

November 15, 2023

Wade Crowfoot, Secretary
California Natural Resources Agency
715 P Street, 20th Floor
Sacramento, CA 95814

Dear Secretary Wade Crowfoot,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the State Coastal Conservancy submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2023.

Should you have any questions please contact Helen Kang, Deputy Executive Officer, at (510) 286-4349, helen.kang@scc.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The Coastal Conservancy ("Conservancy") was established in 1976 to protect and improve natural lands and waterways, help people access and enjoy the outdoors, and sustain local economies along the length of California's coast and around San Francisco Bay. The Conservancy is a non-regulatory agency that supports projects to protect coastal resources and increase opportunities for the public to enjoy the coast.

The Conservancy provides technical assistance through its staff and provides grant funds to help develop and implement projects that achieve its goals. The Conservancy's enabling legislation, Division 21 of the Public Resources Code, authorizes the Conservancy to undertake projects and award grants to advance a number of goals including: protecting the natural and scenic beauty of the coast; enhancing wildlife habitats; helping people get to and enjoy beaches and parklands; adapting to climate change impacts, including sea level rise; keeping farmland and timberlands in production; revitalizing working waterfronts; improving water quality.

Mission Statement

The Conservancy vision is of a beautiful, restored, and accessible coast for current and future generations of Californians. We act with others to protect and restore, and increase public access to California's coast, ocean, coastal watersheds, and the San Francisco Bay Area.

Every five years, the Conservancy adopts a Strategic Plan, which identifies goals and specific objectives. The most recent Strategic Plan was adopted by the Board on December 1, 2022, and is posted on our website. The current Strategic Plan identifies five goals with multiple quantified objectives under each goal. The goals are:

1. Prioritize equity. There are four objectives under this goal: commit funding to benefit

- systematically excluded communities, return power to tribes, support systematically excluded communities, and incorporate workforce development in our projects.
2. Enjoy the coast. There are seven objectives under this goal: explore the coast program grants, coastal stories program, expand accessibility, build trails, recreation facilities and amenities, piers and waterfronts, and explore the coast overnight.
 3. Protect and restore the coast. There are four objectives under this goal: conserve land, restore or enhance habitats, working lands, and cut green tape.
 4. Climate ready. There are three objectives under this goal: sea level rise adaptation projects, wildfire resilience projects, and multi-benefit nature-based climate adaptation.
 5. Organizational goals. There are two objectives under this goal: support for our staff and transparency.

Staff report on progress implementing the Strategic Plan to the Conservancy Board once a year. Regional managers report progress achieving the objectives in the Strategic Plan to the Executive Officer every year.

Control Environment

The Coastal Conservancy consists of a Board, an Executive Officer, and about 81 full-time employees. The Conservancy Board has seven members: two governor's appointees, one senate appointee, one assembly appointee and representatives from the Department of Finance, Natural Resources Agency, and Coastal Commission. The Board meets about five times per year. The Executive Officer updates the Board at each meeting, consults regularly with her management team and staff members about both significant agency-wide decisions as well as day-to-day departmental operations. The Conservancy's management team includes the Executive Officer, Deputy Executive Officers, Regional Program Managers, General Counsel, Director of Fiscal Services, Accounting Manager, Contracts and Procurement Manager, and Human Resources Manager. The monthly meetings of the management team are a forum to discuss and make decisions regarding agency-wide issues requiring input from or affecting the organization. The Management team establishes and demonstrates integrity and ethical values.

Each work group also holds meetings to provide information to their staff and to solicit input on current and upcoming issues. The four regional programs within the Conservancy (North Coast, San Francisco Bay Area, Central Coast, and South Coast) each conduct monthly meetings that include the regional manager and the staff in the region. These meetings serve as an opportunity for regional managers to convey guidance from the management team and for project staff to provide project updates and raise concerns or issues.

All managers are readily accessible to all staff. This open communication allows decisions to be made with the contribution of staff at all levels. All Conservancy staff have a voice within the organization to raise an issue/concern; the chain of command often provides informal resolution. However, resolutions requiring further discussion, consent, procedural or other changes and follow-up, are brought to the Deputy Executive Officer for calendaring for the next monthly management meeting. If the matter is urgent and cannot wait until the next

management team meeting, a meeting will be convened with appropriate staff to discuss and resolve a matter.

