



DEPARTMENT OF
FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

December 30, 2016

Ms. Karen Finn
Program Budget Manager
Resources, Energy, Environment, Capital Outlay
California Department of Finance
915 L Street, 9th Floor
Sacramento, CA 95814

Dear Ms. Finn:

Final Report—California Coastal Commission, Evaluation of Fiscal Management and Related Internal Controls

The Department of Finance, Office of State Audits and Evaluations has completed its non-audit services engagement on the California Coastal Commission's (Commission) fiscal management and internal controls for the period July 1, 2015 through June 30, 2016.

The enclosed report is for your information and use. The Commission's response to the report recommendations and our evaluation of the response are incorporated into this final report.

A detailed Corrective Action Plan (CAP) addressing the recommendations is due within 60 days from receipt of this letter. The CAP should include milestones and target dates to address all recommendations. The CAP should be sent to: OSAEReports@dof.ca.gov. After the initial CAP is submitted, it should be updated every six months thereafter, until all planned actions have been implemented.

We appreciate the assistance and cooperation of the Commission and Commission staff. If you have any questions regarding this document, please contact Kimberly Tarvin, Manager, or Mindy Patterson, Supervisor, at (916) 322-2985.

Sincerely,

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. John Ainsworth, Acting Executive Director, California Coastal Commission
Ms. Susan Hansch, Chief Deputy Director, California Coastal Commission

California Coastal Commission
Fiscal Management and Related Internal Controls
July 1, 2015 through June 30, 2016

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Mindy Patterson, MBA
Supervisor

Staff
Lorena Romero
Shuyan Decker
Erika Santiago
Amy Xu

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

BACKGROUND

In May 2016, the California Coastal Commission (Commission) requested assistance from the Department of Finance (Finance) to address a significant cash shortfall impacting the Commission's ability to pay June payroll, rent, and other miscellaneous expenses. To determine the required loan amount, the Commission provided reimbursement and expenditure estimates to Finance. On June 20, 2016, Finance approved a \$1.46 million General Fund loan for the Commission to pay its non-discretionary costs through the end of the fiscal year.

The loan amount and difficulties in obtaining the reimbursement and expenditure information from the Commission prompted Finance to request the Office of State Audits and Evaluations (OSAE) to perform non-audit services on the Commission's fiscal management and internal controls related to budgeting and accounting, contract¹ management, and governance for the period July 1, 2015 through June 30, 2016.

MISSION AND AUTHORITY

The Commission's mission is to protect and enhance California's coast and ocean for present and future generations through careful planning and regulation of environmentally-sustainable development, rigorous use of science, strong public participation, education, and effective intergovernmental coordination.

The California Coastal Act (Coastal Act) and Federal Coastal Zone Management Act (CZMA) establishes the Commission's jurisdiction for state coastal zone planning and management. Specifically, the Coastal Act defines the Commission's jurisdiction as any permit action, federal consistency review, appeal, local coastal program (LCP), port master plan, public works plan, long-range development plan, categorical or other exclusions from the coastal development permit (CDP) requirements, or any other quasi-judicial matter requiring commission action, for which an application has been submitted to the Commission.

ORGANIZATION

The Commission is an independent, quasi-judicial state agency comprised of 12 voting members appointed by the Governor, the Senate Rules Committee, and the Speaker of the Assembly. Six of the voting commissioners are elected local officials and six are appointed representatives of the public from the state at large. Additionally, three non-voting members represent the California Natural Resources Agency, the California State Transportation Agency, and the State Lands Commission. Term limits of the commissioners vary depending on appointment and reappointments. The Commission appoints the Executive Director.

The Executive Director oversees the Chief Deputy Director, who manages the day-to-day operations through a network of management and staff. The staff are organized into programmatic and administrative units within Headquarters, six district offices, and one

¹ Contracts reviewed include reimbursement agreements such as state and federal contracts, grants, and memorandums of agreement.

legislative office. As of June 30, 2016, the Commission had 160 of 167 authorized positions filled. Additionally, in March 2016, the Commission appointed an Acting Executive Director to fill the Executive Director position which was vacated in February 2016. The Commission is actively recruiting to fill this position. See Appendix A for the Commission staff Organizational Chart.

While the Commission is one organization, the Commission and the Commission staff fulfill distinctly different roles. Specifically, the Commission staff prepare recommendations to the Commission based on their independent analysis of facts, law, and the Coastal Act. The Commission considers those recommendations in addition to public testimony, weighs the environmental risks and public benefits of a proposed project, and exercises their independent judgment to rule on the projects.

COASTAL MANAGEMENT PROGRAM

The Commission implements its mission through its Coastal Management Program, which includes the following components:²

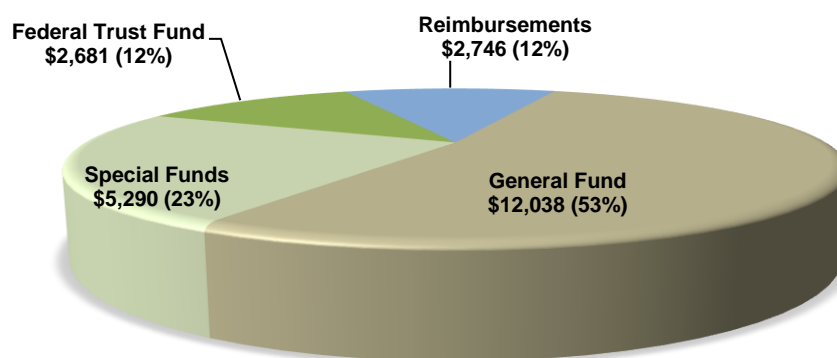
- *LCPs*—The Coastal Act requires LCPs for the 15 counties and 61 cities located in whole or in part in the coastal zone. The Commission reviews and approves the LCPs and amendments based on the Coastal Act policies. Amendments to certified LCPs only become effective after Commission approval. Additionally, the Commission is required to review each certified LCP at least once every five years.
- *CDPs*—Development within the coastal zone may not commence until a CDP has been issued by either the Commission or a local government that has a Commission-certified LCP. Development activities that generally require a CDP are defined by the Coastal Act and include construction of buildings, divisions of land, and activities that change the intensity of land use or public access to coastal waters, etc.
- *Federal Consistency*—In accordance with the CZMA, the Commission reviews federal development projects, permits and licenses, and provides assistance to state and local governments in and outside the coastal zone related to activities that affect California's coastal resources.
- *Enforcement*—The Enforcement Program upholds Coastal Act requirements to protect coastal resources including coastal habitats, coastal public access and recreation, and other coastal resources. Additionally, the Enforcement Program staff investigates compliance with terms and requirements of CDPs and other Coastal Act violations, such as unpermitted development.
- *Other Responsibilities*—The Commission also performs other activities related to climate change, oil spill prevention response, water quality, and public education.

² Source: Excerpts from www.coastal.ca.gov/whoweare.html.

BUDGET AND EXPENDITURES

The Commission's annual budget for fiscal year 2015-16 was \$22.8 million. The budget is comprised of General and Federal Trust Fund monies, Special Funds, and Reimbursements as shown in Figure 1. Reimbursements account for \$2.7 million (12 percent) of the Commission's total budget.

