

December 18, 2017

John Laird, Secretary  
California Natural Resources Agency  
1416 Ninth Street, Suite 1311  
Sacramento, CA 95814

Dear Mr. John Laird,

In accordance with the State Leadership Accountability Act (SLAA), the Sacramento-San Joaquin Delta Conservancy 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 Debra Kustic, Deputy Executive Officer, at (916) 375-2086, [debra.kustic@deltacconservancy.ca.gov](mailto:debra.kustic@deltacconservancy.ca.gov).

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## BACKGROUND

The Sacramento-San Joaquin Delta Conservancy's (Conservancy) service area is the statutory Delta and the Suisun Marsh, which encompasses parts of six counties and approximately 1,300 square miles, including some 1,000 miles of levees and waterways. The Conservancy is governed by a board consisting of representatives from the state and five Delta counties. The board also includes two ex-officio legislative members and non-voting liaison advisors from state and federal agencies with jurisdiction in the Delta. The Conservancy's mission is to work collaboratively and in coordination with federal and state agencies, and local communities to protect, enhance, and restore the Delta's economy, agriculture and working landscapes, and environment for the benefit of the Delta region, its local communities, and the citizens of California. The Conservancy's Executive Officer is appointed by the Board and is responsible for carrying out the organization's mission. The Conservancy is a very small agency; as of December, 2017, the Conservancy has 13 authorized positions. The Conservancy's work is organized into six categories: Economic Development, Ecosystem Restoration, Delta Carbon Management, Watershed Protection, Environmental Education and Outreach, and Administration. Funding comes from the California General Fund; the California Environmental License Plate Fund; state and federal government grants; and the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1).

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## ONGOING MONITORING

As the head of Sacramento-San Joaquin Delta Conservancy, Campbell Ingram, Executive Officer, 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 Sacramento-San Joaquin Delta Conservancy internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to:  
Debra Kustic, Deputy Executive Officer.

### MONITORING ACTIVITIES

The Conservancy executive management (Executive Officer, Deputy Executive Officer) and the

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Administration Manager hold weekly meetings, at which risks and controls are discussed. The extent of the risk and the effectiveness of current controls are assessed and additional/alternative controls are considered. A separate meeting is also held weekly with all staff and each supervisor has a weekly meeting with each employee that reports directly to them. At these meetings, all members of the staff report on projects within their responsibility, including implementation of risk controls.

Human Resources, Accounting, and Budget services for the Conservancy are provided by the Department of General Services (DGS) through an Interagency Agreement. Most work produced by DGS on the Conservancy's behalf is reviewed by Conservancy staff and work in these areas that is performed is generally reviewed by DGS staff. This cross check enables risks to be easily identified and addressed. Additionally, periodic accounting, budgetary, and human resource reports are produced by DGS, which Conservancy staff uses to reconcile against their internal information and reports. The Executive Officer and the Deputy Executive Officer hold quarterly budget meetings with the Administration Manager to review financial information and reports.

Legal services are provided to the Conservancy through an interagency agreement with the Department of Justice. The Conservancy's assigned attorney reviews contracts, grant materials, and other documents on a routine basis in order to identify areas of possible risk and recommend controls to address them.

Periodic external financial and human resource audits are performed by control agencies (State Personnel Board, Department of Finance, State Auditor, Department of General Services)

#### **ADDRESSING VULNERABILITIES**

As vulnerabilities are identified, they are reported to either the Administration Manager, or executive management. Program staff are asked to provide an analysis of the vulnerability, including the source(s) and the possible consequence(s) (programmatic, financial, legal, or otherwise). They are also expected to provide a recommendations to eliminate, minimize, and/or control the risk created by the vulnerability. As appropriate, the Administration Manager or executive management Executive reviews the analysis, prioritizes the risk, and directs the controls to be implemented. Responses to vulnerabilities are documented in the appropriate manner (updating desk manuals, developing or amending procedures, revising contract and purchasing manual, etc.). If the vulnerability poses a very high level of risk, the Executive Officer may raise the issue with the Conservancy Board and or the Natural Resources Agency for guidance.

#### **COMMUNICATION**

At weekly meetings (executive, all-staff, and supervisors with staff) as well as project specific meetings, vulnerabilities are raised and strategies to address them are discussed. Program leads are responsible for monitoring within their program and communicating via standing meetings or as needed. Staff are expected to work through their supervisor or the program lead to communicate regarding risks and monitoring to the Deputy Executive Officer, but may communicate directly with the Deputy Executive Officer or the Executive Officer if their supervisor is not available and the need to communicate is urgent. The Administration Manager is chiefly responsible for communicating with the Department of General Services and the Deputy Executive Officer regarding risks related to accounting, contracting, or purchasing. The Deputy Executive Officer is directly responsible for communication regarding risks related to budgeting, human resources, and program issues and communicates with the Executive Officer, DGS, control agencies, and others as necessary. The Executive Officer is responsible for communicating across organizational lines, but may delegate as appropriate to the Deputy Executive Officer. The Conservancy updated its Strategic Plan in 2017 which

includes objectives that are intended to reduce risk and metrics by which to assess progress toward meeting the objectives. The companion Implementation Plan provides more detailed tasks to achieve the objectives identified in the Strategic Plan. Conservancy executive management communicates progress toward achieving tasks and meeting objectives to its board at least biannually at a public meeting.

### **ONGOING MONITORING COMPLIANCE**

The Sacramento-San Joaquin Delta Conservancy is in the process of implementing and documenting 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 Sacramento-San Joaquin Delta Conservancy systems of controls and monitoring.

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### **RISK ASSESSMENT PROCESS**

The following personnel were involved in the Sacramento-San Joaquin Delta Conservancy risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

#### **RISK IDENTIFICATION**

The process of updating the Conservancy's Strategic and Implementation Plans in 2017 identified some program related risks. This process involved all Conservancy staff; the Conservancy Board; other entities, including state agencies; and the public. In 2017, the State Personnel Board Compliance Review Audit provided information on human resources related risks and appropriate controls. Also in 2017, the Conservancy completed the Department of General Services Purchasing Accreditation process, which identified risks and controls related to contracting and purchasing.

#### **RISK RANKING**

The Deputy Executive Officer compiled the risk ranking, which were approved by the Executive officer. Risk rankings are based upon a combination of the severity of the risk should it occur, the likelihood of the risk occurring, and the extent of the possible impact of the risk upon: human health and safety, the environment, mission-critical tasks, state and other financial resources, and information security.

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### **RISKS AND CONTROLS**

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

Because of the small size of the agency, a staff expert is relied upon exclusively without adequate backup to assist when expert is absent or if he or she leaves the agency. Limited positions create challenges to cross-training back-ups. As a result, functions that are mandated and/or critical to completing the Conservancy's mission may not be completed in an accurate and/or timely manner.

#### **CONTROL A**

Document processes, procedures, and tasks. Cross-train staff where resources permit.

#### **RISK: COMPLIANCE-EXTERNAL-FUNDING—SOURCES, LEVELS**

The Conservancy has inadequate funding for currently allocated positions due to funding being allocated at the middle of the salary range while incumbent employees earn at or near the top of the salary range. This shortfall is generally offset by vacancies in larger departments, but the Conservancy's small staff precludes this from being a viable solution. The Conservancy also has inadequate authority for staffing to complete

administrative functions. These shortfalls leave the agency vulnerable to not meeting reporting requirements and not completing mandated tasks.

**CONTROL A**

Ensure that applications for grant funding include funding for administrative functions. Request augmentation to budget to add funding to support currently allocated positions beyond mid-salary range and add authority and funding for personnel to perform administrative functions.

**RISK: OPERATIONS -INTERNAL-PHYSICAL RESOURCES—MAINTENANCE, UPGRADES, REPLACEMENTS, SECURITY**

Growth in the agency since moving to the current office building leaves inadequate space to house all authorized positions and no room for growth. The Conservancy will have to either retain vacancies or have staff share cubicles. In addition, there is no reasonably viable space for lactation accommodation. To stay in compliance with related mandates, executive staff must offer their offices for use for this purpose.

**CONTROL A**

Continue to pursue expansion of the current office space or relocation.

**RISK: OPERATIONS -EXTERNAL-FUNDING—SOURCES, LEVELS**

The agency is highly dependent upon bonds and state and federal grants and contracts. Permanent staff may have to be laid off if alternative funding is not secured to replace expiring funding. Long term planning to implement programs that have significant and sustainable impacts is difficult to achieve without a stable funding source. Programs being implemented may need to be terminated or be curtailed. Staff turnover is increased and candidate pools for filling vacancies are limited as employees seek stable funding for their positions.

**CONTROL A**

Strategically plan program implementation and personnel resources to accommodate funding fluctuations. Utilize limited term hires when possible to avoid layoff situations. Seek additional bond, state, and federal funding as well as general and special fund appropriations.

**RISK: REPORTING -INTERNAL-INFORMATION COLLECTED—ADEQUACY, ACCURACY, INTERPRETATION, TIMELINESS**

Complicated manual process for gathering and tracking data, particularly regarding accounting and budgeting, causes delays and inaccurate results. Reliability of service provider necessitates additional internal tracking for the purposes of cross checking. Reports take a long time to produce and may contain errors. Staff availability for other tasks is reduced. Inaccurate reports may be provided to control agencies, decision making could be based on inaccurate information, and there is a financial risk if accounting and budgeting reports and information are not accurate.

**CONTROL A**

Expand Fi\$Cal training. Hire accountant. Streamline and document processes and procedures as resources allow.

**RISK: OPERATIONS -INTERNAL-PROGRAM/ACTIVITY—CHANGES, COMPLEXITY**

Complicated manual process for gathering and tracking data, particularly regarding accounting and budgeting, causes delays and inaccurate results. Reports take a long time to produce and may contain

errors. Staff availability for other tasks is reduced. Inaccurate reports may be provided to control agencies, decision making could be based on inaccurate information, and there is a financial risk if accounting and budgeting reports and information are not accurate.

