January 04, 2018

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Veterans Affairs submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Russell Atterberry, Undersecretary, at (916) 651-7765, Russell.Atterberry@calvet.ca.gov.

BACKGROUND

The California Department of Veterans Affairs (CalVet or Department) plays an important role in the lives of our California Veterans and their families. The following is CalVet’s Mission, Vision, and enterprise Strategic Goals:

Vision - CalVet will be the state’s leading advocate and resource so veterans can achieve the highest quality of life

Mission - Serve California’s veterans and their families

Strategic Goals:

- Increase the accessibility and utilization of benefits and services through advocacy and education
- Provide the highest quality of CalVet-sponsored care and services to veterans and their families
- Make CalVet an employer of choice by investing in the development of our employees
- Provide premier long-term care with fiscal efficiencies

There are five major divisions within CalVet which encompass the Department’s critical functions, objectives, and activities: Administrative Services, Home Loan Program, Veterans Homes Division, and Veteran Services Division. The Veterans Home Division is decentralized with respect to the fact that each Veterans Home has an Administrator responsible for its operations. However, all administrators report to the Deputy Secretary for Veterans Homes and there is functional responsibility for the administrative areas (accounting, personnel, budgets, and information technology) in order to ensure consistency within the Department. The Veteran Services Division is decentralized with District Offices located at each of the three USDVA Regional Offices in Oakland, Los Angeles, and San Diego, and three cemeteries located in Igo, Yountville, and Seaside.

Administrative Services

Administrative Services provides necessary administrative management support to all programs in the department including accounting, budget, business services, human resources, and procurement activities.

Home Loan Program
The Farm and Home Loan Program finances new and existing single-family homes, farms, condominiums, and mobile homes on land owned by the veteran or in rental parks by acquiring property selected by the veteran and reselling the property to the veteran under a land sale contract. The Program also provides Home Improvement Loans and Construction Loans. Funds used to finance the purchases are raised through the sale of Revenue Bonds and Veterans General Obligation Bonds. The Program began making low interest rate farm and home loans following the enactment of the Veterans Farm and Home Purchase Act of 1921. In 1943 the Legislature enacted the Veterans Farm and Home Purchase Act of 1943 which modified the program to meet new needs of veterans. The Veterans Farm and Home Purchase Act of 1974 superseded the 1943 Act and once again modified the program. The 1943 Act established the 1943 Fund in the State Treasury, which is the principle fund utilized by the Program.

**Information Services Division**

The Information Services Division provides support to department managers and staff in the analysis, procurement, implementation, maintenance, security and training of the department's information technology and telecommunications systems.

**Veterans Homes Division**

The CalVet Veterans Homes Division (Homes) provide quality, individualized, and affordable health care for all veterans regardless of income. Homes currently operates eight Veterans Homes in Barstow, Chula Vista, Fresno, Lancaster, Redding, Ventura, West Los Angeles, and Yountville. The Homes range in size from 60 residents on a 20 acre site to over 1,000 residents on 600 acres. When all eight Homes are at budgeted capacity, they will house and care for approximately 2,500 veterans. The Homes are certified by the U.S. Department of Veterans Affairs (USDVA) and licensed by the California Department of Public Health and the California Department of Social Services. The Home's continuum of long term care gives residents support during the changes that occur with aging, illness, or memory decline. The goal for each individual is to live at his or her highest level of independence. The Homes offer a range of health care services provided by on-site licensed medical providers. The levels of care include: Domiciliary Care (independent living); Residential Care Facility for the Elderly (assisted living); Intermediate Care Facility; Skilled Nursing Facility (providing 24-hour services of licensed nurses and certified nursing assistants); and Memory Care.

**Veteran Services Division**

The Veteran Services Division administers programs providing veteran services and benefit advocacy, education, and support to California's veterans and their families. The division administers the following programs:

- USDVA Claims Representation through the District Offices
- Regional outreach by Local Interagency Network Coordinators across California
- California State Approving Agency for Veterans Education (CSAAVE)
- Operation of Veteran Cemeteries
- The Disabled Veteran Business Enterprise (DVBE) Program mandated by state law
- Grant programs to improve mental health assistance
- County assistance programs, including the County Subvention Program, Medi-Cal Cost Avoidance Program, and Veterans Service Office Fund
- USDVA Joint Claims Initiative (Strike Team)

The Division also administers or supports several state sponsored benefits for veterans and their families including: College Tuition Fee Waiver; Property Tax Exemptions; Veteran License Plate Program; Employment and Unemployment Insurance Assistance; Homeless Veterans Outreach Program; and
Business License, Tax and Fee Waivers.

