

December 28, 2021

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

Dear Director 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, 2021.

Should you have any questions please contact
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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 coordinates policy and oversees the program administration of seven entities, each with a focus on safety, mobility and sustainability as they relate to California's transportation system and the traveling public.

- 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

CalSTA's executive leadership have developed and established the vision for the Transportation Agency, which is further supported by the Agency's strategic action plan. All executive staff are actively engaged in routinely updating the strategic action plan. 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.

RISK ASSESSMENT PROCESS

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

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

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 operations.
- 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: Mandated training and personnel evaluations.

As a result of the COVID-19 pandemic and subsequent emergency response mitigation efforts, which included emergency telework, CalSTA needed to restructure its operating procedures to ensure all staff comply with mandated training requirements and are provided with on-time personnel evaluations.

Control: Revised policies and procedures to track training completion and monitor probation periods for annual reviews

CalSTA is implementing revised operating procedures to work closely with employees and their supervisors to ensure employees comply with training requirements on-time and supervisors provide timely performance reviews. Also, Caltrans supports CalSTA's personnel and human resources functions, which assist with tracking of probation periods and annual review requirements. Lastly, CalSTA also implemented the use of the Cornerstone learning management system to help track and monitor compliance with mandated training requirements.

Risk: Disruption to internal communication

As the COVID-19 emergency evolved CalSTA and OTS faced impacts to internal communication, collaboration, teamwork, camaraderie, and morale due to the quick need to have all employees participate in the emergency telework program.

Control: Web Meetings

To mitigate this risk, CalSTA and OTS quickly distributed laptops and cellphones or softphones to all employees. Microsoft Teams and SharePoint were implemented for all employees so they could communicate through chat and web meetings with each other and the public. Files needed to be accessed from home were moved to SharePoint. Training was provided, and feature updates are communicated regularly.

Risk: Disruption to internal functions

As the COVID-19 emergency evolved CalSTA and OTS faced impacts to its adherence to policies and procedures; updates to policies and procedures cannot keep up with need to address changing circumstances; electronic document version control, document routing procedures

Control: Business Process Automation

As the COVID-19 emergency evolved, CalSTA and OTS shifted from the immediate response guidance to longer-term planning in its efforts to keep its workforce safe and healthy so our work

could continue without any disruption. Management from IT and Business met to discuss business process automation to see what paper processes could be turned digital so the process could be done and supported while teleworking.

Risk: Tracking Equipment assigned to remote workforce

As the COVID-19 emergency evolved and extended OTS faced impacts to tracking equipment assigned to remote workforce and risk of loss when staff separate from state employment.

Control: Business Process Automation

To mitigate this risk, the OTS developed a new asset inventory application and digitalized all paper records. All employees were required bring any IT equipment issued for emergency telework back to the office so IT staff could verify functionality, asset tags and reconcile the equipment with the new asset inventory application. Any assets still needed for telework were reissued to the employee and list of assets issued was emailed to the employee, and they digitally signed agreeing to the policy.

Risk: No Local Assistance Grants Management Resources

As an oversight and control Agency with limited staffing, CalSTA is not resourced to perform administrative grant management functions for numerous grants with numerous recipients. However, the 2021 Budget included several budgetary earmarks totaling hundreds of millions of dollars included in CalSTA's budget to administer.

Control: Using Caltrans resources to oversee grant management

CalSTA has historically absorbed the limited grant management duties in the past, as funding for these activities was typically not included in CalSTA's budget. CalSTA's staff have used a spreadsheet to manage its contracts and track related reporting requirements, termination dates, and other special requirements. However, with the significant increase in local assistance funding included in CalSTA's budget, CalSTA has had to request that Caltrans assist with grant management functions.

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