

December 30, 2021

Lourdes M. Castro Ramirez, Secretary
California Business, Consumer Services and Housing Agency
915 Capitol Mall, Suite 350-A
Sacramento, CA 95814

Dear Secretary Lourdes M. Castro Ramirez,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Structural Pest Control Board 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 Robert Lucas, Assistant Executive Officer, at (916) 561-8735, Robert.Lucas@dca.ca.gov.

GOVERNANCE

Mission and Strategic Plan

Under the jurisdiction of the Department of Consumer Affairs (DCA), the California Structural Pest Control Board (Board), established in 1935, licenses and regulates Structural Pest Control practitioners and their respective business entities.

Scientific and professional standards are implemented by way of verification of employment experience and continuing education, including a system of content-specific examinations, so that applicants and practitioners demonstrate the competencies and skills necessary to, among others, inspect the structural condition of buildings and other structures for pests and wood-destroying organisms as well as control or eliminate any of these adverse conditions.

The Board's objective is to ensure that practitioners possess the necessary qualifications to professionally perform structural pest control work and to assist consumers in resolving disputes arising from the structural pest control occupation.

The Board's reporting relationship is comprised of staff reporting to the executive officer or designee. The executive officer or designee reports directly to a seven-member Board. The Board, a semi-autonomous organization, is comprised of policymakers who serve at the pleasure of the public as well as an appointing authority: Governor's Office (five members), Assembly and Senate (each with one member).

Mission

To protect the general welfare of Californians and the environment by promoting outreach, education, and regulation of the structural pest management profession.

Vision

The Structural Pest Control Board will strive to be the national regulatory leader of pest management.

Values

- Consumer Protection – Make effective and informed decisions in the best interest and for the safety of Californians.
- Efficiency – Diligently identify the best ways to deliver high-quality services with the most efficient use of our resources.
- Integrity – Committed to honesty, ethical conduct, and responsibility.
- Professionalism – Ensure that qualified, proficient, and skilled staff provides services to the State of California.

Strategic Goals

1. LICENSING, EXAMINATIONS, AND CONTINUING EDUCATION

The Board promotes licensing standards to protect consumers and allow reasonable access to the profession. Additionally, the Board oversees and approves continuing education and examination standards to ensure excellence in practice and promotion of public safety.

2. ENFORCEMENT

The Board protects the health and safety of consumers through the enforcement of the laws and regulations governing the practice of structural pest control.

3. LEGISLATION, REGULATIONS, AND POLICY

The Board pursues statutes, regulations, policies, and procedures that strengthen and support the Board's mandate and mission.

4. OUTREACH

The Board informs consumers, licensees, and stakeholders about the practice and regulation of the profession.

5. ORGANIZATIONAL EFFECTIVENESS

The Board standard is to build an excellent organization through proper Board governance, effective leadership, and responsible management.

Control Environment

The Board's hierarchical structure uses a "top-down" and "bottom-up" approach to assure the integrity and efficacy of its internal controls. Top-down is characterized as oversight, identification, assessment and mitigation of risks at the macro-organizational level, whereas bottom-up emphasizes the same principles but considers the Board's organizational units across all functional levels (staff duties, responsibilities, knowledge and judgment) and where these units are fully self-managing (micro-organizational level). The Board is a small organization with 31 active staff members. The actions of management and their commitment to effective governance and control are, therefore, very transparent to staff and stakeholders. Along this continuum of internal controls, staff's actions are transparent to management.

The Board has a solid tradition of sound organizational governance and organizational culture which

emphasize exceptional business ethics and accountability. The Board recognizes the formal Code of Ethics, consistent with California Fair Political Practices Commission's standards, and Organization-wide Staff Expectations that are communicated to all staff (including new employees). Board staff, at all functional levels, incorporate these fundamentals in their day-to-day tasks and therefore, serving in their respective areas of expertise, are empowered to raise issues or concerns to management before and when they arise. The Board continues to improve upon these sound risk awareness strategies and control responsibility into its culture and regard them as the foundation of its internal control/monitoring system.

The Board's internal control model follows the California Department of Finance's model (DOFM) for internal controls, and has five components, namely Control Environment; Risk Assessment; Control Activities; Information and Communication; and Monitoring Activities. The Board has taken into consideration its organizational structure and the nature of its business interests to better define internal control needs. Due to the size of the Board, its auditing unit/component is carried out by designated Executive Monitoring Sponsors, namely the Budget Analyst and Special Projects Analyst as well as (previously mentioned) all staff in each programmatic level. A specific analysis of the risk environment is discussed within each respective Risk and Controls section of this report.

In accordance with the Board's Strategic Plan, the Board has set forth a phased improvement process to further enhance internal controls and risk management system. The initial phase of the process focuses on adopting a risk-based (instead of process-based) approach in risk identification and assessment. This approach enriches the Board's ability to analyze risks and respond to opportunities as it pursues strategic goals and objectives, using Lewin's Process Model (a strategic risks process of employer-employee relationships in the management of change) and State of California Organizational Change Management Framework. Staff reporting to the Executive Monitoring Sponsors – two of its members, as previously mentioned, comprise the Audit Team – have also been enhanced, including the presentation of special reports on low-to-high risk topics.

The Board integrates internal controls and risk management into its business processes, including annual budgeting, enforcement and licensing performance measurements, legislation and regulations, workforce planning, including staff training and development, harnessing the expertise of its workforce team and Consumer Affairs SOLID Training Unit. The concept of the workforce team and all key functional levels is to embrace staff's various competencies to ensure the highest standards of training and accountability--the results of which encourage full self-management and responsiveness to vulnerabilities. In general, pursuant to the workforce plan, the Board promotes ongoing on-the-job training, educational incentives (such as post-secondary and job-related education), current desk manuals, current policy and procedural memoranda, information security and a discrimination-free, Equal Employment Opportunity environment. The DOFM framework is structured as a holistic approach which takes into consideration the Board's dynamic environment, including its ongoing internal controls and risk management improvement plan (specifically discussed in the Risk and Controls section of this report) as well as other strategic initiatives, such as social engagement, social/ethical responsibility strategy and timely reporting of concerns or incidences (i.e., root-cause analysis) to rectify customer-centric issues and to improve overall customer relations. Each element furthers the objective to make the Board's risk management system "live" or "actively engaged" which, moreover, is the catalyst of day-to-day risk awareness practiced by all organizational units, at all organizational levels.

Information and Communication

Inherent of the Board's overall control environment, which factors day-to-day, low-to-high risk topics, the Executive Officer and/or Assistant Executive Officer, together with staff from all functional organizational levels, communicate – before or when issues arise – directly with Board managers, supervisors, as well as lead and specialty staff regarding the progress to correct or to avoid identified vulnerabilities. In addition, at the Board's annual October Meeting, which conforms to the Bagley-Keene Open Meetings Act (BKOM) the Executive Officer addresses issues of risk and recommends or implements corrective actions and/or solutions through coordinated task completion procedures as may, otherwise, be directed by members of the Board.

With respect to external parties, BKOM provides a venue for stakeholders and advocacy groups, among others, to communicate their concerns and needs to facilitate and to integrate solutions. Likewise, on a daily basis, the Board uses its public outreach program, Licensing and Enforcement telecom, and website links to educate consumers and licensees concerning pest control industry matters.

The Board's control activities have traditionally been focused on management-level reviews and physical controls. Over the past few years, the Board has been documenting the control processes in policies and procedures. Written policies and procedures with defined limits of delegated authority are in place, which facilitate effective delegation of duties and controls. Delegated authority embodies the use of cross-training of staff to ensure work product integrity and accuracy as well as promoting succession planning. A greater use of automation (to aid in information processing, such as information technology systems to replace labor-intensive processes) is, in addition, being resourced.

The annual budgeting and planning process are key control activities, which have been refined to take into consideration all potential risk factors. All organizational units prepare their respective operating plans or reporting of concerns pursuant to office objectives for consideration; this may include input from external stakeholders, advocacy groups, market and industry trend analysis as well as consultative expertise. In this process, each unit is required to identify material risks that may impact the achievement of each's business goals and objectives. Action items to mitigate the identified risks are developed for implementation as well as for finalizing the budget and business objectives.

Revenues, operating expenses and equipment targets provide the foundation for the allocation of resources. Variance and regression analyses are regularly performed and reported to management and the Board, thus helping to identify deficiencies and enable timely remedial actions.

Revenue monitoring is also significant given the revenue-intensive nature of the Board's Wood-Destroying Pests and Organisms fees, which constitute roughly three-quarters of the Board's annual budget. Based on organizational need, cost-benefit analysis, sensitivity and adversity of risks analysis, as well as detailed analysis of expected risks and returns are evaluated and relevant results are submitted to operating unit management, the Executive Officer and/or his/ her designee, or the Board for consideration, approval and/or action.

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 Structural Pest Control Board monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:

Susan Saylor, Executive Officer; Robert Lucas, Assistant Executive Officer; David Skelton, Administrative Analyst; Kristina Jackson-Duran, Budget Analyst; and Elizabeth Chervenak, Special Projects Analyst.

The management team, which consists of Executive Officer, Assistant Executive Officer, Administrative Analyst, Budget Analyst and designated specialty staff, continually evaluates internal control systems from a macro and micro point of view to ensure that risks are adequately addressed. Experts in each organizational unit discuss concerns in monthly, quarterly and annual meetings and raise potential issues for consideration. Any critical items identified are evaluated for mitigation. A risk must be documented when it meets both of the following criteria: 1. Adversely affects the Board's ability to carry out its mission and 2. There is no known internal control (existing business process) in place to mitigate the risk.

