

December 14, 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 State Coastal 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 Mary Small, Deputy Executive Officer, at (510) 286-4181, [mary.small@scc.ca.gov](mailto:mary.small@scc.ca.gov).

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## BACKGROUND

The State Coastal Conservancy ("Conservancy") was established in 1976 to proactively implement multi-benefit projects that protect and enhance coastal resources. 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. 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 awards grants to advance a number of goals including: protecting the natural and scenic beauty of the coast; improving water quality; enhancing wildlife habitats; helping people get to and enjoy beaches and parklands; keeping farmland and timberlands in production; revitalizing working waterfronts; assisting communities to prepare for the impacts of climate change, including sea level rise. The Coastal Conservancy consists of a board, an executive officer, and about 65 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 a year. The Executive Officer updates the Board at each meeting, consults regularly with his management team and staff members about both significant agency-wide decisions as well as day-to-day departmental operations. 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 November 30, 2017. Staff report on progress implementing the strategic plan to the Board once a year. The Executive Officer, two Deputy Executive Officers, Regional Program Managers, Chief Counsel, and Chief of Administration are readily accessible to all staff. This open communication allows decisions to be made with the contribution of staff at all levels. All staff meetings led by the Conservancy's Executive Officer are held 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. Additionally, monthly meetings of the Conservancy's management team include the Executive Officer, Deputy Executive Officers, Regional Program Managers, Chief Legal Counsel and Chief of Administrative Services. These meetings are a forum to discuss and make decisions regarding agency-wide, regional, multiple programmatic, and other issues requiring input from or affecting the organization. Each departmental unit also holds meetings to provide information to their staff and to solicit

input on current and upcoming issues.

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## ONGOING MONITORING

As the head of State Coastal Conservancy, Samuel Schuchat, 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 State Coastal Conservancy internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Samuel Schuchat, Executive Officer, Regine Serrano, Chief of Administrative Services, Mary Small, Deputy Executive Officer, and Amy Hutzel, Deputy Executive Officer.

### MONITORING ACTIVITIES

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, who will follow-up, next steps and progress, 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.

### ADDRESSING VULNERABILITIES

Risks and vulnerabilities are brought forward from all levels of line, program and administrative staff as they are identified in the course of 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. 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.

### COMMUNICATION

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 meeting. If the matter is urgent and cannot wait until the next management team meeting, a meeting will be convened with appropriate staff to hear, discuss and resolve a matter. Communication and documentation is made as necessary to all staff units impacted

by changes made to resolve the matter. Communicating results of an issue is carried out through every other week Monday all staff meetings, through unit/workgroup meetings, through emails, and training sessions, if that is part of the resolution process.

### **ONGOING MONITORING COMPLIANCE**

The State Coastal Conservancy 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 State Coastal Conservancy systems of controls and monitoring.

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### **RISK ASSESSMENT PROCESS**

The following personnel were involved in the State Coastal Conservancy risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

#### **RISK IDENTIFICATION**

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.

#### **RISK RANKING**

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 of ranking criteria. Criteria for rating criticality of addressing and mitigating risks include gravity of potential consequences by impact on operations, staff, or funding lost/projects jeopardized, impacts of delaying resolution or mitigation activities, imminence of negative impacts, how widespread are effects of the problem (local or statewide implications), likelihood of negative impacts, whether the situation lies within the authority of the Conservancy to address, or if other public/private entities are in charge of the process/situation causing the risk, and the ability to address and/or mitigate with current resources.

