

December 21, 2023

Joe Stephenshaw, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Director Joe Stephenshaw,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Financial Information System for California 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 Subbarao Mupparaju, Chief Deputy Director, at (916) 576-6515, subbarao.mupparaju@fiscal.ca.gov.

GOVERNANCE

Mission and Strategic Plan

Background

The planning, development and deployment of the Financial Information System for California (FI\$Cal) is one of the largest and most dynamic information technology and business-transformation undertakings in California history. The FI\$Cal system enables the state to combine accounting, budgeting, cash management and procurement operations into a single financial management system. This undertaking involved unifying the different functions of several legacy systems and processes, which includes everything from desktop spreadsheets to mainframe systems.

FI\$Cal began in 2005 as a project under the Department of Finance. The project was later formalized with a Memorandum of Understanding, signed in 2007, by the State Controller, the State Treasurer and the directors of the Departments of Finance and General Services. These four agencies became known as the FI\$Cal project partners, and have served a key role throughout the development of the FI\$Cal system.

Chapter 31, Statutes of 2016 (Senate Bill 836, Committee on Budget and Fiscal Review), established the Department of FISCAL (FI\$Cal) to manage all aspects of the system, from design, development and implementation of new enhancements through long-term support, operations and maintenance.

Chapter 569, Statutes of 2022 (Assembly Bill 156, Committee on Budget and Fiscal Review), deemed the FI\$Cal project complete as of July 1, 2022 and placed the department under the umbrella of the Government Operations Agency. It also defines future activities through the year 2032 to continue to enhance, upgrade, and ensure the alignment of the FI\$Cal system with the state's financial management processes. FI\$Cal has been in full maintenance and

operation since July 1, 2022.

FI\$Cal's core mission is to operate the FI\$Cal system, the statewide financial management system that enables California state entities to perform budgeting, procurement, cash management and accounting functions transparently and efficiently.

FI\$Cal's 2021-2025 Strategic Plan set forth the department's core mission as well as defined strategic goals and core values to help the department further its mission.

Strategic Goals:

- **Continuous Improvement:** Continue to evolve to meet the changing needs of our customers.
- **Accuracy, Integrity, and Transparency:** Promote accuracy, accountability and better decision-making through transparency.
- **Outstanding Customer Service:** Continuously improve customer experience through high-quality services, effective communication and broad collaboration.
- **Best Place to Work:** Fostering a culture that supports excellence, individual growth, diversity and teamwork.

Core Values:

- **Customers First:** Delivering high-quality services for a superior customer experience.
- **Innovation:** Incorporating cutting-edge technology to enhance security, reliability and efficiencies.
- **Integrity:** Promoting accuracy, accountability and transparency.
- **Diversity, Equity and Inclusion:** Fostering a culture that values differences and promotes fairness and respect.

Next year, FI\$Cal's executive management team will begin efforts to develop the department's next five year strategic plan. The new plan will incorporate the recent legislation (Chapter 569, Statutes of 2022, Assembly Bill 156, Committee on Budget and Fiscal Review) that paves the department's path forward.

Control Environment

The FI\$Cal Director, chief deputy director, egal counsel, and deputy directors are the department's executive management and oversight body. They possess the knowledge and expertise to oversee and evaluate departmental operations as well as demonstrate the importance of integrity and ethical values. Within each division, the department is further organized into offices and sections with chiefs, managers, and supervisors.

Integrity and accountability are part of FI\$Cal's core values. The executive management team sets expectations with their direct reports through weekly one-on-one meetings. Weekly meetings are conducted further among managers and supervisors and with their respective teams to reinforce accountability. Management holds personnel accountable through routine oversight, annual performance appraisals, and disciplinary actions. Additionally, executive management, management and supervisors formally acknowledge those that meet and exceed expectations through various award and recognition opportunities.

FI\$Cal deputy directors are responsible for maintaining FI\$Cal's internal policies and procedures across all divisions. Deputy directors ensure that FI\$Cal's internal policies align with FI\$Cal's core values and support a safe and secure work environment as well as reinforce local, state, federal laws and regulations.

Earlier this year, FI\$Cal established an Internal Controls and Compliance Section within its Administrative Services Division, to oversee the management of records, promote operational efficiency, and encourage departmental adherence to policies, rules, regulations and laws. This section also led the efforts to establish a formal State Leadership Accountability Act (SLAA) reporting and monitoring process within the department to produce FI\$Cal's first SLAA report.

In an effort to recruit a diverse and skilled workforce, FI\$Cal has expanded its outreach efforts and approach to recruitment. Our recruitment team hosts as well as participates in many in-person and virtual hiring events in effort to be more accessible to diverse groups. As part of our hiring process, we ensure that our hiring panels represent our diverse workforce. We also measure the success of our recruitment efforts with biannual demographic reports that show us how we compare statewide.

To retain a diverse and skilled workforce, FI\$Cal's executive management team has provided many opportunities for promotional growth and has set the tone for FI\$Cal employees to feel supported and welcomed. FI\$Cal offers a variety of training opportunities to increase staff skill levels, and encourages mentoring opportunities to better align their skillsets with the organization. Career counseling and upward mobility options are promoted regularly during our bi-monthly mandatory supervisory forum. Diversity, Equity and Inclusion are part of FI\$Cal's core values and promoted through employee trainings, meetings and our various communications channels. FI\$Cal is committed to be the best place to work and creating an inclusive workplace is a top priority.

Recruiting and retaining people who have both business and technology skills is critical and also challenging because these combined skillsets are in high demand. FI\$Cal invests time and effort through training and mentorship to bridge the gap between technology and business skillsets. Further, each deputy director is responsible for identifying key positions within their divisions and developing a succession plan strategy for continuity of these positions. The challenges with recruitment and retention are identified as a significant risk to the department and further discussed in the Risk and Controls section of this report.

FI\$Cal's executive management team and several external advisory bodies help shape the strategic and operational direction of the department.

As a department within the Government Operations Agency, the FI\$Cal Director attends monthly meetings with the agency secretary and executive team along with the directors of the departments that also fall under the agency's purview. These meetings occur to discuss emerging risks, issues and mitigation strategies and to receive direction and guidance from agency.

Earlier this year, consistent with California Government Code Section 11895, the department formally established the FI\$Cal Advisory Committee (FAC). The FAC supports the department's continued partnership with our partner agencies after project completion. The FAC meets

quarterly and may hold special or ad hoc meetings as needed.

FI\$Cal Partner Agencies:

Department of Finance

The Department of Finance (Finance) serves as the governor's chief fiscal policy advisor and promotes long-term economic sustainability and responsible resource allocation through the state's annual financial plan. Finance partners with FI\$Cal to ensure the state's finances and financial policies are implemented consistent with all applicable laws, regulations and state financial standards.

State Controller's Office

The State Controller's Office (SCO) is responsible for accountability and disbursement of the state's financial resources. The SCO also independently audits government agencies that spend state funds, and it administers the payroll system for state government employees and California State University employees and safeguards many types of property until claimed by the rightful owners. SCO partners with FI\$Cal to promote financial transparency, integrity and accountability.

State Treasurer's Office

The State Treasurer's Office (STO) has broad responsibilities and authority in the areas of investment, banking and finance. The STO offers resources in areas of economic development, housing, education, health, community investment and small business. The STO partners with FI\$Cal given its central role as a banker, a leader and a regulator of the financial activities around the state.

Department of General Services

The Department of General Services (DGS) serves as business manager for the state of California. The DGS partners with FI\$Cal given its role managing broad, disparate, and critical functions of the state. DGS's involvement helps shape FI\$Cal into a robust purchasing solution that can meet a wide array of needs.

Additionally, the Customer Impact Committee (CIC) which represents FI\$Cal end users, state entities, continues to play a key role in an advisory capacity to the FI\$Cal executive management team. The CIC provides input in the development of enhancements to the FI\$Cal system, FI\$Cal customer support services and system training. The CIC meets bi-monthly.

These partnerships are crucial to our mission. Later in this report, we identify anticipated risks related to onboarding deferred departments and transitioning the accounting book of record to the FI\$Cal system. The success of these activities are largely dependent upon the commitment of our stakeholders listed above.

ORGANIZATIONAL STRUCTURE

FI\$Cal's organizational structure is determined by its executive management team, following state personnel guidelines which ensures that appropriate levels of responsibility and authority are instituted across the organization.

In addition to the Executive Office which consists of the Director, Chief Deputy Director, Legal Counsel, and the Equal Opportunity Officer, FI\$Cal is organized into the following three divisions:

Administrative Services Division

The Administrative Services Division strives to ensure effective, efficient and strategically aligned business processes that integrate administrative functions. To accomplish this, the division stresses accessible and reliable knowledge management programs as well as formal and informal staff development and succession activities. The division is committed to ensuring the department is compliant with applicable laws, rules, regulations and policies and ensures high quality representation and communications to employees and external audiences.

