

December 30, 2019

Alexis Podesta, Secretary
California Business, Consumer Services and Housing Agency
915 Capitol Mall, Suite 350-A
Sacramento, CA 95814

Dear Ms. Alexis Podesta,

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, 2019.

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, the California Structural Pest Control Board (Board), established in 1935 (Assembly Bill 2382), 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: 1) inspect the structural condition of buildings and other structures for pests and wood-destroying organisms; 2) identify pests and organisms; 3) prepare written agreements to repair or monitor their presence; 4) apply chemicals and recommend and implement other pest management practices; and 5) control or eliminate any of these adverse conditions.

The Board's objective is to license those persons that demonstrate the necessary qualifications to professionally perform structural pest control work and to assist consumers in resolving disputes arising from practitioners and pest control companies.

The Board's reporting relationship is comprised of staff reporting to the Executive Officer or designee, while the Executive Officer reports directly to a seven-member Board. The Board, which functions semi-autonomously, is comprised of policymakers who serve at the pleasure [of the public] as well as their 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 promote 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, close-knit, organization with 29.5 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 also very 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 our culture and regard them as the foundation of our internal control and 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. In developing our internal controls model, the Board has taken into consideration our organizational structure and the nature of our business interests. Due to the size of the Board, its auditing unit or 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 analyses of the risk environment are discussed within each respective Risk and Controls section of this report.

Since 2015, following implementation of the Board's Strategic Plan, the Board has set forth a phased improvement plan to further enhance internal controls and risk management system. The initial phase of the plan focused on adopting a more 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 we pursue our strategic goals and objectives, using SWOT analysis (a strategic risks process of reviewing our Strengths, Weaknesses, Opportunities and Threats). 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.

In the current phase and thereafter, the Board intends to further integrate internal controls and risk management into our business processes, including annual budgeting, enforcement and licensing performance measurements, legislation and regulations, workforce planning, including staff training and development, harnessing the expertise of our workforce team and Consumer Affairs SOLID training program (an internal planning and training provider). The concept of the workforce team and all key functional levels is to embrace our staff's various duties and responsibilities (their specialized knowledge and professional judgment) 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, informational security and a discrimination-free, EEO 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. Each element furthers our objective to make our 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 in response to identified vulnerabilities or concerns. 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, we have 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 considered.

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.

An annual budget with revenues, operating expenses and equipment targets, as approved by the Board, 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 nearly 75 percent of the Board’s annual budget. Depending on strategic importance, cost-benefit, sensitivity and adversity of risks, detailed analysis of expected risks and returns is 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.

As the head of California Structural Pest Control Board, Susan Saylor, Executive Officer, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

Monitoring Activities

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. 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, and staff.

The following methods were used to identify risks: brainstorming meetings, ongoing monitoring activities, other/prior risk assessments, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, and potential impact to mission/goals/objectives.

RISKS AND CONTROLS

Risk: Fi\$Cal Implementation

Availability and Use of Fi\$Cal in Place of Legacy Systems. The Board currently does not have access to the Fi\$Cal system due to continued statewide development of the system (both training and functionality). The lack of access has caused the Board to be significantly dependent on information and data from its parent department (Consumer Affairs) whose resources are disproportionately challenged given that they must service the needs of multiple boards and bureaus within the department. Thus, the Board's inability to secure "ready" resources to facilitate system access may impact the Board's ability to timely evaluate its budgeting and forecasting needs in the short- and long-terms. Additionally, the Board may be unable to timely account for specific line-item revenues and expenditures without Consumer Affairs' fiscal staff consultation which may result in processing and decision-making inefficiencies.

Control: Fi\$Cal Training - Departmental

In response to delayed implementation of Fi\$Cal, the Board is designating accounting and budgeting staff to participate in all available training opportunities so as to prepare for efficient and effective transition from legacy systems. Presently, Board monitoring sponsors engage in regular monthly or, otherwise, as-needed meetings with Consumer Affairs' fiscal staff (accounting and budgeting) to closely monitor and reconcile program revenues and expenditures. This practice will be ongoing until such time as it is no longer necessary.

Control: Fi\$Cal Training - Interdepartmental

Because implementation of Fi\$Cal is currently outside of the Board's control, it may be necessary for the Board to form alliances, in addition to Consumer Affairs' collaboration as discussed above, with interdepartmental agencies who already use the Fi\$Cal system in an effort to offset current resource scarcities as well as to improve knowledge-base on the use of the system. The Board is currently assessing the need for interdepartmental assistance. In this current fiscal year reporting period, the Board's current collaboration with Consumer Affairs, while resource limited, may still be the most viable alternative; however, long-term needs are still a question of fact prompting the Board to remain vigilant in assuring system access however possible.

