December 28, 2015

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the California Children and Families Commission submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Diane Levin, Chief Deputy Director, at (916) 263-1067, dlevin@ccfc.ca.gov.

BACKGROUND

Background

In 1998, voters passed Proposition 10, which created the California Children and Families Commission Act of 1998 (Act), and is codified in Health and Safety Code (HSC) sections 130100-130158 and California Revenue and Taxation Code (RTC) sections 30131-30131.6. Consistent with the Act, the Board of Equalization (BOE) collects revenue pursuant to the taxes imposed by RTC section 30131.2, which is placed in the California Children and Families Trust Fund (Fund). The BOE administers the Fund and determines the amount of funds to be transferred to First 5 California and the 58 county commissions. Prior to the transfer of funds to First 5 California, BOE's costs for administering the Fund are paid from moneys deposited in the Fund.

Eighty percent of the Fund is allocated to the 58 established county commissions. Each county commission receives a portion of the total moneys equal to the percentage of the number of births recorded in the respective county in proportion to the total number of births recorded in California. The county commissions annually adopt or review strategic plans governing the use of county funds and provide fiscal oversight of the expenditure of the funds.

Twenty percent of the Fund is allocated and appropriated to First 5 California, which is governed by a State Commission with seven voting members and one ex-officio member. The State Commission hires the Executive Director, who oversees First 5 California staff in accordance with the direction of the Commission. The powers and duties of the State Commission are detailed in HSC section 130125.

The purpose of the Act is to promote, support, and improve the early development of children from prenatal through age five. This is accomplished through the establishment, institution, and coordination of appropriate standards, resources, and integrated and comprehensive programs emphasizing community awareness, education, nurturing, child care, social services, health care, and research.

The guiding principles of First 5 California serve as the value-based foundation for Commission decisions. These principles are:

- Child and Family Focus: Place the needs of children prenatal through age five at the center of First 5 California's work in culturally and linguistically effective ways.
- Outcomes-driven: Create positive results that are measurable and use monitoring and evaluation as a tool for continuous improvement.
- Commitment: Dedication to building upon proven best practices and creating integrated, continuously improving, innovative, and cost-effective programs, policies, and systems that result in the highest quality services to children.

- Collaborative: Facilitate and participate in partnerships across disciplines, all county commissions, stakeholder groups, and traditional silos.
- Civic Engagement and Accountability: Advocate for public policies and increased resources to improve outcomes and support systems for children from prenatal through age five. Acknowledge responsibility to the people of California for the wise and effective use of public funds.
- Intentional: Make decisions and take action in strategic and deliberate ways to make the greatest positive impact.
- Sustainability: Maintain and grow the impact and success of the First 5 movement for all children from prenatal through age five wherever they reside in California.

California's children are the Commission's top priority, and the First 5 California Strategic Plan reflects the strengths, challenges, and diversity of California. The Strategic Plan serves as a roadmap for the future and will guide the development of First 5 California's unique role in identifying and meeting the needs of children from prenatal through age five. Further, the Strategic Plan reinforces the vision; establishes a definitive, challenging mission; and identifies a broad set of strategic priority areas for the future.

Vision Statement
California's children receive the best possible start in life and thrive.

Mission Statement
Convene, partner in, support, and help lead the movement to create and implement a comprehensive, integrated, and coordinated system for California's children from prenatal through five and their families. Promote, support, and optimize early childhood development.

Strategic Priority Areas (SPA)
SPA 01: Support Children and Families - Provide culturally and linguistically effective resources, knowledge, and opportunities for children from prenatal through age five to develop the skills needed to achieve their optimal potential in school and life.

SPA 02: Lead the First 5 Movement - Provide leadership to the First 5 movement and the development of a support system serving children from prenatal through age five, their families, and communities that result in sustainable and collective impact.

SPA 03: Build Public Will and Investment - Build public engagement, investment in, and support of the optimal well-being and development of children from prenatal through age five, their families, and communities.

SPA 04: Strengthen Institutional Capacity - Strengthen internal capacity of First 5 California to realize its mission and achieve greater impact.

First 5 California's Strategic Plan is available at
http://www.ccfc.ca.gov/about/pdf/commission/resources/F5CA_Strategic_Plan.pdf.

RISK ASSESSMENT PROCESS

The internal control review and risk assessment process for the biennial period ending December 31, 2015, was completed by First 5 California's management team, which includes executive staff, managers, and supervisors.

Camille Maben, Executive Director, along with Executive Management, are responsible for the establishment and maintenance of internal and administrative controls. These controls are defined as processes that provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting; (b) effectiveness and efficiency of operations; (c) safeguarding of assets and funds; and (d) compliance with applicable laws and regulations. This definition includes five interrelated components:

- *Control environment* sets the tone of the organization, influencing the control consciousness of its staff. It is the foundation for all other components of internal control, providing discipline and structure.
- *Risk analysis* is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed.
- *Control activities* are the policies and implementation procedures to help ensure that organization objectives are fulfilled.
- *Information and communication* are the identification, capture, and exchange of information in a form and timeframe that enable staff to fulfill their duties and responsibilities.
- *Monitoring* is the process that assesses the quality of internal control performance over time.

The objective of this internal review was to confirm compliance with SLAA. Specifically, First 5 California conducted this review to determine whether: (1) there are obstacles that could interfere with the accomplishment of First 5 California's mission and goals; (2) assets are safeguarded from unauthorized use or disposition, including information technology systems and data; and (3) financial operations are conducted in accordance with State Administrative Manual guidelines, other applicable laws and regulations, and the Commission's policies and procedures to ensure the preparation of reliable financial information.

A Control Environment Questionnaire was used to gather data for the risk assessment. Questions pertaining to First 5 California's critical functions as a whole, as well as individual areas of responsibility, were included on the questionnaire and disbursed to the management team. The risks and associated mitigating controls, if any, were compiled in a spreadsheet and redistributed to the management team to be rated. The impact of each risk and likelihood of occurrence were rated using a scale of 1 to 5. The weighted average method was then applied to the ratings to identify risks as high, medium, or low.

Based on the results of the questionnaire, four risks were determined to be of most concern by First 5 California management. As discussed in detail in the Evaluation of Risks and Controls section, two of these risks are not within the control of First 5 California and, therefore, tests could not be performed to ensure existing controls are working as intended. The other two risks have controls that are partially implemented, and First 5 California is prepared to complete Corrective Action Plans for each.

In relation to the requirements set forth by SLAA, First 5 California undergoes an annual audit in accordance with HSC section 130150 (b)(1). To comply with this section, First 5 California contracts with the Department of Finance, Office of State Audits and Evaluations (OSAE), to conduct an annual fiscal audit of all funds administered by First 5 California. To complete the audit, which includes the review of internal controls, administrative procedures, and financial reports, OSAE tests financial transactions and contractual agreements, reviews policies and procedures, and interviews staff and management at all agencies accountable for any of First 5 California funds. The audit conducted for Fiscal Year 2013-14 did not identify any reportable internal control or compliance weaknesses.

EVALUATION OF RISKS AND CONTROLS

Operations- External- Funding—Sources, Levels

Decreased funding due to the reduction of cigarette and tobacco product sales.

First 5 California is solely funded by the taxes imposed by Proposition 10 on cigarettes and tobacco products. On average, cigarette and tobacco product sales have decreased three to four percent annually, thus reducing the funding available for First 5 California to implement programs in accordance with the Act. If the tobacco tax revenue continues to decrease, the number of programs offered to enhance optimal early childhood development and to ensure children are ready to enter school will diminish and First 5 California will not be able to accomplish its mission and goals.

First 5 California accepts this risk as it is not within it's control and is mitigating the risk to the extent of the agency's ability. Staff is aware of the decreasing revenue trend and is researching alternate funding sources, such as partnerships with other governmental or private entities with similar goals, applying for grants that would further First 5 California's mission, and actively promoting First 5 California at the legislative level while also backing legislation that could provide new revenue.

Staff will continue to monitor the appropriations and provide revenue and expenditure forecasts to management and the Commission to ensure deficits are not experienced in any of the accounts.

Operations- External- Staff—Recruitment, Retention, Staffing Levels

Staffing restrictions due to the 1 percent allocation in the Administration Account as set forth in Health and Safety Code section 130105 (d)(1)(E).
When referring to the moneys allocated and appropriated from the Fund, HSC section 130105 (d)(1)(E) states, "One percent shall be deposited in an Administration Account for expenditures for the administrative functions of the state commission." The decreasing revenue, along with the 1 percent budget constraint, limits the number of sustainable positions employed by First 5 California, thus restricting the agency's ability to implement and support multi-million dollar statewide programs. In order to overcome the staffing restrictions and provide some of the key services necessary to further the purposes of the Act, First 5 California contracts with governmental and private entities, which at times can result in service delays due to the existing contracting requirements set forth in the State Contracting Manual, Volume 1. In most cases, the execution process for contracts requiring approval of Department of General Services, Office of Legal Services (OLS), is elongated. Some of the recurring delays are due to the enhanced justification necessary to execute the contracts governed by Government Code sections 19130-19135. OLS often challenges contracts of this nature stating First 5 California should hire in-house staff to perform the scope of work, but the hiring of staff is limited due to the one percent allocation for administrative functions.

First 5 California accepts this risk as it is not within it's control and is mitigating the risk to the extent of it's ability. Staff will continue monitoring the administrative budget and update management so informed decisions can be made regarding personnel and other administrative expenditures. First 5 California management also will seek legislative solutions where appropriate.