The Conservancy completed a Workforce Plan in May 2019 and is implementing that plan. The Conservancy started succession planning efforts in 2020. Maintaining a competent workforce is a focus of all managers at the Conservancy. In addition to external training, such as CalHR and FI\$Cal Academy, the Conservancy provides regular in-house training to develop skills and share knowledge among staff. Probation reports are completed for all new hires and annual performance reviews are performed for all staff. All staff are invited to complete Individual Development Plans.

Information and Communication

The Executive Officer updates the Conservancy Board at each meeting and consults regularly with her management team and staff members about both significant agency-wide decisions as well as day-to-day departmental operations. The Executive Officer provides an annual financial report to the Conservancy Board and the public, which is an overview of the operational and financial resources of the Conservancy. Staff recommendations considered by the Conservancy Board include a great deal of information to document the decision-making process. The Conservancy completes the Two Week Ahead Reports to communicate critical issues to the Secretary of Resources and the Administration.

The Conservancy has a public information officer who manages external communication, including updates to the Conservancy's website and other public information materials. Conservancy staff work with many stakeholders and regularly present our work at conferences and workshops. Finally, the Conservancy hosts webinars to share information among our partners on projects and funding.

Staff meetings led by the Conservancy's Executive Officer are held with all staff every two weeks, providing a forum for the Executive Officer to provide information of agency-wide interest and for staff to ask questions, express concerns, or to make additional announcements from their respective working groups. Internal control systems are documented through various forms, procedures, and memos to staff. Decisions or changes to procedure are communicated every other week at all staff meetings, at unit or workgroup meetings, via emails, and occasionally through staff training sessions. Decisions are documented in memos or changes to internal control forms, depending on the nature of the issue.

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 State Coastal Conservancy monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Mary Small, Deputy Executive Officer; German Garcia, Director of Fiscal Services; Helen Kang, Deputy Executive Officer; Amy Hutzel, Executive Officer.

In addition to the executive monitoring staff, internal controls are implemented by: Amy Roach, General Counsel; German Garcia, Director of Fiscal Services; Gail Ignacio, Human Resources Manager; Roselin Devi, Accounting Manager; and Erika Gomez, Contracts and Procurement Manager.

Potential and current risks or other issues which may cause or are causing vulnerabilities in internal controls, project development and/or implementation problems, or other losses to the state or public are discussed at management team meetings with input from appropriate staff members. Decisions requiring follow-up are tracked internally with information including the issue, responsible staff, next steps and progress, and are followed through to completion. Follow-up is discussed both at management team meetings and all staff meetings. Resolution of a risk, problem, or other issue may require sub-committees to address and provide options for resolution and additional input from staff and management team members.

The Conservancy is regularly audited by the Office of State Audits and Evaluations for specific projects and for its funding programs. When the auditors raise concerns, the Conservancy acts quickly to implement changes to address those issues and ensure that corrective actions are implemented.

Risks and vulnerabilities are brought forward from all levels of line, program, and administrative staff as they are identified while working, from external or internal entities, or through ongoing risk monitoring.

Typically, staff report to their unit managers and/or unit managers will request calendaring on the next monthly management team, depending on the nature of the risk and who first became aware of it. If the situation is urgent, it will be heard and dealt with on an ad hoc basis as needed to address and resolve the issue prior to the next monthly management team meeting. If risk or resolution requires intervention and action of more than one unit within the agency and procedural changes and monitoring, the situation will likely be brought to management team for discussion, action, follow-up and reporting back after implementation. For risks that are either minor in their potential impact or impact only one unit, assessment, mitigation, and monitoring may be done outside of the management team setting, typically with an executive, the unit manager, and the appropriate staff. If necessary, post implementation discussion may take place at management team to inform members who may not have been aware; discuss the issue and resolution; if new information is provided which may require further actions to ensure the risk/vulnerability has been dealt with for the future as well as what has already been dealt with, this will be worked into the final mitigation process.

RISK ASSESSMENT PROCESS

The following personnel were involved in the State Coastal Conservancy risk assessment process: executive management, and front line management.

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

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.

Risks are identified in a variety of ways. The Coastal Conservancy's monthly management team meeting agenda items include all risks and problems identified during the month that have not been addressed and mitigated/resolved at lower levels. Additionally, resolved risks where the resolution/ mitigation affects more than one business unit are discussed at management meetings for informational purposes and to ensure that the proposed/ implemented steps for resolution do not adversely affect another business unit. Ongoing and potential risks are calendared for either urgent ad hoc or monthly management team meetings for discussion, evaluation, prioritization, assignment, and implementation of mitigation measures. The nature, urgency, and other factors of the problem, risk, or vulnerability, determine the appropriate level for discussion and decision- making to address and mitigate/resolve.

Risks are often raised verbally and followed up in writing to those affected and needed for research, discussion, decision-making and authorization to move forward with mitigation processes. Additionally, staff will periodically review and evaluate the effectiveness of the mitigation/resolution measures.

Risks are discussed as they arise or are identified; risk monitoring, assessment, evaluation, assignment, mitigation activities implementation and follow up is an ongoing process. Emerging issues of an urgent nature are evaluated as they are identified; more stable issues are calendared at monthly management team meetings for discussion and evaluation. Risks are ranked considering the gravity of consequence; potential impact on operations, staff, or funding; whether the problem has local or statewide implications; and the likelihood of negative impacts.

RISKS AND CONTROLS

Risk: Meeting Reporting Requirements

The Coastal Conservancy has an exceptionally complicated budget and accounting workload. The support budget is comprised of 38 separate funding sources which includes the extensive use of bond funds. The Conservancy has been met with continuous delays in meeting timely reporting requirements to the State Controller's Office, Department of Finance, and to the Bond Accountability Office. This results in the risk of losing operating funds, inability to acquire new funding, and having extensive audit findings.

Meeting these reporting requirements has been compounded by various issues facing the accounting and budget unit which includes but not limited to: 1) existing staff has insufficient expertise/training on the know-how of how to prepare these reports, 2) staff turnover results in efforts placed in preparing staff to become subject matters experts to be at a loss when the same staff leave the department, 3) the level of expertise necessary for the Conservancy's reporting requirements requires seasoned subject matter experts in both the accounting and budget units to exist for necessary collaboration between units.

Since the last SLAA report, the Conservancy's accounting staff have made enormous progress reconciling and correcting records in FI\$Cal. We have completed many activities anticipated in our prior Implementation Plan. Despite this progress, the Conservancy missed some reporting deadlines this year and still has outstanding bond reports.

Control: Staff Resources, Procedures, and Collaboration with Control Agencies

The Conservancy's accounting unit has been short-staffed for several months and just recently filled the three vacant positions. For both the accounting and budget unit, we are developing checklists and documenting procedures to improve staff training and maintain consistent practices. We are continuing to prioritize cross training of staff to reduce single person dependencies. This will improve performance and in meeting reporting requirements by having staff in both units become subject matter experts in different reporting areas. The Conservancy is making improvements to its processes and continues to gain experience using the FI\$Cal system. The Conservancy has established and will update a monthly support budget expenditure report for senior management. The Conservancy will continue to update the Accounting and Budget Procedures Manual and reduce outstanding reports.

Managers and staff of these units are also communicating and meeting with Department of Finance and the Bond Accountability Office liaisons to seek direct instruction on reporting tasks for which guided assistance or training from these entities may be necessary. Parks and Recreation has recently created training on bond fund expenditure/encumbrance reporting as a direct request from State Coastal Conservancy requesting more in-depth training. Training is planned to occur in the current month and will also benefit sister agencies who have faced similar struggles in completing this same report.

Finally, senior management receives weekly updates on progress from the Director of Fiscal Services and steps in to address any emerging issues.

These measures seek to eliminate or substantially reduce the risks mentioned, but in the interim, the Conservancy continues its attempt to meet reporting requirements despite missed deadlines.

Risk: Staff Training Needs

With the high level of staff turnover, there is a continued need to train new staff. The Conservancy has lost several senior staff people over the past year, and with them a great deal of institutional knowledge.

Control: Training and Documentation

The Conservancy has instituted an in-house training series for our staff. Most of the training sessions are recorded so that new staff can get detailed instruction on topics specific to the Conservancy's work. In addition, the Conservancy is working on documentation of processes so new hires have clear instructions or desk manuals explaining how to perform their roles. We are cross training where possible. Ongoing staff training and cross training support staff growth and succession planning.

Risk: Bay Area Cost of Living

The Coastal Conservancy is and has always been based in Oakland, CA. The high cost of living in the Bay Area and relatively low pay for state workers compared to local government workers creates challenges attracting and retaining a highly skilled workforce. There are many root causes driving the cost of living in the Bay Area, but from the employees' perspective the risk stems from the fact that salaries are the same in Sacramento as in the Bay Area.

