

**STATE OF CALIFORNIA**  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 10/20)

<b>Fiscal Year</b> 2022-23	<b>Business Unit</b> 7730	<b>Department</b> Franchise Tax Board	<b>Priority No.</b> 004
<b>Budget Request Name</b>		<b>Program</b>	<b>Subprogram</b>

**Budget Request Description**  
 FI\$Cal

**Budget Request Summary**

The Franchise Tax Board (FTB) requests \$854,000 from various funds for 6 permanent positions and funding for 5 classification upgrades in 2022-23, and \$816,000 from various funds in 2023-24, and ongoing. These resources will conduct accounting, procurement, and budgeting and resource management functions as the department continues to work in the Financial Information System for California (FI\$Cal) to comply with statewide accounting, procurement, and budgeting policies. These resources play a key strategic role in business operations and state cash management.

<b>Requires Legislation</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<b>Code Section(s) to be Added/Amended/Repealed</b> None.	
<b>Does this BCP contain information technology (IT) components?</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	<b>Department CIO</b>	<b>Date</b>

**For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.**

**Project No.**                      **Project Approval Document:**  
**Approval Date:**

**If proposal affects another department, does other department concur with proposal?**  Yes  No  
*Attach comments of affected department, signed and dated by the department director or designee.*

<b>Prepared By</b> Julie Moreno	<b>Date</b>	<b>Reviewed By</b> Lynn Chau	<b>Date</b>
<b>Department Director</b>	<b>Date</b>	<b>Agency Secretary</b>	<b>Date</b>

**Department of Finance Use Only**

**Additional Review:**  Capital Outlay  ITCU  FSCU  OSAE  Dept. of Technology

<b>PPBA</b>	<b>Date submitted to the Legislature</b>
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## A. Budget Request Summary

The Franchise Tax Board (FTB) requests \$854,000 from various funds for 6 permanent positions and funding for 5 classification upgrades in 2022-23, and \$816,000 from various funds in 2023-24, and ongoing. These resources will conduct accounting, procurement, and budgeting and resource management functions as the department continues to work in the Financial Information System for California (FI\$Cal) to comply with statewide accounting, procurement, and budgeting policies. These resources play a key strategic role in business operations and state cash management.

## B. Background/History

FTB's primary function is to administer the California Revenue and Taxation Code (R&TC), which includes helping taxpayers file timely and accurate tax returns and pay the correct amount to fund services important to Californians. FTB strives to serve the public by continually improving the quality of products and services and performing in a manner warranting the highest degree of public confidence with integrity, efficiency and fairness.

Annually, FTB processes more than 17.8 million Personal Income Tax (PIT) returns and 1.2 million Business Entity (BE) returns, responds to more than three million telephone calls, handles over eight million internet contacts and collects about \$ 92.3 billion in revenue, representing approximately 74 percent of the State's General Fund revenue<sup>4</sup>1.

**In July 2018, FTB implemented FI\$Cal**, California's statewide accounting, budget, cash management and procurement system. FI\$Cal is the technology solution that provides a single, transparent, and unified financial management system, and is intended for use by most state entities<sup>2</sup>. It implemented revised processes and deployed new required structures and rules that necessitate the collection and categorization of more data. This information is essential to the success of FI\$Cal for statewide financial reporting.

FTB's Accounting Section, Procurement Bureau, and Department Resource Oversight and Financial Performance Section have the most prominent role in FI\$Cal at FTB and deliver key components of FTB's business operations including accounting, purchasing, budget development and management, financial statements, and departmental and state-level reporting. FTB is fully committed to supporting FI\$Cal requirements and proactively worked with FI\$Cal and Department of Finance (DOF) to plan, design, and test new processes, procedures, workflows, information hand-offs, and reports. Due to the required FI\$Cal workload changes in complexity, timing, and required reviews, FTB staffing was temporarily and permanently augmented in 2019-20. FTB honed its skill with FI\$Cal processes and timing and discovered additional complexity to FTB's already complex processes. Mindful of this, FTB has proceeded to address and modify our processes to tailor with FI\$Cal. At this time, FTB continues to experience delays, bottlenecks, and backlogs within FI\$Cal processes.