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## RISKS AND CONTROLS

### **RISK: OPERATIONS -EXTERNAL-FISCAL IMPLEMENTATION, MAINTENANCE, FUNCTIONALITY, OR SUPPORT**

Financial information including expenditures, funding appropriations, program identification, funding type, bond expenditures and other required documentation could be delayed in submission, omitted, or lost from FiSCal which will be the State's Book of Records. As such, it is essential that all financial entries are registered and processed through FiSCal from encumbrance through expenditure, as well as documentation of receipts of revenues and funding to ensure integrity of the system's information and historical recordkeeping. Without completeness and accuracy of data, reports which are relied on for expenditure planning and decision making may not be complete or may have other inaccuracies which is unacceptable. It will also delay or result in having partial information for reconciliations, reporting requirements, month-end and year-end reconciliations and closing. This could also impact mandatory bond and other fund expenditure reporting, resulting in inability to prepare year-end budget documents for annual budget preparation.

As prior year "go live" departments are transacting in FiSCal, implementation of new bond-related and tracking requirements and implementation of project ID numbering and sub-program numbering decisions have resulted in issues which need to be addressed quickly by multiple entities including STO, SCO, DOF, DPR, DWR, and bond-funded departments. System complexities and necessary configuration of data sharing between FiSCal and legacy systems resulted in the need to problem solve in unanticipated ways. For the Conservancy and other bond funded departments, resolving issues related to information that must be maintained in FiSCal and appropriately translated and transferred to ABCRS is mandatory to accurately capture this information. Decision-making and subsequent changes regarding system capabilities, and the manner in which systems will receive FiSCal expenditure information, have occurred due to complexities of FiSCal and other recipient ongoing legacy systems, and workload implications for departments are being dealt with internally.

Delays in conversion, catch up and direct transacting in production into FiSCal. Delays have resulted in a longer catch up period, additional workload and longer, more difficult reconciliations as both conversion data and catch up documents require reconciliation, and delays in being able to transact in FiSCal for items converted from CalStars. In turn, this required post go live transacting outside of FiSCal to manage business needs, and making payments from prior year encumbrances, all of which must then be entered and reconciled in FiSCal.

#### **CONTROL A**

The Conservancy's internal transition team, along with the consultant Business Transition Team (BTT) through CNRA, have implemented a 3 times per week meeting schedule to discuss pending and ongoing issues requiring resolution and problems solving, additional information, coordination, most typically with FISCAL as well as with Department of Finance, State Controllers' Office, and the Statewide Bond Unit. Progress is discussed and continued feedback is provided to the BTT and to involved control agencies and other departments.

#### **CONTROL B**

The Conservancy's internal transition team communicates daily with CORE Coastal Conservancy users regarding workloads for catch up, and production transactions, ensuring appropriate roles and job aid availability, as well as readiness for reconciliation of converted items. Check-in meetings, ad hoc meetings and other communications are exchanged to determine what additional assistance is necessary including submission of service requests, role changes, obtaining new job aids for

transactions, etc. This has helped to reduce employee anxieties, and maintain and increase staff confidence and skills.

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

Having insufficient levels of stable, ongoing funding sources for operational/support costs poses a significant risk to the continuity of the Coastal Conservancy's efforts to carry out its mission to protect and improve coastal areas and sustain local economies. Additionally at risk is our ability to retain qualified staff to undertake and carry out long-term project planning and implementation activities necessary to accomplish programmatic goals and to provide non-capital funds to maintain projects already completed. Negative impacts to date have included self imposed staff and budget reductions. This long term problem/risk has required that the Conservancy reduce its annual budget by more than 25% including 16 staff reductions (including 8 Ocean Protection Council positions), statewide travel, communications and consulting allocations and expenses over the past several years. The number of Conservancy projects, however, has continued to increase annually, placing a significant strain on all staff. Open agreements represent project activity and project implementation; our ability to continue management of these agreements and the projects they represent is dependent upon sufficient and stable support funding and sufficient staffing and operating levels.

