December 28, 2015

John Laird, Secretary  
California Natural Resources Agency  
1416 Ninth Street, Suite 1311  
Sacramento, CA 95814

Dear Mr. Laird,

In accordance with the State Leadership Accountability Act (SLAA), the State Coastal Conservancy 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 Mary Small, Deputy Executive Officer, Budgets and Operations, at (510) 286-4181, mary.small@scc.ca.gov.

BACKGROUND

The Coastal Conservancy's mission is to preserve, protect, and where possible, to restore the resources of the California coastal zone for the enjoyment of the current and succeeding generations. Its vision is of a beautiful, restored, and accessible coastline. More specifically, the Conservancy works with local governments, state agencies and non-profit organizations in the development of projects to preserve and restore wetlands and open space, create public accessways, restore visitor serving facilities along the coast, build trails, and respond to the challenge of climate change.

The State Coastal Conservancy consists of a board, an executive officer, and a staff of about 65 FTEs. The Conservancy Board meets approximately 5 times a year and has representatives from the Department of Finance, Natural Resources Agency and Coastal Commission. The Executive Officer updates the Board at each meeting, consults regularly with his management team and staff members about both significant agency-wide decisions as well as day-to-day departmental operations. The Executive Officer, two Deputy Executive Officers, Program Managers, Chief Counsel, Chief of Administration and Regional Program Managers are readily accessible to staff. This open communication allows decisions to be made with the contribution of staff at all levels. All staff meetings led by the Conservancy’s Executive Officer are held every two weeks, providing a forum for the E.O. to provide information of agencywide interest and for staff to ask questions. Additionally, monthly meetings of the Conservancy’s management team include the Executive Officer, Deputy Executive Officers, Chief Legal Counsel and Chief of Administrative Services. These meetings are a forum to discuss and make decisions regarding agency wide and program specific issues. Each department unit holds meetings to provide information to their staff and to solicit input on current and upcoming issues.

Mission related programs and activities: wetland enhancement and restoration; coastal trails development; public access development; watershed/water quality enhancement; coastal waterfront restoration; agricultural conservation, San Francisco Bay conservation, property acquisition, habitat protection and restoration, dealing effectively with sea level rise and climate change, and open space preservation. Administrative functions: legal, accounting, contracts and grants, budgets, business services/facilities operations; procurement; human resources, incoming grants and reimbursements, clerical/secretarial services, and information technology services.

RISK ASSESSMENT PROCESS

The Executive Officer met with managers including the Conservancy’s two Deputy Executive Officers and the Chief of Administration. The topic of risk assessment was examined on an agency-wide basis, reviewing past risks, remediation efforts, current identified and potential risks. The Conservancy has also been audited by federal agencies with respect to federal grants and has contracted for an independent
audit of its internal controls. The risks were discussed in terms of greatest consequences, whether they were imminent, local or statewide consequences, and the ability to mitigate them with current resources.

Identified areas of weakness and/or risk were segregated into organizational, programmatic, external relations, fiscal and administrative. Executive and management staff discussed which risks were the most imminent, which could have the most severe consequences, which could be remedied with available staff and other resources as needed. The group selected six (6) identified risks across programmatic and administrative areas of responsibility to address based on these criteria.

Before final selection was made, the list of all identified risks and the process for selecting those to be addressed and remedied was brought before the Conservancy’s full management team for discussion and confirmation.

