

Business, Consumer Services, and Housing 2015 SLAA REPORT

December 31, 2015

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Business, Consumer Services, and Housing 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 Tina Daley, Deputy Secretary, Fiscal Policy and Administration, at (916) 653-4090, tina.daley@bcsh.ca.gov.

BACKGROUND

The Business, Consumer Services and Housing Agency (BCSH) was implemented on July 1, 2013, as part of the Governor's Reorganization Plan Number 2 of 2012. BCSH, with over 5,600 employees, unites state entities that license or regulate industries, business activities or professionals.

The mission of BCSH is to oversee departments, boards and commissions whose job is to license and regulate professionals and businesses in California, so as to protect consumers; to preserve, expand and fund safe and affordable housing opportunities; to investigate and research earthquake related issues to advise on ways to reduce earthquake risk; and to protect the civil rights of all Californians from acts of hate violence and unlawful discrimination in employment, housing and public accommodations.

The following entities report directly to BCSH:

Department of Alcoholic Beverage Control (ABC) - Regulates the manufacture and sale of alcoholic beverages within California.

Alcoholic Beverage Control Appeals Board - Provides quasi-judicial administrative review of decisions of the ABC.

Department of Business Oversight - Provides protection to consumers and services to businesses engaged in financial transactions.

Department of Consumer Affairs - Licenses more than 2 million professionals and protects the interest of California consumers.

Department of Fair Employment and Housing - Protects the people of California from unlawful discrimination.

California Horse Racing Board - Ensures the integrity, viability and safety of the California horse racing industry.

California Housing Finance Agency - Supports the needs of renters and first-time homebuyers.

Department of Housing and Community Development - Preserves and expands affordable housing opportunities for Californians.

Seismic Safety Commission - Investigates earthquakes and reducing earthquake risks.

RISK ASSESSMENT PROCESS

The executive team of BCSH was involved in the risk assessment process. The executive team consists of seven Governor appointees and two high level CEAs who oversee a specific statewide program area, i.e., legislation, policy, information technology, fiscal, etc. Discussions occurred at weekly staff meetings, where each executive analyzed their program area and operations to identify issues and trends that could impact BCSH's ability to carry out its mission. Risks were evaluated and prioritized based

on likelihood and impact, followed by consideration of the controls that are in place or should be in place to mitigate the risks.

EVALUATION OF RISKS AND CONTROLS

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

It is difficult for BCSH to develop/implement a succession plan that fully meets its needs. BCSH is comprised of seven (7) Governor appointees and eight (8) civil service employees. While the Agency is able to develop a workforce/succession plan for its civil service employees/positions, doing so for the appointees is a difficult feat. Governor appointees serve at the pleasure of the Governor, and the reality is an appointed incumbent can be replaced immediately without advanced notice.

To mitigate this risk, the executive team meets on a regular weekly basis and discusses various topics, including issues or workload within each executive's applicable program area. This allows all executives to be aware of agency-wide issues and concerns. This communication will help with addressing departmental issues when a key person leaves the agency, until a replacement is found.

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

In 2015, the Governor signed into law three bills pertaining to medical marijuana, which will now be regulated in California. AB 266 established the Medical Marijuana Regulation and Safety Act for the licensure and regulation of medical marijuana and established within the Department of Consumer Affairs (a BCSH department) the Bureau of Medical Marijuana Regulation. The Health and Human Services Agency and the Department of Food and Agriculture also have statutory responsibilities related to the regulation of medical marijuana. While all three agencies may have distinct responsibilities, this new program presents risks, as it will require key coordinating efforts with state and local government, licensees, consumers and other stakeholders. It is critical that this new program be implemented thoughtfully and thoroughly to ensure success.

DCA has regularly scheduled briefings with the Secretary and executive staff. During these meetings, new and pending concerns and/or issues are addressed and discussed with a subsequent determination of how to proceed, if warranted. BCSH and DCA will address this new program at each meeting to ensure its success. BCSH is also involved in policy discussions with DCA, the other agencies and the Governor's Office, as needed. Additionally, a report will be submitted to the Legislature on an annual basis regarding that year's activities pertaining to the new program. BCSH will be a part of the discussion and review/approve the report for submission.