ONGOING MONITORING

As the head of Department of Veterans Affairs, Vito Imbasciani, Secretary, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

EXECUTIVE MONITORING SPONSOR(s)
The executive monitoring sponsor responsibilities include facilitating and verifying that the Department of Veterans Affairs internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Sherri Gastinell, Deputy Secretary, and Russell Atterberry, Undersecretary.

MONITORING ACTIVITIES
The control environment of CalVet is consistently reviewed since it sets the tone and instills a control consciousness from executive management down through all levels of the organization. This is accomplished through regularly scheduled meetings such as: weekly Executive Team meeting; weekly Veterans Home Administrator Meetings (via video-teleconference); Veterans Home Administrators Conferences, and Administrative Services Strike Team meetings. Ensuring internal controls are followed is very important to executive management since in addition to review by various control agencies and outside auditing entities, CalVet must ensure compliance with bond covenants and restrictions.

Monitoring activities are performed by program managers on a weekly or monthly basis depending on the program area. Activities are recorded in a variety of ways including policy decisions, meeting minutes, reports, procedural manuals, risk analysis forms, strategic planning documents, and surveys.

ADDRESSING VULNERABILITIES
Executive Team meetings allow for a discussion on department-wide issues that pose a risk and the controls necessary to mitigate. The weekly Veterans Home Administrator Meetings provide a forum for discussions about issues identified in weekly reports from each Veterans Home and hot topics that may affect all of the Homes. Veterans Home Administrators Conferences allow for in-person discussions with all Veteran Homes Administrators and the administrative management team. The Administrative Services Strike Team meetings rotate to each Veterans Home to discuss administrative policies and procedures.

When vulnerabilities are identified, they are brought forward to be addressed in one of the various forums mentioned above.

COMMUNICATION
There is an active process for updating CalVet’s Administrative Manual and communications are enhanced through the use of standing meetings, enterprise-wide video and teleconferencing, and electronic distribution of important correspondence. Departmental policy and communication documents are posted on CalVet’s Intranet website, accessible to all employees. In addition, documents and information are available to stakeholders and the general public on CalVet’s public website.
Ongoing Monitoring Compliance

The Department of Veterans Affairs 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 Veterans Affairs systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of Veterans Affairs risk assessment process: Executive Management, and Middle Management.

Risk Identification

In an effort to obtain an accurate assessment of systems of internal controls, the Department undertook a review that included completion of a self-assessment questionnaire and a risk analysis worksheet. The focus of the review involved each administrative and operational Deputy Secretary, Assistant Deputy Secretary, Veterans Home Administrator, and/or program manager in a self-assessment of their respective area, culminating in an analysis of each perceived risk. Although program areas are typically addressed, executive support areas such as the Legislative, Communications, Legal, and Equal Opportunity Offices were included in the assessment as they may recognize or work on issues resulting from programmatic risks.

The review was designed to take a high level examination of the current state of management controls as of the end of calendar year 2017 in terms of correcting previously identified problems and mitigating potential future problems (risks) in our program execution. This review was designed to provide executive management with a tool to decide where attention should be focused to ensure the Department is carrying out its mission in a fiscally and operationally sound manner.

Risk Ranking

The programs assessed the level of risk to departmental operations through a structured risk assessment process. The assessment was defined to be at a fairly high level which combined any multiple, specific risks into a single statement of overall project risk or risk to particular aspect of program execution. Risk assessment was based on a subjective evaluation of: a) the probability of an adverse outcome in project implementation, program execution, or through external influences on programs; b) the impact any adverse outcome might have on existing or new programs and/or project implementation; c) the timeframe in which an adverse outcome might occur; and (d) the overall impact on the division or home’s mission. These factors were then used to determine risk exposure and risk severity through a structured matrix evaluation process. Specific projects or program areas meeting the established criteria were evaluated for the inherent risk associated with those projects/programs. Utilizing the risk assessment worksheet, program management identified 17 risks in the three categories (high, medium, or low risk) strategies to address those risks.
RISKS AND CONTROLS

Risk: Operations - Internal - New System Implementation (Other Than FI$Cal)
The risk with implementation of a new electronic health record is that, for an unforeseen reason, CalVet would be unable to complete the implementation or unable to complete it on time.

The situation prompting the pursuit of a new electronic health record includes the fact that the existing electronic health record has not been uniformly implemented in the eight Veterans Homes due to the fact that its features and functionality do not meet the Homes’ operational, reporting, and data tracking needs.

The result would be greater challenges (as compared with having a system in place) in safeguarding against HIPAA violations; adherence to corporate compliance and billing requirements; and ensuring timeliness and quality of delivery of care through efficient tracking of medical visits, treatment measures, and test results.

Control A
CalVet continues to execute as planned the state’s formal information technology procurement process, known as the Project Approval Lifecycle, with signs indicating implementation of the new system will be successful.

CalVet is utilizing interim measures such as maintaining existing software programs, creating redundancy with record-keeping on paper, conducting internal audits, and tracking through external routine investigative reports such as licensing surveys.

Risk: Operations - External - Business Interruption, Safety Concerns
The operations of the Department’s Veterans Homes are at risk due to a variety of emergency or disaster situations. Emergency/disaster events include wild fires, earthquakes, flooding, extreme weather, infectious illness outbreak, active shooter, terror threat, etc. As with many governmental entities, CalVet would be severely impacted by a disaster and/or catastrophic event.

The cause would most likely be natural conditions such as fire or earthquake.

This could result in a need to maintain critical operations while sheltering in place, undergoing emergency management operations, and managing reporting requirements and other aspects of the emergency recovery phase. Alternatively, this could result in a need to evacuate large portions of a Home’s resident population, or the entire Home. The vulnerability of the skilled nursing and aging populations translates into the need for a very organized plan, a high level of productivity by skilled leaders and staff, and successful execution of all emergency response efforts.

Control A
Review detailed emergency management plans in the Veterans Homes and at Headquarters and revise as necessary. Review standard emergency management operations and revise as necessary.

Risk: Operations - Internal - FI$Cal Implementation, Maintenance, or Functionality
Transitioning to FI$Cal will produce several business process changes in the Veteran Homes, specifically in the areas of procurement of non-IT goods, maintaining Periodic Automatic Replenishment (PAR) levels for consumable stock items used for the care of Veteran Home residents, tracking the distribution of consumable stock items for medical cost recovery, and asset management. In addition, the transition will produce business process changes for paying invoices that contain Personal Health Information (PHI).
All state departments are required to transition to FI$Cal.

CalVet is currently scheduled to transition to FI$Cal in July 2018.

**Control A**
CalVet established an implementation team to manage the department’s implementation activities. The implementation team is responsible for completing FI$Cal tasks, leading departmental procedure updates, testing, training, and submitting department values for configuring the system. The team holds ongoing weekly meetings and has formed several work teams to discuss business processes for the main program areas (accounting, budgets, and procurement) and discuss mitigation strategies for risks associated to the implementation.

**Risk: Operations - Internal - Physical Resources—Maintenance, Upgrades, Replacements, Security**
Failures at the Yountville Veterans Home could include State Fire Marshal deficiencies and ongoing liability for not correcting certain problems or code violations.

The Yountville Veterans Homes is over 130 years old. The current infrastructure as well as the condition of the buildings has left the facility in a serious state of disrepair. Current available funding is utilized to address failures that occur. However current funds are not adequate to address the nature of all of the problems that exist at the facility.

The Masterplan created for the Yountville Veterans Home is used to:

- Prioritize the use of available funding for maximum outcome.
- Prioritization of deferred maintenance funding.
- Maintain maintenance contracts to ensure proper operations of building systems.

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- Prioritization of deferred maintenance funding.
- Maintain maintenance contracts to ensure proper operations of building systems.

**Risk: Operations - Internal - Staff—Key Person Dependence, Workforce Planning**
Loss of key personnel which possess substantial historical knowledge, as well as knowledge of CalVet processes. CalVet can potentially lose personnel who possess knowledge and skills that are critical to divisions and everyday operations.

CalVet has the potential to lose over 50% of staff due to retirement and attrition in the next five years.

The Operational Projects and Support section analyzed Management Information Reporting System (MIRS) reports for the past two years in order to identify trends and view current workforce data. Also, CalVet managers were asked to complete a survey evaluating the specific needs of their program area. The results of this survey revealed some workforce gaps in competencies and succession planning. Several managers also identified succession planning as a risk when completing their SLAA Risk Assessment Forms. Knowledge-loss can cause many challenges to department operations, including poor service to veterans, excessive operating costs, litigation, and failure in achieving the department’s mission.
Control A
CalVet drafted a workforce plan that identifies the department’s succession planning risks with initiatives to mitigate those risks. However, there were some challenges when incorporating the Veterans Homes into the plan due to the difference in work environment. In effort to alleviate this challenge, CalVet is participating in CalHR’s Workforce Planning Program and is working closely with their consultants to complete a comprehensive plan for CalVet. CalVet’s Workforce Plan has an anticipated completion date of February 14, 2018.

CONCLUSION
The Department of Veterans Affairs strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Vito Imbasciani, Secretary

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