

December 29, 2017

Alexis Podesta, Secretary
California Business, Consumer Services and Housing Agency
915 Capitol Mall, Suite 350-A
Sacramento, CA 95814

Dear Ms. Alexis Podesta,

In accordance with the State Leadership Accountability Act (SLAA), the Alfred E. Alquist Seismic Safety Commission 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 Ellena Daniel, Staff Services Manager II (Specialist), at (916) 263-5506, Ellena.Daniel@ssc.ca.gov.

BACKGROUND

The mission of the Alfred E. Alquist Seismic Safety Commission (SSC) is to lower earthquake risk to life and property of Californians. The SSC works with federal, state, and local agencies, as well as the private sector, on a variety of activities that guide and stimulate earthquake risk reduction and management. There are 20 appointed commissioners who provide policy guidance, topical expertise, and varying perspectives of earthquake risk reduction and management, from the private sector, academia, and local government.

The SSC is responsible for:

- Advising the Governor, Legislature, school districts and the citizens of California on seismic safety policies and issues;
- Reviewing the adequacy of earthquake safety policies and programs and providing recommendations for improvement;
- Using existing knowledge and conducting studies, where necessary, to develop and publish information to improve the performance of structures in California;
- Preparing and disseminating guides to the public identifying earthquake weaknesses and other issues related to residential and commercial buildings; and
- Fostering the development and use of new and emerging technologies.

The SSC reports through the Business, Consumer Services and Housing Agency (BCSH). It is the goal of the SSC to make significant progress toward earthquake safety and improve post-earthquake economic recovery strategies. The SSC has contributed to the passage of over 300 earthquake safety laws and continues to provide a voice for the people of California on seismic safety issues.

ONGOING MONITORING

As the head of Alfred E. Alquist Seismic Safety Commission, Richard McCarthy, Executive Director, 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

Alfred E. Alquist Seismic Safety Commission internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Richard McCarthy, Executive Director, and Ellena Daniel, Staff Services Manager II (Specialist).

MONITORING ACTIVITIES

The SSC's executive management team meets on a weekly basis to discuss, monitor and mitigate the identified risks to the SSC. Discussions are facilitated by the SSC's Executive Director.

The SSC is small in size. The SSC employs six total staff members. Designated all staff meetings are held on a quarterly basis for the discussion of identified risks, risk monitoring and risk mitigation. Annual Commissioner and staff workshops are held to discuss identified risks to the SSC and possible mitigation and action plans of the identified risks.

The SSC executive management team will monitor established mitigation and action plans on a semi-monthly basis. During the meetings, executive management will review the outcomes of the plans and evaluate the effectiveness of the plan in mitigating the identified risk(s). If the expectations of the plan are met and the risk mitigation is found to be acceptable, it will be recorded and the plan will stay in place. Should it be determined that a plan is ineffective, adjustments to the plan(s) will be made as needed.

ADDRESSING VULNERABILITIES

Weekly meetings of the executive management team are held to discuss the monitoring of identified risks to the SSC. During discussions, and as part of the risk monitoring process, the following questions are considered for each identified risk:

- How is the identified risk affecting the SSC's ability to accomplish its mission?
- How is the identified risk affecting the SSC's ability to achieve critical business functions?
- How does the identified risk affect the SSC's strategic goals?
- Is the current state of the identified risk ranked low, medium or high?

Based on the ranking of each identified risk an action plan is discussed and created to address risk mitigation.

COMMUNICATION

Of the SSC's six staff members, three serve as the executive management team for the SSC. The executive management team is responsible for the identification, ranking and monitoring of risks to the SSC.

Identified risks, the monitoring of the risks and monitoring results are shared with all staff at designated quarterly meetings throughout the year. Staff are invited to discuss the identified risks and address vulnerabilities and control inefficiencies that could add to, or alleviate, vulnerabilities of the SSC's identified risks. These meetings also serve as a brainstorming session for additional risk mitigation controls, risk monitoring ideas and identification of any possible risks that have not yet been identified that could possibly pose a liability to the SSC's efforts to accomplish and carry out its mission.

