



JOINT LEGISLATIVE AUDIT COMMITTEE
DAVID A. ALVAREZ, CHAIR

January 31, 2023

Members
Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, CA 95814

UPDATED/RECEIVED
3/07/2023

Dear Members of the Committee:

I respectfully request the Joint Legislative Audit Committee approve an audit of the Franchise Tax Board's (FTB) administration of the Middle Class Tax Refunds. The Legislature and Governor approved these refunds that are sorely needed by so many Californians during this time of high inflation and looming recession. We are all counting on FTB to administer and provide these refunds to Californians in a timely and secure manner. Unfortunately, our constituents and media have expressed concerns regarding fraud and poor customer service that inhibit their ability to access their refunds.

The Middle Class Tax Refund was aimed at helping out all Californians during these uncertain and unprecedented times. The Speaker of the Assembly, Pro Tem of the Senate, and Governor stated that "California's budget addresses the state's most pressing needs, and prioritizes getting dollars back into the pockets of millions of Californians who are grappling with global inflation and rising prices of everything from gas to groceries."

The Legislature and Governor approved the refund in June 2022 that varies based on taxpayers' family size and income. FTB began issuing payments to Californians ranging from \$200 and \$1,050 in late October 2022. As of January 2023, FTB reported that approximately 7.2 million Californians received direct deposits into their bank account, while about 9.4 million Californians were sent prepaid debit cards issued by a vendor. Cumulatively, FTB reported this amounted to \$9.1 billion in Middle Class Tax Refunds issued to Californians.

News reports have highlighted concerns regarding Middle Class Tax Refunds and FTB's administration of the refunds. These concerns include fraud, eligible taxpayers not receiving their refunds, and a lack of timely and sufficient response from FTB and the debit card vendor, the Money Network. Media stories include people calling FTB, being placed on hold for a lengthy period, only reaching an automated system that advises they were too busy to take the call, and having their calls be disconnected. Even more alarming are the stories of people not being able to use their debit cards, because thieves drained their debit cards before they could spend their refunds.

My office received similar calls and concerns from constituents. One person reported that she was excited to receive her Middle Class Tax Refund debit card only to quickly find out that withdrawals by an unknown person had already been made. The constituent tried but was unsuccessful in reporting the fraudulent activity to the debit card vendor. Unfortunately, these stories are not unique to my district or office. Similar stories of theft and poor customer service have been made across the State.

Scope

Our constituents deserve better. They deserve the refund of their money that we committed to them last year. At the very least, we need to ensure Californians are receiving their refunds in a timely and secure manner. To that end, I am asking the State Auditor to conduct an audit of FTB's handing of the Middle Class Tax Refunds. Specifically, the audit will do the following:

Administration

- Provide information related to the distribution of the Middle Class Tax Refunds.
 - Identify how much of the Middle Class Tax Refunds were distributed each month since it was approved in 2022. Identify whether these funds were distributed via direct deposit, debit card, check, or other means.
 - Review plans to distribute the remaining Middle Class Tax Refunds and identify the proposed timeline. Identify whether these funds will be distributed via direct deposit, debit card, check, or other means.
 - To the extent demographic information is readily available, provide demographic information related to those receiving Middle Class Tax Refunds and those who experienced fraud related to these refunds.
- Assess FTB's administration of the Middle Class Tax Refunds.
 - Determine whether Californians' Middle Class Tax Refunds were appropriately calculated and distributed.
 - Determine whether Californians have received their Middle Class Tax Refunds in a timely and secure manner.
- Determine whether charges associated with Californians accessing their Middle Class Tax Refunds are reasonable and appropriate.
- Identify any computer or technological issues that have frustrated FTB's efforts in deliver Middle Class Tax Refunds.
- Identify any best practices for future distributions of tax refunds, including means by which Californians can request direct deposits, instead of debit cards.

Service

- Determine whether FTB has been sufficiently available and responsive to Californians experiencing fraud and seeking information about their Middle Class Tax Refunds.
- Review any customer service surveys or survey efforts by FTB.

Fraud

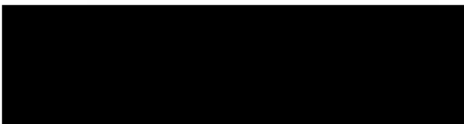
- Assess the prevalence of fraud involving the Middle Class Tax Refunds, including fraud connected to debit cards.
- Determine whether FTB’s fraud detection, reduction, and investigation efforts have been sufficient and effective.
- Identify who bears the cost of fraud related to Middle Class Tax Refunds.
- Determine how quickly FTB and its vendor are able to actually provide refunds to Californians who have experienced fraud.
- Assess the desirability of using debit cards compared to direct deposits and checks, including any risks related to fraud and theft.
- Determine whether FTB adequately protected Californians’ privacy and personal information when it shared data with vendors.

Vendor

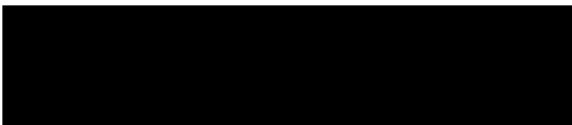
- Review the contract between FTB and its vendor that produced debit cards. Determine whether its terms were reasonable and protected the best interest of the State and Californians receiving the Middle Class Tax Refunds. Assess any potential contractual protections.
- Review the FTB’s vendor selection process that resulted in the selection of the vendor that issued debit cards.
- Determine whether FTB has provided sufficient oversight to the vendor’s efforts, including issuing the debit cards and providing customer service.

Thank you for your consideration of this audit request. If you have any questions, please do not hesitate to contact me.

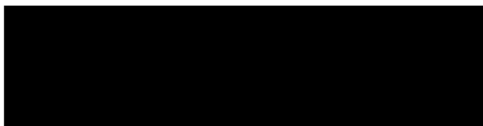
Sincerely,



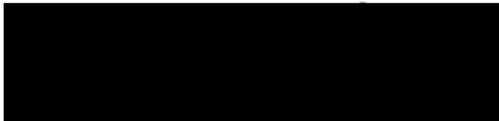
David A. Alvarez, Chair
Joint Legislative Audit Committee
Assemblymember, 80th District



Marc Berman
Assemblymember, 23rd District



Rebecca Bauer-Kahan
Assemblymember, 16th District



Tasha Boerner Horvath
Assemblymember, 77th District



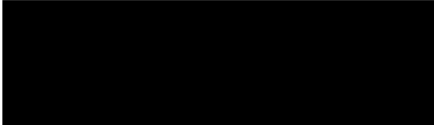
Damon Connolly
Assemblymember, 12th District



Bill Dodd
Senator, 3rd District



Sharon Quirk-Silva
Assemblymember, 67th District



Miguel Santiago
Assemblymember, 54th District



Kelly Seyarto
Senator, 32nd District



Scott Wilk
Senator, 21st District



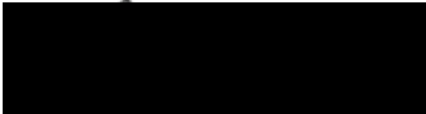
Dave Cortese
Senator, 15th District



Josh Hoover
Assemblymember, 7th District



Blanca Rubio
Assemblymember, 48th District



Pilar Schiavo
Assemblymember, 40th District



Avelino Valencia
Assemblymember, 68th District



Carlos Villapudua
Assemblymember, 13th District