

Department of Finance

2015 SLAA REPORT

December 21, 2015

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Finance submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact David Botelho, Program Budget Manager, at (916) 445-1546 ext. 3701, David.Botelho@dof.ca.gov.

BACKGROUND

The Department of Finance's (Finance) mission is to serve as the Governor's chief fiscal policy advisor and promote long-term economic sustainability and responsible resource allocation. The Director of Finance (Director) is appointed by the Governor and serves as a member of the Governor's cabinet and senior staff. In addition, the Director sits on numerous boards and commissions that make significant fiscal policy decisions. Government Code section 13070 assigns Finance general authority over all financial and business policies of the state.

Through its strategic plan, Finance fulfills its mission by focusing on commitment in the areas of leadership, workforce, and accountability. Finance's history of performance is driven by a set of core values that guide the actions of its employees. Management leads by example, conducting day-to-day operations with the highest professionalism. Roles and responsibilities are well defined. Strong lines of authority, control, collaboration, and communication are fostered and maintained throughout Finance.

Finance's principal areas of responsibility are described as follows:

- **Budget and Policy Units** are responsible for a wide range of fiscal responsibilities, including the preparation, enactment, and administration of the Governor's Budget. Staff work with top management of state government and legislative staff regarding fiscal and programmatic policies of the Administration. Budget and policy staff also provide fiscal and programmatic analyses of legislative bills and make recommendations to the Governor and the Legislature.
- **Accounting Policies and System Support** includes the Fiscal Systems and Consulting Unit, responsible for setting statewide fiscal and accounting policies and procedures. The unit provides fiscal consulting and training services to departments to help ensure the state's assets are protected and accurate, and timely financial information is maintained. Also, Finance develops, maintains, and provides support for the California State Accounting and Reporting System (CalSTARS) which has served as the primary statewide accounting system for over 30 years.
- **Audits and Program Evaluations** consists of the Office of State Audits and Evaluations (OSAE) and Local Government Audits. These units support Finance in supervising the state's financial and business policies and conserving the state's rights, interests, and resources through independent financial audits and objective evaluations of state programs and policies, and other related services. OSAE monitors and coordinates statewide SLAA compliance.
- **Demographic, Economic, and Financial Research** units are responsible for monitoring and forecasting the state's population, economic, and tax revenue trends to support all fiscal and policy decisions. The Demographic Research unit is designated as the single official source of demographic data for state planning and budgeting. The Economic Research unit develops and maintains California economic data, prepares economic forecasts, and provides advice on economic

policy issues. The Financial Research unit builds and maintains revenue forecasting models, provides revenue forecasts to assist the Executive Branch in preparing the state budget, and analyzes regulations and developments affecting tax laws.

- **Information Technology** consists of two units with various responsibilities. Information Services designs, develops, implements, and supports the numerous information technology systems and applications of Finance's technical infrastructure. Information Technology Consulting Unit performs fiscal analyses of proposed statewide information technology (IT) policies, enterprise initiatives, oversight of critical IT projects, and IT-related consulting services for budget analysts.
- **Financial Information System for California (FI\$Cal)** integrates budgeting, accounting, procurement, and cash management areas statewide. To optimize the financial business management of the state, Finance, along with the Controller, the Treasurer and the Department of General Services, collaboratively develop, implement, utilize, and maintain the FI\$Cal system.

RISK ASSESSMENT PROCESS

In accordance with SLAA requirements and at the request of Finance's Chief Operating Officer (COO), Finance's COO and Program Budget Managers (senior management) met to identify and discuss significant department-wide risks that could adversely impact achievement of Finance's objectives and mission. Risk statements were prepared, evaluated, and revised, as needed. A survey was distributed to senior management to prioritize the risks. The risk prioritization was based on the risk's perceived severity and the possibility of occurrence. For each risk, senior management identified controls and sub-controls.

