

December 19, 2023

Melinda Grant, Undersecretary
California Business, Consumer Services and Housing Agency
500 Capitol Mall, Suite 1850
Sacramento, CA 95814

Dear Undersecretary Melinda Grant,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Consumer Affairs submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2023.

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

GOVERNANCE

Mission and Strategic Plan

The mission of the Department of Consumer Affairs (DCA or Department) is to provide outstanding support services, oversight, and innovative solutions to boards and bureaus that regulate California professionals and vocations so that through this partnership all Californians are informed, empowered, and protected. The following entities are within DCA's reporting responsibility:

- Arbitration Certification Program
- Bureau for Private Postsecondary Education
- Bureau of Automotive Repair
- Cemetery and Funeral Bureau
- Bureau of Security and Investigative Services
- Bureau of Household Goods and Services
- Bureau of Real Estate Appraisers
- Professional Fiduciaries Bureau

Through its strategic plan, DCA fulfills its mission by focusing on the following strategic goals:

1. Policy and Advocacy – DCA advocates on behalf of boards and bureaus by ensuring that statutes, regulations, policies, and procedures support and further the mandates and mission of DCA.
2. Communication – DCA provides resources, tools, and support for delivering relevant, timely, and accurate information.
3. Organizational Effectiveness – DCA utilizes effective leadership, governance, and best practices to provide oversight and quality services to support the boards and bureaus.
4. Technology – DCA addresses business needs through creative, secure, and intuitive solutions.

5. Enforcement – DCA provides resources for its boards and bureaus to promptly protect consumers from harmful conduct by unlicensed and licensed professionals who pose a threat to the public's health, safety, and welfare.
6. Licensing – DCA provides resources for boards and bureaus to expeditiously license qualified applicants to allow timely entrance into the workforce, avoid establishing artificial barriers to licensure, and maintain consumer protection.

Control Environment

Unlike regulatory boards, DCA has direct authority over bureaus. The entities included under DCA's reporting responsibility are comprised of all DCA divisions, the Arbitration Certification Program, Bureau of Automotive Repair, Cemetery and Funeral Bureau, Bureau of Household Goods and Services, Bureau of Private Postsecondary Education, Professional Fiduciaries Bureau, Bureau of Real Estate Appraisers, and Bureau of Security and Investigative Services. The DCA Director supervises bureau activities, however, delegates authority to a bureau chief, who then carries out the Director's policies and decisions.

DCA's Director is responsible for the overall establishment and maintenance of the internal control and monitoring systems. DCA's Internal Audit Committee is responsible for overall audit and review activities, including compliance with SLAA. The Internal Audit Committee is comprised of the DCA Director, Chief Deputy Director, Deputy Directors, and Senior Management.

The Internal Audits Office provided a "Brown Bag" training to all executive officers and bureau chiefs on SLAA. The training included an overview of SLAA and the risk management process, management's role in SLAA, and an overview of the report template. Following the training, a meeting was held with DCA Deputy Directors to identify enterprise-wide risks. The discussion included newly identified risks and those in the prior SLAA Report. The Internal Audit Committee held an interactive discussion and identified the most critical risks to be included in the SLAA report.

The Internal Audit Committee will provide support and guidance to direct DCA toward reducing the identified vulnerabilities. Evaluation of selected critical controls may be performed by the DCA Internal Audits Office if the effectiveness of these controls is in question.

DCA's core values are accountability, communication, consumer protection, diversity, equity, inclusion, innovation, integrity, leadership, teamwork, transparency, and trust. DCA's Director, executive staff, and management team value having a high standard of integrity and ethics. DCA management establishes an effective control environment in the following ways:

- Establishment and demonstration of integrity and ethical values is done through the ethics training requirement and completion of the Form Additionally, staff are made aware of the Whistleblower Act and the process to make a complaint with the process clearly defined for all staff on the DCA Internal Audit Office intranet. The Department drafts and maintains policies, including acknowledgement forms to demonstrate its position on integrity and ethical values.
- The management philosophy and operating style is supported and dictated through regular meetings among executive staff and trainings.

- The organizational structure is detailed on organizational charts for each bureau and program within the Department. Employees are made aware of their role, as well as the reporting
- Documentation of the control system is maintained through departmental memorandums, policies, and unit policies and procedures.

In order to maintain a competent workforce, the Department has a workforce succession plan, adheres to training requirements of all employees, and has an established training solutions program that provides or coordinates department-wide training to staff, as needed.

Enforcement of accountability is facilitated through annual reporting to control agencies and the Legislature, and public board meetings. Additionally, each year, the Legislature holds joint Sunset Review oversight hearings to review DCA boards and bureaus. The Sunset Review process allows the Legislature, DCA, the boards and bureaus and their stakeholders to discuss their licensing, enforcement and administrative performances and make legislative changes to improve their functionality. The Legislature determines the length of time until the next review. They can request the board or bureau return for Sunset Review again between one to four years.

On an individual basis, oversight and accountability is also achieved through the use of the DCA's human resources, fiscal operations, legal affairs, internal audit, and equal employment opportunity offices. DCA provides these services to its divisions and 36 boards and bureaus.

The Director hosts regular, quarterly meetings with Bureau Chiefs, Executive Officers, and Board Presidents and Vice-Presidents. "Brown Bag" meetings on topics of interest to the boards and bureaus, as well as Cabinet meetings with Executive Officers and Bureau Chiefs are also held every other month. These meetings allow DCA leadership to quickly ascertain risks, develop strategies to mitigate potential issues that may arise and efficiently educate leadership on processes to achieve implementation uniformity across the Department. Routine communication with board and bureau leadership is critical to effective oversight of the mission of consumer protection at DCA.

In addition to establishing a department-wide control environment, DCA's bureaus also maintain their own effective control environments. Bureau Chiefs, along with their Deputy Chiefs and management team, exercise the highest levels of integrity and ethical values in performing the daily oversight of operations and strategic implementation of policy and procedures. This is accomplished by disseminating and adhering to the procedures for program operations, leading ethically by example, and making decisions based in law that reflect good business practices.

Bureau management teams enforce accountability by ensuring that all staff are appropriately trained and by holding regular division or one-on-one meetings with their staff. This provides an open dialogue when anyone has a concern, ethical or otherwise. Guidelines and expectations are distributed to all staff to provide a consistent and clear path for staff to succeed.

Bureau staff reflect their bureaus' core value of consumer protection. Staff and management are all encouraged to share ideas to streamline and improve processes where possible.

Further, staff are encouraged to notify management when they discover potential vulnerabilities or risks and to submit ideas and engage in productive discussions.

Information and Communication

DCA has identified Kimberly Kirchmeyer, Director, and Christine Lally, Chief Deputy Director, as the Executive Monitoring sponsors. They are members of the Internal Audit Committee and will facilitate and verify that the internal control monitoring practices are implemented and functioning as intended. DCA is required to collect and communicate information about operational, programmatic, and financial decision-making via several reporting mechanisms. For example, incremental budget changes, organizational charts, and position lists are sent monthly to the Budget Office and Office of Human Resources within the Office of Administrative Services. In addition, business continuity plans, workplace inspection reports, equipment purchases, fleet management reports, and emergency preparedness and evacuation plans are provided on a quarterly or annual basis, depending on respective authority.

DCA also maintains a Policy Review Committee to ensure relevant policies and departmental procedures memorandums (DPMs) are updated to reflect current mandates as well as the development of new policies and DPMs in response to new mandates.

DCA divisions and units have dedicated staff (e.g., HR and training liaisons) to facilitate communication across all staff and management. DCA Executive leadership meet weekly to ensure communication is shared and can be passed to subordinate staff, as necessary, to ensure communication is transferred to all levels of staff when changes or made or updates are needed.

DCA maintains a Board and Bureau Relations team to facilitate communication across the organization, actively participate in board and bureau public meetings, monitor policy issues and decisions, and host Director Quarterly meetings with all boards and bureaus. DCA executive staff also have regular meetings with the Business, Consumer Services and Housing Agency, the Governor's Office, control agencies, legislative staff, and interested parties.

DCA staff meets with external stakeholders. In conjunction with DCA, boards, bureaus, committees, and commission staff also meet with external stakeholders to gain various perspectives in order to efficiently craft policies, legislation, or regulations that impact the regulated profession.

DCA employees are encouraged to report inefficiencies and inappropriate actions to management and other decision makers using their respective chain of command or as instructed within applicable policies. For example, ISO 20-01 Acceptable Use of Information Technology Systems; Legal 23-01 Incompatible Work Activities; EEO 22-02 Non-Discrimination Policy and Complaint Procedures, and EEO 22-01 Sexual Harassment Prevention Policy, provide direction for reporting inefficiencies and inappropriate actions.

DCA employees can report alleged threats or acts of workplace violence to the Division of Investigation (DOI), Special Operations Unit (SOU) in accordance with DCA's Workplace Violence Prevention Policy DOI 19-01.

DCA maintains the Internal Audit Office and the Equal Employment Opportunity Office for reporting inefficiencies and inappropriate actions, including the annual posting of the Whistleblower poster and brochure from the California State Auditor's Office. DCA is committed to providing a safe and healthful work environment and provides the services of DCA supervisors/managers, DOI SOU, and OHR to assist in resolving workplace conflicts.

All DCA management addresses concerns immediately, fairly, and in accordance with required policies. All ideas are welcomed, training is encouraged, and mutual respect is demonstrated by all staff.

The Director and Chief Deputy Director accept honest mistakes and encourage staff to report them so action to rectify a problem can be taken immediately. It is encouraged that any backlogs or concerns within a DCA unit, board, or bureau be forwarded immediately so DCA can expeditiously resolve or assist with the issue.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Department of Consumer Affairs monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Tonya Corcoran, Compliance and Equity Officer.

DCA leadership ensures that knowledgeable, experienced managers are hired and empowered to carry out the responsibilities of their units. Regular meetings occur to review performance and potential risks. Enterprise-wide issues are assigned to executive or senior staff, who may be assisted by other lead staff, to ensure resolution.

DCA management works closely and meets regularly with staff and liaisons at DCA internal units, boards, and bureaus to ensure that all processes and procedures are followed. Key metrics are reviewed periodically to identify potential issues to escalate to executive or senior staff for resolution. When a lack of clarity is identified with an issue, processes are amended or further developed. When issues are resolved, the resolution is documented to provide a historical record for potential future issues that may be related.

Control agency requirements are appropriately coordinated with key staff throughout DCA to ensure compliance with state administrative procedures. Additionally, DCA regularly reports to these agencies point-in-time status updates as needed.

DCA's Internal Audits Office also serves as a resource to ensure that DCA and its boards and bureaus follow appropriate processes when carrying out mandated duties. Further, controls over DCA programs and processes are routinely reviewed by its Internal Audit Office based on an annual risk assessment process. Additionally, the audit committee can submit requests to have an audit scheduled for a board, bureau, or program, or process, that perhaps is not achieving its objectives or where risks levels have been elevated. Moreover, the DCA's various divisions, boards, and bureaus undergo audits and reviews from numerous external state oversight agencies regularly. DCA management considers the results of both internal and external reviews to identify opportunities for continuous improvement.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of Consumer Affairs risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, ongoing monitoring activities, audit/review results, other/prior risk assessments, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

RISKS AND CONTROLS

Risk: Key Person Dependency and Staff Retention

DCA provides support services and oversight to 36 boards and bureaus that regulate California professionals. The Department has difficulty recruiting and maintaining staff in certain areas as the workload is heavy, complex, and deadline driven. Balancing the needs of multiple boards and bureaus with competing interests and priorities under tight deadlines can lead to burnout and staff turnover. DCA's workforce continues to age, and many managers and leaders are nearing retirement. Frequent turnover results in loss of institutional knowledge and an increased reliance on key managers and staff. Additionally, DCA continues to experience difficulty in recruiting and retaining sworn staff (peace officers) in DCA's Division of Investigation, which has resulted in longer investigative case completion timelines, thus delaying consumer protection. DCA also has experienced recruitment and retention issues in information technology positions. Workload and pay disparity between DCA and other state agencies or private sector may encourage DCA staff to seek other employment opportunities.

Control: Control A: Recruitment and Retention

In 2022 DCA updated its workforce and succession plan, which provides a guideline to ensuring that positions throughout the Department are filled with qualified individuals who receive the proper training for them to succeed in their jobs. DCA continues to utilize the workforce and succession plan to ensure that it meets the needs of its current and future workforce. In addition, DCA continues to advertise vacancies internally and externally, conduct targeted recruitment, and employ temporary help to fill workload gaps, when appropriate. DCA should continue to monitor recruitment and seek opportunities to hire diverse talent.

DCA continues to explore the extent of recruitment and retention issues and develop proposals for solutions. The proposals should be tailored to the individual issues it determines are affecting DCA's ability to recruit and retain specific positions. When appropriate, DCA should consult with CalHR to ensure current classifications and pay are appropriate for DCA positions. Additionally, the Department will continue to offer training opportunities for all levels of staff, conduct Brown Bags to educate management on various administrative matters and core competencies, and continue to communicate

resources, services, and DCA activities.

