December 28, 2017

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

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Food and Agriculture submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Kevin Masuhara, Deputy Secretary for Admin. and Finance, at (916) 654-0433, Kevin.masuhara@cdfa.ca.gov.

BACKGROUND

The California Department of Food and Agriculture (CDFA) was established in 1919 by the legislature to protect and promote agriculture. California held the status of the most productive agricultural state in the nation for over fifty years. The mission of CDFA is “To serve the citizens of California by promoting and protecting a safe, healthy food supply, and enhancing local and global agricultural trade, through efficient management, innovation, and sound science, with a commitment to environmental stewardship.” The core values the department adheres to in conducting our business are:

**Integrity:** We are truthful and trustworthy, and we operate in a fair and ethical manner.

**Transparency:** We conduct all of our operations in an open manner.

**Accountability:** We are responsible to ourselves and others for our actions and decisions.

**Thoughtful Communication:** We listen and share information openly and honestly with the goal of mutual understanding.

**Respect:** We treat everyone with courtesy, dignity, and consideration.

**Creativity:** We believe in fostering a creative environment.

**Balance:** We strive to maintain effective partnerships so that our decisions are fair to all our stakeholders.

**Diversity:** We are committed to maintaining a diverse workforce.

To effectively achieve this mission, the department operates a myriad of programs administered by several divisions and offices located throughout the state. This organizational structure allows the department to operate in a manner that optimizes the various funding sources and unique human resource skill sets necessary to effectively deliver the program activities.

**Executive Office** - The Executive Office provides leadership to the department and includes the Office of the Secretary, Legislative Office, Office of Public Affairs, Office of Information Technology Services, Legal Office, Audit Office, and the County Liaison Office.
Plant Health and Pest Prevention Services - The division is legislatively mandated to protect California from the damage caused by the introduction or spread of harmful plant pests. The division is organized into the following branches: Pest Detection and Emergency Projects, Pest Exclusion, Integrated Pest Control, and the Plant Pest Diagnostic Laboratory.

Animal Health and Food Safety Services Division - The division protects the public and animal health through prevention, detection, and eradication of livestock and poultry diseases. Additionally, the division supports antimicrobial use, monitoring and stewardship best practices in livestock and poultry in order to prolong the effectiveness of medically important antibiotics for use in humans and animals. The division also protects cattle owners against loss of animals by theft, straying or misappropriation through ongoing inspections and investigations. The division is organized into the following branches: Animal Health, Milk and Dairy Food Safety, Livestock Identification, and the Meat, Poultry and Egg Safety branch.

Inspection Services Division - The division provides professional services that support and contribute to a safe, abundant and quality food supply. The division is organized into the following branches: Inspection and Compliance, Feed, Fertilizer, and Livestock Drug Regulatory Services, and the Center for Analytical Chemistry.

Division of Marketing Services - The division provides administrative oversight to agricultural marketing programs and assists the dairy industry in maintaining stable marketing conditions. The division also provides leadership to the Network of California Fairs and builds collaborations among the fairs and industry stakeholders. The division is organized into the following branches: Fairs and Expositions, Market Enforcement, Marketing, Dairy Marketing, and Milk Pooling.

Administrative Services Division - The division provides core services essential to the day-to-day operations of the department and is organized into the following branches: Budget Office, Financial Services, Human Resources, Departmental Services, and the Office Grants Administration.

Pierce’s Disease Control Program - The program works to minimize the impact of Pierce’s disease of grapevines in California by conducting containment, detection, rapid response, outreach and research activities in cooperation with federal and county agriculture departments, industry, and research institutions.

Division of Measurement Standards - The division is responsible for the enforcement of California’s weights and measures laws and regulations that protect both buyers and sellers, and promote fair competition in the marketplace. The division is organized into the following branches: Laboratories and Enforcement.

Division of CalCannabis - The division ensures public safety and protects the environment through the licensing and regulating of commercial cannabis cultivators in California as well as establishing a track-and-trace system, which tracks all cannabis and cannabis products from cultivation to retail sale. The division is organized into the following branches: Licensing, Compliance and Enforcement and Division Administration.

ONGOING MONITORING

As the head of Department of Food and Agriculture, Karen Ross, Secretary, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

EXECUTIVE MONITORING SPONSOR(S)
The executive monitoring sponsor responsibilities include facilitating and verifying that the Department of Food and Agriculture internal control monitoring practices are implemented and functioning
as intended. The responsibilities as the executive monitoring sponsor(s) have been given to:
Karen Ross, Secretary, Jody Lusby, Assistant Director of Administrative Services, 
Kevin Masuhara, Deputy Secretary for Administration and Finance, Natalie Krout-
Greenberg, Director of Inspection Services, Annette Jones, State Veterinarian, 
Jeff Cesca, Director of Marketing Services, Kristin Macey, Director of Measurement Standards, 
Stephen Brown, Interim, Director of Plant Health and Pest Prevention Services, 
Mary Winkley, Agency Info Officer, Kari Morrow, Director of Administrative Services, 
Tim Tyler, Information Security Officer, and Richard Parrott, Director of CalCannabis.

