

California Arts Council

2015 SLAA REPORT

December 30, 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 California Arts Council 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 Ian Branaman, Budget and Operations Officer, at (916) 322-6413, Ian.Branaman@arts.ca.gov.

BACKGROUND

Founded in 1976, the California Arts Council (CAC) is governed by an 11-member policy-setting Council appointed by the Governor and the Legislature to advance the state through the arts and creativity. Council members and professional staff have experience and expertise in the arts, creative industries, education, community development, state and local government, and the nonprofit and for-profit sectors. The California Arts Council has 19.5 authorized positions, and given its small size does not have an internal auditing unit.

The California Arts Council encourages widespread public participation in and appreciation of the Arts and creative endeavors. The agency helps build strong arts organizations at the local and statewide level, directly supports arts programs for all citizens, assists with the professional development of arts leaders, supports arts education in schools in all areas of the state, and promotes awareness of the value of the Arts. The California Arts Council does this by administering a number of competitive grant programs and special initiatives, collecting and disseminating information, and assisting organizations and individuals.

Important recent developments include:
Completion of a new strategic plan to guide the agency from 2014 through the next three to five years. Guiding themes include Building Public Will; Thought Leadership; Diversity, Audience and Partnerships; and Grant Programs.
Retirement of three key staff persons (December 2015) including the Deputy Director.

RISK ASSESSMENT PROCESS

Overview

The California Arts Council approached the review of its internal procedures and controls from the standpoint that over time, the discussion of internal control systems has expanded from its previously narrow focus on accounting controls. It is now a commonly accepted principle that internal control systems now embrace the processes and activities an entity engages in to meet its mission and achieve the goals of effectively and efficiently using the organization's resources to accomplish its objectives, complying with applicable laws and regulations, as well as, providing accurate and reliable financial information. And it is well understood that these systems are interrelated and intertwined into an organization's infrastructure.

Process

The review of the California Arts Council's system of internal controls was conducted under the supervision of the agency's Budget and Operations Officer. Executive management participants included

the agency's Director. Other individuals key to the review process included the following unit leads: Senior Accounting Officer, Associate Programmer Analyst (Specialist), and Contracts/Procurement Administrator.

Staff concentrated on potential risks facing the agency, while unit leads reviewed the procedures and controls within their respective areas. Management considered what, if anything, needs to be improved in the agency and what are the main issues facing the agency? For their work, unit leads reviewed current procedures and controls guided by the methodology outlined in the publication Guidance for Evaluation of Internal Control (2013 edition) as well as Attachment B of the 2006 edition, prepared by the Department of Finance Office of State Audits and Evaluations, and the Information Security Risk Assessment Checklist produced by the California Office of Information Security (November 2009). (Note: Attachment B was referenced due to the inclusion of expanded guidelines for review procedures relating to accounting controls, specifically cash receipts subcycle, receivable subcycle, purchasing subcycle, cash disbursements, revolving fund, personnel and payroll, contracts, fixed assets, and financial reporting

EVALUATION OF RISKS AND CONTROLS

Reporting- Internal- Fi\$Cal Conversion

Fi\$cal (Financial Information Systems for California) Implementation

The Arts Council was a Fi\$cal Wave 1 agency, going live in July of 2014. The launch of Fi\$cal proved to be a very difficult time for the agency. Leading up to the launch of Fi\$cal, the Arts Council was required to attend extensive training in order to modify internal policies and procedures and to change internal workflow to fit within the new system. The launch of Fi\$cal caused many expected and unexpected delays in everyday work. The Arts Council suffered through many system outages and was left without the ability to create basic financial reports for much of the year.

The inability of the Fi\$cal project to provide necessary training left the Arts Council, and other Wave 1 agencies unable to process Year End Close (YEC) in a timely manner. Leading to the agency being unable to report expenditures, and create future year budgets in the timeframe that the agency normally would. The launch of Fi\$cal caused the agency workload to increase drastically and led to overtime for administrative staff.

Administrative staff meets once a month, in meetings led by the Arts Council Fi\$cal Liaison, to discuss internal policies and procedures to ensure operations are as streamlined as possible under the constraints of the Fi\$cal system. System issues, open tickets and system errors are discussed. The Arts Council is currently working with DGS HR to fill a vacant Accountant I position that will help provide relief to the Fi\$cal induced workload increase. The goal is to have the position filled by February 2016.

Senior Accounting Officer, Peggy Megna, is working offsite with DOF/Fi\$cal to try to complete YEC and to receive the necessary training that was not provided before YEC was to be completed. With the correct training and procedures now being made available this should not be an ongoing issue.

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

Key person dependency: Deputy Director

The agency's Deputy Director retired in December 2015. Under the Direction of the Director, the Deputy Director provided leadership to the Administrative and Programmatic sides of the Arts Council. The Deputy Director also acted as the Fiscal Officer and Personnel Liaison. Any agency would feel the loss of a Deputy Director, however at the Art Council the loss was even more profound. The Deputy Director had been with the agency for over 30 years in various capacities working his way up from a student intern. The loss of institutional memory was significant.