Operations- External- FI$Cal Conversion

Delays in processing accounting transactions as a result of implementing the FI$Cal system in California and ending our long-held contract with DGS for fiscal services.
- Existing staff are not from specialized accounting classifications and lack formal training in state accounting systems and procedures.
- Inefficiencies may result from user errors or the lack of familiarity with the new FI$Cal system and new accounting functions performed by First 5 staff after our DGS contract ended.
- Staff resources are further reduced by time spent on necessary training for the new system and interacting with FI$Cal and SCO staff to resolve system issues.
- Month-end and year-end closing processes may be delayed due to a lack of training and staff resources.
- The agency must establish logons and contacts with complimentary fiscal systems or control agencies such as the State Controller’s Office, the State Treasurer’s Office and the Bank of America (holder of our bank account).

The risk can potentially affect the integrity of First 5 California financial records and timely disbursements if we have difficulty tracking our cash balances or if we cannot certify the accounts and funds are properly reconciled with SCO records. The risk would affect the agency and counties' programs if there is insufficient cash in a fund to make timely disbursements to counties and vendors.

The best control over financial records is to record all transactions in the accounting system in a timely manner and perform monthly reconciliations to the State Controller's accounts. Monthly reconciliations are important to identify differences in the agency's accounts and resolve them with the SCO as soon as possible. This control is an existing function of the accounting system but up to now has been performed by DGS' Contracted Fiscal Services. Henceforth, First 5 California staff must learn to perform this function.

Compliance- Internal- Resource Limitations

Delay in execution of contracts, including Non-Competitive Bids.
First 5 California is a small agency and has limited seasoned staff in the Contracts and Procurement Office. This, combined with the implementation of FI$Cal and external contracts reviewers, could somethimes delay the successful execution of contracts. When contracts are delayed, there could be breaks in critical services, projects may be delayed or not started at all. Potentially, services could be provided when no contract is in place. These could negatively impact the services/programs provided by First 5 California to children from prenatal through age 5 and their families.

Constant and consistent contract monitoring ensures the completion of workload and milestones.

Executive management and Fiscal Services Office monitor the budget and are consulted numerous times when contracts are proposed and executed to ensure the funding is secure and appropriate.

ONGOING MONITORING

Through our ongoing monitoring processes, the California Children and Families Commission reviews, evaluates, and improves our systems of internal controls and monitoring processes. As such, we have determined we comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of California Children and Families Commission, Camille Maben, Executive Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Diane Levin, Chief Deputy Director, as our designated agency monitor(s).

Frequency of Monitoring Activities

Frequency of Separate Evaluations:
- Ongoing one-on-one meetings with upper management - Each supervisor/manager has scheduled one-on-one meetings with upper management. A standing discussion topic at these meetings is updates on SLAA monitoring for their specific office.
- Regular Divisional staff meetings - Each Division/Office has regular monthly or bimonthly staff meetings. A standing agenda item for each meeting is for staff to discuss SLAA monitoring.
- Bi-monthly Leadership meetings - Standing agenda items include SLAA monitoring updates from Leadership Team members.

Ongoning monitoring through the regular course of operations:
- Annual fiscal audit - First 5 California is made aware of findings through the annual fiscal audit. Staff uses the audit as a tool to monitor its work to address any issues raised in the audit, as well as other

items that would trigger an audit finding.
- Quarterly financial overview provided to the Commission (current year +5) - All funding accounts are reviewed and reconciled on an ongoing basis with an in-depth presentation to Commissioners and the public on a quarterly basis. This review helps staff to identify projected expenditures and potential associated risks.
- Project Task Matrix which includes a listing of agency programs and staff roles and responsibilities - Staff use Cross-Unit Project Initiation Documents (CUPIDs) and work plans to list and track all project responsibilities, including due dates, for required tasks. This includes tracking contract end dates and when to commence the process for starting the contract renewal process.

Reporting and Documenting Monitoring Activities

Prior to each Leadership Team meeting, a request is sent to all Division/Office team leaders to provide agenda items such as SLAA monitoring updates. These items are discussed at each meeting. The First 5 California Leadership Team is responsible for performing monitoring functions with the ultimate responsibility residing with the Executive Team.

The results will be documented through meeting minutes, spreadsheets, and corrective action plans.

Procedure for Addressing Identified Internal Control Deficiencies

Internal control deficiencies shall be reported by any member of First 5 California through the Leadership Team. These reports can be made by any means, from informal discussions to formal submissions. All deficiency reports shall be reviewed, discussed, and resolved by the Executive Team within reasonable timeframes to adequately address the deficiency.

CONCLUSION

The California Children and Families Commission strives to reduce the risks inherent in our work through ongoing monitoring. The California Children and Families Commission accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Camille Maben, Executive Director

cc: Department of Finance
Legislature
State Auditor
State Library
State Controller
Secretary of Government Operations