

List of Questions for Joint Hearing with Budget Subcommittee #4

Overview of BOE Budget and Staffing

- 1) Please provide a narrative and diagrammatic description of BOE's organizational structure, including all departments, sub-departments, divisions, sub-divisions, etc. (collectively, "organizational units").**

Established in 1879 by a constitutional amendment, the BOE was initially charged with responsibility for ensuring that county property tax assessment practices were equal and uniform throughout the state. Currently the tax programs administered by the BOE are concentrated in four general areas: sales and use taxes, property taxes, special taxes and the tax appellate program. In 2013-14 BOE-administered taxes and fees generated \$60.4 billion to provide essential services for the people of California. BOE administered programs accounted for more than 30 percent of all state revenue.

See attachment 1 for an Organizational Chart.

- 2) For each organizational unit identified above, please explain why the budgeted staff positions have decreased for Fiscal Year 2014-15.**

Attachment 2 shows the detailed listing of position changes from 2014-15 to 2015-16. The BOE is losing positions in 2015-16 is due to the decision by the Department of Finance to display distributed overhead positions as a separate entry in the Governor's Budget instead of in the tax and fee programs. This change starts in the 2015-16 fiscal year. This change in the display is due to Fi\$Cal implementation.

- 3) For each organizational unit identified above, please provide a detailed breakdown of both PY and limited term positions by employee classification.**

The report attached (attachment 3) and shows the detailed breakdown of the PYs by classification for each division identified on the organizational chart.

4) Please describe the organizational unit(s) responsible for revenue collections, audits, and recovering accounts receivables.

The organizational units responsible for revenue collections, audits, and recovering accounts receivables include:

Revenue Collections (Program specific tax return and payment processing)

SUTD - Return Analysis Unit and Consumer Use Tax Section

STFD¹ - Policy and Compliance Division – Return Processing Branch; Audit and Carrier Division – Motor Carrier Office

Audits (Field and desk audits)

SUTD - Field Operations Division, Return Analysis Unit

STFD - Audit and Carrier Division - Audit Examination Branch, Motor Carrier Office and the Appeals and Data Analysis Branch has the billing function for audits

Recovering Accounts Receivables (Collectors/Final Liabilities)

SUTD - Field Operations Division

STFD - Policy and Compliance Division – Collection Section; Audit and Carrier Division - Motor Carrier Office

^{1/} STFD administers 29 tax and fee programs; Staff is assigned by function into two Divisions. Each Division performs primarily audit or compliance-related functions for all 29 tax and fee programs.

a) For each organizational unit identified above, please provide the budget allocation for Fiscal Year 2014-15.

For STFD, each Division and Branch has an annual budget allocation to perform all of the work activities assigned. These budget allocations are not segregated to the function level but are managed to address operational need, reporting cycles, etc.

Audit and Carrier Division

Administration - \$ 262,669

Audit Examination Branch - \$4,861,098

Appeals and Data Analysis Branch - \$5,183,532

Motor Carrier Office - \$ 4,113,815 (not organized by function, administers IFTA and certain Fuel Tax programs)

Policy and Compliance Division

Administration - \$164,027

Compliance Branch - \$ 8,079,376 (includes Registration, Licensing and Collection Functions)

Return Processing Branch - \$ 2,776,683 (includes Clerical Support, Tax Advisory and Return Processing Functions)

Program Administration Branch - \$2,007,211

Total STFD Department Budget FY 2014-15 \$27,448,411

- b) For each organizational unit identified above, please provide a detailed breakdown of PY and limited term positions by employee classification.**

Attachment 3 provides a breakdown of positions by classification for each Division.

- c) For each organizational unit identified above, please provide an estimate of return on budget investment. (Please include the amount of revenue generated by each organizational unit).**

BOE cannot calculate the return on investment at this time due to the fact that revenue data is not tracked to this level of detail. However, the table in response to question 8 may provide some information that you will find helpful.

5) What is the specific role of the Tax Policy Division?

The Tax Policy Division (TPD) develops, implements, evaluates, and maintains all critical departmental plans and policies for the audit and compliance programs related to sales and use taxes. The three sections that comprise TPD are the Compliance and Technology Section, the Audit and Information Section and the Business Taxes Committee and Training Section. The three sections report to a Chief.

TPD researches develops and drafts regulations, policies and procedures, educational and informational material, technical forms and issue papers; implements legislation related to the Sales and Use Tax, Lumber Fee, and Mobile Telephony Service Surcharge programs; evaluates and scores activities

in field offices and headquarters in order to maintain quality, uniformity, and consistency in the audit and collection programs; conducts innovative research and tools in the digital world related to the audit and collection program; develops training courses and conducts technical training for all Department staff; and acts as advisor and consultant to the BOE field offices, taxpayers, the public, and the Board Members and their staff with respect to audit, compliance, and legal issues as well as legislative and budgetary issues. In its consulting and advisory capacity, TPD identifies emerging issues, researches, advises and assists stakeholders in answering the most unusual, complex, or sensitive audit, compliance and legal questions and develops regulatory and uniform policy and procedures. TPD staff also explores alternative methods to achieve greater compliance and nexus opportunities.

In addition, TPD coordinates the Department's budgetary process, including the development of budget change proposals and schedule of unbudgeted equipment needs/requests. It develops new and maintains current online services applications such as the new online account maintenance and enhancements to the geospatial information system for taxpayers and staff use. TPD staff also reviews applications for third party vendors to participate in the Direct Transmit Program.

6) How many BOE field offices handling sales and use tax compliance exist statewide?

- 15 District offices
- 7 Branch offices
-

7) How many such field offices exist in each BOE district?

District 1

- 3 District offices
- 3 Branch offices

District 2

- 4 District offices
- 2 Branch offices

District 3

- 5 District offices

District 4

- 3 District offices
- 2 Branch offices

8) What percentage of retailers registered under the Sales and Use Tax Law are located in each BOE district.

BOE Equalization District	Total Active Count	% of Total*
Total District 1	161,322	17%
Total District 2	215,228	23%
Total District 3	274,339	29%
Total District 4	247,268	26%
Total District OH (Out-of-State)	55,301	6%
Total All District	953,458	100%

*Detail may not add up to total due to rounding.

9) In enforcing the Sales and Use Tax Law, does the BOE utilize the same audit criteria in each BOE district?

Yes.

10) Have the sales and use tax audit criteria changed in the last five years? If so, how?

No

11)The overall budget for BOE does not detail the specific budgets for each BOE member. Can you please provide how many staff each BOE member has assigned to them, their positions and from what funds the positions are paid?

Please see **attachment 3** which shows all positions by classification, including those assigned to Board Members. Board Members are attributed as overhead; therefore, all funds contribute to the costs of Board Members budgets.

12)The 2015-16 budget shows the number of positions for BOE has decreased since 2014-15. Can you explain the decrease? Does the BOE have a current year hiring freeze in effect? If so, why?

Attachment 2 shows the detailed listing of position changes from 2014-15 to 2015-16. The BOE is losing positions in 2015-16 is due to the decision by the Department of Finance to display distributed overhead positions as a separate entry in the Governor's Budget instead of in the tax and fee programs. This change starts in the 2015-16 fiscal year. This change in the display is due to Fi\$Cal implementation.

No, the BOE is not currently in a hiring freeze; however, the BOE continues to actively monitor personal services expenditures very closely.

13)Is there any confidentiality between legislative staff and BOE legislative staff, when developing tax proposals? What is the BOE process for providing information to legislative staff on these tax proposals? Who sets this policy?

Under the law, BOE legislative staff do not have a privileged or confidential relationship with the Legislature's staff or its members. When BOE legislative staff receives a request for information involving a developing tax proposal, it provides the information or technical assistance as expeditiously as possible. BOE legislative staff provides a daily report to the Board Members regarding its legislative activity and exercises its professional judgment as to when and if such information rises beyond the level of a routine request, necessitating that the information be shared with the Board Members because the response contains information that is likely to be disclosed publicly with either explicit or implicit attribution to the Board. The Board Members set this policy and hold any reports they receive in confidence until such time that the information in question has been publicly disclosed by the requesting party.

Cigarette and Tobacco Tax

1) Present findings from Stakeholder meeting.

- The stakeholder meeting was held on November 13, 2014.
- The November stakeholder meeting was attended by approximately 53 people.
- Approximately 11 proposals have been developed for the final report.
- The draft report is currently in the Board Members' review process.
- We anticipate having the final report released on March 9, 2015.

Taxpayer Outreach

1) Please explain how BOE defines taxpayer outreach.

California's tax collection system, like many, is based on the concept of voluntary compliance – the expectation that taxpayers will pay the correct amount of tax in a timely manner. The BOE is active in a wide range of services that directly or indirectly promote voluntary compliance from public education that anticipates taxpayer needs, to criminal prosecution to fairly enforce all tax laws and level the playing field for all businesses.

BOE employs a variety of methods and tools to engage and educate our taxpayers and the public. BOE outreach activities provides information regarding tax and fee programs, taxpayer responsibilities for registration, filing, and payment, as well as application of law through mailers, eblasts, web page tools, telephone town halls, speaking engagements with industry groups, chambers, and other organizations, small business seminars, e-file clinics, workshops, and much more.

2) How much does BOE spend on taxpayer outreach?

