

December 29, 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 State Department of Health Care Services 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 Wendy Griffe, Chief, Internal Audits, at (916) 713-8902, Wendy.Griffe@dhcs.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The Department of Health Care Services' (DHCS) purpose is to provide equitable access to quality health care leading to a healthy California for all. DHCS' programs integrate all spectrums of health care primarily through Medi-Cal, California's Medicaid program.

DHCS funds health care services for about 15 million Medi-Cal members. About one-third of Californians receive health care services financed or organized by DHCS, making the Department the largest health care purchaser in California. Our success is made possible only through our workforce and collaboration with the federal government and other state agencies, counties, and partners as we invest about \$150 billion annually for the care of low-income families, children, pregnant women, seniors, and persons with disabilities.

The DHCS Strategic Plan 2023 through 2027, updated in 2023 (Strategic Plan), serves as DHCS' strategic foundation. DHCS is working with our federal, state, and local partners, our broad network of health partners, and the people we serve, including our Medi-Cal members, to advance key initiatives and strategies, including:

- Implementing California Advancing and Innovating Medi-Cal (CalAIM) to strengthen Medi-Cal.
- Reimagining the role our Medi-Cal managed care plans play in providing equitable and quality coverage—while holding the plans to new standards of care and accountability.
- Expanding comprehensive health coverage to all income-eligible Californians.
- Investing in the health workforce and adding doula services, Medi-Cal peer support services, and community health workers to serve Californians directly.
- Transforming our behavioral health system by scaling evidence-based and community-defined evidence practices, investing in infrastructure, and improving quality,

accountability, and access while focusing on prevention, early intervention, and resiliency.

DHCS is a dynamic organization with ambitious goals and talented employees, committed to fulfilling our vital responsibility to support the delivery of quality health care to Californians. Additionally, the DHCS Workforce and Succession Plan 2023 through 2025 sets a framework for DHCS to attract, develop, and retain employees over the next three years.

Control Environment

DHCS' Enterprise Governance provides a structure to set strategic goals and priorities, allocate resources, manage issues and risks, and measure and monitor performance. The Health Administrative Manual documents the Department's administrative policies. As part of Enterprise Governance, executive management utilizes Enterprise Risk Management as an avenue to ensure policies are followed and control systems are functioning as intended. DHCS' oversight includes the Directorate, Senior Staff, Executive Staff, and the Office of Compliance as well as external entities (including federal Health and Human Services (HHS)-Centers for Medicare & Medicaid Services (CMS), HHS' Office of Inspector General (OIG), and the California State Auditor (CSA) to evaluate the effectiveness of operations). DHCS' core values—belonging, equity, innovation, stewardship, and sustainability—are articulated in the Strategic Plan and leadership sets expectations to instill its core values in its workforce performing day-to-day operations. DHCS also utilizes duty statements to describe employees' responsibilities and expectations. DHCS requires mandatory trainings such as Sexual Harassment and Discrimination Prevention, Information Privacy and Security, and California State Ethics for all employees designated to file a Statement of Economic Interests (Form 700). DHCS promotes workplace integrity and maintains the DHCS Medi-Cal Fraud hotline for the public and employees to report unethical behaviors or concerns. DHCS offers continuous training opportunities through its Strategic Planning and Workforce Development Division.

Information and Communication

Internally, management communicates with employees in the form of the following: daily leadership meetings with senior executives, monthly leadership meetings with all executives, quarterly supervisors and managers meetings, direct emails (Microsoft Office/Outlook), chat (Microsoft Teams), intranet (Pulse), memoranda, signage, and electronic newsletters. Employees work with their direct supervisors or managers to address inefficiencies. DHCS utilizes myriad information systems to record and disseminate pertinent operational, programmatic, and financial information such as the Financial Information System for California (FI\$Cal), the Medi-Cal Eligibility Data System (MEDS), and the Management Information System/Decision Support System (MIS/DSS). Externally, DHCS communicates directly with stakeholders via DHCS' website, weekly and as-needed electronic updates, quarterly Stakeholder Advisory Committee and Behavioral Health Stakeholder Advisory Committee meetings, and myriad other standing or ad-hoc stakeholder convenings.

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 State Department of Health Care Services monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Erika Sperbeck, Chief Deputy Director, Policy and Program Support.

DHCS provides continuous and ongoing monitoring efforts to address DHCS' risks. All levels of management are involved in evaluating and monitoring ongoing risks, while strengthening internal controls, to detect and mitigate risks timely. Additionally, DHCS expanded its leadership capacity by creating several new roles in the Director's Office, including an Assistant Director (AD) to enhance the strategic coordination and communication of various high-level, cross-cutting issues/initiatives for the Department; an Assistant State Medicaid Director to help lead implementation of transformational Medi-Cal initiatives; and a Chief Operating Officer for Programs to lead the Department's information technology systems, data, and program operations work including the California Medicaid Management Information System, Clinical Assurance, Provider Enrollment, and Third Party Liability and Recovery. In addition, the Department's Office of Compliance elevates and strengthens internal oversight and risk management as well as creates a standard approach for tracking state and federal program requirements and identifying and correcting deficiencies. The Office of Compliance also monitors federal regulations and legislation, while the DHCS' Office of Legislative and Governmental Affairs monitors new state bills that may impact DHCS. Executives meet regularly to discuss enterprise and environmental issues including risks and mitigating controls. DHCS leadership is in frequent communication to actively inform and solicit feedback from federal and state control agencies to ensure compliance with federal and state laws, regulations, and California's Medicaid State Plan. Programs monitor their operations and outcomes.

RISK ASSESSMENT PROCESS

The following personnel were involved in the State Department of Health Care Services 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, external stakeholders, questionnaires, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: potential impact to mission/goals/objectives, tolerance level for the type of risk, and other.

RISKS AND CONTROLS

Risk: Staffing

DHCS is unable to retain highly qualified staff caused by new initiatives, high and complex workloads, the need for specialized positions, lengthy hiring processes, and workforce shortages. The risk could result in loss of institutional knowledge and DHCS' failure to fulfill programmatic objectives.

Control: Updated Hiring Process

DHCS has updated its hiring process to expedite hiring and filling of vacancies with qualified analysts. Human Resources developed a Candidate Pool List process effective August 1, 2023, to fill interchangeable Staff Services Analyst/Associate Governmental Program Analyst by eliminating time spent by hiring managers in the early stages of the hiring process.

Control: Training

DHCS offers myriad internal and external training and development opportunities. In addition, DHCS has processes in place to develop and cross-train staff to help mitigate loss of institutional knowledge.

Risk: Funding

DHCS may be unable to provide services to members due to state budget challenges resulting in funding shortfalls for program initiatives or non-compliance with federal requirements resulting in a loss of or disallowance of Federal Financial Participation.

Control: Monitoring and Communication

DHCS will advocate to sustain program investments and continue to monitor federal laws and regulations to ensure efforts are prioritized to address statutory and regulatory requirements. DHCS programs and other assurance services are responsible for monitoring, tracking, and communicating regulatory changes daily to DHCS senior leadership.

Risk: Technology

DHCS' lack of automated systems and modernization of legacy information technology systems may lead to operational delays, system failures, loss of data, and inaccurate payments and reporting.

Control: Collaboration and Support

DHCS continues to strengthen its enterprise data and information management functions to provide collaboration and efficiencies in the collection, management, analysis, and dissemination of data to prevent operational delays and support programmatic needs.

Control: System Modernization

Medi-Cal Enterprise System Modernization Division (MESMD) within Enterprise Technology Services centralizes modernization efforts by articulating the architecture, roadmaps, and governance for how technology modernization is achieved. MESMD actively monitors and updates legacy systems.

Risk: Complexity of Laws and Regulations

The complexity of DHCS and Medicaid, as well as increasing initiatives, members, and

changing priorities, may cause multiple or various interpretations of the changing laws and regulations. As a result, DHCS may be at risk of non-compliance and of potential loss of funding, which would impede fulfilling its purpose.

Control: Organizational Structure for Internal Capabilities to Enhance Legal and Regulatory Interpretation

As of July 2023, the Office of Legal Services was restructured to provide additional leadership and assigned house counsel to DHCS divisions and offices to assist with the interpretation of laws and regulations.

Control: Communication

DHCS continues to monitor regulatory changes by conducting ongoing meetings and communication to ensure DHCS stays informed about statutory and regulatory actions and/or varying interpretations of laws and regulations.

CONCLUSION

The State Department of Health Care Services 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.

Michelle Baass, 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