**MONITORING ACTIVITIES**

**ONGOING MONITORING**

Though our ongoing monitoring process, the Department of Food and Agriculture performs Annual 
Performance Appraisals with Managers and meets regularly to discuss risks and mitigation efforts. The 
Department of Food and Agriculture conducts internal audits to help the organization accomplish our 
objectives by evaluating and improving the effectiveness of risk management.

**Roles and Responsibilities**

As the head of the Department of Food and Agriculture, Karen Ross, Secretary, is responsible for the 
overall establishment and maintenance of the internal control system. We have identified Kevin 
Masuhara, Deputy Secretary for Administration and Finance, as our designated agency monitor(s).

**Reporting and Documenting Monitoring Activities**

In conjunction with the semi-annual meeting of all Unit Monitors, each division is required to submit a 
written status report for their division that provides the following information:

- Current effectiveness of their mitigation controls.
- Specific identification of ineffective controls.
- Consequences arising from any ineffective controls.
- Any new risks to add or existing risks to drop from monitoring activities.

A management report summarizing the above information is prepared and distributed to the Secretariat 
after each semi-annual meeting.

**Procedure for Addressing Identified Internal Control Deficiencies**

The Agency Monitor meets with and informs the Secretariat semi-annually on any deficient controls as 
well as the addition or deletion of risks to the monitoring process. The Internal Audit office provides 
consultation in developing risk mitigation controls for any newly identified risks and for all risk controls 
identified as being ineffective. Ineffective risk controls are evaluated by the Internal Audit office prior to 
the next semi-annual monitoring meeting and report submission. All existing risks proposed to be 
dropped from the monitoring process are also evaluated by the Internal Audit office prior to next semi-
annual monitoring meeting and report submission. The results of this evaluation are discussed with 
the Secretariat and a decision to discontinue monitoring is made at that time.

**CONCLUSION**

I certify our systems of internal control and monitoring processes are adequate to identify and address 
material inadequacies or material weaknesses facing the organization.
**Addressing Vulnerabilities**

**Frequency of Monitoring Activities**

The Agency Monitor meets with each of the division’s Unit Monitors on a monthly basis to discuss management issues concerning risk mitigation. The director for each division is required to be a Unit Monitor. They can delegate this role to their Assistant Director if necessary, however the Unit Monitor role cannot be delegated lower than this level. This requirement insures senior management in each division is actively engaged in the process. These meetings allow the Agency Monitor to keep current with the ongoing effectiveness of the risk mitigation controls in place. If a vulnerability or weakness is identified, corrective action will be taken. A specific employee/team will be identified as the lead of the project with updates and corrective action/steps to the Executive Staff. IF they weakness is identified entity-wide it is usually assigned to an Executive/Administrative Division staff.

**Communication**

Division Directors attend bi-monthly meetings with Executive staff. During these meetings issues are communicated with the Executive Team. Division Directors take back the information to their managers to distribute the information to their staff and end users. In addition, semi-annual meetings are held with all of the Unit Monitors attending and facilitated by the Agency Monitor for the purpose of discussing overall effectiveness of the risk mitigation controls enterprise wide.

**Ongoing Monitoring Compliance**

The Department of Food and Agriculture has implemented and documented 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 the Department of Food and Agriculture systems of controls and monitoring.

**RISK ASSESSMENT PROCESS**

The following personnel were involved in the Department of Food and Agriculture risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

**Risk Identification**

**RISK ASSESSMENT PROCESS**

The risk assessment process utilized by the department begins with direction from the Executive Office. The Deputy Secretary of Administration and Finance is responsible for providing leadership and direction to the various division directors as well as communicating the various risks to the Secretariat in terms of impact to the department’s ability to carry out its mission. The basic methodology uses the State Leadership Accountability Act’s Risk Aggregation worksheets as the foundation for identifying risk factors from each of the divisions.

**Risk Ranking**

Each division is responsible for engaging their program business units in completing the worksheets in a manner that clearly identifies their risks, mitigating controls, and evaluation of the effectiveness of the controls. The divisions utilize input from various management levels within their organization depending on the nature of risks relative to how and where their program activities operate. Typical staff engagement in this part of the process is with the midlevel and senior management. Risks that have more complex, technical aspects receive input from operational staff in order to accurately assess
impacts, likelihood of occurrence and control effectiveness. The senior management from each division presents and discusses the results from their Risk Aggregation worksheets with the Deputy Secretary. These discussions are focused on calibrating a uniform departmental assessment of the various risks and their subsequent management throughout the department. This uniform assessment is important so the Executive Office can objectively focus its efforts in providing the necessary guidance for corrective actions that may be identified. These efforts are managed so the highest impact risks are more closely monitored than lower impact risks, especially with respect to their likelihood of occurrence. A uniform departmental assessment is also important for prioritizing how scarce funding resources should be allocated to effectively mitigate the various risks.