Outreach Services*	FY 9-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Personal Services	625,900	806,417	780,104	1,116,193	1,406,471
OE & E	197,302	116,400	267,480	370,121	414,076
Total	823,202	922,817	1,047,584	1,486,314	1,820,547

**Does not include facilities costs.*

a) How is this amount determined?

Outreach, as a component of BOE's tax and feepayer educational responsibility, encompasses all tax and fee programs administered. Accordingly, the funding for this resource is allocated across fund/programs (overhead). See BOE's Cost Allocation Plan for methodology utilized to calculate these funding allocations.

3) How many employees are allocated to taxpayer outreach?

40 PYs are engaged primarily in Outreach Activities. 23.0 positions are allocated to the Outreach Services Division (OSD).

a) What BOE department does the Outreach Services Division fall within?

External Affairs Department.

b) Are there any limited term positions currently engaged in outreach activities?

Two positions located in OSD – 1 Staff Services Analyst, 1 Office Technician.

c) Is there one or more employee classification specifically tasked with outreach activities? If so, what are these employee classifications?

Yes. Staff Services Analyst, Office Technician, Associate Governmental Program Analyst, Information Officer, Tax Service Specialist, Assistant Tax Service Specialist, Business Tax Representative, Business Taxes Specialist.

- d) Please provide a breakdown, by employee classification, for the 40 PYs engaged primarily in Outreach Activities. Please include a separate breakdown, by employee classification, for the 23 positions allocated to the Outreach Services Division.**

See attachment 5.

- e) Of the 40 PYs engaged primarily in Outreach Activities, how many of these positions are located at BOE headquarters and how many are located in BOE field offices? Of those located in BOE's field offices, please provide a breakdown by specific field office.**

See attachment 5.

- f) Outside of the 40 PYs that are primarily engaged in Outreach Activities, are there other employees that engage in outreach activities at least 10% of their time or at least 25% of their time?(This question is raised because during the prehearing, staff mentioned that other employees from various departments may also engage in outreach activities but not on a fulltime basis.)**

HQ and the district office staff is frequently tapped as subject matter experts, speakers, and to staff tables for BOE and external events e.g. small business and nonprofit seminars, efile clinics, requests from chambers and other organizations, webinars, telephone town halls, etc. % of time unknown (varies widely depending on the activity.)

- 4) Has the number of employees allocated to taxpayer outreach increased over the last 6 years?**

Yes

- a) If so, how many employees have increased over each of the last 6 years?**

- Augmentation of 3.5 limited term positions from the FY 2012-13 Tax Gap II Budget Change Proposal (BCP).

- Augmentation of 5.0 Permanent positions were provided for Outreach Efforts for the FY 2012-13 AB 155 Use Tax Nexus BCP.
- Augmentation of 4.0 Permanent positions were provided for Media Services (starting July 1, 2013) for the FY 2012-13 CROS Spring Finance Letter.

b) If not, how many employees have decreased over each of the last 6 years?

- Reduction of 3.5 limited term positions from the FY 2012-13 Tax Gap BCP that expired 6/30/2014.

a) It appears, from the responses above, that 5 permanent positions have been added over the last 6 years. During that same time, the budget allocation has increased by \$780,571 (\$1,406,471 – \$625,900) in salaries yet the average salary is \$5,383 per month. The amount of additional funds (\$780,571) appears to be more than needed for the five positions. Please explain how many employees have been added over the last 6 years, how much each of those employees earns, and please explain what the additional \$780,571 were used for.

It is important to note the 3.5 positions that were established for Tax Gap II would have still been reflected through 2013-14 as they expired 6/30/2014. Additionally, during the period from 2009 until October 2014, Media Services was part of the Outreach Services Division. The OSD budget reflected Personal Services and OE&E for Media Services. Moreover, BCPs submitted during this time period included PYs for Media Services including 4 PYs from the FY 2012-13 CROS BCP.

The 3.5 positions from Tax Gap II, the 5.0 positions from AB 155, and the 4.0 Media Services positions for CROS, were all showing in the budget display above.

c) If mixed, explain according to year.

5) Has the budget on taxpayer outreach increased over the last 6 years? Yes

a) If so, how much has increased over each of the last 6 years?

See chart in question 2, above.

b) What is the average cost of a taxpayer outreach event (e.g., a small business fair)?

The approximate cost of a taxpayer outreach event, such as a small business seminar, is \$2050 and includes venue costs, A/V and equipment rental, staff travel, (excludes printed material, postage, and shipping costs).

c) Are the taxpayer outreach events held evenly throughout each of the Member Districts?

No. The number of events held in each district is up to the individual member.

d) Provide a list of all taxpayer outreach events held during 2014.

See attachment 6.

