

December 15, 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 Natural Resources 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
Bryan Cash, Assistant Secretary for Administration and Finance, at (916) 653-6381,
Bryan.Cash@resources.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The mission of the Natural Resources Agency (Agency) is to restore, protect and manage the state's natural, historical and cultural resources for current and future generations using creative approaches and solutions based on science, collaboration and respect for all involved communities. The Secretary for Natural Resources, a member of the Governor's Cabinet, sets the policies and coordinates the environmental preservation and restoration activities of 27 various departments, boards, commissions, and conservancies. In addition, the Agency directly administers the following: Ocean Protection Council, Timber Resources Management Program, Sea Grant Program, California Environmental Quality Act (CEQA), River Parkways Program, Urban Greening Program, Environmental Enhancement and Mitigation Program, Museum Grant Program and the Sierra Nevada Cascade grant program. The Natural Resources Agency consists of the following entities: Departments Forestry and Fire Protection, Conservation, Fish and Wildlife, Parks and Recreation, and Water Resources; Commissions, California Coastal Commission, State Lands Commission, San Francisco Bay Conservation and Development Commission, Delta Protection Commission; Energy Resources Conservation and Development Commission; Boards, Wildlife Conservation Board, Colorado River Board, State Reclamation Board; Conservancies, State Coastal Conservancy, California Tahoe Conservancy, Santa Monica Mountains Conservancy, Coachella Valley Mountains Conservancy, San Joaquin River Conservancy, San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy, Baldwin Hills Conservancy, San Diego River Conservancy, Sierra Nevada Conservancy and Sacramento-San Joaquin Delta Conservancy; the California Conservation Corps; Office of Energy Infrastructure Safety and the Special Resources Program.

Control Environment

Management establishes and demonstrates integrity and ethical values in multiple ways including: ethics training for all executives, Form 700s are submitted to the California Fair Political

Practices Commission, and through setting an example for staff. Oversight is provided by the Secretary and Undersecretary. All executives have workplans that are reviewed regularly by management and that guide the Agency's activities. Duties are clearly outlined in duty statements, and procedures are documented. Expectations are set as management perform regular reviews, both formal and informal, with staff. Deficiencies that are identified are reported to the Assistant Secretary of Administration and Finance. Methods to remediate deficiencies are proposed to the Secretary and Undersecretary for approval. Where the Secretary and Undersecretary have delegated authority to management, it is clearly documented. Internal controls are also clearly defined within program procedures and guidelines. This includes levels of authority and responsibility. Agency follows the state recruitment policies and procedures to recruit competent staff. In addition, Agency develops and maintains a competent workforce through cross-training and succession planning. Moreover, Agency often brings in new talent through fellowship programs and student assistants who go on to leadership within the Agency or the departments that it oversees. Employees are held accountable for performance through appraisals, both formal and informal, and disciplinary actions are taken as appropriate.

Information and Communication

Information is shared throughout the Agency and externally through established channels that are clearly communicated to management and staff. The Deputy Secretary for Communications and the Deputy Secretary for External Affairs, who report to the Secretary and Undersecretary, oversee all internal and external messaging and ensure through established procedures and requirements that it is reliable and relevant.

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 Natural Resources monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:

Angela Barranco, Undersecretary; Bryan Cash, Assistant Secretary for Administration and Finance; and Wade Crowfoot, Secretary.

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The Assistant Secretary for Administration and Finance meets frequently with program managers and reviews financial reports to assess the effectiveness of internal controls. As vulnerabilities are identified, the Assistant Secretary for Administration and Finance works directly with the affected programs to make sure the vulnerabilities are addressed in a timely manner. The Assistant Secretary for Administration and Finance regularly communicates with managers and key staff when issues arise and to prevent them from occurring. Weekly executive staff meetings provide one vehicle through which to communicate these issues along with impromptu meetings with the program managers. The Natural Resources Agency has 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 Natural Resources Agency systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Natural Resources risk assessment process: executive management.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, and consideration of potential fraud.

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

In developing this report, the Agency created a risk assessment consistent with the State Leadership Accountability Act. An organizational risk assessment was performed by the Assistant Secretary for Administration and Finance, in consultation with program managers across all programs and administration functions of the Agency. The program managers include the Deputy Assistant Secretaries for Administration and Finance, the Agency Administrative office and other staff members. The process included meetings with the staff noted above. The purposes of the meetings were to identify: (1) risks with the greatest potential impact or potential for fraud; (2) acquiring subject area expertise of program and administrative managers to document the risks; and (3) providing background on program operations to document controls in place to mitigate risks. In addition to the meetings, reviews were conducted of the Agency's enabling statute, current guidelines adopted for grant programs; past and current staffing levels; state-mandated activities; various and ongoing drills required by control agencies including state budget drills and bond drills; current budget appropriations; proposed Budget Change Proposals; analysis of remaining bond funds available to the Agency in out years; and other significant changes. As a small organization, the Agency works with other state departments that provide accounting, contracts, human resources and IT services. As a part of our risk analysis, we interviewed the departments that provide these services and determined they were compliant with SLAA reports and are audited to assure compliance with applicable state laws and regulation.

RISKS AND CONTROLS

Risk: Fi\$Cal Transition

Agency started transitioning to Fi\$CAL from CalStars in 2018. This transition brings with it certain risks, including:

- Error rates could be increased as staff learn the new system.
- Processing time of transactions could be slowed thus increasing the risk of late payment penalties.
- Delays in monthly closings could cause management reports to be late thus increasing risks.

This transition could make it extremely difficult for payments for services and goods, including phones, electricity, internet providers, etc., and grantees to be processed in a timely manner. This could have a negative impact on Administrative staff's normal business operations, in addition to having to field calls from vendors and grantees regarding late payments

Control: A

The Agency is reducing these risks by contracting with an outside entity to lead the process. The contractor prepared the Agency to meet the requirements of the FI\$Cal project by looking at how we do business today and documenting how we can transition these processes efficiently to FI\$Cal. The contractor also helped Agency to document processes within the system so that staff could use these guides when using the system.

Risk: Key Person Dependence, Workforce Planning

Because we are such a small department, turnover could result in the loss of important institutional knowledge. Retirements and staff leaving for other opportunities can create this issue. With these staffing losses, important institutional knowledge can be lost and difficult to restore.

Control: A

Agency is implementing a couple of items to offset this risk. First, Agency is cross-training staff where feasible to make sure that performance of important tasks can continue if there is turnover. Second, Agency is creating and or updating desk procedures and manuals to make sure that institutional knowledge is not lost. Finally, due to growth in the amount of funds that the Agency has to award, Agency is restructuring its grant unit to provide for additional opportunities for growth and leadership.

Risk: Data Security

Technology is increasingly incorporated into the CNRA organizations business program areas and usage of these business enabling technologies has resulted in vulnerabilities and risk gaps associated with information security.

Control: A

Agency established a new Information Security Operations Center (SOC) to proactively address information security vulnerabilities and threats across all of the Agency's organizations. Agency SOC personnel will work to continuously refine security processes, practices, and operational activities.

CONCLUSION

The Natural Resources 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.

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Wade Crowfoot, 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