

December 29, 2017

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 Business, Consumer Services, and Housing 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 Deborah Hoffman, Undersecretary, at (916) 653-4090, deborah.hoffman@bcsh.ca.gov.

BACKGROUND

The Business, Consumer Services and Housing Agency (BCSH) was implemented on July 1, 2013, as part of Governor Brown'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 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.
- **Cannabis Control Appeals Panel** – Provides quasi-judicial administrative review of decisions of the Bureau of Cannabis Control, the California Department of Public Health and the California Department of Food and Agriculture.
- **California Housing Finance Agency** – Supports the needs of renters and first-time homebuyers by providing financing and programs so more low to moderate income Californians have a place to call home.
- **Department of Housing and Community Development** – Preserves and expands affordable housing opportunities for Californians.
- **Seismic Safety Commission** – Investigates earthquakes and reducing earthquake risks.

Mission:

BCSH's mission is to oversee departments, boards and commissions whose job is to license and regulate professionals and businesses in California, 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.

Goals:

1. Provide guidance to our departments on high-impact initiatives.
2. Reinforce our agency-wide workforce plan and goals to optimize and maintain a skilled workforce, committed to quality performance.
3. Leverage technology to enhance our services.

Core Values:

1. Collaboration – We work as a team to foster a culture of learning, respect, and open communication to effectively solve problems and accomplish goals.
2. Integrity – We are fair, honest, and accountable.
3. Service – We are dedicated to providing exceptional support our 10 departments, the public and licensees.
4. Vigilance – We are diligent in executing our responsibilities.

Strategic Initiative:

To be a statewide leader and director of resources in the areas of consumer protection and housing.

ONGOING MONITORING

As the head of Business, Consumer Services, and Housing, Alexis Podesta, 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 Business, Consumer Services, and Housing internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Deborah Hoffman, Undersecretary.

MONITORING ACTIVITIES

The executive team was involved in the risk assessment process. The executive team consists of seven Governor appointments and two high-level CEAs who oversee a specific statewide program area (i.e. administrative policy, information technology, fiscal policy, etc.) The executive team continually evaluates internal control systems to ensure that risks are adequately addressed. Experts in each program area discuss concerns in daily, weekly, monthly, quarterly and annual meetings and raise potential issues for consideration. Any critical items identified are evaluated for mitigation.

A risk must be documented when it meets both of the following criteria:

1. The ability of the BCSH (program specific or agency-wide) to carry out the mission.
2. There is no known internal control (existing business process) in place to mitigate the risk.

ADDRESSING VULNERABILITIES

Once potential risks are identified, the executive team works collaboratively to come up with an action plan to address, mitigate, and/or eliminate the vulnerabilities. Depending on the severity and/or likelihood, each scenario is considered and prioritized for resolution. Any critical or serious issues are mitigated immediately, where possible. The appropriate deputy secretary of each area with an identified risk is responsible, in coordination with Administrative Operations, for ensuring that progress is made toward reducing the identified vulnerability.

COMMUNICATION

Executive staff meet on a weekly basis and address the various issues of the agency. If there are critical risks, they are addressed in those meetings. Additionally, results are communicated in the weekly executive staff meetings as well.

ONGOING MONITORING COMPLIANCE

The Business, Consumer Services, and Housing 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 Business, Consumer Services, and Housing systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Business, Consumer Services, and Housing risk assessment process: Executive Management, and Staff.

RISK IDENTIFICATION

Using the SLAA paradigm as a reminder to executive staff and as a guide, BCSH surveyed all the deputy secretaries and asked them to note any prior, current or emerging risks in their areas, breaking each concern down by category/subcategory, risk factor/root cause, date first identified, responsible program/unit, who is impacted, and any mitigating controls. Those risks were then summarized for discussion and consideration by the executive staff.

RISK RANKING

The executive staff ranked the risks based on various factors. These factors took into consideration operations risk, financial risk, risk to the sustainability of the agency and conformity to regulatory compliance requirement.

RISKS AND CONTROLS

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

BCSH is comprised of seven Governor appointees and seven civil service employees. Due to the small number of staff, the agency is at risk of not having sufficient institutional knowledge and experience in key program areas when employees leave. It is difficult to develop/implement a succession plan that fully meets its needs. BCSH has been able to develop a workforce plan/succession for its civil service employees/positions and is attempting to incorporate the appointees; however, it has been a difficult feat.

Governor appointees serve at the pleasure of the Governor. An appointed incumbent can be replaced immediately without advanced notice.

This creates the potential for unexpected vacancies and unfilled high-level management positions.

CONTROL A

Update the agency's succession planning process to mitigate losses in leadership, experience, and institutional knowledge. The executive team meets on a weekly basis and discusses various topics, including issues or workload within each deputy secretary's applicable program area. This weekly monitoring allows all deputy secretaries to help evaluate key challenges facing the agency.

RISK: OPERATIONS -EXTERNAL-FI\$CAL IMPLEMENTATION, MAINTENANCE, FUNCTIONALITY, OR SUPPORT

BCSH has its last two departments transitioning/integrating to Fi\$Cal in the 2018 Release (Department of Business Oversight and Housing and Community Development). California Housing Finance Agency is exempt for participation in Fi\$Cal.

There are inherent risks in transitioning to the new financial system: Error rates occur as staff learn the new system, creating delays in processing transactions and delays in monthly closings, thus reducing management's ability to respond to issues and requests from the agency in a timely fashion.

These risks will create operating inefficiencies, limitations, processing delays, and inadequate reporting to meet internal operating and reporting standards.

CONTROL A

BCSH staff will work with the departments to assist in reconciling the processing issues to improve service delivery. The Deputy Secretary of Fiscal Policy and Administration meets with departmental administrative staff on a bi-monthly basis and speaks with them on a weekly basis to discuss various items and issues at the department level. The deputy secretary is a member of FI\$Cal's Customer Impact Committee that brings together primary customer representatives for all departments and provides a formal mechanism to express views and receive information from the FI\$Cal project team.

CONCLUSION

The Business, Consumer Services, and Housing 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.

Alexis Podesta, 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