December 29, 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 Sierra Nevada 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 Amy Lussier, Administrative Division Chief, at (530) 823-4707, amy.lussier@sierranevada.ca.gov.

BACKGROUND

The SNC was created by bi-partisan legislation known as the Laird-Leslie Sierra Nevada Conservancy Act, signed into law by Governor Arnold Schwarzenegger in September 2004, and codified in the Public Resources Code, Sections 33300-33302. The SNC is a state agency within the Natural Resources Agency, established to provide support to and give strategic direction for environmental, economic, and social benefit of the Sierra Nevada area and its communities.

The SNC's service area covers 25 million acres and all or part of 22 counties, from Modoc County in the north to Kern County in the south. Comprising 25 percent of California's total land area, it is the largest conservancy region in the state. The statute establishing the SNC divides the Region into six smaller Subregions. The Sierra Nevada Region is an extraordinary resource of regional, statewide, national, and even global significance. It is the state's principal watershed, supplying up to two-thirds of California's developed water supply. The Sierra sustains 60 percent of California's animal species and nearly half of its plant species, including the world's largest living thing: General Sherman, a Giant Sequoia.

In addition to providing water for the state, the Sierra supplies up to half of California's annual timber yield and 15 percent of the state's power needs. It holds untapped potential to increase its contribution to California's green energy portfolio through the use of biomass removed from the Region's forests, while at the same time improving the forests' ecological health. Its forest and agricultural lands are also uniquely suited to help reduce the warming impact of a changing climate by removing carbon dioxide from the atmosphere and storing it in tree trunks, branches, foliage, roots, and soils. The Sierra also hosts more than 50 million recreational visits per year and is home to more than 600,000 residents in 200+ local communities – communities that depend in large part on natural resources for economic sustainability, job creation, recreation, and to preserve the community character and watersheds that are unique to the Sierra Nevada Region.

The SNC's mission is to initiate, encourage, and support efforts that improve the environmental, economic, and social well-being of the Sierra Nevada regions, its communities, and the citizens of California. Its vision is that the magnificent Sierra Nevada Region enjoys outstanding environmental, economic and social health with vibrant communities and landscapes sustained for future generations.

The SNC has seven statutorily established program areas: protect, conserve and restore the Sierra Nevada's physical, cultural, archaeological, historical, and living resources; aid in the preservation of working landscapes; reduce the risk of natural disasters such as wildfires; protect and improve water and air quality; assist the Regional economy through the operation of its programs; undertake efforts to enhance public use and enjoyment of lands owned by the public; and provide increased opportunities for tourism and recreation.
At the head of the SNC is a 16-member Governing Board that includes the Secretary for the California Natural Resources Agency; the Chief Deputy Director of Finance (as the Finance Director’s designee); three members appointed by the Governor; one appointed by the Assembly Speaker; one appointed by the Senate Rules Committee; six county supervisors, each representing one of the six Subregions of the Sierra Nevada; and three non-voting federal liaisons, one each from the National Park Service, the United States (U.S.) Forest Service, and the U.S. Bureau of Land Management. Effective January 2016, two members of the Senate, appointed by the Senate Committee on Rules, and two members of the Assembly, appointed by the Speaker of the Assembly, will act as liaisons, and meet with SNC and participate in its activities to the extent that such participation is not incompatible with their respective positions as Members of the Legislature.

Operations at the SNC are led by an Executive Officer and an Assistant Executive Officer, with two division chiefs at the next level. Legal counsel is provided through an interagency agreement with the State Coastal Conservancy and a Deputy Attorney General assigned to assist the SNC as needed. The SNC currently has 26 permanent, full-time positions and five to ten part-time, temporary staff, depending on the needs of the department. The SNC headquarters office is in Auburn and it has three satellite offices located in Mariposa, Bishop, and Three Rivers.

Because of its small size, the SNC has an interagency agreement with the Department of General Services (DGS) to perform budget and accounting functions for the SNC. Having DGS involved in its budgets and accounting functions enhances the internal controls of the SNC, providing an external level of review in addition to the reviews performed within the SNC.

The SNC receives its base (annual operating expenses) from the state's Environmental License Plate Fund. The SNC may also receive funds and interests in real or personal property by gifts, bequests, or grants, although this has not occurred to date. The SNC's grant program is funded by two funding sources: 1) Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014, and 2) Proposition 84, the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006.

Proposition 1 was approved by California voters in November 2014, and allocated $25 million to the SNC to support projects that will protect watersheds throughout the Sierra Nevada region. Of the $25 million, $2 million will be allocated for administration and $23 million for grant funding. Proposition 84 was approved by California voters in November 2006, and allocated $54 million to the SNC to support projects that will improve watershed health throughout the Sierra Nevada region. Of the $54 million, $4 million was allocated for administration and $50 million for grant funding.

In fiscal years 2007-08 through 2012-13, the SNC awarded all available grant funding through the execution of approximately 300 grant projects. The SNC continues to solicit projects to re-authorize about $1 million in funds that have been returned due to projects that have not used their entire funding. These funds will be allocated during the current (2015-16) and next (2016-17) fiscal years. The SNC has been and continues to explore and pursue alternate funding sources such as outside private and/or federal grant monies and partnering with other state departments such as the Water Control Board, the Department of Water Resources, and CAL FIRE. The SNC has been working with the California Natural Resources Agency, the California Environmental Protection Agency, the Air Resources Board, and others to obtain local assistance and research funds through the Greenhouse Gas Emission Reduction fund (Cap and Trade Revenue Auction proceeds). In addition, the SNC is pursuing more bond revenue through a new proposed water bond, expected to be on the ballot November 2016.

**RISK ASSESSMENT PROCESS**

To review recent improvements and to assess the risks currently facing our agency, the SNC prepared and distributed a survey instrument to the management team, followed by a management discussion of the possible risks and mitigating steps described in the survey document. The management team assessed the impact and likelihood of the various risks in order to prioritize additional actions needed. Certain staff members who might be involved with addressing risks and/or preparing the SLAA report...
were included in this management discussion. Further, the opinion of general counsel was requested. Improvements and actions taken by the SNC subsequent to the last SLAA report to reduce vulnerabilities and improve fiscal integrity and management accountability include:

· Consolidation of digital grants document libraries using SharePoint from three legacy databases in order to improve staff efficiency and data integrity.

· Updating staff and grantee resource materials such as the SNC Operations Manual and the “Managing Your Grant Booklet” as well as agreements and application materials to reflect changes associated with Proposition 1. The SNC has provided staff training on how to use the new materials and provided outreach and training to grantees and applicants.

EVALUATION OF RISKS AND CONTROLS

Operations- External- FI$Cal Conversion

Transition to FI$Cal has made it difficult to pay vendors and grantees in a timely manner: The SNC, as a client of Department of General Services’ (DGS) Client Financial Services (CFS), transitioned to FI$Cal in August 2015. This transition has made it challenging for payments for services, goods, and grants to be processed in a timely manner. In addition, late payments could lead to excess late payment fees which would impact SNC’s budget along with its relationships with vendors and grantees/organizations, especially small businesses. Per Chapter 927 of the Government Code, also known as the California Prompt Payment Act, vendors and Grantees are to be paid in a timely manner.

Continuous follow-up with CFS to establish clear and consistent processes.

Reporting- Internal- FI$Cal Conversion

FI$Cal Reporting: The SNC staff members who have access to FI$Cal have not been able to run reports to meet SNC’s specific needs. The reports that are currently in the system are too general, and staff does not have enough experience with the system to make their own queries for reports. This has impacted SNC’s ability to reconcile with internal records to verify its budget is on track.

Work with FI$Cal staff to provide on-site training at SNC. Find appropriate contact at control agencies regarding printing reports SNC staff doesn’t have access to.

Operations- Internal- New System Implementation (Other Than FI$Cal)

Grant management system upgrades: The SNC currently uses five different platforms to manage grant data and documentation. This system, while functional, requires staff and grantee training for each platform as well as general SNC staff support. With each system requiring manual data entry, there is the potential for data loss and inefficiency which is a burden on staff resources. The SNC is considering multiple options to upgrade the grant management system which may include SharePoint as it is a platform that staff is trained in using, allows for ease of customization, and through controls such as version history, maintains data integrity.

Staff responsible for implementing the upgrades met with various affected SNC staff to discuss needs/requirements for the new grant management system and the SNC Management Team to discuss options. Staff also met with software consultants to outline SNC grant management needs and to develop an implementation schedule.
New tracking and reporting tools will be developed and implemented so that the existing SharePoint platform will be adequate to replace the various, non-integrated solutions that are currently in place. A rigorous beta testing process for new features will be developed, particularly for those that will facilitate interaction with applicants/grantees and/or directly impact data integrity.

Critical data will be moved from the existing grant management system by July 2016. The upgraded SharePoint platform is expected to be stable and fully operational by August 2017.

ONGOING MONITORING

Through our ongoing monitoring processes, the Sierra Nevada 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 Sierra Nevada Conservancy, Jim Branham, Executive Officer, is responsible for the overall establishment and maintenance of the internal control system. We have identified Amy Lussier, Administrative Division Chief, as our designated agency monitor(s).

Frequency of Monitoring Activities

The SNC Executive Team, which consists of the Executive Officer, Assistant Executive Officer, Policy & Outreach Division Chief, and Administrative Services Division Chief, currently meets once a month and will include a discussion of monitoring activities.

Reporting and Documenting Monitoring Activities

Monitoring results will be documented on an Excel spreadsheet and will be communicated by the Administrative Services Division Chief to the rest of the Executive Team during their monthly meetings. The results will also be communicated to SNC staff either by e-mail or during quarterly all-staff meetings.

Procedure for Addressing Identified Internal Control Deficiencies

Monitoring deficiencies will be addressed by the Administrative Services Division Chief on a monthly basis 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 Sierra Nevada Conservancy strives to reduce the risks inherent in our work through ongoing monitoring. The Sierra Nevada 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.

Jim Branham, Executive Officer

cc: Department of Finance