Figure 1: Commission Budget³
FY 2015-16
Dollars in Millions



As depicted in Table 1, the Commission's reported expenditures did not exceed its budgeted allocations. The expenditures include \$1.1 million in encumbrances, which represents funds reserved for future commitments. Table 2 displays expenditures and encumbered amounts by fund.

Table 1: Budgeted and Expended Funds⁴
FY 2015-16

Fund Name	Budget	Expenditures ⁵	Over/(Under) Budget
General Fund	\$ 12,038,000	\$ 12,037,515	\$ (485)
Special Funds: ⁶			
California Environmental License Plate Fund	1,000,000	1,000,000	-
California Beach and Coastal Enhancement Account	1,229,000	1,171,151	(57,849)
Coastal Act Services Fund	2,746,000	2,669,901	(76,099)
Protect Our Coast and Oceans Fund	315,000	313,459	(1,541)
Federal Trust Fund	2,681,000	2,642,899	(38,101)
Reimbursements	2,746,000	2,719,219	(26,781)
Total	\$ 22,755,000	\$ 22,554,144	\$ (200,856)

³ Budget amounts are based on the 2015-16 Final Budget Summary and include adjustments for subsequent revisions.

⁴ Budgeted and expended amounts are based on the 2015-16 Final Budget Summary, including adjustments for subsequent revisions, and California State Accounting and Reporting System (CALSTARS) expenditure records.

⁵ Because the focus of this engagement was on fiscal management and internal controls related to managing cash flows during the year and the Commission reported operating within the existing budget allocations, we did not perform validation procedures of the CALSTARS records.

⁶ The California Environmental License Plate Fund, California Beach and Coastal Enhancement Account, Coastal Act Services Fund, and Protect Our Coast and Oceans Fund total \$5.29 million and are combined for presentation purposes in Figure 1.

Table 2: Expenditures and Encumbrances by Fund⁷
FY 2015-16

Fund Name	Expenditures without Encumbrances	Encumbrances	Total Expenditures
General Fund	\$ 11,893,417	\$ 144,098	\$ 12,037,515
Special Funds:			
California Environmental License Plate Fund	1,000,000	-	1,000,000
California Beach and Coastal Enhancement Account	735,037	436,114	1,171,151
Coastal Act Services Fund	2,669,257	644	2,669,901
Protect Our Coast and Oceans Fund	108,539	204,920	313,459
Federal Trust Fund	2,277,897	365,002	2,642,899
Reimbursements	2,719,219	-	2,719,219
Total	\$ 21,403,366	\$ 1,150,778	\$ 22,554,144

⁷ Expenditures and encumbrance amounts per CALSTARS reports.

The California Coastal Commission's (Commission) budgeting and accounting practices significantly impacted its ability to manage cash flows during fiscal year 2015-16. Effective contract management also impacts cash flows based on the assignment of staff to reimbursable contract activities and ensuring the contract requirements and deliverables are met. Lastly, governance impacts fiscal controls by establishing the framework to ensure priorities of the Commission are met, an effective organizational structure is maintained, and fiscal controls are implemented.

Development and implementation of the following recommendations will strengthen the Commission's fiscal management and internal controls related to budgeting and accounting, contract management, and governance; and reduce the likelihood of year-end cash shortfalls in future fiscal years.

BUDGETING AND ACCOUNTING

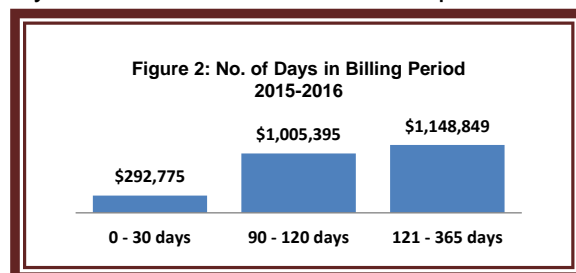
To monitor and manage cash flows, the Commission staff tracks the budget allocations, actual and estimated expenditures, and reimbursement billing and collections; and monitors the cash balance of each fund. Commission staff stated that this information was discussed during internal management and budget meetings. Although the Commission staff identified the potential cash flow shortage in February 2016, the Department of Finance was not notified until May 2016. Further, several of the Commissioners indicated that they were not aware of the Commission's inability to meet its cash needs until after the loan was approved in June 2016.

As shown in the Background section, \$2.7 million of the Commission's \$22.8 million budget consisted of reimbursements. Because the Commission relies heavily on the funding provided by reimbursements, the Commission's cash flow is significantly impacted by its billing and collections practices.

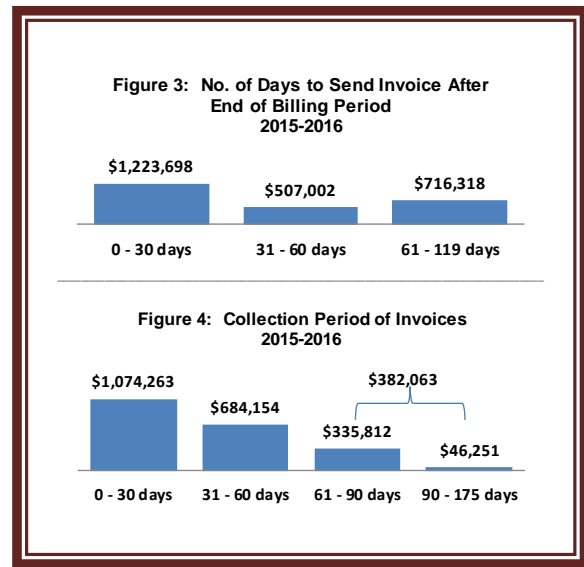
Billing and Collection Practices Impacting Cash Flows

The Commission's billing and collection practices resulted in significant delays in collecting reimbursements, which contributed to the year-end cash shortage. Billing and collection delays also occurred at the prior fiscal year end. Specifically, we identified the following:

- Reimbursements are not invoiced as frequently as the contracts allow. As depicted in Figure 2, invoices totaling approximately \$1.1 million, approximately half of the reimbursements billed, had billing periods ranging between 121 to 365 days creating delays in receiving payments for services provided. Although five interagency agreements only allow quarterly billing, the majority of the agreements allow monthly billing.



- Invoices totaling \$716,318 (29 percent) were sent more than 60 days after the end of the billing period as shown in Figure 3.
- Although the majority of the receivables were collected within 60 days, \$382,063 (18 percent) was collected between 61 to 175 days after the invoices were sent as shown in Figure 4.
- Fiscal year 2014-15 receivables totaling \$456,000 were received in 2015-16 and \$645,000 was outstanding as of June 30, 2016. Of this amount, only \$342,335 had been received as of September 2016.



- The Commission does not have an approved indirect cost rate plan (ICRP) to support full recovery of indirect costs incurred. Without an approved ICRP, the Uniform Administrative Requirements Cost Principles for Federal Awards limit the amount of federal indirect cost reimbursements to 10 percent of modified total direct costs. This may result in unreimbursed indirect costs. Further, the ICRP will provide support for non-federal indirect costs claimed.

