

January 08, 2018

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

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Government Operations submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Julie Whitten, Assistant Secretary, Innovation and Accountability, at (916) 651-9015, Julie.Whitten@govops.ca.gov.

BACKGROUND

The Government Operations Agency (GOA) was established July 1, 2013 as the result of the Governor's Reorganization Plan No. 2, which consolidated, eliminated and created a number of state departments and agencies. The GOA is under the management of an executive officer known as the Secretary. The Secretary is a member of the Governor's Cabinet and is appointed by, and holds office at the pleasure of, the Governor. The Secretary advises the Governor on major policies and program matters and oversees ten state entities. The appointment of the Secretary is subject to confirmation by the Senate. The Secretary of GOA also serves as the Chair of the California Building Standards Commission, and the California Victim Compensation Board. The GOA mission is to improve management and accountability of government programs, increase efficiency, and promote better and more coordinated operation decisions.

The entities that report to the GOA are responsible for overseeing state purchasing, procurement and information technology projects; managing and developing the state's real estate assets; ensuring the security of state information assets and other data; administering the state's sales and use tax, fuel, tobacco, cannabis and other taxes; collecting state income tax revenues; managing pension funds for state and local government employees and educators; overseeing and administering the state's hiring and employee discipline processes; administering the Victim Compensation Program, Revenue Recovery Program, Claims of Erroneously Convicted Felons, the Good Samaritan Act, and the Missing Children Reward Program; and reviewing proposed regulations for compliance with the Administrative Procedures Act. The reporting entities are as follows:

Department of Human Resources (CalHR): The Department of Human Resources has responsibility for all issues related to salaries and benefits, job classifications, civil rights, training, recruiting, and retaining. For most employees, many of these matters are determined through collective bargaining processes.

State Personnel Board (SPB): The State Personnel Board is a five-member board, created in the state constitution, charged with adopting civil service rules and regulations.

Department of Technology: The Department of Technology is responsible for the approval and oversight of all state information technology projects. As the state's chief information officer, the Director of the

Department of Technology provides leadership for the state's IT programs and works collaboratively with other IT leaders throughout the state.

Department of General Services (DGS): The Department of General Services serves as business manager for the state of California. DGS helps state government to better serve the public by providing a variety of services to state agencies through procurement and acquisition solutions, real estate management and design, environmentally friendly transportation, professional printing, design and Web services, and funding for the creation and construction of safe schools.

California Department of Tax and Fee Administration (CDTFA): The California Department of Tax and Fee Administration administers the state's sales and use tax, fuel, tobacco, cannabis and other taxes, and collects fees to fund and administrate 37 specific state tax and fee programs. More than 1.3 million California businesses are registered with the department to engage in retail sales in the state. The Taxpayer Transparency and Fairness Act of 2017, which took effect July 1, 2017, restructured the State Board of Equalization (BOE) and separated its functions among three separate entities to guarantee impartiality, equity, and efficiency in tax appeals, protect civil service employees, ensure fair tax collection statewide, and uphold the California Taxpayers' Bill of Rights. These include the BOE, the CDTFA, and the Office of Tax Appeals.

California Public Employees Retirement System (PERS): The California Public Employees Retirement System, as the nation's largest public pension fund, manages pension and health benefits for more than 1.7 million members and over 3,000 school and public employers. PERS' membership consists of active and inactive members, retirees, beneficiaries, and survivors from State, school, and participating public agencies. While under the umbrella of GOA, PERS is administered by a 13-member Board of Administration and is exempt from most of the Agency control functions.

State Teachers' Retirement System (STRS): The California State Teachers' Retirement System is the largest teachers' retirement fund in the nation with membership in excess of 862,000. While under the umbrella of GOA, STRS is administered by a 12-member Teachers' Retirement Board and is exempt from most of the Agency control functions.

