

December 20, 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 Financial Protection and Innovation 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 KC Mohsemi, Chief Deputy Commissioner, at (916) 838-6040, KC.Mohsemi@dfpi.ca.gov.

## **GOVERNANCE**

### **Mission and Strategic Plan**

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

The Department of Financial Protection and Innovation (DFPI) serves as the state's primary regulator of financial services, products and professionals, and provides protection to consumers and services to businesses engaged in financial service transactions. Its regulatory purview extends over domestic and foreign banks, credit unions, payday lenders, mortgage lenders, originators and servicers, finance lenders, escrow companies, broker-dealers and investment advisers, money transmitters, as well as premium finance companies, student loan servicers, check sellers, and trust companies. Additionally, DFPI regulates the offer and sale of securities and franchises in California.

The California Consumer Financial Protection Law expanded the Department's oversight in fiscal year 2020-21 to better protect consumers, keep up with emerging financial innovation, and spur responsible job growth. For the first time in its history, the DFPI can oversee providers of certain financial products and services previously unregulated by the Department, such as debt collectors, debt-relief companies, credit reporting agencies, consumer credit repair companies and others. To reflect the expanded oversight, the department's name changed from the Department of Business Oversight to the Department of Financial Protection and Innovation. The Department of Financial Protection and Innovation's regulatory authority and its licensees are governed by the California Financial Code and Corporations Code. The DFPI's FY 2023-24 budget totals \$157 million, authorizes 831 positions and is funded entirely with special funds derived mainly from fees paid by licensees.

#### **Mission:**

Serve Californians by effectively overseeing financial service providers; enforcing laws and regulations; promoting innovation and fair and honest business practices; enhancing consumer awareness; and protecting consumers by preventing potential marketplace risks,

fraud, and abuse.

**Vision:**

We are a national leader with a mission to protect consumers, foster trust, innovation, and fairness in the financial marketplace.

STRATEGIC PLAN 2020 – 2023

The DFPI Strategic Plan declares the department's vision, mission, values, and goals. With the 2020—2023 strategic goals, we aim to:

- Increase DFPI's protection of consumers
- Expand our services and outreach efforts to all stakeholders
- Grow our succession bench and provide employees more development opportunities
- Maximize operational efficiency

GOAL 1 - Strengthen consumer protection

OUTCOME:

A safe and secure financial services marketplace where Californians recognize the Department and know how to utilize our services.

ACTIONS:

- Communications and outreach prioritizes consumers through expanded resources
- Expand financial education throughout the state
- Launch proactive communication with stakeholders
- Identify trends through complaint data and adjust exam and enforcement protocols to mitigate consumer harm

RESPONSIBILITY:

Multiple programs and divisions

GOAL 2 - Focus on innovative financial products & services

OUTCOME:

Expertise and relationship-building that allows us to keep up with emerging financial products and services and foster responsible innovation that protects consumers and retains jobs in California.

ACTIONS:

- Develop staff expertise in emerging financial products and services
- Cultivate deep knowledge of emerging products and services through early engagement with innovators, investors and other stakeholders
- Develop cross organizational procedures that empower staff to raise awareness and understanding of new products and services

RESPONSIBILITY:

Office of Financial Technology Innovation, Programs

GOAL 3 - Align and strengthen internal business processes

OUTCOME:

Improvements allow us to successfully launch new programs, while new tools help us maximize efficiencies within our Department.

ACTIONS:

- Audit our data to provide a clear path for improvements
- Strengthen, update, and streamline licensee exam processes
- Track our progress on state-specific compliance
- Identify high-risk licensees for targeted examinations
- Modernize internal systems and transition paper-based work to digital
- Improve consumer complaint intake process

RESPONSIBILITY:

All Programs

GOAL 4 - Cultivate a diverse, growth- oriented culture

OUTCOME:

Strengthen staff competencies to develop leaders, and retain and attract top talent.

ACTIONS:

- Deploy 360 reviews to assess and strengthen leadership competencies
- Implement a leadership development program to grow our leadership bench
- Review and improve training offerings
- Utilize cross-training to strengthen program knowledge and competencies
- Broaden HR outreach to promote equity and diversify talent

RESPONSIBILITY:

All Programs

## **Control Environment**

### **Core Values**

1. Collaboration– We work as a team to foster a culture of learning, respect, and open communication to effectively solve problems and accomplish goals.
2. Integrity – We are fair, honest, and accountable.
3. Service – We are dedicated to providing exceptional support to the public and licensees.
4. Vigilance – We are diligent in executing our responsibilities.

### **Oversight - Control Environment**

The Department of Financial Protection and Innovation has implemented and documented the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the Department of Financial Protection and Innovation systems of controls and monitoring. As head of the Department of Financial Protection and Innovation, Clothilde Hewlett, Commissioner, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

### **Organizational Structure - Executive Monitoring Sponsors**

The executive monitoring sponsor responsibilities include facilitating and verifying that the Department of Financial Protection and Innovation internal control monitoring practices are

implemented and functioning as intended. The responsibilities as the executive monitoring sponsors have been given to: Clothilde Hewlett, Commissioner; Khalil Mohseni, Chief Deputy Commissioner; Avy Mallik, General Counsel; Greg Young, Senior Deputy Commissioner, Division of Corporations and Financial Institutions; Suzanne Martindale, Senior Deputy Commissioner, Division of Consumer Financial Protection; and Sophia Smith, Deputy Commissioner Administration.

### **Documentation of Control System**

Each Division within the Department is led by a Deputy Commissioner (DC) and supervisory levels below that. DFPI's Delegation of Authority was revised on October 20, 2023, empowering staff at lower levels to make position-appropriate decisions.

In an effort to establish and maintain a competent workforce, DFPI has implemented the following actions during 2022 and 2023:

- a) In efforts to make DFPI an employer of choice, DFPI increased its applicant pool by participating in 24 college career fair events for recruitment outreach purposes resulting in over 1,000 students/potential applicants visiting the DFPI booth, and 303 resumes collected during 2023.
- b) DFPI converted the single examiner/auditor classification series exam into an online exam, allowing applicants 24-hour access to take the online exams, resulting in an increase in potential candidates for DFPI, and helped to fill examiner roles.
- c) DFPI started leveraging online job search and social media sites, specifically LinkedIn, which has increased its applicant pools for vacant positions.
- d) DFPI has added virtual training to its enterprise-wide Competency Training Initiative. Up to June 2021; we held a total of 30 in-house and virtual classes on Communicating Effectively and Mastering Business Writing across all office locations with close to 800 employees attending.
- e) The DFPI implemented a Learning Management System (LMS) to allow for a more streamlined training request and approval process. The LMS also provides managers and staff immediate access to their training records. The LMS supports the tracking and reporting of personalized employee leadership development plans.

We plan to continue offering virtual and in-person classes on the DFPI Core and Leadership Competencies and will continue implementing Part II of DFPI's Succession Management Plan.

### **Enforcement of Accountability**

The information included here discusses the entity-wide, continuous process to ensure internal and external control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Department of Financial Protection and Innovation monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Clothilde Hewlett, Commissioner, Khalil Mohseni, Chief Deputy Commissioner, Greg Young, Senior Deputy Commissioner, Suzanne

Martindale, Senior Deputy Commissioner, Avy Mallik, General Counsel, Harun Lomanto, Chief of Internal Audits; and Sophia Smith, Deputy Commissioner of Administration.

## **Information and Communication**

### **Information and Communication**

The results of monitoring activities for DFPI-wide risks, including any changes made to strengthen internal and external controls, are documented in writing and retained by the assigned deputy commissioner(s) involved. Additionally, results of monitoring activities are documented on the DFPI Risk Assessment Matrix. Results are communicated in weekly with internal DFPI senior executive staff meetings, monthly executive committee meetings as a standing agenda item, and up or down through the established DFPI chain of command. All levels of management are involved in assessing and strengthening internal control systems per Government Code section 13041, subdivision (b)(3).

Agency monitoring is performed by the Commissioner, Chief Deputy Commissioner, and Senior Deputy Commissioners, and General Counsel. Unit monitors help ensure that monitoring is thorough and implemented throughout the department. DFPI also may report newsworthy progress to address risks through an internal bi-monthly newsletter, called "The Ledger".

External stakeholders receive information and communication from DFPI's chain of command and it is performed by the Commissioner, Chief Deputy Commissioner, Senior Deputy Commissioners, and General Counsel.

## **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 Financial Protection and Innovation monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: The responsibilities as the executive monitoring sponsors have been given to: Clothilde Hewlett, Commissioner; Khalil Mohseni, Chief Deputy Commissioner; Avy Mallik, General Counsel; Greg Young, Senior Deputy Commissioner, Division of Corporations and Financial Institutions; Suzanne Martindale, Senior Deputy Commissioner, Division of Consumer Financial Protection; and Sophia Smith, Deputy Commissioner Administration..

### **Monitoring Activities**

All levels of DFPI management and personnel are responsible for ensuring that adequate internal and external controls are in place within their respective program areas. DFPI

continually evaluates control systems to ensure that risks are adequately mitigated. Experts in each program area discuss concerns in daily, weekly, monthly, quarterly and annual meetings and raise potential issues with supervisors for consideration. Any critical items identified are evaluated by first-line managers, middle managers, senior managers, and executive leadership for mitigation. DFPI's senior executives consult on the highest-level priorities to properly address issues, assign resources, and monitor progress.

A risk must be documented when it meets both of the following criteria:

1. The ability of the DFPI (program specific or enterprise-wide) to carry out mission-critical or mandated functions is threatened.
2. There is no known internal control (existing business process) in place to mitigate the risk.

Staff members in DFPI's Internal Audits unit also conduct routine, robust assessments of all departmental areas on both a scheduled and an ad hoc basis to mitigate gaps. DFPI's Information Technology (IT) unit employs an Information Security Officer (ISO) who continually evaluates and addresses risks to the Department's IT assets and information, as well as mitigations and contingencies.

DFPI Executive Staff hold weekly, monthly, and quarterly meetings to identify potential problems, and evaluate key performance indicators to ensure alignment with department's goals and objectives. During these meetings Executives determine if inefficiencies exist and make appropriate operational changes.

## **RISK ASSESSMENT PROCESS**

The following personnel were involved in the Department of Financial Protection and Innovation 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 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, and tolerance level for the type of risk.

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## **RISKS AND CONTROLS**

### **Risk: Fiscal Imbalance**

DFPI's operational costs are paid by fees, and assessments that are generated from our regulatory responsibility of our licensees. The department is specially funded, and does not receive funding from the General Fund, with the exception of the CalMoney Smart Grant Program. Currently, some DFPI programs are operating in a deficit and their expenditures exceed their revenues.

#### **Control: Control 1**

The department is currently in the process of obtaining a contract to have an outside consultant conduct a fiscal analysis and cost allocation plan review. The contract is expected to be executed in early 2024.

### **Risk: Document Management**

Some department programs rely on physical documents and there is a high risk of losing the information in the event of a disaster (earthquake or fire).

#### **Control: Electronic Document Process**

The department is trying to mitigate the control with having licensees scan documents utilizing the portal. In addition, the department will need to extend resources to scan the documents into a shared drive.

### **Risk: Licensee Application Trade Name Change**

The California Residential Mortgage Lending Act (CRMLA) program's licensees have the ability to change their MU1 application or to a new trade name. The department was not notified of the new trade name change. Minimal control in the electronic system of record which is with an external entity.

#### **Control: External Entity Notification**

The department will work with the external entity to implement an automated notification to the department when an application is received with a new trade name to mitigate the risk.

### **Risk: Losing Institutional and Process Knowledge**

The department has some programs which have a few key employees with vast institutional knowledge and they are approaching retirement age.

### **Control: Succession Planning**

The department will continue developing its succession plan by meeting quarterly to identify individuals that can pose risks with operational efficiency.

### **CONCLUSION**

The Department of Financial Protection and Innovation 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.

**Clothilde “Cloey” V. Hewlett , Commissioner**

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