Number of Open Agreements Over the Past 6 Fiscal Years:

FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
1,094	1,161	1,202	1,228	1,254	1,389

Throughout its 40+ year history, there has not been a single, sustained source of funding for its operations or its projects. The Conservancy's support funding is primarily bond funds; during the next five years, the Conservancy will appropriate all remaining bond funds and receive its final appropriation of the Habitat Conservation Fund. Without new and stable support fund sources at sufficient levels to cover general administrative expenses, we will not be able to maintain the minimum staff required to carry out projects as described above. In addition to the budget reductions implemented to reduce our operating budget, the Conservancy has also put significant effort into applying for outside grants to support projects and associated staff work. Although incoming grants fluctuate annually, we have significantly increased the amount awarded from incoming grants to pay for related support costs. From 2009 to 2016, the Conservancy increased its incoming support funding from \$57,000 to \$917,000. While these incoming funds have provided critical support dollars, it must be noted that the primary grantor, NOAA, is providing \$314,000 for staff work in 2017/18. These funds are less certain under the new administration. Again, efforts have been and continue to be made by multiple methods to meet funding needs; however, a stable funding source at sufficient levels to cover general administrative costs is essential to the ongoing work of the Conservancy.

As stated above, the Conservancy has necessarily reduced its annual budget by 25%, resulting in 16 staff reductions and significant cuts to statewide travel, communications and consulting budget allocations. The Conservancy has reduced its travel budget by using more web meetings but the project work requires some travel for site visits, public meetings and monitoring. The number of active projects continues to increase as does the overall workload. Last year, the Conservancy was given new statutory authority with AB 250. The Conservancy will need additional staff to implement the program envisioned in that statute.

**CONTROL A**

The Coastal Conservancy has been reporting on budget status and funding to its board and to the Department of Finance on this critical issue of long term funding needs for some years.

Additionally, as discussed above, increased efforts to obtain outside funding to augment state appropriations have provided much needed, although not stable funding. Not stable because reimbursements and federal grant funding for both project and related staff costs are tied to the specific project(s) for which the award was granted. In efforts to provide additional and stable funding a Budget Change Proposal (BCP) was submitted for baseline funding at an initial level to assist with immediate, critical needs as of July, 2018. As dialogue and regular communications continue to increase understanding of the Conservancy's historical funding streams and plan to ensure additional stable funding levels and necessary staffing to carry out and continue programmatic efforts, we are optimistic that this will lead to long term stable funding to replace other dwindling and depleted funding. This will ensure continuity of efforts to carry out the diverse mission of maintaining California's natural resources for the present and into future generations.

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

Coastal resources preservation, habitat enhancement, improvement of water quality, ensuring access to and along California's coast requires knowledge of and the ability to apply essential skills and update them as appropriate and required. It is a challenge to ensure continual refreshing and updating of skills, application of new sciences and best practices; understanding threats to resources, both natural and manmade, and technical skills to utilize emerging technological tools and resources. Some skills and core competencies are learned through education and are developed in the course of work; however other essential knowledge, new and emerging sciences, tools and best practices are more readily provided through internal trainings for project staff who will employ them and will have opportunity to work cooperatively on projects that require these skills and knowledges. Utilizing appropriate training methods and tools to update and advance staff skills is essential; not doing so could result in projects requiring these knowledges, skills and/or abilities to be hampered, slowed down, implemented less efficiently or effectively, or encounter potentially unnecessary problems.

Like many organizations with broad mandates and goals, Coastal Conservancy project planning and implementation requires a broad range of skills at sufficiently proficient levels to effectively carry out successful projects. These skills include environmental planning, habitat enhancement, constructing stairways and accessible pathways to beaches, restoring stream corridors and fish passageways, preserving open space and scenic views, acquisition of easements and real property, construction of trails for biking, hiking and equestrian use; decreasing barriers to coastal access by lower-income Californians, improving access for persons with disabilities, consulting with tribes in California, providing for environmental education and community stewardship opportunities, enhancing water quality, mitigating negative environmental impacts, and other preservation, protection and enhancement work. New, emerging sciences, best practices and understanding of how to apply them requires ongoing efforts to ensure that project staff are appropriately equipped to employ them.