A collaborative effort between executive management and senior management resulted in the selection of risks and controls to test. The results of the control testing were communicated to all senior management for their review and feedback. A consensus was reached that the significant department-wide risks and corresponding controls were properly identified and articulated. A sub-group then met with the Director to review and discuss the department-wide risks and related controls.

OSAE facilitated senior management's risk assessment process and evaluation of controls. OSAE used a combination of department-wide surveys, senior management and staff interviews, and document review to assist senior management in evaluating the controls.

EVALUATION OF RISKS AND CONTROLS

Operations- External- FI\$Cal Conversion

FI\$Cal must be successfully implemented for all departments to achieve long-term efficiency and benefits for the state.

Maintain support for FI\$Cal implementation in both the Administration and the Legislature.

Continue to prioritize staff workload to assist Finance staff in learning the new system and to support FI\$Cal implementation at the departments, such as providing training and instructions.

Continue to work with the FI\$Cal project to design, test, and implement improvements and functionalities that are scheduled for future waves.

Operations- Internal- Staff—Key Person Dependence, Succession Planning

Finance relies on specific individuals with significant knowledge and expertise in key areas which makes the department vulnerable if they leave, retire, or are temporarily absent.

Develop and maintain documentation that captures key, relevant, and/or historical information and specialized unit processes.

- Determine where information and documentation is maintained using established file

structure.

- Identify and inventory information and documentation available.
- Identify information and documentation gaps.
- Develop and/or revise information and documentation to close gaps.

Continue to develop and implement a comprehensive workforce development plan to prepare staff to fill key positions.

- Identify gaps in the workforce development plan and develop solutions to address the gaps.
- Continue to provide Leadership Development Training for multiple levels of staff.
- Continually assess employee demographic information and career plans to anticipate staff attrition.
- Discuss topics quarterly at managers' meetings.

Promote knowledge integration across assignment areas, where practical and appropriate, to foster continuity and avoid knowledge gaps.

Operations- Internal- Workplace Environment

Workload performed by mid and upper-level management causes management burnout and hinders staff development.

Adhere to Finance's policy to delegate work to the most appropriate level of staff to foster ownership and responsibility for assignment areas.

Communicate job expectations and departmental policy to mid and upper-level management.

Provide ongoing coaching and leadership strategies for mid and upper-level management.

ONGOING MONITORING

Through our ongoing monitoring processes, the Department of Finance reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Department of Finance is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Department of Finance, Michael Cohen, Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Eraina Ortega, Chief Deputy Director, Policy, as our designated agency monitor(s).

Frequency of Monitoring Activities

Finance is integrating formal ongoing monitoring activities into existing practices used to manage its resources and operations, such as conducting separate evaluations and regularly meeting with key managers and staff. The frequency of monitoring activities will be evaluated on a case by case basis, determined by factors such as risk priority, critical budget and project deadlines, timelines, urgency, staff experience, subject matter difficulty, and uniqueness.

Reporting and Documenting Monitoring Activities

Finance plans to communicate monitoring activities to key members of management through verbal and written communication. Individual units at Finance will maintain monitoring documentation to meet business needs. Recipients of monitoring reports are at all levels of management with the emphasis placed on monitoring and control oversight at the lowest management level possible. The frequency and type of reporting will depend on the nature of operations, priorities, and the organization's needs.

Procedure for Addressing Identified Internal Control Deficiencies

Finance is developing a formal model for communicating, evaluating, and implementing control changes, and integrating this model into its existing structure. This model allows for intervention at the lowest organizational tier and fosters a strong sense of commitment to the organization and ownership of control processes. Finance staff and all levels of management report concerns to the appropriate organizational level. Based on identified deficiencies, solutions may involve short and long-term strategies.

CONCLUSION

The Department of Finance strives to reduce the risks inherent in our work through ongoing monitoring. The Department of Finance accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Michael Cohen, Director

cc: Department of Finance
Legislature
State Auditor
State Library
State Controller
Secretary of Government Operations