The following contributed to the extended billing and collection cycles:

- Invoicing and collections for reimbursement contracts are performed by various staff using different methods. Further, these various methods are not documented in written procedures. For example, billings for reimbursements are processed and invoiced by project managers, the Fiscal and Business Services Manager, the Accounting Unit, or a combination where various groups perform a portion of the billing processes. Because of the varying processes and various staff performing them, no unit is fully accountable for coordinating and ensuring timely billing and collections.
- While the Accounting Unit maintains a spreadsheet of amounts billed and payments received, the Commission does not have a formal invoicing schedule or follow-up process to ensure invoices are prepared, sent, and paid timely.
- Some payments are not received directly by the Accounting Unit. Instead, the invoices or agreements direct the payments to staff outside the Accounting Unit. This practice delays the deposit of critical funds and creates a risk that checks can be lost, misplaced, or misappropriated. For example, we noted one payment for \$79,998 did not reach the Accounting Unit until four months after it was received.

Recommendations:

1. Centralize the billing and collection procedures within the Accounting Unit. While some information and data is required from other units to develop the billing information, the final invoices and collection activities should be performed by the Accounting Unit.
2. Develop written billing and collection procedures that ensure billing and collections are prepared in accordance with State policies.
3. Establish a formal invoice schedule that includes deadlines for accounting, timesheet submittal, and project manager review.
4. Increase the frequency of billing to the maximum allowed in the agreements to enhance cash flows.
5. Implement more aggressive collection procedures for amounts outstanding more than 60 days in accordance with the State Administrative Manual.
6. Develop and obtain federal approval of an indirect cost rate plan to support and claim indirect costs.
7. Ensure all checks are sent directly to the Accounting Unit. If other units require the payment information, copies of checks should be forwarded to the applicable units instead of the original check.

Appearance of a Conflict of Interest

Due to the regulatory nature of the Commission's work, certain funding sources create the appearance of a conflict of interest. Specifically, the Commission received \$375,000 during 2015-16 via Memorandum of Agreements (MOAs) from utility companies and a public corporation in return for expedited work activities related to the following:

- Coastal Development Permits (CDP), Amendments, and Waiver Applications
- Relicensing
- Appeal of Local CDP for Relicensing
- Condition Compliance
- Power Plant Nuclear Decommissioning and Restoration
- Power Plant Fossil Restoration
- Hydrostatic Testing of Gas Pipelines
- Enforcement

These MOAs indicate the Commission will have sole authority over the use of the funds and that no funds will be returned. Further, the MOAs indicate the checks should be made payable to the Commission and sent to the attention of the Chief Deputy Director, which further increases the appearance of a conflict of interest.

The authority to accept funds from non-state entities was approved in a 2009 Budget Change Proposal (BCP). The BCP states that this funding was requested and approved due to a significant backlog of permits, appeals, local coastal plans (LCPs), and federal consistency reviews with some applicants experiencing multi-year delays in the review of their projects.

The Coastal Act allows the Commission to apply for and accept grants, appropriations, and contributions in any form. However, the Coastal Act also requires the Commission to conduct its affairs in an impartial manner free of undue influence. Due to the regulatory nature of the Commission, the acceptance of these funds in return for expedited work activities can be viewed by other interested parties as unfairly prioritizing these projects and a potential risk of undue influence of state officials.

Recommendation:

8. Finance and the Commission should consider other budgeting approaches to fund the resources necessary for the Commission to perform required work activities that eliminate any appearance of a conflict of interest.

CONTRACT MANAGEMENT

Meeting contract requirements and completing deliverables is essential to ensure budgeted reimbursements are earned and can be timely invoiced and received. To prioritize and manage the workload, the Commission management team holds routine meetings to discuss the Commission's work commitments, including project deadlines and deliverables, and assigns work based on staff's technical expertise.

Each contract is unique, requiring various types of services including:

- Environmental technical assistance, coordination, and procedural guidance for planning projects.
- Administering grants for local agencies to address climate change in its LCPs.
- Study on water quality effects from CDPs.
- Oil spill prevention, preparedness, and readiness and response activities.
- Coastal clean-up days in response to the Japan tsunami.
- Human resources support for another state entity.

As a result, each contract requires various levels of planning, oversight, monitoring, and reporting. Depending on the complexity of the contract, the project manager meets with the contractor to ensure the contract expectations are met and to address any challenges. Further, some staff are only assigned to reimbursable contract activities, while other staff are assigned specific contract tasks as needed.

For one of the largest contracts, the contracting agency provides a list of priority projects to the Commission. The project manager routinely meets with Commission district managers to plan work activities and assign staff resources. A schedule is set up and tracked by district managers who then report to the project manager. Additionally, the project manager meets with the contracting agency at least twice a year to discuss progress of projects including discussions on expectations and deliverables.

Completion and progress of the contract work is documented in various deliverables including progress reports. These progress reports include objectives, milestones, accomplishments, deadlines met, challenges, and future work plans that align with the contracts. However, as discussed in the Billing and Collection Practices Impacting Cash Flows section, timely billing and collection for the completed contract activities is critical for the Commission to meet its cash needs, especially at year-end.

GOVERNANCE

Governance is a shared responsibility of the Commission, the Executive Director, and the Commission's management. Effective governance begins with defining an organization's vision, mission, authority and responsibilities, organizational structure, and lines of authority. Additionally, management is responsible for establishing an internal control system that ensures effective fiscal management and operational priorities are achieved. The Commission staff are responsible for consistent implementation of established policies and procedures.

The Coastal Act provides the Commission broad authority over the coastal zone through public access, recreation, marine environment, land resources, development, and industrial development policies. Additionally, the Coastal Act states that conflicts related to implementing the Coastal Act should be resolved in a manner which is most protective of significant coastal resources. As a result, implementation of the Coastal Act is subject to interpretation and requires judgment and technical expertise.

The Commissioners and the Commission staff are passionate and committed to effectively implementing the Coastal Act requirements. The Commission has a Strategic Plan that outlines its vision, mission, core values, resources, and priorities. To implement the Coastal Act and its mission, the Commission manages and prioritizes the LCPs, CDPs, federal consistency, and enforcement activities as follows:

- LCPs—The Commission indicated LCPs are a high priority. As of 2016, approximately 73 percent of the LCP segments are certified, representing about 87 percent of the geographic area of the coastal zone.¹ For the certified areas, the local governments issue the coastal permits.²

During 2015-16, 100 LCP amendments, port master plans, public works plans, or long-range development plans were active. The LCP reviews are based on deadlines established in the Coastal Act. Of those plans, 61 were approved and 39 are awaiting action at a Commission meeting. On average, LCPs required 279 days for approval by the Commission after the filing date. However, some LCPs were approved as quickly as 23 days and one LCP took approximately 7 years for Commission approval. The Commission monitors the progress of open LCPs in the Coastal Development Management System (CDMS).

- CDPs—The 2015-16 CDPs and appeals workload consisted of 1,247 active cases at year-end and 867 closed during the year. The CDPs and appeals are prioritized based on the deadlines established in the Coastal Act. While the complexity and time required to review the CDPs varies, we identified one CDP application that the Commission acted upon in February 2016 that was initially received by the Commission 11 years earlier, in 2004. In addition, 13 CDPs and appeals ranged from 2 to 7 years, and 28 CDPs/appeals ranged from 1 to 2 years before the Commission took action.³ Delays could be due to litigation or incomplete applications. The Commission tracks and monitors the CDPs and appeals in the CDMS.
- Federal Consistency—During 2015-16, the Commission worked on 52 federal consistency applications. The Commission determined 46 did not have an effect

¹ Source: Excerpt from www.coastal.ca.gov/lcps.html.