6) What percentage of BOE's budget is spent on taxpayer outreach?

Approximately 1/3 of a percent.

7) Has the allocation of funds for taxpayer outreach, as a percentage of the budget, increased over the last 6 years?

a) If so, how much of the budget allocation (percentage) increased for each of the last 6 years?

Yes.

Outreach Services	FY 9-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Total	823,202	922,817	1,047,584	1,486,314	1,820,547
	455,051,00	482,671,00	490,124,00	535,731,00	556,461,00
BOE Budget	0	0	0	0	0
% of BOE Budget	0.18%	0.19%	0.21%	0.28%	0.33%

8) How much tax revenue does BOE collect as a result of taxpayer outreach?

We measure our outreach success in part by the percentage of voluntary compliance with our programs. If our tax and fee payers understand their obligations they can voluntarily comply. Currently, we have a 97.6% voluntary compliance rate. It is difficult to discern how much specific tax revenue is collected as a result of outreach because of the change in the state's economy, new tax/fee programs, and other factors that may attribute to a change in reporting. We had one outreach project from the Tax Gap II budget change proposal that allowed us to directly track the revenue. Please see the answer to question 9 for more information. In addition, outreach also encompasses increasing taxpayer awareness of exemptions and deductions available to them. For example, the new manufacturing and research and development exemption that went into effect on July 1, 2014.

9) What was the taxpayer voluntary compliance rate over each of the last 6 years?

BOE	FY 2009-10		FY 2010-11		FY 2011-12		FY 2012-13		FY 2013-14	
Voluntary Remittances	46,908,030,033	98%	49,775,518,597	98%	48,693,497,872	98%	51,696,792,956	98%	55,914,949,594	98%
SUTD Field Audit Program	230,883,955		226,181,033		208,725,723		270,257,712		312,357,807	
SUTD Compliance Programs	83,578,830		135,239,279		135,239,279		178,244,782		129,849,488	
SUTD Collection Program	671,684,013		699,045,144		692,145,204		678,822,828		686,900,985	
Special Taxes	60,886,168		74,422,948		101,046,922		168,172,722		201,028,126	
Property Taxes	5,816,000		6,201,000		8,041,000		7,886,000		8,529,000	
NonVoluntary Subtotal	1,047,032,967	2%	1,134,888,403	2%	1,137,157,128	2%	1,295,498,044	2%	1,330,136,406	2%
Adjusted BOE Revenue (Modified Accrual Basis)	47,955,063,000		50,910,407,000		49,830,655,000		52,992,291,000		57,245,086,000	
Total BOE Revenue Annual Report (Modified Accrual Basis)	50,678,783,000		53,719,450,000		52,453,072,000		56,022,049,000		60,400,000,000	
* Property Taxes - State Assessed	838,728,000		874,658,000		947,000,000		965,940,000		998,800,000	
* Insurance (billing issued)	1,884,992,000		1,934,385,000		1,675,417,000		2,063,818,000		2,156,114,000	
Adjusted BOE Revenue (Modified Accrual Basis)	47,955,063,000		50,910,407,000		49,830,655,000		52,992,291,000		57,245,086,000	
<i>*Not administered or collected by BOE.</i>										
SUTD	FY 2009-10		FY 2010-11		FY 2011-12		FY 2012-13		FY 2013-14	
Voluntary Remittances	41,179,672,202	98%	41,457,196,544	98%	40,160,693,794	97%	43,552,635,678	97%	46,527,772,720	98%
Field Audit Program	230,883,955		226,181,033		208,725,723		270,257,712		312,357,807	
Compliance Programs	83,578,830		135,239,279		135,239,279		178,244,782		129,849,488	
Collection Program	671,684,013		699,045,144		692,145,204		678,822,828		686,900,985	
Non-Voluntary Remittances	986,146,798	2%	1,060,465,456	2%	1,036,110,206	3%	1,127,325,322	3%	1,129,108,280	2%
Total SUTD Revenue (Modified Accrual Basis)	42,165,819,000		42,517,662,000		41,196,804,000		44,679,961,000		47,656,881,000	
Special Taxes & Fees Department	5,780,462,000		8,380,063,000		8,304,308,000		8,281,952,000		9,233,267,000	
Voluntary	5,719,575,832	99%	8,305,640,052	99%	8,203,261,078	99%	8,113,779,278	98%	9,032,238,874	98%
Non-Voluntary	60,886,168	1%	74,422,948	1%	101,046,922	1%	168,172,722	2%	201,028,126	2%
Property Taxes	847,511,000		887,339,000		963,102,000		981,681,000		1,016,442,000	
Local Taxes on State-Assessed Properties	838,728,000		874,658,000		947,000,000		965,940,000		998,800,000	
Private Car Tax	5,816,000		6,201,000		8,041,000		7,886,000		8,529,000	
Attributed to SUTD Voluntary Compliance Activities										
Timer Yield Tax	2,967,000	0%	6,480,000	1%	8,061,000	1%	7,855,000	1%	9,113,000	1%
Timber Regulation and Forest Restoration Fund - Lumber (Self Assessed)							14,637,000		35,440,000	
Insurance Tax (Board Assessed)	1,884,992,000		1,934,385,000		1,675,417,000		2,063,818,000		2,156,114,000	

10) Does the BOE notice an increase in state revenue when increasing the budget for taxpayer outreach? See response to question 8.

