May 10, 2018

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 Governor’s Office of Business and Economic Development (GO-Biz) 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 Will Koch, Chief Deputy Director, at (916) 322-0661, william.koch@gov.ca.gov.

BACKGROUND

GO-Biz is California’s single point of contact for economic development and job creation efforts. GO-Biz offers a range of services to business owners including: attraction, retention and expansion services, site selection, permit streamlining, clearing of regulatory hurdles, small business assistance, international trade development and assistance with state government. AB 29 (John A. Perez), Chapter 475, Statutes 2011, established GO-Biz for the purpose of serving as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. GO-Biz is responsible for the following programs under AB29 and the Governor’s Reorganization Plan of 2012, all of which have been included in the review of risks, internal controls, and ongoing monitoring: California Infrastructure and Economic Development Bank (I-Bank); California Film Commission (CFC); California Travel and Tourism Commission (CTTC); California Business Investment Services (CalBIS); Office of the Small Business Advocate (OSBA); and California Small Business Loan Guarantee Program (SBLGP). The Governor’s reorganization plan became operative on July 1, 2013.

ONGOING MONITORING

As the head of Governor’s Office of Business and Economic Development (GO-Biz), Panorea Avdis, Director, 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 Governor’s Office of Business and Economic Development (GO-Biz) internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: James Teahan, Chief, Administrative Services Division.

MONITORING ACTIVITIES

Through our ongoing monitoring process, GO-Biz reviews, evaluates and improves our systems of internal control and monitoring processes. On March 6, 2018, a Risk Assessment meeting was held with fifteen senior executives covering every department of GO-Biz. The Risk Assessment meeting
was conducted to identify the areas of greatest risk that may cause financial, political, legal and/or negative media exposure to GO-Biz. In addition, we identified risks that could affect the workforce and information technology systems. Through brainstorming process and the participation of all attendees, six risks were identified as the highest priority. The Risk Assessment meeting will be conducted yearly to review noted risks and identify new risks. Each risk is described, assigned to a responsible contact, given a control description, actions completed monthly, actions to be taken the following month and noted barriers involved. Each control description is signaled as not implemented, partially implemented or fully implemented. This information is recorded on an excel spreadsheet monthly and is reviewed by the Executive Monitoring Sponsor. On a quarterly basis, the Executive Monitoring Sponsor provides the Director and Chief Deputy Director a risk report on each risk. This excel spreadsheet report includes risk control description, mitigation, and comments and/or actions from the Executive Monitoring Sponsor. This report offers the Director and/or Chief Deputy Director the opportunity to review how the risks are being mitigated and to provide feedback/comments. The Risk Assessment meeting, the monthly risk review and the quarterly risk review report for the Director/Chief Deputy Director will be conducted on a continuous basis.

**Addressing Vulnerabilities**

The Executive Monitoring Sponsor identifies the key Manager for each identified risk. The identified Managers are then approved by the Chief Deputy Director. These key Managers are identified on the monthly excel Risk Report. In the Risk Report, these Managers are responsible for the control description, actions completed monthly, actions to be completed the following month and noting barriers involved. The Managers update this report monthly by the 20th of the month. The updates are reviewed by the Executive Monitoring Sponsor who reports quarterly to the Director and Chief Deputy Director. The quarterly report includes risk control description, mitigation and comments. The Director and Chief Deputy Director can then provide their comments on this report.

**Communication**

The key monitoring role is the Executive Monitoring Sponsor (EMS). The EMS is the Chief of the Administrative Services Division. This position is under the general direction of the Director and Chief Deputy Director. This position serves as the manager and key advisor to the Directorate on all matters pertaining to GO-Biz’s administrative functions and policy development. The EMS oversees and reviews the monthly reports that are provided by the Managers assigned to mitigate the risk. On a quarterly basis, the EMS provides the Director and the Chief Deputy Director a risk report on each risk. The Director is responsible for overseeing the goals and directives of the statute establishing GO-Biz including business growth, expansion, attraction, and expansion; international trade; small business advocacy; innovation and emerging technology; business and tax incentives; business loan and bond products; tourism; and permit assistance. The Chief Deputy Director of GO-Biz provides assistance in running all aspects of the office. The quarterly report includes the EMS review on mitigating each risk. The Director and Chief Deputy Director then review the information provided by the EMS and provide their comments and/or direction. The channels of communication include the Managers assigned to the risks working with their staff and reporting back monthly to the EMS who reports quarterly to the Director/Chief Deputy Director. The EMS provides access across organizational lines by working with all departments. The method for communicating monitoring results includes the monthly excel spreadsheet provided for the Managers assigned to the risks and the quarterly excel spreadsheet utilized by the EMS with the Director/Chief Deputy Director.
**Ongoing Monitoring Compliance**

The Governor’s Office of Business and Economic Development (GO-Biz) 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 the Governor’s Office of Business and Economic Development (GO-Biz) systems of controls and monitoring.

