Dear Mr. Laird,

In accordance with the State Leadership Accountability Act (SLAA), the San Diego River 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 Dustin Harrison, Environmental Scientist, at (619) 645-3183, dharrison@sdrc.ca.gov.

BACKGROUND

**Department Mission/Goals/Strategic Initiatives**

The San Diego River Conservancy (SDRC or Conservancy) was established by an act of the California Legislature (AB 2156, Kehoe) to preserve, restore and enhance the San Diego River Area. The Conservancy is an independent, non-regulatory agency within the Natural Resources Agency of the State of California. The SDRC’s thirteen member Governing Board consists of both state and local representatives. This partnership reflects the diversity and dedication to conserving this highly valued resource of statewide significance, the San Diego River watershed area.

Our mission, the restoration and conservation of the San Diego River Area, is accomplished by (1) acquiring, managing and conserving land; and (2) protecting or providing recreational opportunities, open space, wildlife species and habitat, wetlands, water quality, natural flood conveyance, historical and cultural resources, and educational opportunities. One important Conservancy goal is to build, in conjunction with our partners, a River-long park and hiking trail stretching fifty–two miles from the River’s headwaters near Julian to the Pacific Ocean.

The San Diego River area is an historical, archeological and biological treasure of statewide significance. The San Diego River area is the "Birthplace of California" and holds the key to the State’s heritage. With human inhabitants for over 8,000 years, the San Diego River Area boasts no less than twenty-nine State Historic Landmarks, three state parks and rich archeological resources.

Today, the San Diego River Watershed area is home to over one-half million people, including five Native American tribes, and at least twenty-five state and federally listed endangered and threatened plant and animal species.

The San Diego River is also of significant economic value to the state. In 2003 alone, the San Diego River Conservancy area welcomed over twenty-six million visitors, helping to support an annual tourism industry in San Diego of over five billion dollars.

The San Diego River Conservancy’s numerous objectives and goals are grouped into four major program areas that represent the essential themes of the Conservancy’s work. The four program areas are as follows.

1. Land Conservation
2. Recreation and Education
3. Natural and Culture Resources Preservation and Restoration
4. Water Quality and Natural Flood Conveyance
Critical Business Functions, Objectives, and Activities
The San Diego River Conservancy adopted its first Strategic and Infrastructure Plan in March 2006 covering 2006-2011 and its second Plan for 2012-2017. These Plans describe resource allocations to the SDRC, public needs served by the SDRC, programs, policies, principles, and project and the recommended future course of SDRC’s efforts.

The SDRC’s Governing Board approves an annual work plan that is consistent with the Strategic Plan and approves all projects. SDRC obtains the funding and enters into the financial agreements necessary to implement the projects that are approved.

SDRC is a cost effective and economically efficient operation. There are two full time permanent positions and one limited term position funded by the 2014 Water Bond. Staff is responsible for meeting strategic plan and annual goals and objectives coordinating annual budget (from Environmental License Plate Fund) and capital outlay allocations. SDRC’s administrative services (financial audits, personnel, contracting, accounting, invoice payment and cash management) are contracted through an Interagency Agreement to the Administrative Unit of Department of General Services, Contracted Fiscal Services.

Management is accomplished through project partnerships with local governments, public agencies, and NGOs along the San Diego River. This administrative environment provides discipline, structure and accountability. Local partners include:
- City of San Diego (various departments),
- County of San Diego,
- City of Santee,
- Lakeside’s River Park Conservancy,
- San Diego River Park Foundation,
- San Diego Canyonlands,
- Padre Water District,
- Helix Water District,
- San Diego State University Research Foundation,
- United States Forest Service.

Establishment of Statutory Duties
The San Diego River Conservancy was created in 2003 by the San Diego River Conservancy Act, Public Resources Code Division 22.9, commencing with Section 32630. The San Diego River Conservancy (SDRC or Conservancy) was established by an act of the California Legislature (AB 2156, Kehoe) to preserve, restore and enhance the San Diego River Watershed Area. The Conservancy is an independent, non-regulatory agency within the Natural Resources Agency of the State of California that became a permanent state agency in 2015.

