

November 25, 2019

Wade Crowfoot, Secretary
California Natural Resources Agency
1416 Ninth Street, Suite 1311
Sacramento, CA 95814

Dear Mr. Wade Crowfoot,

In accordance with the State Leadership Accountability Act (Leadership Accountability), 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, 2019.

Should you have any questions please contact Debra Kustic, Deputy Executive Officer, at (916) 375-2086, debra.kustic@deltaconservancy.ca.gov.

GOVERNANCE

Mission and Strategic Plan

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'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 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; the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1), and the California Drought, Water, Parks, Climate, Coastal Protection and Outdoor Access for All Act of 2018 (Proposition 68).

The Conservancy updates its Strategic Plan every 5 years. In 2017, the Conservancy adopted its 2017-2022 Strategic Plan with the following goals.

- **Goal 1: Delta Agricultural and Economic Enhancement** – Promote multi-benefit Delta working landscapes and a robust Delta tourism economy, in collaboration with local stakeholders and the Delta Protection Commission, to enhance the unique cultural, recreational, natural resource, and agricultural values of the Delta.
- **Goal 2: Delta Ecosystem Viability** – Fund and implement high priority projects that increase Delta ecosystem viability through sustaining critical habitat, restoring ecological function, improving water quality, protecting listed species, increasing ecosystem diversity, and managing for climate change; and continue to work collaboratively to define multi-benefit restoration objectives.

- **Goal 3: Conservancy Organizational Strength and Sustainability** – Cultivate a durable and effective organization via strategic collaboration, effective staffing and management, and long-term financial planning.

Control Environment

The Conservancy is governed by a board consisting of representatives from the state and five Delta counties. The board also has two ex-officio legislative members and non-voting liaison advisors from state and federal agencies with jurisdiction in the Delta. 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 2019, the Conservancy has 15 authorized positions. The board conducts a public meeting at least 5 times a year. Additionally, a subcommittee of the board, the Program and Policy Subcommittee, meets as needed in a public forum to discuss issues and concerns and to plan and strategize topics related to the Conservancy's work and mission.

The Conservancy executive management (Executive Officer, Deputy Executive Officer) meets weekly and discusses risks and controls. Also, the Deputy Executive Officer has one-on-one meetings weekly with the Administration Supervisor and the Program Manager at which risks and possible controls are also 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 the implementation of risk controls.

Goal 3 of the Conservancy's Strategic Plan speaks to management's commitment to the values, durability, and effectiveness of the organization. Goal 3 establishes values of durability and effectiveness, collaboration, and long term financial planning. This goal was developed through an extensive process that included all levels of staff. At weekly staff meetings, project meetings, and other collaborations, these goals are reinforced and supported as staff discuss their projects and how they are implementing them and supervisors and management provide guidance. These meetings also provide an opportunity to raise concerns.

Information and 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, 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.

As vulnerabilities are identified, they are reported to either the Administration Supervisor, Program Manager, or executive management. 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 recommendation to eliminate, minimize, and/or control the risk created by the vulnerability. As appropriate, the Administration Supervisor, Program Manager, and executive management 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, executive management may raise the issue with the Conservancy Board and/or the Natural Resources Agency and guidance.

The Administration Supervisor is chiefly responsible for communicating with DGS and the Deputy Executive Officer regarding risks related to accounting, contracting, budgeting, human resources, and purchasing. The Deputy Executive Officer is directly responsible for communication regarding risks related to those areas and any others to the Executive Officer, 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's Strategic Plan, updated in 2017, includes objectives that are intended to reduce risk and metrics by which to assess progress toward meeting the objectives. The companion annual 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. The regular Conservancy board meetings and the subcommittee meetings also

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

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Human Resources, Accounting, and Budget services for the Conservancy are provided by the Department of General Services (DGS) through an Interagency Agreement. Much of the work produced by DGS on the Conservancy's behalf is reviewed by Conservancy staff and work in these areas that is performed by Conservancy staff may be reviewed by DGS staff. These cross-checks provide an opportunity for risks to be identified and addressed. Additionally, periodic accounting, budgeting, 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 Supervisor and the Fiscal Analyst 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 (e.g. State Personnel Board, Department of Finance, State Auditor, Department of General Services).

Conservancy staff (including executive management) reports to the Conservancy board at each meeting, including a financial report and reports of programs that are the Conservancy's primary focus (for example, bond-funded grant programs). Once a year, staff reports on the progress toward meeting the Strategic Plan goals and staff develops an annual implementation plan for board consideration. Mid-year, staff presents to the board an update on progress in implementing the implementation plan. At these meetings, an analysis of expected and actual progress and outcomes is completed. Executive management presents strategies for how to address them, including responsible persons or entities, to the board for board input and consideration.

