

December 18, 2019

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 (Leadership Accountability), 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, 2019.

Should you have any questions please contact  
Salina M. Valencia, Director of Legislation & Communications, at (916) 263-5506,  
Salina.Valencia@ssc.ca.gov.

## **GOVERNANCE**

### **Mission and Strategic Plan**

The Mission of the Alfred E. Alquist Seismic Safety Commission (SSC) is to support the People of California to reduce life and economic losses from earthquake related disasters. 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. The Vision of the SSC is to achieve resiliency by providing state, local government and the public with state-of-art disaster tools that will reduce losses and expedite recovery.

The SSC's goals are:

- Help communities build a more resilient environment by strengthening emergency risk management policies and best practices in the areas of prevention, preparedness, mitigation, response and recovery
- Support policies and best practices that identify hazards, vulnerabilities and capacity assess and reduce risk
- Promote risk awareness and reduction

The Governor appoints 20 Commissioners who provide policy guidance, topical expertise and varying perspectives of earth risk reduction and management.

The SSC is responsible for:

- Advising the Governor, Legislature, school districts and the citizens of California on seismic safety policies, and issues:
- Reviewing that 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 dissemination guides to the public identifying earthquake weaknesses and other issues related to residential and commercial buildings and;
- Fostering the development and use of new 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.

## Control Environment

Statutorily the Executive Director of the SSC is responsible for managing the affairs of the SSC. The Executive Director is subjected to the direction and policies of the SSC which are guided by the SSC 20 commissioners. This is achieved by SSC's Annual Report that is completed yearly. While the SSC commissioners are considered an external checker they are not considered a part of the SSC's internal control system. While the Executive Director may evaluate and incorporate recommendations by the SSC 20 commissioners, responsibilities for the SSC internal control resides with the Executive Director and executive management team. The Executive Director is responsible for overseeing the strategic direction of the SSC and obligations related to the accountability of the SSC. This includes overseeing the executive management team's design, implantation and operation of an internal control system.

The SSC Executive Director and executive management team demonstrate a commitment to integrity and ethical values through their directives, attitudes and behavior. This is achieved through:

- Tone and the Top – the Executive Director reinforces the commitment to doing what is right and just not maintaining a minimal level of performance necessary to comply with applicable laws and regulation. These priorities are understood by all SSC commissioners, SSC staff and stakeholders and the general public
- Standards of Conduct- SSC utilizes its policies, operating principals and guidelines to communicate the standards of conduct to the SSC staff

The executive management team is directly responsible for all activities of the SSC, including the design, implantation and operating effectiveness of the SSC's internal control system. SSC's Staff Services Manager Specialist(s) II (SSMII) responsibilities vary depending on their functions in the SSC's organizational structure.

SSC's Staff Service Analyst assist management design, implement and operate an internal control system and is responsible for reporting issues noted in the SSC's operations, reporting or compliance objectives.

The SSC is comprised of six staff members and has low turnover of staff over the years. The SSC has been able to retain full staffing levels throughout the years and do not actively recruit for vacancies. However, in the lieu of retirement(s) of staff or vacancies the SSC the Executive Director has requested that desk manuals for all staff are completed and on file. The executive management team is responsible for tracking all desk manuals making sure all manuals are accurate and are accounted for. Having desk manuals allows for the historical knowledge along with day to day procedures of the SSC be transferred easily when on boarding a new staff member. SSC executive director also encourages

staff to take all the necessary training course offered by Department of Human Resources (CalHR) through their statewide training catalog. By offering this to SSC staff it enables individuals to develop competencies appropriate for their key roles, reinforce standards of conducts and tailor training based on the need of their role.

SSC Executive Director evaluates performance and holds SSC staff accountable for their internal control responsibilities. This is completed through individual conferences held between the Executive Director and individual staff, as well as a weekly Executive Management team meeting, which updates on internal control responsibilities provided to the Executive Director. The Executive Director can also utilize staff appraisal document/tool to evaluate staff performance on an annual basis. The SSC Commissioners therefore holds the SSC Executive Director accountable for managing the affairs of the SSC.

### **Information and Communication**

SSC executive management uses quality information to support the internal control system. SSC Executive Director has a weekly meeting with the executive management team to discuss. During these weekly executive management discusses all necessary quality information pertaining not only to the business of the SSC but information is shared regarding stakeholders objectives as well as Business Consumer Services and Housing Agency (BCSH) objectives and the Administration objectives as to how these impact the SSC. SSC holds daily staff meetings and the executive management will identify risks, the ranking of risks and give monitoring updates to SSC staff. SSC Executive Director has the ability to share this information with BCSH at the monthly meeting held with SSC executive management team. These items may be discussed at SSC Commission meetings which are held bi-monthly as well.