Control: Control B: Internal Workload and Resource Analysis

DCA is committed to continuous improvement and will continue to analyze potential staffing and resources needed. DCA will assess services and division workload and when feasible, to better align resources.

Risk: Information Technology

Keeping data secure is complicated and the risks are increased by the telework environment where work and information is electronic and decentralized. Potential internal acts threaten the integrity, safety, and privacy of information. Staff may unintentionally release confidential information, alter important files, or fail to follow internal security procedures, such as failing to lock a computer. Threat actors continually target government entities and security must be addressed as a top department priority.

Control: Control A: Cyber Security

DCA employs a dedicated Information Security Officer (ISO) who conducts risk assessments on data security. The ISO has attended the Department of Technology's security training and continues to stay informed of new threats and IT solutions to address security. DCA continues to require frequent password changes and multi-factor authentication to log into DCA systems.

DCA protects against threats and monitors the security landscape in accordance with the State Administrative Manual Section 5300. DCA also continues to implement the State's cybersecurity roadmap: Cal Secure.

DCA participates in a four-year audit cycle, which includes compliance audits performed by the California Department of Technology and cyber-intrusion audits conducted by the California Department of the Military.

Control: Control B: Training

Annually, DCA requires all employees to take information security training. In 2020, DCA added an alert message to all external emails where employees can report suspicious emails. Reporting of suspicious emails reduces the Department's data security breach risks. DCA will continue training and educating staff and periodically send reminders and phishing email attempts to test compliance and raise awareness.

DCA conducts phishing training campaigns to keep staff apprised of the ever-changing style of threat actor attempts to gain malicious access by brute force or social engineering methods.

Risk: Licensing and Enforcement Best Practices

Two of the most important functions of DCA boards and bureaus are maintaining a licensure program to ensure individuals are minimally qualified to practice and conducting

enforcement activities and disciplinary proceedings when necessary for consumer protection. Due to the complexities involved, both licensing and enforcement can be lengthy and costly endeavors for boards and bureaus. A lack of information sharing between boards and bureaus regarding licensing and enforcement best practices may lead to inefficiencies that could be reduced or eliminated.

Control: Control A: Data Governance

To ensure that work is being completed timely and correctly, valid and accurate reports are necessary. DCA and its boards and bureaus report licensing and enforcement statistics on a quarterly and annual basis. Additionally, as stated previously, boards and bureaus also undergo regular reviews before the Legislature, which require a lengthy Sunset Review Report that contains a significant amount of statistical reporting. Ensuring that these reports provide consistent and accurate data is essential. DCA has convened workgroups with board and bureau subject matter experts in licensing and enforcement processes and reports to assist with the development of new and updated reports.

Control: Control B: Continuous Process Improvement

DCA has been exploring different ways to create best practices for licensing and enforcement that incorporates knowledge and lessons learned from all of its boards and bureaus. One new approach has been the launching of the Enlighten Licensing Project. In this endeavor, subject matter experts review the licensing processes of a board or bureau in order to identify ways to make its processes more efficient, cost-effective, information-technology-forward, and streamlined. Representatives from all boards and bureaus have an opportunity to participate in the project and provide feedback on how the individual board or bureau conducts its work and provide recommendations. Similar projects are underway for enforcement.

DCA executive staff also holds regular meetings with executive officers and bureau chiefs both monthly and quarterly. These meetings provide a platform for leadership at DCA and the boards and bureaus to share information on best practices they have developed for licensing and enforcement.

Risk: ACP – Business Modernization

The Arbitration Certification Program's (ACP) legacy system does not meet the current needs of the program. Updates and support are no longer available. Currently, data provided by the certified programs is manually input into several excel spreadsheets. Data is then pulled from spreadsheets for use in reporting and tracking data. This method is challenging when tracking data for public reports and identifying priority time sensitive workload. This creates a risk for ACP that mandated data collection and reporting may be incomplete or inaccurate.

Control: Pursue Business Modernization Project

The ACP has initiated a request with the Department's Organizational Improvement Office and Office of Information Services to develop a business modernization project plan to identify a new system to support existing business processes. While ACP processes were

mapped in 2022, additional changes to workflow and requirements may need to be documented.

