State of California

Board of Equalization
Investigations Division – MIC:42

Memorandum

To : Honorable Betty T. Yee, Chairwoman
Honorable Judy Chu, Vice-Chair
Honorable Bill Leonard
Honorable Michelle Steel
Honorable John Chiang

Date : August 28, 2007

From : Kristine Cazadd, Chief Counsel
Legal Department, MIC: 83

Gil Haas, Jr., Chief
Investigations Division MIC:42

Subject : **Lessons Learned – Business License Inspection Program –Other Administrative Matters– September 12, 2007 Board Hearing**

In response to a request made by the Honorable Judy Chu, Vice Chair, at the August 14, 2007 Board meeting, the Legal Department and Investigations Division have prepared the attached document titled "Business License Inspection Program Lessons Learned." The Lessons Learned document highlights findings and recommendations which are based upon pilot program staff experience in implementing, operating, and evaluating over 12 months of results from the pilot Business License Inspection Program, (BLIP).

While preparing the document, the Investigations Division had the opportunity to work with the Sales and Use Tax Department (SUTD) on revisions to the BLIP Budget Change Proposal (BCP). Based on our collaborative efforts, we believe that SUTD has encompassed the staffing, outreach and business strategies necessary to incorporate and modify, as needed, many of the recommendations identified in this Lessons Learned document.

Also attached to the Lessons Learned document is a table titled "BLIP Non-Compliance Rates by Zip Code." This table breaks down non-compliance within the San Francisco and Norwalk pilot areas by identifying the number of businesses found to be operating without a permit and comparing that to the number of businesses inspected within a targeted zip code.

If there are any questions regarding the Lessons Learned document, please contact Gil Haas at (916) 324-2684 or Kristine Cazadd at (916) 445-4380.

Approval:

Ramon Hirsig
Executive Director

8-28-07
Date

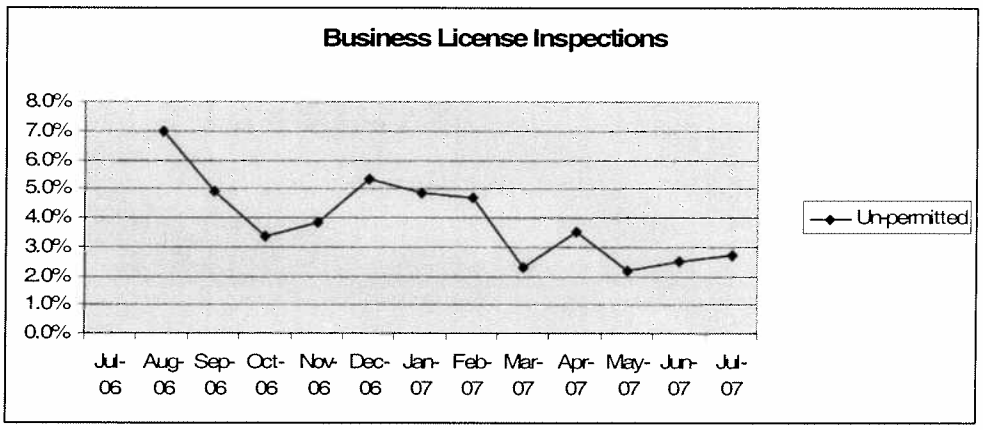
KC:GH:sj

Attachments

cc: Mr. Ramon Hirsig
Mr. David Gau
Ms. Randie Henry
Ms. Jean Ogrod
Mr. Randy Silva
Mr. Gonzalo Hernandez
Mr. Sid Zigelman

Business License Inspection Program
Lessons Learned

Following are highlights of some of the lessons learned during the past 12 months of the Business License Inspection Program (BLIP). These findings and recommendations are based upon pilot program, staff experience, and data documentation of increased voluntary compliance exhibited in the chart titled "Business License Inspections" below. While the chart depicts a downward trend in the identification of non-permitted business operations as the "in-person" contacts continued, it does not reflect the issue that 75% of the businesses found to be operating without a permit, failed to voluntarily obtain a permit. Voluntary compliance did not occur until 45% of the zip codes within the pilot districts had been saturated with contact letters and until 27% of the retailers had been contacted, or revisited.



Based on the data and experience reported, the following findings and recommendations are offered:

I. Follow-up Compliance Activity After Initial Contact is Mandatory for Success

Statistics demonstrate that voluntary compliance increases significantly when non-compliant retailers received "in-person" follow-up visits with increased emphases on enforcement. For example, first quarter compliance reached 73%, from a base of 25% after follow-up visits were instituted, and retailers were advised of a potential misdemeanor violation or, for gross violators, were cited for operating without a license. Any retail compliance program implemented should therefore include:

- Assignment control and follow-up to ensure all non-permitted accounts are consistently worked.
- A referral mechanism to elevate non-compliant businesses to an enforcement level.
- A statewide standardized reporting requirement to monitor and uniformly evaluate outreach activity, program results, and opportunities.

