

- **BOE's Mission:** BOE's mission is to serve Californians through fair, effective, and efficient tax administration, which supports state and local governments.
- **BOE's Vision for the Future:** To rebuild, revitalize, and modernize the BOE to enrich its employees and strengthen its organizational capabilities of delivering gold-standard services.
- **BOE's Strategic Goals:** The goals and objectives for the strategic planning period 2020 to 2025 focus on rebuilding, revitalizing, and modernizing the BOE to continue successfully administering our constitutional tax programs. Specifically:

1. **Revitalize our workforce.** We are committed to enhancing and strengthening our workforce capacity, which includes the expansion and nimble allocation of staffing levels, professional development of staff and leadership, ongoing succession planning, and ensuring a diverse and inclusive workforce. Achieving this goal puts in place the foundation to ensure that we have the capacity to continue our role as the State's property tax experts.
2. **Modernize our core tax administration functions and business processes by leveraging technology systems and process improvement opportunities.** Our focus on process improvement is designed to advance and leverage contemporary, united business intelligence and information sharing to allow a robust and cooperative state-wide collaboration across the 58 counties and to keep pace with changing needs.
3. **Establish our standards for subject matter expertise and training programs.** *As the exclusive state agency responsible for overseeing California's \$85 billion property tax assessments and property tax expert for the Governor, the Legislature, County Assessors, stakeholders, and the public, BOE is committed to long-term knowledge continuity management and legacy development planning using innovative training methods, career path development, and communities of practice. By doing so, we will ensure we are able to protect the historical property tax expertise and depth of knowledge needed for generations of future property tax experts and fulfill our important statutory role for the State of California.*

Control Environment

As the head of the BOE, Yvette Stowers, Executive Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems, while BOE's Chief Deputy Director is responsible for executive monitoring, including facilitating and verifying that BOE's internal control monitoring practices are implemented and functioning as intended.

The agency's executive management and oversight bodies are the Executive Director, Chief Deputy Director, Chief Counsel, Deputy Director, and Program Chiefs. These individuals possess the knowledge and expertise to oversee and evaluate departmental operations and have capabilities and characteristics, including integrity, ethical standards, leadership, critical thinking and problem-solving abilities, an internal control mindset, and programmatic and operational expertise. BOE's internal controls are developed cooperatively by the executive management based on feedback provided by divisional leaders and staff. The effectiveness of BOE internal controls is confirmed by:

- Establishing definitions, criteria, and processes to determine and 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.
- Create and implement monthly reports to convey status, progress, and any new risks or issues; compare the outcomes to the expectations and correct them as needed.
- Developing training and educational programs to ensure that all managers and employees are informed and able to perform their risk management roles and responsibilities.

- Internal control documentation is communicated to employees via channels such as the Board of Equalization Administrative Manual, unit-specific policy and procedure manuals, and the BOE's intranet.
- Establishing effective communications throughout the agency to support the identification of prompt response to risk.
- Ensuring items are documented and included in BOE's work plan as corrective or process improvement activities.
- Ensuring that all levels of BOE management and personnel are responsible for suitable internal controls within their respective program areas. BOE frequently evaluates internal control systems to ensure that risks are adequately addressed.
- Executive Team meetings are held so that potential issues are raised with supervisors for communication with staff.
- Monitoring roles are clearly defined in duty statements, policies, and procedures. The Executive Director, Chief Deputy Director, and management maintain clear, open communications with all agency employees and regularly receive feedback.
- Demonstrating and communicating high standards for integrity and ethical behavior to everyone in the agency. BOE adheres to California ethics laws and requires all BOE employees to complete an ethics training course within six months of their hiring and every two years thereafter. BOE also follows proper Equal Employment Opportunity (EEO) practices and ensures that complaints of discrimination are brought to the appropriate authority and given fair and timely consideration.
- Establishing and maintaining a competent workforce.
 - Management establishes employee competency expectations through Duty Statements, Performance Evaluations, and Probation Reports.
 - Management values the critical work performed by its employees and makes the time to recognize these efforts through employee recognition and celebration. Methods include agency-wide teambuilding activities, emails to the executive management team recognizing employee contributions, social events, and formal recognition programs.
 - The agency recruits, hires, on-boards, and provides training to all employees to help meet competency expectations. The agency provides routine and ongoing training for all critical operations to develop the necessary competence level, knowledge, skills, and abilities. This training aims to assist in the smooth transition to key positions as employees advance through the organization. Cross-training is encouraged for staff development. This training aims to develop a well-rounded workforce and assist in the smooth transition to key positions as employees advance through the organization.
 - Management routinely evaluates working conditions and strives to eliminate excessive pressures resulting from the cyclical nature of the workload.