Risk: ACP – Adapting Procedures to a New Hybrid Telework Environment

Since the COVID-19 pandemic, the ACP, along with certified arbitration programs and manufacturers, have evolved to a hybrid teleworking environment. Specifically, some manufacturers no longer have a physical location available for ACP staff to perform onsite visits. ACP needs to better align its processes and procedures with the post pandemic telework environment. Failure to actively monitor and update these new procedures may create poor or inaccurate work expectations, which could hinder the team's ability to complete mandated oversight workload timely and effectively.

Control: Update Procedure Manuals

The ACP will be revising existing procedure manuals to ensure that staff is following clear guidelines that provide for a standard methodology and consistent application of mandated ACP regulations. ACP management will implement procedures to actively monitor, and track staff work conducted in the new hybrid work environment. The updated procedures will take into account the changes as a result of the hybrid environment.

Risk: BAR – Business Modernization

In consultation with DCA and the California Department of Technology, the Bureau of Automotive Repair (BAR) initiated the Enforcement and Licensing Modernization project. The multi-phase project aims to replace BAR's legacy systems, the Applicant Tracking System, and the Consumer Affairs System, with a modern information technology (IT) solution. BAR awarded a contract in April 2022 for system implementation services. However, after several critical issues emerged impacting system implementation, BAR pivoted the project toward a different solution that better meets core business needs.

Failure to implement a modern IT solution will continue BAR's dependence on paper-based processes and legacy IT systems negatively impacting applicants, licensees, and internal business process efficiency.

Control: Implement New IT Platform

In August 2023, BAR selected the SimpliGov platform and released a Request for Offer to procure the products and implementation services needed to deploy a minimally viable product focused on externally facing licensing functionality. BAR expects SimpliGov will improve the application process and provide applicants with a streamlined submission and payment method, along with faster processing times. It also will streamline BAR's process for application deficiency notification and provide improved visibility of the status of the application to the applicant. BAR also anticipates increased efficiencies for internal staff that will result in less time processing documents and improve the ability to communicate with applicants. BAR expects to deploy applications using the SimpliGov platform in a phased approach, with the initial automotive repair dealer registration

application scheduled for release in late 2023.

Risk: BAR – Vacancies and Staffing

BAR has approximately 610 authorized positions, including approximately 260 program representatives (PR) whose industry experience is essential to mediating consumer complaints, investigating violations of the Automotive Repair Act and Smog Check Program, and providing guidance and training to licensees about compliance with BAR laws and regulations. BAR is experiencing a high vacancy rate within the PR series. Factors impacting this include an increase in retirements, competitive industry compensation levels, and vacancies in hard-to-recruit areas with a higher cost of living, such as Southern California and the Bay Area. Attracting candidates to fill PR vacancies and maintaining staffing levels is vital to ensuring BAR meets its consumer protection mandate.

Control: Control A: Deep Class Proposal

Pursuant to the Bargaining Unit 7 Memorandum of Understanding, dated July 2, 2019, BAR established a Joint Labor Management Task Force with DCA and the California Statewide Law Enforcement Association to explore the creation of a deep class for BAR's PR series. In July 2022, DCA submitted the PR series deep class proposal to the California Department of Human Resources. If approved, the deep class will positively impact BAR's ability to attract candidates to PR vacancies.

Control: Control B: Outreach

To increase candidate pools, BAR attends recruitment events, such as job fairs and industry conferences, and advertises job opportunities on its website and various social media and advertising platforms. Additionally, in recognizing that individuals with military backgrounds often possess valuable skills and qualities that make them strong candidates, BAR shares information on PR vacancies at military events and on its military resource's webpage.

Risk: BHGS – Fund Conditions

The Bureau of Household Goods and Services (BHGS) operates three funds, two have a structural imbalance while the third has a growing surplus. In 2022, BHGS conducted a fee study through an outside consulting firm, CPS HR Consulting, to evaluate the current fee structure, which supported the merger of the three funds.

Control: Fee Merger and Monitoring

BHGS proposed through the legislative sunset review process to merge the three funds. The fee merger was authorized under Senate Bill 814 (Roth, Ch. 508, 2023) and the three funds will merge on July 1, 2024. Once the merger occurs, the Bureau will continue to monitor the new fund monthly to determine if there is an overall structural imbalance. Prior to the next sunset review, the Bureau will conduct an audit of how resources are distributed amongst the three programs to determine if fees for specific license types require an adjustment.