Annually the SSC executive management team will evaluate SSC's past, current and potential projects as they relate to the SSC mission and vision. SSC holds yearly workshops for SSC commissioners to evaluate any recommendations from SSC executive management as it pertains to SSC projects that support the mission and vision of the SSC.

If SSC chooses to take on a project that produces a publication as a product, SSC Executive Director will designate SSC staff member(s) based on his/her area of expertise along with a sub-committee of SSC commissioner(s) based on his/her area of expertise to lead the project. This group will consult with external parties who have the same area of expertise to ensure that the publication is accurate with its information. This is usually a process of anywhere from six months to three years depending on the subject matter. Effective information and communication throughout this process is vital in order to achieve SSC objectives.

### **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 Alfred E. Alquist Seismic Safety Commission monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Richard McCarthy, Executive Director.

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 and employs six 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 team will review the outcomes of the plans and evaluate the effectiveness of the plan in mitigations 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 the 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.

### **RISK ASSESSMENT PROCESS**

The following personnel were involved in the Alfred E. Alquist Seismic Safety Commission risk assessment process: executive management, and staff.

The following methods were used to identify risks: brainstorming meetings, ongoing monitoring activities, audit/review results, and external stakeholders.

The following criteria were used to rank risks: potential impact to mission/goals/objectives.

The SSC 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, vision and critical business functions?

## RISKS AND CONTROLS

### **Risk: RISK-COMPLIANCE-INTERNAL- RESOURCES LIMITATION**

Over the last 2-years the SSC has seen a significant reduction in the total amount of leave balances above the maximum allowable hours, but the SSC is still presented with the ongoing challenge of complying with the regulatory "Vacation/Annual Leave Balance Over Maximum" guideline set forth by the State of California's Human Resources Control Agency (CalHR). The SSC has a limited staff of six staff members and is reliant on each staff member to carry out the business operations of the department. Therefore, it is extremely difficult to successfully maintain an action plan permitting the reduction of vacation/annual leave hours for staff members above the maximum allowable leave balances. Currently, 50 percent of the SSC's workforce is of retirement age. Of those of retirement age one staff member carries a leave balance above the maximum allowed. If this particular staff member were to retire from the SSC or separate, a lump sum payment to the staff member for the unused compensable hours will cause a catastrophic budgetary impact to the SSC.

### **Control: CONTROL A**

Each SSC staff member with leave balances over the maximum allowable hours has been identified by the SSC executive management team. The executive management team has met with the identified staff member and have created action plans for leave usage. These plans will assist in the reduction of any leave balances over the maximum allowable hours. The current plans have and continued to be evaluated for their overall efficiency in reducing the amount of leave balances for staff members 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.

In addition to the implementation of the leave balance plans, the SSC executive management team has been working with the Department of Finance on developing a financial augmentation in the SSC's 2020-21 budget for a possible anticipated lump sum payment to the staff member for unused compensable hours.

### **Risk: 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 the 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 had allowed for a multi-year repayment of a general fund loan repayment, which has been forgiven and SSC has no further obligation for the loan repayment. However, there is still a risk that the annual collected assessments which represent the funding source for the operational account of the SSC will not be able to sustain SSC operational funding in the next two to five years. The assessments collection is growing at a slower rate than the approved appropriations for the SSC's operational fund. At the current growth rate of the annual assessment collection and appropriations of the SSC operational fund, there is a possibility that the annual assessment will be insufficient in funding appropriated expenditures.

**Control: A**

SSC has been selected for a Mission-Based Review process through the Department of Finance. SSC executive management team has been working closely with the Department of Finance and BCSH staff through this process. The primary goal of a mission-based review is to determine the appropriate level of expenditures and resources needed to implement government services and programs.

**Risk: RISK: OPERATIONS-EXTERNAL-FUNDING- SOURCE, LEVELS**

The SSC 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 SSC will have a future lump sum payout(s) for staff members separations and/or staff retirements. There is a possibility that the SSC's operational budget may not support these future lump sum payout(s).

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 SSC's research and education projects. As outlined in the CRAF Gift Agreement, the SSC is entitled to collect up to 10 percent overhead expenses from contracts awarded through the fund.

The SSC currently plans on using the revenue generated from the CRAF to fund possible future lump sum payout(s) 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 because of the dependency on the temporary funding source to cover any future deficits in the operational fund.

**Control: A**

SSC has been selected for a Mission-Based Review Process through the Department of Finance. SSC executive management team and Department of Finance staff have been working in collaboration to determine additional sources of funding.

**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 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.

**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