

December 31, 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 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, 2019.

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 mission of the Department of Health Care Services (DHCS) is to provide Californians with access to affordable, integrated, high-quality health care, including medical, dental, mental health, substance use treatment services, and long-term care. The vision of DHCS is to preserve and improve the overall health and well-being of all Californians. DHCS strives to ensure that Californians have access to vital health care services that are delivered effectively and efficiently. DHCS' programs integrate all spectrums of care primarily via Medi-Cal, California's Medicaid program.

The federal Centers for Medicare and Medicaid Services has designated DHCS as the Single State Agency responsible for administering Medi-Cal, a state/federal partnership providing, coordinating, and delivering vital health care services to about 13 million vulnerable Californians at an annual cost of approximately \$100 billion, making it the largest Medicaid program in the nation. Approximately one-third of Californians receive 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 such as:

- Low-income and seriously ill children and adults with specific genetic diseases.
- Californians in rural areas and 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.

DHCS' Workforce and Succession Plan 2020 through 2022, updated in 2019, sets a framework for DHCS to develop and train employees. DHCS' Strategic Plan 2013 through 2018, updated in 2015, continues to serve as DHCS' strategic foundation. Additionally, DHCS' priorities are influenced by Administration priorities such as lower prescription drug and health care costs and a healthier California for all, which will be included in an updated Strategic Plan as appropriate. The Strategic Plan defines

three main constituencies – the people DHCS serves, 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.

Control Environment

DHCS' Health Administrative Manual documents its administrative policies and services. Executive management utilizes the State Leadership Accountability Act as an avenue to ensure policies are followed and control systems are functioning as intended. DHCS' oversight includes the Directorate, the United States (U.S.) Department of Health & Human Services' (HHS) Centers for Medicare and Medicaid Services, the U.S. HHS' Office of Inspector General, the California State Auditor, and other regulators to evaluate the effectiveness of operations. At the Directorate level, DHCS is organized under Health Care Programs and Policy and Program Support to provide appropriate leadership and oversight. Executive management sets expectations to instill the core values in its employees performing the day-to-day operations. DHCS also utilizes duty statements to describe employees' expectations and responsibilities. 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 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 Branch, which is dedicated to recruiting, developing employees, and retaining a competent workforce.

Information and Communication

Internally, management communicates with employees in the form of the following: daily senior leadership meetings, bi-weekly executive meetings, quarterly supervisors and managers meetings, direct emails, policies and procedures, memos, signage, and electronic newsletters. Employees work with their direct supervisors or managers to address inefficiencies. DHCS utilizes information systems to record and disseminate pertinent operational, programmatic and financial information such as CMS64 (reporting system), Financial Information System for California (FI\$Cal), and the Medi-Cal Eligibility Data System (MEDS). Externally, DHCS communicates directly with stakeholders via DHCS' website, a bi-monthly electronic update, and quarterly Stakeholder Advisory Committee and Behavioral Health Stakeholder Advisory Committee meetings.

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, in order to detect and mitigate risks timely. Senior leadership meet daily, and executive staff

meet bi-weekly to discuss global issues including risks and mitigating controls. DHCS' Internal Audits conducts internal control reviews, facilitates the department wide risk assessment, and provides training and education. The DHCS' Director's Office monitors federal regulations and legislation and the Legislative and Governmental Affairs Office monitors new state bills that may impact DHCS. DHCS leadership is in frequent communication to actively inform and solicit feedback from control agencies and the federal Centers for Medicare and Medicaid Services to ensure compliance with laws, regulations, and California's Medicaid State Plan. Divisions collaborate to perform quality reviews and rely on other divisions for data.

