

December 19, 2013

DEPARTMENT NAME: Department of Finance
ORGANIZATION CODE: 8860

INTRODUCTION:

In accordance with the Financial Integrity and State Manager's Accountability (FISMA) Act of 1983, the Department of Finance (Finance) submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2013.

Should you have any questions please contact Todd Jerue, Chief Operating Officer, at (916) 445-4923, Todd.Jerue@dof.ca.gov.

BACKGROUND:

Finance's mission is to serve as the Governor's chief fiscal policy advisor, promote responsible resource allocation through the state's annual financial plan, and ensure the financial integrity of the state. The Director of Finance is responsible for carrying out the Department's mission with emphasis on maintaining a fiscally sound and responsible Administration. The Director is appointed by the Governor and is a member of the Governor's cabinet and senior staff. In addition, the Director sits on numerous boards and commissions which directly impact a broad array of state activities.

Finance's principal functions are to:

- Establish appropriate fiscal policies to carry out the state's programs.
- Prepare, explain, and administer the state's annual financial plan. The Governor is required to present his Budget by January 10 of each year in accordance with the State Constitution.
- Analyze legislation which has a fiscal impact.
- Maintain the California State Accounting and Reporting System (CALSTARS), the automated accounting system used by most state departments.
- Participate, as one of four partner agencies, in the design, development, implementation, utilization, and maintenance of the integrated Financial Information System for California (FI\$Cal) project. Once operational, FI\$Cal will update and integrate the budgeting, accounting, and cash management systems for Finance and provide centralized information from one system.
- Monitor/audit expenditures by state departments to ensure compliance with law, approved standards, and policies.
- Develop economic forecasts and revenue estimates.
- Develop population and enrollment estimates and projections.
- Review expenditures for information technology activities of state departments.

The base of Finance's history of performance is 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 eight major units and numerous sub-units within Finance.

VACANT POSITIONS:

We have reviewed our records for fiscal years 2011-12 and 2012-13 and determined Finance is in compliance with California Government Code section 12439.

RISK ASSESSMENT:

Finance's Chief Operating Officer and Program Budget Managers (senior management) met twice to identify and discuss significant department-wide risks that could adversely impact achievement of the Department's objectives and mission. During the initial two meetings, risk statements were prepared, revised, and ranked. The risk ranking was based on both the risk's perceived severity and possibility of occurrence. Corresponding controls were identified for all risks, regardless of ranking. Many identified controls are already in place. In some instances, management is implementing mitigating controls and evaluating their effectiveness and success. All controls, if working as intended, would provide reasonable assurance that risks would be mitigated. In other cases, the risks facing Finance are outside its control, and therefore, management has made an informed decision to accept the likelihood of those risks and to manage the consequences to the best of its ability.

Following the initial two meetings, a sub-group comprised of three senior managers was formed and tasked with editorial review of the risks and controls. The sub-group then selected the controls for testing. The results of the sub-group effort were distributed to all senior management for review and comment. A consensus was reached that the significant department-wide risks and corresponding controls were identified and articulated appropriately. The sub-group met with the Director of Finance to review and discuss the department-wide risks and related controls.

The Department's Office of State Audits and Evaluations (OSAE) assisted senior management with the risk assessment process. In performing the risk assessment and related control testing, OSAE staff used a combination of surveys, interviews, document review, facilitation techniques, and Option Finder voting technology to assist management.

EVALUATION OF RISKS AND CONTROLS:

While a number of risks were identified, this report focuses on six of the highest risks and a sample of mitigating controls. The risks identified are integral to Finance's principal roles outlined above:

- Employee turnover could diminish Finance's ability to develop and maintain the knowledge and expertise necessary to achieve its mission and goals.
- The heavy workload performed by management could cause burn out and hinder staff development. This could result in less experienced staff not being afforded the opportunity to gain necessary experience.
- Dependence on information from other departments could result in inaccurate forecasts and budget plans, hindering Finance from fulfilling its objectives.
- Finance's technical and complex forecasting process depends on many variables which require interpretation and evaluation making the process challenging and subject to error.

- CALSTARS operation is vulnerable because of its planned decommissioning and replacement by FI\$Cal. CALSTARS decommissioning encompasses several phases over multiple years as the FI\$Cal project becomes operational in phases. Ongoing support for CALSTARS is critical to ensure the state has access to accurate accounting information during, and until, full FI\$Cal implementation.
- The FI\$Cal project must be successfully implemented, otherwise Finance will continue relying on legacy systems and workarounds. Use of the legacy systems and custom reports to produce budget information requires an intensive reconciliation of the different information.

Finance management identified mitigating controls addressing the above risks. Significant mitigating controls include the following:

- *Avoiding management burn out, staff readiness, and morale are priorities*—To protect against the possible inability to carry out critical activities due to staff turnover and management burn out, Finance provides an extensive classroom training program; involves staff in key processes; cross trains employees within units; includes staff in important meetings, drills, and analysis; delegates work to the most appropriate level; and maintains stringent hiring practices to ensure the most qualified candidates are hired. In addition, Finance rotates staff assignments when opportunities arise, management mentors staff and considers career goals in assignment staffing, and permits telework days and flexible, alternative schedules where appropriate to promote work/life balance.
- *Strong working relationships with other departments*—Finance promotes continuous and constructive communication with departments, developing key relationships, enhancing and fostering cooperation to achieve mutual goals.
- *Ongoing research and consultation with other key forecasters*—Finance researchers use the most current available data, widely respected forecasting models, and maintain ongoing, regular contact with other economists and forecasting organizations.
- *Finance sponsors FI\$Cal implementation and supports ongoing CALSTARS operations*—FI\$Cal implementation and the ongoing CALSTARS operations are an organizational priority for Finance. Efforts to support and implement the old and new systems include recruiting knowledgeable staff, cross training, shifting workload to accommodate critical test dates, and regular communication with implementation partners and affected organizations.

The controls identified above are indicative of management's efforts to address, reduce, and mitigate risks and ensure Finance can meet its mission effectively.

CONCLUSION:

Finance management constantly strives to reduce the risks inherent in the department's work through vigilant monitoring. Although the department does not have control over all risks it faces, Finance accepts the challenge to constantly improve conditions by addressing newly recognized risks or by revising risk mitigation strategies. Based on the information contained in this report, I certify that our systems of internal control and monitoring processes, including ongoing risk management, are adequate to identify and address current and potential threats facing the Department.

Original signed by:

MICHAEL COHEN
Director

cc: Governor
Legislature
State Auditor
State Library
State Controller
State Treasurer
Attorney General