December 10, 2021

Mark Ghaly, Secretary
California Health and Human Services Agency
1215 O Street
Sacramento, CA 95814

Dear Secretary Mark Ghaly,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Managed Health Care submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact
Nichole Eshelman, Deputy Director – Office of Administrative Services , at (916) 217-1439, Nichole.Eshelman@dmhc.ca.gov.

GOVERNANCE

Mission and Strategic Plan

Created by consumer sponsored legislation in 1999, the DMHC regulates health plans under the provisions of the Knox-Keene Health Care Service Plan Act of 1975, as amended (Knox-Keene Act). The mission of the DMHC is to protect consumers' health care rights and ensure a stable health care delivery system. The DMHC accomplishes its mission by ensuring the health care system works for consumers. The DMHC protects the health care rights of more than 27.7 million Californians by regulating health care service plans, assisting consumers through a consumer Help Center, educating consumers on their rights and responsibilities, and preserving the financial stability of the managed health care system.

The DMHC's core values are: integrity, leadership, and commitment to service. The DMHC's mission and core values, as launched in its 5-year Strategic Plan in 2015, inform its four main goals and related 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.

The DMHC's Director's Office (DO) provides leadership and direction to DMHC employees. The DO includes members of the Executive Management Team consisting of the Director, Chief Deputy Director, General Counsel, and the Deputy Directors for Communications and Planning, Legislative Affairs, and Health Policy and Stakeholder Relations. To carry out its mission, the DMHC is organized into eight functional Offices, with each led by a Deputy Director who reports to the Chief Deputy Director and is a member of the Executive Management Team: 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. Lastly, the DMHC administers the operations of the Financial Solvency Standards Board, which is responsible for advising the Director and the DMHC regarding factors affecting the financial stability of the health care delivery system.

The DMHC is currently in the process of planning and developing a current Strategic Plan under its new leadership.

Control Environment

It is the policy of the DMHC to comply with the ethical standards required by the Conflict of Interest Code and the Political Reform Act. It is the expectation of the DMHC that employees will promote ethical professional behavior and act in a manner consistent with their public responsibilities, in order to maintain the confidence and trust of the public, regulated entities and co-workers. All new employees must sign an acknowledgement of receipt and understanding of the policy which is placed in the employees Official Personnel File. Additionally, in compliance with California law, DMHC employees and consultants complete an ethics training course every two years. Employees provide a certificate of completion to the DMHC's Human Resources Office within six months of hire and every odd numbered year thereafter. All employees in conflict-of-interest positions are required to comply with the Political Reform Act by filing the Fair Political Practice Commission's Form 700 upon assuming office, annually, and upon vacating office.

As stated above, oversight is provided by the Executive Management Team. One of the Executive Management Team's priorities is to help foster a culture of excellence throughout the Department. To assist in achieving this goal, the DMHC equips managers and supervisors with the necessary tools, training, and resources to succeed. This aligns with DMHC efforts to innovate as a high-performing organization that develops, recognizes, and retains talent, while fostering learning, growth, and performance accountability. The Executive Management Team meets at least weekly to discuss departmental operations, policies, and news, thereby ensuring continuous and uniform oversight of the DMHC. Management-level staff meet monthly and within each of the functional DMHC offices in order to plan operations and execute their office's duties. The DMHC continuously updates its internal policies, procedures, and other manuals or guides in order to ensure all control systems are up-to-date and are capable of guiding DMHC operations at all times.

The DMHC establishes a competent workforce through a thorough recruitment process which begins with clearly delineating staff roles and responsibilities in duty statements. The DMHC enforces the merit-based principle of the civil service by competitively scoring applicants and ensuring an equitable interview process. Every new DMHC employee receives an employee expectation memo on their first day of work which includes information regarding the DMHC's policies, procedures, and performance expectations to ensure and enforce good employee performance. New DMHC employees also attend and participate in a four-hour new employee orientation (NEO) which provides insight into the DMHC, its programs, and the health care industry it regulates. Each hiring manager is responsible for onboarding the new employee by establishing a regular communication schedule and providing the employee with key information including a training plan to ensure proficiency in job tasks and organizational norms, guidelines, policies, and procedures. Managers are also responsible for providing staff regular performance assessments in-person or in writing through job assignments as well as probationary and annual reports. In an effort to sustain and retain employees, the DMHC makes training readily available, provides reasonable accommodations, and rewards staff for their hard work through the Superior Accomplishment, Sustained Superior Accomplishment, and other employee award or recognition programs.

Information and Communication

Effective internal and external communication is crucial to the DMHC's success. Each office within the DMHC has programmatic policies and procedures which can be accessed online on the DMHC's HUB (Sharepoint/Home for Unit Business). To help supplement the programmatic policies and procedures, the DMHC has a guiding Departmental Administrative Manual (DAM), which acts as the foundation for all policies and procedures. The DAM can also be found on the DMHC's HUB.