Business Operation & Solutions Division

The central mission of the Business Operation and Solutions Division is to ensure the effective delivery and positive reception of the FI\$Cal solution. The division provides effective support services, both onsite and remotely to customer departments and works closely with partner agencies to support month-end and year-end close.

Information Technology Division

The Information Technology Division is responsible for operating the FI\$Cal system and maintaining the highest level of security while continuously supporting the evolving needs of FI\$Cal's partner agencies and customer departments. The division also supports the department with an innovative technology infrastructure and application services built and managed by skilled technical staff.

A deputy director oversees each division which is further organized into offices and sections each with respective chiefs, managers, and supervisors. As part of this organizational structure, management considers how sections communicate, share information and interact with one another. Management further delegates duties to subordinates and evaluates the effectiveness of delegated authority to ensure proper segregation of incompatible duties.

Information and Communication

FI\$Cal utilizes a robust communications structure that includes specific plans and guidelines for communicating to our various audiences. The goal is to coordinate all internal and external messages to maintain a consistent and reliable source of information for all audiences and effectively promote FI\$Cal's strategic goals: continuous improvement, accuracy, integrity, transparency, and outstanding customer service.

Management communicates critical information to employees such as policy changes,

program updates, and operational needs through established department channels. These channels follow FI\$Cal's chain of command review and approval process to ensure appropriate messaging and distribution across all levels.

FI\$Cal utilizes a variety of methods to communicate important information to employees. These methods include regularly scheduled team meetings, management meetings, all staff meetings, all staff emails, monthly newsletters, FI\$Cal Intranet, FI\$Cal Internet and Microsoft Teams. The most commonly used form of these communication methods are email and Microsoft Teams utilizing both video conferencing and chats.

The Government Affairs Office, within the Administrative Services Division, ensures clear, effective and high quality communications to internal and external audiences. As part of their duties, the Government Affairs team assists the entire department with writing and editing services and with posting and managing the information on our employee intranet and public website. This office serves as the point of contact for the legislature and ensures all legislation impacting FI\$Cal is analyzed and presented to leadership as appropriate. This office is also the point of contact for the public, press and California Public Records Act requests and responsible for the coordination of all responses to these types of inquiries. These efforts help support FI\$Cal's commitment to accuracy and integrity.

Providing outstanding customer service is one of FI\$Cal's key goals, as such the department established the Workforce Development Center within Business Operations Solution Division focused on customer support and responsible for the dissemination of clear, timely and targeted communications to customer departments and FI\$Cal partners. Each month, the Workforce Development Center hosts an episode of FI\$CalTv, a half hour program streamed via Microsoft Teams that includes news, special announcements and helpful details on issues relating to the FI\$Cal system. FI\$Cal customers can tune in for helpful information and can submit questions during the broadcast.

Additionally, the Workforce Development Center has a dedicated mailbox that serves as a centralized communication hub for both incoming and outgoing communications between FI\$Cal and its customers (more than 15,000 end users across 150 departments). The mailbox is used for communications such as receiving and answering questions related to the FI\$Cal system, surveying customers and providing up to date information on the FI\$Cal system and customer services.

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 Financial Information System for California monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Subbarao Mupparaju, Chief Deputy Director.

FI\$Cal ensures the effectiveness of its internal control systems through executive management and senior leadership oversight. Senior leadership, as it relates to this report, are the office chiefs that report directly to the deputy director over their division. Senior leadership is directly responsible for proactively conducting internal reviews and reporting to executive

management any identified risks. Oversight by executive and senior leadership include regular status meetings, review and discussion of relevant reports, and other internal monitoring activities. FI\$Cal holds weekly meetings at the executive management level and senior leadership level to discuss critical priorities, project statuses, and issues requiring remediation and/or escalation. Furthermore, deputy directors hold weekly meetings with their office chiefs and monthly meetings with supervisors and managers within their divisions to discuss workforce planning, workload priorities, and the status of assigned initiatives.