EVALUATION OF RISKS AND CONTROLS

Operations- External- Funding—Sources, Levels

Having no stable, sustained funding source(s) for operations costs risks the continuity of efforts to carry out its mission to protect and improve coastal areas and sustain local economies, retain qualified staff to undertake the long-term planning and implementation necessary to accomplish land use change, and provide non-captial funds to maintain projects already completed. Throughout the Coastal Conservancy’s 39 year history, there has not been a single, sustained source of funds for its operations or its projects. Over the years bond funds have come and gone, Federal support has waxed and waned, and there have even been appropriations from the General Fund to support the Conservancy’s operations. The Conservancy is clearly in a period of transition, requiring sufficient stable fund sources for its operations. Between 2002 and 2012, the Conservancy was entrusted with the expenditure of $960 million in bond funds. The small percentages allowed for the administration of the bonds and program delivery have supported the agency during this period and are expected to pay for much of the agency’s operation during the next few years providing that activity is related to capital expenditures. Concurrently the Conservancy has implemented internal operating cost reductions, staff reductions, and increased its efforts to bring outside grants to augment current fund sources, including support costs. Without stable funding sources the Conservancy’s ability to continue to implement and administer projects that protect and restore California’s coast remains uncertain.

Conservancy management and staff have identified areas of costs savings, developed goals and plans, and implemented support cost reductions. Staff positions have been reduced from 81 PYs to 64 PYs in the past few fiscal years by efforts including abolishment of positions which could no longer be fiscally sustained, and cross training and workload management efforts for remaining staff. Additional cost savings have been achieved through reduced travel and increased phone and other conferencing use and reducing and deferring purchases of non-critical office equipment and other items.

The Conservancy has increased efforts to increase levels of incoming federal grant dollars and reimbursable grant funds to augment existing funds, both for project dollars and payment of project related support costs. Coordinated assistance is provided to staff to assist with grant applications, project budget preparation, compliance with federal and state grants, and Annual meetings with federal funders and legislative staff have resulted in increased project funding and awareness of funding needs.

Conservancy management has been meeting with the California Natural Resources Agency, Department of Finance and others to communicate funding needs, and to ensure we have provided sufficient information for decision making regarding the Conservancy’s remaining fund balances and needs for additional baseline funding. Funding needs have been discussed, including the amount of additional resources needed, current funding levels, departmentally
implemented expenditure reductions, and projections for out year funding needs.

**Operations- External- Fi$Cal Conversion**

State Coastal Conservancy is scheduled for Wave 4 implementation onto Fi$CAL. Pre-Wave 4 workloads have increased with partial transition to FISCAL hyperion documentation. Wave 1 implemented departments have been unable to complete year end closing, which has also caused workload and other concerns. Dual systems of CALSTARS and FISCAL will be run concurrently for the first year of full implementation onto FISCAL.

Internal meetings were held to identify future super users for Fi$CAL within Budgets, Accounting and Contracts/Procurement. Role mapping was developed for Procurement changes by FISCAL and submitted to Fi$CAL CMO. Training plans were developed and provided for staff.

SCC staff also met with California Natural Resources Agency (CNRA) level staff and other Wave 2, 3 and 4 departments to discuss plans for implementation.

Additionally, CNRA has completed selection of a FISCAL consultant who will work with CNRA departments and assist with transition from legacy to FISCAL, problem solving with departments to resolve gaps between legacy and FISCAL processes.

Finding that workload associated with coordinating internal and external communications, online training needs and communications with FISCAL Change Management Office (CMO) required additional staffing resources, the Conservancy hired a Staff Services Manager I (Specialist), working with the Chief of Administration to serve as Budget Officer/Fi$CAL Implementation Coordinator. This position will perform technical/analytical budget preparation using hyperion and templates and coordinate activities needed to prepare Conservancy staff for implementation stages. Additional meetings have been facilitated and staff are completing additional website training with consistent in house resources more readily available.

The Conservancy's Budget Officer/Fi$CAL Implementation Coordinator and Admin. Chief are in communications with FISCAL CMO, Agency level staff and other departments preparing for or already implemented onto Fi$CAL. Implementation plans have been developed based on information gathered from Agency, DOF and other Fi$CAL departments.

**Operations- Internal- Workplace Environment**

The State Coastal Conservancy is required to move to the Oakland State Elihu Harris Building in the summer/fall of 2016 after almost 35 years at its current location. As a small department, the Conservancy has one Facilities Operations staff who is also the Conservancy's Procurement Officer, Business Services Officer and Training Officer, based on limited activities within these administrative functions at any given time. Planning and carrying out the move of all staff and general area furniture items, file space, conferencing rooms and equipment, storage locations and other unforeseen aspects of an agencywide move with minimal disruption is a significant undertaking.

