January 02, 2018

Diana Dooley, Secretary
California Health and Human Services Agency
1600 9th Street #460
Sacramento, CA 95814

Dear Ms. Diana Dooley,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Rehabilitation 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 Kelly Hargreaves, Chief Deputy Director, at (916) 558-5802, Kelly.Hargreaves@dor.ca.gov.

BACKGROUND

The Department of Rehabilitation's (DOR) mission is to work in partnership with consumers and other stakeholders to provide services and advocacy resulting in employment, independent living, and equality for individuals with disabilities in California. Every year, DOR serves approximately 130,000 individuals with disabilities. Vocational rehabilitation (VR) services are designed to assist job seekers with disabilities obtain competitive integrated employment in integrated work settings, and assist students with disabilities achieve post-secondary success through the provision of specific pre-employment transition services including work experiences.

Established as a separate department in 1963, DOR reports to the California Health and Human Services Agency, with functions and responsibilities contained in Section 19000-19856 of the California Welfare and Institutions Code. The DOR is the designated state administrative unit responsible for the country’s largest VR program authorized by Title IV of the Workforce Innovation and Opportunity Act (WIOA), which incorporates the federal Rehabilitation Act of 1973, as amended. The federal agency responsible for administering state VR programs is the Rehabilitation Services Administration, which is under the United States Department of Education, Office of Special Education and Rehabilitative Services.

With the changes put forth in the WIOA to improve opportunities for youth, DOR must reserve and expend at least 15 percent of its federal VR grant to provide or arrange for the provision of specific pre-employment transition services to students with disabilities, ages 16-21. The remaining funds will be used to provide VR services to youth and adults with disabilities who do not meet the criteria for pre-employment transition services.

These enacted laws ensure that all Americans have the opportunity to learn and develop skills, engage in productive work, make choices about their daily lives, and participate fully in community life. Towards this end, DOR focuses its efforts on these areas through VR, independent living, and systems change leading to equal opportunity. The Budget Act allocates $450 million ($62.8 million State General Fund) and 1,879 positions (1,787 permanent positions and 92 temporary help) for Fiscal Year 2017-2018.
ONGOING MONITORING

As the head of Department of Rehabilitation, Joe Xavier, 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 Rehabilitation internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to:
Kelly Hargreaves, Chief Deputy Director.

Monitoring Activities
The quality assurance monitors will document their respective area’s monitoring activities performed and actions taken through an Excel worksheet accessible only to them, the executive monitoring sponsor or his/her designee, and the executive leadership team. The worksheet includes areas which program staff will complete, such as the identification of potential risks, risk mitigation strategies implemented or to be implemented, responsible person, and the status update. The tracking of each area’s monitoring activities will occur on a monthly basis whereby the quality assurance monitor will provide the executive monitoring sponsor with the completed worksheet for review. The executive monitoring sponsor will compile a progress report and share those details with the executive leadership team. The report will highlight the department’s monitoring efforts, internal control deficiencies, and status of DOR’s corrective action plan. As mentioned above, the worksheet will also be available to DOR’s executives through a secured folder on the public drive.

Addressing Vulnerabilities
Depending on the severity of the risk, the executive monitoring sponsor will report to the executive leadership team immediately and/or on a quarterly basis. After executive leadership has been informed of the potential threat, the executive monitoring sponsor will connect with the program area affected to institute a risk mitigation plan. The risk mitigation plan will then be developed, reviewed, and implemented with progress reports on a monthly basis until the risk is resolved or accepted.

Communication
The DOR’s monitoring roles, activities, and results are communicated through weekly Executive Leadership Team meetings, updates in DOR-wide e-mail, and monthly meetings with the Quality Assurance Monitors.

Ongoing Monitoring Compliance
The Department of Rehabilitation 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 Rehabilitation systems of controls and monitoring.

Risk Assessment Process
The following personnel were involved in the Department of Rehabilitation risk assessment process:
Executive Management, and Middle Management.
Risk Identification
The 2017 risk assessment process involved the top two levels of management, including the executive leadership team as well as middle management. The process was facilitated by the executive monitoring sponsor and staff from the Operations and Accountability Office who assisted with the risk statement identification, ranking, and development of strategies to mitigate the identified risks.

The Directorate identified DOR's top risks that may impede DOR's ability to meet the overall mission of providing services and advocacy resulting in employment, independent living, and equality for all individuals with disabilities. Those risks were shared with executive and middle management where staff had an opportunity to provide input and feedback. The risk statements were developed and further refined. The facilitation team met with the executive leadership team as well as designated program and administrative managers to identify existing and forthcoming strategies to mitigate the risks.

Risk Ranking
DOR’s executive leadership team took into consideration the recommendations brought forth by DOR’s advisory bodies, including the State Rehabilitation Council, the ongoing monitoring conducted for the 2015 SLAA report, and consulted with their respective management teams. The feedback received informed a wide range of cross-divisional issues. Concurrently, DOR has been undergoing a mission based review, which has provided additional insight into DOR's top priorities and potential risks. On May 30, 2017, DOR’s executive leadership team held a discussion, which included addressing and prioritizing DOR’s most prevalent risks. Over the last several months, the executive leadership team has continued discussions around the risk prioritization. The ranking is based on the likelihood and impact of the risks listed in the report which pose the greatest threat to achieving DOR’s mission.

Risks and Controls

Risk #1:
As a result of changes in federal law, including redirecting 15 percent of VR funds for new, pre-employment transition services to students with disabilities, expanding services to those who want to “advance” in employment, and meeting other new requirements including counseling individuals who are already employed yet receiving less than minimum wage, there is a risk that DOR may not have sufficient funds and human resources to provide VR services to all individuals who apply for services.

DOR may need to reduce the number of applicants through Order of Selection.

Control A
Identify and implement innovative approaches to providing VR services that will result in employment through more efficient and less costly practices.

Control B
Identify alternative services available to consumers through other community resources that may be utilized in conjunction with DOR services.
**CONTROL C**
Notwithstanding the lack of real-time data, DOR will manage the VR grant funds through regular monitoring of expenditure data and subsequent adjustment of resources at the district/regional/statewide level, pending the acquisition of improved data and fiscal management systems.

**CONTROL D**
Provide pre-employment transition services to students with disabilities in order to better prepare them for post-secondary success and reduce reliance upon other VR services.

**RISK: COMPLIANCE-EXTERNAL-COMPLEXITY OR DYNAMIC NATURE OF LAWS OR REGULATIONS**
Risk #2:
The DOR is required to provide new and specific pre-employment transition services to students with disabilities. The DOR is also required to spend at least 15 percent of VR funds in providing specific services to students along with building capacity. In order to meet the mandates, a percentage of existing resources must be redirected from youth and adults needing intensive VR services and supports to students needing pre-employment transition services.

There is a risk that DOR will not fully satisfy these mandates, resulting in penalties and decreased federal funding in subsequent years, as the new pre-employment transition services program has not been fully implemented.

**CONTROL A**
Align DOR’s human resources to provide pre-employment transition services and provide sufficient training.

**CONTROL B**
Monitor expenditure data and adjust resources, as needed.

**CONTROL C**
DOR will collaborate with state and local agencies to provide direct pre-employment transition services to students with disabilities.

**RISK: OPERATIONS-EXTERNAL-FUNDING—SOURCES, LEVELS**
Risk #3:
The DOR is required to provide twenty-one percent of the funds available for VR, with the federal government providing about seventy-nine percent of the funds. Of the twenty-one percent, two-thirds is State General Fund and one-third is volunteered through cooperative agreements with education and mental health agencies.

Relying upon volunteered support to meet the State’s share of match is a risk to services, amounting to about thirty percent of resources.

**CONTROL A**
Identify other sources to meet state match requirements as a contingency for cooperative partners decreasing or ceasing to provide state match.
**Control B**
Collaborate with education and mental health partners to maintain or improve the benefits of cooperative agreements.

**Risk: Operations - External - Economic Volatility**
Risk #4:
Due to the changing labor market, there is a risk that DOR consumers may not be prepared for the 21st century workforce.
Without a stronger connection between the business, consumer qualifications, and raised awareness of the benefits of hiring people with disabilities to improve diversity, individuals with disabilities are at risk of continued reliance on public assistance programs and living in poverty.

**Control A**
Monitor federal performance measures that include service to business and the Consumer Satisfaction Survey to determine whether strategies are effective and take steps to improve performance where data indicates that outcomes are not improving.

**Control B**
Align consumer skills to the Regional Planning Units’, consisting of local Workforce Development Boards, “sector strategies.”

**Control C**
Increase work–based learning, such as work experiences, internships, apprenticeships, and volunteer experience for consumers in partnership with business.

**Control D**
Train DOR staff regarding the needs of businesses, including sector strategies and labor market information for planning and job development and use of social media and effective resumes in job searches.

**Control E**
Increase the information that DOR provides to businesses regarding the benefits of improving diversity through employment of persons with disabilities.

**Risk: Operations - External - Staff—Recruitment, Retention, Staffing Levels**
Risk #5:
DOR has challenges recruiting and retaining staff in the Office Technician and Senior Vocational Rehabilitation Counselor-Qualified Rehabilitation Professional classifications due to geographical location of the positions, low pay differentials, and the lack of a robust candidate pool.
As a result, DOR’s operations may be adversely impacted.

**Control A**
Establish better pay differentials and flexibility in job conditions for hard-to-recruit areas.
**Control B**
Establish options, through technology and other means, for employees outside of the hard-to-recruit areas to serve people with disabilities in the hard-to-recruit areas.

**Risk: Operations - Internal Staff—Key Person Dependence, Workforce Planning**
Risk #6: The DOR values diversity and inclusion. The Californians that DOR serves are persons with disabilities yet only a small percentage of management are persons with disabilities.

Further, California law requires the Deputy Director of Specialized Services to have skills related to serving those who are blind, and the Administrator of the Orientation Center for the Blind must know Braille. There is a risk that DOR will not continue to have sufficient representation of the individuals who we serve, people with disabilities, in key upper management positions.

Without a sufficient, qualified, and diverse management team, inclusive of individuals with disabilities, the DOR's mission may be adversely impacted.

**Control A**
DOR will focus recruitment on people with disabilities, including individuals who have received services from DOR, through outreach to consumers and stakeholders and employees with disabilities or knowledge of the unique challenges and experiences of individuals with disabilities.

**Control B**
DOR will develop and implement an upward mobility program to provide interested staff training and development opportunities towards meeting the required, specialized skills of the two Specialized Services Division positions and leadership skills.

**Control C**
Identify out of class, training & development, and other options to provide interested individuals the opportunities to gain the knowledge, skills, and abilities in those classifications requiring the specialized skills and leadership skills.

**Conclusion**
The Department of Rehabilitation 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.

*Joe Xavier, 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