
January 2, 2024

Joe Stephenshaw, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Director Stephenshaw,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Commission on State Mandates submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2023.

Should you have any questions please contact Heather Halsey, Executive Director, at (916) 323-3562, Heather.Halsey@csm.ca.gov.

STATUTORY DUTIES AND GOVERNANCE

The Commission on State Mandates (Commission) is an independent quasi-judicial body whose statutory responsibilities are: To adjudicate local government test claims alleging the existence of reimbursable state-mandated programs and to determine any costs required to be reimbursed; to hear and decide claims alleging that the State Controller's Office has incorrectly reduced payments to local governments on reimbursement claims; to hear and decide requests for mandate redetermination alleging that the state's liability for a mandate has been modified based on a subsequent change in law; to determine the existence of significant financial distress for applicant counties seeking to reduce their General Assistance Aid payments.

The Commission is composed of seven members: The State Controller, State Treasurer, Director of the Department of Finance, Director of the Office of Planning and Research, a public member with experience in public finance, and two local elected officials. The Commission is a very small agency with a total of 16 staff, including management.

Mission and Strategic Plan

Mission

The Commission on State Mandates was established as a quasi-judicial agency to resolve disputes between state and local government regarding reimbursement for state-mandated local programs, in compliance with article XIII B, section 6 of the California Constitution, to relieve unnecessary congestion of the courts.

Vision

The Commission on State Mandates fairly and impartially resolves complex legal questions in a deliberative and timely manner, using innovation and collaboration.

Values

We value:

- Courtesy and respect
- Fairness, honesty, and ethical behavior

- A safe and healthy work environment for Commission staff
- Cooperation and collaboration
- Personal and professional development of Commission staff
- Practices that are protective of the environment and human health and are energy and resource efficient
- Efficient and high-performing governmental operations
- Transparency, accessibility, and public participation in Commission processes

Goals and Implementing Objectives

A. Engage state and local agencies in the mandates process through regular outreach and training.

1. Continue to provide updates, as needed, to the “Mandate Chronicles” mailing list including mandate-related educational materials posted on the Commission’s website.
2. At least annually, prepare and provide live training to state and local agencies and legislative staff on a variety of mandates-related issues via Zoom; specifically:
 - a) By June 2024, on how to file a test claim.
 - b) By June 2025, on preparing and filing comments on proposed parameters and guidelines, proposing reasonably necessary activities, and including well-supported reasonable reimbursement methodologies (RRMs). This training on RRM will help to streamline the reimbursement claiming process for mandated programs, reduce the burden of documenting actual mandate costs, increase cost-efficiency for mandated activities, and improve predictability of annual statewide costs.
 - c) By September 2025, on how to file an incorrect reduction claim.
 - d) By June 2026, on how to determine whether to file a mandate redetermination request or parameters and guidelines amendment.

B. Ensure the Commission’s information technology systems are committed to data security and integrity, while also providing an efficient and effective end-user experience.

1. Proactively perform daily checks for available upgrades, patches, and security fixes for all software and hardware currently in use.
2. Provide quarterly training to staff on security best practices and emerging or trending threats.
3. Biannually perform external system penetration testing to verify perimeter system security.
4. Verify data backups by performing monthly restores of sample data sets.
5. Solicit staff feedback quarterly for suggestions of technology improvements to increase efficiency and productivity.

6. Create awareness in staff for IT security threats to enable them to avoid clicking on inappropriate links and activating malware by providing monthly training for staff on current threats.
 - a) Share information released by the Department of Technology pertaining to security breaches and best practices with all Commission staff, as it becomes available.
 - b) Due to rapid evolution of cyber security issues, at least biannually perform random phishing campaigns on staff followed by all-staff training on how to best handle the sent campaign. This will ensure staff education and enhance the Commission's IT security posture.
7. With the goal of more efficient helpdesk service and response and resolution times, using Office 365, the Commission's IT staff will develop a helpdesk tracking system by June 30, 2024. Staff will then continuously log and monitor all helpdesk requests as either "break fix" or "service" requests for trend analysis. This will allow staff to better leverage historical information about a system or user to help us understand the scope of an issue. It will also enable staff to better track trends, such as rises in incidents or service requests and the reasoning behind such trends.

C. Promote staff development to retain leadership continuity, ensure critical knowledge (including mandates expertise) is not lost, and bolster professional development.

