

December 21, 2021

Lourdes M. Castro Ramirez, Secretary  
California Business, Consumer Services and Housing Agency  
915 Capitol Mall, Suite 350-A  
Sacramento, CA 95814

Dear Secretary Lourdes M. Castro Ramirez,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Contractors' State License Board submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact Michael Melliza, Chief of Administration, at (916) 255-4324, [mike.melliza@cslb.ca.gov](mailto:mike.melliza@cslb.ca.gov).

## **GOVERNANCE**

### **Mission and Strategic Plan**

#### **Mission and Strategic Plan**

The California legislature established the Contractors State License Board (CSLB) in 1929 as the Contractors' License Bureau under the Department of Professional and Vocational Standards. Today, CSLB is part of the Department of Consumer Affairs (Department or DCA).

The CSLB is responsible for licensing and regulating California's construction industry. Today, there are over 282,000 licensed contractors in the state.

## **BOARD STRUCTURE AND FUNCTIONS**

CSLB's 15-member Board directs administrative policy for the agency's operations. The Board includes 10 public members (including one labor representative, one local building official, and one representative of a statewide senior citizen organization), and five contractors. Appointments are made by the Governor and the state legislature.

The Board appoints, with the approval of the director of the Department, the registrar of contractors, who directs administrative policy for CSLB's statewide operations.

The registrar of contractors oversees a staff of more than 400 employees who work at CSLB's headquarters in Sacramento and at field offices throughout the state.

## **CSLB'S MISSION & VISION**

### **MISSION**

CSLB protects consumers by regulating the construction industry through policies that promote the health, safety, and general welfare of the public in matters relating to construction. The Board accomplishes this by:

- Ensuring that construction is performed in a safe, competent, and professional manner;
- Licensing contractors and enforcing licensing laws;
- Requiring licensure for any person practicing or offering to practice construction contracting;
- Enforcing the laws, regulations, and standards governing construction contracting in a fair and uniform manner;
- Providing resolution to disputes that arise from construction activities; and
- Educating consumers so they can make informed choices.

## **VISION**

CSLB is a model consumer protection agency, integrating regulatory oversight of the construction industry as necessary for the protection of consumers and licensed contractors.

## **STRATEGIC PLAN**

CSLB is currently utilizing DCA's SOLID Training and Planning Solutions Unit to provide strategic planning services to develop the Boards' 2022-2025 Strategic Plan.

Representatives from SOLID met with the Board members, the registrar, and chief deputy registrar to discuss the planning method, strategic planning goal areas, and target dates. Also, an electronic survey was conducted to gather input from Board members, staff, and stakeholders.

As part of the strategic planning process, SOLID conducted one-on-one interviews with Board members to identify strengths, weaknesses, internal and external threats, and opportunities. SOLID also garnered input from the registrar, chief deputy registrar, and senior staff.

SOLID conducted an environmental scan which involves a compilation and analysis of the data from the interviews, focus group discussion, and electronic survey results.

At CSLB's Board meeting held on September 22, 2021, SOLID led a strategic planning session where Board members and senior staff reviewed the environmental scan and developed strategic objectives in the areas of: Administration, Enforcement, Information Technology, Legislation, Licensing & Testing, and Public Affairs. CSLB's vision, mission, values, and goals were also reviewed.

SOLID will use the information gathered at the strategic planning session to develop the Board's 2022-25 Strategic Plan.

CSLB's previous strategic plan covering 2019-2021 can be found online on CSLB's website at [https://www.cslb.ca.gov/Resources/reports/StrategicPlan/StrategicPlan\\_2019-21.pdf](https://www.cslb.ca.gov/Resources/reports/StrategicPlan/StrategicPlan_2019-21.pdf)

## **Control Environment**

The CSLB provides an effective control environment. CSLB establishes and demonstrates integrity and ethical values (core values, codes of conduct, ability to report ethical concerns, etc.) in day to day operations and is built into the organization. These core values, codes of conduct, and organizational structure include the following.

## BOARD STRUCTURE AND FUNCTIONS

CSLB's 15-member Board directs administrative policy for the agency's operations. Appointments are made by the governor and the state legislature.

CSLB currently has five standing Board Committees that perform various functions.

- **Licensing Committee:** Ensures that all applicants and licensees meet minimum qualifications to provide construction services
- **Enforcement Committee:** Helps reduce, eliminate, or prevent unlicensed activity and unprofessional conduct that pose a threat to public health, safety, and welfare
- **Public Affairs Committee:** Educates consumers about making informed choices related to construction services, and provides information to licensed contractors so they can improve their awareness of contracting laws and their technical, management, and service skills
- **Legislative Committee:** Ensures that statutes, regulations, policies, and procedures strengthen and support CSLB operations
- **Executive Committee:** Enhances organizational effectiveness and improves the quality of service in all programs.

The Board appointed registrar of contractors directs administrative policy for CSLB's statewide operations.

The registrar of contractors oversees a staff of more than 400 employees who work at CSLB's headquarters in Sacramento and at field offices throughout the state. CSLB protects and serves California consumers while ensuring a competent and fair marketplace. CSLB helps consumers learn how to protect themselves from unscrupulous and unqualified individuals.

CSLB also protects professionals from unfair competition by unlicensed practitioners. CSLB management always bears in mind that the Board is here to support delivery of those activities contributing to the protection and education of others.

CSLB works closely with the various units of DCA to identify, hire, train, and retain a competent workforce including supervisors and managers. CSLB supervisors and managers have direct contact with employees who they supervise. Supervisors and managers report to the various division chiefs and ultimately to the chief deputy registrar and registrar of the Board.

On July 9, 2019, the CSLB executive office issued a memorandum to all CSLB supervisors and managers that defines supervisor/manager expectations. These expectations will be issued annually. The CSLB executive office recognizes that effective supervision is a foundation of a successful organization. This memorandum affirms that CSLB supervisors and managers bear significant responsibility, accountability, and authority within the organization. These expectations ensure that CSLB's and DCA's goals are met while adhering to CSLB's values of Accountability, Consumer Protection, Customer Service, Innovation, Integrity, Diversity, and Leadership.

CSLB expects supervisors and managers to:

- Establish strategies, objectives and action items to achieve CSLB/DCA/Business, Consumer Services and Housing Agency goals, seek to improve current processes, use work plans for assigned tasks and project management, and meet established due dates.

- Hold regular staff meetings, to clearly communicate goals and objectives, to manage workload, and to keep staff apprised of information they need to perform their jobs.
- Keep the respective chain of command informed of issues and problems as soon as they become aware that they may have a significant impact on a CSLB program, DCA, involved control agencies, or management at an executive level. Examples include issues that may result in litigation, issues that have DCA-wide impact, are the subject of investigations, or those that are politically sensitive.
- Manage the allocation of resources and work within that allocation. They must keep their chain of command informed if the program for which they are responsible is exceeding its assigned resources, or not meeting assigned goals, as soon as they are aware of the problem.

## VALUES

CSLB's values include:

- Being responsive and treating all consumers and contractors fairly;
- Focusing on prevention and providing educational information to consumers and contractors;
- Embracing technology and innovative methods to provide services; and
- Supporting a team concept and the professional development of staff.

## Information and Communication

The CSLB has several processes to collect and communicate relevant and reliable information needed for operational, programmatic and financial decision making. This includes communication channels across staff and management, organizational lines, and external stakeholders.

### CSLB STAFF MEETINGS

All CSLB division chiefs, supervisors, and managers are required to hold regular staff meetings. The purpose of these meetings is to clearly communicate goals and objectives, to manage workload, and to keep staff apprised of information they need to perform their jobs. These staff meetings are also used to collect feedback and allow employees an opportunity to report inefficiencies to management.

### PUBLIC MEETINGS

CSLB holds regularly scheduled public meetings throughout the state on policy setting, legislative, and regulatory matters. These meetings provide the public an opportunity to testify on agenda items and other issues. CSLB maintains a "Board Meetings" page on its website to publicize agenda and background materials for all committee and board meetings. Agendas are posted to the website at least 10 days prior to the meeting. In addition, this website section includes archive video of all meeting webcasts. Board and committee meeting materials are usually posted online within one week of a meeting. All posted meeting materials remain online indefinitely. Draft meeting minutes are not posted online; final minutes are posted after approval by the Board at its next quarterly meeting. Meeting minutes are not removed and remain available online indefinitely. CSLB also maintains an extensive "Newsroom" page on its website, which includes links to all news releases, consumer alerts, industry bulletins, and licensee newsletters. The newsroom page also includes CSLB-produced videos.

All CSLB board and committee meetings are webcast, except the strategic planning meeting and the

rare emergency board meeting, unless technical difficulties preclude a webcast. In April 2016, CSLB became the first DCA regulatory board to provide real-time live captioning of its meeting webcasts. All webcasts are posted to CSLB's YouTube Channel and remain online indefinitely. The Board's meeting calendar is included as an agenda item at Board meetings. CSLB's "Board Meetings" website page is updated with upcoming meeting information as soon as it becomes available.

### **STRATEGIC PLANNING MEETINGS**

In 2018, the Board completed development of its new 2019-21 Strategic Plan, which was formally approved at its September 20, 2018 meeting. The plan was a joint effort between Board Members and staff and included public input. As part of the strategic review process a survey of Board Members, staff, and stakeholders was conducted. Objectives were developed in the areas of Enforcement, Executive, Legislative, Licensing and Testing, and Public Affairs. Strategic plan objectives are reviewed, and progress is reported at all Board and committee meetings. Copies of strategic plans since the last Sunset Review are included in the attachments. In addition, the Board annually prepares and distributes an Accomplishments & Activities Report, copies of which are available on the CSLB website.

### **CONSUMER SATISFACTION SURVEY**

The CSLB consumer satisfaction survey is delivered through an online survey service. Surveys are sent monthly to all complainants who provide an email address, with an average response rate of 20% over the last four years. The eight questions employ a seven-point agreement scale. The ratings have remained constant over the years. Consistently, the highest ratings are received in response to the question about courteous treatment and the lowest ratings for the question about the action CSLB ultimately took in response to the complaint. CSLB collects and reports consumer satisfaction data by calendar year.

### **SOCIAL MEDIA**

CSLB continues to expand its presence on social media as a means to reach consumers, licensees, the news media, and other stakeholders. CSLB has seen continued growth in the number of followers on Facebook, Twitter, YouTube, LinkedIn, Nextdoor, and Instagram.

### **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 Contractors' State License Board monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: David Fogt, Registrar; and Michael Melliza, Chief of Administration.

Mr. Melliza works closely with the CSLB registrar, chief deputy registrar, and all division chiefs to ensure that all activities are performed, documented, and measured against the appropriate baselines. Mr. Melliza ensures that all levels of CSLB management evaluates results and ensures appropriate corrective actions are implemented and documented.

Mr. Melliza works with all CSLB division chiefs to identify risks and assigns ownership to processes that address vulnerabilities identified through monitoring. This includes comparing results to expectations to determine if change is needed.

Monitoring activities include routine and periodic verification performed by CSLB division chiefs and executive staff and reporting the progress to reduce the identified vulnerabilities.

The CSLB executive sponsor also works closely with the Department's Internal Audit office to ensure compliance with all risk management practices and requirements.

## **RISK ASSESSMENT PROCESS**

The following personnel were involved in the Contractors' State License Board risk assessment process: executive management, middle management, front line management, and staff.

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

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

## **RISKS AND CONTROLS**

### **Risk: Budget: Insufficient Funds**

In August 2019, CSLB forecasted insufficient funds for ongoing operations by the beginning of Fiscal Year 2020-21. This was due to an ever-growing structural imbalance between revenue and expenditures caused by increases in salary and benefit adjustments, infrastructure expenses, licensee population decline, and mandatory external costs that were either unforeseeable or nonexistent at the time CSLB last raised fees by statute(July 2017).

The Board has a \$73 million budget with procedures and processes in place to monitor the spending plans for each division. All requests for expenses are closely reviewed by division chiefs and sent to CSLB's budget manager for review and approval. CSLB monitors the revenue and expenses on a continuous basis to identify any potential funding issues and revenue deficiencies. Even with mitigating controls and reductions to expenditures, the reserves in the fund continue to decline resulting in the potential for the fund to become deficient.

### **Control: Corrective Action Plan to Address Insufficient Funds**

1. Staff continually reports any budget shortfall concerns to the Board at it's regularly scheduled Board meetings.
2. The Board voted to pursue a renewal fee increase through emergency regulations and directed staff to conduct a fee study to determine the potential need for a possible legislative fee increase. On November 10, 2020, the Office of Administrative Law (OAL) approved CSLB's renewal fee increase emergency regulations. The CSLB began assessment of the new fees February 1, 2020.
3. At its December 2020 Board meeting, the Board voted to pursue a legislative proposal to implement the fee study recommendations. On September 28, 2021, the Governor signed SB 607 (Ch.367, Statues of 2021) to increase CSLB's fee statute to fee amounts recommended by outside consultants effective January 1, 2022.
4. At the June 2021 Board meeting, the Board approved another detailed expense reduction

plan to ensure the Board has enough cash flow to continue operations until the additional fees stabilize the fund and address the financial structural imbalance.

5. The CSLB continues to create and monitor plans to reduce expenditures.

### **Risk: IT Network Infrastructure Performance/Maintenance**

COVID-19 drastically changed the workplace at CSLB. Among other safeguards to protect CSLB staff and the public, CSLB executed a number of social distancing strategies. One strategy included identifying staff able to telework which resulted in the CSLB directing most of its staff to work from home. This strategy significantly increased the number of staff teleworking and resulted in use of videoconferencing at a larger scale for staff meetings and Board meetings to keep CSLB's mission-critical services running.

The increased number of staff accessing CSLB remotely and the increased use of video conferences significantly increased the volume of network traffic putting a strain on the existing network infrastructure. This poses a potential risk for system failure. A network infrastructure system failure will result in a disruption of CSLB operation.

#### **Control: Pursue changes to workflow**

Move a portion of IT operation processes to off-peak working hours (evening) to reduce the strain of network traffic and improve network performance and reliability during peak hours.

#### **Control: Pursue changes to network equipment**

Increase network bandwidth through the procurement of additional hardware and software solutions.

### **CONCLUSION**

The Contractors' State License Board strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**David Fogt, Registrar**

CC: California Legislature [Senate (2), Assembly (1)]  
California State Auditor  
California State Library  
California State Controller  
Director of California Department of Finance  
Secretary of California Government Operations Agency