Middle Class Tax Refund Payments

The State Could Improve Its Approach to Future Financial Relief Payments by Addressing Weaknesses From This Program

March 2024

REPORT 2023-105

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Grant Parks *State Auditor*

Mike Tilden *Chief Deputy*

March 7, 2024
2023-105

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As directed by the Joint Legislative Audit Committee, my office conducted an audit of Middle Class Tax Refund (MCTR) payments. Our assessment focused on the Franchise Tax Board's (FTB) administration of MCTR payments, and the following report details the audit's findings and conclusions. In response to high inflation rates and energy prices in 2022, the Legislature and Governor authorized FTB to issue MCTR payments to qualifying recipients. Although FTB planned to make some payments through direct deposit, it also planned to make many payments through prepaid debit cards (debit cards). To facilitate these payments, FTB entered into an agreement with Money Network Financial, LLC (Money Network) that required Money Network to produce and distribute debit cards, provide customer service, and prevent fraud. In general, we determined that the State could improve its approach to issuing future financial relief payments by addressing the weaknesses we identified in the MCTR program.

Although FTB issued MCTR payments relatively quickly compared to similar payment programs in California and other states, FTB's agreement with Money Network created difficulties related to the administration of the payments. For example, FTB did not ensure that Money Network provided the required level of customer service, because FTB's agreement with Money Network had no accountability measures for contractor underperformance, short of terminating the agreement. Additionally, the agreement does not define fraud, and Money Network has not tracked fraud in the program adequately enough for the State to know the true rate of fraud.

In an effort to distribute financial assistance as quickly as possible, the State selected its vendor and negotiated the agreement with Money Network at a greatly accelerated pace. However, the speed of the procurement likely contributed to the problems we found with the agreement. To avoid similar difficulties when providing financial relief payments in the future, the State should prepare now by establishing master agreements with debit card vendors that include provisions to address the weaknesses in the MCTR agreement. The State should also consider how it could increase its capacity to deliver financial relief payments through using multiple payment methods, including checks and debit cards that already exist for other benefit programs.

Respectfully submitted,

GRANT PARKS
California State Auditor

Selected Abbreviations Used in This Report

ATM	automated teller machine
CHHS	California Health and Human Services Agency
EDD	Employment Development Department
EMV	Europay, Mastercard, Visa
FTB	Franchise Tax Board
ITN	Invitation to Negotiate
IVR	interactive voice response
MCTR	Middle Class Tax Refund
SCM	State Contracting Manual
SCO	State Controller's Office
TTY	teletypewriter or text telephone device

Contents

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Summary of Key Findings and Recommendations

When Californians faced historically high inflation rates and energy prices in 2022, the Legislature and Governor authorized the Franchise Tax Board (FTB) to issue financial relief payments—known as Middle Class Tax Refund (MCTR) payments—to qualifying recipients. To help facilitate these payments, FTB executed a $25 million agreement with Money Network Financial, LLC (Money Network), a vendor that provides financial services. Under the agreement, Money Network is responsible for producing and distributing debit cards and for providing customer service and fraud-prevention services to cardholders. Although FTB issued MCTR payments relatively quickly compared to similar payment programs in California and other states, the provisions of FTB's agreement with Money Network created certain difficulties related to the administration of the payments. By taking action now, the State could better position itself to avoid similar difficulties when providing financial relief payments in the future.

- FTB did not ensure that Money Network consistently provided the required level of customer service to cardholders. Although Money Network received more than 29 million calls—the vast majority of which were handled by its automated system—Money Network did not answer nearly 900,000 of the roughly two million phone calls from callers seeking to speak with an agent about the MCTR program or issues with their debit cards. Weaknesses in FTB's agreement with Money Network made holding Money Network accountable for its lack of customer service difficult.

- Although Money Network reported a fraud rate to FTB of less than 1 percent of the amount distributed through debit cards, the State cannot determine the precise level of fraud in the MCTR program because Money Network did not answer a substantial portion of cardholder calls and has not specifically tracked fraud in the program.

- Because the agreement's payment structure bundles most services into a single per-card rate, FTB paid to Money Network nearly 90 percent of the agreement's total cost in the first 15 months of the 49-month agreement period. This front-loaded payment structure does not fully safeguard the best interests of the State. In addition, the agreement with Money Network does not include provisions that would allow FTB to assess agreed-upon liquidated damages if Money Network does not comply with agreement terms—provisions we found in other state agreements for similar services.

- Drawing on this experience, the State should prepare now for future statewide financial relief payments by establishing master agreements with debit-card vendors. Additionally, the State should consider how it can build a stronger capacity to deliver financial relief payments through a variety of payment methods, including checks, direct deposit, and debit cards.

Recommendations

We make several recommendations to better prepare the State for administering future financial relief payments. These recommendations are located on page 39.

Agency Comments

General Services generally agreed with our recommendation to institute master agreements with specific elements and indicated its willingness to incorporate each of the recommendation's elements if feasible. Although we did not make recommendations to FTB, it disagreed with some of our findings and conclusions.

To Help Alleviate Financial Pressure on Californians, the State Authorized MCTR Payments

Early 2022

Californians faced **increased financial pressure.**

- *Historically high inflation.*
- *Record-breaking average gas prices.*

June 2022

The Legislature and the Governor authorized **financial relief payments** to qualified recipients.

FTB planned to use direct deposit information from electronically filed tax returns for tax year 2020 to make MCTR payments via direct deposit.

FTB needed a vendor to distribute payments via debit card to Californians for whom it did not have direct deposit information.

July 2022

FTB signed an agreement with Money Network to provide . . .

- *Debit card production and distribution*
- *Customer service*
- *Fraud prevention*

Source: State law; FTB's agreement with Money Network; U.S. Bureau of Labor Statistics consumer price index data; U.S. Energy Information Administration retail gasoline price data; U.S. Department of Energy historical gasoline price information; interviews with FTB staff.

By the summer of 2022, the inflation rates for both the U.S. and California had been rising for months, with the national rate having reached a four-decade high. The resulting economic conditions placed pressure on Californians in many ways. Inflation rates for food costs in urban areas of the U.S. at that time were higher than both the national and state inflation rates. Similarly, gas prices in California peaked in June 2022, reaching a record-breaking average of $6.29 per gallon. In response to these financial pressures, the Legislature and Governor enacted the Better for Families Act that same month, authorizing one-time financial relief payments to California taxpayers—commonly referred to as MCTR payments.

Under the Better for Families Act, FTB is responsible for administering the MCTR program and making payments to eligible recipients. The law specified that FTB must base payment amounts on information from taxpayers' 2020 personal income tax returns, including their adjusted gross income, their filing status, and whether the taxpayers claimed a dependent. Figure 1 shows the statutory payment amount parameters. The law made FTB responsible for determining the form and manner in which it would provide the payments.

Statutory Conditions That Allow General Services to Procure Goods and Services Through Negotiation

General Services may use a negotiation process to enter into an agreement for goods and services under the following conditions:

- The negotiation process can further define the business need or purpose for the agreement.
- Bidders may experience extremely high costs to prepare a solicitation response because of the complexity of the business need or the purpose for the agreement.
- The State knows the business need or purpose for the agreement, but a negotiation process may identify different types of solutions to fulfill the need or purpose.
- The State knows the business need or purpose for the agreement, but a negotiation is necessary to ensure that the State receives the best value or the most cost-effective goods or services.

General Services cited the last two conditions above as the rationale for using a negotiation process for the MCTR procurement.

Source: State law and an interview with General Services.

FTB was already responsible for issuing personal income tax refunds, some of which it issues directly to bank accounts through direct deposits. Therefore, when it received responsibility for distributing MCTR payments, FTB already had bank account information for certain taxpayers. According to FTB, this information generally allowed it to issue MCTR payments directly to Californians who had electronically filed their 2020 state tax returns and had received a tax refund for that year by direct deposit.[1] Direct deposit recipients represented nearly half of the total MCTR payments, a significant proportion of the overall eligible population.

For the vast majority of the remaining eligible Californians, FTB provided MCTR payments through prepaid debit cards (debit cards) issued by a vendor. FTB and the Department of General Services (General Services) collaborated to procure this vendor. Citing volatile market conditions, General Services began the process by using its statutory authority to procure a vendor through negotiation—a competitive procurement process that state law authorizes General Services to use in circumstances the text box describes. Although General Services advertised the State's desire to procure a debit-card vendor, FTB selected the vendor. FTB signed an agreement with Money Network—a company that

1 Although FTB authorized the payments to these individuals, the State Controller's Office deposited the funds into their bank accounts. For the purposes of this report, we simplify our description of this process by stating that FTB paid these recipients.

provides financial services—to distribute debit cards, provide customer service, and protect against fraud. The term of this agreement lasts from July 2022 through July 2026, and its maximum value is about $25 million.

Figure 1
MCTR Payment Amounts Varied by Filing Status and Income

To calculate MCTR payment amounts, FTB used information from personal income tax returns filed for the 2020 tax year. A taxpayer's adjusted gross income and tax filing status determined the payment amount. For example, a taxpayer who filed as an individual without dependents and reported an adjusted gross income of $100,000 would be entitled to a payment of $250.

Individual Status*

	adjusted gross income of **$75,000 or less**	adjusted gross income of **$125,000 or less**	adjusted gross income of **$250,000 or less**
Without dependent(s)	$350	$250	$200
With dependent(s)†	$700	$500	$400

Joint Status

	adjusted gross income of **$150,000 or less**	adjusted gross income of **$250,000 or less**	adjusted gross income of **$500,000 or less**
Without dependent(s)	$700	$500	$400
With dependent(s)†	$1,050	$750	$600

Surviving Spouse or Head of Household Status

	adjusted gross income of **$150,000 or less**	adjusted gross income of **$250,000 or less**	adjusted gross income of **$500,000 or less**
Without dependent(s)	$350	$250	$200
With dependent(s)†	$700	$500	$400

Source: State law.

* This category includes individuals who are married and file separately.

† Households with at least one dependent were eligible for a single supplement to their payment, regardless of the number of dependents in the household.

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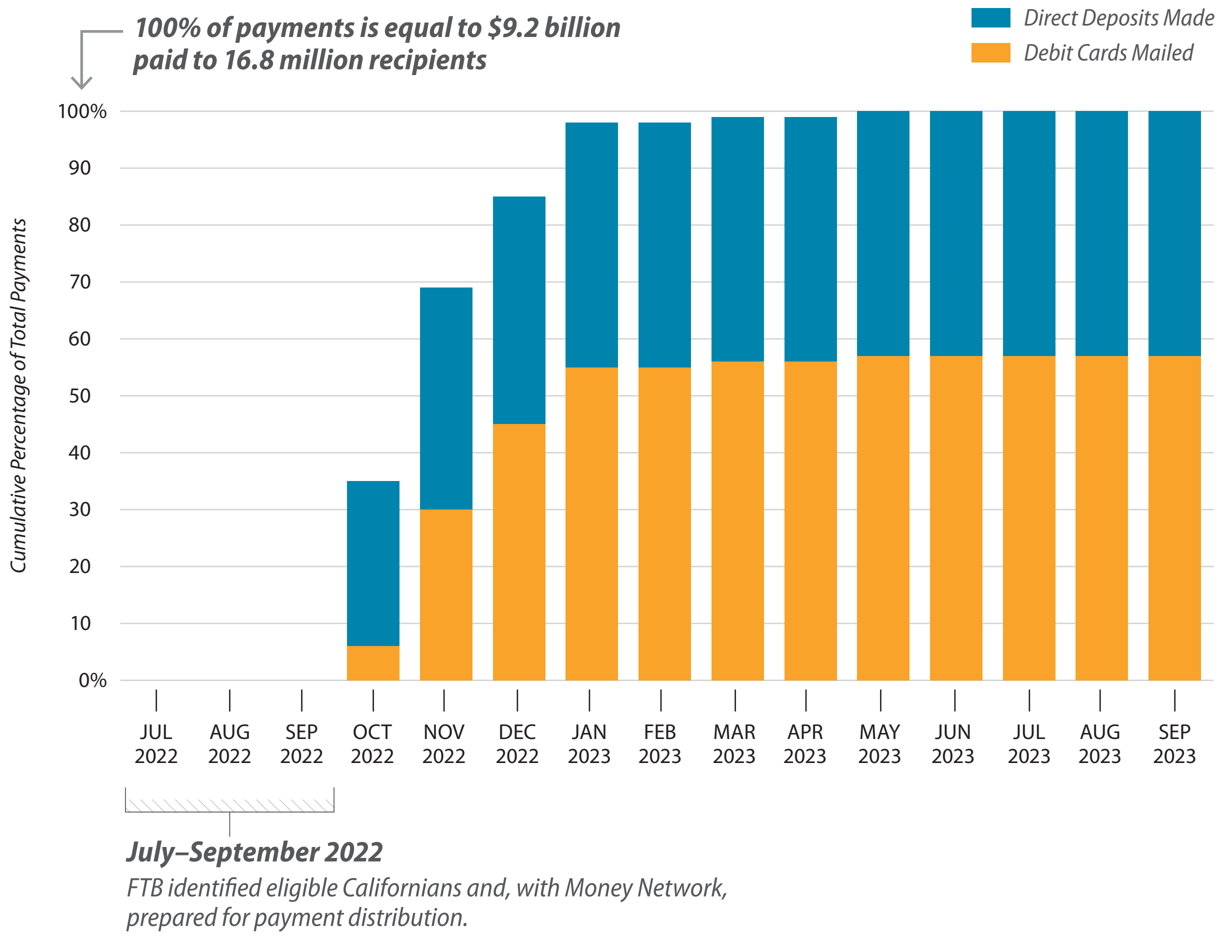
FTB Distributed Accurate Payments to Eligible Californians Relatively Quickly



Source: FTB payment data.

Note: This figure does not include the small percentage of payments that FTB issued by paper check. Table A in Appendix A provides a more detailed presentation of payment data.

FTB generally calculated MCTR payment amounts in compliance with the requirements of the Better for Families Act and generally paid all eligible recipients. To identify eligible recipients, FTB used taxpayer information from personal income tax returns filed for the 2020 tax year to generate a list of filers whose adjusted gross incomes were under the $500,000 threshold for the program. Then FTB verified that these taxpayers met the other MCTR eligibility requirements, including residing in California. Although we found that FTB generally made correct eligibility determinations, we also found that it paid a relatively small number of individuals—108,000 of 16.8 million (less than 1 percent)—who both filed taxes and were claimed as dependents on another tax return. These individuals were ineligible under the terms of the Better for Families Act. We describe this issue in detail in the Other Areas We Reviewed section of this report.

After identifying eligible recipients, FTB calculated the recipients' MCTR payment amounts using their filing status, adjusted gross incomes, and any dependents they reported on their 2020 tax returns. We used the same taxpayer information—filing status, adjusted gross income, and claimed dependents—and independently calculated the amounts owed to those eligible for MCTR. After comparing the amounts we calculated to those FTB calculated, we determined that FTB had generally calculated accurate amounts for the eligible recipients.

Shortly after FTB signed the agreement with Money Network in July 2022 and before issuing any payments, FTB and Money Network began planning how they would work together to issue MCTR payments by debit card. They included in these planning efforts the design and testing of data formatting to enable FTB to transfer data to Money Network. They completed this process in October 2022, allowing FTB to issue the first payments in that month. The majority of payments that FTB distributed in October 2022 occurred through direct deposits. After that month, however, FTB cumulatively issued about 57 percent of its payments using debit cards. Recipients also had the option to decline the receipt of a debit card and instead receive their MCTR payment through a state-issued paper check. However, these check payments were a small fraction of the overall payments FTB made. By January 2023, four months into payment distribution, FTB had distributed MCTR payments to nearly all eligible recipients. Table A in Appendix A shows the number and amount of MCTR payments that FTB distributed, by month and payment type.