Operations- External- FI\$Cal Conversion

BCSH is a Wave 2 Department for FI\$Cal conversion. This conversion has been challenging due to the small number of administrative staff within BCSH and the need to train and master a new statewide accounting system. In addition, unanticipated conditions due to the design of the new system has created inefficiencies, duplication of work and failure to achieve desired outcomes. Specifically, FI\$Cal presents the following risks:

- 1) Increased levels of control in the budget process has increased workload and slowed down work production.
- 2) The workload for procurement and personal services contracts has increased due to FI\$Cal driven changes.
- 3) Due to the learning curve of FI\$Cal, vendor payments are not always paid timely by our DGS

contracted accounting staff.

BCSH staff attend weekly FI\$Cal meetings to communicate any technical issues and deficient processes. This control can lead to improved understanding of the system and any tools or mitigations that have been developed that could assist with issues. Staff will continue to attend meetings, user support labs if necessary, and maintain communication with FI\$Cal staff to overcome any obstacles to ensure a 100% successful conversion. Staff will also maintain close contact with DGS/CFS to ensure vendor payments are in compliance with the state's Prompt Payment Act.

Operations- External- Service Provider—Inadequate Internal Control System

Similar to other umbrella agencies, BCSH is a small organization that does not have internal administrative units where functions such as accounting, budgeting, human resources and information technology are carried out by agency employees. Instead, BCSH contracts with the Department of General Services, Contracted Fiscal Services (CFS) to provide these services and pays DGS on a fee for service basis. Risks associated with this set-up includes:

- 1) This can present risks to the extent that individual experts in these areas are not on site.
- 2) BCSH relies upon DGS for timely and accurate reporting of budgeting and accounting information via the FI\$Cal system. This has caused delays in workload as well as payment to vendors due to the learning curve of this massive system. BCSH has noted errors in budget reporting.
- 3) BCSH has no control over the fees charged, which increase 5-7% annually.
- 4) Gives BCSH less control over its ability to manage these administrative areas.
- 5) BCSH has less control over IT services, including support and outages.

BCSH will continue to use DGS/CFS for its accounting and human resources needs. However:

- 1) BCSH employees will maintain regular contact with DGS/CFS to ensure that workload delays do not occur and vendors are paid timely.
- 2) BCSH will require DGS to submit budget workload for its review prior to submission to the applicable control agency.
- 3) BCSH is in the process of identifying other issues to mitigate budget delays and inaccuracies.
- 4) BCSH will change provider for IT services to achieve cost savings and provide a higher level of service.

ONGOING MONITORING

Through our ongoing monitoring processes, the Business, Consumer Services, and Housing 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 Business, Consumer Services, and Housing, Alexis Podesta, Acting Secretary, is responsible for the overall establishment and maintenance of the internal control system. We have identified Tina Daley, Deputy Secretary, Fiscal Policy and Administration, as our designated agency monitor(s).

Frequency of Monitoring Activities

BCSH holds weekly executive staff meetings. Future meetings will include discussions on current control activities, pending control activities as well as any new identified risks and the necessary steps to

mitigate and identify potential control issues. Applicable staff will provide a status report of on-going monitoring activities so all are aware and updated on the risks. In addition, risks and monitoring activities will be discussed with civil service staff, as needed.

Reporting and Documenting Monitoring Activities

The SLAA monitor will follow-up with identified risks to determine full mitigation. Weekly updates will be provided during executive staff meetings and quarterly discussions will occur to determine if additional risks have been identified, as well as proposed mitigations.

Procedure for Addressing Identified Internal Control Deficiencies

BCSH develops corrective action plans for internal control deficiencies that have been identified. If warranted, a task force will be formed to explore appropriate, timely corrective action implementations. Results of BCSH's monitoring activities will be addressed/communicated through regular meetings.

CONCLUSION

The Business, Consumer Services, and Housing strives to reduce the risks inherent in our work through ongoing monitoring. The Business, Consumer Services, and Housing 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.

Alexis Podesta, Acting Secretary

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