

December 18, 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 Governor's Office of Business and Economic Development (GO-Biz) 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 Chris Dombrowski, Chief Deputy Director, at (916) 319-9637, Chris.Dombrowski@gobiz.ca.gov.

GOVERNANCE

Mission and Strategic Plan

Mission:

Governor's Office of Business and Economic Development (GO-Biz) serves as the State of California's leader in job growth and economic development efforts.

Strategic Goals, and objectives:

While GO-Biz's strategic plan is focused on each individual program's goals, several common themes emerge from which enterprise-wide goals can be synthesized:

1. Develop and optimize sustainable business, economic and financial program services, processes and tools that support California's existing and future business community.
2. Enhance communication, GO-Biz program awareness and collaboration within GO-Biz and with business community customers, partners and stakeholders.
3. Attract, develop and retain a workforce that continuously delivers quality administrative and technical GO-Biz program expertise to internal and external customers, partners and stakeholders.
4. Provide quality administrative, technology and legal support services, tools and products to internal staff and external stakeholders.

GO-Biz Entities:

- * **California IBank**
- * **California Film Commission**
- * **California Business Investment Services**

- * **Zero Emission Vehicle Infrastructure**
- * **California Competes Tax Credit**
- * **Community and Local Equity Grants Program**
- * **International Trade Investment Program**
- * **Small Business Advocate Program**
- * **Office of Travel & Tourism**

Control Environment

GO-Biz institutes the following Core Values as stated in the Workforce Plan:

- **Customer-centric** - We provide timely, responsive customer service that exceeds expectations, anticipating stakeholders' needs and going the extra mile to assist them.
- **Results-driven** - We are results-driven in our work, achieving tangible outcomes for our stakeholders and California.
- **Collaborative** - We engage and communicate effectively both internally and externally, knowing that our success hinges on effective collaborations.
- **Agile** - We move at the speed of business, being innovative and forward-thinking in how we approach our work, streamlining and optimizing how we deliver value.
- **Ethical** - We take personal responsibility for our actions, words, and conduct, holding ourselves accountable, treating others with respect, and being transparent in how we do business with the resources entrusted to us by Californians.

GO-Biz provides the ability to report ethical concerns with an open communication environment, weekly review meeting with Senior Management and a confidential suggestion box provided in the lunch room.

GO-Biz is overseen by Director Lenny Mendonca who reports to the Governor, Gavin Newsom. The Chief Deputy Director, Chris Dombrowski, reports to the Director. The Director and Chief Deputy Director have 16 managers that report to them. These 16 managers have appropriate levels of responsibility and authority in association with their departments and programs.

The Human Resources Officer monitors daily activities to reinforce compliance with CalHR and State Personnel Board policies & procedures. The Administrative Budget Officer also monitors daily activities to reinforce compliance the State Controller's Office, Department of Finance, Department of General Services, State Contracts Manual, State Administration Manual, and related administrative statutes, regulations, policies and procedures. The Human Resources Officer and the Administrative Budget Officers report to the Chief, Administrative Services Division who meets with them weekly. The Chief, Administrative Services Division reports to the Chief Deputy Director. The Chief Deputy Director meets with the Chief, Administrative Services Division, the Human Resources Officer and the Administrative Budget Officer on a weekly basis.

GO-Biz has a Training Coordinator who processes all training requests in support of employee development. We have developed a GO-Biz Workforce and Succession Plan which is in the process of being implemented. Managers are required to conduct annual performance appraisals of all civil service employees. This is monitored by Human Resources.

Probationary reports are conducted for new employees every 4 months during their 12-month probation period, culminating in a final decision to grant or deny permanent status. GO-Biz has an Employee Performance Management Policy that is in process for approval.

Go-Biz maintains a collaborative, open communication, teamwork environment for all team members to be able to express inefficiencies and inappropriate actions to management and other decision makers. A confidential process is maintained with the suggestion box in the lunch room which is reviewed monthly.