The Arts Council has concluded interviews and is completing the process to fill the position of Deputy Director. Prior to the Deputy Director retiring, written instructions were provided on

various duties, and for the year leading up to his retirement provided extensive cross training to limit the effect of his retirement. With the imminent hiring of a new Deputy Director, the Arts Council should feel a minimal impact.

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

Key person dependency: General

Like many small agencies, the Arts Council relies on single individuals for key functions. This occurs more so with administrative operations than with program functions, where staff tend to be more or less generalists. Organizationally, the following functions are subject to key person dependency: contracts/procurement, accounting, IT, budget development, and graphic design. Historically each of these areas, with the exception of graphic design, was administered by multiple individuals. Key person dependency became a serious issue for the Arts Council following the 2003-04 decline in the state's budget, which resulted in a 94% reduction to the agency's budget and the loss of more than 50 percent of its staff.

While key person dependency continues to be an issue, where appropriate, the agency seeks opportunities for its staff to secure training in activities that cross lines of responsibility.

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

Lack of Human Resources/Personnel Staff In-House

Pursuant to Executive Order S-09-08 (issued July 31, 2008) the Arts Council was required to separate a part-time retired annuitant who served as the agency's only personnel officer/staff. In order to comply with the order, management worked directly with Department of Personnel Administration (DPA) and the State Controller's Office to process the separation. Without a personnel officer and a hiring freeze in place, the agency had no means to process personnel transactions and could not perform needed administrative functions that could have resulted in labor relations problems. As a result, management was forced to seek alternative solutions. The Arts Council established an Interagency Agreement with the California State Library through which human resource services would be provided to the Arts Council. Prior to the Interagency Agreement expiring on June 30, 2015, the California State Library advised that it would no longer be able to provide human resources services. A new Interagency Agreement was established with the Department of General Services (DGS). However, staff has expressed some anxiety over still not having a personnel officer in-house to offer guidance and counsel as issues and concerns arise; though it is understood that they can contact the DGS staff at any time. As a result of not having an in-house personnel staff presence, the Deputy Director, who traditionally supervised the personnel officer, had taken on the role of the "go-to-person" for staff that have questions regarding personnel issues or those who are in need of personnel related forms. However with the recent retirement of the Deputy Director, there is no longer a "go-to-person" This has added to anxiety of the staff regarding guidance and counsel concerning personnel issues.

Response/Action: No action is needed at this time. Once the Deputy Director position is filled the agency will have a "go-to-person" and an Executive level manager to smooth the transition of personnel services to the DGS. By switching human resource services over to the Department of General Services, who are much better staffed and bigger than the California State Library, the Arts Council has removed the previous risk of contracting out to a small agency that is susceptible to staffing changes that have a huge effect on the level of service received.

Operations- Internal- Organizational Structure

With the reductions experienced in 2003-04 and discussed elsewhere in this report, the agency eliminated all support staff—Office Assistants (OA) and Office Technicians (OT)—in order to maintain as full a complement of program and administrative professionals as possible. In doing so, the agency turned to using part time student assistants to provide support services. While the agency had a history of employing students to assist with grant application processing and panel deliberations, such

assistance was more or less cyclical. With the elimination of OA and OT positions, the agency turned to University Enterprises, Inc. (CSUS) to contract for part time student assistants to provide support services on a year round basis—assisting with both grantsmaking and administrative efforts.

The issuance of PML 2012-034 required the Department to discontinue working and to separate students during the period that PLP 2012 was in effect. Support functions, therefore, were absorbed by staff in addition to their regular duties; exacerbated by the continuance of furloughs and a shortened work period.

PLP 2012 ended on June 30, 2013 and Departments may once again utilize students through contracts. The Arts Council has once again contracted with University Enterprises, Inc. for provision of student assistants. Management recognizes that the use of student assistants as the singular means of support services for the agency is not the optimal solution, however based on available resources it remains current practice. As the agency's resources improve and programs expand, an accompanying level of staff expansion will be sought, including the reestablishment of a system of support that includes both Office Assistants and Office Technicians.

ONGOING MONITORING

Through our ongoing monitoring processes, the California Arts Council 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 Arts Council, Craig Watson, Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Ayanna Kiburi, Deputy Director, Craig Watson, Director, as our designated agency monitor(s).

Frequency of Monitoring Activities

The Arts Council holds bi-weekly meetings attended by all available staff. Meeting topics include discussion of outstanding or possible internal control issues that have not previously been addressed. These meetings allow staff to discuss issues and make management aware of any issues so that steps may be taking to address them.

Reporting and Documenting Monitoring Activities

The Arts Council ensures all staff receives information vital to the effectiveness and efficiency of controls by requiring management to update the staff whenever a change is made. The Arts Council encourages staff to speak with their supervisor if they discover an issue that should be address to better assist the Arts Council with fulfilling its mission, goals, and objectives.

Procedure for Addressing Identified Internal Control Deficiencies

At any point if a deficiency is discovered, the Budget and Operations Officer immediately begins the process of mitigating the deficiency. The Budget and Operations Officer along with the Director notifies staff at the bi-weekly meeting of any policy or procedure changes to assist in the mitigation of the deficiencies discovered.

CONCLUSION

The California Arts Council strives to reduce the risks inherent in our work through ongoing monitoring. The California Arts Council 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.

Craig Watson, Director

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