- If so, how much additional tax revenue is generated for every additional dollar spent on taxpayer outreach?
- If so, how much additional tax revenue is generated for every additional employee allocated to taxpayer outreach?

11)What is the return on investment for every dollar spent on taxpayer outreach?

The return on investment is difficult to quantify as noted in number 8 above. However, we did have one particular program that allowed us to track specific costs and revenue. The Alabama Letter Use Tax campaign consisted of letters sent to income tax filers with income at specific levels. The letters educated them about use tax and how to report it on their income tax return or directly to the BOE. Because the letters were sent to a relatively small group, BOE was able to track whether or not they then filed and paid use tax. The total revenue for this program was \$3,626,037 and the cost (paper, postage, printing etc.) was approximately \$70,364. This results in a return on investment of 51.5:1.

12)What is the average salary of employees doing taxpayer outreach?

The average salary is \$5,383 per month.

Underground Economy

- 1) The State Board of Equalization (BOE) sponsored AB 576 (Pérez), Chapter 614, Statutes of 2013, to establish the Revenue Recovery and Collaborative Enforcement Team (RRACE Team) with the stated goal of enhancing "existing efforts to combat criminal tax evasion associated with underground economic activities" In its statement of legislative findings and declarations, AB 576 noted that the RRACE Team would "further aid the state in its progress toward protecting consumers from counterfeit products, increasing public services, and preventing human trafficking by enhancing the state's ability to identify and punish offenders." AB 576 also noted that the effort would "focus on the criminal and civil prosecution of those who operate in the underground economy and flagrantly violate the tax laws."**

The Revenue Recovery and Collaborative Enforcement Team Act, AB 576

In January of 2014, Assembly Bill (AB) 576, the Revenue Recovery and Collaborative Enforcement Team Act (RRACE), pilot program became statutory law. The Legislature intended the act to enhance existing efforts to combat criminal tax evasion associated with underground economic activities by

institutionalizing collaboration among state agencies. A key element of this effort is to authorize and facilitate data and intelligence sharing among participating state agencies. The intent of the Legislature in adopting this act is to focus on criminal and civil prosecution of those who operate in the underground economy and flagrantly violate the tax laws.

The Governor attached a signing letter to the legislation designating the Department of Industrial Relations as the lead agency. It is believed this was done to avoid duplication of efforts with other state agencies and task forces that address elements of the underground economy (i.e., the labor laws focused on by the Joint Enforcement Strike Force (JESF), and the Labor Enforcement Task Force (LETF)).

The Tax Recovery and Criminal Enforcement Team (TRaCE)

As background, the BOE's Investigations Division, concurrent to the pursuit of Senate Bill (SB) 1185, a BOE-sponsored bill that that ultimately was held in the Assembly Appropriations Committee, began working with several agencies to establish a working body of investigators to collaborate on underground economy cases involving felony tax evasion. TRaCE was established when the participating agencies entered into a MOU under existing law. The establishment of TRaCE was not dependent on the enactment of AB 576 or SB 1185. TRaCE was formed in early 2014, but did not become fully operational until May 2014. The TRaCE MOU joins state and federal resources to collaboratively investigate and prosecute illegal underground economic activity robbing California of needed tax revenue. TRaCE is governed by a board comprised of management representatives from each of the participating state and federal agencies. In addition to TRaCE Board participation, each agency dedicates one or two investigators to serve on the investigative team. The day-to-day activities are managed by a California Department of Justice (DOJ) Taskforce Commander, with oversight by a Deputy Attorney General. TRaCE currently staffs investigators from the BOE, Employment Development Department (EDD), Franchise Tax Board (FTB), Federal Bureau of Investigations (FBI), Department of Alcohol Beverage Control (ABC), and Homeland Security Investigations (HSI), and operates out of the BOE Headquarters building.

Since the passage of AB 576, working with the Department of Industrial Relations and the core team identified in AB 576, and to align with the Governor's signing letter, TRaCE has agreed to co-brand with RRACE, as well as serve as a pilot for the intake system, and institutionalized collaborative criminal enforcement.

