

December 30, 2021

Keely Martin Bosler, Director  
California Department of Finance  
915 L Street  
Sacramento, CA 95814

Dear Director Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Finance submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact Jennifer Whitaker, Program Budget Manager, at (916) 445-3274, [Jennifer.Whitaker@dof.ca.gov](mailto:Jennifer.Whitaker@dof.ca.gov).

## **GOVERNANCE**

### **Mission and Strategic Plan**

The Department of Finance's 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 provides Finance general authority over all financial and business policies to conserve the rights and interest of the state.

Through its strategic plan, Finance fulfills its mission by focusing on commitment in the areas of leadership, workforce, and accountability. Finance works collaboratively with the Legislature, other state departments, and external stakeholders to meet the priorities of the Governor and the State of California. Finance's history of performance is driven by a set of core values and defined roles and responsibilities to 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 policy 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.
- **Demographic, Economic, and Financial Research** 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 and enrollment and population projections 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.

- **Federal Funds Accountability and Cost Tracking** is a new unit established in July 2021 devoted to support the coordination of federal stimulus tracking, federal reporting and transparency, and accountability for federal COVID-19 funds, including the \$27 billion in State Fiscal Recovery Funds from the American Rescue Plan Act. The unit is responsible for certain federal disaster cost recovery activities in coordination with the California Office of Emergency Services and will closely coordinate with Finance budget units.
- **Audits and Program Evaluations** are performed by the Office of State Audits and Evaluations (OSAE). OSAE supports 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. Also, OSAE monitors and coordinates statewide State Leadership Accountability Act compliance, issues Audit Memos to provide instruction to departments and internal audit organizations, promotes bond accountability through ongoing oversight activities, and coordinates and carries out the state's responsibility related to the federal Single Audit Act. OSAE will also aid the new Federal Funds Accountability and Cost Tracking unit with monitoring of the federal funds and programs.
- **Information Technology** consists of two units with various responsibilities. Information Services designs, develops, implements, and supports the numerous information technology system and applications of Finance's technical infrastructure. Information Technology Consulting Unit (ITCU) serves as Finance's primary liaison to the California Department of Technology. ITCU conducts fiscal analyses of proposed statewide information technology (IT) policies and enterprise initiatives, performs oversight of critical IT projects, and provides IT-related consulting services for budget analysts.
- **Accounting Policies and System Support** is provided by the Fiscal Systems and Consulting Unit (FSCU) who sets statewide fiscal and accounting policies and procedures. The unit provides fiscal and accounting training, advice, and consulting services to departments to ensure that the state's assets are protected, and that accurate and timely financial information is maintained. FSCU provides guidance on statewide fund reconciliation, administers the federal Cash Management Improvement Act and statewide cost allocation plans. The unit participates in the development of statewide financial systems and represents the state on a variety of accounting and federal issues.

## Control Environment

Finance management values, demonstrates, and communicates the importance of upholding a high standard of integrity and ethics. To demonstrate the importance of upholding standards for integrity and ethical behavior the department has established the following core values: problem solving, teamwork,

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respect, integrity, and expertise. These core values help focus the nature of employee actions while striving to achieve the department's mission. Finance communicates core values and standards of conduct through several mechanisms such as: thoughtful recruiting and hiring; thorough on-boarding; regular staff training; written communication about important notices and updates to policies; access to administrative and operational guidance documents; and regular team meetings where important values, guidance, and decisions are announced and discussed. Management communicates and emphasizes the importance of meeting legal and regulatory requirements and respectful, timely communication with colleagues, the state leadership, other department representatives, and stakeholders. Management's tone helps ensure challenges and opportunities are recognized and communicated, attention is given to developing and implementing responses to challenges and opportunities, and regular monitoring of control systems occurs.

