December 23, 2019

Keely Martin Bosler, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Ms. Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Transportation 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
Minerva Anguiano, Administration and Finance Manager, at (916) 324-7514,
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GOVERNANCE

Mission and Strategic Plan

The mission of the California State Transportation Agency (CalSTA) is to develop and coordinate the policies and programs of the state's transportation entities to achieve the state's mobility, safety and air quality objectives from its transportation system.

CalSTA consists of seven entities, each with a focus on safety, mobility and sustainability as they relate to California's transportation system and the traveling public. CalSTA provides necessary Cabinet-level attention and focus to coordinate the policies and programs emanating from the following transportation-related entities:

- The Department of Transportation (Caltrans)
- The Department of Motor Vehicles
- The Department of the California Highway Patrol
- The Board of Pilot Commissioners
- The High Speed Rail Authority
- The California Transportation Commission
- The New Motor Vehicle Board

In addition to the entities above, the Office of Traffic Safety (OTS) is an operational transportation-related entity that resides within the CalSTA Office of the Secretary.

CalSTA is responsible for:

- Acting as a conduit between the Governor's Office and the departments, boards, commissions and offices within its jurisdiction in terms of policy and program development and execution.
- Overseeing the management of its departments, boards, commissions and offices to ensure they are operating efficiently and performing to expectations of the Agency, the Governor's

Office, the Legislature, and taxpayers.
- Working with its departments, boards, commissions and offices to develop and execute policies designed to maximize the potential for the State's transportation system to reach its safety, mobility and sustainability objectives.
- Enhancing communication and coordination between departments, boards, commissions and offices to maximize the efficiency and effectiveness of policy and program execution.
- Being the primary communicator on statewide transportation matters with the media, the Legislature, the public and its stakeholders.
- Effectively and efficiently administering traffic safety grant funds to reduce traffic deaths, injuries and economic losses through its Office of Traffic Safety.
- Operating ethically, efficiently and professionally in carrying out its mission and performing its functions and duties.

Control Environment

After his arrival and after seeking input from staff, the new Secretary laid out the vision for CalSTA and the four principles by which he expects all staff to conduct themselves. One of the four principles is integrity. The Secretary, Undersecretary and the OTS Director exemplify integrity and ethics in their everyday actions and communications. In providing oversight for CalSTA, all top executives have clearly communicated their reasonable expectations and have ensured accountability through frequent interactions with all staff while conducting the business of the agency. Further, civil service employees receive regular performance evaluations. Moreover, the Secretary and Undersecretary, in concert with the Governor's Office, have determined the appropriate organizational structure for CalSTA to ensure that form fits function and have meticulously recruited appointees best suited to carry out the responsibilities of the agency's positions and achieve the CalSTA vision and mission. Additionally, Administrative Policy Memorandums are promulgated to maintain documentation of CalSTA's control system.

Information and Communication

To ensure all relevant information is communicated to achieve CalSTA's objectives, the agency holds weekly staff meetings and top management and senior staff regularly issue memos and emails. To record pertinent operational, programmatic and financial information, CalSTA uses Issue Memorandums. Staff and management work collaboratively to ensure all information communicated to both internal and external parties is accurate, appropriate and based on reliable and relevant sources. In addition, the Secretary, Undersecretary and OTS Director have created an atmosphere of transparency and openness by ensuring all staff know they and all supervisors are accessible for staff to report inefficiencies and inappropriate actions, if necessary. Further, the State Auditor's notice regarding whistleblower reporting and protections is prominently posted throughout the agency.

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 Transportation monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:
Elissa Konove, Undersecretary.

CalSTA and OTS individually hold regular management meetings. Meeting topics include discussion of current and potential internal control issues. These meetings allow senior level management to engage directly with the review, evaluation, and improvements to systems of internal control. Additionally, OTS Grant Coordinators monitor potential grantee risks through ongoing grantee performance reviews. Through ongoing monitoring processes, CalSTA and OTS review, evaluate, and improve systems of internal controls.

Addressing Vulnerabilities:

Based on the monitoring practices being conducted, OTS meets with CalSTA to discuss improvements needed and any overall weaknesses in internal controls, as well as activities being performed to mitigate the deficiencies and updates on the status of corrective action. This summary information is then discussed to the Secretary and CalSTA management. In addition to this reporting process is OTS' ongoing reporting of any noteworthy deficiencies that have been identified more recently than the last report; such informal reports are made to the relevant CalSTA Deputy Secretary.

Any deficiencies noted in the OTS reports are discussed in CalSTA management meetings during which CalSTA also evaluates its own internal controls. Similar to OTS, the CalSTA management team is responsible for the design of mitigation activities, identification of who will implement corrective action and the timeline for implementation, ongoing assessment of the implementation, and regular reporting to the executive monitoring sponsor.

