State Leadership Accountability Act

Report of Control Risks for Boards, Bureaus, Committees and the Commission
December 2017
December 29, 2017

Alexis Podesta, Secretary
California Business, Consumer Services and Housing Agency
915 Capitol Mall, Suite 350-A
Sacramento, CA 95814

Dear Ms. Alexis 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 internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Dean Grafilo, Director, at (916) 574-8200, Dean.Grafilo@dca.ca.gov.

BACKGROUND

The Department of Consumer Affairs (DCA) is comprised of 38 entities. There are 25 boards: Board of Accountancy, Acupuncture Board, California Architects Board (including Landscape Architects Technical Committee), 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, 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 nine 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, and the Bureau of Cannabis Control. There are two committees: Dental Hygiene Committee of California, and the Naturopathic Medicine Committee. There is one program within DCA: Arbitration Certification Program and one commission, the California Athletic Commission. The Board of Guide Dogs for the Blind will sunset on January 1, 2018; therefore, it was not included in the list of entities.

DCA's mission is to protect and serve the interests of California consumers. To accomplish this mission, the Department oversees 3.5 million licensees in more than 250 professional and occupational categories, including doctors, dentists, contractors, cosmetologists and automotive repair facilities. The entities establish minimum qualifications. They also license, register, or certify practitioners, investigate complaints and discipline violators. The bureaus and program 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 with various support services. DCA’s operations are funded primarily by DCA’s programs.
ONGOING MONITORING

As the head of Department of Consumer Affairs Regulatory Boards, Dean Grafilo, Director, 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 Consumer Affairs Regulatory Boards internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Brian Clifford, Senior Planning and Implementation Manager.

MONITORING ACTIVITIES

Because ongoing monitoring is built into operations, it should be performed on a continuous basis by managers. Monitoring activities for the identified controls will occur every six months until the risks have been eliminated or mitigated to acceptable levels. Audits will also be performed on an as-needed basis as an objective means of evaluating specific controls throughout the entire department.

ADDRESSING VULNERABILITIES

Vulnerabilities will be reported through monthly meetings of the Internal Audit Committee 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 action 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.

COMMUNICATION

Monitoring activities and results may be communicated to various levels of management via department-wide meetings, memorandums, emails and audit reports. Each entity has a designated executive monitoring sponsor who will report on the effectiveness of internal control systems, as well as convey information to the entity regarding department-wide changes.

ONGOING MONITORING COMPLIANCE

The Department of Consumer Affairs Regulatory Boards 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 Consumer Affairs Regulatory Boards systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of Consumer Affairs Regulatory Boards risk assessment process: Executive Management, Middle Management, and Front Line Management.

RISK IDENTIFICATION

An organization-wide risk assessment was performed by compiling the top risks from participating boards, bureaus, committees, programs, commission, and center. 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 program. 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 boards, bureaus, committees, programs, commission, and center 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.

Based on the information received from board, bureau, committee, program, and commission staff, DCA management has determined that the greatest vulnerabilities (in order of prevalence) lie in the following areas:

- Operations/External/Staff- Recruitment, Retention, Staffing Levels
- Operations/Internal/Oversight, Monitoring, Internal Control Systems
- Operations/Internal/Staff-Key Person Dependence, Workforce Planning
- Operations/Internal/Technology- Compatibility
- Compliance/Internal/Resource Limitations

**RISK RANKING**

Risk factors are ranked using a Risk Ranking Matrix. This matrix identifies the relationship between the likelihood (Probability) of an incident occurring, and the consequence (Impact) of the incident occurring. In order to rank each risk factor, the levels of probability and impact are each selected to arrive at the ranking assigned to a given combination.

The range of probability is as follows:

- Rare
- Unlikely
- Possible
- Likely
- Almost certain

The range of impact is as follows:

- Negligible
- Minor
- Moderate
- Significant
- Severe
Based on the probability and impact combinations, a risk may be ranked as low, medium, serious, or high.

**RISKS AND CONTROLS**

**Risk: Operations - External Staff - Recruitment, Retention, Staffing Levels**

Thirty-six percent of entities indicated the following risks exist:

- Increased workload with no additional staffing resources, resulting in backlogs, low priority work being put on hold, increased applicant and enforcement processing timeframes, and legislative and regulatory mandates at risk of being delayed or unfulfilled.
- Challenges in recruiting or retaining viable candidates due to pay, location, experience, or promotional advancement limitations.
- Lengthy and cumbersome hiring processes that sometimes results in limited applicant pools.
- Pockets of high turnover among existing staff, resulting in employee fatigue and feelings of being overwhelmed.

**Control A**

- Perform a fee study for programs facing challenges, to assist management in determining if fees are sufficient to support business operations.
- Pursue legislation to increase fees.

**Control B**

- Better educate managers on the hiring process (including hiring milestone timeframes) so they understand what information is needed to facilitate the processing of their requests.
- Review internal processes to see if efficiencies can be made to allow for hiring qualified candidates in a timely manner.
- Work with hiring managers to understand how minimum qualifications map to civil service classifications to determine opportunities when recruitment pools can be expanded.

**Control C**

- Backfill long-term absences with limited term staff to provide assistance with workload on a temporary basis.
- Monitor staff workload.
- Revise duty statements to better align with current workload.

**Control D**

- Explore recruitment and retention strategies, including pay differentials.
- Request Hiring Above Minimum (HAM) pay rates for qualified candidates who meet CalHR's HAM criteria.
- Promote benefits other than pay in advertisements.
- Conduct salary study for semi-autonomous Boards to determine if Executive Officer salary is
appropriate for each program.

Risk: Operations - Internal - Oversight, Monitoring, Internal Control Systems
Thirty-six percent of entities indicated the following risks exist:

- Some programs have policies and procedures that are not current or non-existent; limited resources make it difficult to dedicate staff to writing policies and procedures.
- New updates and changes to BreEZe render some existing procedures obsolete, which requires additional training and procedure updates.
- The data fields within some systems can be manually manipulated by staff.

Control A

- Management will create and/or review, update and distribute new procedures to staff. This will include securing annual signed copies of the Department’s Acceptable Use Policy.

Control B

- Staff will receive additional training from BreEZe subject matter experts.

Risk: Operations - Internal - Staff — Key Person Dependence, Workforce Planning
Thirty percent of entities indicated the following risks exist:

- Many staff are at or near retirement age, and as these staff retire, institutional knowledge will be lost.
- Current limited staffing resources make it difficult to cross-train staff and maintain current workload production.
- As new staff transition to activities, the time it currently takes to perform activities will likely increase and new staff may not be fully trained on how to provide information and support to the public or stakeholders.

Control A

- Cross-train staff before retiring staff leave.

Control B

- Map business processes for clarity of principle functions.
- Ensure procedures and staff duty statements are up-to-date for future knowledge transfer.
- Examine current work processes to determine possible efficiencies.
Control C

- Fill vacancies in a timely manner.

Control D

- Continue the Future Leadership Development program to prepare staff for increasing levels of responsibility and duties.

Risk: Operations-Internal-Technology—Compatibility
Twenty-seven percent of entities indicated the following risks exist:

- The Consumer Affairs System (CAS) (legacy system) has limited functionality; modification cannot be made.
- One entity does not have any tracking system, uses an Excel spreadsheet for tracking and monitoring.
- Licensees of entities utilizing legacy systems are unable to renew their licenses online with a debit or credit card.
- Licensing and enforcement platforms are outdated or do not meet all business requirements.
- Inefficiencies from creating spreadsheets; data can be erroneous.
- Limited support, if any, is dedicated to the CAS (legacy) system.
- Resource intensive workarounds will continue to be used to support processing, tracking and reporting.
- A lack of consistency in the use and storage of interrelated data could result in potentially inaccurate accounting, reporting, and reconciliation of data/records.
- Delays in processing renewals; licensees may not be able to work.

Control A

- Utilize the Change Control Board for CAS and BreEZe to prioritize needed changes within existing resources.

Control B

- Continue to invest in the Department’s business modernization approach, ultimately with the goal to migrate entities to new systems.

Risk: Compliance-Internal-Resource Limitations
Twenty-four percent of entities indicated the following risks exist:

- Entities often absorb costs for salary and benefit increases, as well as for costs associated with new workload without additional funding.
- Increased costs of staff and unfunded workload result in difficulty in meeting mandates, limited monitoring and enforcement activities, and fund insolvency unless fees are raised.
- Budget and procurement information is centralized and maintained by DCA’s Office of Administrative Services (OAS) so individual entities must coordinate receiving expenditure
information through OAS as needed.

CONTROL A

- Continue to work with DCA Budget Office and FI$CAL staff to obtain accurate and timely expenditure information.

CONTROL B

- Work with DCA Budget Office staff to better understand how entities make independent expenditure projections.

CONTROL C

- Perform fee audits to determine appropriate fee structure and seek legislation to increase fees as needed.

CONTROL D

- Examine current activities to determine if there are workload efficiencies that can be made.

CONTROL E

- Submit budget change proposals to fund any unfunded salary, benefit, or workload increases.

CONCLUSION

The Department of Consumer Affairs Regulatory Boards 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.

Dean Grafilo, Director

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