

Department of Managed Health Care

2015 SLAA REPORT

December 30, 2015

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 submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Cassie McTaggart, Deputy Director, at (916) 324-2009, cassandra.McTaggart@dmhc.ca.gov.

BACKGROUND

Created by consumer-sponsored legislation in 1999, the DMHC regulates the majority of health coverage in California including more than 90 percent of the commercial market and most Medi-Cal enrollees. The DMHC is funded by health plan assessments on the 121 licensed plans it regulates, with no taxpayer contributions. This includes 71 full-service health plans that provide health coverage to more than 25 million enrollees and 50 specialized plans such as dental and vision. Mission The California Department of Managed Health Care protects consumers' health care rights and ensures a stable health care delivery system. Core Values 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 get 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 Organization 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 seven functional Offices: 1) Administrative Services; 2) Enforcement; 3) Help Center, 4) Financial Review; 5) Plan Licensing; 6) Legal Services; and 7) Technology and Innovation. Each Office is led by a Deputy Director who reports to the Director's Office and is a member of the executive management team. Key Functions To protect consumers, the DMHC offers several services, including: Consumer Help Center – Since its establishment, the DMHC consumer Help Center (1-888-466-2219 or www.healthhelp.ca.gov) has helped more than 1.6 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 make sure 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 \$101

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 those 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 15 years the DMHC has assessed more than \$53 million in fines and penalties against health plans and required plans to make the necessary changes to comply with the law. Networks – The DMHC reviews more than 5,000 unique health plan networks every year to ensure compliance with California's nation-leading network adequacy and timely access to care standards. Medical Surveys– The DMHC conducts in-depth onsite reviews of health plan operations to ensure compliance with all facets of California law.

RISK ASSESSMENT PROCESS

The methodology undertaken to assess DMHC risks included designating a SLAA coordinator to lead the project and ensure all program executives 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. The initial meeting with executive management communicated how risks should be identified, analyzed and ranked. Risk identification and discussion occurred in an executive-level management meeting. Deputy Directors then conducted meetings with their program key staff to identify and evaluate risks from the employee and mid-management level. Initially, 10 potential risks were identified. For each potential risk, executive management discussed the potential impact and probability of occurrence. Internal controls already in place were acknowledged and additional controls identified for implementation. These additional controls became the basis for the 2015 Corrective Action Plans. Executive management held a working meeting with the Deputy Directors to review and identify potential risks and complete a risk assessment worksheet for each office. After careful executive consideration it was determined that there are two potential risks that pose a high impact to the mission/function of the DMHC. As these final risks were identified, Corrective Action Plans were reviewed, revised, and submitted for inclusion in the 2015 SLAA process. This process confirmed that while there are inherent risks to the DMHC due to the nature of its mission, the greatest vulnerabilities to the DMHC include inadequate and outdated technology and the conversion to FI\$Cal as they pose the greatest risks that could impact the DMHC's ability to effectively regulate health plans and protect consumers.

EVALUATION OF RISKS AND CONTROLS

Operations- Internal- FI\$Cal Conversion

DMHC is scheduled to go live on the new system during the next phase; the exact date has not been determined. Accounting, Procurement, Billing, Budget, Asset Management and Contracts data will be converted. Staff will have to learn FI\$Cal functionality. Since the same staff will be working on the current system while learning and testing FI\$Cal functionality, administrative functions and IT procurements will be delayed.

The DMHC will be creating a Departmental Implementation Team (DTI) to review and address FI\$Cal tasks and activities as they arise. The DIT will consist of knowledgeable staff members from the various impacted offices. By keeping an open line of communication among the DIT and the offices, informing staff of FI\$Cal changes as the DIT becomes aware, and addressing concerns as soon as they are brought forward, the DMHC is more likely to be successful in the implementation of FI\$Cal.

Operations- Internal- Technology—Inadequate Support, Tools, Design, or Maintenance

The DMHC's IT resources (hardware, servers and software applications) are outdated and incompatible with current industry standards. Immediate steps need to be taken to ensure IT infrastructure is refreshed on a regular basis and that staff are properly trained to handle responsibilities.

The DMHC will provide on-the-job training so that resources can be directed to work on any IT issue that may arise. In addition the DMHC is creating a procedural manual that will be

available to all new and existing IT staff and will provide clear and uniform step by step procedures for common IT functions.

Hire retired annuitants, student assistants, OTECH and contractors to assist with identifying IT resources that are outdated and incompatible with current industry standards and assist with staff training.

Inter-Agency Agreement with OTECH for continued support of 6 outdated Microsoft Windows 2003 servers are needed until all servers have been upgraded or replaced on or before December 2018.

ONGOING MONITORING

Through our ongoing monitoring processes, the Department of Managed Health Care reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Department of Managed Health Care is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Department of Managed Health Care, Shelley Rouillard, Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Cassie McTaggart, Deputy Director, as our designated agency monitor(s).

Frequency of Monitoring Activities

Each month, an assigned staff knowledgeable of department procedures and operations will conduct monitoring activities to evaluate the progress being made towards the corrective action plan for any given risk and will document findings via the Risk CAP Monitoring Form. In addition, the Deputies, Risk Monitors and SLAA Coordinator will participate in a touch point meeting to ensure monitoring is occurring and determine whether current monitoring activities are effective or need to be improved. Lastly, once per quarter the executive staff will meet with the Deputies and SLAA Coordinator to evaluate the progress of the Corrective Plan.

Reporting and Documenting Monitoring Activities

The DMHC understands the importance of monitoring activities so the responsibility of managing performance monitoring is that of each Deputy Director in their respective office. Each Deputy is responsible for reviewing and approving the monitoring report and will provide guidance and direction for continuous improvement. Once approved, the final results will be reported the DMHC executive staff via the quarterly Risk CAP Status Report. The executive staff will review and approve and/or make recommendations. Lastly, the report will be made available to all DMHC staff via the DMHC Intranet site (OTIS).

Procedure for Addressing Identified Internal Control Deficiencies

The DMHC is committed to working as efficient and effective as humanly possible so any deficiencies identified during our monitoring process will be immediately addressed and an action plan will be put in place to mitigate the deficiency. Our management team will determine the control, how and where it will be applied, who will perform the control and who will monitor performance to ensure requirements are met. Within 30 days of identifying a deficiency, DMHC will assign a resource(s) to start the process of developing the control and within 90 days, the control will be implemented. Throughout this process, management will measure the significance and materiality to determine whether a control risk or weakness must be reported in the biennial SLAA report.

CONCLUSION

The Department of Managed Health Care strives to reduce the risks inherent in our work through ongoing monitoring. The Department of Managed Health Care accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Shelley Rouillard, Director
Department of Managed Health Care

cc: Department of Finance
Legislature
State Auditor
State Library
State Controller
Secretary of Government Operations