

December 29, 2017

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

Dear Ms. Dooley,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Managed Health Care (DMHC) 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 Cassie McTaggart, Deputy Director, Office of Administrative Services, at (916) 324-2009, Cassandra.McTaggart@dmhc.ca.gov, 980 9th Street, Suite 500, Sacramento, CA 95814.

BACKGROUND

The DMHC was created by consumer-sponsored legislation in 1999. The DMHC regulates the majority of health coverage in California including 96 % of the commercial market, 98% of the state's health benefit exchange enrollment, and most Medi-Cal enrollees. The DMHC is funded by health plan assessments on the 124 licensed plans it regulates, with no taxpayer contributions. This includes 74 full-service health plans that provide health coverage to more than 26 million enrollees and 50 specialized plans such as dental and vision.

The DMHC's mission is to protect consumers' health care rights and ensure a stable health care delivery system. Essential to the Department's success is our commitment to our core values of Integrity, Leadership and Commitment to Service.

Strategic Goals and Objectives:

Goal 1: Educate and assist California's diverse health care consumers.

- Equip consumers with useful tools to help them meet their health care needs.
- Provide vital, timely and effective assistance to California's diverse health care consumers.
- Increase understanding of the Department's role in ensuring consumers receive the care they need.

Goal 2: Cultivate a coordinated and sustainable health care marketplace.

- Keep pace with rapid health care marketplace changes and innovations.
- Increase the transparency of health care cost, quality and access.
- Improve the performance of the health care marketplace.

Goal 3: Regulate fairly, efficiently and effectively.

- Exercise the Department's legal authority fairly, effectively and strategically.
- Improve the operational and clinical performance of health plans.
- Monitor and protect system financial solvency.
- Communicate Department actions, decisions and opinions timely and transparently.

Goal 4: Foster a culture of excellence throughout the organization.

- Develop, recognize, and retain talent, effort and leadership.
- Apply the Department's core values daily.
- Share knowledge and information.
- Use all resources effectively, efficiently and securely.
- Assure the organization can respond effectively and timely to unexpected events.

Organizational Structure:

The Director provides leadership and guidance to DMHC employees while working with external stakeholders toward an accountable and viable managed health care delivery system that promotes healthier Californians. The Chief Deputy Director oversees the day-to-day operations, which include an aggressive approach to improving overall efficiencies and performance management. To carry out its mission, the DMHC is organized into eight functional Offices: 1) Administrative Services, 2) Enforcement, 3) Financial Review, 4) Help Center, 5) Legal Services, 6) Plan Licensing, 7) Plan Monitoring, and 8) Technology and Innovation. Each Office is led by a Deputy Director who reports to the Chief Deputy Director and is a member of the Executive Management Team.

Key Functions:

- Consumer Assistance – To protect consumers, the DMHC offers several services through the DMHC's Help Center. Since its establishment, the DMHC Consumer Help Center (1-888-466-2219 or www.healthhelp.ca.gov) has helped more than 2 million Californians resolve issues with their health plans.
- Licensing – Health plans are required to apply for and maintain a license to operate as a health plan in California. The DMHC reviews all aspects of the plan's operations to ensure compliance with California law.
- Rate Review – The DMHC reviews proposed premium rate increases to ensure health plans are providing detailed information to the public to justify proposed increases. While the DMHC does not have the authority to approve or deny rate increases, the DMHC's efforts have saved California's health care consumers \$102.4 million since the California rate review law went into effect.
- Financial Solvency – The DMHC actively monitors the financial stability of health plans and medical groups to ensure that plans, and the entities they contract with, can meet their financial obligations to consumers.
- Enforcement – The DMHC works to aggressively monitor and take timely action against plans that violate the law. In the past 17 years, the DMHC has assessed

more than \$62 million in fines and penalties against health plans and required those plans to make the necessary changes to comply with the law.

- Networks – The DMHC conducts approximately 5,000 individual reviews of health plan networks every year to ensure compliance with California’s leading standards for network adequacy and timely access to care.
- Medical Surveys – The DMHC conducts in-depth onsite reviews of health plan operations to ensure compliance with all facets of California law.

ONGOING MONITORING

As the head of DMHC, Shelley Rouillard, 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 DMHC’s internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Cassie McTaggart, Deputy Director, Office of Administrative Services.

MONITORING ACTIVITIES

DMHC holds weekly meetings with the Executive Management Team to discuss issues and key developments within the Department. As internal control issues are identified, they are raised to collectively brainstorm solutions and ensure the impact is fully recognized and mitigated. In addition to this, the Deputy Directors meet individually with the Chief Deputy Director on a weekly basis, affording additional opportunities to elevate internal control issues.

DMHC holds monthly meetings with management at the Staff Services Manager II level and above to share information as well as address risks, issues and concerns.

DMHC holds semi-annual strategic planning meetings to globally assess the Department’s needs and priorities. During these half-day meetings, critical issues and environmental changes that have arisen since the last strategic plan meeting are discussed to adjust priorities and meet current needs. Internal control issues that warrant a high level of planning and oversight, are documented within the strategic plan, including steps required for completion, assigned leads and completion timelines. The Strategic Planning Officer maintains the Action Plan and convenes monthly check-in meetings with the Executive Management Team to discuss the implementation status of activities underway.

Lastly, on a bi-monthly basis, the SLAA Coordinator will solicit updates regarding the status of each risk to evaluate Implementation Plan progress.