1. Take appropriate steps to recruit and retain a diverse and skilled workforce by utilizing diverse recruitment tools including creating a LinkedIn account by March 2024, and contacting potential employees through university career centers.
2. Take appropriate steps to retain a skilled workforce by providing a welcoming workplace and a robust wellness program that encourages healthy eating, exercise, stress management, and work-life balance.
 - a) The Health and Wellness Coordinator will continue to maintain a well-rounded wellness program with regular healthy eating, exercise, and stress management events for staff and will provide updates and information at weekly all-staff meetings and via emails.
 - b) Commission management will continue to ensure that staff regularly take time off and avoid accruing more than the maximum allowable hours of vacation/annual leave time; hourly staff work no more than their allotted hours; and exempt staff work an average of 40 hours per week while working all hours necessary to accomplish their assignments and fulfill their responsibilities.
 - c) Improve office culture by:
 - i. Recognizing employees during all-staff meetings for exceptional work and contributions to the Commission strategic mission.
 - ii. Holding one-on-one meetings with individual staff to discuss any matter either work-related or not in a judgement-free environment.

- iii. Creating an inclusive environment where employee feedback is valued by inviting staff recommendations on how to improve office culture or any other matter that relates to Commission goals, strategic plan, procedures and policies.
- iv. Holding office celebrations around major holidays to improve team morale and to promote strong coworker relationships.
- v. Encouraging staff to take training for upward mobility and to better perform job functions.

3. Continue to work with appropriate staff to develop the skills necessary to succeed the current members of the management team and the information security officer, upon their retirement or separation, as part of succession plan implementation.
4. At least annually review and update all desk manuals and training tools for each Commission position by January 1 of each year and on an ongoing basis.
5. Review the records of old Board of Control and Commission matters to properly close out paper files and upload them to the Commission's website by December 2024.
6. As part of the Commission's continuing cross-training effort, continue to identify staff who want to learn and work in a career path of interest to them, other than their current path, as a way to transition into a new career path or to learn new skills and prevent burnout while performing the work of the Commission, and announce those opportunities by June 30 or each year.

Control Environment

As the head of the Commission, Heather Halsey, Executive Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

The executive monitoring sponsor responsibilities include facilitating and verifying that the Commission's internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: the executive director and the assistant executive director. The Commission's executive management team, consisting of the executive director, assistant executive director, and chief legal counsel, appreciates, models, and communicates the importance of a high standard of ethics by establishing published core values of: respect, integrity, safety, teamwork, staff development, sustainability, efficiency, and transparency.

These core values shape the staff's actions in achieving the Commission's mission. The Commission exemplifies its values through compliant recruiting and hiring, staff on-boarding and continuous training, annual staff review of all Commission policies and procedures and applicable updates including biennial ethics orientation training and a zero-tolerance policy for discrimination of any kind and long-standing office mandated training on sexual harassment, discrimination and workplace violence prevention, regular team and all-staff meetings where critical and beneficial information is announced, shared, and discussed. In addition, the Commission's executive management team meets weekly to identify, discuss, and document agency risks. Once a risk is identified, management also collaborates with staff and Commission members to identify controls to mitigate the risk.

The Commission conducts each recruitment pursuant to state and federal laws and the State's merit-based civil service system to ensure a competent workforce. Additionally, the Commission has access to and has utilized the enhanced outreach and recruitment tools provided by the Department of General Services for difficult-to-recruit positions.

The Commission management establishes and communicates performance expectations through compliant and well-written duty statements and expectation memos for each position and provides annual staff performance evaluations and regular feedback. The executive management team strives to enforce performance accountability through this feedback and takes formal disciplinary action, as necessary to further guide and instruct employees while protecting employees' rights. The Commission offers routine training specific and applicable to each position and encourages cross-training for critical duties and key positions to maintain continuity and consistency for the strategic business objectives of the Commission during unanticipated vacancies.

The Commission's executive management team understands the value of a work-life balance approach and encourages the use of accrued leave as a beneficial piece of the physical and mental well-being of staff resulting in higher productivity and improved moral in the workplace while maintaining harmony with the operational needs of the Commission. The Commission also realizes the impact of employee recognition and uses several methods to celebrate employee and agency successes including individual emails and handwritten notes of appreciation from the executive management team, agency-wide team building activities and events, as well as merit, accomplishment, and service awards.

Information and Communication

The Commission has implemented and documented the ongoing monitoring processes as outlined in the monitoring requirements of Leadership Accountability at Government Code sections 13400-13407. In addition to the Commission core values described above, Commission staff identified reliable and relevant information through an environmental analysis using the SWOT (Strengths, Weaknesses, Opportunities, Threats) framework and has adopted its current Strategic Plan which identifies several goals and implementing objectives to: engage state and local agencies in the mandates process through regular outreach and training; and ensure the Commission's information technology systems are committed to data security and integrity, while also providing an efficient and effective end-user experience; and promote staff development to retain leadership continuity, ensure critical knowledge (including mandates expertise) is not lost, and bolster professional development. In doing so, the Commission offers training and briefings to state and local agencies and legislative staff on a variety of mandate-related issues. Also, the Commission's website is a source of mandate-related and agency information including Commission matters such as Test Claims, Incorrect Reduction Claims, Mandate Redeterminations, etc., agency reports, user instructions, hearing materials, and Commission decisions. The Commission also promulgates and maintains mailing lists for each Commission matter, hearing agenda, and rulemaking that complies with quasi-judicial due process principles to ensure proper service of all written materials.