Risk mitigation will occur every six months until the risks have been eliminated or mitigated to acceptable levels. The Board's designated audit team will perform audits on an as-needed basis as an objective means of evaluating specific controls throughout the Board's organizational structure.

Addressing Vulnerabilities

With the support of the Executive Officer and Assistant Executive Officer, managers, supervisors, lead and specialty staff address risk vulnerabilities. The unit manager or supervisor where the vulnerability resides is responsible for identifying, recommending, and implementing a solution. The executive monitoring sponsors revisit action plans, as well as recommended and implemented solutions to determine the efficacy of the plan or solution. In addition, the executive monitoring sponsors (who also serve as the audit unit team) conducts six-month follow-up evaluations of identified risks to determine the results and effectiveness of the recommendations.

Once potential risks are identified, the management team works collaboratively to come up with an action plan to address, mitigate, and/or eliminate the vulnerabilities. Depending on the severity and/or likelihood, each scenario is considered and prioritized for resolution. Any critical or serious issues are mitigated immediately, if possible.

Ongoing Monitoring Compliance

The California Structural Pest Control Board has implemented and documented the ongoing processes as outlined in the monitoring requirements of California Government Code sections 13400-13407.

These processes include reviews, evaluations, and improvements to the California Structural Pest Control Board's systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Structural Pest Control Board 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.

RISKS AND CONTROLS

Risk: Pandemic, Pandemic Related Response

The Board identified potential disruption of regular business resultant from the effects of the pandemic. The two key categories involve employee wellness and organizational integrity.

Areas of adverse impact include:

1. Ensuring employee health and safety in the workplace (employee wellness).
2. Ensuring adequate staffing to conduct day-to-day business (organizational integrity).

Control: A - Implementing Health and Safety Standards

Ensuring employee health and safety (or employee wellness) in the workplace is the Board's highest risk category. Mitigating this risk ensures improved employee morale, health and security needs to maintain continuity in business operations. Board managers communicate, both verbally and in writing, national, state and local standards to all staff regarding social distancing, hand sanitizing, self-quarantining, telework and a host of other health and safety protocols designed to reduce or minimize the spread of the COVID-19 virus. The Board, with the assistance of the DCA and federal, state and local partners, remain vigilant and proactive on educating staff on daily trends and practices to mitigate risks, including self-diagnoses, resourcing and consulting with health professionals, and implementation of mandated statewide testing programs and education campaigns about the benefits of full vaccinations.

Control: B - Providing Cross-Training and Pandemic Compliance.

Ensuring adequate staffing to conduct day-to-day business or organizational integrity is the final risk category. As part of the Board's audit operations, it identified through monitoring the potential impact of the pandemic and related adverse conditions. In consultation with state authorities, DCA, and the industry, the Board verified its designation as an "essential" business which allows the Board and its practitioners expressed exemption to continue to provide relevant services to the public. This also permitted the Board to adjust its work model to coincide with the state recommendation about the use of telework and the use of IT secured, technologies, to continue operations remotely with minimal disruption to operations and consumer protection. Accordingly, the Board's integrated cross-training program as well as its top-down and bottom-up leadership risk model allowed it to be responsive, without setback, to consumers/stakeholder needs and during periods of employee quarantine or other absence.

Risk: Wood Destroying Pests - Collection of Fees

Through ongoing monitoring and risk assessment, the Board identified vulnerabilities if its primary source of revenue was somehow impacted by an external event, namely a pandemic.

Control: A - Fiscal Integrity Close Monitoring and Enforcement of Wood Destroying Pests and Organisms (WDO) Fee Collection

In 2004, the Board transitioned from a manual paper collection process for WDO fees to an integrated one-stop database process to collect statutory WDO fees per 8674 (n) of the Business and Professions Code. This process was implemented to reduce 6-month and longer backlogs down to same-day validation and collection of fees by way of relational databases of users (licensees) and administrators (the Board). This risk measure allowed the Board to redirect resources to closely monitor fee submittals from licensees and to analyze any inconsistencies or irregularities. Board enforcement anticipated possible reductions of submittals due to uncertainties associated with the pandemic and thus heightened its compliance audits/reviews of businesses to ensure continued compliance. In particular, once federal and state regulators considered Board licensees to be "essential" services, the uncertainties of fee collection dissipated and the Board continued to monitor and take appropriate action against businesses who failed to submit their statutorily required fees. The Board continues to use its dedicated resources to police compliance daily in this area with great success.

CONCLUSION

The Structural Pest Control Board 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.

Susan Saylor, Executive Officer

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