Risk: BHGS – Staff Recruitment and Retention

BHGS is a medium-sized program of less than 80 staff, which means vacancies deeply impact staff workload. The vacancy rate is approximately 30%.

Control: Fill Staff Vacancies

BHGS established an administrative unit in 2022 to focus on contracting and hiring. The administrative unit keeps management informed of recruitment efforts and tracks all vacancies. Executive management has placed hiring as a priority and requested management evaluate telework and making positions fully home-based to encourage recruitment, when feasible.

The Bureau will continue to prioritize hiring and create flexible working conditions to make the Bureau a desirable and competitive employer.

Risk: BPPE – New System Implementation

The Schools Automated Information Link (SAIL) is the Bureau for Private Postsecondary Education's (BPPE) existing data management system. An antiquated, outdated system, SAIL lacks the necessary data fields, reports, and functionalities required to license and enforce private postsecondary educational institutions effectively and efficiently. BPPE in 2018 began the process of developing and converting to a more robust records management system. BPPE selected the Connect records management system to manage data. The deployment and implementation of Connect includes converting historical data from SAIL into the Connect system. Ensuring these components work individually and collectively is mission-critical for BPPE.

Control: Transition into the Connect System

The agile development team and BPPE staff are collaborating closely on the continued development and adoption of new functionality that will support the transition of all business processes from SAIL to Connect. Currently, most enforcement processes and Student Tuition Recovery Fund (STRF) application functionality are live; however, processes for annual fees submissions, Student Tuition Recovery Fund (STRF) assessments, and most licensing applications are in development. All these functions are expected to be completed before the project's end, which is currently slated for October 2024. To support timely development and deployment, BPPE has dedicated some salary savings to support additional development team members and routinely considers whether available staff resources are sufficient.

Risk: BPPE – Staff Recruitment and Retention

BPPE has experienced difficulty recruiting and retaining staff at various levels. While some level of turnover is healthy and to be expected, particularly as BPPE's leadership team evolves and ushers in new culture and directives, sustained recruitment and retention challenges may lead to the loss of institutional knowledge and jeopardize its ability to protect consumers. BPPE's goal is to hire the right people in the right positions so that it can achieve its goals and fulfill its

mission.

Control: Control A: Fill Key Vacancies

BPPE is recruiting key leadership positions. BPPE believes the hiring of these positions will help improve teamwork, communication, and productivity and set forth a stronger foundation for continued organizational success.

Control: Control B: Workforce Development

To maintain and enhance a knowledgeable workforce, BPPE has been working on several improved processes and resources to support quality hiring and retention. This includes expectations for timely and expedient hires, more robust onboarding practices, and updated procedures and desk manuals for each unit. These resources are intended to ensure that vacant positions are filled as quickly as possible with capable staff who want to grow their careers at BPPE.

Risk: BRE A – Diminishing Licensee Population

Due to the real estate market volatility and other real estate appraisal industry trends, the licensee population is diminishing. This downward trend has a direct impact on the Bureau of Real Estate Appraisers' (BRE A) revenue since it is a special fund entity that relies solely on licensing and regulatory fees to operate. Over the last ten years, BRE A's licensee population has decreased approximately 25%. Another crucial element of the diminishing licensee population is the age demography. About 71 percent of the current population of licensed appraisers is estimated between 50 to 90 plus years old.

Control: Control A: Increase interest in profession of appraisal industry

BRE A will develop and implement an outreach plan that targets high school graduates, military bases, and discharging veterans to inform them of professions in the real estate appraisal industry. BRE A will also work with other governmental entities that utilize skilled appraisal professionals (currently exempted from licensure) to inform them of the value and opportunities of licensure with BRE A. BRE A will conduct research to determine the best platforms and venues and build partnerships with external stakeholders to increase awareness.

Control: Control B: Increase Pathways to Licensure

Currently individuals interested in the appraisal industry have access to entry into the profession through one pathway - work experience under the Supervisory Model. Unfortunately, this singular model has failed in providing timely access because of the three to one ratio requirement of this model, along with other issues. Thus, it has become a common occurrence that trainees and/or those desiring upgrades to their current licensing status have to wait one year before obtaining a supervisor. In 2022 the Appraisal Qualification Board (AQB) provided two new additional pathways for entry. One is an online modular program launched by the Appraisal Institute and the other is a cohort training program through the community college system. BRE A will provide outreach on

these new pathways and encourage entry into the profession through these new opportunities.