- a. In the 15 months since the RRACE Team was first established, how many criminal prosecutions have been initiated as a direct result of the RRACE Team's efforts? For what alleged violations were any such actions initiated?**

TRaCE is a pilot for the RRACE Enforcement Team. Since becoming operational, TRaCE has 11 cases within the prosecutorial phase. The 11 cases include the following violations: Counterfeit: PC 350 or 350 a2 and 653(w), Employment Tax: 2118.5 or 2117.5, Human trafficking 266H, 266i(a); Bribery and conspiracy 182 & 67), Tobacco cases include 30474 & 30480, and finally, Illegal gambling: 330B and 337.

- i. Please answer the above question specifically for RRACE.**

The answer would be the same, as TRaCE was adopted as the enforcement model, under the leadership of the Department of Industrial Relations, and the RRACE Steering Committee, comprised of DIR, EDD, BOE, FTB and DOJ.

- ii. How is TRaCE, operational in May of 2014, a pilot for RRACE, which went into effect on January 1, 2014?**

Concurrent to the passage of AB 576, the Tax Recovery and Collaborative Enforcement team was established by MOU, which, in addition to other agencies, involves the four core RRACE member agencies (EDD, FTB, BOE and DOJ). TRaCE became fully operational in May of 2014, with the dedication of staff from each of the current participating agencies. The RRACE Steering Committee proposed to build upon the success of the existing TRaCE collaborative efforts and leverage each agency's area of authority through the operation of TRaCE and RRACE in tandem. As a result, TRaCE was adopted as a pilot by the RRACE Steering Committee.

- iii. What precisely is meant by the term "pilot"?**

Pilot as used within the context of RRACE refers to a model for evaluation. Under the terms of the TRaCE MOU, each participating agency has the option to opt out at any time with 60 days notification. The DOJ (specifically the Bureau of Investigation of DOJ's Division of Law Enforcement) may also terminate the MOU when the number of participating law enforcement agencies drops below four.

- b. In the 15 months since the RRACE Team was first established, how many civil proceedings have been initiated as a direct result of the RRACE Team's efforts? For what alleged violations were any such actions initiated?**

TRaCE, which is a pilot for the RRACE Enforcement Team, is focused solely on egregious felony level crimes that involve two or more of the participating agencies. The Intake System designed for TRaCE, and adopted as a pilot for RRACE, will generate civil referrals, as incoming complaints are triaged and referred to the appropriate agency or agencies. JESF and LETF focus primarily on civil proceedings. Thus, the work of TRaCE does not duplicate the efforts of JESF and LETF and harmonizes with the intent behind the Governor's signing statement.

- i. Please answer the above question specifically for RRACE.**

RRACE has held several steering committee and work group meetings to establish a governance framework. To date, within RRACE, no tracking mechanism has been established to track civil referrals and proceedings.

- c. What is the current status of each criminal and civil case initiated as a direct result of the RRACE Team's efforts?**

As of February 23, 2015, TRaCE, which is a pilot for the Enforcement Team, had 20 open on-going felony level cases in the investigative phase; 9 in the prosecution phase, and 2 closed to prosecution.

- i. Please answer the above question specifically for RRACE.**

RRACE has held several steering committee and work group meetings to establish a governance framework. To date, within RRACE, no tracking mechanisms have been implemented to track civil referrals and proceedings.

- d. How much revenue has been generated as a direct result of RRACE's work?**

RRACE has no current mechanism for generating revenue apart from its TRaCE pilot.

e. How much revenue has been generated as a direct result of TRaCE's work?

To protect rights against self-incrimination, audits and/or compliance assessments related to criminal investigations generally do not occur until after a case has been criminally prosecuted. Current TRaCE investigations are comprised of complex and egregious criminal activity, representing millions of dollars in underground economic activity and tax loss.

While a specific revenue number cannot be attached to TRaCE this time, this effort can be compared to a similar, but more narrowly focused task force with the US DOJ, CA DOJ, ATF and the BOE. This task force, through collaboration and leveraged resources, resulted in the shutdown of 22 criminal enterprises responsible for over 110 million in excise tax loss. If still operating today at the same levels, these same criminal enterprises would be responsible for over 369 million in evaded California taxes.

f. What is meant by the term "closed to prosecution"?

A matter is considered closed to prosecution when the criminal case has been fully adjudicated; at that point civil proceedings, typically held pending prosecution, can commence.

2) The RRACE Team is comprised of the following agencies: (1) the Franchise Tax Board, (2) the Department of Justice, (3) the BOE, and (4) the Employment Development Department. In addition, Government Code Section 15914 authorizes the following agencies to participate in an "advisory capacity": (1) The California Health and Human Services Agency, (2) the Department of Consumer Affairs, (3) the Department of Industrial Relations, (4) the Department of Insurance, and (5) the Department of Motor Vehicles (collectively "Advisory Agencies"). Which Advisory Agencies have actively participated in the RRACE Team to date?

