

December 31, 2021

Keely Martin Bosler, Director  
California Department of Finance  
915 L Street  
Sacramento, CA 95814

Dear Director Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the State Treasurer submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact Genevieve Jopanda, Chief Deputy Treasurer, at (916) 653-2995, [Genevieve.Jopanda@treasurer.ca.gov](mailto:Genevieve.Jopanda@treasurer.ca.gov).

## **GOVERNANCE**

### **Mission and Strategic Plan**

The State Treasurer's Office (STO) was created in 1849 with the adoption of the State Constitution. The STO provides banking services for state government with goals to minimize banking costs and maximize yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state and local government monies; administration of the sale of state bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other state agencies.

The Treasurer serves as the chairperson of fifteen boards, commissions, and authorities (BCAs) that organizationally report to the STO. These BCAs provide various financing tools, credits and grants that provide significant public benefit in a range of areas such as: tax credits and tax-exempt bonds that assist in the development of affordable housing; tax-exempt financing for non-profit hospitals, charter schools, private colleges and universities, and industrial development projects and waste and recycling projects typically operated by private companies; loan loss reserve contributions, collateral support, and other financial incentives to expand lending to small businesses; tax exclusions and other incentives that fight climate change by expanding alternative energy, advanced manufacturing, and other "green technologies;" low cost loans and grants to small health clinics and charter schools; and the development of investment programs for saving for college and retirement.

The Treasurer is also a member of numerous other external BCAs providing similar or different products. STO management is responsible for the establishment and maintenance of internal administrative controls, including: limiting and authorizing access to assets, revenue and expenditures; segregation of duties; providing assurance for achievement of objectives in the following categories: a) reliability of financial reporting; b) safeguarding of assets; and c) effectiveness and efficiency of operations; and, compliance with applicable laws and regulations. The Treasurer is responsible for the following organizations, and their operations are taken into account in preparing this report:

Business Unit Number	Entity Name
0954	Scholarshare Investment Board (SIB)
0956	California Debt and Investment Advisory Commission (CDIAC)
0959	California Debt Limit Allocation Committee (CDLAC)
0964	California Transportation Financing Authority (CTFA)
0965 (CIDFAC)	California Industrial Development Financing Advisory Commission
0968	California Tax Credit Allocation Committee (CTCAC)
0971 Authority (CAEATFA)	California Alternative Energy and Advanced Transportation Financing
0974	California Pollution Control Financing Authority (CPCFA)
0977	California Health Facilities Financing Authority (CHFFA)
0983 (CUWARFA)	California Urban Waterfront Area Restoration Financing Authority
0984 (CalSavers)	California Secure Choice Retirement Savings Investment Board
0985	California School Finance Authority (CSFA)
0989	California Educational Facilities Authority (CEFA)
0981	California Achieving a Better Life Experience Act Board (CalABLE)
*****	California Healthy Food Financing Initiative Council (CHFFIC)*

\*The California Healthy Food Financing Initiative Council is an initiative and was never officially established as a BCA; it has no funding source and no authorized positions. We do not provide any financial reporting for this initiative.

### **Control Environment**

The Chief of Staff (COS) and Deputy State Treasurers provide management and oversight of their direct reports in their perspective Operating Divisions and BCAs.

The COS and Deputy Treasurers oversee programs and business functions to assess vulnerabilities. In addition, the Strategic Plans of the STO Divisions and BCAs identify risk and vulnerabilities. Significant vulnerabilities are elevated to the Chief of Staff (COS) for evaluation. A determination is made to mitigate, monitor, or accept the risk and/or vulnerability.

The Treasurer holds weekly Executive staff meetings, weekly Deputy Treasurer meetings, and monthly Division and BCA Leadership meetings. Deputy Treasurers hold weekly meetings with their BCAs and Divisions. Topics at these meeting include discussion of current and potential internal control issues that need to be addressed. These meetings enable Executive and Senior management to discuss issues that they have been made aware of and what steps are needed to mitigate the issues. The management team is encouraged to share experiences to further assist each other in addressing the issues that may arise. In addition, staff is continuously monitoring STO programs for issues, and corrective actions are taken to address any that arise.

## Information and Communication

The STO has various avenues to allow for upward and downward communication:

Weekly Executive Office meetings provide a high level snapshot summary of previous week and week ahead. This also allows reporting of updates from BCAs and Divisions to the EO via the Deputy Treasurers for communication to be delivered to and from the Executive Office.

