

December 30, 2025

Kim Johnson, Secretary
California Health and Human Services Agency
1215 O Street
Sacramento, CA 95814

Dear Secretary Kim Johnson,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Developmental Services submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2025.

Should you have any questions please contact Carla Castaneda, Chief Deputy Director, at (916) 654-2822, Carla.Castaneda@dds.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The Department of Developmental Services (Department) is committed to providing leadership that results in quality services to all Californians with intellectual and developmental disabilities, consistent with their needs, choices, and rights. The Lanterman Developmental Disabilities Services Act (Lanterman Act), enacted in the mid-1960s, created a vision and structure for a community-based system of services for some of the most vulnerable Californians. The Lanterman Act stipulates that individuals with developmental disabilities have several rights, including the right to services and supports that will facilitate their ability to live in the least restrictive, most integrated setting possible. The developmental services system is designed to meet the needs and choices of individuals at each stage of their lives; and, to the extent possible, to support individuals in their chosen community, providing choices that are reflective of their lifestyle, cultural and linguistic backgrounds and preferences.

The Department is responsible for overseeing the coordination and provision of services and supports to over 500,000 Californians with intellectual and developmental disabilities, which include cerebral palsy, intellectual disability, autism, epilepsy and related conditions. The Department's current budget is nearly \$19 billion, including federal funds and reimbursements. Services and supports are offered through a network of 21 contracted, private, non-profit community agencies known as regional centers that develop, purchase, manage and coordinate local services and resources. The Department currently operates one developmental center (DC), one large community facility and several smaller crisis homes, as well as mobile crisis response teams. California's developmental services system is making

important changes. Investments in rate reform, workforce, information technology, and service access and equity are being used to move the system toward a person-centered, outcomes-focused future. The future focus will prioritize data-informed decisions supported by performance, quality and outcome measures associated benchmarks incentives and increased transparency.

Control Environment

The Department continues to evolve its structure to support state and federal changes for California's developmental disabilities services system. The evolution of these changes systematically aligns resources to achieve system-wide improvements to better serve Californians and their families. This restructuring provides increased accountability, oversight and monitoring that improve services overall, such as increased risk management and quality assurance strategies, increased monitoring of regional centers and providers, and efforts focused on improving compliance with state and federal requirements.

The Department's organizational structure is illustrated here: <https://www.dds.ca.gov/orgchart>. Executives, managers and all employees are subordinate to the Director, and each has assigned areas of responsibility outlined in their duty statements. Executive management sets appropriate steps and timelines and identifies clear assignments of responsibility consistent with their assigned areas. Specific to the SLAA, employees working on risks designated in the SLAA report submit information to capture progress for executive management review and appropriate engagement.

Department managers hold regular staff and management meetings. Meeting topics include discussion of current and potential internal control issues that need to be addressed. These meetings allow management to discuss risk and steps needed to mitigate those issues.

The Department collects, utilizes and reports significant amounts of data and information to support its operations and ensure accountability and transparency. Data and Information are gathered from a variety of sources, using various tools and systems. The Department uses the data for program planning; policy development, implementation, and oversight; decision making; budgeting, fiscal claiming, and accounting; legislative reporting; and to support external research, among many other purposes.

Information and Communication

The Department's structure includes a Community Engagement Branch and a Communications Branch to improve overall communications, both internally and externally. This includes stakeholder engagement and outreach activities, including working with the media, public advocacy groups, members of the population served by the Department, labor organizations, and many other entities. When the Department seeks to implement changes to

address issues within the system, it works closely with individuals, families, advocacy groups, community service providers, regional centers, the Association of Regional Center Agencies (ARCA), various organizations and associations, and others impacted or interested, which may have competing or conflicting viewpoints. The Department works collaboratively with these various entities to secure appropriate participation in various public forums for effective change. Additionally, the Department continually works with and involves and/or updates other governmental entities and the Legislature on policy and program initiatives.

Additionally, regular internal updates are used to inform management of the monitoring practices being conducted, improvements needed, and the overall success of monitoring. The Department encourages employees to speak with their supervisors if they discover an issue that should be addressed to better assist the Department with fulfilling its mission, goals, and objectives.

Executive Management sets necessary steps and timelines and identifies clear assignments of responsibility whenever actions toward mitigation are identified to address a known deficiency. Staff assigned to mitigating risks identified in the SLAA report provide recurring updates regarding progress against the milestones for executive management review.

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 Developmental Services monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Carla Castaneda, Chief Deputy Director.

The executive monitor and executive management receive quarterly updates from the Internal Audits Unit. These updates provide information for monitoring and documenting activities and actions taken towards risk mitigation. The Department also endeavors that employees receive information vital to the effectiveness and efficiency of controls applicable to their roles.

RISK ASSESSMENT PROCESS

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

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

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

RISKS AND CONTROLS

Risk: Inadequate Fiscal Tracking Capability

The Department's financial tracking systems for regional centers and state operated facilities, a billing system for service providers to submit invoices, and a cost recovery solution that addresses waiver reimbursement, and Medicare Part A, Part B and Part D cost recovery and processes are inefficient.

Control: Implement Cloud-based Solution to Optimize Fiscal Tracking Capabilities

The Department will implement a new online system for case management and financial management called LOIS, or the Life Outcomes Improvement System. LOIS will improve efficiencies for the Department's financial tracking systems, regional center and state operated facilities use such as billing for service providers to submit invoices, and a cost recovery solution that addresses waiver reimbursement, and Medicare Part A, Part B, and Part D cost recovery and processes.

It will bring transparency to stakeholders with access portals that provides ease of communication, and necessary information based on the role of an individual whether they are the individual receiving services, their designated representatives, regional center staff, service providers, or department staff.

LOIS is being built over the next several years and the Department expects risk to be reduced in the following ways:

- Standardize processes and workflows to improve efficiency and reduce errors.
- Transition from a distributed systems solution (separate applications in each regional center and state operated location) to a centralized Cloud solution for a uniform processing environment.
- Share information with individuals, their support team, and service providers through portals, rather than manually sending through email or hard copy to reduce the risk of a breach.

Risk: Inadequate Regional Center Funding

Inadequate funding to California's regional centers presents a persistent operational and service delivery risk within the state's developmental services system. A funding model that does not align with current staffing and service demands creates challenges for regional centers to maintain caseloads, timely service coordination, and effective oversight of vendor operations and expenditures. This can ultimately affect the system's ability to deliver person-centered, community-based supports consistent with the intent of the Lanterman Act.

The primary root cause is the outdated Core Staffing Model, which has not been comprehensively updated in decades. The model's salary and position assumptions no longer reflect current labor market conditions, program complexity, or regulatory requirements. As a result, the funding allocations derived from this model do not support the true administrative and staffing resources needed for effective service coordination, oversight, and resource development at each regional center.

Continued use of the outdated model hinders regional centers' ability to support continued population growth, monitor vendor performance and maintain fiscal accountability. These pressures can lead to delays in eligibility determinations, service authorizations, responses from service coordinators, and limited investment in new or specialized services.

Control: Informal Control - Budget Prioritization

The Department continues to monitor regional center operational needs through caseload reporting, fiscal reviews, and stakeholder input to identify emerging resource pressures. Within the constraints of the existing budget, the Department has implemented interim funding adjustments and reprioritized available resources to address the most urgent challenges related to caseload management, service delivery, and emergency coordination. These actions help stabilize operations in the near term. However, absent a comprehensive update to the Core Staffing Model and its underlying salary and position assumptions, such measures remain temporary and do not resolve the structural funding gaps that limit the long-term effectiveness and sustainability of regional center operations. The Department is working with regional centers and the Association of Regional Center Agencies to develop a new funding model with current assumptions for workload, supervision, and appropriate accountability measures.

Risk: Financial Sustainability of DDS Programs

As costs associated with caseload growth and changes in utilization continue to rise, the financial sustainability of the underlying Lanterman act entitlement of services to eligible individuals is at higher risk. Additional cost pressures are driven by various unfunded federal mandates, such as the Home and Community Based Services Access Rule and electronic visit verification requirements. Over 500,000 Californians currently access services coordinated through regional centers, and the impact of cuts to those services could have significant impacts to a vulnerable population.

Control: Increase Federal Reimbursements

To manage regional center costs that are funded by the State's General Fund, the Department continues to explore opportunities that increase federal

reimbursements. While there always has been a priority to maximize federal reimbursements, changes to federal authorities require coordination with the Department of Health Care Services and approval from the Centers for Medicare and Medicaid Services.

Specific strategies to increase federal reimbursements include:

1. Improving the process to verify Medi-Cal eligibility for the population supported by regional centers.
2. Exploring opportunities to obtain federal reimbursement for services that are currently state-only funded.

The Department has been working with regional centers to prioritize obtaining necessary information for individuals to verify Medi-Cal eligibility and exploring ways to automate this process. Additionally, the Department is working with a consultant to explore how other states are leveraging federal programs to increase federal reimbursements for developmental services.

Control: Obtain Funding from Other Sources

Many services currently coordinated by the regional centers are therapies that are covered benefits of private health insurance plans. Many of these services are the responsibility of other payers. The Department is developing a process to recoup the cost of these expenditures, which would reduce General Fund cost pressures. The 2025 Budget includes resources for the Department to explore options to obtain payment from private health insurers for eligible services purchased by regional centers. The Department is onboarding staff to begin this work and is working with a contractor to develop a work plan.

CONCLUSION

The Department of Developmental Services 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.

Pete Cervinka, 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