In addition to internal control activities, FI\$Cal operations are routinely audited by various external entities. Below is a list of audits and assessments conducted on a regular basis:

- State Personnel Board Compliance Review
- California Department of Human Resources Annual Workforce Analysis
- State Controller's Office Payroll Process Review
- State of California Internal Control and Compliance Audit
- Purchase Authority Accreditation Maintenance Review
- Department of General Services Audit on Department Procurements
- State Auditors Annual Audit
- Department of Technology Audit
- Department of Technology Independent Security Assessment
- California Military Department Audit
- California State Auditor - State High Risk Audit
- CalSecure AuditCal –Compliance Security Incident Reporting System Audit

If a deficiency is identified during an external audit or an internal review a corrective action plan is initiated and reviewed regularly by the executive monitoring sponsor until the corrective action plan is fully implemented.

FI\$Cal's Chief Deputy Director, who is also the current executive monitoring sponsor, assigns responsibility for addressing findings or vulnerabilities to the appropriate deputy director. It is then delegated to the respective office and/or section chief directly responsible for the issue to promote accountability and for successful mitigation.

In addition, the risks identified in this SLAA report will be monitored as outlined in the requirements of California Government Code sections 13400-13407. The monitoring process for these risks will be led by FI\$Cal's Internal Controls and Compliance Section with participation from executive management and senior leadership.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Financial Information System for California 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, performance metrics, and other.

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, tolerance level for the type of risk, and other.

FI\$Cal performed a department wide risk assessment to gain an understanding of the department's risks to its critical functions and objectives. The method undertaken to perform the risk assessment consisted of each division performing a self-assessment of its operations to identify risk areas. This assessment focused on existing risks identified by FI\$Cal and external oversight entities, such as the California State Auditor, as well as documented mitigation plans and their effectiveness. Divisions also looked for potential new risk areas that could hinder the department in meeting its mission and objectives. The Internal Controls and Compliance team evaluated the results of the assessments with each division and performed a thorough analysis of the probability and impact of each risk. The executive management team collectively determined the ranking of each risk based on probability and impact analysis.

The risks presented are in order of probability, severity, and impact along with descriptions and existing corrective action plans to address high priority risks.

RISKS AND CONTROLS

Risk: Recruitment, Retention, and Staffing Levels

FI\$Cal's overall vacancy rate as of November 8, 2023, is at 14 percent. It is important to note that the department received 64 new positions, a 20 percent increase in authorized positions on July 1, 2022. A significant challenge in filling positions is hiring and maintaining employees with combined business and technical skills as these skillsets are in high demand throughout the industry.

FI\$Cal's core mission is to operate the statewide financial information technology system for the state of California. Being unable to effectively compete with the private sector to hire candidates or to retain our employees with the desired business and technical skillsets impacts our ability to fulfill our mission efficiently.

Control: Control: A - Expanded Recruitment Efforts and Workforce Evaluation

FI\$Cal increased recruiting efforts statewide through innovative advertising, including online and in-person career fairs and half-hour live stream recruitment events on X, formerly Twitter. FI\$Cal continues to leverage data from job applications, recruitment surveys, and employee demographics to determine what recruitment efforts are effective and to monitor employee demographics to ensure the department continues to hire a diverse workforce.

Control: Control: B - Commitment to Diversity

The Human Resources recruitment team participated in various career fairs, promoting FI\$Cal's effort of being a diverse and an inclusive department. FI\$Cal's commitment to diversity expands beyond external recruitment. Interview panels play a pivotal role in the

selection process. FI\$Cal requires all interview panels to be composed of a diverse group, reflecting multiple aspects of the diversity within our workforce. All manager and supervisor interviews include a minimum of one interview question dedicated to diversity, equity, inclusion and accessibility to ensure future leaders are made aware of FI\$Cal's commitment to embracing diversity.

Control: Control: C - Support and Development

FI\$Cal performed an analysis of employee onboarding and continuous training and development processes. These processes were revised to increase engagement, provide effective on-the-job and commercially available training while ensuring staff have all the tools and resources to be successful in their positions. Career counseling and upward mobility options are promoted regularly during our bi-monthly mandatory supervisory forum.

Risk: Onboarding Deferred Departments

Ten departments, including some of the largest departments in state government, were deferred from onboarding to FI\$Cal during project implementation, as most had their own modern enterprise resource planning systems in place at that time. As these existing systems reach their end of life, the deferred departments will transition to the FI\$Cal system. Pursuant to the California Government Code 11865, FI\$Cal is required to onboard these deferred departments to the FI\$Cal system by July 1, 2032, and be sufficiently staffed to provide ongoing support and assistance to the growing number of end users.

