December 22, 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 Natural Resources 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 Bryan Cash, Assistant Secretary for Administration and Finance, at (916) 653-6381, Bryan.Cash@resources.ca.gov.

BACKGROUND

The mission of the 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 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 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) and in addition to ELPF support funding comes through the General Fund and special funds; i.e., bond funds program delivery, federal funds, greenhouse gas reduction funds, transportation funds, specialized license plate funds and reimbursements. Local assistance grants are funded by state appropriations from general obligation bonds, transportation funds and specialized license plate funds.
ONGOING MONITORING

As the head of Natural Resources, John Laird, 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 Natural Resources internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: John Laird, Secretary, Thomas Gibson, Undersecretary, and Bryan Cash, Assistant Secretary for Administration and Finance.

Monitoring Activities

The Assistant Secretary for Administration and Finance meets frequently with program managers and reviews financial reports to assess the effectiveness of internal controls.

Addressing Vulnerabilities

As vulnerabilities are identified, the Assistant Secretary for Administration and Finance works directly with the affected programs to make sure the vulnerabilities are addressed in a timely manner.

Communication

The Assistant Secretary for Administration and Finance regularly communicates with managers and key staff when issues arise and to prevent them from occurring. Weekly executive staff meetings provide one vehicle through which to communicate these issues along with impromptu meetings with the program managers.

ONGOING MONITORING COMPLIANCE

The Natural Resources 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 Natural Resources systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Natural Resources risk assessment process: Executive Management, Middle Management, and Front Line Management.

Risk Identification

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 include the Deputy Assistant Secretary for Administration and Finance, the Deputy Assistant Secretary for Strategic Growth and Climate Investments, the Agency Administrative office and other staff members.

The process included meetings with the staff noted above. The purpose of the meetings were to identify: (1) risks with the greatest potential impact; (2) acquiring subject area expertise of program and administrative managers to document the risks; and (3) providing background on program operations to
document controls in place to mitigate risks. In addition to the meetings, reviews were conducted of the Agency’s 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 we compliant with SLAA reports and are audited to assure compliance with applicable state laws and regulation.

**RISK RANKING**
See above.

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**RISKS AND CONTROLS**

**RISK: Operations - Internal-Staff—Key Person Dependence, Workforce Planning**
Because we are such a small department, turnover could result in the loss of important institutional knowledge.

Retirements and staff leaving for other opportunities can create this issue.

With these staffing losses, important institutional knowledge can be lost and difficult to restore.

**Control A**
Agency is implementing a couple of items to offset this risk. First, Agency is cross-training staff where feasible to make sure that performance of important tasks can continue if there is turnover. Second, Agency is creating and or updating desk procedures and manuals to make sure that institutional knowledge is not lost.

**RISK: Operations - Internal-FI$Cal Implementation, Maintenance, or Functionality**
See risks listed in results section.

Transitioning to Fi$cal from CalStars.

- 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 increasing risks.

This transition could make it extremely difficult for payments for services and goods, including phones, electricity, internet providers, etc., and grantees to be processed in a timely manner. This could have a negative impact on Administrative staff’s normal business operations, in addition to having to field calls from vendors and grantees regarding late payments.

**Control A**
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 by looking at how we do business today and documenting how we can transition these processes efficiently to
CONCLUSION

The Natural Resources 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.

John Laird, 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