Internally, the executive management team communicates information to staff through established channels about policies and operations as well as team and staff meetings, email blasts, and bulletin board postings regarding the State's Whistleblower hotline for reporting

ethical issues and the availability of Employee Assistance Program (EAP) resources. Commission management meets to identify deficiencies, sets reasonable timeframes to resolve deficiencies, and conducts thorough review to ensure proper and complete resolution. These processes include reviews, evaluations, and improvements to the Commission's systems of controls and monitoring.

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 Commission's monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to the executive director and the assistant executive director.

As the head of the Commission the executive director, has statutory authority over resource allocation and personnel, and delegated authority over policy matters, as prescribed in regulation. The executive director is appointed by and serves at the pleasure of the Commission members and is responsible for the overall establishment and maintenance of the internal control system. The assistant executive director, under the general direction of the executive director, has full management and supervisory responsibility for the administrative functions and day-to-day operations of the Commission and is the designated agency monitor. The assistant executive director reports directly to the executive director. By adhering to several strategies discussed in the backlog reduction plan submitted to the Department of Finance on September 15, 2023, the Commission staff continues to address the currently pending caseload of 38 test claims, three parameters and guidelines, three statewide cost estimates, and one incorrect reduction claim. A copy of the updated plan is on the Commission's website. Also, Commission staff continues to implement the goals of the Commission's Strategic Plan (January 2024 - December 2028).

Specifically, Commission executive management meets weekly, conducts biweekly all-staff meetings, and continually communicates with staff and Commission members to discuss the possibility of risks and recognize unanticipated deficiencies as well as to document through email and written notice the corrective actions taken to monitor and mitigate the risk.

Additionally, executive management prepares internal deadlines for each staff role in the mandate determination process to help ensure that statutory deadlines are met and regularly confer with staff to check on status and also discuss any relevant issues that may hinder achieving the deadline. If there are continual problems with meeting deadlines, additional or remedial training, feedback, and assistance is provided, and if necessary, corrective measures are implemented.

The Commission also undergoes review and audits by outside agencies. For example, the State Personnel Board conducts a triennial Compliance Review of the Commission's personnel practices; the Department of Technology conducts a biennial Independent Security Assessment of the Commission's information technology capabilities; the Department of General Services conducts a Purchasing Authority Accreditation assessment to renew the Commission purchasing authority; and the Department of General Services conducts a triennial Delegated Purchasing Program Audit of the Commission's procurement policies.

Commission management and staff utilize internal memos, email communications, policy and procedures, and a daily mail log to ensure the executive director is made aware of any deficiencies.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Commission's risk assessment process: executive management, and staff.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit results review, other risk assessments, external stakeholders, questionnaires, and performance metrics.

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

The Commission's risk assessment process was informed by several related efforts. Most notably, the Commission updated and adopted its Strategic Plan in December 2023. Through the strategic planning process, the Commission reevaluated and revised its vision, mission, and values and adopted a series of strategic goals and implementing objectives to carry out its mission, adhere to its vision and values, and to monitor and address agency risks.

The Commission's executive staff including the executive director, assistant executive director, and chief legal counsel meet weekly to identify and discuss issues, priorities, and risks to the agency.

RISKS AND CONTROLS

Risk: Staff-Key Person Dependence, Workforce Planning

The Commission, like many state agencies, faces a wave of retirements in the coming years that includes the Commission's executive staff and other high-level key positions. This wave may be accelerated due to the changes in the workplace brought on by the COVID-19 pandemic and related burnout which is further detailed in a subsequent Risk. Nonetheless, because of the small size of the agency and structural organization, with no middle management to assume delegated authority, limited positions create challenges to sufficiently cross-train staff. As a result, critical agency functions may not be timely or accurately completed, critical institutional knowledge may be lost, and operations may be temporarily disrupted.

