

December 08, 2021

Keely Martin Bosler, Director  
California Department of Finance  
915 L Street  
Sacramento, CA 95814

Dear Director Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the State Controller submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact Russell Fong, Chief Administrative Officer, at (916) 327-8299, Rfong@sco.ca.gov.

## **GOVERNANCE**

### **Mission and Strategic Plan**

The mission of the State Controller's Office (SCO) is to ensure the state government's monetary resources are independently accounted for and disbursed according to law in a timely manner.

SCO's current strategic plan is effective for 2020-2022 and guides our dedicated team of over 1,300 staff towards achieving our agency's mission and vision. Our strategic plan is straightforward with an emphasis on achieving continuous improvement within the SCO and to provide our public clients with exceptional customer service. SCO considers its strategic plan to be a living document, and adaptable to align with the constantly changing environment. Consequently, such a view helped SCO swiftly transition its staff to teleworking during the COVID19 pandemic.

SCO believes that achieving its goals will not occur overnight, but we are confident that SCO will accomplish its goals with a strategy of requiring divisions regularly provide the SCO Executive Office (EO) with operational results and incorporating EO's guidance, if appropriate.

SCO's strategic plan begins with a vision that SCO strives to strengthen California's fiscal and economic standing by protecting taxpayer dollars, promoting transparency, modeling financial integrity, and supporting accountability through government.

In order of equal importance, the following five core values are critical to the success of the SCO strategic plan:

#### **1. Responsible Governance.**

Producing results effectively and managing resources efficiently to promote sound governance.

#### **2. Integrity.**

Adhering to ethical principles in the delivery of services and products.

### **3. Customer Service.**

Serving our customers promptly, accurately, and respectfully while being responsive to their needs.

### **4. Innovation.**

Promoting flexibility and embracing change in an open and creative manner.

### **5. Collaboration.**

Strengthening our organization through the development of a strong, diverse, and unified workforce of public servants.

There are six goals in the SCO's strategic plan as follows:

#### **Goals**

**1. Uplift the SCO workforce through agency-wide initiatives to improve overall effectiveness, through staff acknowledgement, collaboration, innovation, and encouraging professional development for staff**

**2. Actively promote financial integrity and accountability for state and local governments, by implementing the following practices:**

- Providing sound fiscal control over the State's annual receipts and disbursements of public funds by determining the legality and accuracy of every claim against the State of California
- Conducting audits to ensure appropriate receipt and disbursement of public funds
- Providing timely information to the Public regarding the State's financial condition, and the financial transactions of cities, counties and other local agencies
- Educating State and local governments about accounting, claiming and reporting responsibilities

**3. Provide excellent customer service through:**

- Promotion of a culture that is responsive and accountable and leads our customers to success
- Encouraging customers to provide input and ideas to improve customer services and satisfaction
- Continuously improving our business processes to provide better customer service
- Continually exploring options to increase the accessibility of SCO's services to everyone

**4. Deliver core services and products more effectively through innovative business processes and technology solutions by:**

- Fostering a culture of continuous process improvement
- Adopting practices that reduce the use of consumable resources
- Establishing measures to gauge business process improvements
- Exploring cost-effective delivery methods

**5. Invest in our employees to create a skilled, motivated, and diverse workforce to reach our highest potential by:**

- Championing new opportunities for SCO employees for growth, development and advancement through workforce and succession planning efforts
- Honoring our employees' accomplishments, contributions, and innovative ideas
- Fostering an environment of communication and information sharing to promote a cohesive, unified organization
- Providing opportunities to broaden our employees' knowledge of SCO's programs and support functions and how they interface with state government

**6. Enhance communication, transparency, and information sharing by:**

- Improving communications, communication channels, and ensuring information is clear, concise and easily understood
- Providing timely, accurate, and reliable information
- Promoting cooperative working relationships with stakeholders to optimize program delivery

**SCO's Duties and Business Functions**

The State Controller is the Chief Financial Officer (CFO) of California, which has one of the largest economies in the world. As the CFO of California, the Controller is responsible to ensure that the State's budget is spent properly, helps manage and administer two of the nation's largest pension funds, and serves on State boards and commissions that are responsible for duties ranging from protecting our coastline to helping to build hospitals.

The State Controller also safeguards many types of unclaimed property until claimed by the rightful owners, independently audits government agencies that spend state funds, and administers the payroll system for state government employees and California State University employees.

The SCO is comprised of the following and one significant project (**FI\$Cal**) in which SCO is partnered with the Department of Finance, Department of General Services, and the State Treasurer's Office:

**Executive Office (EO) - *What is the EO responsible for?***

Provides the policy and operational priorities for the SCO. SCO functions are coordinated by the Chief of Staff with support from the Chief Operating Officer and the Chief Administrative Officer. Further leadership and policy advice is provided by the Chief Legal Counsel and deputy controllers responsible for legislative affairs, public affairs, external affairs, pension funds/investments, environmental policy, health policy, and taxation policy. The EO also includes Human Resources, Equal Employment Opportunity, and Management Audit and Review Services (MARS, internal audits).

**Administration and Disbursements Division (ADD) - *What is ADD responsible for?***

Provides a broad range of staff support services including budgeting, accounting, contracting, training, procurement, and facilities management. ADD also produces the warrants (checks) and electronic fund transfers from the State Treasury, to pay the state's bills and liabilities.

**Division of Audits (Audits) - *What is Audits responsible for?***

Responsible to determine the legality and accuracy of all claims against the state through the performance of prepayment audits. Assures the accuracy of local government claims and financial statements submitted to the state and federal government by annually reviewing and revising audit

guidelines, reviewing audits performed by independent local auditors under these guidelines, and performing field audits of state and federal programs. Assists and advises local government officials to promote effective and uniform tax collecting procedures, thus preserving the local property tax basis. Audits highway users' tax funds at local levels, and the allocation and apportionment of local property taxes.

**Information Systems Division (ISD) - *What is ISD responsible for?***

Ensures the integrity and security of SCO technology and facilities. Supports SCO mainframe, public website, and payroll systems with services including application development, desktop support, and project management oversight. Serves as an information technology (IT) business partner with the SCO's program divisions to solve business problems and provide opportunities through the use of IT and offers a full range of IT services to SCO divisions.

**Local Government Programs and Services Division (LGPSD) - *What is LGPSD responsible for?***

Issues payments to local governments and schools. Works with local governments, prescribing budgeting and accounting guidelines for California's 58 counties and approximately 5,000 special districts. Allocates funding to local governments and schools for state-mandated costs and apportionment funding. Administers Local Mandated Costs and their reimbursement programs and monitors the cash flow of the General Fund. Administers collection of the Estate, Inheritance and Gift Taxes, delinquent gasoline tax, truck tax, and insurance tax. Manages the Property Tax Postponement Program. Refunds gas tax on motor fuel not used on highways. Collects taxes owed to the state and provides property tax and reference manuals for county tax collectors. Approves county cost allocation plans.

Prescribes accounting, reporting and budget procedures as well as publishes annual financial transaction data for local government entities

**Personnel and Payroll Services Division (PPSD) - *What is PPSD responsible for?***

Administers the Uniform State Payroll System. Processes payroll and leave accounting for all state civil service and exempt employees, state court, and California State University employees. Provides information required to manage the personnel resources of the state and to properly account for salary and wage expenditures. Provides data to the retirement systems necessary for calculation of employee retirement benefits. Manages the state's automated travel expense claim system.

**State Accounting and Reporting Division (SARD) - *What is SARD responsible for?***

Performs statewide accounting and reporting functions. Issues monthly and annual reports on the financial condition of the state and its entities. Publishes the Annual Comprehensive Financial Report and the Budgetary/Legal Basis Annual Report.

Maintains uniform and systematic control accounts of all receipts, payments, balances in state funds, and bonded indebtedness to assure compliance with all constitutional and statutory provisions

**Unclaimed Property Division (UPD) - *What is UPD responsible for?***

Administers the Unclaimed Property Law by safeguarding lost and forgotten property turned over to the state (e.g., bank accounts, uncashed checks, insurance benefits, wages, stocks, bonds, and safe

deposit box contents) until claimed by the rightful owners. Ensures unclaimed property is returned to its rightful owner. Operates an online search tool and toll-free telephone service, processes claims, and provides written notices to property owners and property holders.

## **Control Environment**

SCO executive and division management are responsible for designing, establishing, and maintaining the internal control environment which sets the tone for the SCO and demonstrates a commitment to integrity and ethical values.

To accomplish its strategic goals, SCO's management team continually promotes a positive and supportive attitude toward internal control, ethical conduct, and diligent management.

SCO has a clearly defined organizational structure that is easy for SCO employees to understand. The Controller is responsible for accountability and disbursement of the state's financial resources. SCO functions are coordinated by the Chief of Staff with support from the Chief Operating Officer and the Chief Administrative Officer. Further leadership and policy advice is provided by the Chief Legal Counsel and deputy controllers.

All SCO staff are expected to gain an understanding of the big picture of the organization, specifically its mission and strategic goals, and the role that each staff plays. Additionally, all SCO staff have access to their detailed job descriptions, so that they are able to understand their roles and responsibilities they have within the agency.

Each SCO division is responsible to maintain, regularly review, and update their written operational policies and procedures (if needed, such as for unexpected events like the COVID19 pandemic.) Management is also expected to lead by example, by conducting day-to-day operations with the highest degrees of integrity and professionalism. Staff roles and responsibilities should also be current and well-defined. Strong lines of authority, control, collaboration, and communication are fostered and expected throughout SCO.

Lastly, SCO has formal written policies that explain appropriate workplace expectations for SCO employees, including policies that cover the following subjects: Conflict of Interest, Sexual Harassment, Drug-Free Workplace, Workplace Violence, and Equal Employment Opportunity. It is also a mandatory requirement that SCO employees attend training courses related to the ethical behavior standards and regulations that govern the official conduct of SCO employees.

## **Information and Communication**

The communication of information is necessary to carry out the internal control responsibilities promoting the achievement of SCO's goals.

SCO utilizes duty statements, expectations memorandum for every SCO position along with organizational charts for the entire organization, divisions, bureaus, and programs. Management uses these tools to communicate and reinforce SCO staff roles and responsibilities.

Duty statements include description of the areas that managers are responsible to manage and review, including monitoring internal controls, and the essential roles of responsibility to implement and monitor those controls. Management also uses relevant and quality information from both internal and external

sources to support the functioning of internal control systems.

SCO management is responsible for developing and maintaining an effective information and communication process to ensure SCO staff clearly understand their internal control roles and responsibilities. SCO additionally has a robust mandatory training program for new supervisors and managers on risk management, monitoring internal control systems, process improvement, and the policies and internal controls for which all supervisors share responsibility. There are also training programs available to all staff and supervisors that standardize the communication of proper internal controls, facilitate and encourage compliance with them, as well as to promote an ethical culture that is aware of operational risks.

SCO employees also have resources to communicate vulnerabilities and control inefficiencies through the internal units, such as Management Audit & Review Services (MARS),

Lastly for employees, the Equal Employment Opportunity (EEO) manages the complaint process and conduct investigations.

Relative to communicating information to external parties, MARS is the designated SCO liaison responsible to communicate with external entities who are tasked to audit operational processes. In its SCO Audit Chair role, MARS ensures that accurate, complete, timely, and quality information is communicated to external parties.

## MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the State Controller monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Russell Fong, Chief Administrative Officer.

The information here discusses the SCO's agency-wide, continuous process which helps ensure internal control systems are working as intended.

The role of the SCO's SLAA executive monitoring sponsor includes facilitating and verifying that the SCO monitoring practices are implemented and functioning as intended. The responsibilities as the SCO executive monitoring sponsor have been given to: Russell Fong, Chief Administrative Officer (CAO). Kathleen Webb, Chief Operations Officer (COO) serves as backup, (if needed).

The head of the SCO, the State Controller, is responsible for the overall establishment, maintenance, and oversight of the agency's risk management and internal control systems.

Through on-going monitoring processes mandated by the SLAA, the SCO regularly reviews, evaluates, and improves its systems of internal controls and governance, risk, and compliance (GRC) monitoring processes. The SCO is also continuing efforts to formalize and documenting its on-going monitoring efforts, and as such, we believe the SCO complies with the California Government Code sections 13400-13407.

**Monitoring Activities:** The SCO holds regular executive staff management meetings and bi-monthly senior management meetings. Topics at such meetings include discussion of current and potential

internal control issues that may need to be addressed, specifically what steps are needed to mitigate the issues. These executive management meetings occur while staff continuously monitors SCO programs for issues and corrective actions, and take necessary corrective actions if issues are observed.

**Reporting and Documenting Monitoring Activities:** The Chief of MARS works with each SCO division to obtain SCO's self-determined operational processes risks for each new SLAA biennial reporting cycle. This process ensures the SCO's SLAA monitoring activities address the most current issues facing the SCO, and new biennial reports accurately reflect SCO's efforts to mitigate new emerging operational risks.

SCO publishes SLAA quarterly updates for SCO Division Chiefs, SLAA division contacts, and SCO executive management. Such full disclosure increases transparency and promotes teamwork between SCO divisions to mitigate risks.

**Procedures for Addressing Identified Internal Control Deficiencies:** The SLAA monitoring process at each division is the dual responsibility of division chiefs and their designated SLAA contacts. SLAA monitoring processes provide input received from divisions, such as policies, procedures, and work flows. Evaluation is on-going and any preliminary inefficiencies are brought to the attention of division chiefs and SLAA division contacts for response and corrective action. Corrective action plans are then monitored on an on-going basis.

MARS conducts internal audits to ensure that all SCO programs are performing in accordance with State, Federal rules, regulations, and help the SCO meet the goals and objectives of the State Controller. Through MARS' ongoing monitoring efforts, internal control deficiencies and opportunities for improvement are presented to the attention of division program management and SLAA division contacts for their responses and required corrective action plans (CAP). MARS monitors the status of CAPs and formally reports the status of corrective actions to SCO division chiefs, SLAA division contacts, and SCO executive management.

## **RISK ASSESSMENT PROCESS**

The following personnel were involved in the State Controller risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, questionnaires, consideration of potential fraud, performance metrics, and other.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, tolerance level for the type of risk, and other.

## RISKS AND CONTROLS

### **Risk: KEY PERSON DEPENDENCY (KPD) & STAFF TURNOVER**

KPD and staff turnover continue to threaten SCO's ability to meet its roles and responsibilities. SCO's workforce continues to age and many staff are nearing retirement. The COVID-19 pandemic has created more uncertainties for SCO, and all other state agencies.

SCO replacement staff may require years of training and experience to become proficient in their roles and responsibilities. Pay disparity between SCO and other state agencies may attract SCO staff to obtain better salaries. The resulting loss of critical institutional knowledge and/or shortage of competent staff could adversely affect SCO's ability to meet its roles and responsibilities.

#### **Control: A. Attempt to Backfill Vacant Positions with Competent Staff**

SCO is continually:

1. Attempting to backfill vacant positions in a timely manner
2. Increasing training (including cross-training) of existing staff
3. Utilizing shadow positions
4. Using retired annuitants, when appropriate

#### **Control: B. Consultation with CalHR**

SCO has continued to consult with CalHR to ensure that current classifications and pay are appropriate for SCO job roles and responsibilities, as the fiscal oversight agency.

#### **Control: C. Ensure Policies and Procedures are Current**

SCO management continues to review and revise policies and procedures to ensure that roles and responsibilities are thoroughly documented with concise, clear, and understandable terms. With the COVID-19 pandemic, this control has become an SCO priority, as many staff are now teleworking while away from SCO offices.

#### **Control: D. Ensure Succession Plans are Current**

SCO management continues to review and revise succession plans on a regular basis. Doing so helps ensure that current staff can transition successfully, if appropriate, in the event of SCO staff separating from SCO for another opportunity or retirement.

### **Risk: INADEQUATE FI\$Cal DELIVERABLES**

SCO continues to face a significant risk that FI\$Cal deliverables may not accurately and completely satisfy SCO's business requirements. A lack of adequate FI\$Cal security controls may result in erroneous payments. SCO has limited SME staff resources to complete end-to-end FI\$Cal design and user acceptance testing. On a side note, SCO has also had to troubleshoot deployment issues.



SCO may not be able to continuously provide necessary fiscal control and reporting functions, due to the strain on our SMEs' availability.

**Control: A. Increased Participation with the FI\$Cal Project**

SCO continues its best efforts to work with FI\$Cal partners, other FI\$Cal agencies, and the vendor to review system designs. SCO also actively participates in FI\$Cal testing to help ensure SCO's business needs are met by FI\$Cal.

**Control: B. Increased Staff Availability**

SCO continues to pledge its best efforts to make SMEs available to assist with the FI\$Cal project, depending upon normal SCO operational process needs and workloads.

**Control: C. Continued Partnership on FI\$Cal Project**

SCO continues its determination to work with the project partners to identify and mitigate possible FI\$Cal system and security issues.

In addition, SCO continues its on-going monitoring efforts for mandated SLAA reporting requirements.

**Control: D. Proactive FI\$Cal Deployment Strategy**

SCO continues its best efforts to collaborate and coordinate with the project partners in order to develop a proactive deployment strategy with comprehensive and all-inclusive contingency plans, should there be unexpected FI\$Cal outages.

**Control: E. Additional Funding**

SCO continues its best efforts to secure additional FI\$Cal-related funding from DOF and the legislature.

**Risk: OUTDATED PAYROLL PROCESSING SYSTEM**

SCO's Personnel and Payroll Processing System is outdated. System failure and/or lack of current functionality may prevent SCO from being able to distribute an accurate and timely payroll to state employees.

This 40+ year old legacy system was built using the COBOL programming language, and prior to the establishment of bargaining units, which adds significant complexity to processing payroll.

The legacy system also does not have the functionality and flexibility expected in a modern payroll system.