The Director, Chief Deputy Directors (Budget and Policy) Chief Counsel, Chief Operating Officer, Legislative Director, and Deputy Director of External Affairs are the department's executive management and oversight body. The eight Program Budget Managers, report directly to the Chief Operating Officer, are the senior operating management team. Executive and operational management represent key positions within the department and these individuals possess the knowledge and expertise to oversee and evaluate departmental operations. These key members of management possess capabilities and characteristics including integrity, ethical standards, leadership, critical thinking, and problem solving abilities, an internal control mindset, and programmatic and operational expertise. The key members of management provide oversight of the design and implementation of the department's control environment, the risk assessment process, control activities, the information and communication systems, and monitoring of key systems.

Finance management has organized the department into discrete units and sub-units to facilitate meeting its mission, goals, and objectives. As part of this organizational structure, management considers how units communicate and interact. Key positions are assigned as unit leaders and they have responsibility for fulfilling the unit's duties. As such, key members of management further delegate duties to subordinates and evaluate the effectiveness of delegated authority to ensure proper segregation of incompatible duties. Documentation of internal control systems is developed and maintained at both the organization-wide and unit level depending on the need. Internal control documentation is communicated to employees via several channels such as the Administrative Policy Manual, unit specific policy and procedure manuals, and the Finance intranet. Further, internal control documentation communicates duties and facilitates monitoring. The department routinely assesses the need to update documentation as changing conditions and business needs evolve.

Management establishes competency expectations for department employees through through Duty Statements and Expectation Memos. Duty Statements include the employee's role in maintaining the department's systems of internal control. The department recruits, hires, on-boards, and provides ongoing training to all employees to help meet competency expectations. Management considers incentives and motivation in assessing employee performance and providing feedback. The department provides routine training for all critical operations to develop the necessary competence level, knowledge, skills, and abilities. The goal of this training is to assist in the smooth transition to key positions as employees advance through the organization. Cross training is emphasized and encouraged for staff development and to allow for sudden departures of key positions.

Management understands the importance and impact of employee recognition and uses several

methods to recognize and celebrate employee successes including department-wide teambuilding activities and events, and emails to the executive management team recognizing employee contributions. Some units have additional methods they use to recognize staff such team lunches, social hours, and more formal recognition programs. Management values the critical work performed by its employees and makes an effort to timely recognize these efforts.

Finance staff receive regular job performance feedback and formal annual evaluations. In addition, the department takes seriously the enforcement of accountability through disciplinary actions for employee behavior, which may compromise the department's control systems. Disciplinary actions are designed to instruct and guide employees on the proper course of action while protecting the employee's rights. Further, employees receive mandatory training about behaviors for which the department has adopted a zero-tolerance policy. In addition, management routinely evaluates working conditions and strives to eliminate excessive pressures resulting from the cyclical nature of the workload.

### **Information and Communication**

Management oversees the use of information critical to department operations. Management ensures needed information is developed internally as required. Further, management requests and works with others to obtain information from outside the organization. A high level of attention is given to the timeliness and accuracy of information deemed necessary to meet internal and external operational objectives. Management does this by requiring units to report the necessary information through the department's chain of command. The accuracy and adequacy of the information is routinely evaluated by all staff. Attention is given to the completeness, timeliness, and relevance of data.

Management communicates information through established channels about policies, programs, and operations. The communication channels follow the chain of command to ensure employees throughout the organization receive information. In addition to the chain of command communication, the department uses a variety of methods to communicate important and relevant information. Examples of such methods include regular management and team meetings, all staff meetings, email blasts, newsletters, the Finance intranet, and Microsoft Teams (both video conferencing or chats). Further, the department communicates via email and through bulletin board postings regarding the state's Whistleblower Hotline for reporting ethical issues. Additionally, staff are instructed to go around the traditional chain of command reporting structure if the communication line is compromised.

The department is aware of the importance of relationships with members of the Administration, Legislature, local governments, and other stakeholders. Staff, within their appropriate lines of authority, devotes significant effort pursuing appropriate communication with these parties. Two-way information is evaluated and used to meet operational objectives and to manage and monitor challenges, opportunities, and the related internal controls.

### **MONITORING**

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Department of Finance monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:  
Richard Gillihan, Chief Operating Officer.

Finance is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to Finance's systems of controls and monitoring.

The adoption of a formal communication strategy regarding the monitoring of controls with the executive monitoring sponsor is in progress. However, the executive monitoring sponsor continues to take steps to successfully monitor the department's controls and risks. Such steps include a mandatory Risk Intelligence Training for all staff to emphasize not only the State Leadership Accountability Act (Act), but also to communicate that all employees have a role in the success of the effectiveness of the department's controls. The executive monitoring sponsor requested the Act requirements be added to the main page of the department intranet for quick access for employees and established a confidential email inbox for employees to submit concerns or improvements directly to him. The email inbox is monitored frequently and suggestions or concerns are promptly addressed.

Biannually, the executive management team attend an off-site meeting to review the department's risks, processes, and controls. The off-site meetings provide an opportunity for the executive management team to suggest changes to department processes and controls to mitigate potential risks. The executive monitoring sponsor captures all the suggested changes and monitors to ensure they are implemented.

The department's controls are also monitored by outside audits or reviews. More specifically, the State Personnel Board conducts a triennial audit of the Human Resources practices and the Department of Military reviews the Information Technology controls. Further, the department is audited by the California State Auditor for high risk areas such as Other Post Employment Benefits and the new COVID federal funds. Any deficiencies in controls found during these audits or reviews are monitored by the executive monitoring sponsor until the corrective action plans are fully implemented.

## **RISK ASSESSMENT PROCESS**

The following personnel were involved in the Department of Finance risk assessment process: executive management, middle management, and front line management.

The following methods were used to identify risks: brainstorming meetings, and ongoing monitoring activities.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

The Chief Operating Officer and all eight Program Budget Managers met numerous times to identify and discuss significant department-wide risks that could adversely impact the achievement of Finance's objectives and mission. Risk statements were prepared, documented, and evaluated, with input from affected unit managers. The risk ranking was based on the risk's perceived severity, the possibility of occurrence, and the speed of onset for the risk event to manifest itself. After determining the risks and rankings, the corresponding controls and subcontrols were discussed and determined.

## RISKS AND CONTROLS

### Risk: Workforce Development and Retention

Finance's culture and workload is defined by the heavy volume, constitutional deadlines, and complex work. These factors lead to burn out, inadequate work life balance, insufficient job shadowing or training, lack of succession planning, and reduced readiness for promotion, which contribute to staff development and retention challenges. Frequent turnover results in a loss of institutional knowledge and history and the increased likelihood of errors.

#### Control: A - Retention

- A. Evaluate the organizational structure of the entire department to better align resources with workload, adopt realistic internal due dates, and reduce processes or work that does not provide value.
- B. Adopt a hybrid telework policy to allow for better work/life balance.
- C. Continue to offer social, volunteer, and wellness activities and virtual training opportunities.
- D. Develop a department-wide coaching and mentoring program.

#### Control: B - Recruitment

- A. Continue to employ graduate students, executive fellows, student assistants, and retired annuitants to help recruit future employees and to fill vacancies.
- B. Continue to host the DOFCON Policy Conference department-wide recruitment event, and explore the use of other channels to attract/recruit potential candidates.
- C. Explore the use of dedicated recruiting resources within the department.

### Risk: Statewide Budget and Fiscal Integrity

The integrity and quality of the data/information used in accounting, forecasting, and budget development processes may be inaccurate or incomplete resulting in the release of a multi-year budget that relies on and is based on: 1) information provided by departments, 2) forecasting data based on numerous uncertain variables, 3) unpredictable budget revenues, and 4) an significant volume of fiscal and policy issues.

#### Control: A - Communication

Maintain ongoing and constant communication with department budget units to obtain the most timely and accurate budget and accounting data and encourage Finance budget staff to develop good working relationships with department budget analysts.

#### Control: B - Guidance and Training

Continue to provide departments detailed budget memos, realistic budget deadlines, and provide statewide budget training.

**Control: C - External Stakeholders**

Coordinate within Finance and leverage outside experts—for example, through the Finance Fall Economic Forecast Conference—to enhance economic, revenue, and expenditure estimates and forecasts.

