State Leadership Accountability Act

Report of Control Risks for Boards, Bureaus, Committees and the Commission

December 2015
Dear Ms. Podesta,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Consumer Affairs Regulatory Boards submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Annecia Wallace, Audit Chief, at (916) 574-8192, Annecia.Wallace@dca.ca.gov.

BACKGROUND

The Department of Consumer Affairs (DCA or Department) is comprised of 39 entities. There are 26 boards: Board of Accountancy, Acupuncture Board, California Architects Board, Board of Barbering and Cosmetology, Board of Behavioral Sciences, Board of Chiropractic Examiners, Contractors State License Board, Court Reporters Board, Dental Board of California, Board of Professional Engineers, Land Surveyors, and Geologists, Board of Guide Dogs for the Blind, Medical Board of California, California Board of Occupational Therapy, Board of Optometry, Osteopathic Medical Board of California, Board of Pharmacy, Physical Therapy Board of California, Physician Assistant Board, Board of Podiatric Medicine, Board of Psychology, Board of Registered Nursing, Respiratory Care Board, Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board, Structural Pest Control Board, Veterinary Medical Board, and the Board of Vocational Nursing and Psychiatric Technicians. There are 10 bureaus: Bureau of Automotive Repair, Cemetery and Funeral Bureau, Bureau of Electronic and Appliance Repair Home Furnishings and Thermal Insulation, Bureau for Private Postsecondary Education, Professional Fiduciaries Bureau, Bureau of Real Estate, Bureau of Real Estate Appraisers, Bureau of Security and Investigative Services, Telephone Medical Advice Services Bureau, and the Bureau of Medical Marijuana Regulation. There are 2 committees: the Dental Hygiene Committee of California, and the Naturopathic Medicine Committee. There is 1 commission, the California State Athletic Commission.

The mission of the Department is to protect and serve the interests of California consumers. To accomplish this mission, the Department's entities issue licenses in more than 250 business and professional categories, including doctors, dentists, contractors, cosmetologists and automotive repair facilities. The entities establish minimum qualifications for licensure. They also license, register, or certify practitioners, investigate complaints and discipline violators. The bureaus are under my direct authority, while the boards, committees, and commission are semiautonomous bodies whose members are appointed by the Governor and the Legislature. DCA provides the semiautonomous bodies various administrative services.

RISK ASSESSMENT PROCESS

An organization-wide risk assessment was performed by compiling the top risks from participating entities. Each entity was provided a list of well-defined risk factors compiled by the Department of Finance and asked to identify any risks that were applicable to their entity. Entities described whether each risk was related to operations, reporting or compliance, and whether the risk was internal to the program or had an external impact. For each risk, the entities provided a short summary of the concern, the impact if the risk is not mitigated, as well as any steps to be taken to help mitigate the risk.
The methodology used to obtain this information included: written communications with executive officers, bureau chiefs, and designated staff for the entities to explain the purpose and significance of their input; distributing a description of risk factors and instructions for identifying the risk, the priority of the risk, as well as explaining the steps that have been taken to reduce or mitigate each risk; providing a deadline for submission of risk information; designating Internal Audit staff to answer questions and offer assistance to entities; evaluating the responses; charting all risks; and identifying the most prevalent risks within the organization.

The risk assessment has revealed that the greatest vulnerabilities lie in the following areas:

- Operations/Internal/Staff-Key Person Dependence, Succession Planning (66%)
- Operations/External/Staff- Recruitment, Retention, Staffing Levels (38%)
- Operations/Internal/Technology- Outdated, Incompatible (38%)
- Operations/Internal/Resource Management (38%)
- Operations/Internal/Oversight, Monitoring, Internal Control Systems (38%)
- Operations/Internal/New System Implementation (34%)

EVALUATION OF RISKS AND CONTROLS

Operations- Internal- Staff—Key Person Dependence, Succession Planning

Sixty-six percent of risk assessment participants determined key person dependence and succession planning to be the most significant risk factor. Issues include: many staff with over 20 years of board knowledge and experience are at the age of retirement and may likely exit the workforce over the next five years; smaller entities are unable to cross-train in order to maintain adequate separation of duties which can lead to a backlog of work. To help mitigate these risks, the following controls have been designed:

- Cross-train staff to ensure the transfer of knowledge of more seasoned employees.
- Create or update procedure manuals for all units.

Operations- External- Staff—Recruitment, Retention, Staffing Levels

The department-wide risk assessment revealed 38% of participants identified recruitment, retention and staffing levels to be a significant risk factor. Many have said the state hiring process is lengthy and cumbersome. Some job classifications may be inadequate for recruitment due to low pay and limited promotional opportunities. To help mitigate these risks, the following controls have been designed:

- Submit budget change proposals to add permanent staff.
- Evaluate DCA’s Office of Human Resources (OHR) processes to identify ways to expedite the hiring process.
- Work with OHR to ensure classifications are being used appropriately to address organizational need and reclassify positions where necessary.

Operations- Internal- Technology—Outdated, Incompatible
Our department-wide risk assessment revealed 38% of participants identified outdated and incompatible technology to be a significant risk factor. The legacy systems are over 30 years old. Currently, there are 18 entities that will be active on the new BreEZe system by January 2016. That leaves 21 entities remaining on the legacy (or other) systems. A few entities were never on the legacy systems and developed their own unsupported tracking systems such as Microsoft Excel or Access. Entities remaining on the legacy (or other) systems will not transition to a new IT system until the Department conducts a thorough cost-benefit analysis as recommended by the State Auditor. The Department continues to implement new changes to the BreEZe system as requested by the boards and approved by the Change Control Board. To help mitigate these risks, the following controls have been designed:

Functionality can be maximized as the Department and entities sufficiently train staff on the BreEZe system.

After the implementation of Release 2, a cost-benefit analysis will be conducted to determine the best course of action for entities that are not on BreEZe.

Operations- Internal- Resource Management

Approximately 38% of risk assessment participants determined resource management to be a risk factor. Issues include:

The inability to operate within budget due to unfunded liabilities, leave balances that exceed the maximum number of hours allowed, significant growth in expenditures such as staff salary and benefits, unexpected operational needs, unforeseen BreEZe costs and enforcement related costs. Additionally, line item allocation for AG services has been overspent due to an increase in cases prosecuted and fee increases. To help mitigate these risks, the following controls have been designed:

Conduct fee audits to determine if a fee increase is warranted and then seek legislative changes, as necessary, to implement new fee structure.

Pay careful attention to their budgets, monitoring revenues and scrutinizing expenditures by using resources appropriately and eliminating waste and duplicative efforts.

While a policy for a leave balance reduction plan already exists, agency monitors will follow-up with entities to ensure the policy is enforced.

Operations- Internal- Oversight, Monitoring, Internal Control Systems

Approximately 38% of risk assessment participants determined oversight, monitoring, and internal control systems to be a risk factor. Several entities concluded a significant risk lies with inadequate and outdated policies and procedures. They have also identified the threat of inadequate protection and harm to the public when investigations are not completed timely due to excessively large caseloads. To help mitigate these risks, the following controls have been designed:

Update and/or create policies and procedures for all activities they perform.

Request assistance from DCA’s SOLID unit with evaluating current processes to determine other ways to achieve efficiency.
Utilize and evaluate reports that can identify quality assurance issues.

Implement the Department's Case Prioritization Guidelines to ensure cases are properly triaged and routed for investigation.

**Operations- Internal- New System Implementation (Other Than FI$Cal)**

Approximately 34% of risk assessment participants identified new system implementation as a risk factor. In 2013, the Department began implementation of its new BreEZe system. BreEZe is DCA's new licensing and enforcement system, as well as a one-stop shop for consumers, licensees and applicants. Consumers can verify a professional license and file a consumer complaint. Licensees and applicants can submit license applications and renew a license among other things. Users have identified the following concerns related to BreEZe:

- **Transition Delays**: The new system implementation requires training and potentially creates a backlog in workload;
- **Deferred Implementation**: There are a number of entities that have yet to be transitioned on to BreEZe. These entities will continue to work with manual processes as well as outdated legacy systems;
- **Functionality**: BreEZe provides different functionality than the legacy systems; and
- **Costs**: For some entities, implementation of the new system will entail considerable increases in cost and staff resources that were not foreseen when the IT system was first proposed in 2009.

To help mitigate these risks, the following control has been designed:

Continue to complete changes to BreEZe as requested by the entities and prioritized by the Change Control Board, which is comprised of the entities. This also includes the creation of specific licensing and enforcement reports to allow the entities to manage their workload.

**ONGOING MONITORING**

Through our ongoing monitoring processes, the Department of Consumer Affairs Regulatory Boards reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Department of Consumer Affairs Regulatory Boards is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

**Roles and Responsibilities**

As the head of Department of Consumer Affairs Regulatory Boards, Awet Kidane, Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Brian Clifford, Senior Planning and Implementation Manager, Christine Lally, Deputy Director, Board & Bureau Relations, as our designated agency monitor(s).

**Frequency of Monitoring Activities**

Because ongoing monitoring is built into operations, it should be performed on a continuous basis by managers. Monitoring activities for the identified control risks will occur every 6 months until the risks have been mitigated. Audits will also be performed on an as needed basis as an objective means of evaluating specific controls throughout the entire department.
Reporting and Documenting Monitoring Activities

Each entity will identify an Agency Monitor who will be responsible for reporting the monitoring activities of his/her entity to the Department's Agency Monitor(s). The Department Agency Monitor(s) will report this information to Executive Management. The reports will be in the form of a written document detailing regularly occurring activities, the controls associated with those activities and the monitoring activities performed to ensure the controls are working properly.

Procedure for Addressing Identified Internal Control Deficiencies

Control deficiencies will be reported through normal channels in a timely manner so that the issues can be evaluated promptly. Management will be responsible for evaluating and documenting any issue brought to their attention. Management will determine the appropriate corrective actions for the identified deficiencies. Management may also delegate authority to remediate any internal control deficiency. Once identified, corrective action should be taken to resolve the deficiency in a timely manner.

CONCLUSION

The Department of Consumer Affairs Regulatory Boards strives to reduce the risks inherent in our work through ongoing monitoring. The Department of Consumer Affairs Regulatory Boards accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Awet Kidane, Director

cc: Department of Finance
Legislature
State Auditor
State Library
State Controller
Secretary of Government Operations