Establishing the participation of advisory agencies was initially deferred to the Department of Industrial Relations pursuant to the Governor's signing letter. The core team, comprised of DOJ, FTB, BOE and EDD, under the lead of the Department of Industrial Relations, agreed to delay the participation of the advisory agencies pending the development of a working framework for the RRACE Enforcement Team. Again, TRaCE is a pilot that is being used to assist in the development of a working framework under DIR's leadership.

With respect to the RRACE advisory agencies identified in AB 576, from an operational perspective, TRaCE has already engaged in enforcement actions with the Department of Motor Vehicles and the Department of Insurance.

- 3) Government Code Section 15914 provides that if an Advisory Agency discovers a violation of law that would result in increased tax revenues to the state, it may notify the appropriate tax agency. How many such notifications has the BOE received and from which of the Advisory Agencies? What has been the outcome of any such notifications? How many investigative leads has the BOE referred to another agency?**

The RRACE working framework needs to be completed, adopted by the core team, and presented to the Advisory Agencies. With the recent launch of the pilot intake system, adopted by the RRACE core team under DIR's leadership, TRaCE staff has begun initiating contacts with the Advisory Agencies, as well as other agencies, addressing underground economic issues for the purpose of obtaining designated IP addresses for the secure transmission of leads and/or civil referrals.

- 4) Government Code Section 15918 mandates the development of a "plan for a central intake process and organizational structure to document, review, and evaluate data and complaints." Please provide a description of the plan developed pursuant to this directive.**

Working collaboratively with the TRaCE partnering agencies, the BOE developed a scalable, web-based intake system, as a model to allow for complaints to be filed. Informally adopted by RRACE pursuant to TRaCE's pilot status, the intake systems walks the user through a series of questions designed to obtain enough information necessary to initiate an investigation; allows for documents, pictures, and other electronic information to be uploaded in support of the complaint for evaluation; and provides for the secure transmission of complaint's not rising to the felony level to be transmitted to the appropriate recipient agency.

- 5) Government Code Section 15918 mandates an evaluation of "the benefits of a processing center to receive and analyze data, share complaints, and research leads" Please provide a description of this evaluation, its main findings, and any resulting actions taken.**

The pilot intake system went live on December 15, 2014. We are collaboratively working with the Department of Industrial Relations and our other partnering

agencies to develop draft evaluation criteria for future presentation to the Advisory Committee.

- 6) Government Code Section 15920 authorizes RRACE members to exchange intelligence, data, documents, information, complaints, or lead referrals for the purpose of investigating criminal tax evasion. Beyond lead referrals, what types of data and documents has the BOE shared and with which agency or agencies? What types of data and documents has the BOE received and from which agency or agencies?**

Beyond complaint and/or case referrals, in response to AB 576, the BOE has not shared any data with any of the participating agencies. The BOE has been working with the core agencies identified in AB 576, and the Department of Industrial Relations, to develop a Memorandum of Understanding (MOU) to govern data staging and security protocols, resource allocation, and data usage.

- 7) Please describe total BOE expenses dedicated to the RRACE Team's operations to date.**

Wages and benefits for the five BOE staff from BOE's Investigations Division that are dedicated to TRaCE, which is a pilot for the RRACE Enforcement Team, are estimated at \$500,000. The primary functions of these five positions have not changed and are consistent with BOE's mission, which includes enforcing the California tax laws BOE administers. As to technology support, BOE's Technology Services Division's total expenses for TRaCE to date are \$723,000, consisting of \$300,000 in personal services and \$423,000 for software licenses (OE&E).

- i.* Please answer the above question specifically for RRACE.**

The BOE has been meeting with DIR and the RRACE core team to establish an MOU for future collaborative resource and data sharing, with the potential of a future small proof of concept, and toward building BOE's institutional skills and knowledge of advanced business intelligence and predictive data analytics. BOE's Technology Services Division has been consulted pursuant to these ongoing discussions, but any support services for this effort have been negligible to date.

It's important to note that AB 576 primary purpose was to allow a move away from single-agency-to-single agency data exchanges, where data remains analyzed in a siloed environment, to a multi-agency environment, where data, using advanced business intelligence and predictive analytics, can be leveraged

to not only identify egregious evasion, but also provide for more collaboratively targeted audit, compliance and outreach.

8) How many BOE personnel are dedicated to the RRACE Team's operations? For each such employee, what percentage of his or her activities is dedicated to the RRACE Team's operations?