**Accounting Section** is responsible for prompt accounts payable, accurate financial statements, reconciliation of deposits and disbursements, processing of travel claims, and budget reporting for FTB operations within and external to FTB. Within the Accounting Section, the Fiscal Services Unit is primarily responsible for processing deposits, remittances to state funds, billing and accounts receivable collections, fund and bank reconciliations, and financial statements and reports. These functions are complex in nature and must be performed in a timely and accurate manner to ensure the integrity of FTB's financial information used for budgeting, forecasting, and financial decisions.

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<sup>1</sup> Revenue figures based on the 2019-20 Cash Report reported in the Department of Finance's July 2020 Finance Bulletin. Due to the filing extension of April 15, 2020 to July 2020, the total revenue collected was lower than previous years.

<sup>2</sup> Prior to FI\$Cal, FTB performed accounting responsibilities through California State Accounting & Reporting System (CALSTARS).

## Analysis of Problem

The FI\$Cal implementation significantly increased the workload in the Fiscal Services Unit such that in 2019-20, FTB received an augmentation of three permanent-intermittent limited term (LT) positions. Along with overtime, the LTs have allowed FTB to effectively process the required workload related to cash receipts and remitting and fund and bank reconciliations. This ensured Accounting Section's ability to stay in compliance with accounting policies and regulations, maintain accounting records of the revenue, expenditures, cash, receipts, disbursements, and property for the department. The LT positions expired in June 2021, however, the increased level of work remains and backlogs are expected to recur with the expiration of these resources.

**Procurement Bureau** ensures FTB receives the goods and services needed to perform its mission critical responsibilities. Staff conduct acquisitions, manage procurement projects, prepare purchase orders (POs), and negotiate contracts for FTB. Staff serve as the primary point of contact for the FTB vendor community and liaison with other departments related to departmental goods and services. The Procurement Bureau supports FTB day-to-day business operations to achieve its mission critical workloads. In fiscal year 2019-20, FTB reported spending \$86.3 million -- approximately \$78.7 million for Information Technology (IT) and \$7.6 million for non-IT for 1,100 transactions annually. FTB's total reported spend has grown from approximately \$35.9 million in fiscal year 2010-11 to \$86.3 million in fiscal year 2019-2020. FTB and one other department have the highest level of purchasing delegation authority (Tier 4) from Department of General Services.

The existing structure in the Procurement Bureau serves two types of procurements: Business Acquisitions and Technology Acquisitions. In fiscal year 2019-20, Business Acquisitions received one permanent position to perform additional analytical work due to FTB's implementation of FI\$Cal.

FI\$Cal replaced FTB's Purchasing Management System (PMS) and Contract Management System (CMS). PMS and CMS were FTB's homegrown systems used to create purchase orders (POs) and contracts. FI\$Cal requires more steps and system approvals to create, review and approve POs and procurement contracts, which has resulted in additional workload and created a bottleneck at the supervisory and lead levels.

**Department Resource Oversight and Financial Performance Section (DRO&FPS)** is essential to FTB's business operations. DRO&FPS is responsible for the coordination, development, and reporting on the enterprise planning of FTB's Personal Services and for the Operating Expenses and Equipment (OE&E) baseline budget, expenditures, and projections. Staff monitors and reports on the departmental OE&E allotments, and reviews and approves departmental spending requests ensuring proper allocation of funds to FTB's budgeted programs.

In addition to managing FTB's enterprise budget, staff in DRO&FPS perform the daily budget functions for two of FTB's seven business areas, as well as provide support work for reporting requirements such as the fund condition report and Schedule 3. As a result of implementing FI\$Cal and its increase to the complexity and timeframe for completing budgetary functions, DRO&FPS staff can no longer absorb the additional work.