**Control: A. Replacement System: Preliminary Planning & Development**

SCO, in partnership with the Department of Human Resources, has made significant progress in the development of the California State Payroll System Project (CSPS) to replace the legacy system.

CSPS has completed the Stage 1 Business Analysis and Stage 2 Alternatives Analysis of the Department of Technology Project Approval Lifecycle (PAL).

CSPS is also nearing completion of Stage 3 Solution Development which will conclude with the release of the solicitation to acquire a software solution together with a systems integration vendor in the first quarter of 2022.

### **Risk: REPLACEMENT OF CalATERS**

SCO continues to work with current stakeholders using CalATERS to procure and implement a new travel claim reimbursement system solution for participating State departments that includes SCO control functionality, and compatibility with FI\$Cal.

Without a travel claim reimbursement system, state employees would be required to revert back to a less accurate manual paper claim process.

Although the vendor responsible for maintaining SCO's current proprietary system is discontinuing its support service, SCO has negotiated an extension to continue their support services. SCO is unable to operate the system without the service.

#### **Control: A. Replacement System**

The CSPS Project absorbed the scope of the CalATERS Replacement Project (CRP) as another capability within the product scope of the CSPS Project. CRP and CSPS were at the same point in the PAL process and both were set to follow the same procurement path including the execution of a proof of concept/challenge based procurement.

CSPS is pursuing a hosted Software as a Service (SaaS) and market research indicates all suitable platforms have integrated travel and expense management modules. Combining CRP with CSPS aligns with the statewide strategy for a single platform for Enterprise Human Resources related applications. Integrating CRP will provide a common user interface to the state's employees while eliminating the need to maintain a separate technical infrastructure, user identity, and access management and related interfaces.

This combination will also reduce long term support costs by consolidating the skills required to support the entire solution into the CSPS support structure.

### **Risk: CONTINUITY PLAN & RISK MANAGEMENT FOR THE PANDEMIC**

In March 2019, the COVID-19 pandemic began in the United States. Specifically in California, all state agencies suddenly faced an unexpected public health crisis forcing dramatic alterations to their workplace expectations and requirements.

Current SCO executive management had always believed and understood that its operational processes were continually subject to sudden unforeseen and unexpected disruptions. To mitigate this significant risk, SCO has always proactively planned for the risks of operational process interruptions and has contingency plans in place.

Because of its proactive approach to risk management, SCO was able to swiftly transition its staff to

teleworking status after the pandemic began. With effective business continuity planning and robust risk management practices, SCO avoided increased risk of mission-critical operational process disruptions.

However, SCO and all other state agencies still face significant risks of the unknown and unpredictable after-effects of the pandemic.

SCO believes that continued management of the (real and possible) threats posed by a pandemic is critical for the SCO to achieve its vision, mission, goals, and objectives.

Fortunately, SCO's current business continuity planning has helped the agency manage the impacts of the pandemic and meet legal obligations to staff to ensure their health and safety. SCO's business continuity planning and related policies are centered around SCO's risk management strategy and business impact analysis. It also describes how SCO intends to respond to an incident, sets out a recovery plan and defines policies and procedures for managing staff and communication.

MARS has also aided SCO's business continuity and contingency planning by regularly engaging SCO's divisions to document what issues divisions have faced during the pandemic, including how they have addressed staff concerns relative to the pandemic and miscellaneous workplace concerns.

### **Control: A. Business Continuity Plan**

SCO has a business continuity plan, which explains how the agency will prepare for a pandemic & continue to operate after the disaster. As designed, the plan helps to minimize recovery time and reduce effects to operational processes.

As part of the contingency planning process, SCO:

- identified core services & what is needed to maintain operational processes
- identified staffing arrangements, such as telecommuting, succession planning & cross-training
- protects the health of staff
- developed a communications strategy for employees, customers, & vendors
- considered possible financial implications
- identified contingency plans for the unexpected
- scheduled how the plan will be tested & updated

SCO's business continuity plan includes the following:

- **Risk Management Plan:** Involves identifying risks, assessing the impact of risks, & developing strategies to manage risks
- **Business Impact Analysis:** Assesses how risks identified affect operations & identifies activities critical for the survival of SCO
- **Incident Response Plan:** Outlines actions to limit damages before, during, & immediately after a pandemic or unexpected event
- **Recovery Plan:** Shortens recovery time after an unexpected event & sets a timeline for resumption of normal operations

## CONCLUSION

The State Controller strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**Betty T. Yee, State Controller**

CC: California Legislature [Senate (2), Assembly (1)]  
California State Auditor  
California State Library  
California State Controller  
Director of California Department of Finance  
Secretary of California Government Operations Agency