The agency has established core values to help focus the employees' actions while striving to achieve the agency's mission:

- Perform public service with integrity,
- Put people first,
- Commit to excellence, and

- Keep getting better.

Information and Communication

Public Board meetings offer taxpayers, stakeholders, and other interested parties the opportunity to participate in the formulation of rules and regulations adopted by the Board and to interact with the Board Members as they carry out their constitutional and official duties. At the meetings, the Board strives for transparent and straightforward access for the public to participate by using multiple communication channels, including a hybrid in-person and virtual meeting environment, live webcasting, written materials available on the BOE website and in hard copy format, and closed captioning. A standing agenda item allows the public to bring any issue to the attention of the Board.

The BOE's Executive Director is responsible for facilitating and monitoring the agency's practices and procedures to ensure they align with State and agency policy. The BOE is organized into departments and divisions, each led by a senior manager. The senior management team's roles and responsibilities align with a small-state organizational structure. The communication plans, channels, and frequency of communications are designed to convey messages throughout the agency promptly and efficiently. In addition, each department and division has a unique set of needs for its external communications.

Executive management communicates information concerning policies, programs, and operations through established channels. In addition to the chain of command communication, the BOE uses various methods to communicate important and relevant information among all levels of staff and management, County Assessors, and the public to ensure the effective exchange of information.

- The Taxpayers' Rights Advocate (TRA) Office develops and holds an annual Taxpayers' Bill of Rights Hearing to ensure taxpayers receive fair tax administration. The TRA monitors BOE tax programs for compliance and recommends new procedures or revisions to existing procedures to ensure fair treatment of taxpayers. The TRA Office plays a vital role in educating taxpayers to promote taxpayer understanding and compliance with property tax laws. The TRA regularly uses a variety of communication channels to reach taxpayers, gather information, and address taxpayer concerns. The TRA publishes educational materials and fact sheets which are clear and understandable.
- The 58 County Assessors receive regular communications titled "Letters To Assessors" that are widely available to the public and provide property tax guidance to the 58 County Assessors.
- Interested Parties Meetings are held with stakeholders to discuss and collaborate on property tax issues.
- Staff, within their appropriate lines of authority, devote significant effort to pursuing relevant communications with stakeholders and elected officials (Board Members, County Assessors, and the Legislature). Two-way information is evaluated to meet operational objectives and manage and monitor challenges, opportunities, and related internal controls.
- The Executive Director holds Advisory Council Meetings to gather diverse perspectives

from multiple outside partners regarding property tax issues affecting California's citizens and County Assessors.

- BOE's intranet, myBOE, provides staff immediate access to training, guidance, educational materials, administrative bulletins, newsletters, and other information.
- Monthly meetings with our statutorily mandated service provider, the California Department of Tax and Fee Administration (CDTFA), allows an opportunity to communicate formally and informally about BOE's current workload, human resources, technology, budget, facilities, and accounting needs.
- Social media platforms are used for education, recruitment, and special notices.
- BOE's Equal Employment Opportunity (EEO) Office is available to assist employees with concerns. This office also supports BOE's Disability Advisory Committee (DAC), which advises the Executive Director on issues of concern to employees with disabilities and matters relating to the formulation and implementation of a plan to correct any underrepresentation of individuals with disabilities in the workforce. The EEO office also supports and implements BOE's Diversity, Equity, and Inclusion objectives.
- The Agency also encourages employees to report inefficiencies and inappropriate actions to management and the California State Auditor through annual notifications and information posted in prominent locations at each worksite regarding the state's Whistleblower Hotline for reporting ethical issues. Staff are instructed to bypass the traditional chain of command reporting structure if a communication line is compromised.