Through this ongoing monitoring and review processes, the Conservancy reviews and evaluates risk monitoring processes and internal controls.

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.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, consideration of potential fraud, and performance metrics.

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

The process of updating the Conservancy's Strategic and Implementation Plans in 2017 identified some program-related risks. This process involved 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.

RISKS AND CONTROLS

Risk: Dependence Upon Key Personnel

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: Documentation and Cross Training

Identify at least one back-up for all key personnel. Document processes, procedures, and tasks and cross-train staff. This will reduce risk by ensuring there is more than one individual that is capable of performing key functions and tasks.

Risk: Lack of Stable Funding Source

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: Strategically Plan and Seek Available Funding

Strategically plan program implementation and personnel resources to accommodate funding fluctuations. Utilize limited-term hires when possible to avoid layoff situations. Continue to communicate with the Natural Resources Agency and educate legislators, control agencies, federal entities, and others regarding the mission of the Conservancy, the value it provides, and identify opportunities for the Conservancy to contribute and collaborate to advance state, federal, and local priorities and seek additional bond, state, federal and other funding.

Risk: Data Tracking and Reporting

Conservancy management and control agencies are at risk of making decisions and evaluating the work of the Conservancy and its grantees and contractors based upon incomplete and/or inaccurate reports and information. This risk is created by the Conservancy's reliance upon an internal, manual process for gathering and tracking data that is used to reconcile accounting and budgeting reports from the service provider. This manual process is subject to errors of entry and omission. Reduced reliance upon the manual, internal system would increase reliability of the data and information.

Control: Expand Training and Document Processes and Procedures

Expand Fi\$Cal training to enable staff to increase the use of Fi\$Cal and reduce reliance upon independently maintained data. To the extent that independently tracking information *is* necessary, reduce the potential for errors through streamlining and documenting processes and procedures.

Risk: Data Tracking and Reporting

The Conservancy is not operating at optimal efficiency, negatively impacting staff availability for critical aspects of implementing its mission and objectives. The inefficiency is due to a disproportionate amount of staff time that is dedicated to a manual process of gathering, maintaining, and tracking data that is used to reconcile accounting and budgeting reports from the service provider. Reduced reliance upon the manual, internal system would increase efficiency.

Control: Expand Training and Document Processes and Procedures

Reduce the resources required by decreasing the use of independently maintained data by providing additional training to increase staff's competency in and utilization of Fi\$Cal. Where reliance on independently maintained data *is* necessary, streamline and document processes and procedures, as resources allow, to maximize inefficiency.

Risk: Timeliness of Fi\$Cal Data

The availability of data and reports in Fi\$Cal does not always 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. 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: Training and Gap Analysis

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: Funding /Advancement Affecting Candidate Pools

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 pools of qualified candidates for filling vacancies.

Control: Seek Additional Means of Recruitment and Secure Stable Funding

Continue to seek additional means of attracting and recruiting qualified candidates. Secure stable sources of funding to reduce the concern of candidates regarding job stability.

Risk: Lack of Grant Management Information System

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 ability to implement controls is reduced. The small size of the agency makes procurement of specialized grant management software cost-prohibitive.

Control: Pursue Grant Management Information System

Continue to work with the Department of Water Resources (which provides information technology services to many small conservancies and departments, including the Delta Conservancy, under the Natural Resources Agency) and the Natural Resources Agency to identify a cost-effective solution.

Risk: Policy Updates Needed

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: Update Policies

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

Risk: Time Required to Become Competent Fi\$Cal

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. 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: Defer Workload to Allow Time for Training

Prioritize workload and defer other activities so that core staff may complete training and expand Fi\$Cal training. Cross-train staff when possible. Document fixes, solutions, and workarounds. Communicate issues to Fi\$Cal for possible system fixes or assistance in resolving.

Risk: Adequacy of Service Provider Lacking

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: Cross Check

Cross-check service provider work and data if possible and as resources allow, Continue to explore avenues to increase service provider adequacy.

Risk: External Attacks Upon 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: Training and Education

Ensure staff are adequately trained on policies and information technology best practices and educated about the risks and how to avoid them.

Risk: Natural and Other Disasters

Disasters such as flood or fire may preclude conducting operations from the Conservancy office. Returning to work after a disaster could be delayed by insufficient return to work procedures.

Control: Develop Continuity of Operations Plan

Adopt a continuity of operations plan that includes 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.

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 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.

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