

December 31, 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 State Treasurer 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 Genevieve Jopanda, Chief Deputy Treasurer, at (916) 653-2995, [Genevieve.Jopanda@treasurer.ca.gov](mailto:Genevieve.Jopanda@treasurer.ca.gov).

## GOVERNANCE

### Mission and Strategic Plan

The State Treasurer's Office (STO) was created in 1849 with the adoption of the State Constitution. The STO provides banking services for state government with goals to minimize banking costs and maximize yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state and local government monies; administration of the sale of state bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other state agencies. The Treasurer serves as the chairperson of fifteen boards, commissions, and authorities (BCAs) that organizationally report to the STO. STO management is responsible for the establishment and maintenance of internal administrative controls, including: limiting and authorizing access to assets, revenue and expenditures; segregation of duties; providing assurance for achievement of objectives in the following categories: a) reliability of financial reporting; b) safeguarding of assets; and c) effectiveness and efficiency of operations; and, compliance with applicable laws and regulations. The Treasurer is responsible for the following organizations, and their operations are taken into account in preparing this report:

Business Unit Number	Entity Name
0954	Scholarshare Investment Board (SIB)
0956	California Debt and Investment Advisory Commission (CDIAC)
0959	California Debt Limit Allocation Committee (CDLAC)
0964	California Transportation Financing Authority (CTFA)
0968	California Tax Credit Allocation Committee (CTCAC)

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0971 Authority (CAEATFA)	California Alternative Energy and Advanced Transportation Financing
0974	California Pollution Control Financing Authority (CPCFA)
0977	California Health Facilities Financing Authority (CHFFA)
0983 (CUWARFA)	California Urban Waterfront Area Restoration Financing Authority
0984	California Secure Choice Retirement Savings Investment Board (CalSavers)
0985	California School Finance Authority (CSFA)
0989	California Educational Facilities Authority (CEFA)
0981	California Achieving a Better Life Experience Act Board (CalABLE)
0965	California Industrial Development Financing Advisory Commission
*****	California Healthy Food Financing Initiative Council* (CHFFIC)

\* The California Healthy Food Financing Initiative Council is an initiative and was never officially established as a BCA; it has no funding source and no authorized positions. We do not provide any financial reporting for this initiative.

## Control Environment

The Chief of Staff (COS) and Deputy State Treasurers provide management and oversight of their direct reports in their perspective Boards, Commissions, and Authorities (BCAs) and Operating Divisions:

COS: Overall STO operation, Human Resources, Administration, & Business Services, Informational Technology Division

Deputy Treasurer of Public Finance

Deputy Treasurer of Housing and Economic Development

Deputy Treasurer of Health & Education

The COS and Deputy Treasurers oversee Division Directors and BCA Executive Directors—programs and business functions to assess vulnerabilities. In addition, the Strategic Plans of the STO Divisions and BCAs identify risk and vulnerabilities. Significant vulnerabilities are elevated to the (COS) and the Risk and Governance Council for evaluation. A determination is made to mitigate, monitor, or accept the risk and/or vulnerability.

The current Administration under Treasurer Fiona Ma established the MaSquad Core Principles which serve as the value statement defining the expectations of the agency and its staff.

1. Treat everyone with dignity and respect. We must consciously choose to be positive, especially in our communications with one another and with the public; we must seek to understand as well as to be understood.

2. Be honest and have integrity
3. Find a solution and path forward instead of putting up roadblocks
4. Work independently and proactively, but towards the team's goals
5. Mentor. We stand on the shoulders of those that came before us. Let us commit to becoming the shoulders of the future generations.
6. Be a good steward of the State's resources and conscious that all citizens are your employer. If we serve our stakeholders well, our personal successes are inevitable.
7. Be accountable and take responsibility. We must accept personal responsibility for the outcomes we promise. We must be accountable for what we don't deliver.
8. Exercise mindfulness towards yourself and towards others.

The Treasurer, Chief of Staff, and Deputy Treasurers regularly visit agency staff during "Walk Abouts" where the Executive Team perform casual visits throughout the agency spontaneously to check in on staff as a platform to elevate and maintain morale. This also provides staff an avenue to elevate any issues through a sense of accessibility and responsiveness from the Executive Office.

The Treasurer and COS work very closely with Deputy Treasurers and the BCAs and Divisions they oversee by regularly reviewing succession planning every six months with BCA Executive Directors and Division Directors. A discussion of every staff on the BCA's or Division's organizational chart is performed. This outlines areas in personnel for opportunity and growth as well as potential areas of concern that may require coaching and development or corrective action. During these succession planning reviews, it is expected for management to have a good pulse of staff's goals, passions, and future plans. This allows for identifying opportunities for upward mobility within the agency should positions vacate to maintain morale, develop a strong and sustainable work force, and prevent attrition.

Upon hiring, new staff are provided a duty statement which should be familiar as the duty statement is part of the application process. Additionally, expectations memos are encouraged to be presented by management that outlines procedures and expectations for work performance for staff.

Probation reports are conducted based on the frequency required by the classification the staff was hired under. After passing probation, annual performance reviews are conducted as required by California Code of Regulations (CCR) § 599.798 for all permanent employees.

