

# Commission on State Mandates

## 2015 SLAA REPORT

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December 23, 2015

Michael Cohen, Director  
California Department of Finance  
915 L Street  
Sacramento, CA 95814

Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Commission on State Mandates submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Heidi Palchik, Assistant Executive Director, at (916) 323-3562, [Heidi.Palchik@csm.ca.gov](mailto:Heidi.Palchik@csm.ca.gov).

### **BACKGROUND**

The Commission on State Mandates (Commission) is a quasi-judicial body whose statutory responsibilities are: To adjudicate test claims of local governments that allege the existence of reimbursable state-mandated programs and determine any costs required to be reimbursed; To hear and decide claims alleging that the State Controller's Office has incorrectly reduced payments to local governments for reimbursement claims; To hear and decide requests for mandate redetermination, alleging that the state's liability for a mandate has been modified based on a subsequent change in law; To determine the existence of significant financial distress for applicant counties seeking to reduce their General Assistance Aid payments.

The Commission is composed of seven members: The State Controller, State Treasurer, Director of the Department of Finance, Director of the Office of Planning and Research, a public member with experience in public finance, and two local elected officials.

Our Vision: The Commission on State Mandates timely renders sound decisions, in compliance with article XIII B, section 6 of the California Constitution, to resolve disputes regarding reimbursement for state-mandated local programs and relieve unnecessary congestion of the courts.

Our Mission: To fairly and impartially hear and determine matters filed by state and local government; resolve complex legal questions in a deliberative and timely manner; and produce well-reasoned and lawful decisions. We act with professionalism, integrity, objectivity, and efficiency in making determinations. We treat all parties with courtesy and respect and we consider their views with objectivity. We produce sound, well-reasoned decisions, in a timely manner, using innovative tools and techniques to improve our efficiency. We demonstrate fair, honest, and ethical behavior. We provide a safe and healthy work environment to promote the physical and mental well-being of staff. We encourage cooperation and collaboration, and support personal and professional development. We ensure that our practices are protective of the environment and human health and are energy and resource efficient.

### **RISK ASSESSMENT PROCESS**

The Commission on State Mandates' (Commission's) management team, consisting of the executive director, assistant executive director, and chief legal counsel, meets weekly to discuss and identify agency risks. Once a risk is identified, management also collaborates with staff and Commission members to identify controls to mitigate the risk.

Because there is a statutory duty to hear and decide test claims, adopt parameters and guidelines, and adopt a statewide cost estimate with 12-18 months of the filing of a test claim, these matters take priority over all other matters. Incorrect reduction claims have the lowest priority since they affect only one local agency and have no statutory deadline by which they must be heard.

## **EVALUATION OF RISKS AND CONTROLS**

### **Operations- Internal- Program/Activity—Changes, Complexity**

The Commission currently has an incorrect reduction claim backlog of 41 claims. Incorrect reduction claims are filed with the Commission based on reductions of reimbursement claims taken by the State Controller's Office. Unlike test claims, where one claimant represents all potential claimants statewide, individual claimants file incorrect reduction claims with the Commission based on alleged incorrect reductions to reimbursement claims filed by that claimant only. Though the Commission may consolidate claims on the same program and similar issues for the purposes of analysis, oftentimes incorrect reduction claims do not lend themselves to consolidation because issues unique to each claim and each particular claimant's methods of implementing the program must be addressed. The process for resolving incorrect reduction claims can be complex. Commission staff prepares a detailed analysis of the legal and auditing issues. Then the Commission approves, partially approves, or denies the claim, and adopts a decision. Whether or not the issues are resolved at an informal conference between the claimant and the State Controller's Office, staff must spend time to prepare and review the record (including the records for the decisions on the test claim and parameters and guidelines, and the claiming instructions), review detailed reimbursement claims and any other evidence submitted by the parties, and determine the legal and audit issues. This process can be lengthy.

Since the Commission submitted its 18-month Financial Integrity and State Manager's Accountability Act Corrective Action plan on June 30, 2015, the Commission has held three Commission hearings and heard and decided one test claim, one and a half mandate redeterminations (these matters required two hearings), 11 incorrect reduction claims, two parameters and guidelines amendments, and one statewide cost estimate.

The 41 pending incorrect reduction claims are tentatively set for hearing through November 2016 and are expected to be completed by then, barring other mandate or litigation caseload that may take precedence over the incorrect reduction claim caseload.

## **ONGOING MONITORING**

Through our ongoing monitoring processes, the Commission on State Mandates reviews, evaluates, and improves our systems of internal controls and monitoring processes. As such, we have determined we comply with California Government Code sections 13400-13407.

### **Roles and Responsibilities**

As the head of Commission on State Mandates, Heather Halsey, Executive Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Heidi Palchik, Assistant Executive Director, as our designated agency monitor(s).

### **Frequency of Monitoring Activities**

Commission staff continues to eliminate the currently pending backlog of 41 incorrect reduction claims by adhering to several strategies discussed in the backlog reduction plan submitted to the Department of Finance on September 8, 2015. A copy of the updated plan is on the Commission's website.

Specifically, Commission management meets weekly, conducts biweekly all-staff meetings, and continually communicates with staff and Commission members to discuss the possibility of risks and recognize unanticipated deficiencies.

### **Reporting and Documenting Monitoring Activities**

Hearing incorrect reduction claims with cross-cutting issues first is one way that the Commission has been helping to spur informal resolution of these claims between the claimant and the State Controller's Office. Staff reviewed all of the incorrect reduction claims filed through 2014-2015 and has determined that most are not suitable for consolidation, since they have unique facts or issues of law, and so must be

analyzed individually. However, to the extent that there are cross-cutting issues, staff is analyzing and presenting them together for hearing, as much as is feasible, for purposes of efficiency and consistency. Commission management meets weekly to discuss and identify agency risks and continually collaborates with staff and Commission members to identify controls to mitigate the risk. Commission management and staff utilize internal memos, email communications, policy and procedures, and a daily maillog to ensure the executive director is made aware of any deficiencies.

### **Procedure for Addressing Identified Internal Control Deficiencies**

The 41 pending incorrect reduction claims are tentatively set for hearing through November 2016 and are expected to be completed by then, barring other mandate or litigation caseload that may take precedence over the incorrect reduction claim caseload. Commission management meets to identify deficiencies then assigns appropriate staff to analyze deficiencies, distributes policy applicable to deficiencies, sets reasonable timeframes to resolve deficiencies, and conducts thorough review to ensure proper and complete resolution.

### **CONCLUSION**

The Commission on State Mandates strives to reduce the risks inherent in our work through ongoing monitoring. The Commission on State Mandates accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

No additional comments.

Heather Halsey, Executive Director

cc: Department of Finance  
Legislature  
State Auditor  
State Library  
State Controller  
Secretary of Government Operations