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RISKS AND CONTROLS


The department is responsible for organizing and deploying professional veterinary and auxiliary staff to prevent, protect, and if necessary, mitigate the negative impacts from catastrophic animal diseases. These diseases can potentially harm California’s livestock populations, consumers, and the agricultural economy. Under some circumstances, some animal diseases can pose a risk to human health.

Due to the potential for how quickly these diseases can be spread statewide, the department must continually maintain adequate staffing levels, ensure staff persons are fully trained in how to respond to disease outbreaks, and have the ability to mobilize resources necessary in handling large animal disease outbreaks.

Animal health emergency response personnel may be called upon at any time to prevention, detection, and eradicate livestock and poultry disease. In the winter of 2014, the Bird Flu (Highly Pathogenic Avian Influenza, HPAI) became the first HPAI detected in California wild birds, and in the spring of 2015, it was the first HPAI detected in domestic flocks. HPIA has a near 100 percent lethality rate in chickens and turkeys. In California, poultry products make up approximately $4.2 billion (ten percent) of California’s agricultural economy. The ability and commitment by CDFA veterinary and auxiliary staff to respond quickly and efficiently, under arduous work conditions was pivotal to deter catastrophic impacts to California.

The ability for emergency response personnel to adjust their work schedules accordingly is essential to mitigate the impacts of animal disease outbreaks.

**Control A**

The department continually evaluates staffing levels and the training staff has received to insure we have the ability to respond quickly in the event of large animal disease introduction. Staff persons responsible for responding to outbreaks are located throughout the state and maintain local networks with partner agency staff as well as other stakeholders to keep informed of local conditions important to a response. The department also has identified key staff people that collaborate with various other local, state and national entities for the purpose of information sharing on effectively managing disease outbreaks. This is an existing control and is working as intended.

**Risk: Operations - Internal - Staff — Safety**

The department must rely on many business processes to carry out its responsibilities in handling foreign animal diseases and pest detection and prevention efforts, and other inspection activities. Components of these processes require the use of materials or methods that could compromise the health and safety of the staff involved.
These risks are from potential contact with infectious animal material, pesticides applied in pest eradication and control efforts, laboratory equipment and materials that are dangerous, and challenging field conditions due to weather or other natural hazards.

The health and safety of personnel is of preeminence importance. The department has a multi-tiered Injury and Illness Prevention Program (IIPP) which includes, but is not limited to, a Personal Protection Program (PPE) for designated staff to protect the eyes, face, head, hand, foot, and extremities, as well as protective clothing, respiratory protection, protective shields, and barriers; annual medical history and biennial medical examination administered by the UC Davis (UCD) Medical Surveillance Program, designated primarily for emergency responder.

The health and safety of personnel may be compromised by not complying with the IIPP and standard operating procedures.

**Control A**

These risks are mitigated through a combination of efforts at the program level where the unique nature of the risks are well understood. Safety training and Accident and Injury Prevention plans are conducted on an annual basis for staff involved in these activities. When necessary, these activities involve experts from other agencies as well as consultants with specific expertise in the subject matter. Divisions with staff involved in these activities utilize in a Health and Safety Officer role in their management structure to insure this risk is monitored and evaluated on a continuous basis. This is an existing control and is working as intended.

**Risk: Operations - External - Business Interruption, Safety Concerns**

The department is responsible for insuring many agricultural products meet certain requirements for food and feed safety, including compliance with the Federal Food safety rule, product composition, and compliance with labeling requirements as specified in various laws and regulations. If food and feed safety non-compliance occurs, there is a risk that people, pets, or livestock may consume products harmful to their health.

Non-compliance in product composition and labeling requirements carries the risk that products may not fulfill the requirements of those who purchased them and result in unintended misuse.

There are three main types of hazards affecting humans and animals, which have different and varying results. There are chemical hazards (ex: Mycotoxins, alfatoxin, Selenium), biological Hazards (ex: Salmonella or e-Coli) and physical hazards, which can be naturally occurring through the harvesting process or through a breakdown in the manufacturing of animal food. (ex: metal, sticks, glass).

If an animal ingests a physical hazard it will be harmful the animal (which can result in death to the animal) but typically physical hazards in animal food only affect livestock that have consumed the contaminated food. The hazard is not transferred to humans.

Chemical hazards affect both livestock and humans. For example, if a dairy cow consumes corn with a high mycotoxin level, that mycotoxin (a carcinogen) will transfer into the cows milk, which negatively impacts humans.

Biological hazards such as e-Coli or salmonella, present risks to both the humans that consume the meat or milk, and the animals which are consuming it. These hazards also pose a risk to the humans handling/preparing the contained products intended for animals.
Contaminated products, whether naturally occurring or through a breakdown in the manufacturing process, can have severe negative impacts on human and animal health, and can, in severe cases result in death.