Risk and controls are discussed and vetted, then business decisions are transformed into actionable plans that are communicated to division leadership. Business unit managers and process owners are assigned the responsibility to address the risk. Risk owners establish operational procedures and controls to mitigate risks. Actions and tasks are executed to comply with statutory requirements and prevent non-compliance in the future. Ongoing program assessments are produced and reviewed internally, then submitted to executive staff. Internal Audits tracks ongoing audits to identify potential risks, corrective action plans or acceptance of risks to executive management. In addition, Internal Audits utilizes SharePoint to document and monitor risk assessment results identified through the State Leadership Accountability Act cycle. SharePoint also provides accessibility for all levels within DHCS to benchmark risks, visualize correlations, maintain standardized reporting, and provide transparency.

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, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

RISKS AND CONTROLS

Risk: Funding—Sources, Levels

Changes to federal laws and regulations can pose a risk to the current resource structure. As a result, DHCS may encounter budget constraints and not meet regulatory requirements.

Control: Oversight

DHCS will continue to monitor federal laws and regulations to ensure efforts are prioritized to address statutory and regulatory requirements.

Control: Internal Communication

DHCS' executive management is notified weekly of new or revised federal regulations and legislation and endeavors to align resources with priorities.

Control: External Communication

DHCS' ensures advocacy for federal laws and regulations that are consistent with California's health priorities and seeks additional resources as necessary to fulfill its mission.

Risk: Staff—Recruitment, Retention, Staffing Levels

DHCS cannot always fill vacancies or retain highly-qualified staff due to the complex workloads and competing pay. The risk could result in DHCS not meeting programmatic objectives.

Control: Staff Development

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

Control: Recruiting Strategy

Updating recruiting strategy to expand the recruitment area and draw more qualified applicants.

Risk: Complexity or Dynamic Nature of Laws/Regulations

The dynamic nature of DHCS and Medicaid, as well as increasing and changing priorities, may cause multiple or various interpretations of the changing laws and regulations. As a result, DHCS may be non-compliant, encounter loss of funding, and become incapable to fulfill DHCS' mission.

Control: Communication

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.

Control: Notification

DHCS' executive management is notified about new or revised federal or state regulations and legislation and takes appropriate, responsive action.

Risk: Technology—Compatibility

DHCS' reliance on legacy information technology systems and ongoing changes to complex program requirements may lead to operational delays, system failures, loss of data, and inaccurate payments and reporting.

Control: Internal Communication

DHCS maintains multiple systems that contain fields that should be consistent between the multiple systems. To verify consistency, DHCS maintains department-wide workgroups to identify and rectify when data is inconsistent between the different systems.

Control: System Modernization

DHCS is actively monitoring and updating legacy systems to avoid operational delay and loss of data. For example, DHCS is working to implement a comprehensive behavioral health data modernization project.

Control: External Communication

DHCS will continue consistent communication with control agencies, vendors, and users to implement recommendations in order to help prevent operational delays, system failures, loss of data, and inaccurate payments and reporting.

Risk: Fraud, Theft, Waste, Misconduct, Vandalism

DHCS may fail to detect inherit risks, such as fraud and improper billing practices. This can be caused by the inability to react timely to complex fraud schemes and reliance on external entities with inadequate knowledge of program integrity and compliance. The risk could result in improper allocation of federal funds, waste and abuse.

Control: Technology Enhancement

DHCS continues to expand its data analytics capabilities and tools that enhances its abilities to identify and evaluate potential fraud and patterns of abuse in the Medi-Cal program. In addition, the implementation of an enhanced case development system in fiscal year 2020-21 will assist staff with better coordination of investigative tasks and activities.

Control: Outreach and Education

DHCS evaluates all complaints of potential fraud, waste or abuse received from a toll free hotline and various federal, state and local governments. In addition, DHCS data scientists monitor claims data to identify possible abuse. If the evaluation determines that the information does not warrant a full investigation, DHCS sends providers and/or beneficiaries an educational letter that highlights the potential issue and up-to-date policy guidance. These letters often lead providers and/or beneficiaries to change their practices.

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.

Will Lightbourne, 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