



*Biennial Report
on the
Adequacy of Internal Controls*

In compliance with the
State Leadership Accountability Act (SLAA)

December 31, 2015

Department of Veterans Affairs

2015 SLAA REPORT

December 29, 2015

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

Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Veterans Affairs 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 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 four major divisions within the Department which encompass the Department's critical functions, objectives, and activities: Administrative Services, Home Loan Program, Veterans Homes Division, and Veteran Services Division. The Department's organizational structure is essentially decentralization, with the exception of the CalVet Home Loan Program which is located in Sacramento at the Headquarters Office. 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 and technical information management support to all programs in the department including accounting, budget, business services, human resources, information technology, and procurement activities.

Home Loan Program

The Home Loan Program administration is located in Sacramento at the Headquarters office. The Department 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. Under a Contract of Purchase, the veteran holds

an equitable interest, and the Department holds legal title to the property.

The Department 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 Department 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.

Veterans Homes Division

The CalVet Veterans Homes (Homes) provide quality, individualized, and affordable health care for all veterans regardless of income. The Department currently operates eight 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 CalVet 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; Memory Care; and Community-Based Adult Services (formerly Adult Day Health Care) will be offered beginning in July 2016.

Veteran Services Division

The Veteran Services Division administers programs providing veteran service 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.

RISK ASSESSMENT PROCESS

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 2015 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.

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 5 reports in high risk, 21 reports in medium risk, and 6 reports in low risk. They identified appropriate strategies (and associated action items) to address those risks including:

- Accept – The identified risk(s) is acceptable without any further action;
- Mitigate – Action is required to reduce (mitigate) either the causes of the risk itself or the potential impact. Identify action items that will mitigate the risk under “Risk Planning”.
- Avoid – Prevent the occurrence or the effectiveness of the risk. A strategy to avoid the risk from occurring.
- Transfer – Move the risk from one unit, program, location, job description, etc. Risk may need to be transferred in order to mitigate

EVALUATION OF RISKS AND CONTROLS

Operations- Internal- Physical Resources—Maintenance, Upgrades, Replacements, Security

The Veterans Home of California – Yountville is the oldest of the Veterans Homes in California. Most of the buildings on the campus were built between 1926 and 1953. The Home's infrastructure is aging at a rate that makes it incredibly costly to fund improvements within the existing resources provided on an annual basis. Many of our capital projects are of such a large magnitude that they require funding through the Capital Outlay Budget Change Proposal (COBCP) process. Major capital outlay projects can take significant time due to the necessary planning, design, and approval processes.

The aging Yountville infrastructure impacts the quality of life for the residents who reside at the home, potentially puts the department at risk in terms of licensing deficiencies from control agencies such as the California Department of Public Health and the California Department of Social Services, and can have adverse consequence during the Home's annual USDVA survey process. An adverse USDVA survey can affect CalVet's ability to provide services to veterans and collect per diem to offset the General Fund costs to operate the Homes.

Additionally, the standards for the USDVA Domiciliary Per Diem Program are in process of being reviewed by the USDVA. If approved as proposed and the Homes are not grandfathered in, the Yountville Home would struggle to meet the new standards. The program subsidizes the Home (approximately \$24 million for Yountville annually) and completing the needed improvements would require state funding, funding by the USDVA, and corresponding staffing.

The Department's Capital Assets Unit (Unit) provides policy and guidance for the overall repair

and maintenance of the facility. The Unit also advocates for the Home with external agencies such as the Department of Finance and USDVA in terms of its short, medium, and long-range construction planning and maintenance of the facility.

The Department's five year Capital Outlay plan describes in priority the Home's major capital outlay projects. The Department will review the plan and develop COBCPs to request funding for these projects.

The Facility Master Plan (FMP) is a guideline to the short, medium and long-term goals of renovation of the Yountville Home. The FMP is a guideline for the Department to follow similar to a city developed master plan. The FMP was intended as a baseline analysis of the Home's immediate, midrange and long-range needs.

The Deferred Maintenance budget is used for the purposes of maintenance of the facility. The funding within this fund is limited to \$681,000 annually for three older Veterans Homes. The \$500,000 Yountville Special Repair budget as identified in provisional language in the annual Budget Act is used to fund additional repair projects that exceed the deferred maintenance budget.

Operations- External- Funding—Sources, Levels

The standards for the USDVA Domiciliary Per Diem Program are in process of being revised by the USDVA. If approved as proposed and the Homes are not grandfathered in, federal USDVA per diem would be limited to Assisted Living facilities, not Independent Living, which is now being subsidized by per diem payments. The effects of this change would be felt by CalVet's three Homes that offer independent living, but mostly by the Yountville Home, which has by far the largest program and which is subsidized approximately \$24 million per year with this per diem funding. Completing the needed improvements to retain the per diem would require significant financial investment by the state, funding by the USDVA, and corresponding staffing.

A physical and programmatic remodel of this magnitude could take years to plan, fund, and implement.

CalVet has formed an inter-divisional team at its Headquarters to determine options and pursue any necessary state processes for securing funding, staff positions, or contracts. Additionally, this team will develop recommendations for CalVet leadership and state leadership regarding how to prepare for potential loss of funding or program changes that would significantly affect the services the Department provides to California Veterans and their families.

Operations- External- Funding—Sources, Levels

The Budget Act of 2013 included \$3 million per year for three years and 36 three-year limited-term positions to enable CalVet to hire Strike Teams of Veterans Claims Representatives to assist with the backlog of USDVA claims at the CalVet district offices in Los Angeles, Oakland, and San Diego.

The agreement signed by CalVet and the USDVA on September 18, 2013, has helped California veterans and their families receive their benefits more quickly and reduced the backlog of claims that have been in process for some veterans nearly two years. The Budget Act of 2015 made the 36 positions permanent, but did not provide funding for the positions beyond June 30, 2016.

Emerging backlogs for the USDVA include appeals and non-rating claims such as dependency claims. The overall workload of the CalVet District Offices has increased due to increased awareness of USDVA benefits and CVSO funding.

The Department is currently developing a mitigation plan for this risk.

Operations- External- Business Interruption, Safety Concerns

Continuity of Operations & Business Resumption Planning

Through the Department's ongoing monitoring efforts, it was determined that a comprehensive department-wide plan was necessary to manage people, processes, and technology in the event of a business interruption.

The operations of the Department 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 Veterans Homes are exposed to an increased risk of wild fires due to dry conditions as a result of the state's ongoing drought. The effect of this type of natural disaster could include loss of power, damage to facility buildings, interruption of care services, or reduction in critical staff.

An emergency or disaster scenario at the Headquarters Office resulting in the loss of the building, technology equipment and/or vital records constitutes a significant risk for the Department's operations.

Development of the department-wide Business Continuity Plan with technology recovery to ensure that mission critical services and resources are available following a disaster. This includes the securing facilities, assets, records, the continuous care of residents, continuous performance of essential functions, and achieving timely recovery of operations.

The Department's existing Technology Recovery Plan will be updated within six months as part of the continuity planning efforts and in compliance with State Administrative Manual (SAM) Section 5325- Business Continuity with Technology Recovery.

Efforts to mitigate the risk related to a business interruption are already in place through proactive data replication and data backup processes as well as "alternate" Technology Recovery Sites.

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

Through regular ongoing monitoring of Department staffing levels, several challenges have been identified that impact the Department's operational effectiveness. The highest risks related to staffing recruitment and retention are at the Veteran Homes, however deficiencies within the centralized operation of the Department (and performed at the headquarters office) have also been recognized. The Department's staffing challenges include, but are not limited to the following examples:

- The Veterans Homes experience difficulty in recruiting for specific staff positions for reasons such as salary inequity or the remoteness of the Homes. The inability to recruit and retain staff, including leadership and management positions, therapists, Licensed Vocational Nurse, certified nursing assistants, and food service technicians, affects the Homes ability to meet regulatory and care-related needs.
- The Human Resources Division (HRD) has insufficient staff to effectively manage the increased workload in the area of performance management. Since 2008, the Department has increased the number of Veterans Homes from three to eight, with the HRD maintaining direct servicing to 22 Headquarters' programs and oversight and guidance for the personnel offices at the eight Veterans Homes. The infrastructure to support the increase of total staff to HRD staff has not increased proportionately. This growth has not only resulted in an increased workload, but also an increased need for appropriate performance management training to all supervisors, managers, and personnel officers. No additional staff has been allocated to specifically handle performance management issues throughout the Department.
- Women Veteran Affairs outreach efforts only reach three percent of the women Veteran population in California. With additional staff resources, the program could significantly increase the number of women Veterans connected to their benefits and greatly impact the programs ability to achieve their goal to serve California's Women Veterans.

Ongoing efforts by the Human Resources Division are made to recruit & retain staff in the Homes, such as job fairs, classification specification revisions, and salary realignments.

The Homes utilize a variety of options such as overtime to cover additional shifts, community resources to supplement services, and a contracted nurse registry.

The Department's existing Workforce Plan will be revised and updated by December 2016 to include ongoing recruitment and retention efforts. This is an existing control that consists of a detailed analysis of the Department's current workforce, the workforce required to support the Department's mission, and recommendations to close gap between current and required workforce numbers.

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

Several program areas within the Department are at risk of losing institutional knowledge and skills due to retirement or have a dependence on specific staff that possesses historical information. Examples of this include, but are limited to the following:

- In our largest Home, located in Yountville, 37 percent of the workforce is over 55 years old and nearly 10 percent is over 63 years old. The impact of knowledge loss due to retirement in critical positions is spread throughout the facility affecting all services.
- In the Department's Accounting Office, over 50 percent of the supervisors/managers and several staff are at or near retirement age. Loss of staff due to retirement before a transfer of knowledge occurs would negatively impact the operations of the program.

Succession planning efforts identified in the Department's existing Workforce Plan will be updated by December 2016. A plan for successful succession is necessary to transfer this knowledge either to existing staff or document knowledge for future staff. This is an existing control that consists of a detailed analysis of the risk of knowledge loss or loss of employees with unique skills critical to program functions.

The Department's ongoing efforts include, but are not limited to the following examples:

- Increasing knowledge retention by ensuring processes are documented
- Increasing employee retention by keeping staff engaged through effective communication, ongoing training, and acknowledgement of performance.
- Improving knowledge transfer through formal training, one-on-one training, cross training, information-sharing sessions, mentoring programs, and webinars or training videos.
- Focusing on the future by setting realistic strategic priorities and developing future leaders

Operations- Internal- Technology—Outdated, Incompatible

As the technology surrounding Electronic Health Record (EHR) or Electronic Medical Record (EMR) systems has evolved in recent years, CalVet's system, ADL, has shown shortcomings with regard to its ability to meet the Veterans Homes' operational needs. Some of the Homes' needs are not met by the system and must be met using other databases or paper documentation. This causes excessive staff work, potential loss of printed or electronic data, impacts on ability to generate revenue, and less efficiency or effectiveness in various management and care operations in the Homes.

Additionally, the accounting module is being used to track billing and reconciliation of resident accounts; however some Homes experience challenges ensuring the system is properly tracking resident accounts.

The Homes experience an increase workload due to the checks and balances required to maintain accurate records and have returned to using paper documentation, alternative

databases, or printed reports as a control to mitigate this risk.

The Department is continuing to explore opportunities to improve upon the current use of the existing EHR/EMR system, potentially including replacing the system.

ONGOING MONITORING

Through our ongoing monitoring processes, the Department of Veterans Affairs reviews, evaluates, and improves our systems of internal controls and monitoring processes. As such, we have determined we comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Department of Veterans Affairs, Vito Imbasciani, Secretary, is responsible for the overall establishment and maintenance of the internal control system. We have identified Russell Atterberry, Undersecretary, Sherri Gastinell, Deputy Secretary, Todd Irby, Chief Counsel, as our designated agency monitor(s).

Frequency of Monitoring Activities

The control environment of the Department 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: the monthly Executive Team meeting to discuss department-wide issues that pose a risk and the controls necessary to mitigate them; weekly Veterans Home Administrator Meetings (via video-teleconference) providing a forum for discussions about issues identified in weekly reports from each Veterans Home and hot topics that may affect all of the Homes; quarterly Veterans Home Administrators Conferences allowing for in-person discussions with all Veteran Homes Administrators, and Administrative Services Strike Team meetings at each home to discuss administrative policies and procedures across all of the Veterans Homes. Ensuring internal controls are followed is very important to executive management since in addition to review by various control agencies and outside auditing entities, the Department must ensure compliance with bond covenants and restrictions.

Reporting and Documenting Monitoring Activities

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, surveys, etc.

There is an active process for updating the Department'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 the Department's Intranet website, accessible to most Department employees. In addition, documents and information are available to stakeholders and the general public on the Department's public website.

Procedure for Addressing Identified Internal Control Deficiencies

The Department has existing forums to provide weekly or monthly oversight of program risks. These forums include direct involvement of the Secretary, Undersecretary, or responsible program Deputy Secretary as appropriate for the level of program risk involved.

When a risk is identified, a project plan will be generated to immediately address the issue. The plan will define the issue and include a projected timeline for resolution based on the severity of the deficiency. Division heads will include activity and/or actions taken related to the deficiency in their weekly project/workload updates to the Agency Monitor. In addition, the Agency Monitor has established bi-weekly one-on-one meetings with all division and program heads to monitor projects/workload and

address potential risks.

None of the risk assessments and study findings were evaluated as resulting in material inadequacy or material deficiencies in the Department's system of internal controls that would prevent the Secretary from stating that the Department complies with the intent of SLAA.

CONCLUSION

The Department of Veterans Affairs strives to reduce the risks inherent in our work through ongoing monitoring. The Department of Veterans Affairs 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.

Vito Imbasciani, Secretary

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