**Control A**
The risk is mitigated conducting routine inspections of products in various trade supply channels to insure they meet specified requirements. These requirements, as well as inspection protocols are developed in conjunction with technical experts and stakeholders subject to inspection to insure efficacy. All aspects of the department’s inspections are continually monitored to insure they are consistent with current practices and methodologies in how the products are produced, transported and distributed. This is an existing control and is working as intended.

**Risk: Operations - Internal - Oversight, Monitoring, Internal Control Systems**
The department operates laboratories that provide testing and other analytical support for various program activities. These laboratories must satisfy specific requirements in order to have the appropriate accreditation. Accreditation provides the essential assurance that results are accurate and having documented quality to ensure legal defensibility. Lack of accreditation would provide justification in an appeal.

If laboratory processes or personnel do not receive the necessary accreditation, the results from the samples processed could be questioned as to their validity. A lack of validation jeopardizes the ability to carry out the regulatory action since regulatory actions are subject to appeal. Lack of accreditation would provide justification in an appeal.

Accreditation is a comprehensive program that requires laboratories to perform rigorous internal audits; participate in proficiency testing programs; and to incorporate strict quality control measures into the standard operation procedures (SOP) and methods. If expanded accreditation is required for new laboratory activities, the new requirements will be incorporated into the Management System (MS) and SOPs. To maintain accreditation, the laboratories, their MS and SOPs must pass criteria determined by the international standards and audit by an accrediting body.

**Control A**
The laboratories; management are responsible for ensuring all staff receive pertinent training. Trainings on MS and SOPs are performed annually and documented. This is an existing control and is working as intended.

**Risk: Operations - Internal - Technology—Data Security**
The department’s programs collect and utilize data from many sources and in different formats in the course of its day-to-day activities. The requirements for securing this data are specified in the State Administrative Manual, Section 5305.5. To fulfill this requirement, all of the department’s information assets must be classified and categorized so that appropriate levels of protection can be determined and provided to adequately secure the data.

The risk from not completing and maintaining assets in compliance with this requirement could lead to inadequate data security and subsequent uses of confidential and/or sensitive data for purposes they were not intended to be used for.

The mitigating controls for this risk are specified in the National Institute of Standards and Technology’s Special Publication 800-53. These controls are the format of a Risk Management Framework that addresses the selection of security controls to satisfy security standards for federal information systems. The
The department has only partially implemented these controls. Currently all new projects and services as well as new requests for changes to existing systems must meet these requirements. To fully implement this control, these requirements need to be applied to the remaining existing information assets that have not met this requirement.

**Control A**

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**Risk: Operations - Internal - Staff — Key Person Dependence, Workforce Planning**

The department has a high degree of dependence on key staff in specialized units. This can cause a disruption when turnovers occur.

The department relies on many specialized functional units within the divisions to carry out the day-to-day program activities. Specialized functional units help achieve greater efficiencies and satisfy requirements for allocating resources based on what funding source supports the activities. The risk from this organizational structure is a high degree of dependence on key staff in these units and the resulting challenges when staff turnover occurs.

This condition is even more pronounced when staff is assigned on a regional basis and their knowledge of local conditions is important to program effectiveness. Many staff in this situation carry out their responsibilities independently and a sudden departure is disruptive to the program activities in that region.

**Control A**

This risk is mitigated by a combination of strategies at the program level, division level, and the department level.

- At the program level, staff carrying out the day-to-day activities are the primary resource for developing desk manuals, training materials, and process documentation. These staff are also utilized in cross-training that can be accomplished between functional units.
- The division level management supports mitigating this risk by providing assistance for the development of the materials mentioned above as well as coordinating and identifying opportunities for cross-training. Division management is also responsible for managing succession planning by working with the Administrative Services division to insure their training, examination, and any other recruitment needs are addressed.
- The department wide strategies to mitigate this risk consists of leadership and management training designed to develop and encourage upward mobility.

This is an existing control and is working as intended.

**Risk: Operations - Internal - Technology — Compatibility**

Data must be accurate and timely for the regulatory agencies to be effective. Currently, laboratories rely on staff manually entering data onto the secure data exchange networks. Manual data entry is costly, untimely and error prone.
Laboratories at the Center for Analytical Chemistry employ data management systems (LIMS) that is incompatible with governmental Food and Feed Safety data sharing database. As the Food Safety Modernization Act (FSMA) passed, laboratories performing food and feed testing are mandated or encouraged to provide data to governmental agencies working to protect the food supply. Having incompatible data management system with the receiving governmental entities' requires staff to manually enter data to the food safety data exchange networks; a process that is time consuming and susceptible to error. Federal agencies, such as FDA, have mandates such as Partnership for Food Safety Protection (PFP) and the Food Safety Modernization Act (FSMA) and need laboratories' food and feed data to evaluate anomalies as part of early warning system to detect food born outbreaks.