Control: Implementing Succession and Workforce Planning and Knowledge Transfer Strategies

The Commission is preparing for the loss of staff by implementing succession and workforce planning and knowledge transfer strategies and by recruiting, training, and retaining a skilled workforce. These measures are existing internal controls and are, in part, described in the Commission's Strategic Plan and include documenting processes, procedures, and tasks and cross-training staff in broad policies, responsibilities, program requirements, and processes to help ensure the Commission continues to operate effectively and efficiently and meet its statutory requirements. Specifically, the Commission has identified and begun mentoring appropriate staff, has prepared desk manuals and training tools for each Commission position, and is providing opportunities

for staff to learn and explore career paths which are of interest to them while performing the work of the Commission as part of continuing cross-training efforts.

Risk: Staff Recruitment, Retention, Staff Levels

The Commission recruits and hires excellent staff, but because of the lack of promotional opportunities coupled with low state salaries compared to the private sector, especially for the attorney classifications, the Commission struggles to retain staff. In addition, staff at all levels are experiencing burnout due to being short-staffed for years and especially during the last few years, where staff were redirected for COVID-emergency purposes and a lot of staff turn-over and a high level of hard to fill vacancies was experienced. During that time, staff (especially at the supervisory levels) have had to cover multiple positions in addition to their own for extended time periods. As a result, the Commission faces high staff turnover in all positions including its highly specialized legal positions, making it difficult to sustain a team of well-trained staff to meet its core mission which is to render sound quasi-judicial decisions interpreting claims filed pursuant to article XIII B, section 6 of the California Constitution, and to provide an effective means of resolving disputes over the existence of state-mandated local programs.

Control: Creating Pathways for Advancement for Recruitment and Retention Purposes

Given the highly complex legal issues and high profile claims pending before the Commission, the difficulty of recruiting and retaining staff, especially attorneys that are well-suited to perform research that is very academic and painstakingly detail-oriented, and involves highly complex issues of first impression, and the lack of promotional opportunities, the Commission has successfully reclassified one of its three Attorney III positions as an Attorney IV for recruitment and retention purposes.

Control: Expanding Recruitment and Retention Efforts Utilizing Diverse Recruitment and Retention Tools

In its desire to recruit a highly skilled workforce, the Commission is expanding its recruitment efforts by utilizing diverse recruitment tools such as college career centers and professional on-line networking services such as LinkedIn. The Commission is also taking steps to retain its valuable trained staff by providing a welcoming well-rounded workplace; improving office culture through employee recognition, increased communication, valuing employee feedback, improving morale and encouraging training for upward mobility; providing a robust wellness program that encourages healthy eating, exercise, stress management and work-life balance including regularly taking time off; and informal mentoring and grooming of staff to succeed management and key higher level staff as a part of the Commission's succession plan.

Risk: Staff Burnout

Since March 2020, the Commission, like the rest of world, was forced to quickly make policy and process changes, in light of a global pandemic with stay-at-home orders and significant disruptions to the way it did business, including the redirection of 5 percent of its already very small staff to support the COVID emergency response. Since then, the office has transitioned to a permanent hybrid workplace with the majority of Commission staff teleworking most of the

time and transitioned to using almost exclusively virtual platforms, paperless tools, and electronic workflow processes. Though Commission staff initially experienced the trauma of the early stages of the pandemic and challenges with internal communications, such as a resistance to reaching out as frequently via phone, email, and messaging as one might do with in-person communications and increasing miscommunications and under-communications resulting from technical difficulties with remote meetings and increased reliance on email as a primary means of communication, staff eventually adapted to new means of communicating remotely in a timely and professional manner via phone, email, Teams and Zoom, such that it is indistinguishable from staff who are in the office. The initial communication issues and resultant issues that arose from them as well as the trauma and continuing uncertainty of the past nearly four years, coupled with the increased workload relating to expenditure reductions, numerous new reporting and certification requirements imposed due to the pandemic, telework, and expenditure reductions, covering for multiple positions due to staff turnover and extended vacancies, plus long-term pandemic related stress, health issues, and family concerns have continued to overwhelm staff, having never yet been addressed due to a lack of staffing and frankly lack of time, resulting in staff burnout.

Control: Improving Communications and Interpersonal Connectivity in a Remote Work Setting

Commission staff has learned how to better communicate and is now more attentive to communication style and language differences among staff. As such, the Commission will continue to identify and enlist expert training sessions to build its telework teams' virtual productivity and creativity while encouraging individual health and wellness. The Commission will also continue to provide opportunities for non-task interactions among staff to allow collegial connections and bonding to boost morale and help alleviate burn out.

Control: Encouraging Self Care

Commission management is dedicated to encouraging employee self-care including making EAP referrals, providing flexibility in work scheduling to allow staff to take part in exercise and stress reduction classes during the day, encouraging staff to plan and take leave and discouraging other staff from contacting staff who are on leave.

CONCLUSION

The Commission 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.

Heather Halsey, 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