ONGOING MONITORING COMPLIANCE

The Alfred E. Alquist Seismic Safety Commission is in the process of implementing and documenting 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 Alfred E. Alquist Seismic Safety Commission systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Alfred E. Alquist Seismic Safety Commission risk assessment process: Executive Management, and Staff.

RISK IDENTIFICATION

The Executive Director meets with each staff member on a regular basis to discuss any issues that might pose a risk to the SSC. The Executive Management team meets on a weekly basis at which time any issues presented by staff are discussed. During these meetings any additional issues that could be potential risks to the SSC are also discussed. The following questions are taken into consideration when determining whether or not an issue could pose a risk to the SSC:

- What are the key factors of the SSC's overall mission?
- What are the SSC's critical business functions?
- What are the factors of the issues that could pose a possible risk to the SSC?
- In what ways could the issue affect the SSC's overall mission and critical business functions?

Those issues that pose the greatest risk to the SSC's mission and critical business functions are considered as identifiable risks.

RISK RANKING

The SSC's mission and critical business functions are taken into consideration when ranking identified risks. The following items/ questions are considered when ranking the SSC's risks:

- How does the identified risk affect the SSC's mission?
- How does the identified risk affect the SSC's critical business functions?
- What mitigation controls can be established to eliminate or mitigate the identified risks?

Based on the answers, outcome and feedback of these questions, the risks are then ranked as low, medium or high.

RISKS AND CONTROLS

RISK: OPERATIONS -INTERNAL-OVERSIGHT, MONITORING, INTERNAL CONTROL SYSTEMS

The SSC's current policies and procedures need to be updated. The SSC does not currently house policies and procedures in one centralized location. The establishment of a policies and procedures manual will allow State and SSC policies, procedures and pertinent information to be placed in one central location.

The cause of this deficiency is that the SSC's policies and procedures were not a priority due to limited staffing and the SSC's need to redirect staff to other projects that were considered a higher priority.

The SSC employs a total of six staff members, each with their own individual functions and duties. No two positions within the SSC have the same or similar duties. This makes training and knowledge transfer very difficult. These factors make succession planning very difficult. When current staff retire or vacate their positions, there has been a gap in the transfer of knowledge as policies and procedures were not recorded, updated and/ or placed in one central location. Additionally, this has created difficulties when onboarding

new staff who lack historical knowledge of the SSC.

CONTROL A

The SSC has assigned the Administrative Operations Manager and the Communications Director with the task of completing a centralized policies and procedures manual. The implementation of a centralized policies and procedures manual, along with the refresh and update of the SSC's current policies, procedures and important information, will act as a training guide and job tool to assist in the SSC's current succession planning goal of knowledge transfer and staff training. The SSC staff members have begun working on the policies and procedures manual. This manual has been titled the Centralized Systems Manual (CSM). The staff have been assigned sections of the manual that are due on a quarterly basis. The CSM will remain a work in process as the SSC's policies, procedures and important information shall be continuously updated for accuracy.

RISK: OPERATIONS -INTERNAL-TECHNOLOGY—SUPPORT, TOOLS, DESIGN, OR MAINTENANCE

In November of 2017, the SSC adopted new informational technology (IT) services, systems and programs. Staff had been using previous computer programs and systems for approximately 10 years prior to the installation of the new IT systems and programs. Staff currently lacks necessary knowledge, expertise and training in the SSC's new IT programs and systems.

Due to staff's unfamiliarity with the newly implemented IT services, systems and programs, staff is experiencing challenges when performing work assignments.

The staff's lack of knowledge when using the new IT systems and programs has increased the rate of error when performing specific tasks. Additionally, learning to navigate the SSC's new IT systems and programs has caused some backlog due to the amount of time it is taking to learn the new programs and systems.

CONTROL A

Management will begin working with the SSC's new IT services provider to determine what tools and training can be implemented to assist staff in quickly learning the new IT services, systems and programs.

RISK: COMPLIANCE-INTERNAL-RESOURCE LIMITATIONS

Although the SSC has seen a significant reduction in the total amount of leave balances above the maximum allowable hours, the Department is still faced with the ongoing challenge of complying with the regulatory "Vacation/ Annual Leave Balance Over Maximum" guideline set forth by the state's Human Resources control agency, CalHR.

The SSC has a limited staff of six people and is reliant on each staff member to carry out business operations. Therefore, it is extremely difficult to successfully maintain an action plan permitting the reduction of vacation/ annual leave hours for employees above maximum allowable leave balances.

Currently 50 percent of the SSC's workforce is of retirement age. Of the 50 percent, 33 percent of these staff members carry leave balances above the maximum allowed. If one of these staff members were to retire from the SSC or separate, a lump sum payment to the employee for unused compensable hours may cause a catastrophic budgetary impact to the SSC.

CONTROL A

Each staff member with leave balances over maximum allowable hours has been identified by the SSC's management team. The management team has met with identified staff and created action

plans for leave usage. These plans will assist in the reduction of any leave balances over maximum allowable hours.

The current plans will be evaluated for their overall efficiency in reducing the amount of leave balances for employees that have over the maximum allowable hours as set forth by CalHR Rules 599.738; 599.739; 599.721.1; 599.752 and 599.705.

RISK: OPERATIONS -EXTERNAL-FUNDING—SOURCES, LEVELS

The SSC receives operational funding through the Seismic Safety sub-account in the Insurance Fund. The Seismic Safety sub-account is funded through assessments on each person who owns real property, commercial or residential, that is covered by a property insurance policy. The California Department of Insurance (CDI) sets and collects annual assessments, pursuant to California Insurance Code (CIC) section 12975.9, for all commercial and residential property insurance policies. The collected assessment supports the operations of the SSC and allows a multi-year repayment of a general fund loan.

There is a risk that the annual collected assessments, which represents the funding source for the operational account of the SSC and for the multi-year general fund loan repayment, will not be able to sustain SSC operational funding in the next two to five years.

The assessment collection is growing at a slower rate than the approved appropriations of the SSC's operational fund.

At the current growth rates of the annual assessment collection and appropriations of the SSC operational fund, there is a possibility that the annual assessments will be insufficient in funding appropriated expenditures.

CONTROL A

SSC management will work with BCSH and the Department of Finance to develop solutions.

RISK: OPERATIONS -EXTERNAL-FUNDING—SOURCES, LEVELS

The SSC currently relies on a temporary funding source to supplement any possible deficits that may occur in its operational fund.

Historically SSC's actual expenditures have been less than appropriated funds. However, 50 percent of the SSC's staff are retirement age eligible. It is inevitable that the SSC will have future lump sum pay outs for permanent employee separations and/ or staff retirements. There is a possibility that the SSC's operational budget may not support these future lump sum payouts.

In August of 2007, the SSC was awarded a one-time allocation of funds, in the form of a Gift Agreement, from the California Research and Assistance Fund (CRAF). The CRAF funds the SSCs research and educations projects. As outlined in the CRAF Gift Agreement, the SSC is entitled to collect up to 10 percent overhead expenses for contracts awarded through the fund.

The SSC currently plans on using the revenue generated from the CRAF to fund possible future lump sum payouts and any other unforeseen expenditures, that cannot be supported by the SSC's operational fund. The CRAF is expected to maintain a balance for approximately three to five years at the current run rate.

Although the revenue generated from the CRAF will supplement a possible deficit in the SSC's operational fund, the revenue generated from the CRAF is a temporary funding source. This creates a possible financial risk to the SSC as the Department is reliant on a temporary funding source to cover any future deficits in the operational fund.

CONTROL A

SSC management will work with BCSH and the Commission to determine additional sources of funding.

CONTROL B

The SSC will create a strategic plan should a funding source not be available to supplement deficits to the SSC's operational fund.

CONCLUSION

The Alfred E. Alquist Seismic Safety Commission 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.

Richard McCarthy, Executive 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