The Conservancy has lost staff to local government and to Sacramento and has concerns about retaining staff, especially given the agency's small, highly skilled workforce. There are also costs to recruiting, hiring, and training new staff, which puts additional demands on the Conservancy's human resources staff and managers. A stable workforce allows the agency to focus on its mandated programs.

The recent SEIU contract included salary adjustments for the Conservancy Project Development (CPD) series, which addressed previous salary adjustments for the Coastal Commission and BCDC's Coastal Project Analyst series. The recent salary adjustments for the CPD series does not address salary issues for administrative staff, many of whom are Staff Services Analysts, Associate Governmental Program Analysts, and accountants. The prior SEIU contract that established geographic pay for employees in four selected counties demonstrated that geographic pay is possible while not approving it in the areas where the discrepancies are highest, including Alameda County.

Control: Workforce Retention

This risk is not within the Conservancy's ability to control. However, the Conservancy is taking many steps to retain staff, including completing and implementing its Workforce Plan and providing training and upward mobility opportunities where possible. Recent salary adjustments for the CPD series also helps with retention of project staff.

Control: GEOPAY

GeoPay for Bay Area employees would address this risk, but that is not within the Conservancy's authority.

Risk: Limited Administrative Funding and Increasing Cost

For a small agency, the Conservancy has a very complex support budget, with funding coming from 38 separate specific sources. Many of these funds have specific purposes, leaving the Conservancy with inadequate funding for general administrative purposes. This shortfall is exacerbated by increasing administrative workload and costs, such as cybersecurity audits and website accessibility standards.

Most of the Conservancy's support budget paid for salaries and benefits. Bond funds made up more than half of funding in the Conservancy's support budget. Bond funds are finite, special funds, approved by the voters to implement specific types of projects. Twenty six percent of the bond funds are from "Program Delivery" allocations of the bonds and thirty percent come from the "Planning and Monitoring" allocations of the bonds. The "Planning and Monitoring"

allocations need to be spent on “planning and monitoring for the successful design, selection, and implementation of the projects authorized under [the respective] program”. The Conservancy uses these funds to pay for staff working on project planning, project development, project management and monitoring. The Office of State Audits and Evaluations has directed the Conservancy to develop a Cost Allocation Plan, consistent with SAM. However, given the complexity of 38 separate funding sources, the Conservancy does not have the ability to match specific expenditures to specific funds. The Conservancy documents the appropriateness of support expenditures of those funds through timesheet data. However, expenditures are distributed across all “Planning and Monitoring” funds in aggregate. Other support funds are allocated to general operating costs.

Compared to other state agencies, the Conservancy has very little unrestricted funding for general administrative purposes. This lack of administrative funding makes it difficult for the Conservancy to pay for new mandated administrative costs such as paying for the required biennial cybersecurity audits and complying with website accessibility standards, along with ongoing and sometimes unanticipated costs for required software conversions, access to the state’s global address list, and other IT-related requirements. The limited unrestricted funding also makes it necessary to allocate support appropriations to general operating costs.

The finite nature of much of the Conservancy’s support funding creates concern among staff about the long-term viability of the agency’s support budget, which impacts staff morale. The need to bring in outside funding to pay for the Conservancy’s budget redirects staff resources to projects with outside funding, away from the priorities in the Conservancy’s Strategic Plan.

Control: Five Year Financial Plan and Workload Analysis

Conservancy staff provides the Conservancy Board with an annual financial report and update to its Five-Year Financial Plan. The Five-Year Financial Plan does not reflect funding that has been approved by the administration, but it is a useful guide to track the resources available and identify potential risks. For the past decade, the Five-Year Financial Plan has documented the need for increased general operating support to pay for general administrative costs. By planning, the Conservancy has been able to diversify support funds and avoid layoffs or shortfalls in its support budget.

The Conservancy uses a timesheet database to document the appropriateness of the support expenditures of “Planning and Monitoring” funds. Conservancy staff have attended Cost Allocation training; however, it is not feasible to implement a cost allocation program given the complexity of our support funding.

Conservancy projects take years or even decades to be planned, permitted, and constructed, followed typically by 20 years of monitoring. Staff time for monitoring is funded from current bonds, even if projects were funded by older bonds.

CONCLUSION

The State Coastal 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.

Amy Hutzel, 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