The inspections performed by the department’s staff in the field impact food and animal feed safety, as well as the ability of a large number of businesses to conduct their daily activities in compliance with the laws and regulations the department enforces. The laboratories have contracted with an outside LIMS software specialist to implement an automated data transfer system that will seamlessly export the reviewed data from the laboratory's instruments to the external data exchange network database in real time. Laboratories and the CAC planned to implement this process in early 2018.

Control A
The department continually analyzes its program activities from a process improvement perspective to identify opportunities to implement new technology. Because of the potential lengthy timeframes required to fully implement identified solutions; including securing the necessary funding, the programs closely monitor these processes. The monitoring focuses on fulfilling the required responsibilities and includes quality control checks to minimize input errors. This is an existing control and is working as intended.

Risk: Operations - Internal Oversight, Monitoring, Internal Control Systems
If programs do not adequately monitor their spending activities, they will risk overspending the funds available.

The department’s programs utilize funds from various sources such as assessments, collected fees, and appropriations.

If the department overspends its funds it will not be able to meet the departments obligations to pay its vendors or vendors will not be paid timely.

Control A
The department requires programs to complete expenditure projections at the mid-year mark. These projections are completed interactively with the program staff and the Budget Office. The senior management of each division within the department reviews their projections and is responsible for making any necessary adjustments to program work plans so the projections are within the available funding. These projections are also reviewed by the Executive Office. All programs utilizing General Fund appropriations and any others that were identified at the mid-year as possibly overspending their funding are required to complete and submit another expenditure projection at the close of the third quarter. These results are also reviewed by the Executive Office and any necessary program activity adjustments are decided and implemented at that time. Management is also responsible for monitoring their program budget on a monthly basis by reviewing expenditure reports that are provided by the Financial Services Branch. This is an existing control and is working as intended.
**RISK: REPORTING -INTERNAL-INFORMATION COLLECTED—ADEQUACY, ACCURACY, INTERPRETATION, TIMELINESS**
Reports that are not submitted in a timely fashion or that have inaccurate or inadequate information will result in delays for federal funds reimbursement.

The department carries out many program activities in cooperation with or on behalf of the United States Department of Agriculture (USDA). These activities are primarily due to responding to foreign animal disease or plant pest detections requiring management from a federal perspective. Due to the department carrying out these activities for a federal agency, federal funds are provided to cover the cost of this. Various reports are generated from the data and information collected while carrying out day-to-day activities. These reports are important in informing USDA on the status of the effort and what progress has been made in achieving their objectives. These reports also are the basis for obtaining reimbursement for the department.

If reports are not submitted in a timely fashion the department will not be able to bill for reimbursements. This can cause a cash flow issue resulting in the department’s ability to pay vendors on time.

**CONTROL A**
This risk is mitigated by routine monitoring of report development and submission by multiple levels of management within divisions performing this work. When potential reporting deficiencies are identified, the deficiencies are corrected as soon as possible. This is an existing control and working as intended.

**RISK: OPERATIONS -EXTERNAL-LITIGATION**
The department is responsible in providing oversight to various boards, commissions, and councils established by legislation to promote agricultural commodities or conduct research to improve the production of agricultural products.

Boards, commissions, and councils operate on assessment funds collected from various producers and/or handlers of agricultural commodities specific to the entity they are operating programs on behalf of. The payments of these assessment funds are required of all producers and/or handlers subject to the law.

A lack of oversight by the department carries the risk these assessment funds could be expended for ineffective, inappropriate, or illegal purposes. If this were to occur, the ability of these entities to carry out their programs on behalf of the assessment payers could be jeopardized and expose them, as well as the department litigation.

**CONTROL A**
The primary mitigation control for this risk is to have designated staff to attend all board meetings for these entities. This attendance insures actions taken and contemplated by these boards receive the necessary level of oversight and guidance. Another important control feature is periodic meetings with the operational management of these entities to review and discuss various department policies they must comply with. When management changes occur with these entities, the department also provides orientation training to insure the incoming management is fully aware and understands the compliance issuers. This is an existing control and is working as intended.

**RISK: COMPLIANCE-EXTERNAL-COMPLEXITY OR DYNAMIC NATURE OF LAWS OR REGULATIONS**
The risk from noncompliance with the Bagley-Keene Act is legal action, invalidation of actions taken by the
entity and inefficient and ineffective program delivery. The Political reform Act requires the Department, via
the completion of Form 700, to ensure that members of its advisory boards do not have a conflict of
interest when making decisions and recommendations to the Secretary.

The department relies on input and recommendations from various advisory boards established either by
statute or the department as authorized by statute. These entities are comprised of stakeholders that pay
assessments or licensing fees, or are impacted by the regulatory and other activities of that program. In
this capacity, these entities are considered instrumentalities of the department and must comply with the
requirements of the Bagley-Keene Act and any applicable requirements from the Fair Political Practices
Commission.