Since TRaCE has been adopted as a pilot of RRACE, we are identifying TRaCE-related expenses. The BOE has five staff dedicated to the RRACE Enforcement Team's operations: two investigators, two technical advisors, and one staff services analyst. We estimate that 90 percent of the investigators' time is dedicated to TRaCE. Investigators are tasked with conducting BOE-related investigations within TRaCE; however, BOE is responsible for all administrative investigator activities such as timekeeping and training. In addition, these investigators assist other BOE staff in the execution of BOE search warrants.

We estimate the two technical advisors spend on average 75 percent of their time on enforcement operations. In addition to TRaCE, they, among other things, also: represent BOE's Investigations Division in various meetings and other collaboration efforts; assist with education, outreach and strategic planning; and advise various BOE departments on advanced collections issues.

The staff services analyst serves full time on the TRaCE task force, performing analytic and administrative support for BOE's investigators and working collaboratively with the other TRaCE members.

In addition, the BOE provides TRaCE with evidence custodial services and computer forensic services. We estimate that less than 10 percent of their time has been used in support of TRaCE investigations.

a) Is five the total number of staff assigned to TRACE?

Yes.

9) The BOE Web site lists the following agencies as participating in TRACE and its Executive Board: the Federal Bureau of Investigations, the Department of Alcoholic Beverage Control, and Homeland Security Investigations. Pursuant to what statutory authority is each of these agencies or entities participating?

By way of review, the establishment of TRaCE began under existing law prior to the enactment of AB 576. Since the enactment of AB 576, RRACE, under the

leadership of DIR, has adopted TRaCE as a pilot program. TRaCE is governed by an MOU between the partnering agencies and the by-laws adopted by TRaCE's Executive Team, which govern confidentiality, operations, and resource commitments. All members of the TRaCE task force, which include state and federal agencies not expressly identified in AB 576, are governed solely by MOUs as TRaCE is not created by statute, but rather created separately but in conjunction with AB 576 to work within the RRACE framework when it becomes operational toward the common goal of combatting the underground economy. TRaCE currently receives a large number of leads on underground offenses from local and federal law enforcement agencies, informants, and the public. These leads have led to a large number of investigations currently being undertaken by TRaCE.

10) How does the work of the RRACE Team differ from the work of the Joint Enforcement Strike Force on the Underground Economy (Strike Force), which is charged with developing and sharing information necessary to combat the underground economy?

Historically, the JESF strike force has focused on labor issues, with primary emphasis on civil remedies. The JESF MOU governing data exchange has been geared toward building a data warehouse used internally to enhance civil audit and outreach efforts.

TRaCE, which is a pilot of the RRACE Enforcement Team, focuses on egregious felony level crimes involving multiple agencies. The RRACE MOU being developed between the core agencies is intended to govern data exchange geared primarily toward collaboratively identifying criminal enforcement opportunities through the use of business intelligence and predictive analytics. As already discussed, such data analytics will also yield potential referrals to agencies and task forces, like JESF, that are primarily focused on civil enforcement activities.

11) Please describe total BOE expenses dedicated to the Strike Force's operations for Fiscal Year (FY) 2013-14, and FY 2014-15.

Other than very limited collaborative compliance inspection efforts, the BOE has no dedicated expenses related to Strike Force operations. It should be noted that the JESF MOU does not require or anticipate the expenditure of substantial resources by participating strike force members.

**12)How many BOE personnel are dedicated to the Strike Force's operations?
For each such employee, what percentage of his or her activities is
dedicated to the Strike Force's operations?**

No BOE resources are dedicated toward Strike Force operations. The BOE participates in bi-annual meetings, and has, on an ad-hoc basis, participated in joint compliance inspections, where there is BOE nexus.

13)How does the work of the RRACE Team differ from the work of the Labor Enforcement Task Force (Task Force), which is charged with ensuring that California receives all employment taxes, fees, and penalties due from employers?

Historically, the task force has focused on labor issues, with primary emphases on compliance inspections and civil remedies. TRaCE, which is a pilot for the RRACE Enforcement Team, focuses on egregious felony level crimes involving multiple agencies.

14)Please describe total BOE expenses dedicated to the Task Force's operations for FY 2013-14, and FY 2014-15.

Other than very limited collaborative compliance inspection efforts, the BOE has no dedicated expenses related to Task Force operations. Again, it should be noted that the LETF MOU does not require or anticipate the expenditure of substantial resources by participating task force members.

**15)How many BOE personnel are dedicated to the Task Force's operations?
For each such employee, what percentage of his or her activities is
dedicated to the Task Force's operations?**

No BOE resources are dedicated toward Task Force operations. The BOE participates in bi-annual meetings, and has, on an ad-hoc basis, participated in joint compliance inspections, where there is BOE nexus.