**CONTROL A**

Expand Fi\$Cal training. Hire accountant. Streamline and document processes and procedures as resources allow.

**RISK: OPERATIONS -INTERNAL-FI\$CAL IMPLEMENTATION, MAINTENANCE, OR FUNCTIONALITY**

Fi\$Cal update frequency does not match agency needs, resulting in the need for additional accounting and budget tracking internally in order to ensure accurate and timely information is available for decision making. Staff are not fully aware of Fi\$Cal reporting capabilities. This creates inefficiency in gathering and presenting information. System and/or user error results in staff applying temporary fixes and finding solutions for unexpected challenges of utilization. Already limited administrative capacity is thus reduced, leaving fewer staff resources available to address other critical tasks. As a result, those tasks may be delayed or remain unaddressed.

**CONTROL A**

Expand Fi\$Cal training for core staff. Identify gaps and implement internal mechanisms to provide accurate and timely information, including information technology solutions. Cross-train staff when possible. Document fixes, solutions, and workarounds. Communicate issues to Fi\$Cal for possible system fixes or assistance in resolving.

**RISK: OPERATIONS -EXTERNAL-STAFF—RECRUITMENT, RETENTION, STAFFING LEVELS**

Lack of stable funding for positions and limited opportunities for advancement due to the small size of the agency results in high staff turnover and limited candidate pools for filling vacancies.

**CONTROL A**

Expand efforts to recruit and retain qualified employees. Seek secure sources of funding.

**RISK: OPERATIONS -INTERNAL-TECHNOLOGY—SUPPORT, TOOLS, DESIGN, OR MAINTENANCE**

Excessive time is spent managing grant-related data and information which diverts resources from completing other high-priority tasks. Lack of a comprehensive system makes accurately tracking and reporting information difficult, leaves the agency vulnerable to errors and omissions in data, and presents challenges in creating reports for decision making purposes. The small size of the agency makes procurement of specialized grant management software cost-prohibitive.

**CONTROL A**

Collaborate with a larger department that is adopting grant management software and establish an agreement for use of their system.

**RISK: COMPLIANCE-INTERNAL-STAFF ADHERENCE TO POLICIES, PROCEDURES, OR STANDARDS**

Out of date policies leaves agency vulnerable to employees not complying with policies. This could lead to information breaches, violations of human resources policies and mandates, risks to health and safety, and other issues.

**CONTROL A**

Review and update existing policies. Adopt new policies as needed.

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**RISK: OPERATIONS -INTERNAL-STAFF—TRAINING, KNOWLEDGE, COMPETENCE**

Staff availability is reduced by time spent learning Fi\$Cal and other systems, such as ABCARS, and applying temporary fixes and finding solutions for unexpected challenges of utilization. Already limited administrative capacity is reduced and operations are inefficient. Fewer staff resources are available to address other critical tasks and as a result, those tasks may be delayed or remain unaddressed.

**CONTROL A**

Expand Fi\$Cal training for core staff. Cross-train staff when possible. Document fixes, solutions, and workarounds. Communicate issues to Fi\$Cal for possible system fixes or assistance in resolving.

**RISK: OPERATIONS -EXTERNAL-SERVICE PROVIDER—INTERNAL CONTROL SYSTEM ADEQUACY**

Adequacy of service provider for human resources, accounting, and budgetary services leaves the agency vulnerable to errors and omissions in these areas which could lead to non-compliance with mandates, faulty decision making, financial liabilities, and inefficiencies.

**CONTROL A**

Cross check service provider when resources allow and if possible (lack of sufficient resources and expertise that necessitates having a service provider also limit the ability of the Conservancy to cross check their work). Continue to explore avenues to increase service provider adequacy.

**RISK: OPERATIONS -EXTERNAL-TECHNOLOGY—DATA SECURITY**

The Conservancy, as is the case with all state agencies, is vulnerable to external information technology risks, such as phishing and system hacking. Breaches of information security can lead to loss of data, ransom demands, exposure of confidential information, and disruptions in operations.

**CONTROL A**

Update information technology policies and ensure staff are adequately trained on policies and information technology best practices.

**RISK: OPERATIONS -EXTERNAL-BUSINESS INTERRUPTION, SAFETY CONCERNS**

Disasters such as flood or fire may preclude conducting operations from the Conservancy office. There is limited capability for remotely accessing information stored on the network. Returning to work after a disaster could be delayed by insufficient return to work procedures.

**CONTROL A**

Adopt procedures for prioritizing and conducting operations in the event of a disaster and for returning to work after a disaster. Conduct analysis of critical functions and develop capabilities for conducting them remotely if necessary.

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**CONCLUSION**

The Sacramento-San Joaquin Delta Conservancy 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.

**Campbell Ingram, Executive Officer**

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