

January 08, 2024

Wade Crowfoot, Secretary
California Natural Resources Agency
715 P Street, 20th Floor
Sacramento, CA 95814

Dear Secretary Wade Crowfoot,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Conservation 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 Clayton Haas, Division Director of Administration, at (916) 323-2950, Clayton.Haas@conservation.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The Department of Conservation's (DOC) mission balances today's needs with tomorrow's challenges and fosters intelligent, sustainable, and efficient use of California energy, land, and mineral resources.

The DOC provides a safe and sustainable environment for all Californians through services and information promoting environmental health, economic vitality, informed land-use decisions, and sound management of our state's natural resources. With a team of scientists and other dedicated professionals, the DOC administers a variety of programs vital to California's public safety, environment, and economy. The Department is comprised of program Divisions which include: The California Energy Management Division (CalGEM) [formerly known as the Division of Oil, Gas, and California Geological Energy Management Division (CalGEM)], Division of Land Resources Protection (DRLP), Division of Mine Reclamation (DMR), and the California Geological Survey (CGS). The Department objectives include:

- Regulate oil, gas, and geothermal industries by overseeing drilling, operations, maintenance, and plugging of oil, natural gas, and geothermal wells, while protecting public health and the environment.
- Protect agricultural farmland and open space through various projects and financial mechanisms in accordance with the Land Conservation Act of 1965 (commonly known as the Williamson Act).
- Oversee local lead agency implementation of the Surface Mining Reclamation Act of 1975, requiring mine operators to establish reclamation plans and financial mechanisms to assure adverse environmental impacts are minimized and mined lands are reclaimed to usable conditions.
- Compile an inventory of the State's abandoned mines and conduct remediation of

the sites where applicable.

- Identify, evaluate, and map the State's geology, geologic, and seismologic induced hazards such as earthquakes, landslides, tsunamis, volcanic eruption threats, and hazardous mineral exposure.
- Analyze critical facility sites such as reservoirs, bridges, and hospital sites for seismic safety; provide applicable policy recommendations based upon analysis.
- Operate the world's largest Strong Motion Instrumentation network to provide seismic data to various international, state, and local entities and assist in the development of improved building codes.

Control Environment

DOC Executive management has developed a baseline of set controls by defining principles to assist employees designing/implementing work plans, projects, staff management and internal and external stakeholder communications. On May 29, 2018, DOC's Director announced and implemented DOC's Operating Principles. The Operating Principles are used as a controlled standard for Department projects and programs to ensure alignment with the following:

- Demonstrate accountability to ourselves and the public through the quality and integrity of our work. Employees concerns regarding integrity and ethical conduct issues can report their concerns to either the DOC's Ethics Officer or the Equal Employment Opportunity Officer (EEO).
- Provide unbiased, sound science and engineering to the people of California. Report timely data on the Department's website relevant to the various Department Divisions, available to the public and various stakeholders.
- Maintain a professional, respectful, and collaborative work environment.
- Promote and implement a Diversity, Equity, and Inclusion (D.E.I.) Action Plan to develop and expand outreach activities to underrepresented communities, creating an inclusive culture that attracts and retains diverse talented staff who are committed to excellence and ethical performance. DOC's soon to be updated recruitment plan will develop a working pipeline of talented potential future applicants interested in State service. The Outreach Coordinator and D.E.I. Specialist will coordinate and attend a variety of public recruiting events to seek skill sets and talent as well as develop and maintain communication and professional relationships.
- Seek continuous improvements in delivery of our products and services.
- Anticipate future needs in the actions and decisions we make today.

DOC Director, David Shabazian, and the Executive management team are responsible for the overall establishment and maintenance of all internal controls/monitoring systems.

Executive Monitoring Sponsors are also responsible for facilitating and verifying DOC internal control practices are functioning as intended.

All managers and supervisors are responsible for integrating the Operating Principles throughout their Divisions plans/projects/programs. Managers and supervisors ensure DOC's products (e.g., science and engineering data) adhere to Operating Principles. Managers and supervisors enforce accountability and address performance issues not meeting the standards of the Operating Principles. Performance issues are addressed and vetted accordingly, following

Department-specific and State processes and procedures.

Information and Communication

Each Division's work plan/project is available to all staff. Staff reviews and comments are invited encouraging transparency within each Division. If a work plan/project interfaces with other Divisions and Departments, collaborative meetings are conducted to ensure open lines of communication. These meetings are opportunities for employees to report inefficiencies in policies/procedures, financial decisions, and/or inappropriate actions to management and decision makers so DOC Operating Principles can be reviewed allowing for review and changes in work plans/projects to be incorporated. Divisions follow Division-specific policies/procedures to maintain consistent communication when gathering relevant project research from either internal or external parties.

Weekly meetings are conducted by management allowing Divisions to continually maintain consistency with internal policies/procedures. Weekly meetings also encourage management and internal subject matter experts to communicate on various topics (e.g., performance issues and necessary course-correction). DOC holds quarterly program management meetings where Executive management is informed of the quality control practices being conducted, whether improvements are needed, and the overall successes and challenges within each Division. This information is summarized and reported to the DOC Director. The DOC Director is also briefed on the status of programs/projects through collaborative Executive management biweekly meetings. Final projects and accomplishments are communicated to all staff via their direct-line supervisor, DOC all staff meetings, email, internal intranet, as well as communicated to external parties via public website.