Risk: Federal Continuing Education Requirements

In 2016, the U.S. Environmental Protection Agency (EPA) announced plans to revise national standards of education and training of individuals and firms who store, use, or apply pesticides. EPA's action resulted in the Board to reassess its continuing education criteria to determine if it must amend or update its laws and regulations. The Board organized a Continuing Education (CE) committee, preemptively, to ensure the integrity of its program and subsequently issued proposed regulations in 2017 which the Board anticipates will be amended subject to EPA's incremental requirements in years 2020 and 2021, which sets certain additional (yet preliminary or conditional) requirements each year. EPA will finalize requirements sometime in 2022 (date uncertain), enhancing minimum continuing education requirements for all pest control practitioners and integrated pest management practices. The Board's current risks are to ensure compliance with the EPA's final CE recommendations, communicating the results in a timely matter to affected professions, and updating any technological systems and operational requirements to carry out the objectives.

Control: Continuing Education - Planning and Implementation

Since 2016, the Board has been working collectively with the Department of Pesticide Regulation (DPR) and other public and private stakeholders to stay abreast of ongoing developments in CE. By way of involvement, the Board continues to monitor EPA's criteria and updates through its partnership with DPR and this also facilitates the Board to update text in its proposed regulations to coincide with EPA's updated incremental requirements. The Board is on-task and is current with expected EPA CE changes. The Board's holistic risks and controls approach (see Control Environment) establishes the following: 1) The Board is prepared to revise policy and procedural memoranda, implement regulations, and sponsor timely legislation (if needed) to advise all stakeholders of impending changes; 2) Technologically, the Board's "live" internal control monitoring processes already have factored technological demands in this area by way of the Board's partnership with DCA to implement BreEZe or equivalent technological platform to serve those affected by the CE requirements, and 3) Operationally, the Board is preparing to coordinate staffing needs to meet regulatory and legislative mandates contingent on program implementation.

Control: Continuing Education - Regular Monitoring and Changes

Although an implementation plan is in place, in partnership with DPR, the Board recognizes that the key control in this area will be continued "dynamic" as opposed to actuarial monitoring by internal staff and flexibility to make or propose changes, as needs arise, to adapt to anticipated changes in risks and needs throughout this process.

Risk: Underground Economy Enforcement

Unlicensed practitioners consume California's economic viability. There is a growing trend of unlicensed practitioners who either are not aware of licensure requirements or intentionally evade the law's intent and built-in protections. As such, consumers are at risk of those who are incapable of providing services in a competent or professional manner. Consumers may be harmed financially from those who commit fraud or misrepresentation in securing services.

Control: Public Outreach

The Board will increase its public outreach campaign to inform and educate both potential unlicensed practitioners and the general public (including consumer awareness campaigns) to ensure public safety and protection.

Control: Licensure - Education and Competence

The Board has increased its proactive enforcement as a means to counteract the negative, adverse effects of unlicensed structural pest control. This includes partnering with other state and local agencies to conduct sting and sweep operations, as well as audits and reviews of businesses. The purpose of these efforts is to not only secure compliance with the practice of pest control, but also to educate and encourage individuals to obtain licensure so that they may practice the profession legally, competently and responsibly.

Risk: Implementation of BreEZe or Equivalent Technology

The Board currently uses the Consumer Affairs' System (referred to as CAS) and Applicant Tracking System (referred to as ATS) and one-off systems to administer its technological demands. These systems have been determined by the Board to be antiquated because they lack present-day scalability or, otherwise, cost-benefits compared to latter-day technological platforms. The Board awaits implementation of BreEZe or equivalent technology to improve operational synergies by way of incorporating these varied innovative functions and other later-identified strengths (such as multiple methods to analyze and validate data as well as the ability to accept debit or credit card payments) into a purposeful, centralized platform.

Control: Technology - Systems Design and Implementation

The Board has actively partnered with the Department of Consumer Affairs in an effort to define, and later apply, its business rules among others to ensure timely roll-out of BreEZe or equivalent system by 2021, using the Project Approval Lifecycle process (PAL). The new system will be capable of providing on-stop data and maintenance solutions and facilitate acceptance of alternative payments for license renewals and enforcement costs among other programmatic areas.

Risk: Valuing and Sustaining Human Capital

The Board's most vital component to its posterity is human capital. An expectation of every employer, the Board believes that human capital defines the success or failure of an organization. The Board recognizes that employee training and empowerment leads to organizational harmony and integrity. The Board achieves its quotient by adopting its concept of "live" internal control measures as discussed in the Control Environment and Communication sections of this report. The Board employs sound personnel management approaches to facilitate "live" internal control measures and thus this enables continuity and predictability, which are the essences of employee need, security and self-actualization.

Control: Workforce Plan - Environmental Scanning

The Board continually assesses its organizational workforce plan to readily identify critical steps or activities to ensure timely placement and lasting retention of quality staff. The Board does this by comparing similar industries (internal and external), canvassing salaries, education and training, duties and responsibilities (including knowledge, skills and abilities models as well as competency-based models). The Board then implements, as-needed, job classification updates, and updated duty statements to be consistent with collective bargaining and Board policies and procedures, including statewide requirements (such as current EEO or discrimination policies).

Control: Workforce Plan - Research

Among recruitment and retention strategies, the Board will continually assess the use of advertisements and marketing strategies to attract the most desirable candidates by respective job function and to ensure that the Board's recruitment budget in this vain remains at an acceptable level. As part of retention, and prompted by the Board's research efforts, the Board will strive to promote continued relevant training and education necessary for success and upward mobility. The Board will provide needed guidance documents and mentoring to sustain retention, including current desk manuals, material and relevant duty statements, actionable individual development plans, reminders about guidance and policy memoranda, timely and effective team meetings, formal and informal training, open-door policies, town-hall meetings and other mechanisms to sustain employee fulfillment and job satisfaction.

Control: Workforce Plan - Empowerment and Operational Effectiveness

The Board will continue to provide rational, validity-based, and purposeful educational resources and job training as well as upward mobility opportunities to sustain its workforce and thus operational effectiveness. This will be achieved by partnering with Consumer Affairs' SOLID (a training and planning solutions provider) insofar as training and development needs, as well as internal surveying and monitoring of employee satisfaction by use of tools, such as performance evaluations, individual development plans and ongoing on-the-job training. Part of this implementation strategy will place emphasis on employee empowerment and interaction, such as unattenuated (liberal) sharing of points of view, insight, imparting expertise and/or subject matter knowledge to co-workers, including lead staff, supervisorial and managerial staff in order to stay informed of potential workforce vulnerabilities which, in turn, may prevent compromises in the Board's functional areas or organizational units.

Risk: Organizational Structure - Managerial Economics

Ensure that the Board's operational budget has sufficient forecasting to adjust to inflationary factors as well as to cost of living allowances. Due to Fi\$Cal access limitations (see Fi\$Cal Risks and Control in this report), the Board is concerned about confronting long-term inefficiencies (more than 3 years) in fiscal responsiveness. This control is similar in nature to Fi\$Cal Risk and Control (RC); however, this must be a separated RC in that the Board must closely and continuously monitor its fund conditions in anticipation of trends or changes to its industry and stakeholder profile in both short- and long-terms.

Control: Decision Making - Use of Economic Concepts and Tools

Ensure that the Board's budget meets short- and long-term future needs by assessing all components of the Board's anticipated/current risk structure and preparing forecasting reports that accurately reflect those needs. Using a top-down and bottom-up approach, Board staff, in each organizational unit, will exercise their self-managing expertise to shadow risk topics and be timely responsive to risk events or to act preemptively before adverse impact. These functions may be performed exclusively by staff members or this process may involve, in addition to Board staff, a combination of: the use of relevant accounting, budgeting, reporting and forecasting technologies, use of external stakeholder input where applicable, as well as experienced external resources (such as securing of private firms to conduct feasibility studies, financial analyses or their equivalent) to proffer timely action and predictable outcomes.

Control: Use of Legislation and/or Rulemaking and Fiscal Processes

The Board, in response to targeted or identified vulnerabilities, will regularly move to augment its budget and/or pass regulations and/or legislation as-needed to ensure minimum disruption of operations. These actions include but are not limited to: 1) Corrective actions prior to / following Sunset Legislation, 2) Request for budget change proposals, 3) Request for Pro-Rata adjustments with control or parent agencies, 4) Amending or updating its Strategic Plan, 5) Request for general (Budget Act), spot legislation, or inclusion into Omnibus or trailer legislation, or 6) Any combination of the preceding.

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