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 California Tahoe 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 Kevin Prior, Chief Administrative Officer, at (530) 543-6016 ext. 6016, kevin.prior@tahoe.ca.gov.

BACKGROUND

The California Tahoe Conservancy (Conservancy) is a State Agency within the Resources Agency of the State of California. It was established in its present form by State law in 1984 (Chapter 1239, Statutes of 1984). Its jurisdiction extends only to the California side of the Lake Tahoe Basin. The Conservancy is not a regulatory agency. The mission of the Conservancy is to lead California’s efforts to restore and enhance the extraordinary natural and recreational resources of the Lake Tahoe Basin.

The Conservancy has the authority to achieve its objectives directly or through award of grants to local public agencies and nonprofit organizations. The Conservancy is governed by a board with seven voting members and one ex-officio member. The Board hires the Executive Director who oversees the staff in accordance with the direction of the board. The powers and duties of the Conservancy Board are detailed in Title 7.42 (commencing with Section 66905) of the Government Code.

RISK ASSESSMENT PROCESS

The Conservancy’s Director, Deputy Director, Chief Administrative Officer (CAO), Chief Information Officer, Legal Counsel, and Natural Resource Program Manager meet regularly to identify and discuss significant Conservancy-wide risks. The Conservancy started the risk assessment process by identifying risks and then ranking each risk based on the severity and likelihood of occurrence. Once the risks were identified and ranked, the CAO identified the controls which serve to mitigate the risks. Some controls are in place and other controls are in the process of being implemented. The CAO and staff discussed the effectiveness of the controls in place. These conversations about controls allow the Conservancy to determine if new controls are needed or if improvements are needed to existing controls.

The CAO and executive team’s testing of controls involved a combination of staff interviews, and document and process reviews. The executive team implemented control updates based on testing results.

EVALUATION OF RISKS AND CONTROLS

Operations- External- Funding—Sources, Levels

Fiscal resources used to finance State of California and Conservancy objectives may be reduced, discontinued or difficult to obtain in the future. Two areas at risk are:

The Tahoe Conservancy is the State of California’s primary implementer for the Lake Tahoe Environmental Improvement Program (EIP). Funding for the EIP program is a shared responsibility
among the federal, state, and local governments in the Lake Tahoe Basin. The expected Federal share of $300 million requires the states of California and Nevada to collectively match these appropriations. Nevada’s share of the EIP has been secured through the recent passage of a $100 million bond act. California’s match target is $200 million. The Conservancy to date has received $15 million directly from Proposition 1 to meet the $200 million target. The State of California risks not meeting commitments towards EIP due to depletion of available bond funds. In addition, California may miss the opportunity to leverage a $200 million commitment with $400 million from federal and State of Nevada partners.

Secondly, the Conservancy owns and manages more than 6,500 acres of land, mostly comprised of small parcels scattered throughout the California side of the Basin. These parcels provide open space, recreation and water quality benefits, and have significantly reduced the level of development in the Basin. The land management budget baseline for these parcels was last adjusted over ten years ago. Costs associated with typical maintenance activities have increased, but State COLA's made to the Conservancy’s management budget have not kept up with inflation. A maintenance regime must be established, on approximately a ten-year interval, in order to maintain the effectiveness of fuels reduction and forest restoration activities. Without additional investment by the State of California the previous land maintenance and fuels reduction efforts on Conservancy parcels will not be adequately maintained.

The Conservancy mitigates the risk by requesting an additional $100 million from available Proposition 1 allocations, and another $100 million from future bonds and/or cap and trade funding. If the Conservancy is successful in securing these additional funding sources California would meet commitments towards the Lake Tahoe EIP and leverage $400 million in federal and State of Nevada monies. The Conservancy will also request additional baseline land management funding to: 1) cover the increased cost for maintaining its property inventory; 2) provide maintenance and security services at public access facilities; and 3) continue maintenance work required to provide an effective, fire safe forest adjoining thousands of residences in the Basin. The control is existing.

**Reporting- Internal- Fi$Cal Conversion**

The Conservancy contracts accounting services with Consolidated Fiscal Services (CFS). As a CFS client, the Conservancy is part of Fi$cal wave 2 implementation. DGS-CFS has had difficulty implementing the accounts payable and general ledger modules resulting in incomplete data. DGS-CFS has not processed purchase order requisitions in a timely manner. Small business invoices are overdue by several months resulting in fee penalties assessed to the Conservancy and financial hardships for small businesses. Furthermore, several employee travel expense claims (TEC) have not been paid since July 2015. The delay in purchase order approvals and processing of accounts payable results in reports that are inaccurate and untimely to meet internal user needs.

The Fi$cal implementation team is working with DGS-CFS and the Conservancy to ensure the Fi$cal system is operating properly. The Fi$cal implementation team has subject matter experts to answer questions and assist in completing accounting transactions and month end close. The Conservancy and DGS-CFS continue to meet and discuss how to process transaction in a timely manner. In addition, the Conservancy will discontinue the use of DGS-CFS fiscal services in fiscal year 2016/2017. The consolidation of accounting functions with the Conservancy will mitigate the delay in payments and fully utilize the Fi$cal accounting system. The control is new.

**Operations- External- Service Provider—Inadequate Internal Control System**

The Conservancy contracts with a service provider for limited accounting functions. The service provider is the Department of General Services – Contracted Fiscal Services (DGS-CFS). DGS-CFS creates inefficiencies in accounting workflows, provides limited oversight of accounting work papers and is costly ($250,000/year) for the Conservancy.
The Conservancy has maintained a contract with DGS-CFS since Conservancy inception. The contracted services with DGS-CFS were appropriate when the Conservancy had limited operations and one special revenue fund. Conservancy operations have grown to include multiple departments, nine special revenue funds, and reimbursable grants. The complexity of the budget and accounting functions required the Conservancy to stop contracting with DGS-CFS for the following services:

- Budgeting;
- Project Costing;
- Federal and State Grants - management, reporting, and billing;
- Bond Accounting and Reporting;
- Cash Depositing;
- Accounts Receivable;
- Collections;
- Asset Management – capitalization, retirement, write-off, depreciation;
- Solicitation and Procurement;
- Contracting.

The Conservancy has continued to contract the following accounting functions with DGS-CFS for fiscal year 2015/2016:

- Accounts Payable
- General Ledger
- Year-end reporting

The fractured accounting functions between the Conservancy and DGS-CFS creates inefficiencies in accounts paysables and year end reporting. The Conservancy cannot automate workflows between accounting modules due to manual process requirements required by DGS-CFS.

The Conservancy will eliminate the contract accounting services with DGS-CFS in fiscal year 2016/2017. Consolidation of the remaining accounting functions with the Conservancy will mitigate the risk of accounting inefficiencies and limited oversight. The Conservancy has made two recent accounting hires that ensure it has sufficient expertise and budgetary resources to take over the duties of DGS-CFS. The Conservancy will work with the Department of Finance and Fi$cal implementation team to ensure the State of California's fiscal integrity is protected.

The consolidation of accounting functions in fiscal year 2016/2017 will fully automate the Fi$cal system. It will eliminate communication errors, reduce delays in payment, provide more oversight, and facilitate timely reporting. The control is new.

Operations- External- Litigation

The Conservancy is subject to actual and possible legal action by outside parties in response to Conservancy actions. The Conservancy has a workforce composed of state employees, local jurisdiction employees, and contract consultants. This varied workforce mix may create inefficient and cumbersome supervisory rules. The workforce must follow separate but complementary employment and contracting rules. This employment legal risk requires the Conservancy to assign job duties to the workforce based on the contractual relationship. Job assignments and reporting may cause confusion between managers, supervisors, employees, and consultants.

To mitigate employment legal risk the Conservancy employs two full time lawyers that provide legal counsel on employment litigation and human resources actions. To mitigate employment legal risk the Conservancy employs a full time Human Resource employee. The State of California Cal HR department audits the Conservancy for compliance with delegated authority on a planned three year cycle. The Conservancy contracts with the State of California’s attorney general’s office for independent counsel on employment risk. The controls provide oversight and legal opinions to remain compliant with employment laws. The controls are existing.
Operations- Internal- Staff—Safety

Staff safety is a risk due to the dangerous conditions presented by the nature of the work performed by Conservancy employees. The Conservancy owns and maintains approximately 5,000 acres of natural habitat in the Lake Tahoe Basin. This land requires a workforce that can properly maintain and improve the natural resources for the State of California. Natural Resource Agency employees are required to work outside on uneven terrain, in variable weather, among habitats of wild animals, changing landscapes, and power tools. These work elements pose potential loss to life, limbs, and physical wellbeing. The risk affects the Conservancy by limiting certain types of work to employees with proper certification, training, and job duty statements. The risk also requires the Conservancy to contract duties to qualified professionals or other state agencies.

The Conservancy has developed and maintains an Injury and Illness Prevention Plan (IIPP) that is intended to provide a safe and healthy workplace for its employees. The IIPP implements the policy and establishes a framework for identifying, communicating, and correcting hazards within the workplace, and to assist managers, supervisors and employees in conducting their work and business in a safe and healthy manner. The Conservancy’s IIPP is implemented with separate health and safety policies and procedures (i.e., ergonomics, defensive driver, and equipment operation) and regular health and safety training. The control is new.

Operations- External- Fraud, Theft, Waste, Misconduct, Vandalism

The Conservancy has a risk of damage or loss of property through trespass and encroachment, and off-highway vehicle use on state-owned lands. Conservancy-owned property is adjacent to homeowners and recreational users that may not recognize the restrictions placed on state owned property. The risk affects the Conservancy by limiting use of state property and maintaining a program of logging, documenting, and following up with private land owners on unauthorized use of state-owned property.

The Conservancy employs a lot inspector. All Conservancy land is inspected on a bi-annual basis. Trespass and encroachments on state-owned property are documented through photos and site surveys. Disputed property lines are surveyed to establish state ownership rights. The use of a lot inspector mitigates the risk of trespass and encroachments. The lot inspector is able to actively resolve trespass and encroachment issues early in the process and minimize legal disputes. The control is existing.

The Conservancy is developing a land management plan. The plan will set policies and procedures for employees and the public on permitted uses of state owned land. The plan will serve as a management control to prevent misconduct, natural resource waste, and incompatible uses on state-owned lands. The control is new.

Operations- Internal- Resource Management

The risk is a mismanagement of fiscal resources due to individual leave balance liabilities greater than the state allowed balance of 640 hours. This risk affects the Conservancy by committing a disproportionate amount of fiscal resources to a few individual employees. The risk also restricts available Conservancy funding to salary and benefit costs instead of being used for operating and project costs.

The Conservancy mitigates the risk through yearly employee leave balance reduction plans. Each employee over 640 hours submits a plan to the Conservancy to reduce the leave balance below 640 hours. The control mitigates the risk by requiring the employee and supervisor to
actively manage the leave balance and reduce the fiscal liability to the Conservancy. The control is existing.

**Operations- Internal- Oversight, Monitoring, Internal Control Systems**

The Conservancy fiscal policies and accounting internal controls may contain insufficient monitoring and design to identify and correct deficiencies. The risk can cause missed reporting deadlines to control agencies, improperly approving transactions for payment, and improper segregation of accounting duties. This risk affects the Conservancy due to changes in accounting and budgeting systems in fiscal year 2014/2015. In addition the Conservancy received a new funding stream, Proposition1, that contains new accounting and reporting procedures.

The control in place to mitigate the risk is the completion during fiscal year 14/15 of the following policy and procedure documents.

1) Proposition 1 grant guidelines
2) Fi$cal business processes procedure manuals

Both documents provide policies and procedures for the reporting, accounting, and authorization of Conservancy fiscal transactions. The Fi$cal business process procedures manual provides for proper segregation of duties, documented transaction workflows, and expenditure approval authorities. The Proposition 1 grant guidelines provide the public and staff with guidance on qualifying grant applications, expenditures, reporting, and approvals.

The completion of the policy and procedure documents provide current guidance to Conservancy staff and the public on the proper internal controls over fiscal resources. These policies and procedures mitigate insufficient business processes, improper segregation of duties, and untimely reporting. The controls are new and have been implemented during fiscal year 14/15.

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

Conservancy employees are required to adhere to policies and procedures that comply with Federal, State, and Local rules and regulations. Staff may perform duties in a way that does not ensure full compliance due to the complex nature of the rules and regulations.

The efficient operation of the Conservancy is dependent upon the establishment of rules and regulations that govern operations and employees. At the Conservancy, Policy Letters ensure the most recent regulations and standards are incorporated into an organized, uniformly formatted Conservancy policy. As such, Policy Letters are to be maintained in the Conservancy Policy Manual or accessible electronically. All Policy Letters are to be reviewed annually. The Policy Letter Coordinator shall conduct periodic audits to ensure the Policy Manual is current. The control is existing

**Compliance- External- Complexity or Dynamic Nature of Laws or Regulations**

The Conservancy is subject to the Americans with Disabilities Act (ADA) because it is the owner of property and improved facilities that provide access for the public. ADA regulations in California require renovated or new public facilities to accommodate individuals with disabilities. ADA regulations are complex, difficult to interpret, and can change with court rulings.

The risk of non-compliance with ADA regulations requires the Conservancy to consult with architects and contractors on California Building Standards Code when managing or improving land and facilities.
The Conservancy contracted with a Department of General Services ADA consultant to complete a site survey of property and facilities compliance. The Conservancy has received the report and is developing a property wide policy manual. After adoption of the policy manual the Conservancy will implement a transition plan to maintain compliance with ADA laws. The control is new.

ONGOING MONITORING

Through our ongoing monitoring processes, the California Tahoe 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 California Tahoe Conservancy, Patrick Wright, Executive Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Kevin Prior, Chief Administrative Officer, as our designated agency monitor(s).

Frequency of Monitoring Activities

The Conservancy has built ongoing monitoring into agency operations. Ongoing monitoring is part of the normal course of operations and program implementation. Due to the size of the organization, management's operating style is hands-on with close communication with staff. Through this approach the Conservancy holds a series of reporting and communication meetings throughout the year. These meetings and reporting opportunities include the following:
1. Weekly management meetings. Meeting topics include discussion of risk topics for the Conservancy that week. The risk topics are categorized into Information Technology, Fiscal, Operations, and Legal;
2. Weekly department meetings. Meeting topics include workload, duties, and control risks;
3. Monthly All Staff Meetings. Meeting topics include Human Resource policies and controls, Information Technology policies, Fiscal and Accounting internal controls and other agency policies and procedures;
4. Quarterly Board Meetings. The Conservancy Board is an eight-member Board of Directors that governs the Conservancy. This structure of governance allows for active, focused participation by state, local, and public interests and Board oversight of Conservancy activities and management.

Reporting and Documenting Monitoring Activities

The results of monitoring activities are communicated vertically throughout the Conservancy. Status of Conservancy’s internal controls and monitoring efforts are communicated, formally and informally, and on a frequency consistent with Conservancy needs. The individuals responsible for performing monitoring functions are as follows:
Fiscal, Human Resource, and Administrative Functions: Kevin Prior - Chief Administrative Officer;
Information Technology: Jim Brockett - Chief Information Technology Officer and Information Security Officer;
Natural Resource Program Functions: Penny Stewart - Natural Resource Program Manager;
Legal Functions – Ryan Davis and Mike Steeves - Conservancy Legal Counsel.
Fiscal and Administrative monitoring results take place during month and year end fiscal close. Human Resource monitoring results are performed monthly and upon request by control agencies. Information Technology conducts informal monitoring and reporting weekly on servers. Legal monitoring and reporting is conducted by the Attorney General’s office and the Conservancy Board of Directors. Natural Resource program functions are monitored and reported on a programmatic and project basis.

Procedure for Addressing Identified Internal Control Deficiencies

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Conservancy procedures for addressing identified internal control deficiencies require proper reporting, implementation of control remedies, and monitoring of the remedies. The majority of control deficiencies shall be addressed and implemented within one fiscal year. Control deficiencies are reported to the Conservancy Board or the proper control agency such as the Department of Finance.

CONCLUSION

The California Tahoe Conservancy strives to reduce the risks inherent in our work through ongoing monitoring. The California Tahoe 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.

Patrick Wright, Executive Director

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