

December 28, 2017

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 State Hospitals 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 Stephanie Clendenin, Chief Deputy Director, at (916) 654-2309, stephanie.clendenin@dsh.ca.gov.

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## **BACKGROUND**

The Department of State Hospitals (DSH) manages the nation's largest inpatient forensic mental health hospital system. Its mission is to provide evaluation and treatment in a safe and responsible manner, seeking innovation and excellence in state hospital operations, across a continuum of care and settings.

DSH is responsible for the daily care and provision of mental health treatment of its patients. DSH oversees five state hospitals and employs nearly 11,000 staff. Additionally, DSH provides services in jail-based competency treatment programs and conditional release programs throughout the 58 counties. In FY 2016-17, DSH served 13,403 patients with an average daily census of 7,087; and the jail-based competency programs served a total of 729 patients with a capacity of 178. The conditional release program (CONREP) maintains an average daily census of approximately 636. DSH's five state hospitals are Atascadero, Coalinga, Metropolitan – Los Angeles, Napa and Patton. Pursuant to the Budget Act of FY 2017-18, the psychiatric programs operating at state prisons in Vacaville, Salinas Valley, and Stockton, where DSH treated mentally-ill prisoners, have been transferred to the responsibility of the California Department of Corrections & Rehabilitation (CDCR) as of July 1, 2017. DSH continues to designate 336 beds at three of its state hospitals, Atascadero, Coalinga, and Patton for the treatment of mentally-ill prisoners.

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## **ONGOING MONITORING**

As the head of Department of State Hospitals, Pamela Ahlin, 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 State Hospitals internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Lupe Alonzo-Diaz, Deputy Director.

### **MONITORING ACTIVITIES**

The Department has a consistent and ongoing system of monitoring risks and corrective actions. The

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DSH Executive Team – comprised of the directorate, deputy directors, and executive directors – meets weekly to discuss departmental strategic direction, establish departmental policies, prioritize risks and monitor operations. The DSH Governing Body – comprised of the directorate, deputy directors, executive directors, and medical directors – convenes monthly to establish enterprise clinical operations and semi-annually to review each hospital's operations. Due to the complexity of DSH operations, DSH executive management groups convene weekly, semi-monthly and/or monthly to discuss pressing risks and other operational issues. These groups include: · Clinical Administrators · Clinical Operations Advisory Council · Executive Directors · Hospital Administrators · Medical Directors · Nurse Administrators In addition to executive management groups, the following discipline leadership groups meet regularly as well: · Dietitians · Forensic Directors · Pharmacy · Police Chiefs · Psychiatry · Psychology · Rehabilitation Therapy · Social Work Finally, the Internal Audit Committee – comprised of the DSH executive team – meets quarterly to set priorities and monitor ongoing operational risks to the department.

### **ADDRESSING VULNERABILITIES**

The Internal Audit Committee identified content experts to address each identified vulnerabilities. Content experts include the unit chief in the related area and a staff expert to provide a more focused expertise, when needed. Each responsible chief and content expert will submit progress updates for discussion at the quarterly Internal Audit Committee meetings. The committee will provide support and guidance to steer DSH toward reducing the identified vulnerabilities. Evaluation of selected critical controls may be performed by the DSH Office of Audits if the effectiveness of these controls is in question.

### **COMMUNICATION**

We have identified Lupe Alonzo- Diaz, Deputy Director, as the Executive Monitoring sponsor. She is a member of the Internal Audit Committee and will facilitate and verify that the internal control monitoring practices are implemented and functioning as intended. We have identified Anna Libonati as Assistant Monitor, responsible for prompting and collecting regular progress updates directly from the content experts, then preparing and reporting the status at the Internal Audit Committee meetings for discussion. Her position as a Staff Services Manager I (Specialist) within the Administrative Division of DSH has 15% time dedicated to developing policies and procedures as well as SLAA report management. Regular updates will be collected and documented through a tracking report to illustrate the action taken towards addressing the critical risks.

### **ONGOING MONITORING COMPLIANCE**

The Department of State Hospitals 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 State Hospitals systems of controls and monitoring.

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### **RISK ASSESSMENT PROCESS**

The following personnel were involved in the Department of State Hospitals risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

### **RISK IDENTIFICATION**

The DSH Internal Audit Committee is responsible for overall audit and review activities, including compliance with the SLAA. The Internal Audit Committee is comprised of the DSH Director, Chief Deputy Director, Deputy Directors, and Executive Directors of the five hospitals.

The Internal Audit Committee met November 2017 and identified the most critical risks to be included in the SLAA report. The discussion included newly identified risks as well as some from the prior SLAA report.

Five primary risks were selected: Facilities, Staff Recruitment and Retention, FISCAL Conversion, Internal Control Deficiencies and Emergency Management. A risk owner was assigned to each risk category to refine the risk factors and identify existing controls and potential expansions or new controls to be identified in the corrective action plans. The DSH executive team, which includes the Internal Audit Committee members, met on December 11, 2017 and agreed to the refined risks and controls that would be included in the SLAA report.

### **RISK RANKING**

The Internal Audit Committee reviewed all known risks and evaluated them based on their likelihood to occur and their potential to significantly impact achievement of our DSH objects, including impacts on time, cost and quality. The committee discussed the risks and impacts during a regular quarterly meeting in December 2017 and then selected the most critical risks for inclusion in the SLAA report. Next, the committee completed a survey to solidify the final risk ranking.

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## **RISKS AND CONTROLS**

### **RISK: OPERATIONS -INTERNAL-PHYSICAL RESOURCES—MAINTENANCE, UPGRADES, REPLACEMENTS, SECURITY**

The overall capacity, infrastructure and architectural design of the DSH facilities play a vital role in the daily operations of the hospitals and safety of our staff and patients. Insufficient facility capacity and aging facilities can impact DSH's ability to meet current and future demand.

The aging infrastructure and current facility design are not equipped to maximize care for the current patient population and poses a security and safety risk to the DSH's patients and staff.

DSH's aging healthcare facilities and infrastructure constraints presents significant cost and risk to the organization and its ability to safely and effectively respond to current and future bed capacity demands.

#### **CONTROL A**

Develop an Infrastructure Master Plan (IMP) that addresses the timing, resources, and regulatory approvals for all infrastructure priorities.

#### **CONTROL B**

Implementation of a software system to track in real time the availability of beds needed to place patients as quickly as possible.

**RISK: OPERATIONS -INTERNAL-STAFF—KEY PERSON DEPENDENCE, WORKFORCE PLANNING**

DSH has historically experienced high staff vacancy rates. It employs more than 11,000 employees in approximately 332 classifications represented by 18 bargaining units. Department vacancy rates have ranged from 11-14%, or approximately 1,200 to 1,300 vacant positions, over the past three years.

High vacancy rates are due to lower salary compensations, competition with other employers, lack of qualified applicants in hard to fill positions, geographic location, cumbersome internal administrative processes and inadequate succession planning.

Without a sufficient workforce, DSH may not be able to meet the demand for its services, adequately meet the needs of its patients, and may face potential risks to employee safety.

**CONTROL A**

Explore opportunities to create enterprise programs to establish a pipeline from education industries to employment of quality candidates to fill our vacancies.

**CONTROL B**

Develop a Workforce Development and Succession Plan to address vacancies, staff development and retention as well as succession planning.

**CONTROL C**

Streamline the exam process including exploring electronic exam options.

**RISK: OPERATIONS -INTERNAL-OVERSIGHT, MONITORING, INTERNAL CONTROL SYSTEMS**

DSH was created in 2012 as a result of a departmental reorganization which caused policies and procedures from the previous department to be updated.

Improvements are needed to ensure standard enterprise wide processes and procedures are developed, communicated, and implemented for common administrative operations. Further, existing pharmacy inventory control practices are inadequate for the staffing resources and volume of medications dispensed at DSH hospitals.

The lack of administrative operation and pharmacy inventory controls can lead to operational inefficiencies, increased costs, and misuse of resources across the enterprise.

**CONTROL A**

Develop analyses with recommendations on high priority issues identified through the Mission Based Review, then develop and publish policy directives, operational procedures, information bulletins and desk manuals to document standardized policies, procedures and processes.

**CONTROL B**

Document existing business procedures for pharmacy inventory control and continue to implement recommendations from the Pharmacy Corrective Action Plan.

**RISK: OPERATIONS -INTERNAL-FI\$CAL IMPLEMENTATION, MAINTENANCE, OR FUNCTIONALITY**

Currently, DSH is scheduled to convert to an integrated statewide financial management system (FI\$Cal) in July 2018.

For a number of reasons, including being a 24-hours operation and the exclusion of Patient Health Information (PHI) data in FISCAL, there is a significant risk that FISCAL functionality may not fully address DSH business needs and that DSH may not meet the July 2018 timeline.

Not meeting the July 2018 timeline may have a negative impact on DSH operations.

**CONTROL A**

Develop a process to protect Patient Health Information (PHI) to ensure protected data is accurately and confidentially maintained.

**CONTROL B**

DSH will continue to reorganize DSH workload by function to meet and implement FISCAL requirements.

**CONTROL C**

DSH will continue systems testing and providing training to Super Users.

**RISK: OPERATIONS -EXTERNAL-BUSINESS INTERRUPTION, SAFETY CONCERNS**

Since DSH was established in 2012 it has experienced two natural disasters which led the State and Federal governments to declare emergencies. During these disasters, DSH lost the ability to communicate with the local facility to address emergent life and safety issues. This loss of communication with the disaster site created the potential for delayed emergency action, including the protection of staff and patient life and facility safety.

During the Napa/Atlas Fires in October 2017 local cellular towers and power lines were damaged resulting in the loss of access to DSH phone, data systems, safety alarms and internet communication with the hospital. Alternative communication systems and procedures were not adequately documented, maintained, and exercised for life/safety emergency purposes in the event of a life-threatening disaster event.

Without updated emergency management communication tools and hospital procedures that are documented and exercised at every DSH hospital, there is a potential for injury, illness, and loss of life of staff and patients.

**CONTROL A**

Update and test an enterprise disaster recovery plan to document processes and procedures in emergency situations and natural disasters.

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**CONCLUSION**

The Department of State Hospitals 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.

**Pamela Ahlin, 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