**Secure Funding**: Conservancy staff estimated all known costs associated with the move and prepared a Budget Change Proposal (BCP) for additional funding to cover both the expenses associated with the move as well as the additional increased rent costs. Funding from the General Fund was approved for purchase of new furniture to replace built in current furniture, IT equipment and adequate datalines, and for DGS costs of ADA upgrades, planning and oversight costs, and build out according to specifications. The funds were appropriated and placed into the DGS Architectural Revolving Fund for expenditure by DGS for their efforts and Conservancy furniture.

Staff resources to plan and carry out the move. Additional staff have been identified and assigned to share project responsibilities for various aspects of the move. The Deputy
Executive Officer (DEO) will oversee, coordinate, and manage staff efforts. The Chief of Administration serves as primary liaison with DGS in planning, budgeting and funding, and working with the Facilities Operations Officer to purchase new items, secure quotes and vendors, perform inventories, and serve as liaison with the State Building. The Conservancy’s IT manager and staff analyst are planning for and preparing move of sensitive IT equipment, PCs, printers, scanners and copiers to be moved to appropriate locations and ensuring that necessary levels of power are available at various locations where equipment will be located.

Planning and procurement: Space planning has been completed for all Conservancy staff with new offices identified at the State building. Furniture that can be moved has been identified for specific offices and additional furniture based on individual needs has been identified and submitted for timely procurement from PIA given the 6+ months to fill orders. Excess and broken furniture has also been identified for sending to DGS surplus or being discarded. A committee was convened to plan out the general areas of the office which will be used by all staff to ensure that best uses are available. An agencywide purge of stored files was carried out, resulting in over 2.6 tons of non-essential files and those slated for destruction by retention scales being shredded and discarded.

Compliance—Internal—Staff Not Adhering to Policies, Procedures, or Standards

Acquisition and project monitoring is required by state and federal law and Conservancy policy to ensure that property interests acquired with public funds remain in the condition prescribed for public use, open space or other protected purposes. This includes purchased real property easements, as well a property obtained in fee title. Monitoring requires some degree of both legal and scientific expertise to evaluate the obligations of the grantee to maintain the property for public benefit. Inspections must evaluate the presence or absences of all of the following:

- Sale or transfer of easement or fee title
- Use of property as mitigation
- Unauthorized improvements to the property
- Changes in use of property
- Encroachments

Coastal Conservancy Regional Program Managers met with Staff Counsel to discuss risk associated with non-compliance with monitoring of projects and property and need to do so based on grant agreement requirements.

Procedures and monitoring forms were developed and presented to management team for review, comment and approval.

Training was given to all Conservancy project staff regarding required monitoring, how to perform and document a monitoring site visit, along with photos, and how to document the file and project database once monitoring has been completed.

In addition, property is monitored by grantee-owners. Owners provide information including the following:

- Sale or transfer of easement or fee title
- Use of property as mitigation
- Improvements to the property
- Changes in use of property
- Encroachments

Should any of these situations be reported or observed, staff follow up with the property owners, Conservancy management and legal counsel to determine appropriate remedy.

Operations—Internal—Technology—Data Security

Loss of files and information stored on the Conservancy’s server. The Coastal Conservancy’s server...
contains information and documents such as project files, funding information, grant agreements, legal documents and information as well as policies, procedures, and other documents used frequently by administrative and project staff to perform their jobs and provide information for others and for work-related needs. Documents have been stored by individual staff on the department's server; however there was not a fully developed and organized file system, resulting in multiple copies of the same document(s) as well as difficulty in finding needed documents. For ease of finding frequently used documents, staff set up their own files if they were not able to locate the primary file folder containing what they needed. This was not efficient and the multiple documents used much needed server space.

