

December 19, 2019

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

Dear Dr. 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, 2019.

Should you have any questions please contact Teresa Gonzales, Strategic Planning Manager, at (916) 327-8946, [teresa.gonzales@dmhc.ca.gov](mailto:teresa.gonzales@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 26 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 launched a 5-year Strategic Plan in 2015 with the following 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

The Director's Office (DO) provides leadership and direction to DMHC employees. The DO includes 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: 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.

### **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.

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. In 2019, DMHC contracted for consultation services to develop leadership training to assess workforce competencies through a formalized performance feedback rating system and identify growth opportunities for managers and supervisors.

The DMHC establishes a competent workforce through a thorough recruitment process which begins with clearly delineating staff roles and responsibilities in duty statements. 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, policies and guidelines. Managers are also responsible for providing staff regular performance assessments in-person or in writing through job assignments as well as probationary and annual report feedback. 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 Award Programs and employee recognition awards.

## Information and Communication

Effective internal and external communication is crucial to DMHC's success. Each office within the DMHC has programmatic policies and procedures which can be accessed in the DMHC's Internal Library. To help supplement the programmatic policies and procedures, the DMHC is developing a Department Administrative Manual as a tool for staff to access policies and procedures governing internal administrative operations, which will also be available on the DMHC's Internal Library. The DMHC uses the following additional information systems:

- 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.

In an effort to communicate the Department's mission, goals and strategic direction, the DMHC Director and Chief Deputy Director facilitate bi-annual 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 semi-annual employee newsletters, as it is the quickest form of communication. For issues that require formal written communication, formal memos, policies and procedures are shared with employees.

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. Additionally, in compliance with federal and state statutes, the DMHC affords equal employment opportunity (EEO), based on an individual's merit, skills, abilities and fitness for duty, to all employees and job applicants. Employees may report inappropriate actions by filing an EEO complaint within one year of the most recent incident if they believe their rights, protected under EEO state and federal laws and/or DMHC policy, have been violated.

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 legislation implementation.

## 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: Teresa Gonzales, Strategic Planning Manager.

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, the Deputy Directors meet individually with the Chief Deputy Director on a weekly basis, affording additional opportunities to elevate internal control issues. The DMHC also holds bi-monthly meetings with management at the Staff Services Manager II level and above to share information as well as address risks, issues and concerns.

Additionally, the Executive Management Team holds semi-annual strategic planning meetings to globally assess the Department's needs and priorities. During these 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.

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, the subject matter expert (SME) 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 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.

## 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, 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.

The methodology undertaken to assess DMHC's 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 identify risks within their programs. The Coordinator provided the Executive Management Team with SLAA materials and background risk assessment information. The Executive Management Team engaged their respective program staff to discuss and identify potential risks. Risk identification and discussion occurred in an Executive Management Team meeting which included a review of internal and external audits and assessments performed since the last SLAA report. The matrix of issues developed for the 2017 SLAA report was the starting point for this discussion as well as input received from the various offices.

Initially, 17 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: Scanning Health Plan Records

Risk 2: Replacing Critical Outdated Program Applications

Risk 3: Cal-Secure Implementation

## **RISKS AND CONTROLS**

### **Risk: Health Plan File Records**

The DMHC is required by statute to retain original health plan and case file records. These paper file records are stored on site in a secured file room. The Department is at risk if an unforeseen event such as a fire or water leak were to occur and potentially destroy these original files.

#### **Control: Scan Health Plan Records**

Currently, hard copy files are stored in a secure file room with limited badge access by the Department's Business Management Unit (BMU). These records will be scanned and stored electronically in a secured location, which will reduce the risk of damaging the files.

### **Risk: Outdated Program Applications**

There are several DMHC critical program applications that are outdated such as e-filing and case management solutions that need to be updated/modernized in order to meet legislative mandates.

#### **Control: Replace Critical Outdated Program Applications**

The DMHC will implement a Necessary Infrastructure Modernization for Business Unified Services (NIMBUS) platform that will replace existing applications and offer a robust scalable framework that will allow the DMHC to meet legislative mandates. The DMHC has submitted a Request for Project Delegation to the California Department of Technology (CDT) which, if approved, would

allow project NIMBUS to exit the Project Approval Lifecycle (PAL).

**Risk: DMHC's Infrastructure**

DMHC's infrastructure and software may not meet the Cal-Secure 5-year strategic plan initiatives without additional protective measures, staff and processes.

**Control: Cal-Secure Implementation**

Implement the Cal-Secure framework which will mitigate cybersecurity risks and address vulnerabilities. The DMHC is exploring various alternatives to execute the Cal-Secure 5-year plan. Staff is currently drafting activities for the DMHC that will map projects and activities to the Cal-Secure 5-year plan compliance requirements.

**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.

**Shelley Rouillard, 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