Chapter 2 of the San Diego River Conservancy Act provides for the San Diego River Conservancy . . .
(a) To acquire and manage public lands within the San Diego River area, and to provide recreational opportunities, open space, wildlife habitat and species restoration and protection, wetland protection and restoration, protection of historical and cultural resources, and protection, maintenance and improvements of the quality of the waters in the San Diego River and its watershed, its tributaries and historic flumes emanating from the river for all beneficial uses, lands for educational uses within the area, and natural floodwater conveyance.
(b) To provide for the public’s enjoyment, and to enhance the recreational and educational experience and historic interpretation on public lands in the territory in a manner consistent with the protection of land and natural resources, as well as economic resources, in the area.

RISK ASSESSMENT PROCESS
SDRC was created by law to restore and conserve the San Diego River Area. SDRC is a division of the Natural Resources Agency and contracts with Administrative Unit of Department of General Services, Contracted Fiscal Services (“DGS-CFS”) (Government Code 13400-13407) for administrative services as
well as budget and fiscal management. Controls are defined as a process to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting; (b) effectiveness and efficiency of operations; and (c) compliance with applicable laws and regulations. Most administrative and fiscal functions are provided for SDRC by DGS-CFS through an interagency agreement, including, in whole or in part, human resources, payroll, contracting, budgeting, and other fiscal services. As a result, the systems of internal accounting and administrative control for these aspects of SDRC's functioning are significantly dependent on DGS-CFS.

SDRC has conducted an internal review of its internal controls, hard and soft controls, its control environment, and statutory objectives of the San Diego River Conservancy Act. In its assessment SDRC management also reviewed organizational structure, assignment and segregation of duties by position, document control, and adherence to policies and procedures and standards of conduct. While no deficiencies have been found, there does exist an opportunity to work more efficiently within the protocols and standards of the various agencies it engages to accomplish objectives. SDRC is continuously exploring ways to improve its business practices. SDRC has limited fiduciary responsibilities. Fiscal management and internal controls are audited by Department of Finance and other state agencies and indirectly through its relationships with its funding partners.

Externally, ongoing auditing and the assessment of chronic and acute risks to the SDRC program direction is accomplished through project partnerships with local governments, public agencies, and non-governmental organizations (NGOs) along the San Diego River are the creation of the annual work plans. These partners meet regularly to discuss current projects and future projects, assess risks through discussion, and formulate cooperative strategies for success. The San Diego River Coalition, a citizen's advisory and stakeholders' group comprises approximately 70 organizations and meets the third Friday of every month.

SDRC's Governing Board meets bi-monthly. SDRC executive staff coordinates with its Governing Board members and includes risks or concerns raised by the San Diego River Coalition and other partner organizations as agenda items for discussion and action. Moreover the Annual Work Plan of SDRC is always consistent and cross references the Work Plan of the Coalition's a consequence, the actions SDRC takes to achieve its statutory objective reflect this integrated and cooperative approach, which establishes a system of internal and external checks and balances. It is a methodology that allows for programmatic adjustments to respond risking assessments made throughout the year.

EVALUATION OF RISKS AND CONTROLS

Operations- External- Partner Agencies/Grantees—Conflicting Objectives, Program Coordination

Risk: Changing Priorities.
Each year, an annual SDRC work plan is created and represents a knitting together of priorities identified by SDRC's Board, its partner agencies and non-profit organization, the San Diego River Coalition and recommendations from SDRC staff. It must consider the statutory objectives of SDRC as well as limitations of its funding partners and projects.

The vast majority of projects are classified as complex and require considerable coordination within political, environmental, legal and financial frameworks of local jurisdiction and funding agencies.

Actions would include: 1) Recognizing the regional stature of the Board of Governors, SDRC should seek to have its priorities integrated with those of state, municipal, county and federal governments in the watershed. This should result in SDRC's goals and objectives inclusion in the appropriate Capital Improvement Programs for these governments; 2) SDRC staff should develop strategies that make certain the Conservancy is in a strong position to be the beneficiary of local, federal and charitable funds, an obvious tactic would be for SDRC to capitalize and build on its relationships with local and federal funding agencies to provide additional financial assistance to implement the strategic plan and complete projects approved by the Governing Board; 3) commence building a network and relationships with key state legislators and staff, as well as public officials in state, local and federal government.
Operations- External- Fi$Cal Conversion