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: Yvette Stowers, Executive Director; Lisa Renati, Chief Deputy Director.

The information included herein discusses the entity-wide, continuous process to ensure internal control systems work as intended. Executive monitoring includes facilitating and verifying that the BOE's monitoring practices are implemented and functioning. The executive monitoring sponsor(s) responsibilities have been given to Yvette Stowers, Executive Director, and Lisa Renati, Chief Deputy Director.

The BOE performs regular monitoring activities agency-wide to ensure effective and sustainable tax programs. Monitoring activities are performed to address internal and external controls in both administrative and service delivery capabilities.

- Weekly management meetings to review and discuss operational and other key Performance Metrics.
- Weekly Human Resources, budget, and contract updates.
- Monthly assessment of Board Meeting actions and associated agency workload.
- Regular public reporting during Board Meetings on project implementation and process improvement projects.
- Regular weekly and monthly meetings with our service provider to ensure quality

collaboration and workload management.

Recurring meetings are held to identify, discuss, and address entity-wide risks and controls. The items are documented and included in BOE's work plan as corrective actions or process improvement activities. The Executive Director, in collaboration with the Chief Deputy Director, Chief Counsel, Deputy Director of the Property Tax Department, and relevant program Chiefs, determines the assignment of projects to address risk mitigation strategies. The program Chief will develop a corrective action plan and execute the plan within the agreed-upon timeframe.

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.

RISK ASSESSMENT PROCESS

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

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, questionnaires, consideration of potential fraud, and performance metrics.

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 following personnel were involved in the BOE risk assessment process: executive and front-line management.

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

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

The executive management team met multiple times to identify and discuss significant agency-wide risks that could adversely impact the BOE's objectives and mission. Risk statements were prepared, documented, and evaluated, with input from affected division managers. The risk ranking was based on the risk's perceived severity, the possibility of occurrence, and the speed of onset for the risk event to manifest itself. After determining the risks and rankings, the corresponding controls and sub-controls were discussed and decided.

RISKS AND CONTROLS

Risk: Aging Legacy Systems

The Agency faces multiple information technology risks due to the lack of functionality and aging of the existing technology systems created over 35 years ago, which are now obsolete

and challenging to enhance when the agency is required to implement new legislation, data remedies in the system are difficult to deploy, systems are overly reliant on manual data entry, which results in human error, and the availability of resources with the knowledge to support the existing systems is diminishing. These issues have renewed the urgency for replacement as technological and storage solutions advance. This risk could prevent BOE from timely administration of tax systems, including but not limited to constitutionally mandated state-assessed property taxes, welfare exemption requests, tax appeals, and case management systems. Additionally, BOE's statutorily mandated IT service provider, CDTFA's Technology Services Division (TSD), has experienced difficulty recruiting and employing qualified IT staff with the specific knowledge, skills, and desire to support our aging technology specific to our unique tax programs.

Control: Control 1 Implement An Information Technology Plan

- Update our information technology plan to upgrade/replace key systems used in the administration of taxes.
- Monitor monthly meetings with our service provider (CDTFA - TSD) to closely manage challenges and issues with the technology systems used to administer BOE tax programs. Assess and prioritize improvement projects so the agency can develop a long-range plan to address the risks.
- Continue existing workarounds and review staff work to ensure accuracy to remedy any data flaws.
- Continue to work through the Project Approval Lifecycle (PAL) process with TSD to complete the Alternatives Analysis and implement the recommended path.
- Create change management and readiness programs to prepare for technological advancements.

Risk: Enterprise Workforce-Critical Knowledge Retention

The Agency experiences knowledge continuity gaps due to retirements and other factors, which results in the need for continued succession planning. These challenges could result in the agency's diminished capacity to meet its responsibilities.