² Excerpt from the Commission website at www.coastal.ca.gov/lcps.html.

³ Analysis based on data provided by the Commission on August 23, 2016.

on coastal resources or uses. For 6 applications, the Commission determined the effect on coastal resources or uses was consistent with the Coastal Act. This workload is prioritized consistent with the Coastal Act requirements.

- **Enforcement**—For 2015-16, the Commission reported 2,266 open cases at year-end and 23 resolved cases.⁴ The majority of enforcement violations are referred to the Enforcement Unit through public complaints, requests for assistance from local governments, or during the CDP application review process. Overall, the Commission considers all enforcement violations as high priority. However, due to limited staff resources to investigate and resolve the violations, the Commission identifies the most significant 25 actionable cases as the highest priority for resolution with a focus on cases related to coastal access. If a case cannot be resolved at the district office level, the case is elevated to the headquarters unit for further action. However, the violation case prioritization is subject to change if additional information is received increasing the significance of the Coastal Act violation. The Enforcement Unit does not classify cases as closed until sustained compliance is achieved. This period varies on a case by case basis.

Clarification of Commission and Commission Staff Roles

Throughout the Commission's existence, the Commissioners have expressed different perspectives on the roles of the Commissioners and the Commission staff. Often, these conflicts have been addressed in public meetings resulting in distractions from the organization implementing its core regulatory duties. Further, the broad nature of the Coastal Act contributes to the conflicting perspectives. Due to the high volume of activities that directly impact the coastal zone and the public, it is imperative that the Commissioners and Commission staff have a shared vision related to their respective roles and responsibilities.

Based on interviews with a sample of Commissioners and Commission staff, the Commission's role is generally limited to quasi-judicial decision making in implementing the Coastal Act. The Commissioners expressed confidence and respect for the expertise of the Commission staff and their dedication to the implementation of the Coastal Act. As indicated in the text box, several

Commissioners expressed interest in increased oversight, communication with the Commission staff, transparency, and training upon appointment. Clarification of roles and responsibilities of

Commissioners' Suggestions:

- Clarify roles and responsibilities of the Commissioners, management, and staff.
- Increased Commission oversight and communication related to budgeting and expenditure monitoring.
- Increased responsiveness of Commission management to Commissioner's requests. Several Commissioners indicated they have appreciated improvements in this area since the Acting Executive Director was appointed.
- Increased transparency through public access to the CDP Applications system.
- Policy development to ensure consistency for decisions among district offices.
- Commissioner training upon taking office related to Commission meeting procedures, Commissioner responsibilities, and other processes.

⁴ Source of active and closed cases are the California Coastal Management Program Federal Semi-Annual Reports for the period July 1, 2015 through June 30, 2016. For reporting purposes, the Commission relies on the tracking of changes between the Federal Semi-Annual Reports rather than the CDMS. The CDMS includes a significant number of cases with a missing status, which requires research to determine whether the case is closed or should be included in the open cases reported. Once reconciled, the number of active cases could be revised.

the Commissioners, Executive Director, and Commission staff will be critical as the new Executive Director is appointed, some Commissioner terms end, and new Commissioners are appointed.

Recommendation:

9. The Commissioners should collaborate with the Executive Director to ensure a consistent vision and understanding of the expected roles and responsibilities of the Commissioners, the Executive Director, and Commission staff. Agreements reached should be consistent with the Coastal Act and documented in written policies and procedures.

Succession Planning to Eliminate Key Person Dependency Risk

Clarification and documentation of Commission staff roles and operational procedures is a key component of succession planning. At least 10 to 15 experienced senior staff are likely to retire in 2017-18. Further, the Commission indicated that approximately 44 percent of its staff members are currently within the retirement age range. Because many of the Commission's operational procedures and management direction is provided via informal communications, but not documented in written procedures, the Commission faces the risk of key person dependency. This potential loss of institutional knowledge could substantially impact fiscal management and other operational areas. For example, during 2015-16, the Accounting Unit experienced turnover of its entire unit of 4 permanent staff positions and added 2 temporary positions as follows:

- A new Chief Accounting Officer was hired in December 2014. Her employment ended one year later in December 2015.
- The Chief Accounting Officer position was vacant for one month, followed by the return of the prior Chief Accounting Officer in January 2016.
- Three new accounting staff were hired between November 2014 and August 2015.
- Two accounting staff retired in early 2015, but were rehired as retired annuitants in February 2016 to fill accounting vacancies. These temporary positions were in addition to the other permanent accounting staff positions.

Commission staff indicated that this turnover and limited written procedures impacted fiscal management including the accuracy of accounting transactions and consistent and timely processing of reimbursement invoices. Additionally, the Commission is at risk for similar circumstances in other areas if staff retirements or turnover occurs.

Recommendation:

10. Develop written policies and procedures to communicate management's expectations, ensure critical institutional knowledge of staff is retained, and assist in the training and development of staff.

Personnel Management Practices

Effective governance includes effective personnel management practices including communicating management's expectations verbally and through various documents such as job specifications, duty statements, and formal performance evaluations. Providing on-the-job and formal training enhances staff development and assists staff in ensuring they develop and

maintain the expertise necessary to perform their job duties and enhance their career development.

The Commission communicates performance expectations and job duties to the staff verbally and through Job Specifications and Duty Statements. Additionally, the Commission provides on-the-job training, supervisory training, and other technical training related to staff's work activities and expertise.

The Commission is managing the reduction of staff leave balances over 640 hours. Of the 160 staff, 21 (13 percent) had leave balances over 640 hours. Staff with high leave balances creates a potential liability that may impact operations if the staff either retire or leave state service and lump sum payouts are required. The Commission has established written leave usage plans for staff with leave balances over 640 hours. Additionally, we noted several staff using vacation in an effort to reduce excess leave balances.

Written Staff Performance Evaluations

Effective personnel management practices include providing annual written staff performance evaluations. Of 18 employee files reviewed, only 2 staff had received written performance evaluations within the last 13 months. Eight employees had received their last written performance evaluation from 4.5 to 24 years prior, and 8 staff had never received a written performance evaluation. Commission management indicated staff receive verbal communication regarding job expectations and performance on an ongoing basis throughout the year.

Annual performance reviews complement verbal feedback throughout the year and provide an excellent opportunity to summarize the staff accomplishments and formally communicate areas of improvement. Additionally, this provides an opportunity to discuss career development and growth opportunities. Formal career planning may also enhance the retention of current staff.

Recommendation:

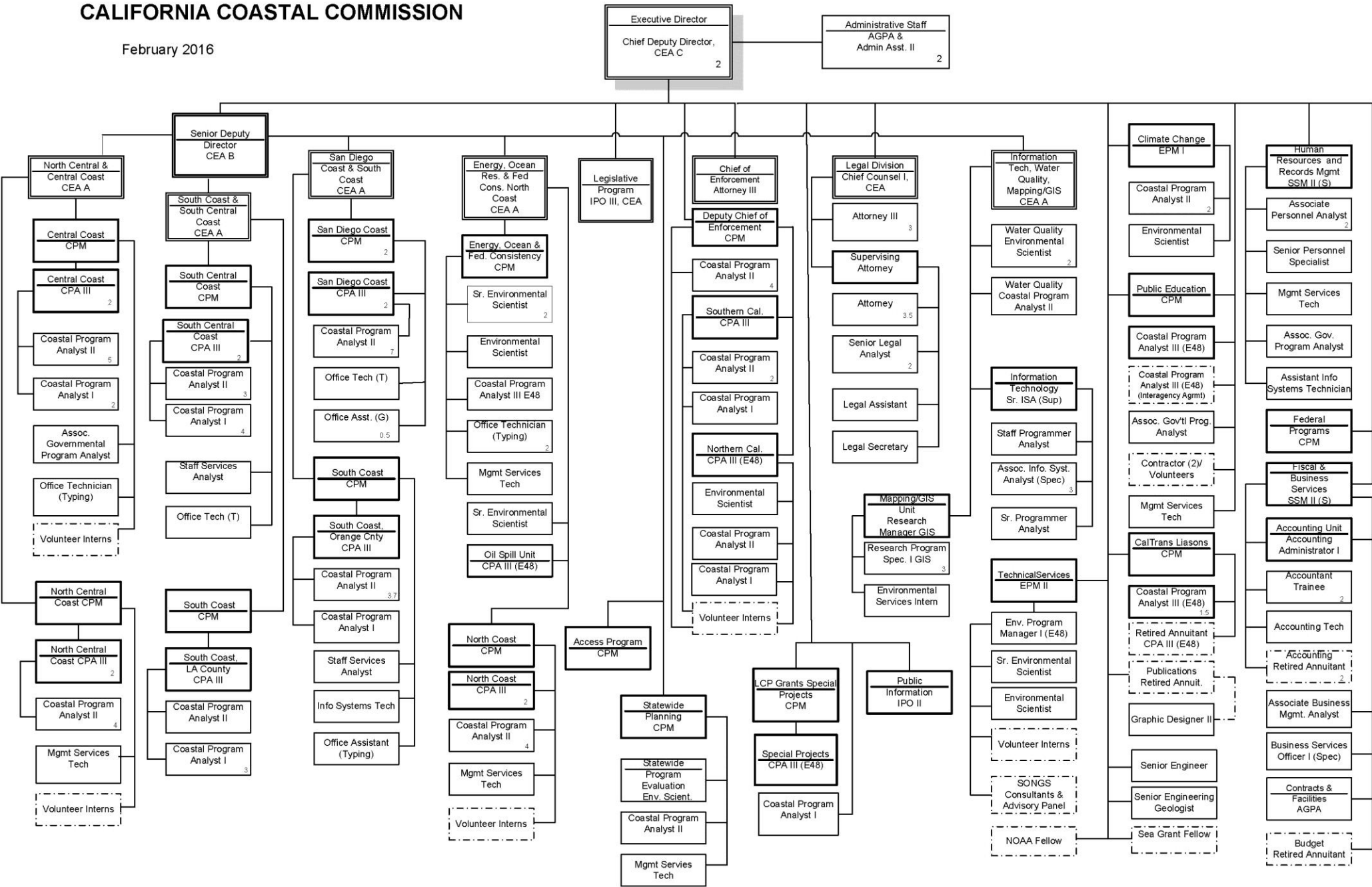
11. Consistently provide annual written performance evaluations to enhance staff's professional development.

CALIFORNIA COASTAL COMMISSION ORGANIZATIONAL CHART

An organizational chart establishes the organization of staff resources and establishes clear lines of authority. The Commission staff organizational chart as of February 2016 is presented on the following page.

CALIFORNIA COASTAL COMMISSION

February 2016



CALIFORNIA COASTAL COMMISSION

45 FREMONT, SUITE 2000
SAN FRANCISCO, CA 94105-2219
VOICE (415) 904-5200
FAX (415) 904-5400
TDD (415) 597-5885



(Sent via electronic mail to: OSAEReports@dof.ca.gov)

December 19, 2016

Jennifer Whitaker, Chief
Office of State Audits and Evaluations
Department of Finance
915 L Street Sixth Floor
Sacramento, CA 95814-3706

re: Coastal Commission Response to: *California Coastal Commission Fiscal Management and Related Internal Controls, July 1, 2015 through June 30, 2016, prepared by: Office of State Audits and Evaluations (OSAE) Department of Finance*

Dear Ms. Whitaker:

The Coastal Commission management staff has prepared the attached detailed response to the Draft Report – California Coastal Commission, Evaluation of Fiscal Management and Related Internal Controls, December 2016.

We appreciate the courtesy and professionalism of the OSAE team. The Commission management staff response addresses each of the eleven OSAE recommendations. The management staff concurs with most of these recommendation and we have or will implement based on availability of staff resources. We look forward to working closely with the Department of Finance to address the issues described in this non-audit services report.

Once this report is finalized by OSAE, we will forward a copy to the members of the Coastal Commission and post on the Commission's public website. We expect the Commission will discuss the report at a future Commission meeting.

Sincerely,

Handwritten signature of John Ainsworth in black ink.

JOHN AINSWORTH
Acting Executive Director

Sincerely,

Handwritten signature of Susan M. Hansch in black ink.

SUSAN M. HANSCH
Chief Deputy Director

cc: Karen Finn, Program Budget Manager – Department of Finance

CALIFORNIA COASTAL COMMISSION

45 FREMONT, SUITE 2000
SAN FRANCISCO, CA 94105-2219
VOICE (415) 904-5200
FAX (415) 904-5400
TDD (415) 597-5885



COASTAL COMMISSION STAFF RESPONSE TO NON-AUDIT SERVICES REPORT PREPARED BY OFFICE OF STATE AUDIT AND EVALUTIONS

December 19, 2016

The California Coastal Commission management staff provides the following response to the December 2016 report: *California Coastal Commission Fiscal Management and Related Internal Controls, July 1, 2015 through June 30, 2016, prepared by: Office of State Audits and Evaluations (OSAE) Department of Finance.*

The Commission management staff appreciates the courtesy and professionalism exhibited by the OSAE team during the non-audit services review. The staff response is organized to follow the same order and use the same sub-headings included in OSAE report.

Fiscal year 2015-2016 (July 1, 2015 through June 30, 2016) was an exceptionally tumultuous and challenging year for the Coastal Commission (Commission) and its staff with the dismissal of the Executive Director and numerous staff retirements. Staffing constraints slowed down reimbursement contract completion and billing and exacerbated cash flow issues at the end of the year resulting in the need for a cash flow loan. The cash flow loan was fully repaid by the loan stipulated deadline. The OSAE report concluded that the Commission operated within its approved budget for FY 2015-2016.

The management staff agrees with the majority of the recommendations in the OSAE report. We have already begun implementation of many of the recommendations. However, staffing constraints and budgetary limitations will make it difficult to implement all of these recommendations immediately. The management staff response below discusses each of the eleven recommendations and our plans to address the OSAE report's recommendations.

Budgeting and Accounting

The Commission has a small accounting staff of four permanent full-time employees and currently two part-time retired annuitants who work intermittently throughout the year.

In FY 2014-2015 and through FY 2015-2016 several long-standing employees in the Accounting Unit retired and one accounting staff person resigned resulting in a complete change over in staffing for the unit. The Accounting Unit staffing changes have been further complicated by the fact that the Commission, like all state agencies, is in the very time consuming process of transferring to a new statewide financial accounting and budgeting system known as FI\$Cal. This is a complex switch over and involves substantial training and transitional operations. The

Commission is scheduled to transfer to FISCAL as of July 1, 2017. The transition process has been underway in different phases since FY 2014-2015. The California Natural Resources Agency (CNRA) required all CNRA departments to participate in paying for an outside contractor to assist departments with the conversion of the FISCAL system. The Commission's required cost share is \$145,000 over three years (FY 2015-2016, FY 2016-2017 and FY 2017-2018, with the majority of the cost (approximately \$125,000) paid this fiscal year (FY 2016-2017). Those required FISCAL payments to CNRA for the FISCAL conversion and the cost of the OSAE review have put an additional burden on the Commission's already constrained budget for FY 2016-2017. The Accounting and Business Services staff have been extremely busy with the required FISCAL training and conversion in addition to the core required work.

In regards to the OSAE report statements regarding time delays between the end date of a billing period and the date the invoice is submitted to the contract entity for reimbursement, some of the time delays in billing stems from the fact that the data to support labor costs (salary and benefit costs per person) are not immediately available to the staff that need them to develop the invoices. All labor data is entered into the state's current financial management system, California State Accounting and Reporting System (CALSTARS), by hand from the timesheets of each staff person (approximately 160 staff people). The process of data entry is time consuming and can take up to two weeks. Since the Commission does not have an automated time keeping system, whereby labor data from each staff person's timesheet could be easily uploaded into a financial reporting system (e.g. CALSTARS), some of the delay between billing end date and invoice submission can be attributed to time for data entry, receipt of labor reports from CALSTARS, and analysis of the data that is need to develop the invoice for billing.

In addition, because of the small size of the Accounting Unit, management staff has assigned a portion of the billing, invoicing and collection activities for reimbursement contracts to the project contract managers. These reimbursement contracts are predominantly Interagency Agreements with other state agencies. Each contract has its own requirements, billing and reporting procedures, and these are all consistent with state rules in the State Administrative Manual. The contract billing and invoicing requirements are negotiated by the relevant contracting agency and the Coastal Commission. Project managers are required by each contract to invoice per the specific contract requirements, therefore it is not possible to have a single process system that is exactly the same for all of the Commission's contracts. Finally, invoicing delays have also occurred because of the time it takes to analyze the labor data for the large number of staff that work on the projects covered by the reimbursement contract agreements.

For clarification purposes, it is important to note that the federal grants that the Commission receives are typically executed as cooperative agreements with the granting federal agency. Once the cooperative agreement for a federal grant award is accepted by the Commission, the Commission has direct access to the federal grant funds. Funds are drawn directly to State Treasurer and then transferred to the Commission's cash account. The funds are drawn consistent with budget allocations, labor costs (salary and benefits) and other costs (i.e. travel). The Commission is not required to submit invoices to receive the federal funds to recoup costs spent

to complete federal grant activities. As such, the audit description of activities under the Budgeting and Accounting and the Contracts Management Sections about billing and invoicing do not apply. The Commission has direct access to its federal funds to recoup costs for completing approved grant activities; there is no time delay in receiving federal grant funds to cover the Commission's costs for this work.

Response to OSAE Recommendation #1:

This recommendation suggests centralizing the billing and collection procedures within the Commission's Accounting Unit. Management staff agrees with this recommendation. However, it will not be possible to fully implement this recommendation unless additional skilled staff is added to the Accounting Unit with funding to support the staffing.

Response to OSAE Recommendation #2:

This recommendation suggests developing written billing and collection procedures. The staff currently follows the written procedures in accordance with state policies in the written State Administrative Manual (SAM) and follows the requirements of each contract.

The management staff will implement this recommendation by preparing written billing and collection procedures and checklists that highlight the applicable written rules in the State Administrative Manual.

Response to OSAE Recommendation #3:

This recommendation suggests the establishment of a formal invoice schedule that includes deadlines for accounting, time sheet submittal and project manager review.

The management staff will implement this recommendation by compiling the existing deadlines for timesheet submittal, invoice schedule per individual contract rules and accounting action steps into one document/checklist per contract. Implementation of the purpose and intent of this recommendation is currently constrained by the small Accounting staff, the lack of a computerized timecard system, and heavy workload of project managers. As stated above, there is no statewide computerized timecard system available for the agency. State agencies need to purchase systems or develop internal systems. The Commission's Information Technology (IT) staff has begun developing an internal system that will make it more efficient to compile timecard data for reimbursement contracts in a method that is consistent with the start of FI\$Cal system on July 1, 2017.

Response to OSAE Recommendation #4:

This recommendation suggests increasing the frequency of billing on contracts to the maximum allowed in the agreement to enhance cash flow. Improving cash flow is very important. Management staff agrees with the concept of billing more frequently to enhance cash flow. We are analyzing our billing schedule on all contracts to develop specific schedules that maximize cash flow. We have also dedicated additional staff time of a

coastal program analyst to assist with invoicing our largest reimbursement contract to improve frequency of billing. Because the work on some contracts varies over the course of the year, it will not always be efficient to bill monthly if there was little done in that month.

Response to OSAE Recommendation #5:

This recommendation suggests that the staff implement more aggressive collection procedures for amounts outstanding more than 60 days. We agree in concept with this recommendation and already carefully monitor receipt of payment of invoices. The majority of the reimbursement contracts the Commission has are with other state agencies. The staff contract managers follow up directly with the contract managers in other agencies. Many state agencies have cash flow problems near the end of the fiscal year and often cannot pay the Commission's invoices until they receive payment from other agencies. All of the payments received more than 60 days after billing were from other state agencies with their own cash flow issues. The staff's goal is to bill all contracts as frequently as possible so that the last invoice at the end of the year will be as small as possible and have the least impact on cash flow.

Response to OSAE Recommendation #6:

This recommendation suggests that the staff develop and obtain federal approval of an indirect cost rate plan. Management staff supports this recommendation. We have not done this to date because obtaining a federal approval of an indirect cost rate is not currently required and to prepare the needed application is complicated and time consuming for Accounting Unit and management staff. Due to current demands on the staff to transition to the FISCAL system, it will not be possible to prepare an indirect cost plan in the near future until more Accounting staffing is available and freed up from training and converting to the FISCAL system. Management staff will prioritize developing an indirect cost rate application as soon as staffing and workload allows.

Response to OSAE Recommendation #7:

This recommendation suggests that all checks submitted to the Commission be sent directly to the Accounting Unit. Management staff will revise all contracts and agreements to direct all checks to be sent directly to the Accounting Unit for processing. The project managers were receiving checks and delivering the checks to the Accounting Unit to be sure the payment properly met contract requirements and that the checks were properly recorded before being deposited by the Accounting Unit. Management staff will revise procedures to meet the OSAE recommendation and will require the Accounting Unit to notify project managers when checks are received, enabling the project managers to immediately review contract requirements and payment requirements using a copy of the check instead of the original.

Appearance of Conflict of Interest

The non-audit services report states that certain funding sources create the appearance of a conflict of interest, while also acknowledging that the Coastal Act authorizes the Commission to accept grants, appropriations, and contributions in any form and that the Department of Finance approved a Budget Change Proposal (BCP) in 2009 (Attachment A) that authorizes the Commission to accept funds from non-state entities.