Fi$cal Conversion & Implementation
Conversion of legacy accounting and fiscal system to new software program Fi$cal there have been many delays, difficulties and challenges starting with the roll out process for wave 2 agencies. These risk may include a delay in process invoice payments; lack of follow up in a timely fashion; lack of ownership for problems/difficulties of new software. In addition a lack of organization at the Fi$cal level makes it hard to locate/identify specialist to answer technical questions, and staff is passed around to several different people within the Fiscal/DGS organizations before receiving answer to questions. When a request is entered into the Fiscal system, it may require many review and approvals from SDRC and DGS-CFS to get request approved by all parties before payment is issued. Approvals not being timely entered can cause delays of a few days or weeks per transaction. Errors in data entered by DGS-CFS often require correction and additional follow up on behalf of SDRC to obtain authority/permission to make needed changes. Any errors in Fi$cal system then can cause a delay in issuance of payment.

Daily and continually outreach to DGS-CFS staff and Fiscal Service Center to ask/answer operations for new software program. In addition staff is working to complete online training modules and virtual class room training to be exposed and educated about new procedures for entering information in the Fi$cal system and processing vendor invoices. Communication between SDRC staff and Executive Officer to locate where request is waiting for additional approvals to continue processing requested. At the end of every week SDRC staff and Executive Officer review status of Fi$cal transactions in process to assure things are being approved by DGS and moving forward for payment of invoices.

Operations- External- Partner Agencies/Grantees—Conflicting Objectives, Program Coordination

Capital Project Implementation Funding
Risk: Monies to complete the capital improvement projects must be calculated, identified and encumbered. The time-span for a capital improvement project could be five years or more.

The first step is to conduct a comprehensive feasibility study for a priority project as identified through pre-planning process. This step analyzes the potential costs associated with completing a project and funding sources that may be available to complete it. These monies could include funds set-aside by state agencies (State Coastal Conservancy, Natural Resources Agency), local agencies, federal agencies and grants or donations from charitable entities. The feasibility study calculations, identification and securing of monies is completed within the statutory requirements of multiple decision-making authorities. Once completed, the funding for the project must be encumbered for the duration of the project. CEQA (California Environmental Quality Act) analysis must also be completed with the results showing that the project can proceed. No additional action plan is contemplated other than an ongoing search for available funding.

SDRC would mitigate and attempt to reduce this risk through actions that take full advantage of the composition of its governing board, which includes state agency executives, local elected officials and community leaders; as well as, increasing its engagement with the community.

Actions would include the following: 1) establishing a project committee to better alignment of priorities to streamline project management. 2) Empower and engage the Governing Boards of the SDRC and the San Diego River Coalition to work with the leadership of state and local government to be more responsive to SDRCs project priorities and needs.

ONGOING MONITORING

Through our ongoing monitoring processes, the San Diego River 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 San Diego River Conservancy, Julia Richards, Executive Officer, is responsible for the overall establishment and maintenance of the internal control system. We have identified Julia Richards, Executive Officer, as our designated agency monitor(s).

Frequency of Monitoring Activities

Monitoring activities occur weekly and/or monthly, depending on task, at the staff level during individual or staff meetings to identify problems or difficulties as they arise. Executive management aprises Board of Directors quarterly about projects, progress and departmental compliance.

Reporting and Documenting Monitoring Activities

Monitoring activities are reported internally to staff members and team. Follow up is on an as-needed basis by staff or Executive Officer to advise of situation and to seek amicable resolution. In addition, the SDRC’s Chair and Vice Chair are kept up to date on risks associated with Conservancy’s operations, capital funding and any other issues or items of concerns via emails and telephone calls. Risks may also be addressed as needed under the Executive Officer’s report at its Board Meetings, which are held every other month.

Procedure for Addressing Identified Internal Control Deficiencies

Risks are minimized through peer oversight on a weekly and monthly basis. Deficiencies are reported to the Executive Officer and remedied as soon as possible. Appropriate action is taken to resolve the issue, usually within one to two weeks.

CONCLUSION

The San Diego River Conservancy strives to reduce the risks inherent in our work through ongoing monitoring. The San Diego River 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.

Based on the risk assessment conducted and the ongoing checks and balances systems set in place the Conservancy believes that it has the appropriate control systems and processes in place to support its statute, mission, safeguard its reputation and protect its fiscal integrity. The program staff is experienced in mitigating this risks and balancing them against opportunities. Further the Conservancy has a proven track record of accomplishments and successful audits within this environment.

Julia Richards, Executive Officer

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