As staff attend conferences, training, and workshops, they bring back new and important knowledge and skills which benefit the Conservancy. Without formal and planned efforts to ensure that this information is passed on effectively, it is likely that single person dependencies will result. This would cause projects managed by less trained staff to have the disadvantage of lacking knowledges, skills and abilities in areas of changing and advancing skills and competencies than others might have.

**CONTROL A**

To ensure that employees receive training related to projects they may currently be undertaking or which they will need to function most effectively, the Coastal Conservancy has implemented an ongoing training program. Approximately twice per month, 1-3 hour trainings are held on topics including Conservancy 101 - our mission, goals and means of achieving them (for all new staff and

refreshers for others), the Legislative process, Acquisitions, Communicating Climate Change, CEQA, Mitigation, Project Monitoring and Compliance, Project Contracting, Audit Compliance, Environmental Justice and Cultural Competency, Geo-tools, California Rapid Assessment Method for Regulatory Staff (CRAM), Rolling Easements, Greenhouse Gas Emissions, Wetland Monitoring, Incoming Grants Applications and Management, Access for Persons with Disabilities, Making Effective Presentations, and similarly relevant topics.

#### **CONTROL B**

Additional trainings are held for all staff on a variety of administratively related topics to increase their understanding of administrative rules, policies and other civil service information regarding their employment. These topics include Human Resources and State Civil Service processes; Disability Awareness; DOF audits (provided by DOF/OSAE), Grant Invoice Review and Processing, Excel, State Budgeting, Records Retention, Business Skype for Meetings, Basic Procurement Methods. Other trainings are held as needs are identified and/or staff request them to enhance their knowledge, skills and abilities as related to state employment and their jobs. These trainings are provided in addition to legislatively mandated trainings which include Sexual Harrassment Prevention and Anti-Bullying, Ethics Training, Privacy Training, Supervisory Training, and others.

#### **RISK: COMPLIANCE-EXTERNAL-PRIORITIES AFFECTING LAWS OR REGULATIONS**

The Coastal Conservancy is actively engaged in preparation of a comprehensive updated ADA (Americans with Disabilities Act) Self-Evaluation and Transition Plan. Under Section 504 of the Rehabilitation Act of 1973, a previous self evaluation was made; however, with the passage of time, the Conservancy has numerous additional properties and facilities and other publicly used projects and programs that have not yet been included in our past Section 504 self evaluation. As part of our commitment to ensuring that appropriate measures have been and will continue to be made to provide programs and facilities that are accessible by Americans with Disabilities, the Conservancy has engaged assistance to assist in a current assessment, self-evaluation and transition plan. The resulting document will serve as a guide and reference for future project undertakings and project site maintenance. Without this and the tools necessary to ensure that all projects have criteria related to ADA compliance, the Conservancy is at risk of non-compliance with respect to ADA considerations for the public at Conservancy project sites and programs available to the public.

In the intervening years since the last Section 504 self evaluation, new Conservancy programs have been added and current programs, functions, policies and practices have changed. These changes necessitate a new self-evaluation and examination of our activities to ensure continued compliance under Section 504 of the Rehabilitation Act of 1973. The end result is intended to ensure that to the extent possible, policies, activities, functions, programs and projects provide for full participation by individuals with disabilities.

The result of this work will be an ADA Self-Evaluation and Transition Plan that will be used to ensure that Conservancy facilities and programs are accessible by persons with disabilities and that the Conservancy's policies and practices are in keeping with ADA requirements.

#### **CONTROL A**

Necessary guidance and changes to practices, policies, functions, programs and other activities will be determined and appropriate controls put into place upon completion of the current Self Evaluation Process. Anticipated completion of the Self Evaluation and resulting Transition Plan is April 25th. Upon review of the plan, management will implement appropriate controls and provide updated reports.