Weekly Deputy Treasurers meetings include the Treasurer, COS, and Deputy Treasurers discuss high level sensitive matters. The meeting also allows to strategize and execute around Vision, Mission, and Goals and top priorities of the Treasurer.

Monthly meetings with all Operating Division and BCA Leadership allows for Leadership to interface for knowledge sharing, thought partnership, and collaboration. This allows Leadership to communicate Executive Office directives to staff as well as elevate ideas and issues that require the Executive Team's attention.

Additionally, Deputy Treasurers hold weekly meetings with their BCAs and Divisions. Topics at these meetings include discussion of current and potential internal control issues that need to be addressed. These meetings enable Executive and Senior management to discuss issues that they have been made aware of and what steps are needed to mitigate the issues. The management team is encouraged to share experiences to further assist each other in addressing the issues that may arise.

Standard operating procedures are listed in the STO intranet via the Department Administrative Manual and State Administrative Manual for staff to access. Any new updates are distributed via agency-wide communication with personal follow-up by supervisors and managers. The current administration holds agency wide web based meetings from the Treasurer for updates on important and/or urgent information.

The STO has many ways it communicates externally:

Monthly newsletters provide updates from the Treasurer and the STO.

Year end highlights provide milestones and accomplishments of the STO and its programs for that year.

External Affairs and Constituent Affairs teams serves as a platform to distribute agency communication to external stakeholders and constituents.

Communication to local, state, and federal elected officials on programs and projects implemented in their perspective districts.

Web based seminars promoting and educating public on STO related programs and initiatives.

## 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 State Treasurer monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:

Genevieve Jopanda, Chief Deputy Treasurer.

The STO has many external and internal oversight program activities that are used to identify, assess, and manage risks. Some activities include:

- Development of Strategic Plans that track and monitor risk. (Current strategic plan is in development)
- Audits of bond and other programs by independent auditors.
- Audits of the BCAs.
- Performance Reports by various BCAs.
- Deputy Treasurers meeting weekly with BCAs.
- Monthly Leadership meetings of the BCAs and Divisions.
- Audits by the Bureau of State Audits.
- Reviews of bond debt prior to issuance of bonds.

## **RISK ASSESSMENT PROCESS**

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

The following methods were used to identify risks: brainstorming meetings, 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.

In preparation for the 2021 SLAA report, Executive Sponsor met STO Executive Leadership. All BCA Executive Directors and Division Directors provided a memo of their risk concerns and the ongoing steps they were taking to track and mitigate risks. A meeting session followed wherein common themes were identified within the memos, which allowed STO to narrow the focus on the most salient risks within the organization.

The STO also has established a Risk & Governance Council (RGC). Members of the RGC include the COS, Deputy Treasurers, Chief Counsel, Chief of Administration, and Chief Information Officer. The RGC is charged with the responsibility for evaluating risks to determine appropriate resources to achieve solutions and propose corrective measures. The RGC will ensure that all programs run by the STO are performing in accordance with State and Federal rules and obligations and in accordance with the requirements of the State Treasurer. This includes coordinating the preparation of reports to the Department of Finance regarding the State Leadership Accountability Act (SLAA). The RGC will make recommendations to the Treasurer, who will make the final determination.

## **RISKS AND CONTROLS**

### **Risk: CYBER SECURITY**

The STO business faces complex cyber security risks to its network and applications that provide critical business operation in support for local government and state financial services.

### **Control: Mitigation**

To provide a strong security program, the STO performs a bi-annual Independent Security Assessment (ISA). The security assessment identifies weaknesses and security gaps in computer networks, servers, programs, and workstations. The results of the ISA allows the STO to prioritize and focus its efforts on the risks identified and establish a meaningful mitigation strategy.

Daily monitoring of the STO computer network, servers, and workstations are vital to the security of STO assets and resources. Rapidly identifying threats and anomalies greatly reduces the likelihood of an undesirable cyber event, which may cause downtime or loss of data. Many threats evolve from known vulnerabilities. When vulnerabilities are discovered, action can be taken before they can be exploited and cause significant damage.

Regular monthly meetings with Executive Leadership and IT Division leadership on cyber security are held to include discussions related to overall enterprise risk management activities which also encompasses identifying and addressing cyber-related vulnerabilities.

Standing weekly meetings with Deputy Treasurers and CIO are held to allow clear progression through the IT needs of all of STO's business departments.

### **CONCLUSION**

The State Treasurer 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.

**Fiona Ma, California State Treasurer**

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