It is also encouraged that managers and supervisors work with their staff on an Individual Development Plan (IDP) to help employees establish personal objectives and develop plans for achieving professional growth, career mobility and/or future career changes. This helps identify talent within the agency, develops stronger management by performing these exercises, as well as personal and organizational development for staff and the agency at large.

## Information and Communication

The STO holds various meetings to allow for upward and downward communication:

Weekly Executive Office (EO) meetings: Members of the Executive office which consist of the Treasurer, COS, Deputy Treasurers, Chief Counsel, Communications Director, Legislative Director,

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Director of External Affairs, Director of Constituent Services, and Pension and Benefits officer provide a high level snapshot summary of previous week and week ahead. This also allows reporting of updates from BCAs and Divisions to the EO and for communication to be delivered from the EO to BCAs and Divisions through the Deputy Treasurers.

Monthly Deputy Treasurers meetings: The Treasurer, COS, and their three Deputy Treasurers meet to discuss high level and sensitive matters. The meeting also allows to strategize and execute around Vision, Mission, and Goals and top priorities of the Treasurer.

Quarterly meetings with all Operating Divisions and Boards, Commission, and Authorities (BCA): Allows for BCA Executive Directors and Division Directors to interface for team building and knowledge sharing with each other and with Executive Team on how to executive Vision, Mission, and Goals and to communicate directives to staff in their perspective programs as well as elevate ideas and issues that require the executive team's attention.

In addition, the Deputy Treasurers hold weekly meetings with their BCAs and Divisions. Topics at these meeting include discussion of current and potential internal control issues that need to be addressed. These meetings enable Executive and Senior management to discuss issues that they have been made aware of and what steps are needed to mitigate the issues. The management team is encouraged to share experiences to further assist each other in addressing the issues that may arise. In addition, staff is continuously monitoring STO programs for issues, and corrective actions are taken to address any that arise.

Standard operating procedures are listed in the STO intranet via the Department Administrative Manual and the State Administrative Manual for staff to access. Additionally, any new updates are distributed via agency-wide communication with personal follow-up by supervisors and managers. The current administration also holds agency-wide tele town halls from the Treasurer for updates on important and/or urgent information.

The STO has many ways it communicates externally:

Monthly Newsletters giving updates from the Treasurer and the STO.

Six month and one year reviews summarizing STO's highlights and accomplishments for that period of time.

External Affairs and Constituent Affairs team that serves as outward facing component of the Treasurer and the STO to distribute communication to external stakeholders and constituents.

## **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 State Treasurer monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:  
Genevieve Jopanda, Chief Deputy Treasurer.

The STO has many external and internal oversight program activities that are used to identify, assess, and manage risks. Some activities include:

- Development of Strategic Plans of the Operating Divisions and BCAs that include tracking and

- monitoring risk.
- Audits of bond and other programs by independent auditors.
- Audits of the BCAs.
- Performance Reports by various BCAs.
- Deputy Treasurers meeting weekly with BCAs.
- Quarterly Executive Management meetings of the BCAs and Operating Divisions.
- Audits by the Bureau of State Audits.
- Reviews of bond-related financial disclosures and due diligence processes for compliance with federal securities laws.
- Succession planning and budget review of the BCAs and Operating Divisions with the Treasurer, Chief of Staff, Deputy State Treasurers and the Director of Administration.

Additionally, Treasurer Fiona Ma and the Chief of Staff have established a Risk & Governance Council (RGC). Members of the RGC include the COS, Deputy Treasurers, Chief Counsel, Chief of Administration, and Chief Information Officer. The RGC is charged with the responsibility for evaluating risks to determine appropriate resources to achieve solutions and propose corrective measures. The RGC will ensure that all programs run by the Office of State Treasurer are performing in accordance with State and Federal rules and obligations and in accordance with the requirements of the State Treasurer. This includes coordinating the preparation of reports to the Department of Finance regarding the State Leadership Accountability Act (SLAA). The RGC will make recommendations to the Treasurer, who will make the final determination.

## **RISK ASSESSMENT PROCESS**

The following personnel were involved in the State Treasurer 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, and consideration of potential fraud.

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.

In preparation for the 2019 SLAA report, Executive Sponsor met with senior staff and the SLAA manager to develop a timeline. All BCA Executive Directors and Division Directors provided a memo of their risk concerns and the ongoing steps they were taking to track and mitigate risks. A brainstorming session followed wherein common themes were identified within the memos, which allowed STO to narrow the focus on the most salient risks within the organization.

## **RISKS AND CONTROLS**

### **Risk: IT - Cyber Security**

The STO business faces various security risks daily to its network and applications that provide critical business operations in support for local government and state financial services thus requiring a strong security program.

### **Control: Evaluation and Mitigation**

The STO performs daily monitoring and assessment of alerts throughout its technology environment to ensure critical threats are addressed immediately. To provide a strong security program STO performs a bi-annual security assessment that looks at all areas of security (Policy, Procedures, Technology, etc.). The security assessment identifies areas where the department can focus its efforts on securing all aspects of its security program.

### **CONCLUSION**

The State Treasurer 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.

**Fiona Ma, California State Treasurer**

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