

December 26, 2017

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Transportation 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 Minerva Anguiano, Administration and Finance Manager, at (916) 324-7514, Minerva.Anguiano@calsta.ca.gov.

BACKGROUND

The California State Transportation Agency (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
- 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 in charge of:

- 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.

CalSTA Critical Business Function:

CalSTA's critical business functions consist of providing administrative and policy guidance and oversight to constituent transportation-related entities, and administering traffic safety grant funds through the Office of Traffic Safety.

ONGOING MONITORING

As the head of Transportation, Brian C. Annis, Secretary, 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 Transportation internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Michael R. Tritz, Deputy Secretary.

MONITORING ACTIVITIES

CalSTA and OTS individually hold quarterly 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 submits to the CalSTA executive monitoring sponsor quarterly reports of 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 forwarded to the Secretary and CalSTA management. In addition to this scheduled reporting process is OTS' ongoing reporting of any noteworthy deficiencies that have been identified more recently than the last quarterly report; such informal reports are made to the relevant CalSTA Deputy Secretary.

Any deficiencies noted in the OTS quarterly reports are discussed in CalSTA quarterly 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 quarterly 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.

ONGOING MONITORING COMPLIANCE

The Transportation 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 Transportation systems of controls and monitoring.

RISK ASSESSMENT PROCESS

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

RISK IDENTIFICATION

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 functions.
- 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.

RISK RANKING

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

CalSTA is anticipating change in Governor-appointed staff as it relates to the upcoming change in Executive Branch Administration. While CalSTA recognizes this risk is associated with the structure of an Agency under a Governor's appointment authority, CalSTA is focusing its efforts to pursue its primary mission and objectives so that they remain unabated.

CONTROL A

To mitigate this risk, the executive team meets on a regular weekly basis to discuss various topics, including issues or workload within each executive's applicable program area. This allows all executives to be aware of agency-wide issues and concerns. This communication will help to address departmental issues when a key person leaves the Agency. Additionally, in preparation for the turnover that occurs with a change in administration, current staff will compile documents identifying key issues facing CalSTA and its constituent entities at the time of the transition.

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

As a small entity, OTS depends on key personnel with critical knowledge of its program operations, funding and reporting requirements. A loss of key personnel due to retirements/promotions, changes in work environments, and changes to business processes may cause gaps between staff skills and the critical needs of the entity. A critical component of OTS' cross-training program is documentation of current policies and procedures in key operating manuals used by personnel as a resource and reference while training for various assignments throughout OTS.

CONTROL A

OTS will continue working to build a cross-training program, as well as looking for ways to delegate authority to employees and revise employee classifications to make internal candidates more competitive for future OTS promotional opportunities. Additionally, OTS will find ways to continue revising key operating manuals to assist with employee transitions.

RISK: OPERATIONS -INTERNAL-FISCAL IMPLEMENTATION, MAINTENANCE, OR FUNCTIONALITY

OTS is currently using CALSTARS and is scheduled to transition to FISCAL during Wave 4. The following may delay implementation to FISCAL:

- FI\$Cal system incompatibility with internal information systems.
- Internal business processes not properly transitioned to accommodate FI\$CAL business processes.

CONTROL A

OTS will continue to document internal business processes and work closely with the FI\$CAL readiness team to address any concerns with our ability to implement any components of FI\$CAL and discuss timing of planned training activities. Additionally, OTS will coordinate all units to make necessary manual updates.

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 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.

Brian C. Annis, 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