December 07, 2017

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 Education 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 Michelle Zumot, Chief Deputy Superintendent, at (916) 319-0794, mzumot@cde.ca.gov.

BACKGROUND

The California Department of Education’s (CDE) mission is to provide a world-class education for all students from early childhood to adulthood. The CDE serves the state by innovating and collaborating with educators, schools, parents, and community partners. Together, as a team, the CDE prepares students to live, work, and thrive in a multicultural, multilingual, and highly connected world.

The CDE’s goal is to transform public education by adopting and implementing new rigorous California academic standards to better prepare students for twenty-first century careers and college, and developing an improved accountability system that uses multiple measures to more completely assess the progress schools are making, with a particular focus on five critical and interrelated strategic priorities: California standards, teaching and leading excellence, student success, continuous improvement and accountability systems, and systems change and support.

The CDE operating environment is organized within the following four branches:

1. **Performance, Planning, and Technology Branch (PPTB):** The PPTB oversees programs measuring student achievement and promoting continuous improvement. These programs include statewide student assessment, accountability and data reporting, school/district planning and support, and technology.

2. **Teaching and Learning Support Branch (TLSB):** The TLSB helps students from infant/toddlers to adults to fulfill their goals by supporting teachers, educators, and school and district leaders in implementing state standards while embracing the diversity of learners and celebrating inclusion before, during, and after school.

3. **Systems Support Branch (SSB):** The SSB oversees the CDE budget, accounting and personnel services; apportionment of state and federal resources to local educational agencies (LEAs); assistance to LEAs for fiscal and business aspects of public schools; support and authorization of charter schools; administration of child nutrition and food distribution programs; and provides administrative oversight and support to the State Special Schools and Diagnostic Centers.

4. **Legal and Audits Branch (LAB):** The LAB advises and represents the CDE, the State Superintendent of Public Instruction, and the State Board of Education; provides advice on legislation and legal matters regarding other governmental agencies and the state special schools;
and coordinates and conducts external and internal audits and audit-related services.

To promote cross-collaborative advancement of the CDE’s core values and initiatives, CDE formed four department-wide action and support teams. Each team consists of staff from a variety of levels across various divisions and branches. CDE’s action and support teams are as follows:

1. **California System of Support**: This team is focused on creating integrated state and federal support systems and educator capacity building support.
2. **One System/Whole Child integration**: The team’s mission is to build on the CDE-wide integration of one system serving the whole child (from cradle to career) by aligning the CDE’s Local Control Accountability Plan/Whole Child initiatives and resources to better support the field.
3. **Integrated Planning Support**: This team supports LEAs in the development of their Local Control Accountability Plans, focusing on support for key processes as well as the eventual integration of district-level LEA Planning required under the Every Student Succeeds Act.
4. **Team Advancement Support**: This team supports CDE’s internal capacity building through continuation of professional capacity building events, facilitation of organizational development projects, and developing continuous improvement strategies that can be used as a model for state and local agencies.

The branches, divisions, and department-wide teams work together to support and meet the CDE’s mission.

**ONGOING MONITORING**

As the head of Department of Education, Tom Torlakson, State Superintendent of Public Instruction, 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 Education internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Michelle Zumot, Chief Deputy Superintendent.

**Monitoring Activities**
The CDE utilizes a variety of activities to ensure the effectiveness of internal controls throughout the various divisions and programs under its oversight. Each division is responsible for instituting controls over its processes and programs, and for ensuring appropriate management and supervisory review and approval. These controls include monitoring meetings, action plans, reconciliations, performance indicator reviews, etc. Further, controls over CDE programs and processes are routinely reviewed by the Internal Audits Office based on an annual risk assessment process. Additionally, the Internal Audit Office employs an Audit Request Form which is available to all CDE divisions, and responds to submitted requests promptly. Moreover, the CDE’s various divisions and programs undergo audits and reviews from numerous external federal and state oversight agencies regularly, many of which are annual or periodic. The CDE management considers the results of both internal and external reviews to identify opportunities for continuous improvement.

**Addressing Vulnerabilities**
Vulnerabilities identified through the CDE’s risk assessment process described in the "Risk Assessment" section of this report, are assigned to Responsible Parties and monitored by the Executive Team as described below.
**Communication**
The CDE’s risk monitoring roles are defined and documented in the “CDE State Leadership Accountability Act Monitoring Procedures.” Specifically, the Executive Team designates one or more Responsible Parties to address identified risks. The responsible parties communicate progress towards mitigating the vulnerabilities to the Executive Team. The Responsible Parties summarize their activities, progress, challenges, and anticipated accomplishments for the upcoming six-month period. This information is reported to the Executive Team biannually. Further, as the Responsible Parties are generally Division Directors and Deputy Superintendents, they are also responsible for communicating the changes to impacted staff and addressing feedback regarding the implemented controls.

**Ongoing Monitoring Compliance**
The Department of Education is in the process of implementing and documenting 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 Education systems of controls and monitoring.

**Risk Assessment Process**
The following personnel were involved in the Department of Education risk assessment process: Executive Management, and Middle Management.

**Risk Identification**
The CDE has several mechanisms to identify potential areas of risk to the department and its mission. Annually, the CDE conducts a comprehensive department-wide risk assessment to identify internal and external risks at both the department and division/program level. The CDE’s Audits and Investigations Division considers these results along with other factors to develop its annual internal audit plan. Additionally, the risk assessment results are considered in the biennial reporting of the CDE’s internal control and monitoring systems, as required by SLAA.