Control: Control 1 Comprehensive Staff Development Program

1. Update and create training manuals and documentation of processes to capture essential knowledge and leverage that knowledge into training that can be offered agency-wide to improve employee opportunities.
2. Build Employee Engagement to increase communications through ongoing unit meetings for team building, knowledge transfer, and collaboration.
3. Use collaboration tools to support mentoring, upward mobility, and employee growth.
4. Implement mentoring programs to increase retention of staff who have entered new levels of development and need to build the depth of knowledge necessary to meet agency demands.

Risk: Operations – Mandated Service Provider, CDTFA

In 2017 the BOE was restructured resulting in BOE being responsible for the administration of California's Property Tax system, the Alcoholic Beverage Tax, and the co-administration of the Tax on Insurers. The 2017 restructuring resulted in the creation of CDTFA and Office of Tax Appeals (OTA). CDTFA is responsible for the administration of the Sales and Sse Tax and other special taxes. OTA is responsible for hearing and deciding Franchise Tax and Sales and Use Tax appeals. CDTFA is mandated, pursuant to government code section 15570.28, to provide administration services to BOE. The mandated administrative services include human resources and personnel, accounting, financial reporting, and budget, facilities and contracts, and technology and information Services. These services and activities are exclusively provided by CDTFA to BOE.

Since CDTFA is required to provide these services pursuant to statute, BOE is not able to employ administrative professional staff and is classified as a hosted entity for technology and information security. This arrangement is not typical for a tax agency, as the BOE is prohibited from directly performing its administrative functions and has no ability to contract for services with another department or agency. Risks associated with BOE's reliance on another state department include the following:

- CDTFA, a separate state entity, provides certain administrative functions to BOE in addition to the same services for their own large department. Due to conflicting priorities, CDTFA could place BOE mission-critical activities at a lower priority level for completion. This could result in BOE's transactions not being completed timely or accurately.
- Notwithstanding CalHR reinstatement of BOE's HR delegation in 2022, BOE is not allowed to hire HR and personnel professionals. As such, BOE must rely on the decisions and actions of CDTFA's HR and personnel professionals. BOE has no way to verify the accuracy of the decisions and actions taken by CDTFA's HR and personnel professionals.
- CDTFA, TSD supports BOE for technology and information security. With this host/hosted relationship, CDTFA submits separate Plan of Action and Milestones (POAMs) to the California Department of Technology on behalf of the BOE every quarter and submits the annual Statewide Information Management Manual (SIMM) 5330-A and B and E. These documents are reviewed and signed by CDTFA's Chief Information Officer, CDTFA's Information Security Officer, and BOE's Executive Director. With respect to our aging technology system, we rely on CDTFA, TSD personnel for managing this application. Due to conflicting priorities and limited resources, the TSD personnel could be redirected to other assignments within CDTFA. This redirection could cause delays in developing a solution to BOE's aging technology.

Control: Control 1 Interagency Agreement - Relationship Building

1. In collaboration with CDTFA, BOE updates 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.

2. Continue to work in partnership with CDTFA to develop program-specific guides to assist new employees with critical information about CDTFA-BOE working relationship.
3. Continue to 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 reduce miscommunication.

Control: Control 2 - Develop Internal Control Review Process

BOE has no ability to ensure CDTFA's internal controls regarding functions performed on behalf of BOE are accurate. To mitigate this risk, BOE will work with CDTFA to develop regular reporting processes and communications. These will include:

1. If not already provided, written periodic reports of administrative functions performed on our behalf and signed letters of confirmation signed by CDTFA leadership affirming and attesting that work performed meets established standards and legal requirements.
2. Reporting of completion of closure of accounting functions in Fi\$Cal for review by BOE.
3. Continue the collaborative working relationship that provides BOE with sufficient notice on new processes and allows BOE to provide information on a consultative basis to ensure BOE operations are not inadvertently and adversely affected.

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.

Yvette Stowers, Executive Director

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