Failure to meet the Form 700 filing requirements may result in legal action, fines and penalties, the
invalidation of board recommendations and subsequent negative impact to the department.

**Control A**
The department’s Legal Office provides Bagley-Keene Act training and consultation to the employees
responsible for overseeing the activities of advisory boards. The training sessions are scheduled on an
as needed basis and the frequency is driven by changes in the law. Employees responsible for board
oversight may also seek legal advice on an as needed basis. Similarly, the department’s form 700 Filing
Officer is responsible for the training of program/advisory board filing officials to ensure conflict of
interest requirements are fulfilled. The form 700 filing requirements are managed and coordinated at
the departmental level by the Administrative Services Division. This is an existing control and is
working as intended.

**Risk: Operations -External-Fraud, Theft, Waste, Misconduct, Vandalism**
The department provides vehicles for staff to travel and carry out program responsibilities throughout
California. This could lead to unnecessary expenses.

The department provides vehicles for staff to travel and carry out program responsibilities throughout
California. These vehicles are often utilized by staff in field locations with a high degree of independence in
conducting their work activities.

Due to this, there is a certain degree of risk that the assets may be utilized for non-work related purposes.
This could lead to unnecessary expenses.

**Control A**
All staff that operate vehicles are required to complete a daily travel log in compliance with the
departmental policy. These logs are reviewed monthly by the employees’ direct supervisors to insure
the daily entries are consistent with the work activities assigned and completed during that time
frame. This is an existing control and is working as intended.

**Risk: Operations -External-Fraud, Theft, Waste, Misconduct, Vandalism**
The portability of laptops, tablets, i-Pads, and smart phones could lead to them being lost or stolen.

The department deploys information technology (IT) assets to effectively carry out its various programs. The
main risk for IT assets is the portability of laptops, tablets, i-Pads, and smart phones which could lead to
them being lost or stolen.

These risks can result in unnecessary expenses and the potential for the loss of sensitive or confidential
data.
CONTROL A
The department tracks these assets as they are issued by the use of searchable archived IT service ticket records. This system ensures that the enterprise asset management agent software is installed, running, and automatically reporting correctly. Processes are currently being set up to automate the process of notifying the centralized IT services desk when an asset stops reporting in. In addition, reconciliations of IT assets to the asset database of record are performed annually. In the event an IT asset is lost or stolen, a report is required to be immediately filed with the department’s Information Security Officer (ISO). The ISO takes the necessary steps to determine the type of data contained on the device and files any necessary reports. This is an existing control and working as intended.

When a staff person retires with a large leave balance, the program must leave the position vacant long enough for the resulting salary savings to cover the expense against that year’s budget.

The department has a significant number of staff whose accumulated leave balances exceed the 640 hour maximum allowed by bargaining unit contracts (for represented employees) or California Code of regulations (for excluded employees). A majority of the staff in this group are within a few years of being eligible to retire and the current projected cost to support cashing out these leave balances is several million dollars. When a staff person retires with a large leave balance, the program must leave the position vacant long enough for the resulting salary savings to cover the expense against that year’s budget.

The 640 hours allowed represents almost four months of salary savings to cover and any amount above this allowed maximum further lengthens the period of time before a replacement can be hired. The workload of the retired staff person must be absorbed by others in the program or backlogs will occur.

CONTROL A
In January, all employees with a leave balance in excess of 640 hours are required to submit a leave usage plan to bring their balance down below 640 hours by the end of the year. Current provisions in the California Code of Regulations and various bargaining unit contracts allow the department to require these plans to achieve the required reduction level in one year. Management has the responsibility to monitor the progress of these employees and communicate with employees that are not making adequate progress with their plan. As a result, some employees are directed by management to take the required amount of time off to reduce their balance down to match their submitted plan. This an existing control and is working as intended.

RISK: Operations - Internal-FI$Cal Implementation, Maintenance, or Functionality
The department has programs with multiple funding sources that support the core activities. Many of the funding sources have restrictions on the type of activity that can be carried out with the funds. If funds are not utilized and supported by documentation in accordance with these restrictions, the programs risk losing reimbursement. This is currently mitigated by the use of specific Program Codes to closely track and report expense activities and satisfy this requirement.

The FI$Cal conversion month end close has not been successful. The department is unable to close a month and produce reports for management to bill reimbursement and monitor expenditures.

The department has staff from the Budget Office and Financial Services branch participate in technical training on FI$Cal requirements. These trained staff will provide consultation to programs that need to utilize Program Codes to satisfy tracking requirements related to their funding sources. The department is working closely with FI$Cal to successfully close a month. The department was just notified that we will not
be able to continue to use CalStars after December 31, 2017. The department is currently running dual systems to be able to close months to provide reports for monitoring expenditures and bill for reimbursements. Without the ability to use CalStars the department will not be able to produce reports for billing reimbursements which will cause cash flow issues and will not be able to monitor expenditures.

