December 28, 2023

Melinda Grant, Undersecretary
California Business, Consumer Services and Housing Agency
500 Capitol Mall, Suite 1850
Sacramento, CA 95814

Dear Undersecretary Melinda Grant,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Alcoholic Beverage Control 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 Randy Deems, Division Chief, Headquarters, at (916) 419-2511, randall.deems@abc.ca.gov.

## GOVERNANCE

### Mission and Strategic Plan

In accordance with the State Leadership Accountability Act, the Department of Alcoholic Beverage Control 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 Randy Deems, Division Chief, Headquarters, at (916) 419-2511, randall.deems@abc.ca.gov.

The mission of the Department of Alcoholic Beverage Control (ABC) is to provide the highest level of service and public safety to the people of the state through licensing, education, and enforcement. ABC has identified the following four goals to guide its efforts to fulfill this mission and realize the vision of protecting California communities through excellence in alcohol regulation and education:

1. Provide consistent, transparent, responsive, and efficient service.
2. Provide excellent service through the use of evolving technology, innovative programs, and enhanced training.
3. Take initiative to solve problems and strive for continuous improvement.
4. Optimize internal resources and strengthen community outreach and public support.

ABC continues to pursue these goals through online services and modernization efforts including developing greater online services to support field work, supporting continued online and in-person educational programs (Responsible Beverage Service and Licensee Education on Alcohol and Drugs), providing licensees with opportunities to submit liquor license applications online, report price posting and gallonage, and provide additional services, training, and support as organizational changes impact the alcohol industry. In fiscal year 2023-24, the legislature approved a one-time infusion of funding to avoid program cuts and address economic uncertainty expected in the ABC fund due to contract negotiations and

COVID revenue reductions. Additionally, ABC received funding and positions to address departmental equity, the development of a robust Public Affairs Office, information technology security risks, information technology and administrative support. In 2024, ABC plans to complete an updated Strategic Plan that will define organizational goals and objectives and support the mission, vision, and values of ABC while addressing departmental risks.

## Control Environment

As the head of Department of Alcoholic Beverage Control, Joseph McCullough, Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems. As described below in the discussion of monitoring, ABC employs a variety of processes to measure and evaluate performance and maintain controls. The combination of these controls, the completion of bifurcation, and a culture consistent with the values stated below have established an environment in which change can be effectively implemented and steady progress is being made to accomplish many of the department's long-standing goals.

Values - ABC's core values are communicated to the public and incorporated into departmental documents and operations in a variety of ways, including the strategic plan, organizational expectation documents, internal policies, and the example set by department leadership.

- Trust – We serve the public and one another with fairness and integrity.
- Innovation – We embrace emerging change for continuous improvement.
- Professionalism – We are ethical and respectful in all that we do.

Enterprise Change Management Process – ABC developed an Enterprise Change Management process in 2022 with consisted of four centralized support functions designed to ensure visibility of all projects and facilitate the identification and resolution of the challenges posed by the amount of organization change currently occurring at ABC. The four functions are as follows:

1. Master Timeline: An enterprise-level timeline has been created that provides a simple but comprehensive view of all the milestones of the many projects currently underway.
2. Resources Management: This support function tracks resource needs and the redirection of resources from efficiencies identified as a result of the change. This tracking process is transparent to the executive staff and designed to facilitate the timely identification of current and future resources to address critical needs.
3. Risk Management: The Risk Management Committee is producing a report that is shared with Executive Staff on a monthly basis to ensure the most critical risks and issues are visible to all and mitigated steps can be planned, resourced, communicated, and implemented effectively.
4. Change Management: Through partnership of program, the Office of Public Affairs, the Training Unit, and Information Technology, the Organizational Change Manager has developed change management plans for high priority changes and passed implementation to identified project leads.

Workforce – ABC developed a robust sworn Recruitment Unit that attend diverse hiring fairs throughout the State, engage with candidates throughout the hiring process, and continually take part in hiring throughout the year. ABC has a quarterly recruitment workgroup with key internal stakeholders that share ongoing recruitment efforts, review data to identify if barriers exist in the hire process and discuss ideas to continuously improve the recruitment program. ABC has invested in employees by developing a departmentwide Peer Support Program that provides assistance and support to department employees after a traumatic incident or event, when personal or professional stress negatively affects the employee's work performance, person well-bring, or relationship with others. In 2024, ABC plans to begin efforts to update it's Workforce and Succession Plan to address workforce gaps and create initiatives to address the gaps that may exist in the department.

Performance Evaluation and Accountability - ABC employs a variety of evaluation tools for individual, district office and program performance management and accountability, including:

- District Office Monthly Activity Report (ABC-19) - This report is completed monthly by District Office Managers and provides information about licensing processing and caseload, as well as enforcement activities such as complaint assignments, arrests and citations, and the results of minor decoy and shoulder tap operations. These reports are used to evaluate the productivity of offices and identify emerging risks (e.g., growing backlogs, rising violation rates, etc.).
- Arrests by Agent (JUS 750) - The JUS 750 report is available to all managers to see the arrest statistics of all ABC Agents. This report is used to evaluate productivity and monitor the types of violations that are leading to arrests.
- Workload Summary Report (WSR) - The WSR summarizes a variety of statistics, including those collected through the ABC-19, the JUS 750, and the ABC licensing system to illustrate district office, division, and department-level statistics related to the licensing and enforcement.
- Monthly Enforcement Activity Report (EMAR) - The EMAR is completed by each sworn employee and provides a summary of activities for each month. This report is submitted to, and discussed with, the immediate supervisor each month. These reports are then summarized by office and then department wide. This report is used to evaluate how ABC's sworn workforce is spending its time and evaluate the productivity of that distribution of time toward accomplishing ABC's program goals.
- Annual Performance Reports - In addition to all the program-specific tools described above, ABC also utilizes the standard employee probationary and annual performance review process.

All the tools above are utilized to identify existing or emerging issues that need to be addressed as well as providing ABC leadership the ability to see how resources are being used, what workload is being accomplished, identify where adjustments may need to be made in resources, strategy, or performance, and ultimately ensure accountability for performance at all levels of the organization.

**Information and Communication**

ABC utilizes a reporting portal for its primary computer system. This portal allows authorized users to view various workload and performance reports, which allows ABC management to monitor the operation and identify existing or emerging issues. ABC has several processes for the review and approval of changes to the department operations and controls, including: a policy and form management process which requires the affected business units and all key executive staff to sign off. This process also applies to changes in general orders and policy manuals.

ABC has a variety of different monthly management reports regarding workload in district offices, information technology, financial management, business management, and human resources issues. ABC also has regular executive meetings in which operational and program issues are shared and discussed. In addition to these communication channels, ABC completed an organizational health survey in 2022 to identify issues and measure internal service levels. In order to maintain effective communication and provide exceptional customer service to external stakeholders, ABC conducted a stakeholder survey in 2022 to gain feedback from stakeholders to help create sustainable change, build relationships, and increase the department's ability to implement policies and programs to meet consumer needs. Additionally, ABC conducts an annual stakeholder meeting, regular meetings with key stakeholder communities, and an electronic subscription service that allows stakeholders to select the type of information they would like to receive from ABC. These channels are used to communicate changes at ABC as well as solicit feedback on current and proposed program performance.

## 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 Department of Alcoholic Beverage Control monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Randy Deems, Division Chief, Administration Division.

ABC uses a variety of processes to monitor performance and identify emerging risks. These include:

- An extensive performance monitoring process to track the effectiveness of resources obtained through the 2019-20 budget against the projected outcomes presented in the budget change proposal.
- Workload summary reports that indicate the volume of licensing transactions, enforcement actions, and illustrate the volume of pending actions at the end of each month, which help management identify performance or capacity issues.
- Annual district office reviews, which are performed by Deputy Division Chiefs, to review the various operational and performance metrics related to each district office.
- Daily transaction reports to reconcile the work performed with the revenue collected.
- Periodic scans and reviews of information security by both internal and external information security experts.
- Various annual surveys to management and staff regarding work environment, service level of centralized functions, and solicitations for program or resource improvements.

- Monthly performance reports that compare actual performance to stated goals (e.g., what percentage of license applications are processed with target time periods).
- Monthly financial reconciliations.
- Monthly executive meetings are used to identify and discuss issues including those related to internal controls.
- A master compliance listing is used to identify current and upcoming reporting requirement ABC must meet to maintain compliance with control agencies.
- Annual risks assessment to identify potential risks to the department.

Once vulnerabilities are identified, assignments are made to the appropriate parties in order to either eliminate or mitigate the risk identified. Depending on the severity and scope of the issue, the monitoring of the actions may remain within a particular chain of command, be shared with the executive staff, or even the entire department. In some cases, ongoing monitoring reports will be produced and institutionalized as part of the ongoing operation. Examples of these processes include:

- The information technology governance process where system users identify issues and they are prioritized, put into the queue to be addressed, and then completed in order of priority.
- The tracking of the mitigation of information security audit and management review findings.

## RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of Alcoholic Beverage Control risk assessment process: executive management.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, other/prior risk assessments, external stakeholders, and performance metrics.

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.

N/A

## RISKS AND CONTROLS

### Risk: Transition to Telework

Over the last several years, ABC shifted to a hybrid work schedule that allows staff to work in the field, office, and/or in a remote work environment to complete daily tasks. This shift was a result of the COVID-19 Pandemic but has been allowed to continue post pandemic to create flexibility, reduce office space, and increase candidate pools that compete with departments that offer full-time telework. ABC has adapted to this shift by requiring staff to come into the office to complete manual paper processes that have not be automated and provide face-to-face customer service in district offices to address licensee questions and concerns.

Although ABC has begun working towards developing an electronic records solution, this project is still underway and will take time to complete. As such, ABC must continue to rely heavily on physical base files for each licensee, which are stored in each district office with a copy of a subset of key documents also housed at headquarters until the electronic records solution is deployed. The fact that licensing and enforcement personnel have to come to the district office file room in order to access a file significantly reduces the efficiency and security of ABC's telework initiative because it requires excess trips to the office, reduces the amount of square footage that can be reduced (due to file rooms and workspace), and introduces information security risk should files need to be removed or copied and physically transported off-site.

### Control: Digitize Records

ABC has begun an information technology project to convert existing paper files to digital format and associate them to their electronic records in the licensing system. This change will facilitate remote work by both licensing and enforcement personnel. Upcoming completion of this project, the need for fille rooms should be greatly reduced, if not eliminated and the amount of workspace for staff who currently interact with these files regularly can be reduce to a greater degree than is currently possible.

## Risk: Data Collection

Data has become increasingly important over the last several years to help departments navigate complex programs and services, make policy decisions, and improve state operations based on data collected. Currently, ABC utilizes paper forms to collect enforcement activity data, performance metrics, and workload data across the State. ABC lacks the ability to determine if programs are effective, develop key performance indicators (KPI's) to properly assess productivity, and make policy decisions based on the data collected. Data is not consistently captured in each program or centralized into a digital database that is accessible to all program managers across the State. The lack of data creates several risks including, but not limited to, 1) missing potential opportunities for growth, innovation, or improvement, 2) making decisions based on guesswork, without data to help direct decision making, 3) inefficient resource allocation of staff completing tasks that may be unnecessary, 4) lack of accountability, and 5) opportunities to look at trends to help predict future risks that may be coming.

### Control: Data Analysis

ABC proposes to develop a data analysis plan that outlines the process for making choices about data collection efforts. This plan may include, but is not limited to, identifying:

- what data is currently being collected throughout the department,
- who is responsible for entering and reporting on the data,
- where is the data stored,
- why is the data currently be collected,
- is there a need to continue collecting the data,

- how often the data is collected, and
- will the data be used to make policy decisions in the future.

ABC will look for opportunities to take part in statewide initiatives to improve services through data collection and apply to receive additional funding to support these initiatives when opportunities arise.

### Control: Develop Data Governance

Develop a project to establish a formalized data governance which will include defining the objective and scope of the initiative, identifying stakeholders, roles and responsibilities, policies and procedures, standards and definitions, tools and technologies, communication and training, monitoring and continuous improvement, and risk management and compliance.

## Risk: Stakeholder Engagement

ABC has undergone significant changes over the last several years that has increased communication needs beyond the licensee. With the implementation of the Responsible Beverage Service, ABC's audience now includes alcohol servers, employers, and potential employees that must take training and pass an exam to become certified and renew certification every three years to maintain compliance. This change partnered with the continued need to educate licensees and employers of alcohol related law, rules, regulations, and future technology changes requires ABC to develop communication strategies that will help provide change management practices to the public through tailored educational programs and outreach that will increase public awareness and engagement and reduce the risk of stakeholders being unable to understand and adapt to changes occurring throughout the department.

### Control: Develop a Change Communication Plan

As technology continues to evolve, ABC plans to increase and utilize organizational change management experts specialized in the implementation of change and transformation occurring across the Department. These experts will partner with the newly established Public Affairs Office to develop a robust communication plan to create messaging strategies, identify key internal and external stakeholders, develop contingency plans to address unexpected situations, and clarify goals and objectives.

### Control: Develop a Marketing Strategy

In 2022, ABC conducted a Stakeholder Survey to get a sense of the department's ability to provide services to stakeholders. The results showed a need to develop greater opportunities to share information through social media platforms, leverage communication sent electronically and, in the mail, to provide information on departmental changes (i.e., rules, laws, change, information, etc.), and improve translation services. As a result, ABC will develop a marketing strategy and budget to increase visibility and public awareness of ABC programs and initiatives through social medial, including translation services.

## CONCLUSION

The Department of Alcoholic Beverage Control 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.

**Joseph McCullough, Director**


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