

OFFICE OF THE STATE CONTROLLER

STATE LEADERSHIP ACCOUNTABILITY ACT BIENNIAL REPORT

DECEMBER 2015



BETTY T. YEE
CALIFORNIA STATE CONTROLLER

State Controller

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 State Controller 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 Tom Yowell, Chief Administrative Officer, at (916) 327-8299, tyowell@sco.ca.gov.

BACKGROUND

The State Controller is the elected Chief Fiscal Officer of California, one of the largest economies in the world. The Controller ensures the State's budget is spent properly, helps administer two of the nation's largest public pension funds, and serves on State boards and commissions that are charged with duties ranging from protecting our coastline to helping build hospitals.

The State Controller's Office (SCO) is comprised of the following six divisions:

Division of Accounting and Reporting

- Maintains uniform and systematic control accounts of all receipts, payments, balances in State funds, and bonded indebtedness to assure compliance with all Constitutional and Statutory provisions
- Reports the financial condition of the State on a monthly and annual basis and apportions shared revenues to local governments
- Administers Local Mandated Costs and their reimbursement programs and monitors the cash flow of the General Fund
- Administers collection of the Estate, Inheritance and Gift Taxes, delinquent gasoline tax, truck tax, and insurance tax
- Refunds gas tax on motor fuel not used on highways

Administration and Disbursements Division

- Provides budgeting, accounting, personnel, equal opportunity, training, procurement, and space planning and development support services
- Pays the State's bills and liabilities with warrants and electronic fund transfers

Audits Division

- Audits all claims against the State
- Assures accuracy of local government financial statements
- Audits State and Federal programs
- Audits the use of highway users' tax funds and the allocation and apportionment of local property taxes
- Assists and advises local government officials in tax collecting procedures

Information Systems Division

- Provides a full range of services including application development, desktop support, project management oversight, and technical support to SCO Divisions to address their existing and emerging information technology needs

Personnel/Payroll Services Division

- Administers the Uniform State Payroll System
- Audits and processes all personnel and payroll transactions for State civil service and exempt employees and the California State University and College System
- Provides information required to manage the personnel resources of the State
- Properly accounts for salary and wage expenditures
- Provides data to the retirement systems necessary for calculation of employee retirement benefits

Unclaimed Property Division

- Administers and enforces the California Unclaimed Property Law
- Reunites lost and abandoned property with its rightful owners and safeguards these properties from being used by private interests for personal gain

RISK ASSESSMENT PROCESS

Per SLAA guidelines Government Code #13401 (b) (3), all SCO Division Chiefs, managers and supervisors are responsible for identifying, communicating and monitoring risks in their areas of responsibilities. These risks are compiled by Management Audit and Review Services (MARS) for review and analysis by the SCO senior management team.

MARS will additionally distribute self-assessment internal control questionnaires to all Division Chiefs, managers and supervisors to complete on their program areas of responsibility. Corrective action plans will be developed to address risks identified during this on-going process.

EVALUATION OF RISKS AND CONTROLS

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

Objective #1. Maintain an effective, efficient, knowledgeable, and productive workforce. Risks: (A) Workforce is aging and nearing retirement; (B) Current pay scales may not be competitive with public sector wages; (C) Training plans may be inadequate; and (D) operational policies and procedures may require updating.

CONTROL (A): Backfill vacant positions quickly, increase training and cross-training opportunities, utilize shadow positions, and use retired annuitants, where appropriate, and review and update succession plans.

CONTROL (B): Consult with CalHR to ensure current classifications are appropriate for jobs.

CONTROL (C): Review training plans and update accordingly.

CONTROL (D): Ensure policies and procedures are updated for all operational processes.

Operations- External- FI\$Cal Conversion

Objective #2: As an agency partner with the Department of General Services (DGS), Department of Finance (DOF), and State Treasurer's Office (STO), SCO is responsible to successfully deploy the FI\$Cal accounting, budgeting, and procurement system and processes for all State agencies. Risks: (A) Final FI\$Cal deliverable may not adequately satisfy business needs; (B) SCO's limited SME staff may not be available to complete end-to-end system design and testing due to competing home vs. project workload. (SCO's home work is deadline-driven making staff unavailable at certain times.); (C) SCO may not be able to operate FI\$Cal and legacy systems concurrently; (D) Unexpected and/or unresolvable FI\$Cal system deployment errors may occur; and (E) funding not approved.

CONTROL (A): SCO will participate with partners and the vendor to review designs, participate in FI\$Cal testing and implementation of the system to ensure SCO's business needs are met; and, develop a contingency plan and procedures to fall back to legacy if unable to operate using FI\$Cal.

CONTROL (B): SCO will identify staff availability based on operational workloads and work with the project to coordinate testing dates.

CONTROL (C): SCO to work with partners to manage system issues that occur after deployment, and develop a contingency plan and procedures to fall back to legacy if unable to operate using FI\$Cal.

CONTROL (D): SCO will coordinate with partner agencies to develop a proactive deployment strategy that includes comprehensive contingency plans in the event of FI\$Cal outages.

CONTROL (E): Get funding approved by DOF and the Legislature.

Compliance- External- Personnel and Payroll Processing

Objective #3: Working with stakeholders, implement a new personnel and payroll processing solution for State departments that includes SCO's control functions.

PROJECT SUSPENDED

Controls to be determined when project resumes.

Operations- Internal- Resource Management

Objective #4: As the State's fiscal watchdog, SCO's primary responsibility is to safeguard the State's financial resources. Risks: (A) Decentralized accounting and claim processing throughout State government increases the opportunity for waste, fraud and abuse; (B) The SCO's volume of claim payments creates a challenge to audit or review all claims paid; and (C) SCO auditors sometimes lack the authority or appropriate funding to audit areas where red flags indicate audits are needed.

CONTROL (A): SCO should increase the number of desk reviews, and pre and post audits to

increase likelihood that problem claims/departments will be discovered.

CONTROL (B): Since the sheer volume of claims makes it impractical to examine each one, SCO should encourage electronic processing of claim payments with review of all supporting claim documentation.

CONTROL (C): Request resources to add auditors and the authority to place them where the SCO deems appropriate and State funds are at risk.

ONGOING MONITORING

Through our ongoing monitoring processes, the State Controller reviews, evaluates, and improves our systems of internal controls and monitoring processes. The State Controller 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 State Controller, Betty T. Yee, State Controller, is responsible for the overall establishment and maintenance of the internal control system. We have identified Tom Yowell, Chief Administrative Officer, George Lolas, Chief Operating Officer, as our designated agency monitor(s).

Frequency of Monitoring Activities

The SLAA monitoring process at each Division will be the dual responsibility of Division Chiefs and their designated contacts. SLAA testing methods will utilize SLAA documentation criteria received from Divisions, such as policies, procedures, and work flows. Evaluation will be on-going and any preliminary inefficiencies will be brought to the attention of Division contacts for response and corrective action. Corrective action plans will also be monitored on an on-going basis.

Reporting and Documenting Monitoring Activities

SLAA updates will occur every quarter, and reported to SCO Division Chiefs, SLAA division contacts, and SCO executive management every 6 months. SLAA Division contacts will also participate during the testing of monitoring processes.

Procedure for Addressing Identified Internal Control Deficiencies

Deficiencies, if observed during on-going monitoring, will be brought to the attention of SLAA Division contacts for their response and corrective action plans. The status of any corrective action plans will be formally reported to SCO Division Chiefs, SLAA division contacts, and SCO executive management every six months as required by SLAA.

CONCLUSION

The State Controller strives to reduce the risks inherent in our work through ongoing monitoring. The State Controller 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.

Betty T. Yee, State Controller

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