More specifically, the report states that the acceptance of funds in return for expedited work activities can be viewed by other interested persons as unfairly prioritizing those projects and creates a potential risk of undue influence of state officials. The report recommends that the Department of Finance and the Commission consider other budgeting approaches. While the Commission staff agrees that it would be optimal for the agency to have adequate funding to provide a level of service that is fully responsive to the needs of all applicants, the reality is that some projects, particularly large, complex proposals that require specialized technical information, cannot be analyzed in a timely way at existing staff levels in addition to ongoing workload requirements. Moreover, the 2009 BCP was prepared in part as a response to calls from both the Department of Finance and the Legislative Analyst Office to seek more non-General Fund sources of funding. The 2009 BCP was fully reviewed by Finance through the state budget process, and was approved at every required level of state government. We note that payments to defray the reasonable costs of permit processing is expressly authorized by the Coastal Act, is not considered a source of income under the Political Reform Act, and decreases permit processing delays for everyone.

The Coastal Act and the Commission's regulations expressly authorize the Commission to require reimbursement of expenses for permit processing *in addition to* prescribed fees for the specific type of development proposed. (Pub. Res. Code section 30620(c); 14 CCR 13055(g)). Further, the Political Reform Act states that for purposes of determining whether a public official has a financial interest in a decision, "*any person who makes a payment to a state agency or local government to defray the estimated reasonable costs to process any application, approval or any other action, including but not limited to, holding public hearings and evaluating or preparing any report or document, shall not by reason of the payments be a source of income to a person who is retained or employed by the agency.*" (Gov. Code section 87103.6.)

The payments agreed to in the subject Memorandums of Agreement did not provide any applicant or permittee with any type of permit authorization. The payments were offered by non-state entities to defray the staffing costs associated with the processing of their permit applications, permit appeals, and condition compliance and restoration requirements, and to ensure that adequate staffing was available to timely process that work. The payments were made by applicants or permittees undertaking ongoing, multi-year permit related activities and were not contingent upon the agency's approval or disapproval of a permit application or upon the result of any other agency action. The payment of permit processing costs, in addition to the payment of the regularly prescribed permit fees, helps decrease permit processing delays for all

permittees, including one-time applicants who have not provided payment for permit processing in addition to prescribed permit fees.

In practice, these payments have not resulted in preferential regulatory outcomes. For example, during FY 2012-2013 when the Commission had a similar memorandum of agreement, the Commission, consistent with the staff recommendation, voted unanimously to deny a coastal development permit application and object to a federal consistency certification submitted by PG&E to conduct high-energy seismic surveys in state and federal waters offshore San Luis Obispo County. (CDP Application E-12-005 and Consistency Certification CC-027-12.)

Response to OSAE Recommendation #8:

Management staff would be happy to meet as soon as possible with the Department of Finance to explore options to provide alternative sources of funding or mechanisms to ensure adequate funding for staff resources is available to timely process on-going, multi-year projects without payments being provided by outside entities to defray the costs. If equivalent funding is not provided, it will be necessary to reduce staffing levels. This will significantly reduce staff availability to work on as many projects as the workload requires, and thus, increase processing times and create additional delays.

Contract and Grant Management

See discussion above under Budget and Accounting as it relates to the billing and processing of contracts and grant agreements.

Governance

Information listed in OSAE report regarding Appeals and CDPs:

The OSAE report's information regarding appeals and CDPs in the second bullet on page 9 is incomplete and presents a misleading picture of the length of time that may be associated with the processing of Appeals and CDPs. The section reads as follows:

CDPs—The 2015-16 CDPs and appeals workload consisted of 1,247 active cases at year-end and 867 closed during the year. The CDPs and appeals are prioritized based on the deadlines established in the Coastal Act. While the complexity and time required to review the CDPs varies, we identified one CDP application that the Commission acted upon in February 2016 that was initially received by the Commission 11 years earlier, in 2004. In addition, 13 CDPs ranged from 2 to 7 years, and 28 CDPs ranged from 1 to 2 years before the Commission took action. The Commission tracks and monitors the CDPs and appeals in the CDMS.

There are two distinct relevant timeframes for CDPs: 1) the time between submittal of an application and when the application is filed as complete and 2) the time between the date that the application is filed as complete and the date that the item is acted on by the Commission. The discussion in the OSAE report appears to combine both of these timeframes, producing an

inaccurate assessment for the length of time it takes for the Commission to take action on a number of CDPs and appeals.

Under 14 Cal. Code Regs. section 13056(b), the staff has a limited 30 calendar day period to review the initial CDP application for completeness. Within the 30 day review period, the staff must make a filing determination in writing and if the application is incomplete, describe the specific materials needed to complete the application. Not later than 30 calendar days after receipt of the requested materials, the staff must determine whether the submittal of the requested materials is complete and transmit that determination in writing to the applicant. Depending on the timeliness and thoroughness of the responses from the applicant, this overall process may take an extended period of time.

Per Government Code section 65952, once the application is deemed complete, there is a 180 day deadline to take the project to the Commission for action. Under certain circumstances, this 180 day deadline may be extended up to an additional 90 days (Government Code Section 65957). With the exception of several CDPs with specific litigation related issues, no CDP applications acted on by the Commission in FY 2015-2016 exceeded the 180 day requirement (or 270 day extension where exercised) for Commission action after an application was filed as complete.

Appeals have different deadlines. Once an appeal is filed, the Commission must commence the hearing on the appeal within 49 days of filing, unless a waiver of this requirement is provided by the applicant. Once either the waiver is obtained, or the Commission finds the appeal raises “a substantial issue”. The staff works with the applicant to obtain any necessary information in order to bring the item to a de novo hearing as soon as practicable.

Long time periods that may occur between the submittal of a CDP application and when it is filed as complete are typically related to the length of time the applicant takes to submit requested information necessary to complete the application. Similarly, long time periods for completing action on an appeal are directly related to the length of time the applicant takes to submit requested information. The deadline for the staff to review a CDP application for completeness and then bring a project to the Commission for action (once the application is filed as complete) is spelled out by law. The staff is diligent in ensuring that these deadlines are adhered to.

Additionally, the reference to a CDP application that took 11 years for action is misleading and mischaracterizes a complex project history. This permit, initially submitted in 2004 as a requirement of a previously issued emergency permit, was filed as complete in September 2015 and acted on by the Commission in February 2016. The length of time between application submittal and when this permit was filed as complete reflected the timeliness and willingness of the applicant to develop and submit the required project materials, identify necessary project mitigations, and complete negotiations necessary for the permit to be filed as complete. Once this permit application was filed as complete, the Commission acted within the required 180 day deadline. Furthermore, the reference to several other permits taking long periods of time for

Commission action is misleading as the report fails to make the distinction *between the time between submittal and filing* and *between filing and Commission action*. With the exception of several permits involved in related litigation after they were filed as complete, no CDP applications exceeded the 180 day requirement (or 270 day extension where exercised) for Commission action in FY 2015-2016.

Clarification of Commission and Commission Staff Roles

Response to Recommendation #9

This recommendation suggests that the Commission should collaborate with the Executive Director on roles and responsibility for the Commission, the Executive Director and the Commission staff consistent with the Coastal Act in written policies and procedures. When joining the Commission, each new Commissioner receives an extensive binder of background information, policies, procedures, and legal advice. In addition, new Commissioners are given one-on-one orientation training by the Executive Director, Chief Counsel and other management staff.

Management staff is anticipating a group of new Commissioners at different times in 2017. Management staff is currently in the process of a major update and revamp of the new Commissioner materials and will have the materials ready before new Commissioners are expected to join the Commission in 2017. These updated materials will also be provided to all current Commissioners.

One-on-one training will be provided to new Commissioners and new Commissioners will be given links to important Commission workshops on key Coastal Act issues (wetlands, environmentally sensitive habitat areas, etc.).

The Commission scheduled selection of a new Executive Director in February or March 2017. The new Executive Director will have an opportunity to work with the Commission to discuss and clarify the roles and responsibilities between the Commission and staff as part of the update of the Strategic Plan in 2017 and 2018. The Coastal Act describes the different roles and responsibilities of the Commission and its staff and the updated Commissioner Manual will compile and describe that information in an accessible and clear format.

Succession Planning to Eliminate Key Person Agency Risk

Response to OSAE Recommendation #10:

This recommendation suggests that the management staff develop written policies and procedures to communicate management's expectations and ensure critical institutional knowledge are retained in the training and development of the staff. Management staff agrees that this recommendation has merit and the staff currently have many written procedures in effect especially in regard to procedures and guidance for permit, appeals and

Local Coastal Program (LCP) work. The written State Administrative Manual is the guidance used for all budget and accounting processes.

We interpret the OSAE recommendation #10 to mean that the broad written policies addressing LCP and permit procedures and the State Administrative Manual should be augmented by more detailed written procedures. We will focus on the accounting and billing procedures to provide checklists and desk manuals for the key job responsibilities.

The Commission's management staff has identified key senior staff members who plan to retire soon and will work closely with them to document and pass on key institutional knowledge to others before their retirement. Two key senior staff members retired in FY 2016-2017 and their knowledge has been passed on to other staff members.

Succession planning is a part of the Commission's adopted Strategic Plan and is a high priority for the Commission's management staff as we know that there will be a substantial number of retirements of key persons in the next few years. We are prioritizing the work to prepare key position desk manuals on key responsibilities based on projected retirement dates.

Personnel Management Practices

Management staff has provided extensive on-the-job training to enhance skills for the specific duties required of the staff positions. Paid outside training is limited due to budget constraints. The staff has identified important training for supervisors and management and for coastal program analysts. All supervisors and managers were required to participate in five days of training. Supervisors and managers now have a common understanding of key responsibilities and skills and how to work one-on-one with those they supervise to support growth and development.

Analysts have had intensive in-house training on regulatory and planning work and the Commission's adopted Sea Level Rise Guidance Document. In addition, the Information Technology Unit staff has also attended system support training on an as needed basis or when mandated in order to provide on-going data management and network security support. Overall, more training is highly desirable, but significantly constrained by a very heavy workload and by budget limitations.

Management staff has developed very detailed duty statements with job expectations for all new employees and those promoted into new positions. We are also updating the older duty statements of senior staff to more clearly describe job expectation and duties. These detailed job specifications and duty statements communicate clear expectations to individual employees and assist staff in understanding job performance standards.

Leave Balances

The OSAE report acknowledges that the management staff is managing the reduction of leave balances over the legal limit of 640 hours. As background, the Commission's management staff in the past had all staff below 640 hours at the end of calendar years as required. During the years that budget cuts, staff reductions, and furloughs were underway it was impossible to also require staff to take all earned leave above 640 hours when they were required to take two to three unpaid days per month per the furlough rules. Workload would not allow it as well. Leave balances grew and a substantial number of staff carried leave balances well above 640 hours. When the furlough ended, management staff recognized the substantial cost liability to pay out leave for retiring and exiting employees and began an aggressive leave reduction plan. This program has been effect over the last three years and as of December 31, 2016, all but two employees will be at or below 640 hours. These remaining two employees will be required to be at or below 640 hours by December 31, 2017.

Even with the reduction of leave credits to the legal limit of 640 hours, there is substantial financial cost of the Commission and all state agencies are required to absorb when employees retire or resign and cash out their unused leave. The Commission is required to absorb those costs by leaving positions vacant. This provides an additional workload burden to remaining staff. This is an enormous challenge for all state departments in the next few years as large numbers of senior staff retire. Unless the state is able to offer a broader solution, the Commission, like all other agencies, must absorb these costs estimated to range from \$195,000 to \$500,000 per year for the next five years.

Written Staff Performance Evaluations

The management staff concentrates their feedback to staff on their performance in probation reports for new employees and in one-on-one verbal consultations throughout the year.

Traditionally, management staff has found regular one-on-one consultations with employees to be more immediate, effective and time efficient. The Commission's heavy workload has made it difficult to make annual written performance evaluations a priority.

Response to Recommendation #11:

This recommendation suggests that the management staff provide annual written performance evaluations to enhance staff's professional development. The Commission has also expressed interest in all staff receiving yearly written performance reviews.

Management staff supports this recommendation and will implement the requirement that all managers and supervisors prepare written performance reports for all staff by December 2017. Due to workload, these reviews will need to be phased throughout 2017. In addition it will be necessary to carry out additional supervisory and management training so that written performance reviews are fair and productive and meet CalHR rules.

Conclusion to Response to OSAE Non-Audit Services Report

In conclusion, management staff will immediately address the recommendations in the OSAE report. It will be necessary, however, to obtain additional staffing and funding in key areas, such as in the Accounting Unit, to fully implement the OSAE report's recommendations as described above in an expeditious way while at the same time implementing the mandated time sensitive work under the Coastal Act.

We believe in FY 2016-2017 and future years we can reduce the year end cash flow problem that occurred in FY 2015-2106 due to severe staffing difficulties. However, due to the Commission's heavy dependence on reimbursement contracts and grants, it is very likely that some cash flow problems will continue to be an issue every June. We recommend that Department of Finance consider an ongoing year end cash flow loan to allow for the reimbursement billings that must occur after May and June staff work is completed and billed in early July.

EVALUATION OF RESPONSE

The California Coastal Commission's (Commission) response to the draft report has been reviewed and incorporated into the final report. We did not perform procedures to evaluate the accuracy of the additional information provided in the Commission's response. We acknowledge the Commission's willingness to implement our recommendations. In evaluating the Commission's response, we provide the following comments:

Recommendation 6: Develop and Obtain Federal Approval of an Indirect Cost Rate Plan (ICRP) to Support and Claim Indirect Costs

The Commission supports this recommendation, but stated that obtaining an ICRP is not currently required. However, without a federally approved ICRP, the Commission is limited to 10 percent of modified total direct costs which may result in unreimbursed indirect costs. Therefore, we continue to emphasize the importance of developing and obtaining a federally approved ICRP to allow the Commission to obtain reimbursement for indirect costs incurred.

Governance—Appeals and Coastal Development Permits (CDPs)

The Commission stated that the draft report presented a misleading picture of the length of time associated with the processing time of CDPs and appeals. The information presented in the report is based on data provided by the Commission in August 2016, which only included the application submittal date. Additional data provided by the Commission in December 2016 included discrepancies with the original data. Therefore, the report reflects the original data provided and is footnoted accordingly. However, to clarify the information presented we modified the report to include a statement that delays between the application submittal date and the Commission action date could be due to litigation or incomplete applications.