II. Initiate and Maintain Coordinated, Concerted Outreach in the District Area

- Enhanced Media Outreach prior to the program's startup to facilitate taxpayer cooperation and education.
- Coordinate Public Service Announcements and other media outreach within targeted zip codes to highlight planned inspection activity. (To inform taxpayers that staff will be in the area.)
- Coordinate outreach with local Chambers of Commerce
- Work with City Licensing Departments– Noteworthy, is that densely populated cities tend to have more aggressive licensing programs, over smaller cities and counties, or those that do

not require local licensing. This is supported by some BLIP inspection data indicating higher non-compliance rates in unincorporated areas without local licensing ordinances and enforcement.

- Maintain statistical data to identify by zip codes areas of high non-compliance and conduct analysis of the reasons for the non-compliance. Identify and initiate additional outreach efforts to address such specialized reasons for non-compliance. (Analysis of current BLIP non-compliance rates by zip code attached.)

III. Maintain a Strong Field Presence

Due to the strong field presence in the BLIP program, staff was not only able to achieve measurable voluntary compliance improvements; they were also able to identify changes in the retail market place that aided in developing additional outreach strategies leading to increased voluntary compliance. Such outreach strategies include but are not limited to:

- Identification of service industries that have diversified and are now selling taxable personal property.
- Identification of specific industries within the North American Industry Classification System that can be targeted through trade publications or other outreach methods. For example, the BLIP program identified significant non-compliance in a number of areas, including the area of Cosmetics, Beauty Supplies and Beauty Salons. Efforts are now underway within BLIP to work with the Board of Barbering and Cosmetology to target this business segment through direct mailers, trade shows, magazines, and other direct marketing outlets.
- Identification of language barriers requiring new outreach tools. Through BLIP inspections, staff identified the need for and developed a Business Licensing Inspection Program brochure, which explains BOE permit requirements and the inspection process in English, Spanish, Chinese, Vietnamese, Korean, and are currently working on a publication in Arabic.

IV. Establish Appropriate Staffing Level and Expertise

Working in teams provides the employees with a greater experience level and additional safety benefits. Staff hours were adjusted to cover typical hours of business operation and to handle special retail events. Management required staff to work within line of sight and to maintain frequent communication between team members. In high crime areas, management coordinated all work with local code and law enforcement officials.

The BLIP program was staffed primarily by employees who had been promoted within the pilot districts from the Business Taxes Representative (BTR) into a Compliance Specialist, and several staff who were hired from outside the department. Rationale for hiring and maintaining a staff at the Business Taxes Compliance Specialist level included:

- Ability to draw from existing staff that have the training and experience necessary to recognize potential safety issues.
- Ability to recruit and retain professional and ethnically diverse staff with multiple language skills.
- Ability to draw from existing BOE staff who are well indoctrinated in the BOE and can address common taxpayer questions related to BOE programs.

Business License Inspection Program
Lessons Learned

Desirable qualities and/or training requirements for staff included, but are not limited to:

- Physical fitness standards, as these positions are required to perform strenuous field work during inclement weather.
- Training in Public Relations and Cultural Diversity.
- Training in Basic Tax law.
- Registration– CT 1 training.
- Training in Basic Auditing Techniques – Noteworthy is that there were a number of cash-based businesses spot checked or audited who were found to be reporting less in monthly sales than their monthly rent.
- Training in interview techniques.

V. Fully Utilize Technology to Document Activities and Results

BLIP program staff utilized a custom database application on tablet computers with touch screen input technology. This application allowed for staff to view permitted locations, organized at street level to identify businesses operating without a permit and to assess business operations of permitted accounts against reported revenue. Use of standardized input screens and prompts provided for consistent data capture, as well as collection of data for generating registration update reports and audit referrals. Additional opportunities exist for:

- Identifying and providing lighter data retrieval and input devices (computers).
- Providing additional back-up units for technology failures – replacements.
- Obtaining longer lasting batteries.
- Providing real-time access to IRIS for active registration and registration updates.
- Providing real-time access to ACMS for comments related to revocations and collections.