Conservancy management reviewed the structure of information contained on the server and proposed a new heirarchy of file folders that was more logical according to the documents being stored and user needs. The new structure was reviewed with a comment period prior to movement of files and deletion of duplicate items.

The current system is working well - various units maintain specific file folders and are readily able to use and retrieve information as needed. The system is also more stable, providing for links to documents to work much longer.

Critical information stored on our servers are back up nightly and the tapes are stored in an off-site location. In the event of a server failure or malicious destruction of agency data, the back up tapes can be used to restore lost data.

**Compliance- Internal- Staff Not Adhering to Policies, Procedures, or Standards**

No formal consolidated system was in place to ensure that staff received required training and that trainings were up to date as prescribed. While training has always been a priority at the Coastal Conservancy, including recent procedural training for all staff over the past several months, there were some mandated trainings that the Conservancy did not have complete records of regarding all staff compliance. Recent trainings included an overview of the department's history and mission, project development, management and implementation, grants management, various administrative policies and procedures, and training regarding ADA goals. Additional, supervisory training has always been funded for newly appointed supervisors.

For other State mandated trainings including Ethics Orientation, Privacy Training, Supervisory Training, Sexual Harassment and Anti-Bullying as well as Defensive Driver Training, there was no agency-wide listing for transparency and to ensure that all staff were both fully trained in all required areas and that training was taken at the time intervals required.

When this came to the attention of SCC Management, an agencywide training coordinator was assigned to monitor required trainings, inform staff of the need to participate in the training and provide training links as needed. The training coordinator also maintains a comprehensive report on staff participation in State required training.

All staff were contacted and signed up for training which was due or past due. Staff participated in required training and reported completion to training coordinator.

The departmental coordinator now maintains an up to date record of training dates and next due date for trainings for required training, ensuring compliance and appropriately trained staff.

**ONGOING MONITORING**

Through our ongoing monitoring processes, the State Coastal Conservancy 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 State Coastal Conservancy, Samuel Schuchat, Executive Officer, is responsible for the overall establishment and maintenance of the internal control system. We have identified Amy Hutzel, Deputy Executive Officer, as our designated agency monitor(s).

**Frequency of Monitoring Activities**

Monitoring is a continuous process with monthly management team meetings as the forum to present, discuss and make decisions regarding identified areas of risk, concern or other items needing attention. Concerns of an urgent nature can and should be raised as they occur or are discovered and are addressed in a timely manner. These matters will be reported as needed to all staff, management team, or those affected.

**Reporting and Documenting Monitoring Activities**

All Conservancy staff are empowered to raise issues of concern to their immediate supervisor or managers. Given the small size of the Coastal Conservancy, this may be an informal process or may be brought up at monthly unit meetings. The small staff size provides opportunity for staff at all levels to raise issues with their manager who attends monthly management team meetings. Items are sent to the Deputy Executive Officer responsible for agendizing items. Managers bring potential action items to management team for discussion and decision making. Upon Executive and management concurrence, staff resources are assigned to undertake and mitigate risks and report back on progress/completion. For long term projects, periodic updates are provided to management along with any problems that require management resolution in order to accomplish remediation and mitigation goals. Documents, procedures, and other outcomes are maintained by the Conservancy for use and reference.

**Procedure for Addressing Identified Internal Control Deficiencies**

Timeframes for addressing and mitigating risks is dependent upon the the situation. Some risks are mitigated within days through decision making and disseminating information to all affected staff. Some mitigation efforts may require additional time if other outside parties are involved. Timeframes are discussed at management team meetings and if necessary, periodic progress reports and updates are provided and potentially a re-assessment to assure that efforts will lead to necessary outcomes. Risks undertaken and addressed will often result in new or updated procedures and communications which are disseminated and maintained for use and reference.

**CONCLUSION**

The State Coastal Conservancy strives to reduce the risks inherent in our work through ongoing monitoring. The State Coastal Conservancy 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.

Samuel Schuchat, Executive Officer

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