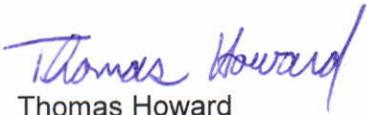

State Water Resources Control Board

TO: Matthew Rodriguez, Secretary
California Environmental Protection Agency

FROM: 
Thomas Howard
Executive Director
State Water Resources Control Board

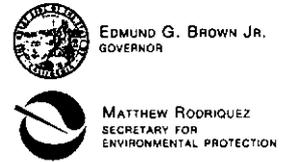
DATE: December 19, 2011

SUBJECT: Review of the Systems of Internal Control

In accordance with the Financial Integrity and State Manager's Accountability (FISMA) Act of 1983, the State Water Resources Control Board submits this report on the review of our systems of internal control for the biennial period ending December 31, 2011.

Should you have any questions, please contact Darrin Polhemus, Deputy Director, Division of Administrative Services, (916) 341-5458, DPolhemus@waterboards.ca.gov.

cc: Charles Hoppin, Chair, State Water Resources Control Board
Frances Spivy-Weber, Vice Chair, State Water Resources Control Board
Tam Doduc, Board Member, State Water Resources Control Board
Ana Matosantos, Director of Finance, via email
Katarina Tarr, Joint Legislative Audit Committee, via email
Margarita Fernandez, Chief, Public Affairs, State Auditor, via email
Adrian Mata, Governor's Office, via email
Rebecca Fontaine, State Library, via email
State Controller's Office, via email
State Treasurer's Office, via email
Attorney General, via email



State Water Resources Control Board

FINANCIAL INTEGRITY AND STATE MANAGER'S ACCOUNTABILITY ACT

Review of the Systems of Internal Control

AGENCY NAME: California Environmental Protection Agency
DEPARTMENT NAME: State Water Resources Control Board
ORGANIZATION CODE: 3940

INTRODUCTION

In accordance with the Financial Integrity and State Manager's Accountability (FISMA) Act of 1983, the State Water Resources Control Board submits this report on the review of our systems of internal control for the biennial period ending December 31, 2011.

Should you have any questions, please contact Darrin Polhemus, Deputy Director, Division of Administrative Services, (916) 341-5458, DPolhemus@waterboards.ca.gov.

BACKGROUND

The State Water Resources Control Board (State Water Board) and the nine Regional Water Quality Control Boards (Regional Water Boards) have broad responsibilities for ensuring the protection of California's surface and ground water quality, and for balancing competing demands on our water resources. Each Regional Water Board has nine part-time members who represent water supply, irrigated agriculture, industry, and municipal and county government for that region. The State Water Board has five full-time members who, like Regional Board members, fill specialty positions. State and Regional Board members are appointed to four-year terms by the Governor and are confirmed by the Senate.

In recognition that California's water pollution problems are influenced by environmental and social factors that vary regionally, the nine Regional Water Boards are based on watersheds, or hydrologic areas. The Regional Water Boards serve as the frontline for State and federal water pollution control efforts. Each Regional Water Board conducts activities and makes water quality decisions for the protection of the waters within its region. These activities include developing water quality control plans (basin plans) for their watersheds that establish water quality standards and strategies, issuing waste discharge requirements (permits) based on the basin plans and State Water Board plans and policies, monitoring water quality, determining compliance with requirements, and taking enforcement actions.

The Regional Water Boards and the State Water Board work to ensure the protection of water quality in areas such as stormwater, wastewater treatment, water quality monitoring, wetlands protection, ocean protection, environmental education, environmental justice, contaminated sites cleanup, low-impact development, and enforcement. Where water quality issues cross

CHARLES R. HOPPIN, CHAIRMAN | THOMAS HOWARD, EXECUTIVE DIRECTOR

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Regional Water Board boundaries or have significant statewide application, the State Water Board may develop water quality control plans and policies, including standards, and general permits. The State Water Board also approves regional basin plans, reviews petitions of Regional Water Board actions, administers financial assistance programs (such as for water pollution control or cleanup), addresses enforcement, and provides administrative and other functions that support the Water Boards.

Last, the State Water Board is responsible for allocating water rights and adjudicating water right disputes. This joint authority of water allocation and water quality protection enables the Water Boards to comprehensively address protection of California's waters.

The State Water Board's mission is to preserve, enhance, and restore the quality of California's water resources, and ensure their proper allocation and efficient use, for the benefit of present and future generations.

RISK ASSESSMENT

The risk assessment was performed by Division of Administrative Services (DAS) staff and followed guidelines from the California Government Code and guidance from the Department of Finance's Office of State Audits and Evaluations.

To ensure that all functions of the State Water Board were addressed and evaluated during the review of internal controls, DAS staff met with each division's Deputy Director and appropriate management to review the FISMA process and to explain their role. Each division's management was reminded of the importance of their role in evaluating and ensuring effective internal controls are in place to minimize risk.

DAS staff utilized the following tools when meeting with the Deputy Directors to obtain feedback on each division's risks and controls:

1. Control Self-Assessment Questionnaire – Evaluation of internal controls.
2. Control Environment Questions – Additional resource questions.
3. Risk Assessment Matrix – Required to be completed with the information about the division's risks.
4. Risk Assessment Survey – Ranking of each division's top five risks.

Each division's completed Control Self-Assessment Questionnaire, Risk Assessment Matrix and Risk Assessment Survey were collected. After reviewing each division's responses, DAS management selected the risks that were of high priority to the State Water Board and addressed issues affecting the quality of the waters of the state. Those risks were subsequently reviewed and finalized by the Executive Officer and included in this report.

EVALUATION OF RISKS AND CONTROLS

Issue #1: Loss of Staff due to Future Retirements

Risk: The State and Regional Water Boards employ a large number of technical staff, such as water resources control engineers, environmental scientists and geologist. Approximately 47 percent of State and Regional Water Boards technical staff is currently eligible for retirement. The loss of staff due to potential retirements will cause a tremendous loss of institutional and

technical knowledge base for the State and Regional Water Boards. In the absence of qualified staff, certain core functions will not be performed or not as frequently as necessary.

Corrective Action Plan: In anticipation of the loss of a large number of staff due to retirements, State and Regional Water Board management is making efforts to cross train staff, hire new staff as vacancies occur, and prepare succession plans to address the loss of staff. One of the State Water Board's tools for recruitment includes the use of a handbook created with assistance from the California State University, Sacramento to assist State and Regional Water Board staff with recruitment efforts and enhance our results. This handbook outlines the State and Regional Water Boards' functions, answers commonly asked questions, and outlines the benefits of working for the State of California and specifically, the State and Regional Water Boards.

Issue #2: Managing Accounts Receivables for Administrative Civil Liabilities

Risk: The State Water Board's current process for tracking, collecting, and depositing penalty revenue generated from the issuance and payment of Administrative Civil Liabilities (ACLs) lacks proper internal controls and accountability and does not allow for the effective management of cash collection and the recording, tracking, and clearing of accounts receivable as required by the State Administrative Manual (SAM) and Generally Accepted Accounting Principles (GAAP). As a result, the State Water Board is unable to manage accounts receivable and cash collection in a timely and efficient manner, cannot ensure the reliability of accounting data, is not in compliance with state policies, is subject to adverse audit findings, and is unable to safeguard State assets from the risk of financial loss due to the lack of internal control over the process of revenue collection.

Corrective Action Plan: The State Water Board is currently in the process of modifying its financial management system to fully account for ACL revenue. The State Water Board uses proprietary software from Mitchell Humphrey, Inc., called FMS II to bill, receive, and account for water quality fee revenue. FMS works in coordination with the State Water Board's main programmatic databases called the California Integrated Water Quality System, or CIWQS, and the Storm Water Multiple Application and Report Tracking System, or SMARTS. The State Water Board has contracted with Mitchell Humphrey to modify FMS II to bill, receive, and account for ACL penalty revenue. This modification is expected to be complete by the end of 2012. Implementation will include process changes for both enforcement program staff who initiate ACLs, and for accounting and billing staff who will bill, track, and clear the accounts.

Issue #3: Preventing Loan Defaults

Risk: The State Water Board administers two loan programs: (1) the Replacement of Underground Storage Tanks (RUST) Program provides low-interest, small business loans to help replace, remove, and repair underground storage tanks in order to meet regulatory standards and take corrective actions, and (2) the Clean Water State Revolving Fund (CWSRF) loan program to provide financial assistance for the construction or implementation of projects that address water quality problems and to prevent pollution of the waters of the state. The State Water Board is at a risk of losing funds loaned out to small businesses and municipalities should those entities default and be unable to make payments on the loan.

Corrective Action Plan: The State Water Board runs a risk assessment on all applications to verify the fiscal soundness of applicants. In addition, the State Water Board contracts with

external vendors who perform credit check analyses to ensure credit-worthiness. Also, as soon as the State Water Board has concerns with or is notified of a loan potentially defaulting, every attempt is made with the applicant to renegotiate terms of the agreement and work out a deal that is best for the State of California. In worst case scenarios, the State Water Board's binding agreements with applicants allow for legal recourse either by collateral of net assets or legal avenues. For CWSRF loans, all recipients that receive more than \$500,000 per year are required to perform a single audit and the State Water Board monitors recipients' audited financials during the early years of their loans. The US Environmental Protection Agency (EPA) also reviews randomly selected CWSRF project files once a year.

Issue #4: Ensuring Proper Use of Grant Funds

Risk: The State Water Board grants out money to municipalities and non-governmental entities for water quality projects, such as for the construction of municipal sewage and water recycling facilities, watershed protection projects, and non-point source pollution control projects. There is a risk that these funds could be used by the grantees for purposes other than the intended water quality projects.

Corrective Action Plan: The projects are managed by subject matter experts who are knowledgeable in the propositions, regulations, statutes, and/or guidelines that lay the foundation and requirements of our programs. Viable projects are identified through the application process and there are numerous review steps prior to the execution of an agreement. In addition, monthly reconciliation's of expenditures with accounting reports are completed to verify the proper use of funds. The funding programs also undergo audits by a contracted independent auditor and State and Federal auditors.

VACANT POSITIONS

The State Water Board reviewed records for fiscal years 2009-10 and 2010-11 and determined we are in compliance with Government Code 12439.

CONCLUSION

The State Water Board certifies that it has reviewed its systems of internal controls and verified they are sufficient to mitigate potential risks, support the accomplishment of its mission, and protect its fiscal integrity.