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 Department of Conservation monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Clayton Haas, Division Director of Administration.

The DOC has implemented a continuous entity-wide process to ensure internal control systems are working as intended. The role of the Executive Monitoring Sponsor includes facilitating and verifying that the DOC monitoring practices are implemented and functioning. The responsibilities as the Executive Monitoring Sponsor (s) have been assigned to, CGS Chief Deputy, Jeff Newton, CalGEM Deputy Director, Courtney Smith, DMR Interim Supervisor, Lindsay Whalin, and DLRP Deputy Director, Mandy Latzen.

DOC confirms the effectiveness of the internal control systems by monitoring progress of Division-wide work plans and/or projects. Each Division utilizes program-level work plans, vetted by management to determine key performance indicators tracked and reviewed on a frequent and regular basis. Periodic detailed reviews are conducted by program subject matter experts who evaluate, analyze, and provide results to Executive Management during bi-weekly Executive staff meetings. Reported data is compared to expectations (Operating

Principles) allowing necessary course-correction coupled with updated documentation when needed. The oversight encourages an adaptable workforce, reinforcing an environment of accountability.

Vulnerabilities are often identified during work plan development. When identified, risk assessments are conducted, accounting for both impact and likelihood of occurrence. Severity of risks determine monitoring mechanisms (e.g., dedicated staff oversight).

RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of Conservation risk assessment process: executive management, middle management, front line management, and staff.

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

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

RISKS AND CONTROLS

Risk: Risk 1- DLRP Collection of Williamson Act Cancellation Fees

The Williamson Act (WA) allows landowners to enter into contract with local governmental entities, cities and counties, to restrict parcels of land to agriculture or related open space uses. Additionally, the WA provides base funding for various DLRP Programs and administrative support.

Landowners who enter into these contracts receive lower property tax assessments and property tax bills. This funding is derived from cancellation fees that landowners are required to pay when they cancel WA contracts and are collected by counties and cities. The cancellation fees fund the Soil Conservation Fund (SCF) which supports the statutorily mandated Farmland Mapping and Monitoring Program (FMMP), as well as the WA/CEQA unit; DLRP Administration; and other DOC and DLRP related projects.

The Department has seen an increase in counties and cities not forwarding their cancellation fees once they are received. Forecasted analysis illustrates reserves will be consumed by 2027 and DLRP will not have enough funding to fund the Conservation Support Unit (WA/CEQA/FMMP), DLRP Administration, and management. If a solution or stable source of funding is not found, DLRP will be out of compliance with Government Code 65570 (b) for FMMP and Government Code 51207 for the WA. Being out of compliance would result in lack of funding for the employees supporting the above-mentioned programs.

Control: Control 1- Identify opportunities to collect Williamson Act cancellation fee's

DLRP must identify opportunities to ensure canceled contracts and fees are being paid to local governments, and then remitted to the State Controller's Office (SCO), which collects the cancellation fees. DLRP must address the gap between local governments and SCO to ensure cancellation fees are being remitted via the WA cancellation requirements. DLRP must ensure SCO is aware of the potential risk for future funds and to properly identify these funds so they can be provided to DLRP in a timely manner.

DLRP will work with landowners, local governments, and the SCO to ensure all applicable fees are accounted for and deposited in the correct funding sources to ensure stability of the Programs funded by these fees. In addition, and if necessary, DOC and DLRP will utilize other State control agencies, such as the Department of Finance, to encourage local governments and the SCO to properly remit and record these fees in a timely manner to ensure program viability in the future.

Risk: Risk 2-CalGEM Communication Deficiencies

The DOC Division of CalGEM has identified a risk related to the internal structure and communication within CalGEM that surfaced during COVID and the shift to telework for all staff. CalGEM experienced a communication disruption between its Program staff and staff in the district or field offices that resulted in unclear, and at times, differing applications of regulatory responsibilities. Although CalGEM's actions still met statutory and regulatory requirements, the differences created a lack of consistency and diverging expectations among staff and with the regulated community.

Adjusting to a telework environment during the pandemic, the lack of face-to-face meetings and interactions, and continued staff and leadership turnover led to the current situation. In addition, there was some consolidation of offices into districts that may not be the most effective solution for CalGEM in the long-term. As a result, CalGEM is looking to assess internally how to best address communication and consistency moving forward and establish the best alternative structure organizationally to ensure this type of disruption does not happen in the future.

Control: Control 1-Organizational Assessment

CalGEM has been awarded a contract for an organizational assessment slated to begin in January 2024. The organizational assessment will document deficiencies in communication and organizational structure and recommend solutions to address deficiencies noted. Additionally, the organizational assessment will survey staff, hold focus group discussions, collect data on field operations, examine organizational structures, and put forward recommendations to address weaknesses that have been identified.

This assessment will allow CalGEM to put in place controls to mitigate any potential disruptions in the future and create an organization structure that will suit internal and external stakeholders moving forward. In addition, this assessment will also help identify areas that can gain efficiencies through consistent implementation of regulatory and

statutory requirements.

CONCLUSION

The Department of Conservation 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.

David Shabazian, Director

CC: California Legislature [Senate, Assembly]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency