

Department of General Services

2015 SLAA REPORT

December 31, 2015

Marybel Batjer, Secretary
California Government Operations Agency
915 Capitol Mall, Suite 200
Sacramento, CA 95814

Dear Ms. Batjer,

In accordance with the State Leadership Accountability Act (SLAA), the Department of General Services 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 Rick Gillam, Chief Auditor, at (916) 376-5058, rick.gillam@dgs.ca.gov.

BACKGROUND

DGS serves as business manager for the state of California, with approximately 3,600 employees and a budget in excess of \$1 billion. DGS helps state government to better serve the public by providing a variety of services to state agencies through innovative procurement and acquisition solutions; creative real estate management and design; environmentally friendly transportation; and funding for the construction of safe schools. DGS' role in government is unique due to the: (1) nature of its services, i.e., similar to a private business; (2) variety of services offered including such major activities as publishing, real estate, fleet and procurement; (3) multiple funds utilized including the largest internal service fund in the state; and (4) broad variety of clients using the department's services including the governor's office, Legislature, other state agencies, constitutional officers and local government entities.

Establishment of DGS

The California State Legislature created the Department of General Services in 1963; California Government Code Section 14600 states that the Legislature's intention was to centralize business management functions into one entity that could:

- * Take advantage of specialized techniques and skills
- * Provide uniform management
- * Ensure a high level of efficiency and economy

Organizational Structure

DGS' operations are overseen by a director and chief deputy director. DGS includes the following divisions:

- Administration Division – provides services to internal and external clients. Support services include budgetary resource; uniform and consistent financial and human resources support; risk and insurance management expertise; information technology support; and business functions needed by the department.
- Division of the State Architect – provides design and construction oversight for K-12 schools and community colleges. It develops accessibility, structural safety, and historical building codes and standards utilized in various public and private buildings throughout California.
- Interagency Support Division – provides a wide range of support services through several independent

offices: (1) the Office of Fleet and Asset Management, which oversees the state fleet, providing transportation services and managing state and federal surplus property; (2) the Office of Public School Construction, which serves as staff to the State Allocation Board, facilitates the processing of school district applications and makes funding available to qualifying school districts; (3) the Office of State Publishing, which provides printing and communication solutions; and, (4) the Building Standards Commission, which reviews, approves, codifies, and publishes state building standards.

- Office of Administrative Hearings - consists of two divisions and five regional offices statewide. The General Jurisdiction Division provides independent adjudicatory and alternative dispute resolutions services to more than 1,400 state, local and county agencies, while the Special Education Division provides independent adjudicatory and mediation services throughout the state to school districts and parents of children with special needs.
- Office of Legal Services – provides leadership and guidance to state departments and agencies and to internal divisions and offices on the state’s contracting and procurement laws and policies. This includes establishing the state’s services contracting standards; providing contract pre-review and approval; and procurement training.
- Procurement Division - oversees state procurement policies and provides purchasing services to help departments achieve their missions.
- Real Estate Services Division – provides comprehensive real estate services to all state agencies.

Management Structure

DGS’ management structure is comprised of three tiers:

1. Executive management – the director and chief deputy director
2. Executive team – director, chief deputy director, 10 deputy directors, and two office chiefs (audit services and equal employment opportunity officer)
3. Management team – assistant deputy directors, office chiefs, branch chiefs

The first two tiers were involved in the risk assessment process; all three tiers were involved in the risk mitigation efforts.

Vision/Mission/Goals/Values

DGS’ 2013-2018 Strategic Plan (plan) is comprised of the following elements: core values, vision statement, mission statement, goals, strategies and objectives. DGS’ vision is Excellence in the Business of Government, while its mission is to deliver results by providing timely, cost-effective services and products that support its customers, while protecting the interests of the state of California.

DGS’ goals are defined as issue-oriented statements that reflect realistic priorities and help the organization chart its future direction by focusing actions toward clearly defined purposes and policy intention. The plan contains four goal statements, detailed strategies for meeting those goals, and measurable objectives to gauge our success in implementing those strategies. The goal statements are as follows: (1) We are customer centered; (2) We deliver efficient and effective results; (3) We work as one enterprise; and (4) We are a healthy organization.

DGS adopted the following core values as part of its plan:

- * Integrity: We do the right things for the right reasons.
- * Accountability: We hold ourselves and each other responsible for all that we do.
- * Communication: We listen and share information openly, honestly and respectfully with the goal of mutual understanding and transparency.
- * Excellence: We strive for the best for each other and our customers.
- * Innovation: We cultivate ideas and implement improvements throughout our organization.
- * Teamwork: We value and respect our organizational diversity and work together to achieve great results.

RISK ASSESSMENT PROCESS

Since 2009, DGS executive management has seen the department's plan as the department wide effort to establish the objectives by which to measure the success of the department in carrying out its responsibilities. The objectives - developed, tracked, and reported by each DGS entity - are tied to the four goals and their strategies. The results are published in an annual performance report designed to assist DGS customers, the public and itself in judging the success of the department in meeting its responsibilities. Measurable objectives are reviewed and refined every year, ensuring continuous monitoring ("Are we on track?"); evaluation ("How did we do and can we do better?"); and accountability (one-on-one meetings with the director; town hall presentations, and Internet posting of annual report.)

DGS has implemented a system of continuous assessment and evaluation focused on ensuring that adequate and effective policies and procedures (internal controls) have been implemented to meet the mission, goals and objectives as stated in the plan. In early 2014, then-DGS Director Fred Klass, in consultation with his executive team, conducted an assessment of the risks that would negatively impact the continued implementation of the plan. They determined that the risk assessment process would focus on mitigating the three highest identified risks: (1) loss of institutional knowledge pertaining to the plan and the importance of robust measurable objectives; (2) lack of management commitment to Goal 4, We are a healthy organization; and (3) inability to publish a reliable and accurate annual performance report.

In addition to the risks associated with the strategic plan, DGS executive management has identified two other operational/program areas that are discussed in this report. These areas, FI\$Cal conversion and deferred maintenance on DGS-owned buildings, represent significant activities that have risks that if not adequately and effectively addressed will adversely affect the achievement of objectives.

EVALUATION OF RISKS AND CONTROLS

Operations- Internal- FI\$Cal Conversion

Currently, DGS is in the process of converting its enterprise-wide financial and resource planning management system (ABMS) to an integrated statewide financial management system (FI\$Cal). As a Wave 2 department, DGS is scheduled to convert to FI\$Cal in July 2016. For a number of reasons, including the uniqueness of ABMS within the state, if not adequately managed, there is a significant risk that DGS would not meet the July 2016 timeline, which could have a negative impact not only on DGS but on the statewide implementation of FI\$Cal.

To mitigate the risk of not meeting the July 2016 timeline, DGS has committed a significant amount of subject matter expert financial and project staff resources to work on system development and implementation in partnership with FI\$Cal project management staff and Accenture, the System Integrator. FI\$Cal's change management process is well defined and includes the timely identification of risks that may affect project success, the conduct of planning activities to address those risks in an effective manner, and the taking of prompt actions to mitigate the risks. The primary risks to project timeliness and success involve ensuring that the system is designed and built with adequate and effective functionality and that data can be accurately converted from ABMS data fields to FI\$Cal data fields.

To date, DGS has successfully converted two major operating activities and responsibilities to FI\$Cal: (1) in July 2015, DGS' Contracted Fiscal Services and their client agencies went live with FI\$Cal; and, (2) in December 2015, DGS' Procurement Division announced the creation of a new online eProcurement system portal (Cal eProcure).

Operations- Internal- Resource Management

During the state's fiscal crisis that began in 2006, DGS was asked to limit deferred maintenance on DGS-owned buildings. Not only was funding reduced, but the state had also begun exploring the option of selling a portion of the building inventory to private investors. When the fiscal crisis subsided and the sale process was terminated, DGS identified the need for additional funding and staff to resume the deferred maintenance of its building repairs. To address the risk that the backlog of maintenance projects is not being adequately addressed, DGS has taken a number of actions to mitigate this issue including the following:

DGS pursued additional funding and received \$5 million in Fiscal Year 2015-16 to address deferred maintenance projects statewide. DGS developed a comprehensive statewide plan and allocated the \$5 million among 12 projects.

DGS plans to redirect available Architecture Revolving Fund monies towards deferred maintenance projects that are "shovel ready" this year, and will be seeking funding approval in the future to continue addressing other significant building maintenance needs.

In 2014, DGS contracted with Hellmuth, Obata & Kassabaum (HOK), an architecture and engineering firm, to conduct an independent analysis of state-owned office space in the downtown Sacramento area. The study, completed in July 2015, identifies the buildings with the greatest need for renovation and/or replacement.

Operations- Internal- Staff—Training, Knowledge, Competence

There has been significant management turnover in some DGS divisions and offices due to retirements, promotions, and reassignments. This has led to a potential loss of institutional awareness of why the implementation of the plan is a high priority for executive management and why robust measurable objectives are important for each DGS entity.

To mitigate the risks that new management would not be familiar with the important role of the plan and that measurable objectives would not be robust, then-Director Klass asked the Office of Strategic Planning, Policy and Research (OSPPR) to meet with managers of each DGS entity to ensure that current management staff was familiar with the strategic plan and that they had the tools needed to develop SMART (specific, measurable, achievable, relevant, time-bound) objectives. One newly created office asked for training for its entire staff. In addition to the one-on-one training, OSPPR was available to provide additional guidance on performance measure development.

The director told the executive team that he wanted to reinforce the importance of DGS core values during the hiring process and to evaluate candidates who will perform in a manner consistent with those values. He distributed a handout with sample questions.

Operations- Internal- Workplace Environment

Creating a healthy work environment for DGS staff is an ongoing priority for executive management. To assist in ensuring that the commitment is met, DGS takes the pulse of its employees by conducting an internal survey every two years, analyzing the data, presenting the data to employees, and publishing the results online. The latest survey was conducted in September 2014.

The results of the 2014 survey, including comment characterizations and history of previous scores, were presented to the executive team. The results clearly showed that initiatives put into place after the 2013 survey were particularly effective: (1) More employees found their work meaningful, understood how their job contributes to the DGS mission, and understood who our customers are; (2) More employees reported increased access to information, training, and career planning; and (3) More employees reported awareness of the strategic plan, DGS values, the DGS Values Team and the awards presented to recognize DGS staff who embody DGS' core values.

As part of the commitment to continuous improvement, the executive team asked OSPPR to meet with 17 DGS entities individually in early 2015 to explain and discuss their employee survey results. These meetings proved particularly instructive because OSPPR staff could share the successful strategies implemented by other DGS entities.

Reporting- Internal- Information Collected—Inadequate, Inaccurate, Misinterpreted, Untimely

Executive management determined that it was a high priority to publish an annual report on the measurable objective results. Two risks were identified: (1) executive and mid-level managers would not follow through on their commitment to achieve their stated objectives; and (2) tracking and monitoring systems were not in place to provide accurate and reliable data.

To ensure that executive-level and mid-level managers followed through on their measurable objective commitments, the OSPPR deputy director discussed this commitment at executive team meetings at the three-, six-, nine- and 12 month milestones, including reminders that the results would be published in the annual report. In addition, OSPPR sent emails to mid-level staff reminding them about these milestones. During this time, several DGS entities refined their objectives to reflect current (and unforeseen) conditions.

DGS' chief deputy director also asked OSPPR to conduct an independent separate evaluation of DGS' performance measure data for fiscal year 2014-15 to determine if the data submitted was reliable and accurate. Overall, OSPPR's monitoring activity found that all DGS entities had tracking systems in place to capture their performance measure data and that the data reported was reliable and accurate.

ONGOING MONITORING

Through our ongoing monitoring processes, the Department of General Services reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Department of General Services is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Department of General Services, Daniel Kim, Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Jeff McGuire, Chief Deputy Director, as our designated agency monitor(s).

Frequency of Monitoring Activities

DGS executive management holds bi-monthly meetings with the executive team. Agenda items include discussions of potential internal control issues that may have been brought to executive management's attention as well as the mitigation steps needed to address them. Further, the director holds regular one-

on-one meetings with the deputy directors to ensure continued two-way conversations.

The DGS management team also meets monthly and is encouraged to candidly discuss any internal control issues that have been brought to its members' attention. The team brings its concerns and solutions to the executive team.

In addition, DGS surveys its customers every two years to ensure it is delivering efficient and effective results (Goal 2), and that it remains customer centered (Goal 1). DGS also surveys its employees every two years to evaluate the effectiveness of its initiatives to ensure that it continues to be a healthy organization (Goal 4). To ensure DGS works as one enterprise (Goal 3), ongoing initiatives are evaluated and updated to reflect employee concerns.

Reporting and Documenting Monitoring Activities

Customer survey results and employee survey results are presented to the executive team and discussed in the DGS Digest employee newsletter. Further, town hall meetings were held to present survey results, and the detailed survey results posted online. DGS also publishes an annual report on its measurable objectives results.

Procedure for Addressing Identified Internal Control Deficiencies

Then-DGS Director Klass asked deputy directors to develop action plans to address each comment in the customer survey. These plans were discussed in one-on-one meetings with the director.

OSPFR met with 17 DGS entities to discuss strategies to improve employee survey scores and to address concerns raised in the comments section.

CONCLUSION

The Department of General Services strives to reduce the risks inherent in our work through ongoing monitoring. The Department of General Services 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.

When I became DGS director in July 2015, the biennial risk assessment process put in place by the previous director was nearing completion. That process focused on risks associated with the successful implementation of the strategic plan. My role in that implementation was limited, but I identified additional significant operating risks that are currently being mitigated by DGS management and staff. Those risks pertain to the implementation of FISCAL and the performance of deferred maintenance activities; they have been added to the risks identified in early 2014 and are presented in this report. In the near future, DGS will revisit the risk assessment process and implement an entity wide monitoring program.

Daniel Kim, Director
Department of General Services

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