

December 29, 2023

Joe Stephenshaw, Director  
California Department of Finance  
915 L Street  
Sacramento, CA 95814

Dear Director Joe Stephenshaw,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Secretary of State submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2023.

Should you have any questions please contact Reginald Fair, Deputy Secretary of State, Operations, at (916) 695-1446, rfair@sos.ca.gov.

## **GOVERNANCE**

### **Mission and Strategic Plan**

The Secretary of State, a constitutionally established office, is the chief elections officer of the state and is responsible for the administration and enforcement of election laws. The Office also is responsible for administering and enforcing laws pertaining to filing documents associated with corporations, limited liability companies, partnerships, limited partnerships, unincorporated associations and pertaining to filing bonds and perfecting security agreements. In addition, the Office is responsible for commissioning notaries public, enforcing the notary laws, and in conjunction with being the home of the State Archives, administering a state records management program and preserving documents and records having historical significance. The Secretary of State is the filing officer for lobbying and campaign registration and disclosure documents filed under the Political Reform Act. The Secretary of State also operates the Safe at Home program, maintains the Domestic Partners and Advance Health Care Directives registries, provides support functions for the Voting Modernization Board, and is home to the California Museum.

Policy associated with the administration of the Office is accomplished through the divisions of Elections, Political Reform, Business Programs, Archives, Information Technology, and Management Services.

The California Secretary of State's strategic plan is a ten-year plan for the agency that was developed and adopted under the leadership of Secretary of State, Shirley N. Weber, Ph.D. The objectives in this plan may be updated every other year, in the odd years, within the SLAA report, to allow the organization to be responsive to changing needs of the State and the needs of the public.

Below is the Executive Summary of the 2022-2032 Secretary of State Strategic Plan. The full

Secretary of State Strategic Plan was published in 2022 and is on the Secretary of State's website.

## **Control Environment**

Through ongoing monitoring, documentation, and Executive oversight, the Secretary of State (SOS) consistently reviews, evaluates, and improves our systems of internal controls. The SOS utilizes weekly Division Chiefs' meetings as a time for senior and Executive management to discuss and document items of significant impact to the agency, including current and potential internal risks and control issues. In addition, Deputies, Division Chiefs, and Project Managers meet individually with the Chief Deputy and Deputy of State Operations weekly or bi-weekly to discuss in greater detail significant issues affecting each area of operations. The Deputy of State Operations meets daily with the Chief Deputy to discuss issues of concern and make recommendations to the Secretary of State for appropriate plans of action to mitigate each issue.

Also, vital to maintaining a secure control environment, the SOS Executive Team recruits, develops, and maintains a competent workforce and continuously evaluates its performance while enforcing accountability. The SOS Workforce and Succession Planning Program, in addition to being transparent, voluntary, and beneficial to the functionality of our programs, was designed to demonstrate commitment to our employees while emphasizing each employee's role in maintaining the integrity and ethical values of the SOS's office. The program uses new and innovative recruitment methodologies, onboarding activities, training and cross-training programs, mandatory and voluntary employee evaluations, one on one and mentoring opportunities, as well as employee exit surveys to inform and evaluate our recruitment and training programs and to provide insight into how to properly motivate and retain a highly competent workforce.

## **Information and Communication**

As the head of the Secretary of State, Shirley N. Weber, Ph.D., is responsible for the overall establishment and maintenance of the internal control and monitoring systems. The executive monitoring sponsors, Lisa Martin, Chief Deputy and Reginald Fair, Deputy of State Operations, facilitate and verify that the SOS internal control monitoring practices are implemented and functioning as intended and that our systems of internal control are properly documented and communicated.

Reports detailing the control activities associated with mitigating identified risks and their effectiveness are reported by each Division on a quarterly basis. These reports are then summarized and reported to the Chief Deputy Secretary of State, Deputy of State Operations, and Chief Counsel, Steve Reyes. The summarized reports are provided and discussed with SOS Deputies, Division Chiefs, and their management teams. Risks and control activities that are considered high impact to the agency are reported every six months to the Department of Finance. Risks and control activities that are considered medium or low risk to the agency are followed up through our ongoing monitoring process.