**Control A**
Since the department has been unsuccessful in closing monthly expenditure reports the department still relies on CalStars reports. The department is currently running dual systems until reports can be generated through FI$Cal. If the department does not have expenditure reports we are unable to bill for reimbursement and monitor expenditures. The department has requested an extension to continue to use CalStars but has not received a response from Department of Finance. If we are unable to use CalStars we cannot prepare reports until we are able to close FI$Cal which we have been unable to close since the conversion in July 2017.

**Risk: Operations - External - Economic Volatility**
Natural events such as drought and other adverse weather events, as well as national and global events affecting the demand for agricultural commodities drive this volatility and may have an impact on fees collected from assessments on various commodities, fees for issuing licenses, and fees from inspections performed.

The department receives fees from various sources related to the programmatic activity being provided. The major sources of these fees originate from assessments on various commodities, fees for issuing licenses, and fees from inspections performed. Since all of these fees are for activities tied directly to the production of agricultural commodities, which are inherently economically volatile, this volatility can impact the department. Natural events such as drought and other adverse weather events, as well as national and global events affecting the demand for agricultural commodities drive this volatility.

When collected fees that support program activities vary from forecasted amounts, especially when reduced in a short period of time, the necessary adjustments to the activities levels can be difficult to achieve in alignment with the new amounts available to operate.

**Control A**
The programs in the department that experience this risk primarily mitigate against it by maintaining a sufficient funding reserve to operate for six months with no collected fees. This amount of reserve allows for decisions to be analyzed and carried out to adjust program activities to align with requirements related to managing human resources and physical asset liquidation. This risk is also managed by closely monitoring various factors that could result in economic volatility on a continual basis so that other management actions can be taken in a timely fashion. These actions include adjusting staff levels or redeploying staff to other programs when feasible, consolidating functions to better align with new program needs, and delaying expenditures, if feasible to a time when forecasted fee collections return to normal levels. This is an existing control and is working as intended.

**Risk: Reporting - External - Information Collected—Adequacy, Accuracy, Interpretation, Timeliness**
The department may not meet statutes required to collect annual financial information from external entities.
The department is required by various statutes to collect annual financial and other information from external entities. This information is necessary to allow the department to file its reports in a timely manner to various state entities that need the information for their processes.

When the information is not submitted timely, the department and other entities are unable to complete their required reporting by established deadlines.

**Control A**
The department mitigates this risk by setting and communicating deadlines to the various external entities. If deadlines are not met, immediate contact is made with the entities to determine what issues are preventing meeting the deadline. If the reporting is connected to the department calculating and providing funding to the external entities, it is withheld until the required reporting has been fulfilled. This is an existing control and is working as intended.

**Risk: Operations - External - Oversight of or Program Coordination with Others**
Program efficiencies will not occur and program delivery will be compromised if we do not have working relationships with external partners.

The department conducts numerous programs utilizing contracts, cooperative agreements, and grants with external partner agencies in order to gain efficiencies in program delivery. The external agencies we partner with have more specialized knowledge of conditions that exist at the local level.

This arrangement carries the risk that if adequate coordination and alignment of objectives are not achieved, these efficiencies will not occur and program delivery will be compromised. Another component to this program coordination is adequate training for staff in the partner agencies by the department so the program activities are carried out in a uniform, consistent manner statewide.

**Control A**
To mitigate this risk, the department utilizes a dedicated staff person as a liaison between partner agencies (County Agricultural Commissioners and Sealers of Weights and Measures) and the department. This position is responsible for maintaining communication between the partner agencies and the department and attends statewide and regional meetings where program coordination factors are discussed. This liaison also oversees competency testing and licensing of partner agency staff persons carrying out program activities. Additionally, the department continually surveys and assesses training needs and materials to ensure they are effectively delivered at the local level. This is an existing control and is working as intended.

**Risk: Operations - Internal - Technology — Compatibility**
The Center for Analytical Chemistry (CAC) provides testing to governmental agencies including the US Department of Agriculture (USDA), and the California Department of Pesticide Regulation (CDPR). These agencies are mandated by various laws such as the Food Quality Protection Act of 1996 and Food and Agricultural Code section 11501 to protect human health and the environment. To comply with Federal and State Laws, agencies must meet objectives set forth by the governing entities such as the US-EPA and the State/Regional Water Boards. As the Risk Cup (the combined exposure of pesticides in the environment, food and water) gets full, governing agencies must reassess criteria that define acceptable exposure level and facilitate the usage of reduced-risk pesticides. The Water Quality objectives’ detection limit and reduced-risk pesticides with new chemistry pose challenges to CAC’s inadequate instrumentations as they cannot detect new pesticides and their metabolites and quantify the ultra-low levels. The inability to meet clients’ request puts the CAC’s at the risk of breach of contract.
The cause is using laboratory methods that rely on antiquated technology that cannot meet regulatory compliance requirements which are written in CAC’s contracts.

