December 30, 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 Office of Planning and Research 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 Scott Morgan, Deputy Director, at (916) 322-2960, Scott.morgan@opr.ca.gov.

BACKGROUND

The Office of Planning and Research (OPR), created by statute in 1970, is part of the Office of the Governor. OPR serves the Governor and his Cabinet as staff for long-range planning and research, and constitutes the comprehensive state planning agency. The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analysis. OPR formulates long-range state goals and policies to address land use, climate change, population growth and distribution, urban expansion, infrastructure development, groundwater sustainability and drought response, and resource protection. OPR acts as the state’s liaison to a variety of entities including local government, planning professionals, small business, and the military. OPR runs the State Clearinghouse, coordinating CEQA filings and state compliance issues. OPR houses and supports the Strategic Growth Council, a program that aims to bring together agencies and departments with Business, Consumer Services and Housing, Transportation, Natural Resources, Health and Human Services, Food and agriculture and Environmental Protection. SGC coordinates activities that support sustainable communities emphasizing strong economies, social equity and environmental stewardship.

In addition, OPR houses California Volunteers, a program aimed to increase the number and impact of Californians involved with service and volunteering throughout the state. California Volunteers administers programs such as AmeriCorps and Disaster Volunteering and Preparedness, guides policy development to support the nonprofit and service fields, and leads the Service Enterprise Initiative, which empowers a nonprofit to more efficiently engage volunteers and effective address community needs.

RISK ASSESSMENT PROCESS

The risk assessment was completed by a team comprised of executive managers and Administration staff. Executive management consisted of the Deputy Director of Administration for State Planning and Policy, the Director of Finance and Administration for California Volunteers and Deputy Director for Strategic Growth Council. The Administration staff consisted of key personnel representing accounting, procurement, budgets, personnel and fiscal compliance. Executive managers working in conjunction with the Administration staff reviewed past versions of the FISMA Reports and the Department of Finance information on FISMA. Using the DOF Control Environment Questions and the State Leadership Accountability Act Risks and Definition, risks and vulnerabilities were identified and noted on the Risk Aggregation Worksheet. The team identified the impact to the agency and the likelihood of occurrence. The Administration staff then evaluated the list of risks and vulnerabilities to determine what actions/controls may be taken for each risk. Executive management re-evaluated the list of risk, controls and ratings to determine any changes required. Executive management determined which risks could be easily mitigated and focused on those risks identified by a high rating.
EVALUATION OF RISKS AND CONTROLS

Operations- Internal- Technology—Outdated, Incompatible

The CEQANet Database used by the State Clearinghouse to comply with its statutory responsibilities pursuant to CEQA (California Environmental Quality Act) Statute and Guidelines is old and housed at UC Davis. The only staff person at UC DAvis who can maintain and work the system has retired.

The OPR has submitted a Budget Change Proposal to develop a database in FY 16/17. The new database will be developed and housed at the California Department of Technology.

Operations- Internal- Program/Activity—Changes, Complexity

Complex interactions between various funding sources and the rules governing each creating inefficiencies. OPR has taken on many new programs from a variety of funding sources and the last several years. Several of the programs are funded by the Greenhouse Gas Reduction Fund (GGRF) through the Air Resources Board. The funds have many layers of reporting and program implementation restrictions that are complicated and prone to audits and lawsuits.

The OPR and the Strategic Growth Council (SGC) have hired an additional person to help with coordination and establishment of processes for transferring of funds for the new Greenhouse Gas Reduction Fund. OPR/SGC are developing Memorandums of Understanding with the new program partners to establish roles and responsibilities and to meet the reporting requirements for the Air Resources Board (ARB).

Reporting- External- Information Collected—Inadequate, Inaccurate, Misinterpreted, Untimely

Data collected from AmeriCorps grantees’s performance measures is not easily captured to display statewide impact.

The OPR and CV is creating a standardized excel workbook that AmeriCorps grantees will be required to fill out. Upon receipt of all of the workbooks from the AmeriCorps grantees, the data set will be aggregated and a separate work tab will be developed for a cross-tie for validation.

Operations- Internal- FI$Cal Conversion

Staff availability will be reduced by time spent training for FI$Cal conversion. The Office of Planning and Research (OPR) is a small agency with limited staff. Currently, OPR can only employ one staff for key areas such as accounting, budgeting, procurement and personnel. Each of these areas will be impacted by the implementation of FI$Cal and the training required to learn this new system. The OPR has a limited support budget and cannot fund additional staff for coverage. Staff will be required to attend intensive training which could result in heavier workloads and the delay in completing task. Staff may fall behind and not meet pertinent deadlines in processing contracts/purchase orders, payments to vendors, monthly reconciliations and processing payroll along with other important tasks in the procurement, accounting, budgeting and personnel areas.

The OPR will create a training plan to cross train staff. Currently we employ one staff per key area such as accounting, budgeting, procurement and personnel. The OPR will need to look at internal controls to ensure cross training staff does not affect these controls. Cross training will allow the OPR to continue daily work processes without interruption and to ensure work is completed on a timely basis.
The OPR will review budget projections to determine if we have the capability to hire temporary staff to help cover key areas. Adding additional staff members to the Administration Unit will allow a continual flow of work and completion of tasks on a timely basis and reduce the interruption of workflow.

The OPR Administration staff currently meets twice a month to discuss FI$CAL related topics and issues. The Administration staff is currently participating in FI$CAL Forums, Solution Walkthroughs and attending FI$CAL Training Academy both online and in person. The Administration Staff is slated to attend Model Office Sessions the week of April 4th.

**Operations- Internal- Organizational Structure**

A lack of coordination among units, programs and key areas such as accounting, budgeting and procurement exist. The OPR has desk procedures for key areas; however, workflows between units has not been charted which can result in a delay of task being completed in a timely basis. In addition it could impact the implementation of FI$CAL.

The OPR Administration Unit will set up weekly meetings to determine key areas requiring workflow documentation and to chart out tasks. Involving all Administration staff will ensure a full picture of processes is charted. Outlining workflows will ensure we are prepared for FI$CAL implementation and coverage of processes are not interrupted and workflow runs smoothly. Administration staff will meet with executive management to discuss the progress of workflow charting. Executive management will review workflows to ensure compliance with internal controls. Executive management will suggest improvements or revisions. Revisions will be addressed and final drafts completed by December 31, 2016.

**Operations- Internal- Physical Resources—Maintenance, Upgrades, Replacements, Security**

The OPR lacks a long-term plan for asset maintenance. OPR has a limited support budget which could be impacted if a situation arises requiring multiple assets needing to be upgraded/replaced. The OPR should establish a rotation schedule to replace assets.

The OPR Administration Unit's Building manager, IT manager and Procurement Officer will meet to review inventory and determine priority of replacement. The inventory list will note original acquisition costs and the replacement costs along with any backup documentation (i.e. brochures, catalogs) which will be submitted to the Accounting Officer and Budget Officer. The Accounting Officer and Budget Officer will project costs for current year and budget year and submit a report to the Deputy Director of Administration. In subsequent years, similar exercises will be undertaken towards the beginning of each fiscal year. This control will ensure that at no given fiscal year the limited state operation's budget is burdened by needing to replace old and non-functioning equipment.

**ONGOING MONITORING**

Through our ongoing monitoring processes, the Office of Planning and Research reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Office of Planning and Research has not begun the process of formalizing and documenting our ongoing monitoring and as such, we have determined we do not comply with California Government Code sections 13400-13407.

**Roles and Responsibilities**

As the head of Office of Planning and Research, Ken Alex, Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Anthony Chavez,
Director of Finance and Administration, Scott Morgan, Deputy Director, as our designated agency monitor(s).

**Frequency of Monitoring Activities**

The OPR and CV Deputy Directors meet with OPR &CV Administrative Staff throughout the year to discuss and evaluate internal controls and identify risks. Once any control or risk is identified, the Deputy Directors will meet to discuss solutions/risk controls. Deputy Directors, meet with the OPR and CV directors as needed to discuss identified risks, risk controls and solutions.

**Reporting and Documenting Monitoring Activities**

Since OPR is a very small organization there is constant communication between the Deputy Directors and the Director on any identified risks and potential solutions. The Deputy Directors document through the SLAA process any identified risks, solutions and implementation measures. Memos and reports are developed as needed for the Director's information and approval. OPR utilizes the SLAA process documentation and monitoring of risk and risk solutions.

**Procedure for Addressing Identified Internal Control Deficiencies**

As deficiencies are identified by Deputy Directors or Administrative Staff a meeting is established with the OPR Director to discuss solutions moving forward to contain the identified risk. Timeframes for deficiencies to be remedied are based on the requirements and guidance provided by the SLAA process and reports.

**CONCLUSION**

The Office of Planning and Research strives to reduce the risks inherent in our work through ongoing monitoring. The Office of Planning and Research 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.

Ken Alex, Director

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