Risk: BSIS – Firearm Permit Revocation

Through a statutory change, the Bureau of Security and Investigative Services (BSIS) was recently given the discretion to determine whether or not it will revoke a licensee's firearms permit upon receiving a subsequent arrest notification. The notifications from DOJ can be sent to BSIS with limited information, which makes determining the appropriate course of action more challenging. It also creates confusion when revocations are appealed to the Office of Administrative Hearings, which have led to BSIS's decision to revoke the permit being harder to support when being presented to the Administrative Law Judges.

Control: Utilization of Court Records

To help mitigate this risk, BSIS implemented a process to order court records when information provided by DOJ is limited. This provides BSIS with additional information to support the revocation of the firearm permit. This also provides documentation for the Deputy Attorney Generals (DAG) who represent BSIS at appeal hearings. BSIS will continue to evaluate if this process is effective.

Risk: BSIS – Lack of Awareness by Proprietary Private Security Employers (PPSE) of BSIS Implementation of New Statutory Requirements

Due to the enactment of AB 2515 (Holden, Chapter 287, 2022), the Enforcement Unit is tasked with conducting compliance inspections of PPSEs. In addition, the Enforcement Unit will be conducting outreach and education to PPSE registrants, advising them of the requirements of the PPSE to report proprietary private security officers (PPSO) involved in physical altercations pursuant to Business and Professions Code section 7574.37.

Control: Create Processes and Procedures and Conduct Outreach

BSIS will create processes and procedures for PPSE field inspections, outreach, and education. BSIS will also be conducting outreach to PPSEs to ensure they are aware of the new requirements and the Bureau's implementation of the new laws.

Risk: CFB – Key Person Dependence, Workforce Planning

The Cemetery and Funeral Bureau (CFB) has limited positions and resources and has a number of staff that are near retirement age, which makes conducting licensing and enforcement activities challenging and increases risk when staff need to take leave or have unexpected absences.

Control: Succession Planning and Cross-Training

CFB is continuously developing and updating individual desk manuals, training plans, and cross-training staff as a workforce plan; however, these actions are limited due to the day-to-day operations and priorities. Process streamlining and innovation are implemented as

possible to control and simplify the workflow. CFB continuously works on desk manuals as needed for each desk.

Risk: CFB – Reliance on Paper-Based Processes and Technology

Most of CFB's licensing, enforcement, and inspection processes are paper based and require the submission of payments via check or money order. This causes delays in processing and impacts the ability for staff to have files in one area as well as increases costs for file storage.

Control: Business Modernization and Transition to Paper-Lite Processes

CFB is always looking for ways to increase efficiencies and effectiveness. Many applications are available to staff to assist with tracking workload, communication, and developing templates and documents (i.e., Lists, OneDrive, OneNote, Planner, SharePoint, DCA Cloud Box and Resource Scheduling) and are available through the DCA App Portal.

CFB is also involved in the development of a new software platform, CFB Connect, through the Business Modernization process, to automate licensing, enforcement, and inspection processes. For example, this project will automate the submission of documents and allow for credit/debit card payment of reporting mandates. CFB staff will continue to work in collaboration with DCA's Office of Information Services on efforts to modernize its operations to better serve applicants, licensees, and consumers.

Risk: PFB – Funding Levels

Due to steadily increasing costs of doing business and increased enforcement workload, such as the costs related to the implementation of AB 1194 (Low, Chapter 417, Statutes of 2021), which requires the hiring of additional Professional Fiduciary Bureau staff, PFB is at risk of insolvency in the coming years. Additionally, fees have not been raised since PFB began issuing licenses in 2008. PFB's only revenue source is through licensing and regulatory fees as it is a special fund entity.

Control: Increase Licensing Fees and Monitor Fund Condition

In response to PFB expenses outpacing revenue, it filed a regulatory proposal with the Office of Administrative Law to significantly increase the application, licensing, and renewal fees. Provided the fee increase regulations are approved by OAL, the fee increase will be effective January 1, 2024, assisting PFB's solvency in the immediate future. PFB will also continue to collaborate with the Department's Budget Office on monitoring the Bureau's Fund Condition after the fee increase is effective. PFB staff will continue to monitor expenditure levels and create efficiencies where feasible.

CONCLUSION

The Department of Consumer Affairs strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring

systems are adequate to identify and address current and potential risks facing the organization.

Kimberly Kirchmeyer

Kimberly Kirchmeyer, Director

CC: California Legislature [Senate, Assembly]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency