

**Department of Health Care
Services
Internal Audits**

**DEPARTMENT WIDE RISK ASSESSMENT
REVIEW**
State Leadership Accountability Act of 1983



Department of Health Care Services

2015 SLAA REPORT

April 29, 2016

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 Health Care Services 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 Ginny Veneracion-Alunan, Chief, Internal Audits, at (916) 650-0272, Ginny.Veneracion-Alunan@dhcs.ca.gov.

BACKGROUND

The DHCS' mission is to provide Californians with access to affordable, high-quality health care including medical, dental, mental health, substance use treatment services, and long-term care. Our vision is to preserve and improve the physical and mental health of all Californians. DHCS helps ensure that Californians have access to quality health care services that are delivered effectively and efficiently.

DHCS is designated by the Federal Centers for Medicare and Medicaid Services as the Single State Agency responsible for administering Medi-Cal, California's Medicaid program. Medi-Cal is a federal/state partnership providing comprehensive health care to individuals and families who meet defined eligibility requirements. Medi-Cal acts as the sole health care provider to over 13 million Californians at an annual cost that exceeds \$85 billion; making it the largest Medicaid program in the nation. Nearly one in three Californians receives health care services financed or organized by DHCS, making DHCS the largest health care purchaser in the state.

In addition to Medi-Cal, DHCS offers programs to special populations:

- Low-income and seriously ill children and adults with specific genetic disease
- Californians in rural areas and to underserved populations
- Community mental health services and substance use disorder services funded by federal block grants and the Mental Health Services Act
- Public health prevention and treatment programs

In 2015, DHCS received federal approval of California's 1115 waiver renewal, called Medi-Cal 2020. It will guide DHCS through the next five years as DHCS works to transform the way Medi-Cal provides services to its members, and improve quality of care, access, and efficiency.

To integrate the DHCS mission, vision, core values, and goals, DHCS' executive staff developed the DHCS 2013-2017 Strategic Plan, a roadmap to achieve DHCS' short-term and long-term objectives. In 2015, DHCS updated the Strategic Plan to guide appropriate strategies that would help DHCS capitalize on upcoming changes to health care delivery, while allowing DHCS to maximize its efficiency and positive impact on the health care system. The Strategic Plan defines three main constituencies – the people DHCS serve, the public, and DHCS employees. The commitments in the Strategic Plan support DHCS' dedication to enhancing the consumer experience, improving health outcomes, lowering the cost of care, fostering a positive work environment, and adhering to DHCS core values of integrity, service, accountability, and innovation.

DHCS' executive staff works diligently to instill the Core Values in its employees performing the day-to-day operations. DHCS demonstrates its commitment to the Core Values with the implementation of

online “Dashboards” and Stakeholder Engagement Initiative to increase transparency and improve communications with providers, partners, advocates, and the public.

RISK ASSESSMENT PROCESS

DHCS performed the risk assessment in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework (2013). Internal Audits (IA) facilitated the department-wide risk assessment process and evaluation of controls. IA provided DHCS Executive staff with SLAA background and risk assessment information. Risk identification and evaluation was conducted using a combination of senior management discussion, a review of external and internal audit findings, staff interviews and department-wide Questionnaires and Surveys that identified and categorized program risks and corresponding mitigating controls. IA reviewed and compiled the results and ranked the top risks based on category, description, factor, and score. As applicable, IA researched the relevant internal and external audit results and evaluated the corrective action plans. The IA team then met with the DHCS Director to discuss the department-wide risks and controls evaluated.

EVALUATION OF RISKS AND CONTROLS

Operations- External- Fraud, Theft, Waste, Misconduct, Vandalism

As the Medi-Cal program continues to expand in both size and diversity, the likelihood of fraud, waste and abuse (FWA) increases. Since 2003, the Governmental Accountability Office has designated Medicaid as high risk for improper payments and vulnerable to FWA. In addition to financial losses caused by health care fraud, exploitation of program beneficiaries can lead to patient harm from unsafe and/or unnecessary medical procedures as well as compromised patient files that are used to submit false claims.

To prevent, detect and control Medi-Cal FWA, DHCS has placed a strong emphasis on Medi-Cal program integrity over the past decade. DHCS' nationally recognized Medicaid anti-fraud division, Audits & Investigations, deploys aggressive and effective program integrity initiatives, and leads the nation with the most comprehensive anti-fraud efforts. These efforts include greater provider enrollment screenings, strengthening policies and procedures, increased field investigations, cooperating and collaborating with internal and external business partners, working toward expanded data sharing, and new technologies (expanded data analytics) to help identify and keep pace with ever-evolving fraud schemes, and receiving vital funding for anti-fraud activities and resources.

Operations- Internal- Technology—Outdated, Incompatible

Associated risks to DHCS due to incompatibility issues with its legacy Medical Eligibility Data System.

DHCS is currently conducting a technical analysis to modernize its legacy Medical Eligibility Data System (MEDS), which lacks the functionality to interface with new technologies. The MEDS modernization project would update the existing platform to interface with downstream technologies, and assess and improve its business processes.

Operations- External- Technology—Data Security

Loss of sensitive data and exposure of personal health information places DHCS at risk.

DHCS recently conducted a comprehensive IT Security Assessment (Assessment) to evaluate the information protection posture of DHCS and develop an overall strategic security architecture. The scope of the Assessment encompassed DHCS' IT Security Program and

applicable IT environment(s) including the infrastructure, security governance, related lifecycle processes, and DHCS' overall approach to information protection. The Assessment identified a set of integrated security process and technology recommendations for enhancing the DHCS IT security program. While DHCS has made progress on many of the roadmap recommendations, DHCS continues to address and implement the mitigation processes.

DHCS has established Data Policy, Information Privacy & Security Policies, and Guidelines. In addition to physical safeguards, DHCS protects sensitive information through logical security measures which include unique passwords, data encryption, secure firewall, internet content filters, and anti-virus software. DHCS implemented IT security policies (in accordance with Health Administrative Manual and State Administrative Manual), mandatory annual privacy and security training, and security guidelines. DHCS continually monitors computer activity to ensure compliance with state and federal laws. Further, for any data breach reported, DHCS has a comprehensive incident response and resolution plan.

Operations- External- Service Provider—Inadequate Internal Control System

Non-compliance or inadequate performance by contracted service providers may create inefficiencies or prevent DHCS from accomplishing its mission. DHCS contracts with service providers, defined as entities that perform certain operational processes for DHCS, such as claims processing and health care delivery.

To hold providers, plans and business partners accountable for performance, DHCS ensures contracts contain metrics of accountability. DHCS also uses metrics tied to payment, to drive value and quality. DHCS continues to strengthen its contracts with managed care plans to raise their role in oversight and monitoring of their contracts. DHCS' efforts include audits to review controls and adherence to contractual provisions, as well as dedicated DHCS contract monitoring staff for corresponding service providers (e.g. fiscal intermediary). DHCS strives for effective oversight and monitoring to ensure program integrity and compliance.

Operations- External- Funding—Sources, Levels

DHCS relies heavily on federal and state funds, and is vulnerable to reduction or discontinuance of funding sources due to non-compliance with regulatory requirements or untimely implementation of legislative or regulatory changes.

DHCS ensures compliance with legislative and regulatory requirements through established departmental processes for program changes, by division, with executive management project sponsors. Senior executives meet daily and executive staff meet bi-weekly to discuss DHCS priorities. DHCS has implemented a continual oversight and monitoring process to ensure efforts are prioritized to address the most critical functions. DHCS works effectively and efficiently in collaboration with beneficiaries, providers, and stakeholders to encourage participation and achieve optimal resolution. Additional funding is sought via Budget Change Concepts and Budget Change Proposals to increase the resources available to administer DHCS' programs.

Operations- External- Access to Care

The expansion of Medi-Cal through the Affordable Care Act makes it more important for DHCS to ensure timely access to quality health care.

To improve access to care, DHCS is committed to strong monitoring and oversight of its health plans to ensure health plan network adequacy. The existing oversight actions include regular audits of each health plan's network, during which DHCS surveys the provider directories, reviews of network reporting by the plans, studying call center reports generated by DHCS' Medi-Cal Managed Care Office of the Ombudsman and upgrading the Ombudsman phone system to handle a larger volume of calls. DHCS is implementing enhanced and comprehensive monitoring and certification processes. These include network monitoring through secret shopping, network validation through analysis of data on providers, capturing data to verify timely access and continuity of care, access to appeals and State Fair Hearings, monitoring of transitions of members into care and when they change plans and others. Monitoring efforts are published in DHCS' quarterly Medi-Cal Managed Care Performance Dashboard.

DHCS supports and assists health plans with networks dropping below the required provider-to-member ratios. In a case where a plan is struggling with its provider network capacity, DHCS, in collaboration with the Department of Managed Health Care, can require monthly reporting by the plans and close new enrollment in the plan until the problems are corrected.

Further, as required by the Special Terms and Conditions of California's 1115 Waiver Renewal, Medi-Cal 2020, DHCS will contract with its External Quality Review Organization, Health Services Advisory Group, to complete an Access assessment. This one-time assessment will evaluate primary, core specialty, and facilitate access to care for managed care beneficiaries based on the current health plan network adequacy requirements set forth in the state's Knox-Keene Health Care Service Plan Act of 1975 and Medicaid managed care contracts, as well as reporting on the number of providers accepting new beneficiaries.

Operations- Internal- Staff—Key Person Dependence, Succession Planning

DHCS' staffing levels are negatively impacted by loss of institutional knowledge due to staffing turnover or inability to hire staff replacements.

DHCS has committed to increased administrative controls which include; management-approved procedural manuals for all staff; cross-training of staff; opportunities for training classes offered by the Office of Workforce Planning and Development; the Leadership Academy, and Analyst Training. Additionally, staff are offered flexible work schedules and coordinated wellness activities. Teamwork approach and promotional opportunities create long term incentives for retention and skills development are in progress.

ONGOING MONITORING

Through our ongoing monitoring processes, the Department of Health Care Services reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Department of Health Care Services 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 Health Care Services, Jennifer Kent, Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Karen Johnson, Chief Deputy Director of Policy & Program Support, as our designated agency monitor(s).

Frequency of Monitoring Activities

The agency risk monitor has the responsibility for continuously tracking the risks for DHCS to promote an ongoing monitoring culture well ingrained into programs' operations. The agency monitor implements an enterprise risk management structure, which focuses on building a risk intelligent culture across DHCS. A comprehensive risk assessment and monitoring initiative is in the development stage for implementation in FY 2016/ 2017.

DHCS meets with its various stakeholders regularly to discuss diverse subjects relating to programs administered. These meetings are conducted to obtain stakeholders' input on issues and risks that could arise while administering the programs. DHCS maintains a bi-monthly Stakeholder Communication Update, which serves as an avenue to encourage stakeholders' questions, concerns or suggestions. Feedback is important to prevent unnecessary issues or risks that might impede organizational goals.

Reporting and Documenting Monitoring Activities

DHCS establishes continuous and ongoing monitoring processes to address of DHCS' risks and mitigating controls. All levels of management will be involved in evaluating, strengthening and monitoring risks and mitigating controls in an ongoing effort, using managers as the first line of defense, to detect and correct weaknesses (risks) timely.

Senior executive management meet daily and executive staff meet bi-weekly to discuss risks and mitigating controls. A Quarterly DHCS Managers and Supervisors meeting is sponsored by the Director. Additionally, DHCS utilizes the Weekly Activity Report (WAR) to report critical and sensitive issues to the California Health and Human Agency. Vital information is frequently disseminated to DHCS employees in the form of policy letters, administrative memos, and newsletters to keep employees abreast of recent developments and updates on recent policies. Additionally, IA monitors the ongoing status of Corrective Action Plans (CAPs) through full implementation, and is rolling out a CAPs reporting plan for Division management.

Procedure for Addressing Identified Internal Control Deficiencies

IA has the responsibility to improve and add value to the business operations within DHCS. IA conducts an independent and objective evaluation of DHCS programs and communicates significant internal control deficiencies or programmatic issues identified. The program management is required to provide CAPs to address corresponding audit findings. Programs are required to provide information on its CAPs implementation status quarterly and semi-annually. Follow up reviews verify CAPs implementation to ensure deficiencies have been addressed. This is an ongoing evaluation that stems from IA's annual audit plan, management requests, or external agencies' referral.

In addition, federal and state audit agencies conduct external audits to verify DHCS' compliance with regulatory requirements. Significant audit findings are reported and external CAPs are tracked by IA to ensure audit recommendations are fully implemented.

CONCLUSION

The Department of Health Care Services strives to reduce the risks inherent in our work through ongoing monitoring. The Department of Health Care Services 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.

Jennifer Kent, Director

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