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

The Coastal Conservancy completed a 5 year planning and implementation effort; moving its office headquarters to the Oakland Elihu Harris State Building just before December, 2017. Having been located in its previous location for almost 40 years and being a very small department (65 PYs), this was a significant administrative undertaking in terms of planning, estimating and obtaining necessary funding for furniture (much of former space had built ins), moving high tech Audio/Visual and other IT equipment; installing new CAT wiring for servers and data lines, configuring the new space to meet staffing and business needs, carrying out the move itself in coordination with DGS, movers, and staff; and locating and securing essential file storage. As we planned out move, the cost per square foot at the State building was 33% higher than our current lease costs and we needed to plan for out years in terms of rent, dealing with unstable funding sources, and dwindling bond funds to ensure that our current and future square footage needs and requested funding would meet our current and anticipated business needs. In light of financial difficulties, we could likely have leased insufficient space for future years with the pressures of increased square foot costs and anticipated cost increases; we could have underestimated the funding required for peripheral costs listed above or other items that neither we nor the DGS Real Estate Services Division (RESD) could have anticipated for us and we could likely have underestimated the need for additional funding. If any of these had resulted, there could likely have been an interruption of business activities that might have lasted for multiple years until additional funding was made available and the problems dealt with in a disruptive and untimely manner.

The Coastal Conservancy's move to the Elihu Harris State Building was ordered by the DGS RESD to ensure full occupancy to the extent possible within the State building. Vacancies at the State building result in lack of revenue to pay State building costs while lease payments are concurrently being made for privately owned office space so there was some level of urgency to the move. A large tenant of the State building was planning for downsizing and subsequently leaving a full floor vacant due to the current tenant department downsizing and consolidating leased space. Because of its small budget and staff size as well as stability of office space for the previous 38+ years, it was significantly challenging for the Conservancy's small administrative staff to undertake, coordinate, and manage all aspects related to the move.

Conservancy facilities management, IT, administrative head, with input from executive staff, formed an internal move committee that met with DGS, RESD staff to provide information. We held meetings to discuss all possible needs for the move and obtained cost estimates for planning. Later, bi-weekly and ultimately weekly meetings were scheduled to go over progress, purchases, problems, resolutions until after the actual move took place. The meeting was successful with build out to meet business needs. With a few hiccups along the way, we are now settled and intend to occupy our current space for the next 40+ years unless business needs necessitate an additional move.

**CONTROL A**

Internal meetings of the "move" committee within the Coastal Conservancy of key staff including Chief of Administrative Services, Facilities Manager, Information Technology Manager with guidance and input from the Deputy Executive Officer. Activities included measurements of all filing and storage areas, determining appropriate square footage for staff at various classification and working levels, estimates of new furniture needs and costs, moving costs, and other expenditures such as moving and surplus shelving which was no longer in compliance with new building standards; planning for and obtaining increased rent costs, rental of file storage space and other peripheral expenditures that provided the basis of our needs assessment and additional funding request.

### **CONTROL B**

Meetings with the project manager at DGS RESD were also invaluable to guide our planning and implementation process. Monthly and ad hoc meetings were sufficient at first, along with site visits to ensure stated needs were accurate. As the move date became imminent and timing for deliveries, completion of our new space and move of built ins to the space needed additional problem solving, more frequent meetings were required to ensure that schedules were accurate and updated based on inevitable delays. All aspects of the move hinged upon another, causing significant rescheduling and more frequent coordination efforts. All emerging issues required and received prompt and effective resolution and were either mitigated or alleviated, resulting in a fairly smooth move, set up, and transition to our new space.

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### **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 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.

Over the years, the Conservancy has examined and revised risk monitoring and lines of communication to prevent obstacles that could impede necessary information from reaching risk evaluators. It is very important that all lines of communications are open and working effectively to learn about, evaluate, and mitigate risks whenever and wherever possible. We understand that awareness of and addressing risks is a vital part of improving processes and procedures while preventing or mitigating negatives which impact our ability to most effectively carry out efforts to meet the Conservancy's mission of working with others to preserve, protect and restore the resources of California's coast and ocean, and the San Francisco Bay Area.

**Samuel Schuchat, 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