**Control: D - Partner with FI\$CAL**

Continue to partner through the Executive Working Group and Steering Committee to monitor FI\$CALs success in meeting the final milestones and ensuring statewide accounting information is produced timely and accurately.

**Control: E - Best Practices Group**

Utilize Finance's Best Practices Group to regularly assess internal review processes and policies to ensure consistency with Administration goals and direction.

**Risk: Communication**

Timely communication of critical information may not always reach the intended parties (both internal and external) due to the volume and speed of information and the number of cross-cutting unit issues. This could result in ineffective and incomplete information being used for statewide decision making, duplication of efforts, and workload being handled by management instead of at the staff level where program expertise exists. Communication challenges are further complicated by inflexible timelines and the variety of communication channels.

**Control: A - Executive Staff Notes**

Continue to provide periodic notes to the Executive Management Team on pertinent issues or concerns with a copy to the respective Program Budget Manager(s).

**Control: B - Communication of Information via Weekly Meetings**

Continue to timely communicate and convey information up and down the organization by conducting various levels of meetings to the appropriate individuals (e.g., 1:1's with managers/supervisors, weekly executive staff meetings, weekly PBM meetings, bi-annual off-sites, monthly APMT meetings, etc.).

**Control: C - Hybrid Telework Policy**

Commit to a hybrid telework policy on or around April 2022 that promotes informal in person communication.

**Control: D - Technology**

Continue to utilize technology tools (e.g., Zoom and Microsoft Teams) to enhance timely communication throughout the department.

**Control: E - External Communication**

Identify and communication with the appropriate point people on policy issues within the Administration and confirming decisions.

**Risk: Cyber and Information Security**

Finance works with a high volume of confidential data. Keeping this data secure is complicated/exacerbated by the telework environment, where the work and information is electronic and decentralized. The risk of inadvertently sharing confidential data (either verbal or via email) is elevated in an exclusively electronic environment. Frequent electronic communication increases Finance's risk for cybersecurity threats, such as phishing and ransomware attacks.

**Control: A - Passwords**

Frequent required password changes.

**Control: B - Data Retention Policy**

Review and update retention policies for paper and electronic files. Continue to utilize the auto delete function in Microsoft Teams chat and remind staff to delete emails and text messages on a regular basis.

**Control: C - Department Tools**

Continue to remind staff to use of department-issued tools rather than personal devices.

**Risk: COVID Recovery and Relief Federal Funds**

With the significant influx of federal funds flowing to or through the state, there are risks related to timely and accurate reporting, use of funds, and possible fraud. The amount of funds received could also affect the timely submission of the annual Single Audit. Improper oversight and spending of these funds could lead to the state returning the funds to the federal government.

**Control: A - New Unit and Resources**

Establish a new unit within Finance to track and report the relief funds, which also relieves some pressure from the other budget units by centralizing the tasks into one unit.

**Control: B - Internal Monitoring and Support**

Utilize Finance's Office of State Audits and Evaluations to assist with risk-based monitoring of the relief funds at the department and recipient levels, including outreach activities, determining risk levels, assessing internal controls, conducting readiness reviews and proactive monitoring, and performing compliance and performance audits or reviews. In addition, utilize Finance's Fiscal Systems and Consulting Unit to assist departments in establishing proper systems of accounting for federal funds.

**Control: C - Training and Guidance**

Provide ongoing training and American Rescue Plan Act State Fiscal Recovery Fund guidance to departments and recipients.

**Control: D - Tracking Tools**

Work with Finance's Information Services team to create or modify systems to centrally track the relief funds to aid in the compilation of expenditure and performance metric data from departments and recipients for a single statewide submission to the U.S. Treasury.

**CONCLUSION**

The Department of Finance strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**Keely Martin Bosler, Director**

CC: California Legislature [Senate (2), Assembly (1)]  
California State Auditor  
California State Library  
California State Controller  
Director of California Department of Finance  
Secretary of California Government Operations Agency