Franchise Tax Board (FTB): The Franchise Tax Board is responsible for administering two of California's major tax programs: Personal Income Tax and Corporation Tax. The FTB also has responsibility for administering the Homeowner and Renter Assistance program, and other non-tax programs and delinquent debt functions.

California Victim Compensation Board: The California Victim Compensation Board administers the Victim Compensation Program (CalVCP), the Revenue Recovery Program, Claims of Erroneously Convicted Felons, the Good Samaritan Act, and the Missing Children Reward Program.

Office of Administrative Law (OAL): The Office of Administrative Law is responsible for ensuring that agency regulations are clear, necessary, legally valid, and available to the public. OAL reviews administrative regulations proposed by over 200 state entities for compliance with the standards set forth in California's Administrative Procedure Act, for transmitting these regulations to the Secretary of State, and for publishing regulations in the California Code of Regulations.

ONGOING MONITORING

As the head of Government Operations, Marybel Batjer, Agency Secretary, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

EXECUTIVE MONITORING SPONSOR(S)

The executive monitoring sponsor responsibilities include facilitating and verifying that the Government Operations internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Kathleen Webb, Assistant Secretary, and Julie Whitten, Assistant Secretary, Innovation and Accountability.

MONITORING ACTIVITIES

Frequency of Monitoring Activities

The Secretary holds monthly meetings with staff and agency program areas. Agenda items include discussion of potential internal and external control issues and mitigation strategies for implementation. Additionally, the Secretary holds regular one-on-one meetings with department directors to address organizational goals, objectives and risks.

Reporting and Documenting Monitoring Activities

The SLAA Coordinator and Agency Monitor works with key staff to review new risks and existing risks to measure effectiveness of current controls or the need for modification. For succession planning purposes, GOA strives to preserve and maintain critical documents to ensure the continuity of operations and policy decisions.

ADDRESSING VULNERABILITIES

Vulnerabilities identified during ongoing monitoring are reported to the executive monitoring sponsors and to the Agency Secretary for discussion and resolution. Corrective actions are taken to ensure identified vulnerabilities are corrected, weaknesses identified, and proactive measures are taken.

COMMUNICATION

Monitoring roles are communicated throughout the entity on an ongoing basis during all staff meetings and regularly scheduled monthly meetings for each program area. The staff members consider the ability to manage the risk, the risk exposure against the risk tolerance thresholds, and the risk exposure relative to other risks. The Assistant Secretary duty statement includes the role as the Agency's SLAA representative and member of the Governance, Risk and Compliance Council.

ONGOING MONITORING COMPLIANCE

The Government Operations has implemented and documented the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the Government Operations systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Government Operations risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

RISK IDENTIFICATION

Coordinated by the Assistant Secretary, the GOA performed a risk assessment with key staff and the Secretary to identify, assess, and prioritize our top risks guided by the SLAA Risk and Definitions and risk aggregation worksheet.

RISK RANKING

The risk assessment is management's determination of the GOA's greatest vulnerabilities. An annual discussion of risks is conducted to determine new risks, as well as prioritize the most pressing risk issues for the Agency and to assess the impact and probability of any risks that may impact the GOA. Strategies are developed to resolve the issue and reduce risk and actions are taken to mitigate the risks.

RISKS AND CONTROLS

RISK: OPERATIONS-INTERNAL STAFF-KEY PERSON DEPENDENCE, WORKFORCE PLANNING

The agency is subject to the loss of institutional knowledge due to reliance on staff that serve in appointed positions.

Change in the Governor's Administration during an election year may result in the loss of staff that serve in appointed positions.

The loss of staff that serve in appointed positions could disrupt or impact programs launched since the inception of GOA such as the Civil Service Improvement initiatives, Eureka Institute, Lean Academy, CalData, Open Data, Performance Improvement initiatives and the Sustainability program.

CONTROL A

Active coordination with the Governor's appointment office to fill vacant positions as required and the development of transition documents to support the continuity of operations.

CONCLUSION

The Government Operations strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Marybel Batjer, Agency Secretary

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