Programs to Which We Compared MCTR

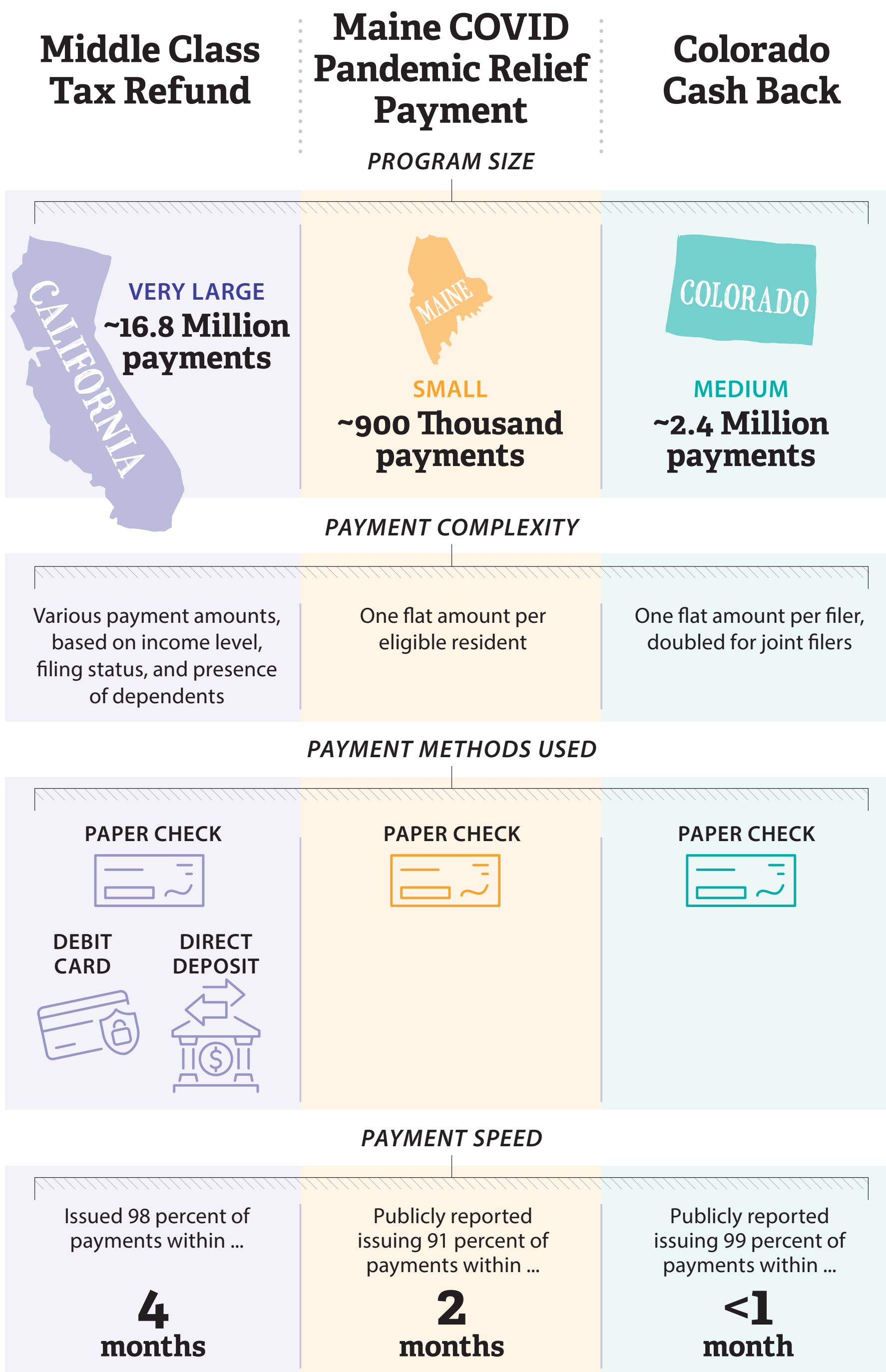
- California Golden State Stimulus I and II (two programs)
- Colorado Cash Back Program
- Maine COVID Pandemic Relief Payment Program
- New Mexico 2021 Income Tax Rebate Program

Source: Auditor analysis.

As initially enacted, the Better for Families Act contained no direct payment deadlines, but the Act did require payments to be made as soon as possible. We determined that FTB distributed MCTR payments relatively quickly compared to similar programs throughout the country, after accounting for the complexity of each program. The text box lists the programs against which we compared the MCTR program. These programs are similar to the MCTR program in that they provided financial relief payments sometime in 2021 or 2022. MCTR was more complex than most of these programs because of its large group of recipients, its distribution through three different payment methods, and the variety of its payment amounts. Although the Colorado and Maine programs had faster distribution timelines than did MCTR, they had fewer recipients and fewer payment methods. Figure 2 compares MCTR and those two programs, including the size and payment methods of each program.

FTB was able to distribute payments as quickly as it did because it avoided technological problems that could have caused delays. When we compared the planned timeline for MCTR payments against system outage reports from FTB, we found that no system outages interfered with the distribution of payments. Further, Money Network stated that it experienced no technological delays in issuing debit cards, and we confirmed that it generally adhered to the distribution schedule from the outset of the MCTR program. FTB explained that during critical times when it was transmitting large volumes of payment-related data to Money Network, the two entities coordinated their efforts and monitored the transfers in real time to ensure that they could troubleshoot any difficulties they faced. Finally, when we reviewed the reasons for delayed payments, we did not identify any payments delayed by technological problems.

Figure 2
A Comparison to Other Relief Programs Shows That FTB Distributed Most MCTR Payments Reasonably Quickly



Source: FTB data; unaudited information from the governor of Maine; unaudited information from Colorado's governor, legislature, and Department of Revenue.

Although FTB distributed payments relatively quickly to nearly all eligible recipients, it has taken longer to issue payments to some recipients. To determine some of the reasons that FTB paid some individuals later, we selected and reviewed 17 cases in which FTB issued its latest payment in or after June 2023. FTB's records of these payments show that the two most common causes of the delays were incorrect mailing addresses for some recipients and the time that FTB took to manually review certain payments to ensure recipient eligibility and review for possible fraud.

Nine of the 17 payments we reviewed were delayed by problems with the recipients' addresses. In some of these nine cases, the debit cards that Money Network sent to the recipients were returned as having been unsuccessfully delivered. To correct incorrect addresses, FTB obtained updated addresses through tax filing documents or the U.S. Postal Service. It also waited for some recipients to update their addresses by contacting FTB. State law generally places responsibility for maintaining up-to-date address information on taxpayers, not on FTB. Further, if FTB had attempted to correct these problems by reaching out to taxpayers, it would have faced the logistical challenge of contacting individuals for whom it did not have correct contact information. Therefore, we believe that FTB's approach to the incorrect address issue was reasonable.

Seven payments in our selection were delayed because of the time FTB spent reviewing the cases for eligibility or possible fraud. The time that FTB took to complete these reviews ranged from about one month to nearly eight months, with most reviews taking about three to four months. According to FTB, it typically needs one month to conduct these reviews. However, FTB also explained that from late April 2023 through early August 2023, it was slower to conduct these reviews because this time frame spanned the typical peak of tax filing season as well as that year's extended tax filing season. Accordingly, FTB prioritized reviewing tax returns during these months before conducting manual reviews of MCTR payments.

Our work indicates that FTB has made payments to virtually all eligible individuals. Obtaining complete assurance that FTB paid every single eligible individual would have been cost-prohibitive. Nonetheless, our analysis indicates that the upper limit of the amount of remaining payments is likely approximately $20 million—or 0.2 percent of the total program size—which is attributable to about 40,000 individuals. The predominant reason FTB had not made payments to these individuals is that FTB did not have valid addresses to which to send payments. In some cases, FTB determined—based on earlier attempts to contact the taxpayer—that the address it had on file was incorrect before it attempted to pay an eligible individual. In other cases, FTB made one or more unsuccessful payment attempts and subsequently determined that it had an incorrect address. In July 2023, the Legislature amended state law to require FTB to issue all payments no later than September 30, 2023. However, state law makes an exception to this payment deadline that allows FTB to issue replacement payments after this date. As a result, the individuals with incorrect addresses to whom FTB made at least one unsuccessful payment attempt prior to this deadline may still receive a payment.

FTB informed us that to the extent it receives updated address information from these individuals, it will continue to issue payments, but it will issue those payments by paper check. However, FTB also conveyed its perspective that on or after June 1, 2024, it will no longer be able to make MCTR payments from the Better for Families Tax Refund Fund because of language in state law that redirects any funds in that fund to the General Fund as of June 1, 2024.

Finally, there remain a significant number of debit-card recipients who have yet to activate their debit cards. According to information that Money Network provided to FTB, more than one million debit cards—worth approximately $611 million in payments—had not yet been activated by their recipients as of January 2024. To address this issue, FTB plans to send reminder letters to these cardholders encouraging them to activate their cards. FTB will then assess the impact of these letters on the total number of cards still inactivated.

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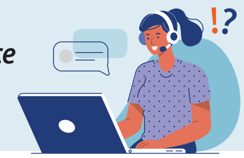
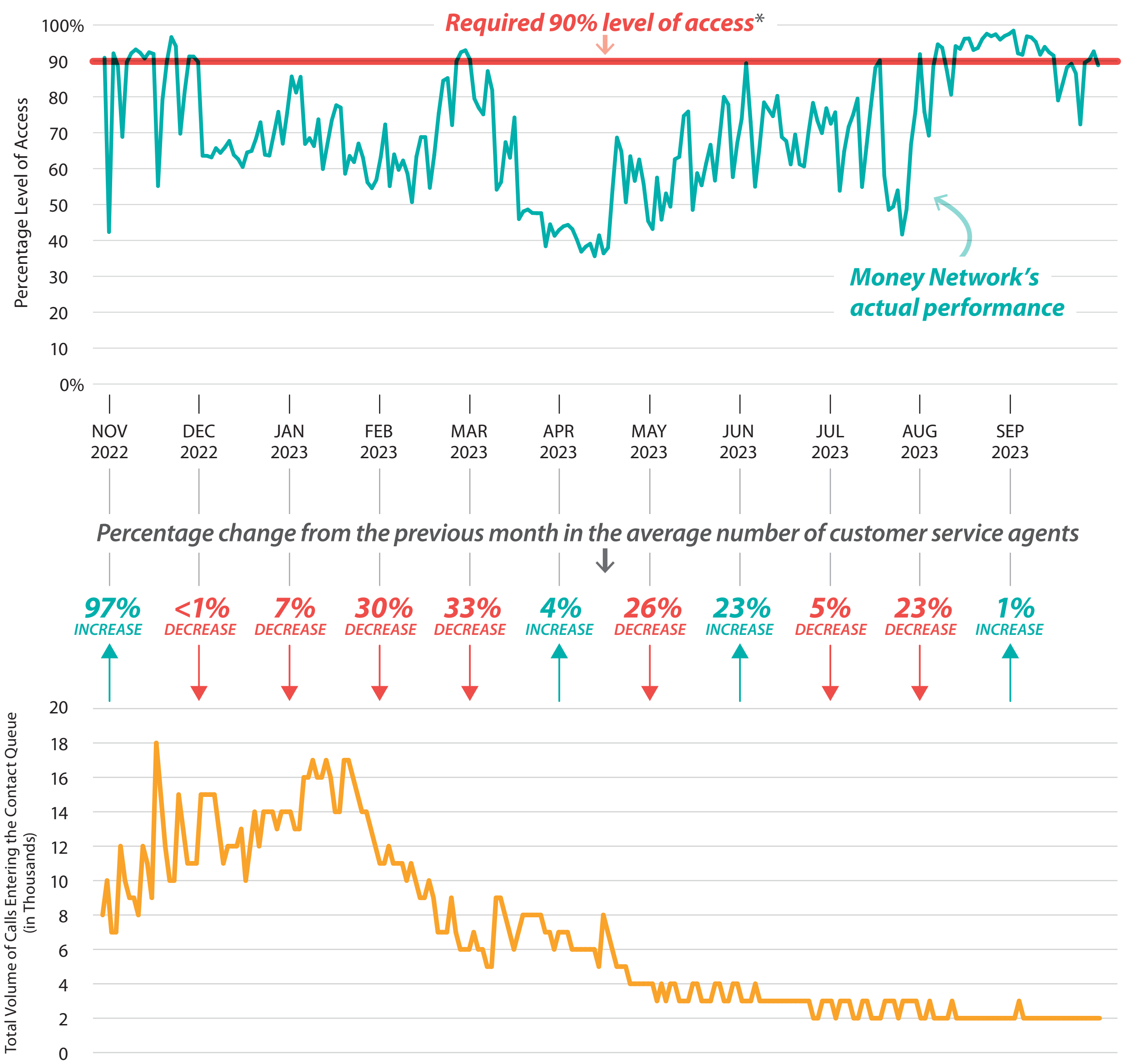
FTB Did Not Ensure That Money Network Provided the Required Level of Customer Service

Since November 2022, callers have rarely been able to reach customer service agents at the 90% rate that FTB's agreement requires.





Although it attempted to improve Money Network's customer service, FTB did not hold Money Network to the required standard of service during most months.

Source: FTB's agreement with Money Network; contact center data that Money Network provided to FTB; Money Network contact center staffing information.

* FTB's agreement defines *level of access* as the number of contacts answered out of the total number of contacts offered. In practice, both FTB and Money Network applied this metric only to calls involving callers attempting to speak to a live contact center agent.

FTB's agreement with Money Network requires Money Network to provide customer service and support, including self-service and live-service options such as phone calls and live chat. The agreement refers to these options as *contacts* and requires Money Network to operate a *contact center.* Further, the agreement requires Money Network to provide sufficient staff at the contact center to answer at least 90 percent of the contacts offered (i.e. phone calls, live chat)—a metric that the agreement calls the *level of access* that Money Network provides. In practice, both FTB and Money Network have applied the level-of-access metric only to phone calls coming into the contact center that are directed to a live customer service agent. They have not applied this metric to the other contact options by which MCTR payment recipients may try to communicate with Money Network.

In August 2022, before it distributed any debit cards, Money Network began operating a phone line dedicated to callers who were seeking information about the MCTR program (general inquiry phone line). Coinciding with when it began issuing debit cards in October 2022, Money Network introduced a second phone line meant to assist callers who had issues with their debit cards (debit-card phone line). On both phone lines, a caller initially accessed information or handled tasks—such as activating a debit card, reporting a debit card as lost or stolen, or requesting a replacement debit card—through self-service options on Money Network's interactive voice response (IVR) system. If callers could not satisfactorily resolve the reason for calls through the IVR, they could choose to transfer to a queue where they would wait to speak with a live customer service agent (contact center queue). Money Network reported to FTB that the two phone lines had received a total of 29.2 million calls from August 2022 through September 2023 and that its IVR system had handled 26.9 million of these calls.

Money Network placed only 1.3 million of the remaining 2.3 million calls in the contact center queue, leaving about one million calls unconnected to the queue. There are three reasons for unconnected calls. One reason is that Money Network received the calls during a time when the contact center was closed. The agreement between FTB and Money Network specifies that the contact center should operate on weekdays from 8 a.m. to 5 p.m., with the exception of state holidays. The second reason is that the queue was at times too full to accept additional calls—a circumstance known as *deflection*. In these cases, a caller would attempt to transfer the call to the contact center queue and then receive a message explaining that due to high call volumes, Money Network could not assist the caller at that time, and encouraging the caller to call back later. Finally, callers may have disconnected from the call in the time between transferring from the IVR and joining the contact center queue.

Due to limitations in the contact center data that Money Network provided to FTB, we could not determine the precise breakdown of calls among each of these three conditions. However, Money Network provided data to us during the audit that indicates from August 2022 through September 2023, 363,000 of the one million calls disconnected during the time between being transferred from the IVR and being placed in the contact center queue. Additionally, those data showed that about 230,000 calls occurred when the contact center was closed. The remaining roughly 360,000 calls were deflected by Money Network's phone system.[2] Because these calls were never placed in the contact center queue, they are not included when calculating the level of access that Money Network provided. Nonetheless, the deflected calls represent a significant gap in Money Network's ability to handle the volume of calls that it received.

Ultimately, Money Network accepted about 1.6 million calls into the contact center queue. These include the 1.3 million that entered the queue from the IVR and an additional 280,000 teletypewriter (TTY) calls that bypassed Money Network's IVR system.[3] From August 2022 to November 2022, contact center service agents answered 93 percent of the 57,000 calls referred on the general inquiry phone line. However, Money Network's performance on this phone line declined below the required 90-percent level after it began distributing debit cards. From November 2022 through April 2023, Money Network answered only 81 percent of the 392,000 calls it placed in the contact center agent queue from the general inquiry phone line.[4] More concerning is Money Network's performance on the debit-card phone line. From November 2022 through September 2023, Money Network answered only 64 percent—about 720,000—of the 1.1 million calls it received on that phone line. The remaining 405,000 calls disconnected before Money Network could answer the call, presumably because callers abandoned the calls.

