December 31, 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 Natural Resources 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 Patrick Kemp, Assistant Secretary of Administration and Finance, at (916) 653-9709, patrick.kemp@resources.ca.gov.

BACKGROUND

The mission of the California Natural Resources Agency (Agency) is to restore, protect and manage the state's natural, historical and cultural resources for current and future generations using creative approaches and solutions based on science, collaboration and respect for all involved communities. The Secretary for Natural Resources, a member of the Governor's Cabinet, sets the policies and coordinates the environmental preservation and restoration activities of 26 various departments, boards, commissions, and conservancies. In addition, the Agency directly administers the following: Ocean Protection Council, Timber Resources Management Program, Sea Grant Program, California Environmental Quality Act (CEQA), River Parkways Program, Urban Greening Program, Environmental Enhancement and Mitigation Program, Museum Grant Program and the Sierra Nevada Cascade grant program.

The Natural Resources Agency consists of the following entities: Departments of Forestry and Fire Protection, Conservation, Fish and Wildlife, Parks and Recreation, and Water Resources; Commissions, California Coastal Commission, State Lands Commission, San Francisco Bay Conservation and Development Commission, Delta Protection Commission; Energy Resources Conservation and Development Commission; Boards, Wildlife Conservation Board, Colorado River Board, State Reclamation Board; Conservancies, State Coastal Conservancy, California Tahoe Conservancy, Santa Monica Mountains Conservancy, Coachella Valley Mountains Conservancy, San Joaquin River Conservancy, San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy, Baldwin Hills Conservancy, San Diego River Conservancy, Sierra Nevada Conservancy and Sacramento-San Joaquin Delta Conservancy; the California Conservation Corps; and the Special Resources Program.

Funding: The Agency's main support funding is provided by the Environmental License Plate Fund (ELPF), in addition to ELPF, support is funded through the General Fund and special funds; i.e., bond funds program delivery, federal funds, state transportation funds and reimbursements. State capital outlay and local assistance grants are funded by state appropriations from resource general obligation bonds.

RISK ASSESSMENT PROCESS

In developing this report, the Agency created a risk assessment consistent with the State Leadership Accountability Act. An organizational risk assessment was performed by the Assistant Secretary for Administration and Finance, in consultation with program managers across all programs and administration functions of the Agency. The program managers included, the Deputy Assistant Secretary...
for Bonds and Grants, and Deputy Assistant Secretary for Prop 50, the Agency Administrative office and
the three other staff members.

The process included meetings with the staff noted above. The purpose of the meetings were: (1) to
identify the risks with the greatest potential impact; (2) to acquire subject area expertise of program and
administrative managers to document the risks; (3) to provide background on program operations to
document controls in place to mitigate risks. In addition to the meetings, a review of the agency’s annual
Operational Recovery Plans, the enabling statute, current guidelines adopted for grant programs; past
and current staffing levels; state-mandated activities; various and ongoing drills required by control
agencies including state budget drills and bond drills; current budget appropriations; proposed Budget
Change Proposals; and analysis of remaining bond funds available to the Agency in out years.

As a small organization, the Agency works with other state departments that provide accounting,
contracts, human resources and IT services. As a part of our risk analysis, we interviewed the
departments that provide these services and determined they are compliant with SLAA reports and are
audited to assure compliance with applicable state laws and regulation.

EVALUATION OF RISKS AND CONTROLS

Operations- External- Fraud, Theft, Waste, Misconduct, Vandalism

1. The Agency operates grant programs that provide grants to local entities. There are risks in
providing grants to local entities including:
   - Many are small and may lack the organizational capacity to operate effectively,
   - Grantees are outside of the state government and may have weak internal controls.
   - Grantees could use funds for unapproved grant related activities.

The Agency considers these risks to be significant because we are granting millions of dollars
to multiple organizations in diverse geographic areas. The Agency mitigates this risks by
contracting with the Department of Finance’s Office of State Audits and Evaluation (OSAE).
OSAE reduction of risk is as follows:
   - OSAE has performed audits of Agency procedures and policies and has determined we
     have strong internal controls in place.
   - OSAE also performs grantee audits to assure the grantees meet the requirements of the
     the grant agreement.

In addition to audits, the Agency has built in safeguards including requiring accounting reports
and invoices before payments are made and field visits to ensure that public funds are used
appropriately.

Operations- Internal- FI$Cal Conversion

Transition to the new FI$Cal financial system. The Agency is scheduled to transition from the current
state financial system (CALStars) to the new FI$Cal system July 1, 2016. There are inherent risks in
transitioning to a new financial system, these risks include:
   - Error rates could be increased as staff learns the new system.
   - Processing time of transactions could be slowed thus increasing the risk of late payment penalties.
   - Delays in monthly closings could cause management reports to be late, thus reducing managements
     ability to respond to issues.
The Agency is reducing these risks by contracting with an outside entity to lead the process. The contractor will prepare the Agency to meet the requirements of the FI$Cal project, through a redesigning of the Agency’s business processes related to FI$Cal Financial Management system components. The contractor will perform a Business Process Redesign on Agency processes in order to effectively align the processes with FI$CAL system enablers. The Agency Business Process Redesign will document existing business processes, procedures, existing associated systems, and organizational structures. Finally, the contractor will analyze existing processes and then realign processes to meet the FI$Cal methodology and system.

ONGOING MONITORING

Through our ongoing monitoring processes, the Natural Resources reviews, evaluates, and improves our systems of internal controls and monitoring processes. As such, we have determined we comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Natural Resources, John Laird, Secretary, is responsible for the overall establishment and maintenance of the internal control system. We have identified Janelle Beland, Under Secretary, as our designated agency monitor(s).

Frequency of Monitoring Activities

The Agency Executive Team, which consists of the Agency Secretary, the Undersecretary, the Assistant Secretary for Administration and Finance, Chief Counsel, and all program managers, currently meet quarterly and will include a discussion of monitoring activities. The designated agency monitor is Undersecretary Janelle Beland.

Reporting and Documenting Monitoring Activities

Monitoring results will be reported by memorandum quarterly to the Secretary by the program managers. The results will be discussed at the next executive team meeting. Copies of the memos will be maintained on the Agency’s share drive.

Procedure for Addressing Identified Internal Control Deficiencies

Monitoring deficiencies will be addressed by the Assistant Secretary for Administration and Finance and reported to the Executive Team on a monthly basis. Deficiency reports will be disseminated to the Executive Team and any applicable staff.

CONCLUSION

The Natural Resources strives to reduce the risks inherent in our work through ongoing monitoring. The Natural Resources 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.
John Laird, Secretary

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