Communication:

First and foremost, all staff at OTS and CalSTA are encouraged to speak up about potential deficiencies in internal controls, operational procedures and office policies. Further, as both entities are relatively small organizations, it is well known by all employees when management assessments are underway, and relevant rank-and-file staff generally are included in the evaluation process. Moreover, improvements that are made to correct deficiencies are equally known, but also are discussed in weekly management meetings and periodic all-staff meetings.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Transportation risk assessment process: executive management, middle management, and front line management.

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

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

Because CalSTA's critical business function consists of (a) providing administrative and policy guidance and oversight to constituent transportation-related entities and (b) administering traffic safety grant funds through the Office of Traffic Safety, the areas of potential risk are limited to:

- Administrative options
- Information security functions.

- Operations of the Office of Traffic Safety.

Within each of the three areas, management conducted a risk assessment to identify the highest risks and associated internal controls and monitoring processes.

More specifically, in conducting the risk assessment, CalSTA managers were asked to:

- List the principal functions requirements.
- Rate each function/requirement as low, moderate or high, based on its impact on CalSTA in terms of accomplishing the organization's mission and goals.
- Determine and identify the risks associated with each function/requirement determined to have a moderate or high impact.
- Rate the probability that each risk will occur as either low (remote), moderate (reasonably possible) or high (probable).
- Identify the controls that exist to prevent the risk from occurring and to help detect the occurrence of each risk determined to be potentially significant (i.e., with an impact/probability of occurrence combination of high/high, high/moderate or moderate/high).
- Describe the regular and ongoing monitoring processes that are in place to ensure that the controls are functioning properly for each risk determined to be potentially significant.
- Identify (1) where the design of current controls may not be sufficient to mitigate risk, and where existing controls may not be operating effectively, and/or (2) where regular and ongoing monitoring processes require strengthening for each risk determined to be potentially significant.
- List the corrective action(s) to be taken, the date by which the corrective action(s) will be complete, and who will be responsible for implementing the action(s), based on the identified control deficiencies.

Risks were evaluated and prioritized based on likelihood and impact, followed by consideration of the controls that are in place or should be in place to mitigate the risks.

RISKS AND CONTROLS

Risk: Local Assistance Contracts Management System

CalSTA does not have an automated system to help with the tracking of its local assistance contracts and grants. Although CalSTA is using a spreadsheet to administer its contracts, it recognizes the need for an automated system that will facilitate the tracking of the different contract requirements, such as the tracking of the submission of the reports required by each contract or grant, termination dates, and any other special requirements mandated by each contract or grant. The risk of human error will be mitigated, and the agency can ensure no incorrect information is given out due to outdated information in the spreadsheet.

Control: Automated Contract Management System

To mitigate this risk, CalSTA and OTS are implementing the use of OTS' grant management system to facilitate the proper management of CalSTA's local assistance contracts. By using this system, CalSTA will be able to track all of the reporting requirements of each one of its contracts. The automated system will also increase the efficiency in responding to requests and greatly

reduce manual business processes.

Risk: Information Security Tools

OTS utilized internal IT staff and the California Military Department to identify security vulnerabilities or deficiencies in the OTS computing environment as well as in its systems held at the California Department of Technology and with third party entities (Salesforce and Microsoft). Based on the results, there were areas of IT security that require mitigation. The risks were documented and a strategy has been devised to perform such mitigation, but details cannot be divulged here because of the extremely sensitive nature of the findings.

Control: Procurement of the Proper Tools and Use of Best Practices to Manage the OTS Computing Environment

To mitigate the risks, OTS has purchased the applications recommended in the security review mentioned above, and performed the tasks within the tools and systems to strengthen OTS' security posture. OTS IT staff will constantly monitor the systems by utilizing automated monitoring tools, biennial independent IT security audits and system vulnerability reporting applications to preserve the data housed within OTS' systems.

Risk: Procurement/Contracting for CalSTA/OTS

OTS has reviewed and assessed the contracting and procurement process for its efficiencies/ deficiencies. In a recent audit, there were a couple of findings regarding contracts and purchasing practices. After reviewing the deficiencies, CalSTA/OTS has updated procurement and grant procedures and trained staff to ensure all state guidelines, standards and regulations are followed and checked prior to execution of any contract or purchase.

Control: Continual Monitoring, Training and Applying Best Practices

To mitigate the risks, CalSTA/OTS will continually update procedures and checklists as necessary and provide procurement staff the corresponding training to ensure accuracy and to exercise due diligence in following best practices. CalSTA/OTS managers will also review and approve all purchase and grant documents to ensure all procurements and contracts are properly purchased and executed.

CONCLUSION

The Transportation 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.

David S. Kim, Secretary

CC: California Legislature [Senate (2), Assembly (1)]
    California State Auditor
    California State Library
    California State Controller
    Director of California Department of Finance
    Secretary of California Government Operations Agency