Currently, FI\$Cal is in the process of onboarding the Department of Technology, the Department of Rehabilitation and the Department of Transportation. The departments that remain are being assessed for their onboarding needs and to estimate the timelines and resources needed for a successful onboarding. Several external factors including the priorities and workload of the deferred departments, extensions to the end of life of their enterprise resource planning technologies, and the ability to secure additional resources and approvals (both for FI\$Cal and the deferred departments) contribute to the risk of onboarding the required deferred departments by July 1, 2032.

Control: Control: A – Expanded Outreach and Gap Analysis

FI\$Cal increased outreach and gap analysis efforts with the remaining deferred departments to increase their awareness of FI\$Cal capabilities, to prepare them for successful onboarding, and to identify business and technical gaps early so that efficient and effective solutions to meet those gaps are identified to reduce onboarding risks.

Control: Control: B – Improved Onboarding Process

FI\$Cal has improved, and continues to improve, the onboarding process based on prior experiences and lessons learned. Improvements in our change management approach have increased onboarding success through:

- Providing individualized one-on-one support

- Early engagement
- Identification of high-level system and business process needs up front to address gaps
- Collaborative gap resolution sessions (system and business process resolutions)
- Early training for department subject matter experts
- Ongoing access to a training environment
- Sizing the onboarding timeframe to the department's complexity
- Planned post-onboarding support resources
- Continued collaboration between partner agencies for onboarding departments

To ensure this process is transparent, FI\$Cal also provides a status report to the legislature on our onboarding activities as defined in California Government Code 11864.

Control: Control: C – Collaboration to Secure Resources

FI\$Cal has collaborated and will continue to collaborate with the deferred departments, Department of Finance and other necessary stakeholders early to accurately identify resources to perform the onboarding activities and to ensure FI\$Cal is sufficiently staffed to provide ongoing support and assistance to the end users of the onboarded departments.

Risk: Transition of the state's accounting book of record from the State Controller's Office (SCO) legacy systems to FI\$Cal

Departments using the FI\$Cal system expressed concern with clean-up efforts and mid-year process changes related to reconciliation between the SCO's systems and FI\$Cal. The SCO's teams are supporting departments through these reconciliation efforts. Once the FI\$Cal system becomes the accounting book of record for the state of California, it can create efficiencies during reconciliation, transaction processing and year-end close processes that will have positive downstream effects on departments' abilities to submit timely financial statements. FI\$Cal remains committed to our collaboration efforts with the SCO for the transition of the accounting book of record to the FI\$Cal system by July 1, 2026 as required by California Government Code 11860.

Several external factors contribute to the risk of transitioning the state's book of record from the SCO's legacy systems to FI\$Cal by July 1, 2026. These external factors include the ability to secure additional resources and approvals, limited subject matter expertise in the accounting book of record business processes, and the likelihood of substantial increase in the necessary system and interface requirements to perform the SCO's accounting functions and produce the financial reports.

Control: Control: A – Collaborative Planning

FI\$Cal collaborated with the SCO's teams to identify high level system and interface requirements, develop effort estimates to implement them, and to develop a schedule for the FI\$Cal activities including elicitation and confirmation of detailed requirements, design, development, integration, validation, SCO's acceptance test support, and implementation. FI\$Cal is also committed to supporting the SCO's business process mapping activities while continuing to work on approved requirements to reduce the

schedule risk.

Control: Control: B – Enhanced governance on future change requests

FI\$Cal collaborated with and assisted the SCO in adopting a governance model which is intended to enable the SCO to encourage only those change requests that have high benefits and low adoption and implementation risks. Collaborative, data based decision-making will reduce unanticipated work that may require additional resources beyond what has been planned so far.

Control: Control: C – Collaboration to Secure Resources

Pursuant to the California Government Code 11860, FI\$Cal will continue to collaborate with the SCO, Department of Finance and other necessary stakeholders to secure resources in a timely manner to support the transition of the state's accounting book of record from the SCO's legacy systems to FI\$Cal.

Control: Control: D – Reduce impact to customer FI\$Cal departments

FI\$Cal collaborated with the SCO's teams and identified the high-level book of record requirements that may require training and change management efforts with current FI\$Cal customer departments. Additionally, FI\$Cal prepared a schedule for the department's activities to allow adequate time for the preparation and execution of the training and change management activities to minimize or eliminate risks to the current FI\$Cal customer departments. As the SCO performs their business process mapping activities and during the decision-making on change requests, FI\$Cal is committed to identifying the impacts to current customer departments and will update training and change management efforts accordingly.

CONCLUSION

The Financial Information System for California 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.

Jennifer Maguire, 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