VI. Establish and Maintain Uniformity in Processes and Procedures.

One of the fundamental requirements of the program has been an equal evaluation of all business and taxpayer data throughout the pilot areas. To ensure that the program is executed uniformly, the following measures are recommended:

- All data must be collected and documented uniformly for program accountability.
- Standardize processes and procedures to collect, document and report accurate and reliable data must be instituted.
- Document how districts register certain industries, i.e. hot dog cart sellers, catering trucks, street artists (may vary from district to district due to city ordinances), special event sellers, etc., and make appropriate adjustments in order to achieve uniformity.
- Document how districts register taxpayers found to be operating without a permit, and place all on a quarterly reporting basis (as provided under sales and use tax law), in order to achieve uniform results.

BLIP Non-Compliance Rates By Zip Code

City	Zip	Count	Locations Inspected	Non-compliance Percentage
LOS ANGELES (LA)	*90006*	1	0	
LA	*90014*	43	213	20%
LA	*90022*	99	1508	7%
LA	*90023*	95	1036	9%
LA	*90025*	1	1	100%
LA	*90031*	36	523	7%
LA	*90032*	44	580	8%
LA	*90033*	41	611	7%
LA	*90036*	1	4	25%
LA	*90063*	45	521	9%
LA	*90065*	1	5	20%
BELL	*90201*	29	929	3%
COMPTON	*90221*	1	2	50%
DOWNEY	*90240*	10	564	2%
DOWNEY	*90241*	23	1347	2%
DOWNEY	*90242*	14	607	2%
HUNTINGTON PARK	*90255*	1	24	4%
LYNWOOD	*90262*	1	4	25%
MAYWOOD	*90270*	15	408	4%
SOUTH GATE	*90280*	53	1941	3%
WHITTIER	*90601*	15	655	2%
WHITTIER	*90602*	8	749	1%
WHITTIER	*90603*	9	393	2%
WHITTIER	*90604*	3	323	1%
WHITTIER	*90605*	14	680	2%
WHITTIER	*90606*	11	516	2%
MONTEBELLO	*90640*	46	1582	3%
NORWALK	*90650*	51	1367	4%
PICO RIVERA	*90660*	37	1280	3%
SANTA FE SPRINGS	*90670*	159	3323	5%
CERRITOS	*90703*	29	1189	2%
BELLFLOWER	*90706*	14	1720	1%
LAKEWOOD	*90712*	10	522	2%
LAKEWOOD	*90713*	4	279	1%
LAKEWOOD	*90715*	1	168	1%
PARAMOUNT	*90723*	73	1311	6%
LONG BEACH	*90805*	7	390	2%

BLIP Non-Compliance Rates By Zip Code

LONG BEACH	*90806*	5	3	167%
LONG BEACH	*90807*	15	245	6%
LONG BEACH	*90808*	1	73	1%
LONG BEACH	*90815*	3	73	4%
GLENDALE	*91208*	1	1	100%
MONTEREY PARK	*91722*	1	2	50%
MONTEREY PARK	*91754*	30	1255	2%
MONTEREY PARK	*91755*	1	245	0%
FONTANA	*92336*	1	1	100%
BELMONT	*94002*	3	212	1%
DALY CITY	*94014*	3	330	1%
DALY CITY	*94015*	24	477	5%
REDWOOD CITY	*94061*	16	344	5%
WOODSIDE	*94062*	2	115	2%
SAN BRUNO	*94066*	12	558	2%
SAN CARLOS	*94070*	25	990	3%
SOUTH SAN FRANCISCO	*94080*	22	1016	2%
SAN FRANCISCO (SF)	*94102*	57	1152	5%
SF	*94103*	144	2093	7%
SF	*94104*	8	482	2%
SF	*94105*	20	763	3%
SF	*94107*	4	332	1%
SF	*94108*	39	1095	4%
SF	*94109*	62	1665	4%
SF	*94110*	59	1997	3%
SF	*94111*	12	820	1%
SF	*94112*	1	14	7%
SF	*94114*	39	1045	4%
SF	*94115*	30	1264	2%
SF	*94116*	13	719	2%
SF	*94117*	27	1052	3%
SF	*94118*	21	1024	2%
SF	*94121*	28	660	4%
SF	*94122*	29	1086	3%
SF	*94123*	25	990	3%
SF	*94124*	29	490	6%
SF	*94127*	8	333	2%
SF	*94132*	10	283	4%
SF	*94133*	32	1032	3%
SF	*94134*	2	8	25%

BLIP Non-Compliance Rates By Zip Code

SAN MATEO	*94401*	7	148	5%
SAN MATEO	*94403*	62	917	7%
SAN MATEO	*94404*	21	607	3%
TOTALS		1,999	55,286	3.62%