USDA and CDPR must comply with objectives from governing agencies to monitor for and collect pesticides data for risk assessment. USDA and CDPR contract the CAC for this task. Without proper instrumentations and analytical methods to detect new pesticides at low levels as requested by clients, CAC cannot meet its obligation. This inability might result in loss of funding.

**Control A**
Consolidating methodologies to incorporate newer instrumentation will enable the use of the most updated and relevant methods. The use of the new generation of mass spectrometry technology and analytical methods enhances data quality, improves system efficiency and reduces chemical usage, exposure, waste, and most importantly, helps supporting laboratories to maintain alignment with industry expectations. These instrumentations have wider range of capability which facilitate analytical screen (method) expansion and allow for detection of ultra-low levels of chemicals of interest. Employing the state-of-the art instruments and internationally recognized methods will enable laboratories to meet clients’ regulatory compliance requirements which ultimately helps mitigate the risk of breach of contractual terms. This is an existing control and is working as intended.

**Risk: Operations -Internal-Oversight, Monitoring, Internal Control Systems**
Without adequate controls in place, confidential owner information as well as confidential background check information could inadvertently be disclosed to staff who do not have a need to know this information.

The CalCannabis Cultivation Licensing Division will utilize an on-line licensing system to license cannabis cultivators in California. The “back Office” portion of the licensing system will be utilized by division staff to process background checks, verify ownership, and issue licenses. Division management will establish adequate separation of duties as well as written procedures for staff as needed to insure that any confidential information is accessible only by those staff who have responsibility for review and processing of the confidential information.

Management will perform ongoing monitoring to insure that procedures and risk mitigation measures are being followed.

**Control A**
Staff who are performing the background checks will be the only staff who have access to a specific email inbox so that the information can be reviewed. Staff will be trained about the confidentiality of the background check process and the email inbox account password will be periodically changed for security purposes. Additionally, staff with access to background checks will be housed in locked office spaces. This reduces risk as there will be a limited amount of staff with this designated access. Desk manuals will be provided to staff and procedures will be reviewed periodically to insure they are current.

Staff working within the licensing system will have access to confidential ownership information such as an owners driver’s license number and social security number. Staff will be trained how to protect this confidential information. This reduces risk by having staff fully trained and informed regarding any confidential information they will be handling during their daily work. Desk manuals will be provided to staff and procedures will be reviewed periodically to insure they are current.

The division will also arrange for bi-annual independent audits of these processes to insure all risks are being mitigated.
**RISK: OPERATIONS -INTERNAL-OVERSIGHT, MONITORING, INTERNAL CONTROL SYSTEMS**

Without proper procedures in place for processing online payments and cash payments, an applicant’s funds could be misallocated to another applicants account, thereby causing delays in the processing of an applicant’s annual license. Since cash payments do not have an electronic record, cash could also be diverted by an employee for their own personal gain.

CalCannabis Cultivation Licensing Division will receive online payments, checks and cash payments for annual license application and licensing fees. Prior to July 1, 2018, cash payments will be accepted by the Department of Consumer Affair’s Bureau of Cannabis Control (BCC). BCC will receive the cash payments and then transfer the funds for CDFA licensees to CDFA's bank account. Online payments will be made electronically by applicants through the online licensing system. Applicants may also mail checks to CDFA. Division staff will have the responsibility to reconcile all payments that have been received by BCC on behalf of CDFA as well as all online payments and payments made by check. Management will insure that procedures are in place for staff to perform daily reconciliations of all payments received in order to identify any potential errors or misapplication of payments.

After July 1, 2018, CDFA will also have the ability to accept cash payments a potentially two of its field offices. At that time, procedures will be put in place to provide direction to staff regarding the processing and reconciliation of all cash payments received at the CDFA field offices. Management will perform ongoing monitoring to insure that procedures and risk mitigation measures are being followed.

**CONTROL A**

By requiring daily reconciliations, the division will insure that money received each day is properly applied to an applicant’s account. Supervisors will review the daily reconciliation, thereby having an independent person involved in the review of the reconciliation reports. When CDFA begins to take cash payments, all cash handling areas will be equipped with cameras to allow for continuous monitoring of all cash handling. Staff will be required to issue receipts for all cash payments and all cash will be reconciled and deposited daily to insure all amounts received are accounted for. Daily reconciliation reduces risk since each day’s activities will be required to be accounted for before close of business. Desk manuals will be provided to staff with detailed procedures, in accordance with the department and State Administrative Manual’s policies, to ensure consistency and accuracy of the cash collection. The desk manuals will be reviewed periodically to insure they are current.

The division will also arrange for bi-annual independent audits of these processes to insure all risks are being mitigated.

**CONCLUSION**

The Department of Food and Agriculture strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

The Finance comments in red were left in on the report.
Karen Ross, Secretary

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