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**RISK ASSESSMENT PROCESS**

The following personnel were involved in the Governor’s Office of Business and Economic Development (GO-Biz) risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

**Risk Identification**

On March 1, 2018, an email was sent out to all the Managers in GO-Biz concerning our Risk Assessment Meeting. It was explained that the Risk Assessment Meeting is to identify the areas of greatest risk that might cause financial, political, legal and/or negative media exposure to GO-Biz. They were also asked to identify risks that could affect our workforce and information technology. Before the actual meeting, the Managers had time to discuss this with their staff and consider the possible risks. The meeting was held on March 6th with the entire Management Team of GO-Biz. The four previous risks that were identified last year were presented to the group. Of these four risks, two were reviewed as mitigated with two remaining as risks. The risk of high leave balances is no longer a risk as they have been greatly reduced. The risk of lack of office policies has been mitigated with currently having nine approved policies with EEO & Health Safety policies to be added in May, 2018. Two risks, lack of desk procedure manuals and the need to formalizing a monitoring practice remained as high risks. In this brain-storming Risk Assessment, a total of thirteen risks were identified and noted on poster sheets.

**Risk Ranking**

A total of 13 risks were identified through the Risk Assessment Meeting and were noted on poster sheets on the wall. Each participant was given seven blue sticker dots and was instructed to place one dot on each risk they regarded as the highest risks to GO-Biz. As a result, six risks were identified in descending order.

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**RISKS AND CONTROLS**

**Risk: Operations - Internal-Program/Activity—Changes, Complexity**

The risk is lack of desk manuals and procedure documentation in various departments of GO-Biz. Out of 130 positions, 28 are appointed. With the election of a new Governor pending, the appointed positions may be gone or transitioned with new appointees. As a result, we need to document department information and procedures in preparation for this transition.

GO-Biz is a new department which started in 2012. Since that time, the department has grown substantially with new programs. All during this time under the current Governor, Jerry Brown, who is at the end of his second term. Earlier, there was not as great a need as there is now for desk manuals and procedure documentation. But now with a new Governor taking office in 2019, this is a high risk that needs to be mitigated.
If desk manuals and procedures are not documented, vital information will be lost. A smooth transition with new appointees will not take place. Current programs may be impacted as new appointees may not be experienced in the subject matter or processes.

Control A
Each department manager will be responsible for their desk manuals and procedure documentation. They will develop an action plan with the targeted date of completion. These activities will be recorded and monitored with the monthly risk assessment excel spreadsheet. The department managers will update this spreadsheet and send it to the Executive Monitoring Sponsor who will administer this spreadsheet and monitor progress.

Risk: Operations - Internal - Staff — Key Person Dependence, Workforce Planning
Departments have key person dependence and there is no workforce plan currently in place. With a total workforce of 130, 28 are appointed. The current Governor, Jerry Brown, is coming to the end of his second term. The transition to a new Governor may result in the loss of current appointees. The loss of these key person appointees could greatly hinder programs that depend on them. Also, other positions that are key person dependent lack workforce planning. The loss of key personnel will result in operational problems for the department.

GO-Biz is a new department which started in 2012. Since that time, the department has grown substantially with new programs. All during this time under the current Governor, Jerry Brown, who is at the end of his second term. Earlier, there was not a great need for workforce planning. But now with a new Governor taking office in 2019, this is a high risk that needs to be mitigated.

If workforce planning is not implemented, the loss of key personnel will be detrimental to the department. A smooth transition with new appointees will not take place. Current programs maybe suspended as new appointees are not experienced.

Control A
A workforce survey has been conducted to gather data on the current situation. Based on this data, the Chief Deputy, the Executive Monitoring Sponsor and the workforce survey administrator will develop an action plan. The action plan will be administered by the current Human Resources Manager. These activities will be recorded and monitored with the monthly risk assessment excel spreadsheet. The Human Resources Manager will update this spreadsheet and send it to the Executive Monitoring Sponsor who will administer this spreadsheet and monitor progress.

Risk: Operations - External - Political, Reputation, Media
GO-Biz provides a single point of contact for economic development, business assistance and job creation efforts. The GO-Biz works with companies and organizations across the nation to market the benefits of doing business in California. The positive external image of GO-Biz is critical in supporting various programs. There are high reputational risks with the high degree of media exposure that GO-Biz has.

GO-Biz is a new department which started in 2012. Since that time, the department has grown substantially with new programs. All during this time under the current Governor, Jerry Brown, who is at the end of his second term. Of the 130 positions, 28 are appointed. Many of the appointed positions may be leaving with a new Governor starting in 2019. There is a high reputational risks with these new appointees.

If false, misleading statements are given to the media, the reputation of GO-Biz will be greatly damaged. A bad image and or reputation will hinder GO-Biz effectiveness in working with companies and organizations.
across the nation and the world to market the benefits of doing business in California.

**Control A**

Provide public relations and GO-Biz values training, and expanding the focus to include all staff that has public contact because any of them could utter/do things that could damage our reputation and all employees should know the GO-Biz values upon hire (Customer-centric, Results, Collaborative, Agile, Ethical): Provide public relations training, and protocol guidelines to associated staff currently employed and staff appointed in the future. This would be administered by the Human Resources Manager. The monthly risk assessment spreadsheet would be utilized to monitor progress. The monthly risk assessment spreadsheet would be administered by the Executive Monitoring Sponsor.

**Risk: Operations - External - Economic Volatility**

Lack of funding for GO-Biz Programs

The current economic expansion started in June 2009. Prior to the 2008 crisis, the three previous expansions averaged 95 months. As of March, 2018, this expansion has lasted 93 months. The end of the current expansion is inevitable. A recession will probably occur in the near future.

GO-Biz programs may be eliminated or greatly reduced. The result would be providing much less support for business and economic expansion in California.

**Control A**

External economic factors are impossible to control. However, the department can work on making non-permanent positions permanent. When possible, the department can make sure unspent allocated funds are encumbered over to the next financial year.

**Risk: Operations - External - Political, Reputation, Media**

GO-Biz is a new department which started in 2012. Since that time, the department has grown substantially with new programs. All during this time under the current Governor, Jerry Brown, who is at the end of his second term. Of the 130 positions, 28 are appointed. With the political possibilities of having a new Governor, the programs of GO-Biz maybe at high risk.

The State of California will have a new Governor who will take office in January, 2019.

A new California Governor may not prioritize economic development and, as a result, programs like GO-Biz could be greatly reduced or eliminated. For example, from January 1, 2004, when the Technology Trade and Commerce Agency was eliminated until the creation of GO-Biz, California did not have an agency with a sole focus of economic development.

**Control A**

Closely monitor leading candidates in the election to assess their support for economic development and optimistically prepare for the best. If leading candidates do not appear to be in support of economic development, prepare for possible reduction in programs.

**Risk: Operations - Internal - Oversight, Monitoring, Internal Control Systems**

Lack of formalizing an over-all monitoring and tracking system for budgeting, contracts, procurement, expenditures, mandated training, individual development plans, annual performance appraisals, probation reports and other reports as needed.
GO-Biz is a new department which started in 2012. Since that time, the department has grown substantially with new programs. About one year ago, the Human Resources Department started to develop new human resources policies and procedures, and the Business Services and Contracts unit started to develop and update the GO-Biz travel and contracts manuals. The growth of the department and the reorganization has resulted in the need for formalizing an over-all monitoring and tracking system for all administrative functioning responsibilities.

Lack of a formalizing over-all monitoring and tracking process could result in budget deficits, contracts not being renewed on a timely basis, mandated training not taking place, individual development plans not being processed, annual performance appraisals not being processed and probation reports not conducted on a timely basis.

**CONTROL A**
The Administrative Resources Manager and the Human Resources Manager will be responsible for developing a monthly dashboard to formalize over-all monitoring and tracking of key performance indicators within their departments. They will develop an action plan with the targeted date of completion. These activities will be recorded and monitored with the monthly risk assessment excel spreadsheet. The Administrative Resources Manager and the Human Resources Manager will update this spreadsheet and send it to the Executive Monitoring Sponsor who will administer this spreadsheet and monitor progress.

**CONCLUSION**
The Governor’s Office of Business and Economic Development (GO-Biz) 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.

Panorea Avdis, 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