

December 22, 2017

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

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the California Children and Families Commission submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Frank Furtek, Chief Deputy Director and Counsel, at (916) 263-1313, [ffurtek@ccfc.ca.gov](mailto:ffurtek@ccfc.ca.gov).

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## 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.cafc.ca.gov/about/pdf/commission/resources/F5CA\\_Strategic\\_Plan.pdf](http://www.cafc.ca.gov/about/pdf/commission/resources/F5CA_Strategic_Plan.pdf).

## **ONGOING MONITORING**

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 and monitoring systems.

### **EXECUTIVE MONITORING SPONSOR(S)**

The executive monitoring sponsor responsibilities include facilitating and verifying that the California Children and Families Commission internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Frank Furtek, Chief Deputy Director and Counsel.

### **MONITORING ACTIVITIES**

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.

### **Frequency of Monitoring Activities**

- 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.

### **ADDRESSING VULNERABILITIES**

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.

### **COMMUNICATION**

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. Ongoing 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. Closed Session Meeting with Commissioners - First 5 California staff meet with Commissioners during closed sessions. These meetings keep the Commissioners apprised of potential risks, and provide an opportunity to brainstorm regarding creative means to address these issues. FSO will continue monitoring the administrative budget and update management so informed decisions can be made regarding personnel and other administrative expenditures. The results will be documented through meeting minutes, spreadsheets,

and corrective action plans.

## ONGOING MONITORING COMPLIANCE

The California Children and Families Commission has implemented and documented the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the California Children and Families Commission systems of controls and monitoring.

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## RISK ASSESSMENT PROCESS

The following personnel were involved in the California Children and Families Commission risk assessment process: Executive Management, Middle Management, and Front Line Management.

### RISK IDENTIFICATION

The internal control review and risk assessment process for the biennial period ending December 31, 2017, 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.

### RISK RANKING

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, three 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, one of these risks is 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 Implementation 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. Due to delays resulting from the FISCAL implementation and conversion, First 5 California and the Department of Finance audit staff decided to combine both Fiscal Year 2015-16 and 2016-17 audits into one process. As a result, no audit report has been issued at this time.

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## RISKS AND CONTROLS

### RISK: OPERATIONS -EXTERNAL-FUNDING—SOURCES, LEVELS

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

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.

First 5 California will not be able to accomplish its mission and goals.

#### CONTROL A

First 5 California accepts this risk as it is not within its 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.

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.

### RISK: 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).**

The Fiscal Services Office (FSO) has monitored the administrative budget and projected revenue through Fiscal Year (FY) 2020–21. The FSO has determined that if First 5 California maintains its current number of positions, is unable to reduce expenditures, and unable to create budget savings, by FY 2020–21 there will be a deficit in the Administration Account.

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.

First 5 California may be unable to meet its fiscal obligations. In order to avoid a deficit and achieve budget savings, First 5 California has already placed several controls in place.

**CONTROL A**

FSO has identified expenditures, normally charged to the Administration Account, that can be appropriately charged to other accounts. This control helps to reduce the amount of money coming out of the Administration Account and achieves budget savings.

**CONTROL B**

A soft freeze on hiring has been implemented. Several positions have become vacant, which will not be filled at this time. With a decrease in benefits and salaries, the Administration Account achieves budget savings.

**CONTROL C**

First 5 California is exploring functions that might be contracted out instead of hiring additional staff. Again, this control will decrease the benefits and salaries coming out of the Administration Account, and helps to achieve budget savings.

**CONTROL D**

First 5 California is working with consultants who are assisting with the best way to organize and staff the current work, so employee's strengths and skill sets are utilized to their full potential. This control ensures the critical work First 5 California is mandated to complete will continue despite staff levels declining.

**RISK: OPERATIONS -EXTERNAL-FI\$CAL IMPLEMENTATION, MAINTENANCE, FUNCTIONALITY, OR SUPPORT**

**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.**

- 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).

Existing staff are not from specialized accounting classifications and lack formal training in state accounting systems and procedures.

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.

#### **CONTROL A**

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.

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#### **CONCLUSION**

The California Children and Families Commission strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**Camille Maben, 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