Since the implementation of FI\$Cal, DRO&FPS has realized significant impacts to operations with an increase in work and complexity:

- New processes and procedures related to the system, such as, the approval process for procurement requests to purchase goods and services.
- The process to review chartfield accounts to ensure proper FI\$CAL coding.
- The process for researching contracts and purchase orders in the system.
- Increase in volume of agreements and verification steps.
- More complex detail required to manage workloads.

## Analysis of Problem

DRO&FPS did not previously receive resources due to the implementation of FI\$Cal.

### Resource History Accounting Section (Dollars in thousands)

<b>Program Budget</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
Authorized Expenditures	4,396	4,701	4,743	4,896	6,188	6,331
Actual Expenditures	4,404	4,324	5,177	5,932	6,304	3,067
Revenues	-	-	-	-	-	-
Authorized Positions	54.0	55.0	55.0	55.0	64.0	64.0
Filled Positions	52.5	48.0	52.4	53.7	59.4	
Vacancies	1.5	7.0	2.6	1.3	4.6	

### Procurement Section (Dollars in thousands)

<b>Program Budget</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
Authorized Expenditures	2,633	2,767	2,835	2,902	3,268	3,484
Actual Expenditures	2,612	2,768	2,847	3,117	3,346	1,786
Revenues	-	-	-	-	-	-
Authorized Positions	25.0	25.0	26.0	26.0	28.0	30.0
Filled Positions	23.7	24.4	23.5	24.6	26.3	
Vacancies	1.3	0.6	2.5	1.4	1.7	

## Analysis of Problem

### Department Resource Oversight & Financial Performance Section (Dollars in thousands)

Program Budget	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Authorized Expenditures	1,648	2,030	2,550	2,546	2,753	2,724
Actual Expenditures	1,719	2,177	2,569	2,520	2,844	1,177
Revenues	-	-	-	-	-	-
Authorized Positions	16.0	18.0	20.0	20.0	20.0	19.0
Filled Positions	15.6	18.4	19.2	18.5	20.0	
Vacancies	0.4	(0.4)	0.8	1.5	0	

See Attachment 1 for Program Workload Measures.

### C. State Level Consideration

The FTB's mission is to help taxpayers file accurate tax returns timely and pay the correct amount to fund services important to Californians. The Department has a fiduciary responsibility to taxpayers by managing their accounts with accuracy and financial integrity. Staff provides services to FTB employees, facilitates payments to contractors and vendors, and reports financial information to internal and external stakeholders.

**FTB Strategic Plan Considerations:** This proposal supports the following FTB Strategic Plan Goals:

**Goal 4: Operational Excellence** states: "Optimize our processes, products, services, and resources to better serve our internal and external customers."

- Strategy 4.1: Manage budgeted resources at the enterprise level and use performance metrics to meet short- and long-term business needs.
- Strategy 4.3: Leverage and modernize IT systems and processes to support and improve business and administrative activities.

FTB is committed to supporting its customers and strategic goals. Using FI\$Cal is mandated by the state and critical to the state's financial management process.

### D. Justification

Due to a sustained increase in volume, complexity, and reviews brought by the implementation of FI\$Cal, FTB's Accounting, Procurement, and the Department Resource Oversight and Financial Performance Sections are experiencing the following issues and are constantly juggling priorities resulting in all mandated workloads not being performed timely or thoroughly.

- Inability to timely post accounting entries and maintain accounting records which will lead to delayed or inaccurate financial reports and/or estimated financial statements, uninformed decisions, cash flow concerns, inappropriate fund distributions, loss of public confidence, and audit findings.
- Inability to timely complete existing or expected future accounting assignments.