## **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 Secretary of State monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Reginald Fair, Deputy Secretary of State Operations; LaKenya Jordan, Deputy Secretary of State, Policy & Planning; and Stacey Jarrett, Administrative Assistant II.

The Secretary of State monitors risk through an ongoing risk assessment process that includes the highest levels of Agency leadership, including Deputies and Program Managers (Division Chiefs), who are closely familiar with the functions, technology, processes, and risks in their respective areas. Monitoring activities are performed, documented, and measured against a baseline of the prior year's activities. The Chief Deputy, the Deputy of State Operations, and the Deputy of State Policy & Planning meet quarterly to discuss identified internal control deficiencies.

## **RISK ASSESSMENT PROCESS**

The following personnel were involved in the Secretary of State risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, questionnaires, consideration of potential fraud, and other.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, tolerance level for the type of risk, and other.

The SOS employed the risk management methodology for the identification, analysis, evaluation, risk treatment, and monitoring and review for the purpose of managing potential risks that may affect the SOS organization, projects, processes, and activities.

## **RISKS AND CONTROLS**

### **Risk: Storage Space/Stacks Capacity/Shelving Conversion**

ARC shelving conversion was only halfway completed. The stacks are at approximately 89% capacity. To maximize space in the artifacts storage area, Archives is completing a conversion of compactable storage. Certification requirements for records restrict their ability to deaccession materials. Compactable storage is being requested, BCP is secure for artifact storage. Funding is needed for additional ARC conversion.

#### **Control: A.**

1. Funds have been secured and placed aside for the ARC Shelving Conversion project.
2. Archives conducted a Stack Capacity Survey in August 2023. In the 2023 Report, the State Archives is at 86% capacity with a 3% reduction based on a deaccessioning project

completed in the previous months to the report.

Storage space constraints (storage space constraints may arise due to increased inventory, unexpected storage needs, or inefficient space utilization)

- To regularly monitor capacity level and survey open storage capabilities
- Conduct regular deaccessioning inventory assessments to reclaim storage space.
- Conduct an onsite assessment and inventory of items for the SOS in temporary storage at the Archives and evaluate if they are past retention and work to properly transfer.
- To implement dynamic storage system that can adapt to changing needs working with the SOS building maintenance team and the Department of General Services.
- To explore off-site storage options with the SOS building maintenance team for additional storage.

**Control: B.**

Shelving Conversion Challenges (Shelving conversion challenges may arise when reconfiguring shelving units to accommodate changing inventory needs, leading to delays or errors).

- Develop a detailed plan for shelving conversions including funding, a timeline, and step-by-step procedures.
- Conduct an onsite assessment and temporary relocation of materials currently stored.
- Provide a continuity of service and support.
- Implement a labeling system to clearly mark shelves and items during the conversion process.
- Allocate sufficient time for shelving conversions to avoid rushed or haphazard changes.
- Have a contingency plan in place in case unexpected issues arise during the conversion.

**Risk: Excessive Leave Balances**

The SOS has identified a significant number of employees who have accumulated excessive leave accumulations over the last several years creating an unfunded liability for departmental budgets. Leave balances exceeding established limits must be addressed immediately through the implementation of the leave reduction efforts.

SEIU (BU 1, 4, 14, 21), CASE (BU 2) and CSLEA (BU 7), as well as excluded employees subject to California Code of Regulations, title 2, section § 599.742.1.

**Control: A.**

Leave Management Program, program year restarts 2024

1. Regular monitoring and reporting
2. Communication to participants and management teams on benefits, tips for avoiding excessive balances
3. Management training
4. HRB and Exec to identify reasonable enforcement

**Risk: Bldg. physical security**

The swing space has different levels of security measures in place, including CCTV, metal detectors and monitoring although CHP office is located nearby. While these measures can help mitigate some risks, there are still vulnerabilities that exist. Specifically, in the event of a security breach at the adjacent SOS building (ARC), there is a risk that the swing space building could also be targeted. While SOS has approved the design of the security measures, DGS and FM will further address the design and approval process.

**Control: A.**

SOS has established a project with the Department of General Services.  
Project addresses identified or known vulnerabilities.  
Estimated completion date is December 2025.  
Daily monitoring by SOS facilities staff; as well as contracted unarmed Security Guards.

**Risk: Successful implementation of the new CARS project**

The CARS project's success is top priority for the SOS and for PRD.

**Control: A.**

- Measure: PRD regularly reviews and updates the stakeholder register with PMO.
- Frequency: PRD conducts stakeholder analysis to coincide with CARS Project activities, at least once per quarter, to ensure stakeholder engagement is appropriate for project activities occurring at that time.
- Additional Measure: PRD implements a periodic review process to assess stakeholder buy-in and ensure continuous stakeholder engagement and recommends new or additional measures to the PMO.
- Measure: PRD has hired additional staff to backfill project subject matter experts. This step ensures both project work and daily operational work are completed.
- Measure: PRD staff working collaboratively with ITD have completed a data cleansing effort that will be used during the data migration effort performed by the System Integrator.
- Measure: PRD staff working collaboratively with PMO staff have completed a thorough review and update of all project requirements, business rules, and use cases.

**Risk: Depletion of VCFCF Monies**

The Secretary of State administers the Victims of Corporate Fraud Compensation Fund (VCFCF). The VCFCF provides limited restitution to victims of corporate fraud who have otherwise been unable to collect on their judgment against corporations. Due to the large increase in claims over the past few years, the VCFCF may not have enough funds to pay valid claims at the time VCFCF awards are issued. VCFCF is funded by \$2.50 of the \$5.00 Disclosure Fee paid by each corporation with the filing of their Statement of Information. Generally, this generates approximately \$1.8 million each year for the VCFCF.

**Control: A.**

The Secretary of State's office has created procedures to implement in the event of fund depletion. The procedures include notification when the fund reaches an at-risk threshold; the maintenance of a list of awards to be paid as funds become available; the notification to victims who have been issued awards that there are insufficient funds and that the victims will be paid as funds become available; the creation of a notice on the VCFCF website informing the public there are insufficient funds and that awards will be issued as funds become available; and the manner in which funds will be issued. The control is currently not in practice because the VCFCF has sufficient funds to pay claims currently under review by the VCFCF. However, the VCFCF is unable to forecast the volume of claims that may be submitted in the future and so the control may need to be put into place within the next year. The control does not reduce the risk of fund depletion; however, it provides the Secretary of State the means to manage the VCFCF in the event of fund depletion. The Secretary of State has met with the Legislature and Department of Finance urging them to do something with the VCFCF.

**Risk: Notary Automation Program**

The Secretary of State is responsible for the appointment of California notaries public. SB 696 (Allen) enacted Remote Online Notarization (RON) and was signed into law in September 2023. The Secretary of State currently utilizes the Notary Automation Program (NAP) to store and maintain notary public commission data. NAP cannot easily be modified to accommodate RON requirements. Additionally, NAP does not provide the ability to track which third-party vendor online notarization platform each notary public is registered with or will be using. In order to implement and administer the new online notary program, a new information technology system will need to be developed to administer the program.

**Control: A.**

SOS is in Stage 2 of the Department of Technology's Project Approval Lifecycle for NAP 2.0 IT Project. SB 696, rather than being an optional add on to the end of the project is being incorporated into the core of the project.

**Risk: Fraudulent Registration Filings**

Fraudulent registration filings have increased substantially with the implementation of the free entity registration law for fiscal year 22-23.

**Control: A.**

Fraudulent registration filings increased substantially with the implementation of the free entity registration law for fiscal year 22-23. Unfortunately, despite various discussions with the legislature, the Secretary of State was unable to secure a legislative fix in the 2023 session that would have permitted the agency to close businesses determined to be fraudulently created. Therefore, the majority of these entities are still of record with the Secretary of State. The Secretary of State has continued to monitor the situation closely and plans to again request legislation in 2024 that would create new statutory remedies

for customers whose personal identifying information was fraudulently used in a business filing.

## **CONCLUSION**

The Secretary of State 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.

**Shirley N. Weber, Secretary of State**

CC: California Legislature [Senate, Assembly]  
California State Auditor  
California State Library  
California State Controller  
Director of California Department of Finance  
Secretary of California Government Operations Agency