December 22, 2017

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

Dear Ms. Marybel Batjer,

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

BACKGROUND

The Department of General Services (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; (4) the Building Standards Commission, which reviews, approves, codifies, and publishes state building standards; and (5) the California Commission on Disability Access (acquired Fall 2017 and included in our overall risk approach), which promotes disability access in California with the disability and business communities and all levels of government.

- 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 (RESD) - provides comprehensive real estate services to all state agencies.
- Facilities Management Division (created in 2016 as a spin-off of RESD) - manages, maintains, and operates state buildings and grounds.

Management Structure: DGS' management structure is comprised of three tiers:

- Executive management - the director and chief deputy director
- Executive team - director, chief deputy director, 14 deputy directors and one office chief
- 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' Strategic Plan (plan), done annually since 2016, is comprised of the following elements: core values, vision statement, mission statement, strategic themes and goal statements. 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 five strategic themes and measurable goals to gauge our success in implementing those themes. The strategic themes are as follows: (1) Data-Informed: We use and share data to make better decisions for ourselves and our customers; (2) Collaborative: We solicit input from our partners to collectively improve our outcomes; (3) Effective: We continuously develop ourselves so we can better serve our customers; (4) Consultative: We offer counsel and advice so our customers can maximize benefit and mitigate risk; and (5) Sustainable: We serve as good stewards of state resources and help "green" government.

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.

ONGOING MONITORING

As the head of Department of General Services, Daniel Kim, 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 Department of General Services internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to:
Jeff McGuire, Chief Deputy Director.

Monitoring Activities
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 has formalized and continues to refine and document our ongoing monitoring. As such, we have determined we fully comply with California Government Code sections 13400-13407.

As part of our departmentwide ongoing monitoring process, in 2016 and 2017, DGS implemented its annual Strategic Plans, which identified specific, measurable strategic goals (63 goals in 2016 and 72 goals in 2017) within 19 program areas organized around 5 themes: Data-Informed, Collaborative, Effective, Consultative and Sustainable. These goals represent the largest priorities for DGS to address operational and strategic needs. As part of the plan, DGS implemented a robust monitoring program to track and publish progress. Each program charts their goals in the form of a critical path that outlines the major milestones to completion and a target date for completion. Each program also has a designated liaison who provides updates when those target dates elapse to the Office of Strategic Planning, Policy and Research (OSPPR), including reasons for delays and revised completion targets if goals lag. OSPPR compiles the status of all goals and posts the information publically, along with bi-monthly reports that summarize the progress made-to-date. Further, the DGS director and chief deputy director actively monitor the progress in meeting the goals through monthly meetings with program executive staff.

Addressing Vulnerabilities
As part of the DGS strategic planning process, OSPPR has established a planning calendar designed to sync up with the Budget Change Proposal (BCP) and this SLAA cycle, to ensure that the department is identifying risks and resources needed and incorporating those in the annual strategic plans in order to keep the plans relevant. Programs have also conducted self-assessments via analysis of business strengths, weaknesses, opportunities and threats (SWOT) and political, economic, social, technological, environmental and legal influences (PEST(EL)). Program deputies meet with the director to discuss their priorities, needs, and proposed future direction as part of developing their goals. DGS' strategic

planning process ensures that the highest priorities for the department are measurably addressed in the plan and monitored at the program level – with a centralized reporting system.

Communication

To achieve its objectives, DGS communicates frequently with its employees and external stakeholders regarding its monitoring roles, activities and results. For example:

Executive management holds meetings twice each month 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 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.

DGS has established external stakeholder groups, which include:

- General Services Workgroup (GSW): Created in 2016, GSW is a strategic advisory body of 12 representatives from a wide cross-section of state departments and agencies and DGS executives and is chaired by DGS' Chief Deputy Director. The workgroup provides feedback on DGS policies and strategic goals both prior to and upon their implementation, reviews and recommends changes to DGS policies, procedures and practices, and identifies key challenges or issues facing state departments with respect to DGS-related services or functions.
- Statewide Tenant Workgroup (STW): Created in 2017, STW serves as a strategic advisory body and is comprised of 12 representatives from a wide cross-section of state departments and agencies and DGS executives and is chaired by DGS' Chief Deputy Director. The workgroup provides consultative input on statewide priorities, policies, practices and strategic goals related to the operation of facilities managed by DGS and provides tenant perspective on operational aspects of DGS managed facilities.
- Partnership Council: Created in 2002 and comprised of representatives from 41 state departments and agencies, the council was created to establish a dialog between DGS and its customers, provide a venue for DGS to furnish current information and program updates, and offers a setting where DGS and its customers can discuss timely issues of mutual concern and exchange information and ideas about how to address those issues.

DGS surveys its customers and employees to ensure it is delivering efficient and effective results and being more collaborative and consultative. 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 are held to present survey results and the detailed survey results are posted online. DGS also publishes an annual report on its measurable goals results.

Ongoing Monitoring Compliance

The Department of General Services 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 Department of General Services systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of General Services risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

Risk Identification

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 milestones, as stated in the annual strategic plan.

Since 2009, DGS executive management has seen the department's strategic plan as the departmentwide effort to establish the goals by which to measure the success of the department in carrying out its responsibilities. The goals - developed, tracked, and reported by each DGS entity - are currently tied to five strategic themes: Data-Informed, Collaborative, Effective, Consultative and Sustainable. The results are published in annual performance reports designed to assist DGS customers, the public and itself in judging the success of the department in meeting its responsibilities. Measurable goals 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 the annual report).

DGS Director Daniel Kim, in consultation with his leadership team (deputy directors and branch chiefs), examined risks that would negatively impact the continued implementation of the strategic plan. The risk assessment process currently focuses on mitigating the highest risks (below), that if not adequately and effectively addressed, will adversely affect the achievement of goals.

1. FI$Cal Implementation, Maintenance, or Functionality
2. Program/Activity - Changes, Complexity
3. Internal Staff - Training, Knowledge, Competence
4. Internal Staff - Key Person Dependence, Workforce Planning

Risk Ranking

Selection of our risks was based on the following organizational input: existing strategic goals, each division's SWOT/PESTEL analysis, the results of our organizational health survey, one-on-one meetings between the Director and deputy directors, quarterly leadership off-site meetings, and meetings with GSW. Based on this comprehensive input and available SLAA risk categories, DGS executives selected the highest priority risks identified above.

RISKS AND CONTROLS

Risk: Operations -Internal-FI$Cal Implementation, Maintenance, or Functionality

DGS committed a significant amount of subject matter expert, financial, and project staff resources to work on system development and implementation of FI$Cal by partnering with FI$Cal project management staff and Accenture, the system integrator. DGS retired its serious risk to FI$Cal implementation by successfully transitioning from its legacy enterprise-wide financial and resource planning system (ABMS) to FI$Cal and fully transacting in FI$Cal for fiscal year 2016-17.

However, risks that DGS faces going forward include:

- Completing the year-end close process in FI$Cal for fiscal year 2016-17. DGS met the requirements

of the State Controller's Office (SCO) by manually closing out the fiscal year. However, FI$Cal is not formally closed, given that the asset module is not fully functional, which impacts depreciation and other asset expenditures.

- Implementing lease revenue bond accounting to fully replace an at-risk legacy system, and
- Changes to the Direct Transfer and Funding Agreements functionality due to the SCO implementation into FI$Cal.

CONTROL A

These risks are mitigated by working closely with the Department of FI$Cal staff and our assigned Partner Business Executive, who ensures FI$Cal's project objectives are met, assists with prioritizing and resolving business priorities and coordinates activities between the FI$Cal project and DGS. Working with FI$Cal staff, DGS is able to resolve open reconciliation items, build, test, and deploy a lease revenue bond accounting solution, and participate in the design, build, and test activities of the SCO release.

RISK: OPERATIONS -INTERNAL-PROGRAM/ACTIVITY—CHANGES, COMPLEXITY

Tenant improvements to maintain the quality of our state-owned buildings continues to be a challenge. In addition, state departments are not sufficiently reporting/tracking facility data in the DGS-maintained Statewide Property Inventory (SPI) system, which is a comprehensive inventory of all leased facilities.

During the state's fiscal crisis that began in 2006, DGS was asked to limit deferred maintenance on DGS--owned buildings. When the fiscal crisis subsided, DGS received and allocated $5 million for 12 deferred maintenance projects statewide. However, funding and prioritizing the states' assets that need the most improvement continue to be an issue.

By not addressing deferred maintenance and accuracy of the SPI database, DGS and the state could be subject to financial loss from unsafe buildings and tenants' impacted health and potentially reduced revenue.

CONTROL A

As one of its 2017 strategic goals, DGS established a Statewide Tenant Workgroup in early 2017 to improve ongoing maintenance and facility improvement services provided in state buildings and to assist in identifying priorities. The workgroup, which meets quarterly, is a strategic advisory body comprised of 12 representatives from a wide cross section of state departments and agencies and DGS executives and is chaired by DGS' Chief Deputy Director. The workgroup:

- Provides consultative input on statewide priorities, policies, practices and strategic goals related to the operation of facilities managed by DGS.
- Provides tenant perspective on operational aspects of DGS managed facilities.
- Provides input on governing criteria and principles for facility priorities and actions.
- Assist in the development of facility management practices such as Tenant Handbooks, local tenant communication strategies, sustainability practices.
- Provide strategic input on statewide property portfolio evaluations, rate development and other budget related matters.

