

December 15, 2021

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

Dear Director 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, 2021.

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

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 State Board of Equalization (BOE) to enrich its employees and strengthen its organizational capabilities of delivering 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,

1. **Revitalize our workforce and rebuild our state agency infrastructure.** Our focus on our workforce revealed the need to enhance and strengthen our workforce capacity, which includes expanding staffing levels, professional development, and succession planning. 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 their changing needs.
3. **Establish our standards for subject matter expertise and training programs.** Our focus is directed towards an organizational effort of long-term knowledge continuity management and legacy development plans 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, Brenda Fleming, Executive Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems, while the Chief Deputy Director's executive monitoring responsibilities include facilitating and verifying that the BOE's internal control monitoring practices are implemented and functioning, as intended.

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 monthly 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.
- Establishing effective communications throughout the agency to support the identification of prompt response to risk.
 - Ensuring items are being documented and included in BOE's work plan as corrective actions or process improvement activities.
 - Ensuring that all levels of BOE management and personnel are responsible for suitable internal controls 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, Chief Deputy Director, and management maintain clear, open communications with all employees of the agency and regularly receive feedback.
- Demonstrating and communicating high standards for integrity and ethical behavior to everyone in the agency.
 - The agency has established the following 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.
 - BOE actively tracks and ensures that all staff are up to date on state mandatory ethics training in order to reinforce the agency's standards of conduct, to clarify what

practices are and are not permissible, and to address possible ethical dilemmas.

- Establishing and maintaining a competent work force that works towards the implementation of the strategic plan.
 - Management establishes competency expectations for employees through Duty Statements, Performance Evaluations, 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 led by a senior manager. The senior management team's roles and responsibilities have been aligned with a small state organizational structure. The communication plans, communication channels, and frequency of communications are designed to convey messages throughout the agency, both timely and efficiently. In addition, each department and/or division has a unique set of needs for its external communications.

- Monthly meetings of the BOE must meet the requirements of Bagley-Keene Meeting Act of 2004. BOE strives for easy access for the public to participate by using multiple communication channels, including live webcasting, written materials, and closed captioning. At the meeting, a standing agenda item allows the public to bring any issue to the attention of the Board.
- Taxpayers' Rights Advocate (TRA) develops and holds an annual hearing to ensure that taxpayers receive fair tax administration. The TRA regularly uses a variety of communication channels to reach taxpayers, gather information, and address taxpayer concerns.
- 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.
- Formal and informal meetings may be held with stakeholders and/or elected officials (Board Members, Assessors, and/or legislators).
- The Executive Director holds a biannual Advisory Council Meeting to hear from a diversity of perspectives on matters relating to property tax issues, which confront California's citizens and County Assessors.
- Training and educational materials for BOE staff will be developed and available on BOE's Intranet site for all staff to access.
- Monthly meetings with our service provider allow an opportunity to communicate formally and informally about current workload and challenges.
- Social media platforms are used for education, recruitment, and special notices.
- The Equal Employment Opportunity (EEO) Office supports the 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 under-representation of individuals with disabilities in the workforce.

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. In addition, the EEO officer is available to assist employees with concerns.

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; 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, Deputy Director of Property Tax, and relevant program Chiefs, determine 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, front line management, and staff.

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

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

RISKS AND CONTROLS

Risk: Information Technology – Aging Legacy Systems

The Agency faces multiple information technology risks due to the lack of functionality and aging of the existing technology systems. Specifically, the IT systems are difficult to enhance when the agency is required to implement new legislation, data remedies in the system are difficult to deploy, and the availability of resources with the knowledge to support the existing systems is diminishing. This risk could prevent BOE from timely administration of tax systems including but not limited to State-Assessed Property taxes, Welfare Exemption Requests, Tax Appeals, and case management systems.

Control: Develop Information Technology Plan

- Develop an information technology plan to upgrade/replace key systems used in the administration of taxes.
- Monitor using monthly meetings with our service provider (CDTFA - TSD) to closely monitor challenges and issues with the technology systems used in the administration of 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.
- Document our business processes for impacted programs to understand the workload and steps needed to successfully support an information technology upgrade or replacement project.
- Hire external consultant to assist agency to begin the Project Approval Lifecycle (PAL) process. Competing priorities for our service provider results in a need to hire a consultant to guide the agency through Stage 1 and Stage 2 of the PAL process and work collaboratively with the service provider.

Risk: Workforce Development

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: Develop Comprehensive Staff Development

- Update and/or create training manuals to capture essential knowledge and leverage that knowledge into training that can be offered agency wide to improve opportunities for employees.
- Provide additional supervisory training for remote supervision/teambuilding/leadership skills, so the agency can effectively use telework to improve knowledge transfer and retention.
- Develop and implement policies for promotions in place to build a career ladder within the

- agency to retain new and existing employees.
- Develop and implement mentoring programs to increase retention of staff who have entered new levels of development and need to build the depth of knowledge needed to meet agency needs.
- Update and implement the Upward Mobility Program to provide career development and promotional opportunities for low-paying positions.
- Implement weekly meetings to develop communities of practice within the agency.

Control: Recruitment Plan

- Modernize job controls to effectively market the job classifications with existing benefits, including telework options and more alternative work schedules.
- Implement effective recruitment strategies to bring forth a larger pool of qualified, diverse candidates.
- Utilize the workforce analysis information to develop recruitment strategies in support of our diversity, equity and inclusion goals.

Risk: Service Provider

The BOE has a unique structure and relationship with the California Department of Tax and Fee Administration (CDTFA) as a result of the Taxpayer Transparency and Fairness Act of 2017, Chapter 16, Statutes of 2017 (Assembly Bill (AB) 102 of 2017). As a result of this statute, CDTFA was directed to provide BOE's administrative, human resources and personnel, and information technology functions. These services and activities are now exclusively provided by CDTFA. As such, BOE no longer has direct control over its state administration functions, and no human resource professional staff resources or systems. Risks associated with this arrangement include the following:

- CDTFA provides certain administrative functions to BOE, which is a separate state entity, and all Human Resource transactions must be approved by both CDTFA Human Resources as well as CalHR's Personnel Management Division.
- 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 guidelines.
- 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: Interagency Agreement

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.

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