During certain periods of the MCTR program, callers experienced long wait times that could have caused them to abandon their calls. Average daily wait times were about 12 minutes from November 2022 through September 2023, but they reached nearly an hour at their peak in April 2023. Money Network explained that many unanswered calls were made by callers who did not wait on hold for long enough to provide a reasonable opportunity for Money Network to answer the call. Specifically, as many as 195,000 calls from October 2022 through June 2023 were disconnected within 60 seconds of being referred to the contact center queue. Money Network indicated that it was common in the call center industry to measure performance using such thresholds. Using the data Money Network reported to FTB, we could not verify Money Network's assertion about the number of calls abandoned within a 60-second timeframe. However, even after adjusting for these calls, we found that Money Network did not provide a 90-percent level of access, as required by its agreement with FTB.

FTB confirmed that it did not conduct any customer surveys to learn about customers' experiences with Money Network's contact center. It indicated that it learned about customer service issues instead through the contact center metrics it received from Money Network and through extensive outreach from stakeholders

2 These calls do not include approximately 50,000 calls that were deflected from the TTY phone line that we describe in the next paragraph.

3 Text telephone devices or TTY allows individuals with hearing or speech-related disabilities to communicate via telephone networks.

4 According to FTB, in April 2023 Money Network transitioned the general inquiry phone line from being staffed with contact center agents to being handled entirely by Money Network's IVR system. Callers were still provided the opportunity to connect to a contact center agent by transferring their call to the debit-card phone line.

such as the Legislature, callers to FTB's taxpayer call center, and the media. This approach is reasonable given the potential costs of a customer survey and the existence of other mechanisms to reveal problems.

In January 2023, FTB took steps to push Money Network to improve its customer service. In that month, FTB agreed to pay Money Network nearly $1.3 million through two work orders with the goal of improving customer service through April 2023. One of these work orders expanded to 10 p.m. the hours the contact center's phone lines were open, and the two work orders collectively required Money Network to add 36 staff for about a four-month period to those working in the contact center. Additionally, one of the work orders directed Money Network to make adjustments to the IVR to account for questions that recipients may have had about how their MCTR payment related to their taxable income.[5]

However, these work orders are problematic because, in effect, FTB agreed to pay Money Network additional funds for services that were already assigned a cost in the original agreement. FTB's agreement with Money Network specifies that staffing for the contact center is included as part of a $1.35-per-card cost that FTB agreed to pay. The agreement requires Money Network to staff the contact center with a sufficient number of staff to achieve the 90-percent level of access. It also states that Money Network may need to operate the contact center during modified hours if required to do so by FTB, and it does not indicate that the expanded operating hours would necessitate additional payments to Money Network. At the time FTB issued the work orders, it already had an agreement on a cost for services and the expected performance it was supposed to receive for that cost. This raises questions about why the State would agree to pay its vendor more when it was not even meeting its obligations at the original price. According to FTB's chief financial officer, FTB issued the work orders because it was making every effort to make the best decision, based on available information, for taxpayers, FTB, and the State. As we describe later, FTB's agreement with Money Network does not contain any direct consequences—short of termination of the agreement—for underperformance in the area of customer service. Accordingly, when FTB needed to prompt Money Network to improve its performance, FTB's options for doing so were limited by the weaknesses in the agreement. Nonetheless, we are concerned that FTB agreed to spend additional state resources to address poor performance by a vendor that was already obligated to provide a specified level of service.

Moreover, the work orders were not effective at improving Money Network's performance. Money Network's level of access did not reach the level required by the agreement, and the average number of staff assigned to the MCTR phone lines began decreasing in January 2023, the same month that Money Network agreed to increase staff levels. The average contact center staffing level generally decreased until June 2023. According to Money Network, staff turnover was the main driver in the declining number of contact center staff. Money Network asserted that it hired more than 140 staff specifically for the MCTR contact center between April 2023 and

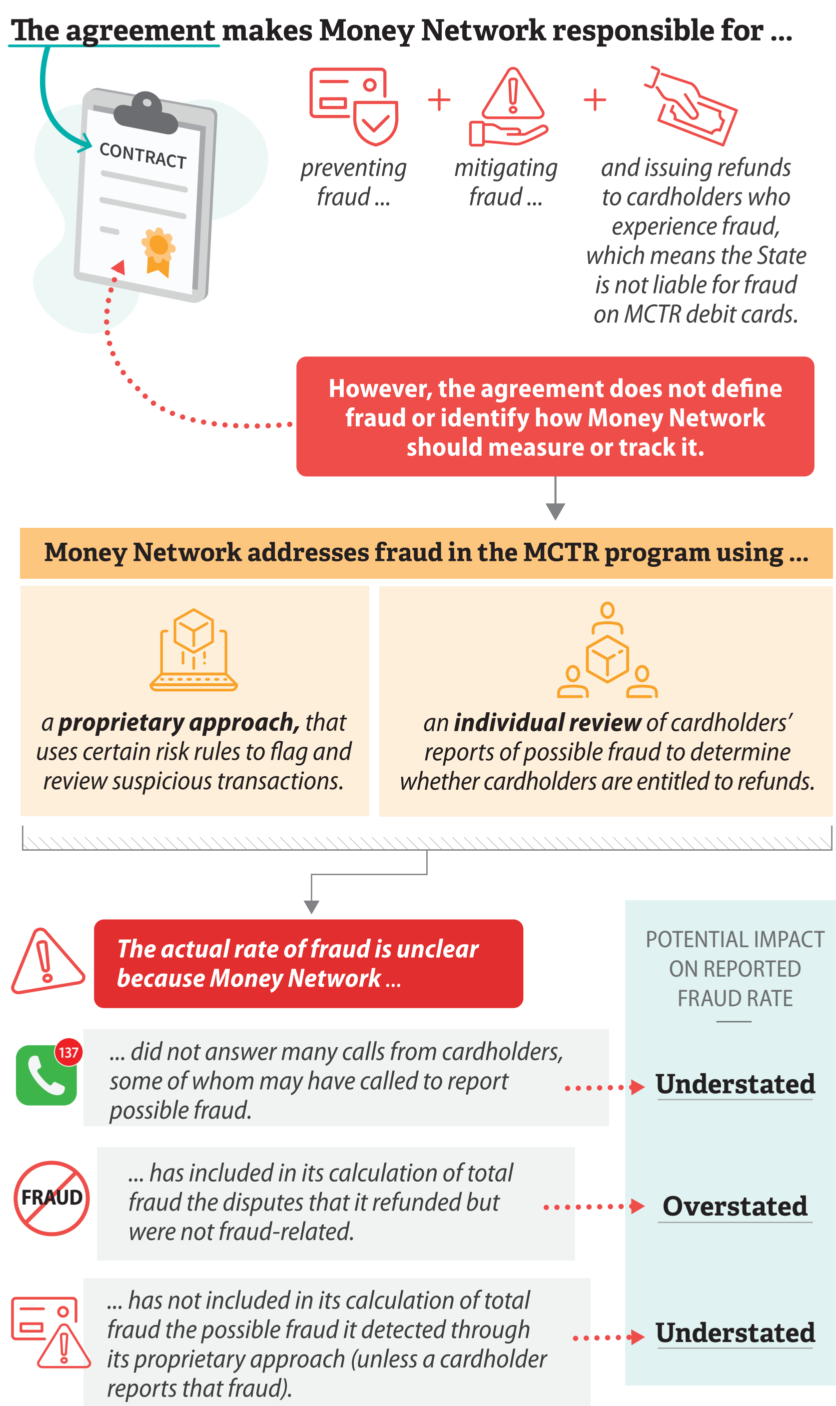
5 The maximum value of the agreement did not increase because of these work orders. Each work order noted that FTB anticipated that the existing funding for the agreement with Money Network would be sufficient to cover these work orders because of a reduction in the anticipated number of debit cards that Money Network would need to distribute.

September 2023, yet the net effect was a decline in the total number of staff because of attrition. However, Money Network's explanation covers a period primarily after the expiration of the work orders. The level of access Money Network provided from January 2023 through April 2023 averaged just 62 percent, well below the required 90-percent level.

Ultimately, FTB did not pay Money Network the full $1.3 million pertaining to these work orders. According to FTB's chief financial officer, FTB observed in Money Network's reported data that the level of access was not improving, despite FTB's order for it to dedicate more resources. Invoice and payment records show that Money Network invoiced FTB for the full $1.3 million, and FTB paid only $873,000. FTB's chief financial officer explained that FTB arrived at its payment amount by reviewing the call statistics during the four-month period covered by the work orders and comparing those statistics to prior months' call center statistics. When we asked FTB why it did not base its conclusions about Money Network's contact center on staffing data, FTB stated that it had attempted multiple times to obtain staffing data from Money Network but that Money Network did not provide this information. Although the agreement allows FTB to review any of Money Network's records directly pertaining to its performance of the agreement, it does not specifically require Money Network to provide FTB with data about the number of contact center agents working in the contact center at a particular point in time.

In August and September 2023, Money Network more consistently achieved a 90-percent level of access. However, these months overlap with the lowest daily call volumes in the contact center queue since Money Network began operating the debit-card phone line. Call volumes averaged around 2,100 calls per day during these months, compared to the average of 9,200 calls per day that entered the queue on the same phone line during January and February 2023, when Money Network was issuing the last large distribution of debit cards.

The Level of Fraud in the MCTR Program Is Unclear Because of Money Network's Poor Customer Service and Inadequate Fraud Tracking



Source: FTB's agreement with Money Network; fraud information that Money Network provided; contact center reports that Money Network provided to FTB for the period from August 2022 through September 2023.

In its activities related to the MCTR program, FTB generally incorporated and followed best practices that the *Fraud Risk Management Guide* outlines for fraud risk management and mitigation.[6] These best practices include performing comprehensive fraud risk assessments to identify fraud schemes and implementing activities to mitigate risk. We observed that FTB monitors tax return activity on an ongoing basis in an effort to identify emerging fraud schemes and possible fraud. Because FTB used information from 2020 tax returns to identify eligible MCTR recipients, it was using information that it had already screened for fraudulent activity. FTB indicated that these reviews included screening for identity theft, which FTB defines as someone else using an individual's information for an unlawful purpose. Moreover, while identifying the population of eligible recipients, FTB performed additional checks to flag possible fraud for further review and to ensure that only eligible recipients would receive MCTR payments.

Money Network also provided evidence that it generally followed certain best practices for fraud risk management. Best practices for financial institutions' fraud risk management include deploying and evaluating fraud control activities and using metrics to measure and monitor fraud risk. Money Network deploys and evaluates controls intended to prevent and detect fraud. For example, Money Network designed risk rules that send alerts to staff when suspicious activity is detected on debit cards.[7] According to Money Network, it periodically revises these risk rules based on a review of data analytics and metrics to ensure that the rules are effective at identifying possible fraud.

FTB's agreement makes Money Network, not FTB, responsible for reimbursing cardholders for fraudulent transactions. However, two deficiencies in Money Network's approach to fraud have hindered the State's ability to know the true rate of fraud in the program. The first of these deficiencies is the rate of unanswered calls to the contact center. One way that Money Network can learn of possible fraud is through cardholders calling its contact center to report suspicious transactions. These reports are known as *disputes*. FTB and Money Network have focused on disputes as a measurement of fraud in the MCTR program. However, Money Network did not answer hundreds of thousands of calls from November 2022 through September 2023, and the level of access that Money Network provided to callers was significantly below the required level of 90 percent. Therefore, cardholders who may have experienced possibly fraudulent transactions may have been hindered from reporting them to Money Network, meaning that the total number of reported disputes could underrepresent the true number of suspicious transactions.

Both FTB and Money Network disagreed with our assessment that the rate of unanswered calls affects the measurement of fraud. Each entity asserted that callers who had experienced fraud would continue to call the contact center until they reached a call center agent because they would be motivated to obtain a refund of

6 The Committee of Sponsoring Organizations of the Treadway Commission and Association of Certified Fraud Examiners, *Fraud Risk Management Guide*, March 2023.

7 We reviewed Money Network's risk rules and other practices for preventing and detecting fraud. However, to avoid publishing information that could expose Money Network to fraud, we do not report on these practices in detail.

the money that had been stolen from them. We acknowledge that some callers might persist in calling until they could submit a dispute to Money Network. However, the contact center data indicate that successfully reaching a contact center agent was difficult for a prolonged period following the distribution of the vast majority of debit cards in January 2023. The contact center's poor performance over this period is reason to doubt that all cardholders with possibly fraudulent transactions reported their problems to Money Network.

The second deficiency is that Money Network has not documented fraud specifically within the dispute records it maintains. Money Network can receive disputes that are not related to fraud. Fraud-related disputes include those that cardholders report when they did not authorize a transaction, while disputes that do not relate to fraud can include cardholder disagreements with merchants over authorized transactions, such as cardholders not receiving items they purchased. The data that Money Network has maintained about MCTR program disputes do not differentiate between these two types of disputes. Money Network stated that it did not separately track fraud-related disputes because the MCTR program is not regulated the same way that other banking activity is regulated. Although Money Network's agreement requires it to report all fraudulent activity to FTB, the agreement also lacks terms that describe specific financial consequences if Money Network does not provide FTB with this information.

FTB's agreement with Money Network further complicates any attempts to seek an accurate measurement of fraud. The agreement requires Money Network to prevent fraud at least at a 99-percent success rate. However, the agreement does not define *fraud*. In the absence of a definition in the agreement, Money Network defines *fraud* as the total value of the disputed transactions it has refunded, which overstates the amount of fraud because it includes disputes that are not related to fraud, as we discuss above. Further, that definition excludes fraud that Money Network identifies through its automatic alerts related to suspicious debit-card activity. For example, through its fraud monitoring program, Money Network identified fraud schemes against MCTR cardholders and reported to FTB that it took action to prevent further losses to those cardholders. However, it did not include these cases in its calculations of the total amount of fraud in the program unless the affected cardholders called to report related disputes, which would then prompt Money Network to investigate the disputes. In any future agreements with debit-card vendors, the State should establish a definition of fraud that includes all identified instances of fraud—regardless of how the vendor detected those instances—and excludes any transactions or disputes that the vendor deems are unrelated to fraud.

Notwithstanding the challenges in measuring fraud in the MCTR program, we used the data that Money Network provided on disputes to address the questions we were asked to address as a part of this audit. As of August 2023, Money Network had recorded disputes from about 65,000 cardholders—a small percentage of the total cardholder population of 9.5 million. Table B2 in Appendix B provides income-related information about these cardholders. We obtained the fraud rate that Money Network reported to FTB in June 2023 and observed that it was less than $51.4 million, or 1 percent of the amount distributed through debit cards at that time, which is below the level that the agreement requires Money Network to keep fraud. Because of the concerns about measuring fraud that we describe earlier, and because both FTB and Money Network asserted that more precise information about the amount of reported fraud is confidential, we do not disclose the exact amount of fraud that Money Network reported to FTB.

Money Network informs cardholders that it may take up to 90 days to resolve a dispute. Using data that Money Network provided on disputes, we found that Money Network resolved within this time frame 93 percent of the disputes that it either reimbursed or closed without reimbursing. Table 1 shows the length of time Money Network took to reach conclusions about the disputes that it had resolved, through the beginning of August 2023. In addition, Money Network had about 13,500 disputes that it had not yet resolved as of that time.

Table 1

Money Network Handled Within 90 Days Most of the Disputes It Received

NUMBER OF DISPUTES CLOSED MEASURED FROM DISPUTE DATE TO CLOSURE DATE*					
0–30 DAYS	31–60 DAYS	61–90 DAYS	91–120 DAYS	MORE THAN 120 DAYS	NUMBER OF DISPUTES†
3,895	13,562	32,406	3,414	186	53,463
49,863 (93%)			3,600 (7%)		

Source: Money Network's data for closed disputes as of early August 2023.

* The closure date is the date that Money Network either first provided a refund for those disputes that were fully or partially reimbursed or closed the dispute for those disputes that were not reimbursed.

† Some cardholders filed multiple disputes.

The MCTR Agreement Does Not Adequately Safeguard the Best Interests of the State

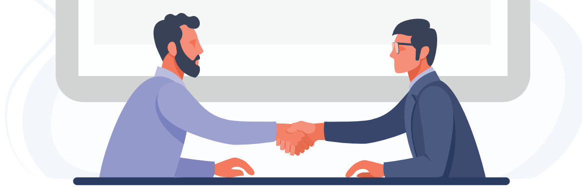
Agreement Cost Terms

ITEM	COST
Program management	**$1.35 per debit card**
EMV chip surcharge*	**$0.50 per EMV chip**
Reminder letter with postage	**$0.68 per letter**
Tax form with postage	**$0.68 per letter**
Priority replacement for lost or stolen card	**$8.00 per reissuance** *(if requested by FTB)*

Program management includes services such as ...

- *Card production and distribution*
- *Customer service*
- *Fraud prevention*

FTB generally paid Money Network the full program management cost up front after Money Network's distribution of debit cards, despite Money Network's ongoing responsibility to provide program management services.



Total Agreement Value: $25.3 million

*Pursuant to the agreement, Money Network issued debit cards relatively early in the agreement period. As a result, FTB had paid 89 percent of the total agreement value as of October 2023—$22.5 million—**limiting its ability to hold Money Network financially accountable for services** that Money Network must provide through July 2026.*

Source: FTB's agreement with Money Network and card distribution data.

* EMV stands for Europay, Mastercard, and Visa. EMV chip cards are credit, debit, or prepaid cards that have an embedded microchip that securely stores data and provides an additional layer of security when the user inserts the chip card to complete a transaction.

In keeping with the general guidance in the *State Contracting Manual* (SCM), FTB's agreement with Money Network contains specific information about the duration of the agreement, the maximum amount payable to Money Network, and the services that Money Network agreed to provide. The agreement also generally contains the standard provisions that General Services advises all state contracts include.

Nonetheless, to the detriment of the State and MCTR recipients, the agreement is marked by two issues that have hindered and will likely continue to hinder FTB's ability to hold Money Network accountable for its performance.

The first issue hindering accountability is the agreement's payment structure. The agreement combines payment for most services that Money Network agreed to provide into a single, per-debit-card rate. Specifically, FTB agreed to pay Money Network $1.35 per card in exchange for program management services, which includes card production, card distribution, customer service, and fraud-prevention services, among others. About 59 percent of the total $25.3 million agreement is attributable to this per-card rate. The remaining agreement value is for other goods and services.

Because the majority of debit-card production and distribution occurred quite early in the agreement period, the payment structure led FTB to pay Money Network a significant amount of money in the early portions of the period. As of October 2023—15 months into the 49-month agreement period—FTB had paid Money Network $22.5 million of the $25.3 million total agreement amount, or about 89 percent. Of that $22.5 million, $14.1 million related to program management costs, while the other $8.4 million related to the following: the January 2023 work orders; the production and distribution of tax forms (Form 1099-MISC) and reminder letters; a surcharge for debit cards with EMV chips; and sales tax. The distribution of nearly all debit cards early in the agreement period occurred by design: the agreement required Money Network to produce a plan to mail approximately 95 percent of debit cards within a period of 8 to 10 weeks beginning in late October 2022.

However, FTB made these payments before important ongoing services—such as fraud prevention and customer service—had been substantially provided by Money Network, because the agreement bundled these services rather than itemizing the costs and making payment contingent on Money Network demonstrating that it had provided the services. In other words, FTB paid Money Network before Money Network had provided all of the services included in the program management cost of $1.35 per card. As we describe later, the MCTR agreement is exempt from state contracting law and General Services' oversight. However, as a best practice, the SCM warns against advance payments, stating that departments shall not make payment in advance of receiving goods or the performance of services. Therefore, the payment structure in FTB's agreement represents a significant limitation in FTB's ability to protect the State's interests.

Both General Services and FTB indicated that had FTB sought a different payment structure, it could have risked not attracting a vendor. FTB's chief financial officer also indicated that doing so could have risked raising the overall cost of the agreement. The filing division chief similarly explained that FTB believed that the bundled payment structure in the agreement is typical of the payment models that debit-card vendors generally use and that asking vendors to adopt a payment model that required them to disclose costs instead of bundling could have increased the price of the services. We acknowledge that each of the other four proposals that the State received in response to its solicitation contained a pricing structure similar to the one included in the Money Network agreement in that none of those proposals separately charged the State for fraud-prevention services. However, each of these four proposals offered to provide customer service—such as call center support—without bundling, demonstrating that the vendor market was not uniform in this regard and that the State had other options available for its consideration.

Further, bundling services together under a single price (e.g., $1.35 per debit card) eliminates transparency around how much each service costs, limiting a department's knowledge of the costs for each service individually. The lack of clarity especially hindered FTB when Money Network submitted an invoice for debit cards that it had not mailed. The payment provisions of FTB's agreement assume that FTB will pay Money Network for at least 11 million debit cards. Despite having issued cards for only about 9.5 million accounts through May 2023, Money Network invoiced FTB for $1.2 million in early June 2023 for the cost of producing 1.4 million unissued debit cards. FTB's chief financial officer stated that FTB chose to pay Money Network for these unissued cards in part because the agreement does not contain terms that clearly prohibit this payment.

However, we found the agreement's payment terms do not clearly indicate how much of the $1.35 per-card program management cost FTB should pay Money Network for unissued cards. In the absence of clear cost information, FTB processed payment using Money Network's determination that the cost for an unissued card was $0.84 per card. Had the agreement included itemized costs for the goods and services included in the $1.35 per-card cost, FTB could have used the agreement—rather than a determination by its contractor—to determine how much it should have paid Money Network for unissued cards.

When we discussed our conclusions about the $1.35 per-card cost with FTB, it explained its belief that this cost did not include certain services, such as customer service, and that Money Network provided these services at no cost to the State. FTB believed that the per-card cost was limited to the production and distribution of debit cards. Accordingly, FTB believed that our conclusions about advanced payment and payment for undistributed cards were incorrect and lacking context. We do not agree with FTB's perspective. FTB said that it only began viewing the agreement's payment terms in this manner more than a year into the agreement term. Before that, FTB explained that it understood, since the agreement's inception, that the $1.35 per-card cost covered program management costs, including customer service. In addition, the plain language of the agreement makes it clear that FTB agreed to pay for program management services—including customer service and fraud prevention—as part of the $1.35 per-card cost.

The second issue hindering accountability is the absence in the agreement of any direct consequences—short of termination of the agreement—if Money Network failed to provide the required services. We compared FTB's agreement with Money Network to two other state agreements for debit cards: an agreement between the Employment Development Department (EDD) and Bank of America and an agreement between the California Health and Human Services Agency (CHHS)'

Office of Systems Integration, and Fidelity Information Services.[8] Both of these agreements allow the State to address deficiencies in vendors' performance by assessing liquidated damages in cases in which the vendor did not meet requirements in the agreements. For example, EDD's agreement with Bank of America set forth a process that allowed EDD to assess Bank of America damages of $12,000 per day if the bank fails to meet required customer service levels.

Although we found that FTB's agreement was comparable to the EDD and CHHS agreements in some areas—such as handling expired debit cards and security requirements for contractors—FTB's agreement lacks explicit provisions for liquidated damages or similar provisions that FTB could use in cases where Money Network does not perform according to the agreement terms. In fact, Money Network has not met the required customer service levels over the course of the agreement. However, the agreement does not include terms that enable FTB to readily withhold payment or to request payment back from Money Network. The lack of such provisions inhibits FTB's ability to improve the vendor's performance.

FTB's filing division chief explained that FTB did not include in the agreement a liquidated damages provision related to customer service because it believed the provisions in the agreement sufficiently protected FTB's interests in the case of a breach of the agreement. However, he also stated that FTB has learned many lessons while it has managed the Money Network agreement and that, in the future, FTB will give more consideration to whether a liquidated damages provision should be included to further protect FTB's interests. The filing division chief emphasized that the agreement provides FTB with the right to terminate it in the case of a material breach. Under this provision, the State would be entitled to recover from Money Network any excess costs for acquiring the deliverables and services that Money Network failed to perform. However, terminating the agreement with Money Network is an extreme remedy to underperformance that would leave the State, at least temporarily, without a vendor to provide support to MCTR recipients. Further, in contrast with the liquidated damages provisions that we observed in the other agreements we reviewed, FTB's agreement contains little detail regarding what constitutes a material breach relative to the specific goods and services that Money Network must provide.

8 In December 2023, EDD announced that as of February 15, 2024, it would begin using Money Network as its official bank for delivery of debit cards for specified programs. EDD also announced that any Bank of America cards would remain active until April 2024.

Fast Procurement and Negotiations Likely Contributed to Inadequate Agreement Terms

General Services and FTB were both part of the process of procuring the MCTR agreement. As we described earlier, state law authorizes General Services, under certain circumstances, to use a negotiation process to enter into agreements rather than use other procurement approaches, such as a request for proposals. General Services has greater flexibility under this negotiation authority than state departments would normally have when procuring a vendor. In planning for the MCTR procurement, General Services expected that it would use its authority to negotiate agreements to secure a debit-card vendor. In addition to General Services' authority to negotiate, the Legislature and the Governor provided FTB with a limited exemption from all state contracting law and from General Services' oversight when they adopted the 2022 Budget Act on June 27, 2022.

These procurement allowances created a situation in which the MCTR procurement was not subject to the same requirements to which it would otherwise have been subject and in which General Services and FTB had the authority to follow the procurement approach that they determined would best align with the State's needs. Nonetheless, General Services and FTB took steps that aligned with many of the practices that would normally be part of a competitive procurement for services. For example, General Services announced the opportunity for vendors to express interest in bidding on the MCTR agreement in the California State Contracts Register, received responses from interested bidders, and produced a report summarizing the vendor selection process. In addition, FTB evaluated the proposals using the six scoring criteria it had developed for the procurement, which the text box lists. FTB ranked Money Network's proposal the highest among the five bidders' proposals in all but one of these six areas—Money Network's proposal related to the implementation timeline was ranked second-highest.

MCTR Procurement Evaluation Criteria

FTB developed the following six criteria to evaluate and score the proposals that vendors submitted for the MCTR agreement:

1. Implementation timeline
2. Fraud and security
3. Debit card and customer service solution
4. System integration
5. Company experience
6. Preliminary cost estimates

Source: FTB procurement documents.

To expedite the issuance of MCTR payments, General Services and FTB significantly departed from standard procurement practices in one area: the time they took to complete the procurement. As Figure 3 shows, General Services and FTB completed the procurement process in fewer than three weeks. In doing so, they may have limited the competitiveness of the MCTR procurement and narrowed the options that FTB had to choose from when it selected its vendor. Under normal circumstances, state law and SCM prescribe a minimum length of time that certain steps in a competitive procurement must last. For example, state departments must advertise bid opportunities in the California State Contracts Register for at least 10 working days to give potential bidders notice, which would give potential bidders time to consider and submit their proposals. In contrast, General Services advertised the opportunity for interested vendors to receive the solicitation document for the MCTR agreement for only a two-working-day period before sending the Invitation to Negotiate (ITN)—which in this instance served as the solicitation document—to the 20 vendors that expressed interest in receiving the solicitation and possibly participating in the procurement. In other words, General Services reduced by 80 percent the length of time that an advertisement about a state contracting opportunity would normally have been required to be posted.

Figure 3
The State Procured a Vendor for the MCTR Program in Only 15 Days

June 2022

- JUNE 16 — ***At 1 p.m., General Services published the Procurement Solicitation Announcement to identify interested bidders.***
- JUNE 17 — *No activity.*
- JUNE 18 — *Weekend.*
- JUNE 19 — *Weekend.*
- JUNE 20 — *Responses to the Procurement Solicitation Announcement were due by 12 p.m.*
- JUNE 21 — *After 8 p.m., General Services issued the Invitation to Negotiate (ITN) to 20 potential bidders.*
- JUNE 22 — *At 5:30 p.m., General Services issued an addendum to clarify language in the ITN about requirements and evaluation criteria, and to add the option for bidders to submit questions by 12 p.m. the following day.*
- JUNE 23 — *In the morning hours, General Services issued a second and third addenda to further clarify language in the ITN about requirements and evaluation criteria. At about 5:30 p.m., General Services also provided answers to questions potential bidders had submitted.*
- JUNE 24 — *Bidders' responses to the ITN were due by 8 a.m. The State received responses from five bidders by this due date.*
- JUNE 25 — *FTB staff evaluated bidders' responses over the weekend.*
- JUNE 26 — *FTB staff evaluated bidders' responses over the weekend.*
- JUNE 27 — *General Services invited Money Network to enter negotiations.*
- JUNE 28 — *FTB and Money Network engaged in negotiations on the Statement of Work and proposed costs.*
- JUNE 29 — *FTB and Money Network engaged in negotiations on the Statement of Work and proposed costs.*
- JUNE 30 — *FTB made updates to the Statement of Work.*

July 2022

- JULY 1 — ***FTB and Money Network signed the agreement.***

Source: General Services' and FTB's procurement documents.

SCM also states that departments must document all changes to solicitations in addenda that they must issue at least five days before the final bid due date. General Services significantly departed from this requirement by issuing two of its three addenda to the ITN the day before the bid due date. These two addenda modified the ITN's evaluation criteria. In particular, one of these addenda notified bidders that they would be assessed on a new evaluation criterion: preliminary cost estimates. Such brief turnarounds limited the time that potential bidders had to adjust their responses to remain competitive for the State's consideration.

FTB's chief financial officer stated in an email before the procurement announcement that the State would need to begin working with a vendor by the first or second week in July 2022 to implement the infrastructure necessary to issue debit-card payments by December 2022. We acknowledge that the State was trying to expedite financial relief to Californians and that General Services and FTB had the authority to accelerate the procurement. Nonetheless, providing appropriate time for potential bidders to consider opportunities and tailor their responses to meet the State's needs is a sound practice and can foster competition. In fact, federal acquisition guidance indicates that time constraints can limit a government's bargaining power during negotiations, particularly if a vendor has substantial business alternatives. Additionally, governments may improve competition and thus gain bargaining strength by postponing the award of an agreement to seek other sources that can provide the necessary goods or services. Therefore, shortening the time provided for vendors to respond to the initial advertisement and to react to changes to the ITN may have disadvantaged the State.

When we discussed our concerns about the procurement's speed with General Services, the State's chief procurement officer stated that the procurement's speed reflected the urgency of the matter, and that General Services merely accelerated, but did not eliminate, any required steps in the procurement process. She also asserted that the five vendors who submitted on-time proposals represent a relatively high number of bidders to establish competition, and she noted that general state contracting laws and policies for awarding state department contracts require a minimum of three bidders to establish competition. Nonetheless, as we note above, the acceleration of certain procurement steps limited the time that potential bidders had to adjust their responses, which may have impacted the quality of their responses. Further, by accelerating the procurement, the State may have discouraged additional bidders from submitting proposals that could have strengthened the choices available to the State.

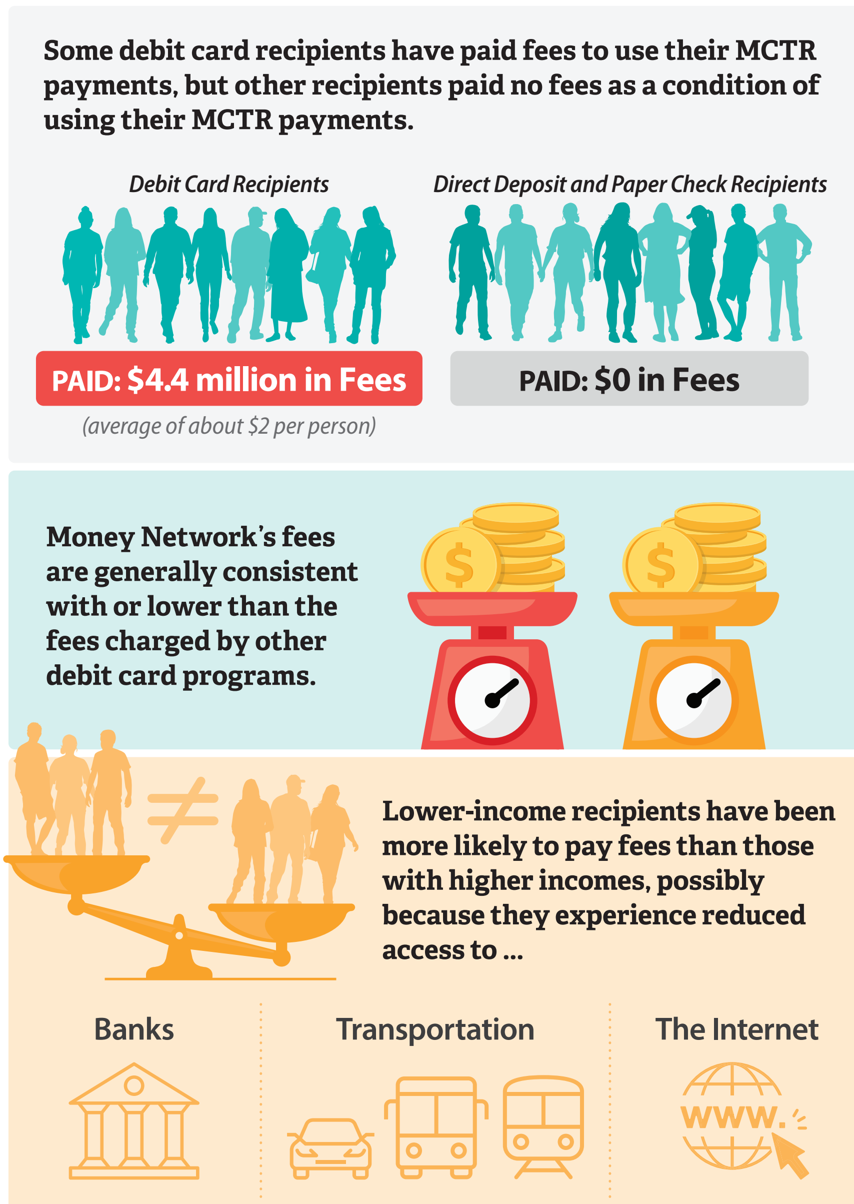
After determining that Money Network was the highest-rated bidder, FTB negotiated the agreement with Money Network in only two days, providing only a short window of time to ensure that the State obtained optimal agreement terms. The inclusion of a provision in the agreement allowing fees illustrates a consequence of this time constraint. When the procurement was advertised, the statement of work included a complete prohibition against the vendor's charging MCTR recipients fees for card activation or transactions. Money Network did not propose any changes to that section of the statement of work in its original bid. However, according to FTB's chief financial officer, Money Network informed FTB during contract negotiations that it wanted to collect fees for certain types of transactions. FTB's chief financial officer indicated that FTB changed the proposed agreement language to allow Money Network to charge these fees because there was not enough time to fully understand the issue. By doing so, FTB forwent the opportunity to negotiate with Money Network about fees or engage with other bidders to see whether they could provide services without fees—something that three of the other bidders had indicated that they could do. As a result, cardholders were subject to fees that they may not have been otherwise.

Another issue with FTB's agreement is also likely the result of the expedited procurement. Money Network is required under the agreement to prevent fraud at a success rate of at least 99 percent. However, during negotiations with Money Network, FTB added language to the fraud-prevention section of the agreement that conflicts with the 1 percent fraud rate also in the agreement. This additional language states that Money Network's "basis points for fraud shall be two basis points or less."[9] This language indicates that the fraud rate shall be no higher than 0.02 percent, which is a far more stringent requirement than 1 percent. The chief of FTB's filing division stated that FTB added this language to the agreement in error. We confirmed with both FTB and Money Network that they have used the 99 percent fraud-prevention metric when evaluating the amount of fraud related to MCTR debit cards.

Our review of other agreements for similar services demonstrates that FTB's agreement also lacks strong terms regarding customer service. Specifically, the EDD and CHHS agreements we reviewed include explicit requirements that limit how long customers may wait on hold before a customer service agent answers their calls, and the EDD agreement also includes the requirement that no customer may be automatically disconnected from the call queue. By including more clearly defined terms in the agreement related to the provision of these services, FTB could have better communicated its expectations to Money Network and positioned itself to hold Money Network accountable in the event that the vendor could not meet those expectations.

9 Basis points are used in the financial sector to describe differences in rates. One basis point is equivalent to 0.01 percent.

MCTR Debit-Card Fee Amounts Are Reasonable, but the State Should Consider the Equity of Charging Fees in Future Payment Programs



Source: MCTR debit card fee schedule; fee schedules of five other debit card programs; Money Network fee data; FTB taxpayer data; reports from the following entities: HR&A Advisors Inc., an economic development, public policy, and real estate consulting firm; the Federal Deposit Insurance Corporation; the Legislative Analyst's Office; the U.S. Department of Health and Human Services; the U.S. Department of Commerce; and the Pew Research Center.

As of mid-July 2023, recipients of MCTR debit cards had collectively paid more than $4 million in fees to Money Network for specific transaction types, such as out-of-network automated teller machine (ATM) transactions and international transactions. The Better for Families Act does not prohibit fees from being charged to MCTR recipients, and FTB's agreement with Money Network allows Money Network to charge certain types of fees. Table 2 shows the number of accounts affected by fees and the total amount of fees that MCTR recipients paid, by fee type.

Table 2
Most Fees That MCTR Recipients Paid Resulted From ATM and Cash Withdrawals

FEE PAID TO MONEY NETWORK	NUMBER OF ACCOUNTS AFFECTED (IN THOUSANDS)	AMOUNT PAID* (IN THOUSANDS)
Out-of-Network ATM Withdrawal Fee	1,626	$3,024
Over-the-Counter Cash Withdrawal Fee†	472	708
VISA Cross-Border Assessment Fee	91	520
International Service Assessment Fee	33	90
Expedited Shipping Fee‡	6	49
International ATM Withdrawal Fee	4	9
Totals	**2,232**	**$4,400**

Source: Money Network data. Note that the table does not include three additional fees that collectively amounted to less than $100 paid to Money Network.

* Total amounts paid are net of fees that Money Network refunded. Fees data are current through July 12, 2023.

† Money Network stated that it stopped charging the fee for over-the-counter withdrawals beginning in December 2022.

‡ Money Network charges a fee if a cardholder requests that it send a replacement card by expedited shipping.

The debit-card fees that Money Network charges MCTR cardholders are reasonable. We compared the fees Money Network charged MCTR debit-card recipients to the fees charged in other debit-card programs, as the text box shows. Money Network charged transaction fees that were generally consistent with fees charged by other debit-card programs. Figure 4 shows the comparison of some of Money Network's MCTR debit-card fees to fees charged by other card providers.[10] Further, individual fee amounts were relatively small. The majority of the fees were associated with out-of-network ATM and over-the-counter cash withdrawals and were typically charged in increments of $1.25 per transaction, which is less than 1 percent of even the smallest MCTR payment amount ($200). The total amount of fees that Money Network charged to MCTR recipients represents less than 0.1 percent of the total MCTR funds distributed using debit cards.

10 Because of the level of uncertainty around how to apply the fees, we could not directly compare the fees Money Network charged for international transactions or transactions in foreign currencies to those charged by other card programs.

Cardholders had several options to avoid Money Network's fees. For example, they could make purchases and request cash back without paying fees at participating merchants who accepted Visa debit cards. Similarly, they could use in-network ATMs to avoid ATM fees. Money Network established a MCTR website that provides information about how to activate and use the debit card, including an in-network ATM locator that allows cardholders to search near their location and find surcharge-free ATMs. Cardholders could also transfer funds to a bank account of their choice after activating their cards.

Regardless of the reasonableness of the specific fees that Money Network charges, the State should consider the equity of cardholder fees when deciding how to operate future debit-card-based financial relief programs. Only MCTR recipients who received debit cards were required to pay fees as a precondition of using their MCTR payment in certain ways. Although recipients of direct deposits and paper checks may have paid fees when trying to use their payments, those fees were charged by a financial institution of their own choice, rather than by the State's vendor.

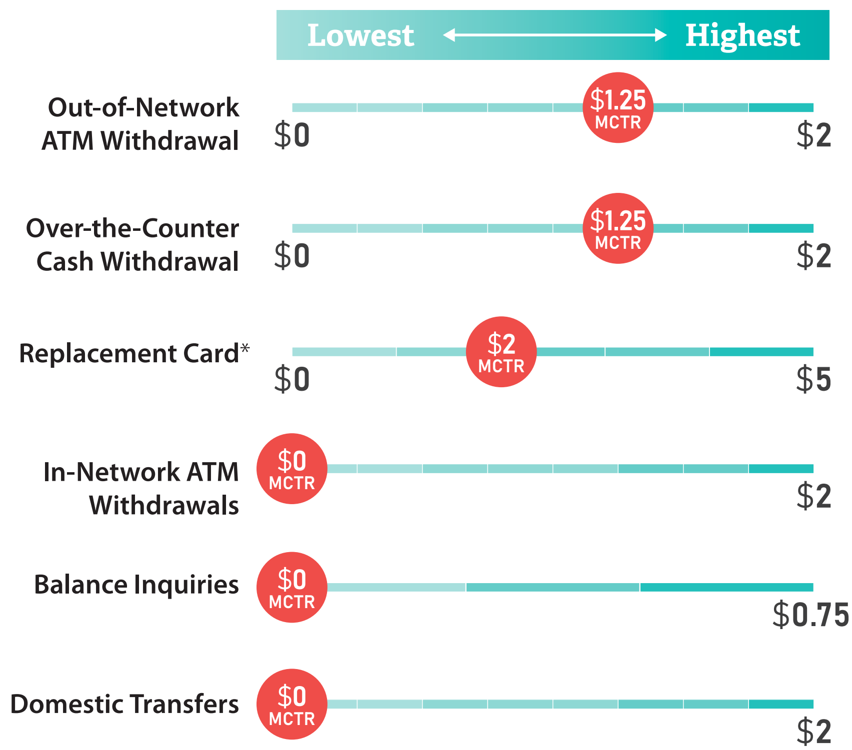
Other Cards and Programs That We Used to Assess the Reasonableness of MCTR Fees

- Citizens Bank of West Virginia MOCA Cash card
- Mississippi Unemployment Benefits
- Akimbo Now Mastercard
- U.S. Bank Reliacard, Pennsylvania State Workers' Insurance Fund
- U.S. Treasury Department Direct Express Mastercard

Source: Fee schedules and related documentation for each program.

In addition, of those MCTR recipients who received debit cards, a significantly higher percentage of recipients with low incomes paid fees than did recipients with higher incomes. Understanding precisely why this pattern occurred is difficult, given the many ways that recipients could choose to use their MCTR payments. However, we identified a few factors that may have contributed to lower-income recipients' being more likely to pay fees. First, lower-income recipients are more likely not to have bank accounts, limiting their options for free transfers of their MCTR payment. Additionally, transportation to fee-free ATMs may have been more difficult for lower-income individuals. According to the Legislative Analyst's Office, individuals who do not own a vehicle represent 7 percent of households in the State and tend to have lower incomes. Finally, the specific locations of fee-free ATMs were primarily available online, and information from the federal government and the Pew Research Center suggests that lower-income households have less access to the Internet. When considering future economic relief payments, the State should consider the likelihood that those in the greatest need of financial relief may be the people most affected by fees associated with debit cards.

Figure 4
Money Network MCTR Debit-Card Fees Are Generally Reasonable Compared to the Fees That Five Other Card Providers Charged



Source: Fee schedules for Money Network's MCTR program; Mississippi Unemployment Benefits card; Pennsylvania State Workers' Insurance Fund card; U.S. Treasury Department Direct Express Mastercard; Akimbo Now Mastercard; and Citizens Bank of West Virginia MOCA Cash card.

* Money Network waives the fee for a MCTR recipient's first two replacement cards.

The State Should Better Position Itself to Quickly Distribute Any Future Financial Relief Payments

To better prepare to distribute any future financial relief, the State should ...

... establish leveraged procurement agreements, such as master agreements, with multiple debit card vendors.

Each agreement should contain well-defined performance indicators, clear payment terms, and financial consequences for nonperformance.

... explore options to expand its paper check production capacity.

Increased check production capacity could allow the State to quickly issue payments.

... study the feasibility of directing payments to Californians' existing benefit cards.

Pre-planning by key departments could make existing benefit cards another way to quickly provide assistance to those in most need.

Source: Analysis of FTB's agreement with Money Network; *State Administrative Manual*; FTB documentation related to the Golden State Stimulus programs; federal and state electronic benefit programs; comparison of FTB's agreement with Money Network to EDD's and CHHS's agreements with debit card vendors; comparison of the MCTR program to other refund and debit card programs; interview with the State Controller's Office.

In addition to the MCTR program, the State has encountered other situations in which it needed to quickly distribute payments to Californians to provide them with financial relief. In 2021 FTB issued payments to qualifying taxpayers as a part of the Golden State Stimulus I and II programs, which aimed to support low and middle income Californians and help those facing hardship because of the COVID-19 pandemic. As we discussed earlier, we found that the substandard customer service and the unclear level of fraud in the MCTR program could be traced to weaknesses in FTB's agreement with Money Network. We also found that the expedited procurement process, which included only two days for the State to negotiate the agreement terms, likely contributed to these weaknesses. Moreover, the State needed an agreement with Money Network because it did not have the capacity necessary to issue financial relief as quickly as was desired. Therefore, the State should better position itself to issue future payments by planning now, rather than waiting until the need for distributing financial relief is imminent. Planning now would help ensure that the State's future approach avoids the weaknesses that we identified.

Given the different needs of recipients, the best approach to distributing financial relief payments would be to have a variety of distribution options available. As Table 3 shows, each of the distribution methods we reviewed offers certain advantages and disadvantages. We found that issuing payments through methods other than direct deposit may result in compromises to speed, cost, or security. According to the Internal Revenue Service, direct deposits are the fastest tax refund distribution method and are more economical than paper checks. Direct deposits are also more secure than paper checks or debit cards. However, other distribution methods could benefit recipients who do not have a bank account. If a tax refund recipient already has a government-issued debit card, it could be speedier and more cost-effective to deposit additional funds to that card. Given the advantages and disadvantages shown in Table 3, the State would be in a better position to distribute future financial relief payments if it diversified and expanded its capacity to issue payments rather than committing only to a single method of distributing payments.

Multiple opportunities exist for the State to expand its capacity. For example, the State would benefit from expanding its capacity to issue checks. According to the State Controller's Office (SCO), the volume of paper check payments it processed for the Golden State Stimulus programs—which included more than 6.8 million paper checks—depleted SCO paper reserves more quickly than they could be replenished. SCO also stated that, by the summer of 2022, pandemic-driven global supply chain problems resulted in depletion of operational supplies critical to SCO disbursement functions. SCO further explained that when FTB approached it regarding the production of MCTR payments, SCO determined that it could not produce the proposed volume of MCTR paper check payments because it did not have adequate supplies to issue these payments at the desired speed. Therefore, the State could benefit from having an expanded capacity to print a large volume of checks, such as by contracting with an external resource. When we looked at other states' financial relief programs, we found that New Mexico reported partnering with a financial institution to print and distribute checks in 2022 to issue economic relief payments to taxpayers. According to the New Mexico Taxation and Revenue Department, this partnership allowed New Mexico to expedite the distribution of payments by increasing its daily check printing capacity.

Another option the State could explore is issuing payments using the benefit cards that some recipients may already have for other programs. In May 2020, the federal government announced that it had provided COVID-19 pandemic-related financial relief using existing debit cards available for Social Security and veterans benefits. The State could potentially use CalFresh cards, CalWORKS cards, unemployment payment cards, or other benefit cards to distribute future financial relief payments. Because some of these programs provide assistance to Californians with lower incomes, augmenting the payments with financial relief payments would allow the State to expedite financial relief payments to those populations that may need it most. Moreover, the State could reduce its costs related to issuing debit cards by using existing cards when possible.

Table 3
Each Method of Distributing Financial Relief Has Benefits and Limitations

DISTRIBUTION METHOD	ADVANTAGES	DISADVANTAGES
Direct Deposits	• More cost-effective and secure than checks and prepaid cards. • No fees for recipient. • Does not require deliverable address. • Does not require external vendor.	• Not all taxpayers have bank accounts. • Not all taxpayers share banking information with the State. • Relies on key departments that already collect banking information as the sole distributors of relief payments.
Prepaid Debit Cards	• Accessible to those who do not have personal bank accounts. • Convenient for making purchases immediately.	• Less cost-effective than direct deposits and checks. • Less secure than direct deposits. • May involve fees for recipients. • Requires customer support. • Requires a valid address to deliver payment. • Requires external vendor.
Paper Checks	• More cost-effective than prepaid debit cards. • May not require external vendor, depending on volume.	• Less secure than direct deposits. • Limited by the State's printing capacity. • May involve fees for recipients. • Requires a valid address to deliver payment.
Existing Benefit Cards	• More cost-effective than new prepaid debit cards. • Allows quick distribution to low-income individuals. • Does not require deliverable address.	• May require research on feasibility. • Not an option for taxpayers who do not have existing benefit cards.

Source: Analysis of federal and state best practices for distributing tax refunds; comparison of MCTR program fees to debit card programs; Federal Deposit Insurance Corporation 2021 Household Survey results; review of FTB's agreement with Money Network; interviews with FTB; interview with SCO.

To prepare the State to use debit cards for financial relief payments in the future, General Services should work to establish leveraged procurement agreements, such as master agreements, with vendors. A leveraged procurement agreement combines state departments' requirements for the same or similar goods and services, thus providing standardization and leveraging the State's buying power. Master agreements are a type of leveraged procurement agreement that General Services competitively bids and makes available for use by any agency that expends public funds. Departments could then leverage these agreements by developing specific scope-of-work statements to fit their needs, describing the number of cards they need and the length of time they expect the vendor to provide customer support. Establishing such agreements with vendors would better prepare the State to quickly procure goods and services needed for issuing future debit-card payments since General Services would have already streamlined the procurement process. To ensure that any master agreements for debit cards meet the needs of the State, including those of any departments that might issue payments, General Services should work with a team of departments—including those that have issued payments through debit cards in the past—to develop the parameters for such agreements.

Establishing master agreements now would ensure that the State has ample time to obtain terms and conditions that meet the various needs of its departments and that protect the State's best interests. For example, any future agreements with debit-card vendors should clearly define what constitutes fraud and how to measure it; should specify additional protective terms related to customer service; and could provide for fee-free services like those that FTB originally sought to procure. These agreements should also include clear payment provisions that enable the State to hold vendors financially accountable for nonperformance and avoid the risk of making advance payments to those vendors.

When we discussed the prospect of establishing master agreements with debit-card vendors to help ensure that the State is prepared for future financial relief efforts involving debit cards, General Services agreed that doing so could be beneficial. In fact, according to the State's chief procurement officer, General Services has already begun discussing the possibility of undertaking a project in 2024 to do so, in part because it has received inquiries from local entities that have expressed interest in such agreements.

However, General Services also asserted its belief that it would be premature for us to recommend that these master agreements include specific terms and provisions, such as specific approaches to pricing structure. The State's chief procurement officer asserted that trying to institute such provisions without understanding industry capabilities could unnecessarily complicate the bidding process, delay the procurement, and increase the chances of bidders' choosing not to bid or submitting non-compliant bids. Nonetheless, given the limitations we identified in the payment provisions of FTB's agreement with Money Network, we believe that General Services should strive to ensure that any future master agreements with debit-card vendors include payment provisions that avoid the problems we identified. Moreover, as we discuss earlier, the EDD and CHHS contracts we reviewed contained provisions that enable the State to address vendor nonperformance short of terminating the agreement, which indicates that there are vendors willing to enter into agreements containing such terms.

Recommendations

Legislature

To better position the State to have multiple options for future financial relief payments, the Legislature should direct a selection of state entities to determine and report on the feasibility of using existing debit-card programs to provide relief funding and of expanding the State's check printing capacities. These entities should include, but not be limited to, the State Controller's Office, Employment Development Department, and the California Health and Human Services Agency, Office of Systems Integration.

General Services

To prepare the State for future financial relief efforts involving debit cards, after consulting with departments that wish to use or have previously used debit-card services, General Services should enter into master agreements with debit-card vendors. To the extent possible, the master agreements with debit-card vendors should include:

- Terms that clearly define key performance indicators for required services—such as customer service and fraud prevention—and how these indicators will be measured.
- Transparent payment provisions that allow the State to assess the reasonableness of the costs to be incurred, mitigate the risk of making advance payments, and provide a means to recover or withhold funding in the event of vendor nonperformance, short of terminating the agreement.
- Options for fee-free services, such that departments using the master agreements could decide whether to provide fee-free debit cards to their recipients.

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Other Areas We Reviewed

The Better for Families Act describes the criteria for a taxpayer to be eligible to receive a MCTR payment. During our audit, we found that FTB erroneously issued a relatively small number of payments to ineligible recipients. We also reviewed the steps FTB took to share Californians' personal information with Money Network, and we determined that those steps were generally adequate to protect that information.

FTB Issued a Relatively Small Number of Payments to Ineligible Taxpayers

In addition to specifying the income and filing requirements we previously describe, the Better for Families Act also specifies that taxpayers are eligible for a MCTR payment if they were not claimed as a dependent on another tax return in 2020. For example, a married couple filing jointly might have claimed their 17-year old daughter as a dependent on their 2020 tax return, even though the daughter might have had income that required her to file a separate tax return. Under these circumstances, the Better for Families Act requires that FTB issue a MCTR payment to the couple that includes the single supplemental payment for their dependent as we describe in Figure 1 on page 5. Under the Act, the daughter in this scenario is not eligible for a MCTR payment herself because she was claimed as a dependent on her parents' tax return.

However, FTB erroneously issued a relatively small number of payments to taxpayers who were claimed as dependents on others' tax returns. FTB explained that it expedited MCTR payments by approving payments to taxpayers who had been previously reviewed and approved for a Golden State Stimulus II payment. This approach is reasonable because the eligibility criteria for the Golden State Stimulus II payment included the same exclusion against receiving a payment if an individual were claimed as a dependent on another tax return. However, FTB explained that due to a misunderstanding by staff performing manual reviews of payments, it incorrectly assigned some individuals a status of "eligible" for the Golden State Stimulus II payment even though they had been claimed as a dependent. Specifically, FTB staff who manually reviewed these payments for possible fraud were unaware that some of these payments also required review for eligibility, so when these payments passed FTB's fraud review, they were not further reviewed for eligibility, resulting in FTB's approving payments to ineligible individuals. Although we did not audit the Golden State Stimulus II payments, we found that under that program, FTB issued more than $60 million in error to taxpayers who were not eligible—1 percent of the total of about $6 billion that FTB reported it distributed under that program. FTB carried forward these erroneous eligibility determinations into the MCTR program and, as a result, FTB issued about 108,000 MCTR payments to taxpayers who were not eligible for such payments. In total, those payments amounted to roughly $38 million—less than 1 percent of the $9 billion in MCTR payments that FTB issued.

In addition to the improper payments we identified, FTB shared with us near the conclusion of our audit that it had identified other questionable Golden State Stimulus II and MCTR payments totaling approximately $43 million. FTB also informed us that it had determined that it would not seek to recoup the erroneous payments we identified nor the additional questionable payments it had identified. According to FTB, its decision was based on the fact that the payments were made through no fault of the recipients and that pursuing the return of those payments would likely place an unexpected financial burden on recipients, many of whom were from lower income tax brackets or had incomes within the poverty range. FTB also highlighted that the lower incomes of those recipients created questions about how much of the payments would in fact be returned. Further, FTB explained that the state laws that created the Golden State Stimulus II and MCTR programs do not explicitly require FTB to recollect erroneous payments and that FTB's general authority to recover erroneous income tax refund payments would not apply in this instance, because the Golden State Stimulus II and MCTR payments were not income tax refund payments. We agree that the state laws that created the Golden State Stimulus II and MCTR programs do not explicitly require recovery of erroneous payments and that FTB's general authority to recover erroneous income tax refunds does not apply to either of these two programs because payments made under these programs were not income tax refunds. Finally, FTB shared its observation that these payments totaled less than 1 percent of the value of payments it distributed.

FTB Generally Took Appropriate Steps to Protect Californians' Privacy and Personal Information

State law authorizes FTB to disclose tax returns or tax return information, including identifying information, to any third-party vendor with which it has entered into an agreement for services related to the distribution of MCTR payments, provided that FTB determines that the information is necessary for the vendor to provide services. In effect, the law authorized FTB to disclose any information about individuals that was received, recorded, prepared, collected by or furnished to FTB regarding tax returns. To mail debit cards, Money Network needed recipients' names, mailing addresses, and MCTR payment amounts. FTB also provided Money Network with recipients' Social Security numbers so that Money Network could use them to authenticate recipients' identities when they activated their debit cards. We found that decision to be reasonable since FTB's agreement with Money Network stipulates that Money Network must use at least one of the confidential data points FTB provided when authenticating identities. The assistant director of FTB's Analysis Bureau indicated that FTB was guided by providing Money Network with the minimum information necessary for Money Network to issue a debit card to each eligible recipient.

FTB also required Money Network to comply with a number of security protocols to protect recipients' personal information. For example, FTB and Money Network used FTB's Secure File Transfer Protocol system to transmit files containing personal information. The agreement with Money Network required its staff to complete background checks if they might need access to the State's data. Additionally, FTB's agreement requires Money Network to protect and secure stored data from unauthorized physical access, make confidential information available to its employees only on a need-to-know basis, and report to FTB any unauthorized or suspected unauthorized access of confidential data. FTB received notice from Money Network of one incident involving unauthorized access to the State's data. We do not report the details of this incident because this information is confidential. Money Network reported to FTB that it took corrective action after the incident and, according to FTB, no personally identifying information was made available to the public as a result of this incident.

We identified one deficiency in the actions that FTB took to protect Californians' privacy. FTB's agreement with Money Network indicates that, prior to allowing any of Money Network's subcontractors to access the State's data, FTB will require from any such subcontractors the completion of a security questionnaire, and it will perform a risk analysis to meet the State's security requirements. FTB is aware that Money Network employs subcontractor staff to perform work pertinent to the MCTR program. However, when we initially asked FTB about these questionnaires, FTB was unaware of which subcontractor staff may have access to the State's data and had not obtained any required security questionnaires. After we asked about this issue, FTB began collecting the relevant information and questionnaires as applicable. Nonetheless, because FTB shared with Money Network the minimum personal information necessary to issue debit cards and also implemented other safeguards as part of its agreement with Money Network, we conclude that FTB generally took sufficient action to protect the personal information of Californians who were eligible for the MCTR program.

We conducted this performance audit in accordance with generally accepted government auditing standards and under the authority vested in the California State Auditor by Government Code sections 8543 et seq. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions, based on our audit objectives.

Respectfully submitted,

GRANT PARKS
California State Auditor

March 7, 2024

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Appendix A

MCTR PAYMENT INFORMATION BY MONTH

The Joint Legislative Audit Committee (Audit Committee) directed us to identify the amounts and distribution methods that FTB used each month when disbursing MCTR payments since the enactment of the Better for Families Act. Table A presents this information and the number of payments made using each distribution method.

Table A
MCTR Payments by Payment Type and Amount, Per Month

	DIRECT DEPOSIT		DEBIT CARD		PAPER CHECK	
	NUMBER OF PAYMENTS (IN THOUSANDS)	AMOUNT OF PAYMENTS (IN MILLIONS)	NUMBER OF PAYMENTS (IN THOUSANDS)	AMOUNT OF PAYMENTS (IN MILLIONS)	NUMBER OF PAYMENTS (IN THOUSANDS)	AMOUNT OF PAYMENTS (IN MILLIONS)
October 2022	4,911	$2,641	1,028	$542	0	$0
November 2022	1,740	1,042	4,022	2,127	0	0
December 2022	62	41	2,526	1,409	0	0
January 2023	456	265	1,686	909	13	7
February 2023	1	1	52	30	13	7
March 2023	3	2	90	51	2	1
April 2023	11	6	16	9	6	3
May 2023	1	<1	110	57	4	2
June 2023	2	1	13	7	7	4
July 2023	<1	<1	7	4	2	1
August 2023	<1	<1	2	1	<1	<1
September 2023	3	2	6	3	3	2
Totals	**7,191**	**$4,001**	**9,559**	**$5,150**	**49**	**$26**

Total Number of Payments (thousands) 16,799

Total Amount of Payments (millions) $9,177

Source: FTB payment data through September 2023.

Note: FTB and Money Network did not make any payments prior to October 2022. The table above does not include a small number of payments in October 2023. Totals may differ because of rounding.

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Appendix B

DEMOGRAPHIC INFORMATION FOR MCTR PAYMENT RECIPIENTS

The Audit Committee directed us to identify the demographics of MCTR recipients in general and of those recipients who reported possible fraud related to their MCTR payments. Because taxpayers do not report to FTB certain demographic information, such as gender, race, and ethnicity, we present tax-related demographics that FTB collects. These demographics include taxpayers' filing status, adjusted gross income, and dependent information. Table B1 presents this information for MCTR recipients. Table B2 presents similar tax-related demographics for MCTR recipients who reported a dispute to Money Network. Less than 1 percent of each demographic group's recipients reported disputes to Money Network.

Table B1
MCTR Recipients' Income Levels and Dependent Status

Married/Registered Domestic Partner Filing Jointly

CA ADJUSTED GROSS INCOME	DEPENDENTS	ELIGIBLE AMOUNT	TOTAL RECIPIENTS (THOUSANDS)	TOTAL PAYMENTS (MILLIONS)
$42,000 or less	No	$700	884	$619
$42,001 to $85,000		700	675	473
$85,001 to $150,000		700	638	446
$150,001 to $250,000		500	396	198
$250,001 to $500,000		400	220	88
$42,000 or less	Yes	1,050	632	664
$42,001 to $85,000		1,050	690	724
$85,001 to $150,000		1,050	699	734
$150,001 to $250,000		750	485	364
$250,001 to $500,000		600	308	185
Totals			5,627	$4,494

Head of Household or Surviving Spouse

CA ADJUSTED GROSS INCOME	DEPENDENTS	ELIGIBLE AMOUNT	TOTAL RECIPIENTS (THOUSANDS)	TOTAL PAYMENTS (MILLIONS)
$42,000 or less	No	$350	30	$11
$42,001 to $85,000		350	23	8
$85,001 to $150,000		350	10	4
$150,001 to $250,000		250	3	1
$250,001 to $500,000		200	1	0.2
$42,000 or less	Yes	700	1,300	910
$42,001 to $85,000		700	622	435
$85,001 to $150,000		700	207	145
$150,001 to $250,000		500	55	28
$250,001 to $500,000		400	20	8
Totals			2,272	$1,550

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Single or Married/Registered Domestic Partner Filing Separately

CA ADJUSTED GROSS INCOME	DEPENDENTS	ELIGIBLE AMOUNT	TOTAL RECIPIENTS (THOUSANDS)	TOTAL PAYMENTS (MILLIONS)
$21,000 or less	No	$350	3,530	$1,236
$21,001 to $42,000		350	1,966	688
$42,001 to $75,000		350	1,589	556
$75,001 to $125,000		250	867	217
$125,001 to $250,000		200	435	87
$21,000 or less	Yes	700	274	192
$21,001 to $42,000		700	134	94
$42,001 to $75,000		700	64	45
$75,001 to $125,000		500	29	14
$125,001 to $250,000		400	13	5
Totals			**8,901**	**$3,134**
Overall Totals			**16,800**	**$9,177**

Source: FTB data for payments through October 13, 2023.

Note: Totals may not match the sum of the details because of rounding.

Table B2

Income Levels and Dependent Status of MCTR Recipients Who Disputed Transactions

Married/Registered Domestic Partner Filing Jointly

CALIFORNIA ADJUSTED GROSS INCOME	DEPENDENTS	TOTAL DISPUTES REPORTED*
$42,000 or less	No	6,416
$42,001 to $85,000		3,583
$85,001 to $150,000		1,536
$150,001 to $250,000		672
$250,001 to $500,000		295
$42,000 or less	Yes	5,220
$42,001 to $85,000		3,948
$85,001 to $150,000		1,746
$150,001 to $250,000		859
$250,001 to $500,000		373
Total		**24,648**

Head of Household or Surviving Spouse

CALIFORNIA ADJUSTED GROSS INCOME	DEPENDENTS	TOTAL DISPUTES REPORTED*
$42,000 or less	No	134
$42,001 to $85,000		72
$85,001 to $150,000		12
$150,001 to $250,000		1
$250,001 to $500,000		2
$42,000 or less	Yes	8,907
$42,001 to $85,000		2,646
$85,001 to $150,000		381
$150,001 to $250,000		57
$250,001 to $500,000		15
Total		**12,227**

Single or Married/Registered Domestic Partner Filing Separately

CALIFORNIA ADJUSTED GROSS INCOME	DEPENDENTS	TOTAL DISPUTES REPORTED*
$21,000 or less	No	14,416
$21,001 to $42,000		6,135
$42,001 to $75,000		4,941
$75,001 to $125,000		844
$125,001 to $250,000		341
$21,000 or less	Yes	2,327
$21,001 to $42,000		751
$42,001 to $75,000		380
$75,001 to $125,000		48
$125,001 to $250,000		15
Total		**30,198**
Overall Total		**67,073**

Source: FTB and Money Network data as of August 2023.

* *Total Disputes Reported* is based on the actual number of disputes, including instances involving more than one dispute pertaining to a recipient's account.

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Appendix C

SCOPE AND METHODOLOGY

The Audit Committee directed the California State Auditor to conduct an audit of FTB regarding its role in administering the MCTR program. Specifically, the Audit Committee requested that we review FTB's process for distributing MCTR payments, the challenges FTB and Money Network faced when responding to taxpayers' inquiries about their MCTR payments, and their efforts to combat fraud in the MCTR program. Table C lists the objectives that the Audit Committee approved and the methods we used to address them. Unless otherwise stated in the table or elsewhere in the report, statements and conclusions about items selected for review should not be projected to the population.

Table C
Audit Objectives and the Methods Used to Address Them

	AUDIT OBJECTIVE	METHOD
1	Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed and evaluated state laws applicable to the MCTR payment and FTB's role in administering the MCTR program.
2	Assess FTB's process for distributing MCTR payments, taking the following actions:	
	a. Identify the amounts and distribution method used each month when FTB disbursed MCTR payments since the enactment of the Better for Families Act.	• Interviewed FTB staff to determine FTB's methods and procedures for disbursing MCTR payments. • Obtained FTB data to calculate the amount and number of payments FTB issued on a monthly basis, broken out by payment method.
	b. Determine whether MCTR payments were appropriately calculated and distributed and whether Californians received them in a timely and secure manner.	• Documented FTB's process for calculating payment amounts and assessed it for compliance with the Better for Families Act. • Using FTB data, calculated the expected MCTR payment amount for each eligible recipient, to determine whether the amounts FTB distributed were appropriate. • To further determine whether FTB appropriately distributed payments, reviewed a selection of 76 returns for which FTB did not distribute payments and a selection of 32 returns for which FTB attempted but failed to issue payments. Judgmentally selected these items according to the most recent processing status each had as of October 2023, ensuring that we had a variety of statuses that covered the significant majority of the reasons that FTB did not issue payments. • Compared the speed of MCTR payments to the speed of refund programs from other states. Using FTB's data, reviewed a selection of 17 recipients to whom FTB issued its final payment in or after June 2023 to determine what delayed these payments. Selected these payments randomly from all payments made during or after June 2023. • Interviewed FTB and Money Network staff to identify any barriers that delayed payment distribution and the reasons for delays. • Using the work performed under Objective 3, determined the relative security of the three distribution methods used for MCTR: direct deposit, debit card, and paper check.

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AUDIT OBJECTIVE	METHOD
c. Assess the plans and timeline for distributing the remaining MCTR payments, and the planned manner of payment.	• Reviewed and evaluated applicable laws, including the Better for Families Act and its July 2023 amendment. • Interviewed FTB staff regarding mailed MCTR cards that recipients have not activated. Documented FTB's plan for addressing these non-activated cards.
d. To the extent possible, identify the demographics of MCTR recipients and determine the demographics of those who reported possible fraud related to those payments.	Using FTB data, identified available demographic data—income, tax filing status, and claimed dependents—of MCTR recipients. Using Money Network dispute data and enrollment data, determined which MCTR recipients reported possible fraud on their debit-card accounts.
e. Identify any computer or technological issues that have inhibited or delayed FTB's efforts to deliver MCTR payments.	• Determined the key points at which technological issues may have slowed the process of delivering payments. • Interviewed FTB and Money Network staff to identify any technological issues they may have faced at the key points we identified. • Obtained and reviewed any system outage reports for the key data system that FTB used to provide payments. Determined whether system outages overlapped with the MCTR program period and if so, whether they caused significant delays in the provision of payments. Confirmed Money Network's perspective on whether technological issues delayed payments and compared the actual pace of debit-card payments against plans for payment distribution to note any significant delays.
f. Determine whether MCTR recipients were required to pay charges to access their payments and whether any such charges are appropriate and reasonable.	• Interviewed FTB staff and reviewed supporting documentation to determine whether direct deposit payments were subject to any fees payable by the recipient. • Documented whether the Better for Families Act or the agreement with Money Network prohibited fees. Documented the cardholder agreement and fee schedule for debit cards. Determined whether the fees charged by Money Network are allowable under the act and the terms of the agreement. • Reviewed procurement documentation to determine whether the State had fee-free options for debit cards. Interviewed FTB staff and reviewed available documentation to determine whether the State attempted to negotiate fee-free debit cards. • Compared the MCTR fee schedule with the fee schedules from five other programs that use debit cards not operated by Money Network. • Determined the total fees paid under the program by people in various income brackets. Identified whether people in any income bracket disproportionately paid fees. Assessed the effect of these fees on the intent and purpose of the MCTR program.
3 Identify any best practices on the methods for distributing future tax refunds. Evaluate the benefits and risks of different distribution methods including, but not limited to, the risk of fraud.	• Researched and documented general best practices for distributing tax refunds and financial relief payments. Identified best practices specific to potential distribution methods. Researched and documented additional benefits and risks of potential distribution methods, including the risk of fraud, cost of distribution, equity of distribution, and speed of delivery. • Researched the outcomes of a selection of tax refund or one-time benefit programs and determined why the relevant distribution method was selected, when possible.
4 Determine what challenges FTB or its vendor have faced when responding to individuals experiencing fraud and those seeking information about their MCTR payments. In addition, review any customer service survey efforts FTB has undertaken.	• Interviewed FTB and Money Network staff to determine the challenges they have faced when responding to individuals experiencing fraud and those seeking information about their payment. • Used weekly call center metrics Money Network reported to FTB and information it provided to us to assess the accessibility of Money Network's customer service phone lines from August 2022 through September 2023. Compared the number of calls handled by IVR to the number of calls referred to customer service agents. In addition, reviewed the percentage of live agent calls that were answered, abandoned, and deflected. • For Money Network's call center, used weekly call center metrics to examine any changes in average hold time and maximum delay time over the course of the program. In particular, determined whether FTB's work orders that directed Money Network to increase staffing led to decreased delays. • Interviewed FTB staff to determine whether FTB conducted any customer service surveys.

	AUDIT OBJECTIVE	METHOD
5	To the extent possible, determine the prevalence of fraud involving MCTR payments, including those issued by debit cards. Assess FTB's efforts to detect, reduce, and investigate potential fraud to determine whether those efforts have been sufficient and effective. Identify who bears the costs related to MCTR payment fraud.	• Identified best practices for detecting, reducing, and investigating possible fraud. • Documented FTB's and Money Network's processes for detecting, reducing, and investigating possible fraud related to MCTR. • Compared FTB's and Money Network's efforts to detect and reduce possible fraud with best practices to determine whether their efforts have been sufficient. • Analyzed data from Money Network to determine the prevalence of possible fraud through July 2023. • Using Money Network's dispute data, determined the number of accounts that had disputes. • Reviewed FTB's agreement with Money Network to determine which party bears the cost of fraud.
6	To the extent possible, determine how quickly FTB and its vendor have provided refunds to Californians who have experienced fraud related to MCTR payments.	Using Money Network's dispute data, determined which accounts had reported disputes. For those accounts, determined how long it took Money Network to provide refunds from the time recipients reported the dispute.
7	Assess FTB's vendor selection process as well as its oversight of the vendor's activities, including its issuance of debit cards and provision of customer service. In addition, perform the following review:	• Interviewed FTB and General Services procurement staff to understand the decision-making, processes, policies, and procedures related to the MCTR procurement. • Identified and reviewed a selection of criteria for a competitive procurement and best practices for negotiations, and compared them to the MCTR procurement process to determine the extent to which the MCTR procurement followed regular procurement rules and best practices. • Compared ITN scoresheets and process guidance to determine the degree to which FTB and General Services adhered to vendor selection criteria during the procurement. • Interviewed FTB staff responsible for Money Network oversight to better understand the decision-making, processes, policies, procedures, and documentation of FTB's oversight of Money Network. • Identified the key oversight activities for Money Network's fraud prevention, customer service, debit-card issuance, and reporting responsibilities under the agreement. • Assessed FTB's actions to oversee Money Network's performance by comparing the actions to the oversight authority FTB has in the agreement.
	a. Determine whether the agreement between FTB and its vendor that produced debit cards contains reasonable terms and protects the best interests of the State and the recipients of MCTR payments.	• Interviewed General Services and FTB staff responsible for agreement language, terms, and conditions to better understand the decision-making, processes, policies, procedures, and documentation of FTB's negotiations and subsequent agreement provisions. • Determined whether the agreement between FTB and Money Network contains the standard terms and conditions that General Services advises that state contracts contain. • Assessed the reasonableness of the terms of Money Network's agreement and how well the terms protect the interests of the State and taxpayers by comparing its terms to the terms in other vendor agreements for debit-card payments.
	b. Determine whether FTB adequately protected Californians' privacy and personal information when it shared data with its vendor.	• Identified privacy and personal information criteria in state law and its agreement with Money Network that FTB is required to adhere to. • Reviewed the data transfer protocols that FTB used when transmitting information to Money Network. • Identified and reviewed the MCTR recipients' personal information that FTB provided to Money Network to determine whether FTB had a valid business reason that necessitated sharing that information.
8	Review and assess any other issues that are significant to the audit.	No other significant issues identified.

Source: Audit workpapers.

Assessment of Data Reliability

The U.S. Government Accountability Office, whose standards we are statutorily obligated to follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. In performing this audit, we relied on various data sources. From FTB, we relied on the taxpayer information that it used to determine eligibility and payment amount, as well as the system data that FTB uses to track the progress of payments and the results of FTB's manual review of pending payments for the MCTR program. We relied on these data to identify the amounts disbursed and distribution method used each month, to determine whether MCTR payments were appropriately calculated and distributed, and to determine the demographics of those recipients who reported possible fraud. To assess these data, we interviewed FTB staff knowledgeable about the data, reviewed available information about the data, and performed testing of the data. We determined that the data on the MCTR program were sufficiently reliable for the purposes of our audit. We also relied on information from Money Network, such as transaction fees and cardholder disputes. We used these data to determine whether recipients paid fees to Money Network associated with their MCTR payments and to determine how quickly Money Network provided refunds to recipients who had experienced fraud related to their MCTR debit cards. To assess these data, we interviewed Money Network staff knowledgeable about the data and performed testing of the data. We concluded that the data were of undetermined reliability for the purposes of our audit. Although the data may contain errors that affect the precision of the numbers presented, we determined that these data were the best available source of information to address our objectives.

CalGovOps
CALIFORNIA GOVERNMENT OPERATIONS AGENCY

DATE: February 16, 2024

TO: Grant Parks*
California State Auditor

FROM: Secretary Amy Tong

SUBJECT: California State Auditor's Report No. 2023-105

Pursuant to the above audit report, enclosed are the Department of General Services' comments pertaining to the results of the audit.

The Government Operations Agency would like to thank the state auditor for its comprehensive review. The results provide us with the opportunity to better serve our clients and protect the public.

* California State Auditor's comments appear on page 61.

DGS GENERAL SERVICES

MEMORANDUM

Date: February 16, 2024

To: Amy Tong, Secretary
Government Operations Agency
1304 O Street, Suite 300
Sacramento, CA 95814

From: **Ana M. Lasso, Director**
Department of General Services

Subject: **RESPONSE TO CALIFORNIA STATE AUDITOR'S REPORT NO. 2023-105**

Thank you for the opportunity to respond to the California State Auditor's (state auditor) Report No. 2023-105, Middle Class Tax Refund Payments (MCTR), which addresses recommendations to the Department of General Services (DGS) resulting from its audit. The following response addresses each of the recommendations.

OVERVIEW OF THE REPORT

DGS has reviewed the findings, conclusions and recommendations presented in Report No. 2023-105, and generally agrees with the state auditor's recommendations with the following comments of clarification.

1

1) The state auditor identifies that DGS reduced the advertisement and response time frames for the MCTR contract. DGS reduced the length of time to advertise and complete the procurement due to the urgency cited by the Legislature and the Governor as a result of the COVID-19 pandemic and its impact on Californians economic stability. The speed of the procurement was done to reflect the urgency of the need and DGS did not eliminate any required steps in the procurement process, rather, those steps were merely accelerated to meet the urgent need.

   Further, DGS received responses from five interested bidders, which is a significant amount of competition for contract award, notwithstanding the condensed timeframe in which the procurement was conducted. DGS also notes that general state contracting laws and policies for awarding state department contracts requires a minimum of three bidders to establish competition, which was exceeded in this procurement.

2) The state auditor indicates that the acceleration of the bid due date may have impacted the quality of responses from the bidders and discouraged additional bidders from submitting proposals that would have strengthened the choices available for the state. DGS notes that the bidder's response was in compliance with the contractual requirements developed by the Franchise Tax Board, and as such, it is unclear how a compliant bid response to specific contractual requirements and submitted within the established deadline impacted quality. 2

3) The state auditor identifies the bundled payment provisions in the MCTR contract as contingent on making payment to the vendor for services rather than the vendor demonstrating it provided the services before payment is made. DGS notes that the MCTR contract included payment provisions requiring the vendor to be paid, in arrears, with detailed invoices providing a description of work completed, including but not limited to services rendered, transaction types and quantities. Additionally, the MCTR contract statement of work identifies a list of contract requirements the vendor must adhere to throughout the duration of the contract. 3

State statutes and policies require state departments to monitor the contract to ensure compliance with all contract provisions and ensure that services are performed according to the quality, quantity, objectives, timeframes, and manner specified in the contract. Departments are also required to review invoices to verify work performed and costs claimed in accordance with the contract as well as timely dispute or approve invoices for payment. The assertion that the bundling of the costs of the services within the contract did not allow Franchise Tax Board to appropriately monitor and enforce the contract provisions does not align with the contract language or state statutes and policies regarding appropriate contract administration. 3

Amy Tong -3- February 16, 2024

RECOMMENDATIONS

RECOMMENDATION # 1: ***To prepare the State for future financial relief efforts involving debit cards, after consulting with departments that wish to use or have previously used debit card services, General Services should enter into master agreements with debit card vendors. To the extent possible, the master agreements with debit card vendors should include:***

- ***Terms that clearly define key performance indicators for required services – such as customer service and fraud prevention – and how these indicators will be measured.***
- ***Transparent payment provisions that allow the State to assess the reasonableness of the costs to be incurred, mitigate the risk of making advance payments, and provide a means to recover or withhold funding in the event of vendor nonperformance, short of terminating the agreement.***
- ***Options for fee-free services, such that departments using the master agreements could decide whether to provide fee-free debit cards to their recipients.***

DGS RESPONSE # 1:

DGS generally agrees with the recommendations and is willing to incorporate the recommendations identified if feasible. DGS is firmly committed to providing solutions for the State's future financial relief efforts involving debit cards. This includes the development of a leveraged procurement agreement with debit card vendors that can deliver secure financial transactions to recipients in a safe and efficient manner. DGS will identify best practices on methods for distributing funds to recipients with adequate oversight and within industry standards by conducting market research and collaborating with subject matter experts within state departments.

CONCLUSION

DGS is firmly committed to the continuous improvement of the State's future for financial relief efforts involving debit cards. This includes the development of a leveraged agreement with debit card vendors.

As part of its continuing efforts to improve those processes, DGS will evaluate the Auditor's comments and take appropriate actions where necessary to address issues presented in the report.

If you need further information or assistance on this issue, please contact me at (916) 376-5012.

Ana M. Lasso
Director

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Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE DEPARTMENT OF GENERAL SERVICES

To provide clarity and perspective, we are commenting on the response to our audit report from General Services. The numbers below correspond with the numbers we have placed in the margin of General Services' response.

Our report acknowledges this perspective from General Services. As we describe on page 29, the acceleration of certain procurement steps limited the time that potential bidders had to adjust their responses, which may have impacted the quality of their responses. For example, as we describe on page 29, General Services issued addenda to the solicitation changing the solicitation's evaluation criteria on the day before the bid due date. Further, by accelerating the procurement, the State may have discouraged additional bidders from submitting proposals that could have strengthened the choices available to the State. Accordingly, we conclude on page 27 that General Services and FTB may have limited the competitiveness of the MCTR procurement and narrowed the options that FTB had to choose from when it selected its vendor. 1

General Services' response to our conclusion is unclear. The response appears to suggest that Money Network's compliant, on-time bid is evidence that we are incorrect in our conclusion that the speed of the MCTR procurement may have limited competition. The quality of a pool of bids can be assessed across more dimensions than simply whether the pool contains a single bid that complies with the solicitation requirements and is submitted on time. In fact, as we describe on page 27, FTB ranked the bids the State received across several evaluation criteria—indicating that when it evaluated bids for the MCTR agreement, the State was concerned about additional factors beyond whether a bidder submitted a compliant response on time. Therefore, we stand by our conclusion that the accelerated speed of the MCTR procurement may have limited competition. 2

Our report consistently states that the MCTR agreement's bundled price structure hindered, limited, or otherwise made it difficult for FTB to hold Money Network accountable for its performance. Despite General Services' statements to the contrary, we stand by our conclusions. As we state on page 25, bundling services together under a single price eliminates transparency and limits a department's knowledge of the costs for each service individually. Consequently, FTB relied solely on Money Network's determination of costs to know how much to pay for debit cards that Money Network produced but never mailed—a situation we describe on page 25. Any attempt by FTB to pay only a portion of the $1.35 per-card rate in response to poor performance would have encountered a fundamental flaw in the agreement: there are no itemized costs on which to base a partial payment. Moreover, as we note on page 67, FTB indicated in its response to the audit that the agreement could have been enhanced by including additional transparency on costs for designated functions and additional controls to allow FTB to manage the terms of the agreement and hold Money Network accountable if it did not perform according to the agreement's requirements. 3

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CalGovOps
CALIFORNIA GOVERNMENT OPERATIONS AGENCY

DATE: 02/16/2024

TO: Grant Parks, California State Auditor*

FROM: Amy Tong, Secretary

SUBJECT: Middle Class Tax Refund (MCTR) Audit (2023-105)

Pursuant to the above audit report, enclosed are the Franchise Tax Board's comments pertaining to the results of the audit.