Information and Communication

Department of General Services provides Contracted Fiscal Services who handles our monthly financial information. A spreadsheet is prepared to review the monthly budget with expenses incurred. Financial decisions are conducted based on availability of funds. This is monitored by the Administrative Budget Officer.

The Director holds a weekly meeting with Senior Managers to relay information and updates. The Senior Managers provide information on any items that might be considered priorities or risks. Once a month, a meeting is held with all Managers so they can share their accomplishments from the current month and their goals for the next month. On a weekly basis, the Chief of Administrative Services meets with the Human Resources Officer, the Administrative Resources Officer and the Accounting Manager from IBank. On a weekly basis, the Chief Deputy Director meets with the Chief, Administrative Services Division, the Human Resources Officer and the Administrative Resources Officer to review current high priority issues. Starting this year, a quarterly meeting is held with all employees.

The Governor's Office for Business and Economic Development has a website that includes information about the department, programs, digital services, business portal and a newsroom. The site is in the process of being updated to be more user friendly and more quality driven for the businesses in California.

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 Governor's Office of Business and Economic Development (GO-Biz) monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: James Teahan, Chief, Administrative Services Division.

In HR, the policies and procedures of CalHR and the State Personnel are adhered to and checked by periodic independent audits. GO-Biz HR has nine approved policies. These policies are Family/Medical Leave Act, Upward Mobility, Reasonable Accommodation, Acceptable Use Policy, Incompatible Activity Statement, Workplace Violence and Bullying Prevention Program, Merit Issue Complaints, Nepotism and Training Policy.

In Administrative Resources, they are in compliance with the State Controller's Office, Department of Finance, Department of General Services (DGS), the State Contracting Manual, and related administrative statutes, regulations, policies and procedures. The Administrative Resources Procurement is periodically audited by DGS and currently has a policy and procedure manual being

approved by DGS.

Monthly expenditures are monitored against a line item budget for all departments. The Budgeting Spreadsheet is prepared by the Budget Analyst in Administrative Resources. This report is reviewed by the Department Budget Officer, the Chief of Administration Services Division and the Chief Deputy Director.

Monthly, department expenditures are reviewed in relation to the allocated budget. The Budget Officer provides this information to the Chief, Administrative Services and to the Chief Deputy Director. Future expenditure approvals are based on this information to remain within our budget allocation. The Deputy Directors monitor their staff resources and prepare yearly Budget Change Proposals as needed.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Governor's Office of Business and Economic Development (GO-Biz) risk assessment process: executive management, middle management, front line management, and staff.

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

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

Risk Identification

All the Managers in GO-Biz participated in our Risk Assessment evaluation to identify the areas of greatest risk that might cause financial, political, legal and/or negative media exposure to GO-Biz. Managers were also asked to identify risks that could affect our workforce and information technology systems. In an attachment to the email, they were provided the six risks that were identified in the 2017 GO-Biz SLAA report and the top five risks provided by all Agencies in 2017. Managers also discussed this with their staff and so they could consider possible risks. The formal risk evaluation culminated in a meeting held with GO-Biz's entire Management Team. In the brain-storming portion of the Risk Assessment meeting, where a total of twelve risks were identified.

Risk Ranking

A total of 12 risks were identified through the risk identification process. Individuals from the management team were asked to rank each risk they regarded as the highest risks to GO-Biz. As a result, three risks were identified as top risks with 91% of the Management Team identifying them as such. The top risk is Funding Sources and Levels, next is Key Person Dependent, and the third one is Staff - Recruitment, Retention, Staffing Levels.

RISKS AND CONTROLS

Risk: Funding - Sources and Levels

Besides the General State Fund, GO-Biz has many other sources of funding. These include the following;

* California Cannabis Tax Fund

- * CA Infrastructure & Economic Development Bank
- * Federal Trust Fund
- * Welcome Center Funds
- * Film Promotions and Marketing Fund
- * Greenhouse Gas Reduction Fund
- * Air Pollution Control Fund

GO-Biz programs would be at risk if any funding sources are reduced. Allocations for different programs and staffing are made based on the anticipated revenues of many different sources of funds. A recent event occurred where a program's funding source was collecting lower than anticipated revenues, which led to a lower budgeted allocation for the program. Similar events could be applicable to all GO-Biz programs that are subject to the risk of reduced funding.

Control: Funding Sources & Levels Monitoring and Associated Action Plans

As applicable, each funding source will have key indicators to monitor actual results as compared to estimated allocations. This will be reviewed on a monthly basis by the Chief, Administrative Services Division. The results of this review will be recorded in an Excel spreadsheet. On a quarterly basis, these results will be provided to the Chief Deputy Director and the Director. Upon review of this information quarterly, if actual results are not meeting expectations, applicable revised action plans will be put into place. Monthly monitoring of key expense and encumbrance indicators with applicable action plans, will assist in reducing this risk.

Risk: Key Person Dependent

Key Person Dependency was identified as a significant risk. Whether it is Administration, Human Resources, Information Technology or Programs, GO-Biz is at potential Key Person Dependency risk. Each department needs to have options in place to function appropriately if key personnel are absent. For example, one department has an analyst position that has been vacant for six months. As a result, only the Manager has applicable knowledge. If the Manager was also absent, it would put the Agency at risk of not having that pertinent knowledge. This risk can be mitigated with applicable training programs and cross training with other personnel. The absence of Key Personnel could result in key services not being provided as needed and departments and programs not meeting their goals; which are aligned with GO-Biz's mission.

Control: Key Person Dependent Corrective Action Plans

The Administrative Services Division Manager will review all departments to identify their Key Person Dependencies, as well as consider the Key Leadership and Technical Positions defined in GO-Biz's Workforce and Succession Plan. Once identified, the Administrative Services Division Manager will work with department managers to develop action plans. This is to be completed by the end of January 2020. The action plans will be reviewed monthly with results recorded in an Excel spreadsheet by the Administrative Services Manager. On a quarterly basis, the Administrative Services Manager will provide updates to the Chief, Deputy Director and the

Director. on Workforce and Succession Plans. These actions will assist in reducing this risk.

Risk: Staff - Recruitment, Retention & Staffing Levels

Recruiting talented individuals, retaining key personnel, and maintaining proper staffing levels is critical for GO-Biz to successfully accomplish its mission and goals. Recently, a management position was vacant. The position was advertised and the top three candidates were interviewed. However, none of the final three candidates were acceptable for this position. This position will need to be re-advertised and the process repeated again. Extended vacancies has happened in other GO-Biz departments and programs. The root causes include: historically low unemployment rates and the need of a progressive recruitment process. The lack of effective recognition/retention and employee engagement strategies also contribute to the loss of key personnel. Consequently, these issues may result in services not being provided on a timely basis, or not provided at all.

Control: Staff - Recruitment, Retention & Staffing Levels Action Plan and Monitoring Process

By the end of January 2020, the Chief, Administrative Services Division will provide the Chief Deputy Director and the Director an action plan for improvement in recruitment, retention, and staffing levels. The action plan will include many of the initiatives outlined in the GO-Biz Workforce and Succession Plan. Upon approval of this action plan, it will be implemented. The Administrative Services Manager will document this plan with an Excel spreadsheet and monitor it monthly. On a quarterly basis, the Administrative Services Manager will report progress to the Chief Deputy Director and the Director. The action plan will be revised as needed to ensure progress and positive results. Through collaboration with CalHR, the GO-Biz HR Officer, and GO-Biz management, effective action plans will be implemented and monitored to reduce this risk. Also, a confidential employee engagement survey will be conducted every six months to assess staff's perceptions of GO-Biz operations and management practices, and to ask for their suggestions on improvements in these areas.

CONCLUSION

The Governor's Office of Business and Economic Development (GO-Biz) 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.

Lenny Mendonca, Director

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