



# Betty T. Yee

## California State Controller

300 Capitol Mall  
Sacramento, CA 95814  
[www.sco.ca.gov](http://www.sco.ca.gov)

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Contact: JOHN HILL  
(916) 445-2636

### CA Controller Yee Finds Widespread Deficiencies in State Board of Equalization Fiscal Controls

**SACRAMENTO**—State Controller Betty T. Yee today announced that her team's detailed review of the state Board of Equalization's accounting and administrative controls identified material weaknesses in how the board allocates retail sales and use tax. In some cases, this led to state revenue being deposited in the wrong accounts. The review team also discovered weaknesses in the board's oversight of its internal revolving fund used for salaries, travel, and vendor payments.

"The board is entrusted with making sure tax dollars get to the right places," Controller Yee said. "I am deeply concerned that the board is falling short in this crucial mission. The board must implement more internal controls, train staff, and break down silos that are detrimental to sound administration."

The Board of Equalization was established by a state constitutional amendment in 1879 to ensure uniformity of property tax assessments throughout California. Today, the board collects the retail sales and use tax, property taxes, and special taxes, as well as handling appeals of tax cases. In the 2013-14 fiscal year, the board collected \$48.5 billion in retail sales and use tax revenue, accounting for more than 24 percent of all state revenue.

Among the [review's findings](#):

- 1 The board lacks adequate controls over the retail sales tax fund, rendering it unable to timely detect errors. In one case, the Controller's team found that the state General Fund—the source of most spending—got \$47.8 million too much, while other funds were shortchanged that amount.
- 1 The board suffers from a lack of reliable information and communication among its staff units. As a result, revenue collection staff may be unaware of what is included in statistical reports used to determine tax allocations or the effects of new laws and regulations on allocations.
- 1 In quarterly reconciliations of tax revenue allocations, the board improperly counted items that should have been left out, and made incorrect adjustments, leading to misallocations of funds.
- 1 The board's Office Revolving Fund (ORF) did not collect debts in a timely manner, including travel advances, salary advances, and payments due from various vendors. Vendor payments through the ORF—which should have gone through a normal claims process—opened the door to misuse of state funds. Employees did not sign forms requesting salary advances, and the Controller's reviewers could find no evidence advances were approved by managers or supervisors.

In response to the Controller's findings, Executive Director Cynthia Bridges wrote that the board is committed to strengthening fiscal controls and communication. An internal review, dated June 30, led board staff to develop an action plan to address weaknesses, Bridges wrote. The Controller's review team noted that the board did not describe improvements that were underway before they saw the Controller's report. As a result, the Controller's team could not assess the board's action plan.

As the chief fiscal officer of California, Controller Yee is responsible for accountability and disbursement of the state's financial resources. The Controller also safeguards many types of property until claimed by the rightful owners, and has independent auditing authority over government agencies that spend state funds. She is a member of numerous financing authorities, and fiscal and financial oversight entities including the Franchise Tax Board. She also serves on the boards for the nation's two largest public pension funds. Elected in 2014, Controller Yee is the tenth woman elected to a statewide office in California's history. Follow the Controller on Twitter at [@CAController](#) and on Facebook at [California State Controller's Office](#).

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