The Government Operations Agency would like to thank the California State Auditor for its comprehensive review. The results provide us with the opportunity to better serve our clients and protect the public.

Enclosures

* California State Auditor's comments begin on page 69.

STATE OF CALIFORNIA
EXECUTIVE OFFICE MS A390
FRANCHISE TAX BOARD
PO BOX 115
RANCHO CORDOVA CA 95741-0115

02.16.2024

Grant Parks, California State Auditor
CALIFORNIA STATE AUDITOR
621 CAPITOL MALL, SUITE 1200
SACRAMENTO, CA 95814

Re: **Response to California State Auditor's Middle Class Tax Refund (MCTR) Draft Report: 2023-105**

Thank you for the opportunity to respond to the California State Auditor's Report No. 2023-105. FTB appreciates the opportunity to engage with the Auditor's staff to share information about this very important program which mandated that FTB get relief payments in the hands of Californians as quickly as possible, as expected by the Administration and the Legislature. Despite the very tight timelines under which FTB was asked to provide relief to Californians, FTB was able to distribute over 16.8 million payments totaling $9.6 billion in just a few short months. (1)

FTB acknowledges we have read the report and understand the information presented. The following provides overall comments on several topics evaluated throughout the report.

OVERVIEW OF THE DRAFT REPORT

The draft report provides an overview of the program administration and provides insight into efforts the State could engage in now or in the future to ease administration of a future stimulus type program. Implementation and administration of a program this size is always a daunting task. While the MCTR program was the third stimulus program FTB conducted in a two-year period, this was the first program where FTB used debit cards for payments and outsourced customer service functions. The universe of recipients also far exceeded prior programs. Despite these challenges, FTB successfully accomplished this program within the timeframe set by stakeholders that required payments be released beginning in early October 2022 and completed during or very near to the end of December 2022.

Throughout the audit report, information is shared on program implementation successes and struggles. Additional time to implement and administer the program would have eased a great many of these struggles, but to assist Californians in need, FTB and our program partners worked closely and tirelessly together to accomplish the program goals and to protect the State, FTB, our program partners, and taxpayers.

FTB acknowledges that we have read the report and understand information presented. FTB continues to have concerns about certain statements within the report, which we ② have expressed to the auditor as the report contains statements that do not accurately describe or reflect the circumstances experienced during program administration. The following provides overall comments on the auditor report.

Customer Service:

FTB would note that the following comment included in the report does not accurately ② describe or reflect the circumstances experienced during program administration or consider all facts presented to the auditor.

- Page 22: "However, these work orders are problematic because, in effect, FTB ③④ agreed to pay Money Network additional funds for services that were already assigned a cost in the original agreement."

Customer service is a function that can dramatically shift quickly depending on customer needs. FTB provided customer service support for the prior two stimulus programs with substantial and negative impacts to FTB operations. To avoid further operational impacts, and in support of the MCTR program, FTB sought a vendor to provide customer service for both cardholders and those receiving a direct deposit payment. Customer service functions showed signs of strain as discussed in the report. Both FTB and Money Network took steps to attempt to adjust for the strain. As call volumes continued to escalate and extensively exceed the volume of calls estimated and discussed during contract negotiations, it quickly became apparent that customer service levels were underestimated and undervalued under the terms of the contract and accordingly, Money Network had insufficient staffing levels to address the call volumes occurring. Actual call volumes exceeded the estimated call volumes by 250%. FTB took multiple steps to ease these strains including, but not limited to, requiring Money Network to extend their contact center hours into the evening and asking Money Network to add additional staff to the lines to address the higher than projected call volumes. FTB would note that while the contract does provide for contact center hours to be extended during the weekends and holidays upon request, FTB does not believe this contract provision intended to overturn the primary services hours of 8:00 AM to 5:00 PM Monday through Friday on a regular and consistent basis. FTB requested hours to be extended and additional staff to be added for four months.

With such a dramatic increase in actual call volumes, and a significant departure from primary hours, neither of which were anticipated during program planning and contract negotiation, contract dollars should not be presumed to cover such substantial fact pattern changes.

Contract Management:

2 FTB would note that the following comments included in the report do not accurately describe or reflect the circumstances experienced during program administration or consider all facts presented to the auditor.

- 5 Page 34 – "In other words, FTB paid Money Network before Money Network had provided all of the services included in the program management costs of $1.35 per card."
- 6 Page 36- "FTB's chief financial officer stated that FTB chose to pay Money Network for these unissued cards in part because the agreement does not contain terms that clearly prohibit this payment."
- 6 Page 36 "In the absence of clear cost information, FTB processed payment using Money Network's determination that the costs of an unissued card was $0.84 per card."
- 7 Page 36 "when we discussed our conclusions about the $1.35 per card cost with FTB, it shared its belief that this cost did not include certain services, such as customer service, and that Money Network provided those services at no cost to the State."
- 8 Page 37 "FTB's filing division chief explained that FTB did not include a liquidated damages provision related to customer service in the agreement because it believe the provisions of the agreement sufficiently protected FTB's interest in the case of a breach of the agreement."

With program implementation on the fast track, and this being FTB's first experience with debit cards and outsourcing call center functions, FTB did work closely with DGS to draft procurement documents including terms and conditions, create evaluation strategies and tools, conduct procurement activities, and ultimately to determine the final vendor selected to accommodate the State's request for debit card and call center services. FTB appreciates DGS's assistance throughout inception to award as well as providing necessary approvals for the final contract.

To date, over the life of the contract FTB has diligently considered all facts related to program administrations, gaps, needs, changes to our understanding of key facts related to the contract, as well as conducted our own research, to inform all decisions we made to administer this contract and release payments.

The contract spans the entire duration of the MCTR program as noted in statute (July of 2022 – May 2026.) Because of the very nature of the program itself, the vast majority of efforts under the terms of this contract, were always expected to be accomplished in the first 6 – 8 months of the contract due to the one-time nature of payment distributions and an immediate need for customer service and fraud management as well as general program management costs such as IT support to support this one-time issuance of funds. While some level of services will exist over the remainder of the contract, the vast majority of services have been performed to date and were likely accomplished primarily in the first 6 to 8 months of the contract. FTB is unaware of a contract condition that would have allowed us to delay payment for services rendered.

As FTB discussed with the auditor, during program administration, FTB has become aware of provisions of the contract that are unclear or include only partially correct descriptors (gaps), several of which are mentioned in the audit report. Additionally, FTB (7)
became aware in summer of 2023, of a second stream of revenue generated when the debit cards are used that also cover costs associated with this program that is not discussed in the contract.

While helpful to understand this additional information during program administration, (9)
FTB does not believe these gaps or other concerns raised by the auditor have presented risks to the State nor is it clear risks will present in the future.

To date, payments approved by FTB, after deploying fully independent analysis for accuracy and completeness, compensate Money Network under the terms of the contract.

FTB does agree that the contract terms could have been enhanced to allow for additional transparency on costs per a designated function, such as customer service, and to allow for additional controls that could have allowed FTB to manage the terms of the contract in the event concerns presented that required a need to hold Money Network accountable for a function they were not meeting. During contract strategy meetings and negotiations, FTB was not made aware of the existence of the other state contracts mentioned in the report for other state agencies that had outsourced customer service functions or used card services to issue monthly program payments. We appreciate the auditor's documentation of our concern that great care should be taken on future contracts to ensure industry dynamics are understood and accommodated to ensure the state does not pay increased costs for services already covered and that the bidder pool is optimized.

Fees:

FTB would note that the following comment included in the report does not accurately (2)
describe or reflect the circumstances experienced during program administration or consider all facts presented to the auditor:

- Page 43: "FTB's chief financial officer indicated that FTB changed the proposed (10)
agreement language to allow Money Network to charge these fees because there was not enough time to understand the issue."

FTB strongly supported contract terms that would ensure fees were not charged by Money Network for activating the cards issued or provide for any transaction fees. This requirement was in all documents supporting procurement efforts and is included in the final contract today without change. Money Network did bring up other fee types during negotiation that are charged by third parties that they believed were appropriately paid by cardholders and are not considered 'activation or transaction fees' which are

prohibited by the contract. During contract negotiations, FTB did amend the contract language to clarify that any fees ultimately agreed upon to assess must be disclosed on
(10) Money Network's MCTR website. As FTB separately worked with Money Network, and the California Bankers Association, to verify understandings as to these fees, it became understood that these fees under discussion are assessed against all debit and credit cardholders by financial institutions for the described transactions. If a customer with Golden 1 chooses to use Bank of America's ATM to withdraw cash, they will be charged a fee because they did not use an in-network ATM. If an individual needs to send money to a foreign country, they will be charged various fees, such as for currency conversions, to accommodate the transaction. At the conclusion of discussions, fees that FTB concurred could be paid by cardholders were fully described and posted on Money Network's MCTR website.

CONCLUSION

In closing, we would again note our appreciation for the efforts of the state auditor, and the opportunity to partner with you to complete this review. Upon further review or discussion of this report by stakeholders, FTB is happy to provide further insight or respond to questions raised based on content within this draft report.

Sincerely,

Selvi

Selvi Stanislaus
Executive Officer

cc: Amy Tong

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Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE FRANCHISE TAX BOARD

To provide clarity and perspective, we are commenting on the response to our audit report from FTB. The numbers below correspond with the numbers we have placed in the margin of FTB's response.

FTB incorrectly states that it distributed payments totaling $9.6 billion. As we state in Table A on page 45, FTB distributed $9,177 million ($9.2 billion when rounded) in payments from October 2022 through September 2023. In fact, FTB's website as of late February 2024 indicates that FTB distributed $9.2 billion in payments. 1

We disagree with FTB's contention that this report does not accurately describe or reflect the circumstances experienced during program administration or consider all the facts presented to us. We conducted this audit in accordance with generally accepted government auditing standards. In following those standards, we obtained sufficient and appropriate audit evidence to support our findings and conclusions. As is our standard practice, we engaged in extensive research and analysis for this audit to ensure that we could present a thorough and accurate representation of the facts. As we describe throughout the additional clarification points we added to the margins of FTB's response, our report provides an accurate depiction of the circumstances surrounding our findings, conclusions, and recommendations. 2

During the publication process for the audit report, page numbers shifted. Therefore, the page numbers cited by FTB in its response may not correspond to the page numbers in the final published audit report. 3

FTB indicates that it disagrees with our conclusions regarding the January 2023 work orders related to customer service. We state on page 16 that FTB agreed to pay Money Network additional funds for services that were already assigned a cost in the original agreement. Although FTB claims that customer service levels were underestimated in the agreement, we found no evidence of call volume estimates in the procurement documents we reviewed or the agreement itself. In fact, no portion of the agreement between FTB and Money Network indicates how much of the $1.35 per-card rate is attributable to customer service. Instead, as we describe on page 14, the agreement clearly indicates that Money Network is required to provide sufficient staff at the contact center to answer at least 90 percent of the contacts offered. In addition, FTB misrepresents the provision of the agreement that allows the State to extend the contact center hours. That agreement provision is not limited to extending these hours into holidays and weekends. For all of these reasons, we stand by our conclusion that FTB agreed to provide additional funds for services already covered by the original agreement. 4

Our conclusion that FTB paid Money Network before it had provided all of the services included in the $1.35 per-card cost is fully supported in our report. Beginning on page 24, we present a detailed discussion of the payment terms in the agreement with Money Network and the payments that FTB made. FTB paid 5

Money Network before the receipt of services described in the contract as part of the program management fee of $1.35 per-card. As we describe on page 24, as of October 2023, FTB had paid Money Network $14.1 million related to this program management fee. Although the majority of debit-card production and distribution occurred quite early in the agreement period, Money Network must still provide program management services—primarily customer service and fraud-prevention services—through July 2026 when the agreement term ends. Notably, there existed more than one million debit cards that recipients have still not activated as of January 2024, an issue we describe on page 11. These cards represent a significant volume of recipients who may need additional services from Money Network in the future.

6 We have accurately portrayed the statement by Jeanne Harriman, FTB's chief financial officer. Because of a lack of clarity in the agreement's payment terms, we asked FTB why it chose to pay Money Network for undistributed cards at the time it did and how it determined the amount paid, $0.84 per-card, was appropriate. The documents FTB provided to us did not clearly answer either of these two questions. Therefore, we asked the chief financial officer for answers. The chief financial officer provided a rationale that included several elements that we describe in our report, such as the fact that services were bundled under a single per-card rate. Additionally, she shared that FTB believed payment was appropriate because the agreement does not contain terms that clearly prohibit the payment. The chief financial officer also indicated in her response that FTB processed payment using Money Network's determination that the costs of an unissued card was $0.84 per card. Other statements made by the chief financial officer in response to our question were either not compelling or not relevant to our finding that the agreement's non-transparent pricing structure disadvantaged FTB when it received Money Network's invoice for undistributed cards.

7 When we shared our conclusions with FTB, it stressed that it believed an important element was missing from our analysis. Namely, FTB believed that the presence of what it termed a "second revenue stream" was critical to properly understanding how it administered its agreement with Money Network. According to FTB, this second revenue stream consists of fees that merchants pay to Money Network when cardholders use their debit cards to make purchases from merchants. FTB believed that because of the second revenue stream, the bundled rate that it paid to Money Network did not include payment for certain services, such as customer service. For the reasons we describe on page 25, we do not agree with FTB's perspective. Nonetheless, to provide balance we included a summary of the statements that FTB provided to us about this issue in our report. Although FTB takes exception with our presentation, we have accurately summarized the statements that FTB provided to us during our audit and included all relevant elements of its description of this issue.

8 FTB asserts that our report does not accurately describe or reflect the circumstances surrounding statements made by Roger Lackey, FTB's filing division chief. We provide on page 26 the context relating to the filing division chief's explanation. Specifically, FTB's agreement lacks explicit provisions for liquidated damages or similar provisions that FTB could use in cases where Money Network does not perform according to the agreement terms. We found that similar provisions were

included in the EDD and CHHS agreements. Because the procurement documents we reviewed did not explain why FTB did not include liquidated damages or similar provisions, we asked FTB. The statement we include in our report is the filing division chief's explanation of why FTB did not include such provisions in its agreement with Money Network. Page 26 also includes additional comments he made in the same response to us. Therefore, we have accurately portrayed FTB's perspective in our report and did not exclude additional relevant information.

FTB cites its belief that the shortcomings of its agreement with Money Network did not result in risks to the State. We disagree. As we state on page 24, FTB made payments before important ongoing services—such as fraud prevention and customer service—had been substantially provided by Money Network, because the agreement bundled these services. Further, as we describe on page 25, the agreement does not create clear recourse, short of termination, for FTB to use in the event that Money Network does not perform according to the agreement terms. Consequently, when Money Network did not provide the agreed-upon level of customer service, FTB still paid Money Network the full $1.35 per-card rate. Therefore, there was risk to the State created by the unclear payment terms in the agreement. 9

FTB believes that our report does not accurately describe the situation surrounding the chief financial officer's statement that there was not enough time to understand the fees Money Network wanted to charge. As we describe on page 29, FTB's negotiations with Money Network lasted only two days and that this time constraint left FTB only a short window of time to ensure that the State obtained optimal agreement terms. We also note that the original statement of work prohibited fees for card activation or transactions, but that Money Network informed FTB during contract negotiations that it wanted to collect fees for certain types of transactions. Because the procurement file did not provide a rationale for this change, we asked FTB's chief financial officer for her perspective. Accordingly, we provide her perspective in the paragraph that starts on page 29 and continues on to page 30. Specifically, the chief financial officer indicated to us that FTB changed the proposed agreement language to allow Money Network to charge these fees because there was not enough time to fully understand the issue. Further, FTB's response contains confusing references to these fees as fees associated with "transactions" while maintaining that transaction fees are prohibited by the agreement. Finally, FTB presents misleading information about how such fees are unavoidable. As we show in Figure 4 on page 34, other debit card programs we reviewed did not always charge certain types of fees. For example, Money Network charged an out-of-network ATM withdrawal fee of $1.25, an action for which we found another debit-card program that did not charge any fee. Therefore, FTB's assertion of these fees as normal and unavoidable is incorrect. 10