## Analysis of Problem

- Inability to timely perform mandated review and reconciliation of state funds monthly, which will lead to inaccurate, late, or estimated financial statements and other financial reports.
- Inability to timely and accurately remit and report revenue deposits.
- Increased volume, steps, and complexity associated with additional data entry, scanning and uploading of reportable PO attachments. Minor edits/errors often require issuance of new POs or contracts, rather than edits.
- Increased level and volume of approval for physical and soft copies of the POs and contracts. Encumbrance and agreements also now require procurement approval.
- Increased volume in multi-year POs and contracts for goods and services.
- Unsustainable overtime demands on staff, supervisors, and managers.
- Inability to provide timely internal budgetary services to business areas to effectively manage resources.
- Additional, repetitive reviews of data to ensure no error enters the FI\$Cal system as some errors cannot be corrected in the system.
- Bottlenecks in the FI\$Cal processes that impact and delay the entire process, particularly for reviews and approvals.

FTB needs additional resources to carry out its fiduciary responsibilities within mandated timeframes, thus FTB proposes to increase staffing by six permanent positions and funding to upgrade five Associate Operations Specialists to Staff Operations Specialists. While FTB did receive some permanent and temporary resources in 2019-20, which greatly assisted with the FI\$Cal workload, the temporary resources have now expired and workload demands continue to increase in workload tasks and review levels. FI\$Cal is fully implemented at FTB and FTB has worked diligently to address the deficiencies caused by the FI\$Cal implementation. FTB staff are now experienced and beyond the learning phase, thus these resource gaps cannot be overcome with additional experience or training. The remaining needs and demands are permanent and meeting them is unsustainable without additional staffing:

### **Fiscal Services Unit** (One Senior Accounting Officer and two Accounting Officers)

With the expiration of the three LT positions, Fiscal Services Unit is no longer able to keep current on workload, and backlogs are building requiring use of overtime and unfunded temporary help. The additional staff are needed on a permanent ongoing basis to allow FTB to continue processing these workloads efficiently and effectively with no backlog.

Without this additional staffing, FTB's backlogs will continue to grow and have to be addressed by overtime and temporary help. The overtime is not sustainable. And temporary help is not continuously available as staff tend to seek and find fulltime jobs, causing a perpetual cycle of rehiring and retraining. Failure to manage this workload will present risk for FTB and California in inaccurate financial statements, Generally Accepted Accounting Principles (GAAP) entries, and revenue reports for forecasting. Additionally, unremitted feeder fund revenue will be unavailable for use by the General Fund.

### **Procurement Bureau** (One Information Technology Supervisor II and one Information Technology Specialist II)

As Procurement Bureau worked through the FI\$Cal implementation, they noted there is a permanent increase in duties and in workload complexity at the lead and supervisory levels in their Technology Acquisitions Unit. No satisfactory solution has been achieved in regard to the review process needed by leads and supervisors. The reviews move between organizational units and must be at the appropriate classification level for the proper separation of duties. Generally, leads and supervisors are the only staff authorized by

## Analysis of Problem

FI\$Cal to conduct level 3 and 4 reviews. This creates a span of control issue and a bottleneck in the process because of the ratio of leads and supervisors to staff. Due to this, IT procurements are currently experiencing incremental delays or fiscal year delays. FTB has improvised to address the issue, but the solution is not sustainable. Currently, because these duties fall to salaried staff and the work has critical deadlines, to alleviate the bottleneck, the work is completed beyond normal work hours and may not have the level of due diligence desired prior to committing the State to a contract. When possible, we bundle procurements to reduce the number and cycles of reviews and approvals, however this results in downstream impact in the way work flows to our allotment coordinators causing additional steps and time in the downstream process. Some procurements get moved to the next fiscal year through a prioritization process, which is not risk free. And FTB has had to set an earlier cut-off date internally to ensure any procurement started can be completed by fiscal year end. This not only reduces the number of procurements that we process per year, it reduces our ability to plan and prepare for large mission-critical procurements. This is not sustainable and requires FTB to accept more operational risk than is warranted.

To resolve the issue, FTB proposes to equalize the review workload by adding another supervisor and another lead. These additional positions will be able to relieve the bottleneck by promptly resolving all issues and processing all the reviews and approvals needed for successful procurements.

The Information Technology Supervisor II (ITS II) in the Business Technology Management domain is required to fill the void. The ITS II will manage a team of procurement analysts in various procurement activities from beginning to end. This includes leading and working with teams on critical IT projects and procurements. The ITS II will perform the additional workload that has resulted from the FI\$Cal implementation, including but not limited to, activities such as approving POs and contracts in the system (multiple levels of approval required), training staff on use of FI\$Cal, and working with internal partners, including, but not limited to FTB's Central Budget Office, Accounting, and Departmental Resource and Oversight Section on critical policies and procedures that are related to FI\$Cal.

The Information Technology Specialist II (IT Spec II) will provide support to staff in a lead capacity. This position will provide level 3 and level 4 FI\$Cal review, perform the additional workload due to the increased volume, processes, and complexity created by FI\$Cal, assist staff with procurements, and conduct complex procurements. The IT Spec II will also act as liaison with the FI\$Cal Service Center for resolution of items related to purchase orders and procurement contracts.

Without the requested positions, the Procurement Bureau will continue to experience delays throughout the procurement process, from the initiation of a contract/purchase order action through the awarding and management of the contract. The lack of procurement support to FTB business processes can cause compliance issues, delays in the acquisition process, less reliable reporting in FI\$Cal, and a reduction to the competitive and cost-effective acquisition of goods and services. Ultimately, these issues can cause delays to critical procurements that are required to support projects and operations, especially our critical information technology efforts.

**Department Resource Oversight & Financial Performance Section (DRO&FPS)** (One Staff Operations Specialist and funding for five upgrades to Staff Operations Specialist positions)

The increased complexities of FI\$Cal have resulted in sustained increases in volume and additional tasks required to complete transactions and track purchase orders and other agreements. An additional staff person is warranted to ensure we provide accurate and timely completion of the work. Additional ongoing tasks that were not previously required in prior systems are generating the increased workload and the need for additional resources to perform more tasks, more research, and additional reviews. The section is experiencing:

## Analysis of Problem

- Longer approval process, including the requirement of additional approvals, when a requestor submits a procurement request to purchase goods and services.
- Longer and more complex process to review chartfields to verify the correct FI\$Cal codes.
- Longer timeframe to research contracts and purchase orders in the FI\$Cal system.
- Delayed financial reports that can lead to uninformed decisions, inaccurate reports, and possible fund misstatements.
- Lack of resources to serve and support internal business areas on budgetary issues.

The requested resources will help alleviate the increases in volume and complexity required to perform these tasks. If denied, the risks to FTB include:

- Delayed response to budget drills, information requests, and monthly reporting requirements.
- Inability to support daily budget functions for internal business areas resulting in overspent budgets or reversion of surplus funds as FTB was unable to spend our resources to effectively manage our operations.
- Risk of providing inaccurate financial reports and information.
- Inability to verify chartfields in a timely manner thus delaying the procurement and payment process.

The upgrades are necessary to align staff duties to the proper level because of the added complexity and external budget transparency as a result of FI\$Cal. The FI\$Cal system adds complexity to previous tasks and processes performed by the allotment coordinators and requires the use of a database that was not required before. More volume (including additional verification steps) and analysis is required to do daily work and manage numerous agreements FTB enters into. In addition, FI\$Cal presents a more complex coding structure, prioritizing accurate codes, more complex and time consuming research tasks in the system, and greater reliance on accurate financial reports as a State. For newly hired staff gaining experience, an appropriate classification could well be an Associate Operations Specialist. However, as staff become more familiar with the new requirements, trained and experienced, and engaged in work with additional complexity, a higher level classification is warranted. For recruitment and retention purposes, FTB is requesting funding at the higher standard classification to ensure agility in getting work done.

## E. Outcomes and Accountability

Approval of this proposal will ensure staffing levels are commensurate with the degree of care, oversight, timeliness, and attention to detail required by these complex workloads and requirements. It also ensures FTB complies with policies, procedures, laws, and regulations.

The management of resources and fiscal oversight received from this proposal will be the responsibility of the Chief Financial Officer.

## F. Analysis of All Feasible Alternatives

**Alternative 1:** Approve FTB's request for \$854,000 from various funds for 6 permanent positions and funding for 5 classification upgrades in 2022-23, and \$816,000 from various funds in 2023-24, and ongoing. These resources will conduct accounting, procurement, and budgeting and resource management functions as the department continues to work in the Financial Information System for California (FI\$Cal) to comply with statewide accounting, procurement, and budgeting policies. These resources play a key strategic role in business operations and state cash management.



## Analysis of Problem

**Alternative 2:** Approve FTB's permanent funding request for position upgrades of \$58,000 in 2022-23 and ongoing; and approve limited term funding for \$796,000 from various funds for 6 limited-term positions in 2022-23, and \$758,000 in 2023-24, and 2024-25, and provisional language to support the following:

This option provides the resources necessary to address the ongoing workload in fiscal functions for the next three fiscal years. This option does not address the sustained nature of this workload and does not constitute a permanent solution. Managing workloads will be further impacted as limited term staff look for other permanent positions.

With this option, FTB requests provisional language as noted below:

*Of the funds appropriated from the FI\$Cal Budget Change Proposal, \$759,000 for the processing of Accounting, Procurement and fiscal oversight and review workloads, the Franchise Tax Board may convert this funding to permanent funding with corresponding position authority for 6 permanent positions, subject to approval of the Department of Finance, not sooner than 30 days after notification in writing to the chairpersons of the fiscal committees of each house of the legislature and the Chairperson of the Joint Legislative Budget committee.*

**Alternative 3:** Do not approve the request.

Denial of this proposal means FTB will see the following impacts:

- Late financial statements and numerous other key accounting deliverables due to:
  - Untimely post accounting entries and mountainous volumes of accounting records, which leads to inaccurate financial reports, uninformed decisions, cash flow concerns, inappropriate fund distributions, loss of public confidence and audit findings.
  - Inability to timely complete existing and expected future accounting assignments.
  - Inability to timely perform mandated review and reconciliation of state funds monthly, which leads to inaccurate financial reports and late financial statements or estimated financial statements.
  - Inaccurate and untimely remittance of deposit and revenue reporting, which could cause negative impact to the department or state.
- Inability to procure goods necessary to support FTB operations causing inefficiencies and risks to our operations.
- Inability to manage budgeted resources resulting in inefficient operations and risks to our operations, including the administration of activities generating approximately 75% of the funds supporting the General Fund.

## G. Implementation Plan

- June 2022 – All documents to establish the permanent positions are prepared and approved by the FTB Budget Officer and forwarded to Department of Finance.
- June 2022 – Department of Finance notifies FTB of positions approval.
- July 2022 – Permanent positions are established and FTB begins hiring.

## H. Supplemental Information

None.

## Analysis of Problem

### I. Recommendation

**Alternative 1:** Approve FTB's request for \$854,000 from various funds for 6 permanent positions and funding for 5 classification upgrades in 2022-23, and \$816,000 from various funds in 2023-24, and ongoing. These resources will conduct accounting, procurement, and budgeting and resource management functions as the department continues to work in the Financial Information System for California (FI\$Cal) to comply with statewide accounting, procurement, and budgeting policies. These resources play a key strategic role in business operations and state cash management.

This alternative best supports FTB's ability to timely and accurately use and administer FI\$Cal, benefiting FTB and the State ongoing. The requested resources are essential to support FTB in performing its mission critical responsibilities. This option will also help FTB to comply timely with state accounting deadlines.

**BCP Fiscal Detail Sheet**

BCP Title:

BR Name:

Budget Request Summary

Personal Services