ADDRESSING VULNERABILITIES

The DMHC is committed to working as efficiently and effectively as possible so any deficiencies identified during our monitoring process will be immediately addressed and an action plan put in place to mitigate the deficiency. When deficiencies are identified, the subject matter expert evaluates the internal control weakness and provides management with alternatives and a recommendation for how to mitigate the risk. Depending on the level of risk, some issues may elevate to the Executive Management Team for discussion and input. The subject matter expert (SME) implements management's preferred strategy, as feasible, depending on the complexity of the issue. Progress is monitored through updates to the Executive Management Team.

COMMUNICATION

Effective communication is crucial to DMHC's success. In an effort to address communication of vulnerabilities, DMHC clearly delineates staff roles and responsibilities in duty statements and staff expectation memos. The expectation memo specifically outlines the protocol for communicating risks/issues through the chain of command as well as communication to other offices. In addition to the communication referenced in the Monitoring Section above, the DMHC Director/Chief Deputy Director facilitate a bi-annual all staff meeting to share both operational and program information as well as issues that affect the Department. Communication within the Department is primarily achieved through e-mail as it is the quickest form of communication. For issues that require formal written communication, formal memos, policies and procedures are completed.

ONGOING MONITORING COMPLIANCE

The DMHC 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 Entity's systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the DMHC's risk assessment process: Director, Chief Deputy Director, General Counsel and Deputy Directors.

RISK IDENTIFICATION

The methodology undertaken to assess DMHC risks included designating a SLAA Coordinator to lead the project and ensure all program Deputy Directors were made aware of the project and had an opportunity to reflect on the changing risks within their programs. The Coordinator provided the Executive Management Team with SLAA materials and background risk assessment information. Risk identification and discussion occurred in an executive-level management meeting which considered a review of internal and external audits and assessments performed since the last SLAA report. The matrix of issues developed for the 2015 SLAA report was the starting point for this discussion.

RISK RANKING

Initially, 16 potential risks were identified and documented in a risk spreadsheet. For each potential risk, the Executive Management Team discussed the level of risk, as well as potential impact and probability of occurrence. Internal controls already in place were acknowledged and additional controls were identified for implementation.

After careful consideration, the Executive Management Team identified the following areas of significant risk:

- Risk 1: Technology Outdated
- Risk 2: FI\$Cal Implementation
- Risk 3: Staff Adherence to Policies
- Risk 4: Securing Departmental Records

RISKS AND CONTROLS

RISK 1: OPERATIONS – INTERNAL – TECHNOLOGY OUTDATED, INCOMPATIBLE HARDWARE, SOFTWARE AND APPLICATIONS

The DMHC uses Clarify, a Customer Relationship Management (CRM) software application, to track consumer complaints. This is a mission critical application that ensures consumer health care issues are tracked, monitored, resolved and reported for health plan oversight and enforcement. The DMHC is at risk of inefficiently serving its customers and insufficiently preventing against system failures if the current CRM system is not updated. The DMHC has contracted with Dovetail Software Inc. to update the CRM to a modern interface than can be supported by DMHC's programming staff.

CONTROL A

DMHC's Office of Technology and Innovation will provide project management support as directed by the California Project Management Framework. The controls put into place to ensure the success of the project include implementation of an effective project management plan (schedule, scope, and budget); change control management; communication and stakeholder management through weekly/monthly status reports and meetings; project governance and risk management (identification and mitigation).

RISK 2: OPERATIONS – INTERNAL – FI\$CAL IMPLEMENTATION, MAINTENANCE AND FUNCTIONALITY

DMHC went live on July 1, 2017. Staff continue to learn the functionality of FI\$CAL while still maintaining and supporting DMHC's existing Procurement Tracking System (PTS). FI\$Cal does not currently provide the functionality of sending and receiving quotes electronically which is a key feature of the Department's PTS system. The workload has increased significantly for staff that must now support two systems as well as understand the functionalities of both systems. This is resulting in delayed procurements for both goods and services that are needed by program staff to effectively perform their jobs.

CONTROL A

Hire temporary staff or redirect existing staff to assist with the procurement backlog and continue to provide focused FI\$Cal training sessions for staff.

RISK 3: COMPLIANCE – INTERNAL – STAFF ADHERENCE TO POLICIES, PROCEDURES, OR STANDARDS

Employees are required to handle confidential, sensitive and personal information in fulfilling their responsibilities. This information may include enrollee health information. Employees must be educated and understand their roles and responsibilities to ensure this information is not shared, released or misused and is securely stored and protected. DMHC's Information Security policy was last updated in 2011. Updating the current policy will minimize the DMHC's exposure to risk and will assist when an issue arises due to non-compliance with this policy.

CONTROL A

Update the DMHC's confidentiality policy and ensure that all employees read and sign an acknowledgement form certifying they understand their responsibilities. Provide training on the updated policy.

RISK 4: OPERATIONS – INTERNAL – PHYSICAL RESOURCES-MAINTENANCE, UPGRADES, REPLACEMENTS, SECURITY

The DMHC is required by statute to retain original health plan and case file records. These paper file records are stored on site in secured file rooms. The Department is at risk if an unforeseen event such as a fire or water leak were to occur and potentially destroy these original records. Additionally, the DMHC's Record Retention Schedules for both paper and electronic files need to be consolidated into one schedule for consistency and adherence by all DMHC programs.

CONTROL A

Identify options for electronically scanning existing health plan and case file records, and secure resources as needed to implement solutions.

Consolidate and update the DMHC's Record Retention Schedules and include an annual review process for ensuring records are kept or destroyed in adherence with the schedule.

CONCLUSION

The DMHC 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.

Shelly Rouillard, Director

cc: California Legislature [Senate (2), Assembly (1)]
Californian State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency