December 31, 2015

Alexis Podesta, Acting Secretary
California Business, Consumer Services and Housing Agency
915 Capitol Mall, Suite 350-A
Sacramento, CA 95814

Dear Ms. Podesta,

In accordance with the State Leadership Accountability Act (SLAA), the Alfred E. Alquist Seismic Safety Commission 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 Ellena Daniel, Administrative Officer, at (916) 263-5506, edaniel@stateseismic.com.

BACKGROUND

The Alfred E. Alquist Seismic Safety Commission (SSC) was established by the Seismic Safety Act in 1975 to advise the Governor, Legislature, state and local agencies, and the public about strategies to reduce earthquake risk (Government Code §8870, et seq.). The SSC reports through the Business, Consumer Services and Housing Agency (BCSHA) and consists of 20 commissioners chosen for their technical expertise and experience. The Governor appoints 15 Commissioners, the Senate and the Assembly each choose a representative from their respective memberships (2), and three (3) state agencies are represented (Governor’s Office of Emergency Services, California Building Standards Commission, and the State Architect).

The SSC is the central seismic resource and guardian for the State of California and acts as advisor to the Governor and the Legislature on earthquake policy. The Commission provides Californian’s with cost-effective recommendations to reduce earthquake losses and speed recovery after such losses. Dedicated to reducing earthquake risk for the people of California since 1975, the Commission investigates earthquakes, reports on earthquake-related issues, and evaluates and recommends to the Governor and Legislature policies needed to reduce earthquake risk. The Seismic Safety Act creates an independent advisory body to provide consistent and coordinated earthquake safety policies and programs. The Commission is not an emergency response agency nor does it have any regulatory authority. Its purpose is to offer advice and encourage the creation and implementation of earthquake risk reduction policies and programs that promote public safety before, during and after earthquakes.

The SSC’s ongoing goal is to make significant progress toward earthquake safety. Each year the Commission works to further identify and stream-line post disaster economic recovery strategies. The California Earthquake Hazards Reduction Act (Government Code, Section 8871 et seq.), requires the Commission to prepare and administer a program to reduce statewide earthquake hazards. Under this Act the SSC administers its publication, California’s Earthquake Loss Reduction Plan. The SSCs accomplishments help reduce earthquake risk and improve post-earthquake recovery in California. The Commission has contributed to the passage of over 300 earthquake safety laws and continues to provide a voice for the people of California on seismic safety issues.

RISK ASSESSMENT PROCESS

Objective setting is the beginning approach to effectively manage possible risks to the SSC. The Executive Director and the SSC management team set strategic, financial, operational and other objectives during annual planning meetings held regularly throughout the year. During these meetings the management team engages in the risk assessment process by identifying risks associated to the
SSC’s objectives. Categories are established for each of the identified risks; strategic, financial, operational and various. The impact of the risks to the SSC are then evaluated and prioritized. Control practices are reviewed for reasonable assurance that legal, regulatory and business requirements are met and that identified risks are being mitigated. Control practices are also reviewed to ensure that key controls have been established, evaluated and are effective in preventing a breakdown of the SSC from the identified risks.

EVALUATION OF RISKS AND CONTROLS

Operations- Internal- Staff—Key Person Dependence, Succession Planning

The SSC has a total of six staff members that serve 20 Commissioners. Due to the small size of the SSC each staff member is a key person and plays a vital role to the success of the SSC. Each of the six staff members possesses special skills that are critical to operations of the SSC. Due to the limited amount of staff positions within the SSC cross-training backups can be challenging. If a staff member were to retire or leave the department the SSC would lose a key person and in turn institutional knowledge. Currently the SSC does not have a plan in place that allows for backup training and knowledge sharing, eliminating the reliance of key person dependency.

The SSC is currently working on developing and implementing a central Systems Manual. The central Systems Manual will be a shared document allowing staff members to create detailed procedures for their specific position and assist in the training of a backup staff member. The Systems Manual will permit each staff member to share their institutional knowledge as well as to cross train back up staff members. This program will assist in the assurance of the continuity and succession planning within the SSC.

Operations- Internal- FI$Cal Conversion

The Financial Information System for California (FI$Cal) is the State’s business transformation project in the areas of budgeting, accounting, procurement, and cash management. As a Wave 2 FI$Cal conversion participant, the SSC has been faced with overwhelming challenges in the areas of Accounting and Budgeting.

The SSC contracts with the Department of General Services (DGS) for Contracted Fiscal Services (CFS). The SSC is responsible for learning the FI$Cal system as well as the operational role in FI$Cal. The SSC is reliant not only upon its own staff to learn the FI$Cal system, but also rely upon the DGS CFS staff as they too learn the FI$Cal system. Inefficiencies as a result of user errors, due to a lack of familiarity with the new system, have created unanticipated conditions impacting SSC’s accounting operations.

The SSC staff are participating in the FI$Cal training courses as required and staff is diligently working with the DGS CFS staff to determine what role each entity portrays in the FI$Cal system while working together to achieve expected and timely accounting outcomes.

Compliance- Internal- Resource Limitations

The SSC is faced with the ongoing challenge of compliance with the regulatory Vacation/ Annual Leave Balance Over Maximum guideline set forth by the State’s Human Resources control agency, CalHR. The SSC has a limited staff of six people and is reliant on each staff member for business operations. Therefore, it is extremely difficult to successfully maintain an action plan permitting the reduction of vacation/ annual leave hours for employees above maximum allowable leave balances. In the instance where a staff member retires or separates from the SSC, a lump sum payment to the employee for unused compensable hours may cause a catastrophic budgetary impact to the SSC.
Each staff member with leave balances over maximum allowable hours has been identified by the SSC’s management team. The management team has had the opportunity to meet with identified staff and put an action plan into place that will assist in the reduction of any leave balances over maximum allowable hours. The possibility of risk to the SSC’s budget given an employee were to separate or retire with a lump sum payment containing leave balances over the maximum allowable hours, are greater than the risk to the SSC’s business operations through action planning to reduce leave balances over maximum allowable hours. The current plan will be efficient in assisting to lower the amount of leave balances for employees that have over the maximum allowable hours as set forth by CalHR Rules 599.738; 599.739; 599.721.1; 599.752 and 599.705.

ONGOING MONITORING

Through our ongoing monitoring processes, the Alfred E. Alquist Seismic Safety Commission reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Alfred E. Alquist Seismic Safety Commission is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Alfred E. Alquist Seismic Safety Commission, Richard McCarthy, Executive Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Ellena Daniel, Administrative Officer, as our designated agency monitor(s).

Frequency of Monitoring Activities

The SSC holds weekly management meetings in which objectives of the SSC, risk assessment regarding each objective and internal controls for these risks are discussed. Any issues that arise through discussion are addressed as well as the steps needed to mitigate these issues.

Reporting and Documenting Monitoring Activities

Management meetings are held on a weekly basis. The designated agency monitor is responsible for compiling a quarterly report regarding the practices of risk assessment. The report contains information that identifies the success and deficiencies of the ongoing risk assessment process. The report is submitted to the SSC Executive Director.

Findings from the report are shared with staff at informational meetings. The SSC staff is encouraged to share any risks they discover or are aware of with the management team, allowing the SSC to productively complete its objectives.

Procedure for Addressing Identified Internal Control Deficiencies

Weekly management meetings are held to discuss deficiencies found in the internal control process for risk assessment through quarterly reports, at weekly management meetings or through informational meetings with staff.

Deficiencies will be addressed by the management team immediately and the mitigation process of these deficiencies will begin within one week of being addressed. The management team will directly report the status of deficiency mitigation to the Executive Director of the SSC on a bi-weekly basis. It is the goal of the SSC management team to mitigate any deficiencies within 45 days of reporting. Deficiency mitigation will be discussed with all staff at informational meetings.

CONCLUSION
The Alfred E. Alquist Seismic Safety Commission strives to reduce the risks inherent in our work through ongoing monitoring. The Alfred E. Alquist Seismic Safety Commission 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.

Richard McCarthy, Executive Director

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