The DMHC uses the following additional information systems:

- Microsoft Sharepoint Suite– The DMHC has a fully-developed Sharepoint, with each Office having its own Sharepoint HUB, with pages and document libraries set up as needed for each unit or project. The Sharepoint is linked to the DMHC Microsoft Office Suite, thereby ensuring a coordinated teamwork environment across all platforms. In addition to email communications through Microsoft Outlook, the DMHC employs Microsoft Teams as a primary application for instant communications, file sharing, and teleconferencing.

- FI$Cal – California's statewide accounting, budget, cash management and procurement system.

- Spotlight – All consumer cases handled by the Help Center are recorded in Spotlight which helps inform the DMHC's annual report, surveys, media requests, enforcement actions, as well as identifying trends and much more.

- E-Filing – Health plans and health care entities upload and transmit data and/or documents related to the licensing and registration of a plan.

- WASP– An internal workflow system for submitting tickets for requests pertaining to human resources, information technology, and facilities management.

In an effort to communicate the Department's mission, goals, and strategic direction, the DMHC Director and Chief Deputy Director facilitate quarterly all-staff meetings to share both operational and program information as well as discuss issues that impact the Department. Communication within the DMHC is primarily achieved through e-mail, including weekly HUB highlights, as it is the quickest form of communication. Regular on-going updates are also posted on the DMHC's HUB. For issues that require formal written communication, formal memos, policies, and procedures are shared with employees.

External stakeholders receive information regarding the DMHC's objectives through press releases, quarterly stakeholder newsletters, meetings, and social media outreach. The Executive Management Team communicates with health care stakeholders and consumers through speaking engagements and ad hoc meetings throughout the year. The majority of information communicated to external stakeholders is accomplished through the quarterly Health Plan Roundtable and Consumer Advocates meetings. Additionally, the DMHC holds a number of public meetings, including but not limited to the annual meeting on Large Group Aggregate Rates and Prescription Drug Costs, the quarterly Financial Solvency Standards Board meetings, and meetings regarding the implementation of legislation.

The DMHC takes inefficiencies and inappropriate actions very seriously. The first step a DMHC employee can take is to report inefficiencies and/or inappropriate actions to their respective manager. DMHC employees may also contact the appropriate unit within the Workforce Support Division in regard to issues related to Human Resources, Equal Employment Opportunity (EEO), Reasonable Accommodation, and Health and Safety. Employees may file an EEO complaint if they believe their rights protected under state and federal EEO laws and Department policies have been violated. Additionally, external complaints from non-employees and/or employee complaints may be filed directly with the California Department of Fair Employment and Housing and/or the EEO Commission. The DMHC upholds the Political Reform Act and the California Whistleblower Protection Act by encouraging employees to report wrongdoing to the respective oversight entities, the Fair Political Practices Commission, and the California State Auditor.

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 Managed Health Care monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Nichole Eshelman, Deputy Director – Office of Administrative Services .

The Executive Management Team holds weekly meetings 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, the Deputy Directors meet individually with the Director and/or the Chief Deputy Director on a weekly basis, affording additional opportunities to elevate internal control issues. The DMHC also holds monthly meetings with management at the Staff Services Manager I (or equivalent) level and above to share information as well as address risks, issues, and concerns.

Lastly, on a bi-monthly basis, the State Leadership Accountability Act Coordinator solicits updates regarding the status of each risk to evaluate the progress of implementation plans. The DMHC is committed to working as efficiently and effectively as possible. Any deficiencies identified during the monitoring process will be immediately addressed and an action plan put in place to mitigate the deficiency. When deficiencies are identified, a subject matter expert (SME) team 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 SMEs implement management's preferred strategy, as feasible, depending on the complexity of the issue. Progress is monitored through updates to the Executive Management Team.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of Managed Health Care 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, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

RISKS AND CONTROLS

Risk: Business and Process Functionality Issues

The DMHC has experienced challenges in ensuring full functionality of the Financial Information System for California (FI$Cal), especially in the areas of financial management/reporting and the procurement/contracts system.

Control: Fill Operational Deficiencies by Employing Legacy Systems and Methods

The DMHC employs legacy systems to fill operational deficiencies present within FI$Cal and spreadsheets are utilized to track and report accurate expenditure, encumbrance, and projection data. This approach has been implemented for all active FI$Cal users, and is used to report information to program areas, the Department of Finance, and the State Controller's Office. Additionally, the DMHC elevates issues to FI$Cal staff, including requests for technical assistance. The DMHC ensures that all employees who use FI$Cal are enrolled in trainings in order to stay up to date on the system's changes. Lastly, the

DMHC continuously reviews all workflow processes for continual improvement. Through all these methods, the DMHC ensures that critical data is not absent or inaccurate in final reports, and that all DMHC employees that use FI$Cal become experts on FI$Cal's processes.

Control: Research and Implement a FI$CAL Automation Process

The DMHC will begin researching information technology systems that are capable of interfacing with FI$Cal for the purposes of automating various processes. This will enable accurate tracking and reporting of fiscal information and will remove the extensive use of staff time that is dedicated to employing legacy systems and methods (e.g., tracking data through manual spreadsheet updating).

Risk: Workforce Recruitment and Retention Issues

The DMHC, like all State agencies, is facing challenges in filling vacancies and retaining highly qualified staff due to the complex workloads or inability to find promotional advancement within the Department. In addition, the State's lengthy and complicated hiring practices and compensation can make it difficult for the DMHC to hire or retain personnel in certain classifications.

Control: Ensuring Holistic Approaches to Recruitment

The DMHC will continue ensuring a high-quality and holistic recruitment process, beginning with certifying that all aspects of a position advertisement adhere to best practices. This includes making sure that duty statements capture the totality of a position's duties, that the job bulletin accurately summarizes the position's duties, and that the application/candidate scoring process adheres to the merit-based principle of the civil service system. Continuously, the DMHC will advance its mass marketing for job openings by ensuring that all position advertisements are shared on social media sites, newsletters, and interdepartmental communications/forums. The DMHC's commitment to the Gubernatorial Administration's plan of having a state workforce that is engaged in telework for at least seventy-five percent of all personnel hours will be highlighted in recruitment efforts as this may make the department more appealing to candidates.

Control: Teambuilding and Succession Planning in a Remote Working Environment

The DMHC places continued emphasis on succession planning activities, trainings, and team building exercises for staff in order to mitigate workforce loss. This includes ensuring a friendly, team-orientated work environment, and enforcing all applicable EEO and reasonable accommodation policies. The DMHC monitors the workload of its employees via spreadsheet tracking and other analytical tools to ensure an equitable workload across each unit. In regard to the remote workforce plan, the DMHC implemented various staff trainings in order to ensure that all employees engaged in telework are well-equipped and knowledgeable in the various programs necessary to effectuate an efficient teleworking environment. Additionally, managers have been given more training on supervising a remote workforce, including suggested tools and activities to ensure team cohesiveness. In February 2022, the DMHC will implement its long-term teleworking plan and will also develop new policies and expectations for the recruitment for fulltime telework positions on a statewide basis.

Control: Human Resources Program Development

The DMHC is analyzing potential staffing and resource needs within the Workforce Support Division (WSD) of the Office of Administrative Services. The WSD provides the full spectrum of human resources functions to the department, including but not limited to classification and pay, examinations and appointments, payroll and benefits, performance management, labor relations, equal employment opportunity, reasonable accommodation, health and safety, and training and development. As the Department has expanded, the DMHC recognizes that the human resources teams may need to expand as well in order to continue to provide a proficient level of support to the workforce.

Risk: Dynamic Nature of Laws and Regulations

The dynamic nature of changing laws, regulations, and administrative actions may cause multiple interpretations of the DMHC's jurisdiction or appropriate response in regard to the health care delivery system. This could lead to a decrease in efficiency for the DMHC's mission of protecting consumers' health care rights and ensuring a stable health care delivery system.

Control: Continuous Communication

The DMHC continuously invites public participation in rulemaking procedures and hosts multiple meetings with stakeholders in order to stay informed about varying stakeholder's interpretations of laws and regulations. The legislative affairs unit continues to track and analyze pending legislation, while the Office of Administrative Services is responsible for tracking the impact of new laws and regulations via manual entry into spreadsheets. These updates are then shared with staff, supervisors, and the Executive Management Team, thereby allowing the DMHC to take appropriate responsive actions such as bringing enforcement action against health plans for violations of new or existing laws.

Control: Knowledge Management System

In January 2022, the Office of Administrative Services will develop and pilot a Knowledge Management System (KMS) which will help automate and streamline the currently manual process of tracking the impact of new laws and regulations. This will allow for greater efficiency in the process of collecting and distributing information so that the DMHC may respond to dynamic changes in laws and regulations with greater speed and efficacy. The implementation of the KMS is projected to take one calendar year.

Risk: Legacy Information Technology Systems

The DMHC relies on legacy information technology (IT) systems, such as the Procurement Tracking System (PTS) and the Request for Personnel Action (RPA) System, that are not compatible with ongoing software changes and also do not meet current operational needs. Continuously, the personnel hours required to update these systems and provide technical support to regular users is intensive.

Control: Continuous Communication

The DMHC's multiple IT systems contain fields that should remain consistent throughout the entire

IT infrastructure of the Department. To verify consistency, the DMHC holds cross-functional meetings to identify and rectify occurrences when data is inconsistent between the different systems. Summaries of IT system reforms are included in updates to the Executive Management Team so that there is collaboration between operational needs and IT program goals. The DMHC continues to work with the California Department of Technology (CDT), vendors, and other stakeholders in order to devise solutions to address the issue of the Department's legacy IT systems.

Control: IT Systems Modernization

The DMHC will begin researching IT systems in January 2022, in order to identify a modern system which can automate manual processes and interface with FI$CAL for seamless tracking and reporting capabilities. The DMHC will work with CDT, vendors, and stakeholders to gain input on the proposed changes. The implementation is projected to take place over a two-year period.

CONCLUSION

The Department of Managed Health Care 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.

Mary Watanabe , 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