In developing the department-wide risk assessment, the CDE utilizes a risk-based questionnaire designed to acquire information in evaluating risks related to:

1. Reliability and integrity of financial and operational information
2. Effectiveness and efficiency of operations
3. Safeguarding of assets
4. Compliance with laws, regulations, and contracts

Following the receipt of the completed questionnaires, CDE analyzes the responses and categorizes division management’s concerns into high-level risk areas, and identifies whether the risks are related to processes that are centralized, decentralized, or operational/division-specific in nature.

The CDE also considers other factors to identify and assess possible risks including:

1. The CDE’s budget
2. Reported external and internal audit findings
3. Referrals and complaints received from internal and external sources
4. Recent organizational or major operational changes

Biennially, the executive management team (comprised of the Branch Deputy Superintendents, Chief Deputy Superintendents, and several Division Directors) participate in facilitated meetings to discuss any additional risks and to identify the most significant risks to the CDE as a whole. These risks are compiled in the Risk Aggregation Worksheet which includes the risk description, cause, and potential impacts to the CDE.

Further, the Executive Team and division leadership meet regularly and discuss concerns and strategies to address any major issues facing the CDE as they arise.

**Risk Ranking**

Once the most significant risks are compiled on the Risk Aggregation Worksheet, the executive management team discusses and agrees upon a ranking of the impact (High, Medium, or Low) and the likelihood of occurrence (High, Medium, or Low) for each risk. Based on these scores, the executive management team determines the most significant risks that should be included in the SLAA report.

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**Risks and Controls**

**Risk: Operations - Internal Staff — Key Person Dependence, Workforce Planning**

The CDE has more than 2,245 positions and $77 billion in state and federal funds for fiscal year 2017-18 to carry out the mission of providing a world-class education for all students. While many retirements have already occurred in the last few years due to the CDE’s aging workforce, additional retirements will likely occur along with typical staff turnover and departures resulting from the upcoming election of a new State Superintendent of Public Instruction.

The number of specialized and professional classifications and the difficulty in recruiting for these positions results in a significant risk to the CDE.

Without controls planned to mitigate this risk, the CDE could experience workflow delays or inefficiencies, a lack of knowledge of program requirements, some potential policy options may not be identified, historical knowledge may be lost, and/or the CDE may experience a temporarily reduced ability to improve systems.

**Control A**

Establish a Workforce Development Plan for recruiting, developing, and retaining an experienced, highly technical, and commendable workforce.

**Control B**

In addition to the Workforce Development Plan, the CDE plans to:

1. Ensure guidelines and manuals are updated or developed for all major programs and processes
2. Explore new or alternative classifications
3. Address pay scale parity
4. Cross-train staff on mission-critical processes
**Risk: Operations - Internal - Fi$Cal Implementation, Maintenance, or Functionality**

Fi$Cal is a new, state-wide accounting system scheduled for full implementation at the CDE in 2018. The completion, conversion, and implementation of Fi$Cal presents the risk that the system may not function as expected or interface properly with key departmental systems, resulting in operational delays and inefficiencies. The CDE is responsible for allocating funds to LEAs, childcare providers, food service providers, and multiple contractors. If Fi$Cal does not operate properly, services to over six million students are at risk.

The CDE is required to implement the new statewide accounting system.

If Fi$Cal does not function as expected or interface with key departmental systems, payments may not be issued or could be significantly delayed for local assistance, critical information for internal operations may not be available, operational delays and inefficiencies could occur, and workload could significantly increase.

**Control A**

The CDE has a Department Implementation Team already in place in anticipation of the 2018 Fi$Cal implementation. Further, the CDE has communicated its issues and concerns to the Fi$Cal leadership.

**Control B**

Impacted staff will continue to attend Fi$Cal training. Further, CDE management will increase communication throughout the CDE regarding Fi$Cal implementation during the conversion process.

**Risk: Operations - External - Business Interruption, Safety Concerns**

Catastrophic events pose a risk to the CDE’s operations and the ability of LEAs/schools to pursue their core function of providing education to children and adults throughout the State. Additionally, the CDE may not be fully prepared to respond if headquarters is directly impacted by a disaster.

California has a heightened risk for catastrophic natural disasters that could impact the CDE and LEAs/schools’ ability to ensure continuity of service and education to all children and adults. The CDE’s role in the response to these emergencies needs to be clarified.

A catastrophic event could result in the loss of human life and property, diversion of staff and resources from other mission critical responsibilities to emergency response operations, and damage to the CDE or LEA/school facilities.

**Control A**

The CDE plans to enhance current emergency response protocols by developing an emergency response plan with additional internal/external response protocols. This includes communication to the field (LEAs, schools, etc.) regarding how they are/will be effected, what would be expected from them, and what they can expect if the protocols are employed during an emergency situation. Part of this process will include the identification of resources to develop and implement the emergency response plan and approved protocols. The CDE is committed to working with related state and federal agencies that also support school-age children in an emergency response.

The CDE has already developed a Crisis Response page that contains a variety of information and resource links for LEAs/schools and the general public on the CDE’s internet website. Additionally, the CDE is forming an Emergency Response Team to address the overall issues of emergency preparedness and coordinate protocols for department response both internally and externally.
CONCLUSION

The Department of Education 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.

Tom Torlakson, State Superintendent of Public Instruction

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