CONTROL B

In 2017, DGS began implementation of a new facility improvement process, including a comprehensive way to identify, prioritize, track and complete facility projects. Working with consultant, Kitchell Corporation, DGS has completed and is using its new Construction Program Management Plan that

addresses project intake, contracting and project management. DGS also established its Project Intake Committee, comprised of the Deputy Director and division staff, which meets to address the deferred maintenance master planning and construction process.

Control C
In 2017, DGS began developing a 10-year sequencing plan for state-owned buildings in Sacramento and statewide. This plan will address those buildings identified as having the greatest need for renovation, replacement or sale. Adoption of the plan and execution of the recommendations produced will be a process involving the Department of Finance and the Legislature.

Risk: Operations -Internal-Staff—Training, Knowledge, Competence
Enabling a strong workforce and creating a healthy work environment for DGS staff are ongoing priorities 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.

The latest DGS Organizational Health Survey, conducted in 2017, gave all staff an opportunity to identify strengths and weaknesses as an institution and to help build a better workplace. Survey results, presented to the executives, managers, supervisors and employees, included an overall positive response. However, we learned that 91% of all survey respondents want to develop their job skills and abilities. Of the survey respondents wanting training, one-third indicated they wanted to participate in a training opportunity but did not get, or had an issue with training.

By not addressing these training needs, DGS runs the risk of losing valuable employees or having untrained staff to respond to customers needs.

Control A
Based on the results of the DGS Organizational Health Survey, managers and supervisors are collaborating with their division staff to identify actionable changes ("action plans") we can pursue to improve the "local" workplace.

Control B
As part of the larger DGS on-boarding effort, a New Employee Orientation program was developed for all DGS permanent employees hired in the past 6 months and others at the discretion of the deputies. The first meeting was held August 8, 2017 and introduced new staff to the 14 deputy directors and their programs, as well as emphasizing DGS strategic direction and core values.

Control C
In 2017, DGS-University, an internal function, began developing a comprehensive leadership training program for all supervisors and managers to meet the new CalHR requirements for leadership development. Beginning January 2018, it will prepare these leaders for future challenges and opportunities and to become more of a business partner rather than a control agency. The year-long program includes 26 subject areas covering professional and personal development.

Control D
As in the past, DGS is continuing its Management Academy for staff services managers (Level 1 and above) from 9/2017 through 4/2018. This program, led by hand-selected CA State University at Sacramento (CSUS) and DGS-University instructors, offers a DGS-tailored curriculum.

Control E

As of November 2017, DGS-University reports to the executive office and will focus on employee development and training efforts. A major initiative is to identify training classes, by classification, for employees to advance their careers.

Risk: Operations -Internal-Staff—Key Person Dependence, Workforce Planning

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 knowledge. Also, from the 2017 DGS Organizational Health Survey, almost 25% of employees who took the survey don't feel they have a career path or way to advance. By not addressing this risk, employees may leave the organization, causing service interruption to customers.

Control A

As a 2017 strategic goal, DGS is currently developing and implementing a recruiting strategy, which includes prioritization of target classifications, effective methods for recruitment based on classification, and an implementation timeline. This strategy, conducted by human resources staff has involved: Consulting with DGS program offices to determine high vacancy, difficult-to-fill positions (ex: custodians and electricians in the Facilities Management Division); gathering and analyzing data from CalHR for the last two years on the number of people who have taken the examinations for our target classifications; and developing a successful recruiting strategy, which has already involved extensive outreach to industry-specific boards, associations and colleges and developing a *Hiring Guidebook for all DGS Managers.*

Control B

Another 2017 goal has been to modernize and update the promotional paths for classifications within DGS by office. Currently in development, the promotional paths will be distributed to DGS employees and published on the human resources recruitment webpage.

Control C

DGS is focusing on changes in strategic policies and operational improvements by streamlining processes, while employing the current number of staff. One example, using Lean Six Sigma methodology, has been to significantly reduce the time to process *Request for Personnel Actions (RPA)* for hiring. The number of required process steps decreased from 89 to 14, and staff implemented/streamlined standards, checklists, and templates to assure correct processing and to eliminate review and rework cycles for the hiring process.

Control D

In 2017, DGS-University began developing a comprehensive leadership training program for all supervisors and managers to meet the new CalHR requirements for leadership development. Beginning January 2018, it will prepare these leaders for future challenges and opportunities and to become more of a business partner rather than a control agency. The year-long program includes 26 subject areas covering professional and personal development.

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CONCLUSION

The Department of General Services 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.

Daniel Kim, 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