December 20, 2023

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

Dear Secretary 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, 2023.

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 Department of Managed Health Care (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 29.7 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
- Provide vital, timely and effective assistance to California's diverse health care
- 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
- Increase the transparency of health care cost, quality and
- Improve the performance of the health care

Goal 3: Regulate fairly, efficiently and effectively.

- Exercise the Department's legal authority fairly, effectively and
- Improve the operational and clinical performance of health
- Monitor and protect system financial
- Communicate Department actions, decisions and opinions timely and Goal 4: Foster a culture of excellence throughout the organization.
- Develop, recognize, and retain talent, effort and
- Apply the Department's core values
- Share knowledge and
- Use all resources effectively, efficiently and
- Assure the organization can respond effectively and timely to unexpected

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 new five-year Strategic Plan.

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 provide an acknowledgement of receipt and understanding of the policy which is placed in the employees' online account in the DMHC Learning Management System, Aspire. 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 Training Office for placement in their Aspire account 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 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

- 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 monthly 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 biennial 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 Services Division regarding 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 .

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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: Legacy IT Systems Limitations

Operations/Internal - Technology—Compatibility: The DMHC relies on legacy IT systems that do not meet current needs and are custom software applications that require large projects to implement changes, which makes it very difficult to enhance or modernize systems. These legacy systems do not natively integrate work with other software systems, which requires the DMHC to continue to support a siloed application architecture.

Control: Low-Code Custom Software Implementation

The DMHC is implementing Low-Code Custom Software Application Platform as a Service (aPaaS) for the Survey & Exam Scheduling System (funded by the California Department of Technology's Technology Modernization Fund) and the upcoming SB 858 implementation for a modern Enterprise Corrective Action Plan system.

Low-Code software development platforms allow developers to implement 400% to 500% more code in the same time as it takes to develop code within legacy application frameworks.

Low-Code will accelerate modernization and more quickly eliminate technical debt and risks associated with legacy application platforms.

Risk: Data Housing and Analysis Limitations

Operational/Internal – Technology—Tools - Formalized Data Infrastructure for Analyzing Data within the DMHC and sharing data across the California Health and Human Services Agency (CalHHS): The DMHC does not yet have a well- established data infrastructure to support formalized data analysis (data warehouse, data marts, data lakes), Data Governance, nor Data Management that enables a single version of truth for decision making, nor allows for sharing high-quality data with the CalHHS without significant human-manual scrubbing of data.

Control: Cloud Business Intelligence (BI) Data Platform Implementation

The DMHC is implementing Cloud BI Data Platform (Microsoft Azure) to modernize and formalize analytical data structures and consolidate analytical data into a single enterprise platform.

Implementation of data in the BI Cloud will enable structured Data Governance, Data Management and Data Stewardship and allow for analysis of data assets across program silos within the DMHC.

Cloud BI Platform infrastructure shall enable more rapid solution development that will allow the BI team to more effectively deploy enterprise solutions that are amenable to sharing data with the CalHHS Data Exchange.

Risk: Investigation and Discovery for Prosecution Issues

Operational/Internal – New System Implementation – eDiscovery Software: Currently, whether it is a single matter, or a group prosecution, the DMHC Office of Enforcement (OE) litigation teams utilize a variety of software applications to investigate matters that often contain evidence found in voluminous electronic documents with numerous data points. Traditional methods of attorney and paralegal review have proven inadequate to keep pace with the ever-mounting referrals. The current processes result in ineffective use of resources that significantly prolong the time to prosecute a matter. Investigations, discovery, and preparing a complex matter for administrative and civil litigation present unique challenges for the OE litigation teams.

Control: eDiscovery Implementation

Implementation of an eDiscovery software application to effectively conduct investigations and manage discovery, including the ability to organize significant volumes of documents and data, reducing the risk of untimely and incomplete investigation and discovery for prosecution.

Risk: Annual Performance Appraisal Report Tracking Issues

Reporting/Internal – Information Collected—Timeliness: Appointing powers shall prepare performance reports and keep them on file as prescribed by department rule. (Gov. Code, § 19992.2, subd. (a).) Each supervisor, as designated by the appointing power, shall make an appraisal in writing and shall discuss with the employee overall work performance at least once in each twelve calendar months following the end of the employee's probationary period. Currently, the reports are prepared, tracked, and noticed manually. The current process has resulted in untimely reporting and feedback to employees resulting in audit findings and potential staff performance issues.

Control: Automated due date notification system

Implementation of a performance module that integrates with the DMHC Learning Management System (LMS) will allow for automated due date notifications to managers, reducing the risk of late reporting.

Control: Automated difficiency report generation

Implementation of a performance module that integrates with the DMHC LMS will allow for automated deficiency reporting for senior management, reducing the risk of late reporting by providing accessible and real-time oversight tools to senior management.

Control: Report management system

Implementation of a performance module that integrates with the DMHC LMS will allow report creation and storage in one system, reducing the risk of report misplacement and supporting automated notifications and access to reporting tools for compliance oversight.

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, Assembly]
    California State Auditor
    California State Library
    California State Controller
    Director of California Department of Finance
    Secretary of California Government Operations Agency