

December 30, 2021

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

Dear Secretary Mark Ghaly,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Health Care Access and Information submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact Scott Christman, Chief Deputy Director, at (916) 326-3299, Scott.Christman@oshpd.ca.gov.

GOVERNANCE

Mission and Strategic Plan

Beginning in October 2021, OSPHD formally transitioned to become the Department of Health Care Access and Information (HCAI). This process was set in motion with the enactment of the 2021-22 state budget, which recognized OSPHD's growing responsibilities and expanding portfolio made it time to "recast and modernize" the office as a department.

The HCAI mission is to improve access to quality healthcare for Californians ensuring every community has the health workforce they need, safe and reliable health care facilities, and health information that can help make care more effective and affordable. This is accomplished through its products and services that finance emerging needs, ensure safe health care facilities, support informed decisions, and cultivate a dynamic workforce. The program activities described below are carried out through 489.6 authorized positions and a budget of \$947.6 million dollars.

HCAI's Facilities Development Division reviews health facility construction plans to ensure more than 1,700 hospitals and skilled nursing facilities meet California building codes and state seismic safety standards mandated by law. Review of ongoing construction activity supports compliance with building safety requirements, thereby protecting the safety of patients, healthcare workers, and the public in those facilities. Through the Cal-Mortgage Loan Insurance Program, HCAI provides loan insurance to nonprofit and public health facilities when borrowing money for capital needs. This guarantee allows these facilities to arrange for lower interest financing to continue to serve their communities.

As California's health care needs expand, HCAI is now responsible for managing an array of programs that grew substantially in this year's budget, including new areas of workforce development. The workforce development programs are designed to increase access to health care for underserved populations by advancing the recruitment and training of future health professionals through grants, loan repayment, and scholarship programs that encourage medical professionals to serve in these areas.

HCAI's Information Services Division collects and publishes data related to healthcare facility financial performance, utilization, patient characteristics, and services provided to the public. The division also publishes risk-adjusted hospital and outcome ratings for various medical procedures and conducts studies on relevant health topics and trends in care.

The department is guided by a comprehensive Strategic Plan and Workforce Management and Succession Plan. These plans prioritize the goals and objectives and are flexible so that HCAI can evolve and keep pace with the changing needs of California.

Control Environment

HCAI's control environment is guided by the Director and all members of the department's executive management team. Executives are encouraged to lead by example and model HCAI's core values, which include communication, accountability, service, professionalism, integrity, respect, innovation, teamwork, and community. The Department's internal control system is also guided by policies, procedures, processes, techniques, and mechanisms that enforce management's directives to achieve the department's objectives and address related risks. For example, the department's Strategic Plan is administered by an executive-level governance structure. In addition, Divisions have operational plans to align to align with and advance the Department's Strategic Plan.

HCAI's current Workforce Management and Succession Plan 2017-21 was developed to closely align with the Strategic Plan. The Workforce Plan outlines the composition of HCAI's workforce; identifies knowledge, skill gaps, and risks within the workforce; and discusses strategies for mitigating these issues. With the current plan ending in 2021, HCAI will work on creating a new plan for 2022-26.

Oversight is structured at the executive level with subsequent levels of responsibility and authority guided by Deputy Directors and all levels of management to evaluate performance, identify risks, and enforce accountability. In addition, HCAI's executive leadership continues to cultivate a risk intelligent culture and collect risk information through ongoing communication and monitoring.

HCAI management evaluates staff performance and enforces accountability by conducting timely and meaningful probation reports and annual performance appraisals for new and current staff which assists in identifying competencies that may need improvement for successful job performance. Clear expectations are provided to staff through processes and procedures and are continuously updated as new processes evolve.

Information and Communication

At monthly executive team meetings, Leadership Accountability issues are discussed and this information is taken back to divisions by Deputy Directors and senior managers. This is done through all-staff, unit, section, and other meeting formats, as well as department emails and updates to administrative procedures. HCAI's risk culture fosters communication at all levels to ensure all staff report risks caused by control gaps. HCAI maintains an open and transparent culture that facilitates early identification of risk.

HCAI uses a central Leadership Accountability SharePoint site to maintain the status of risks identified in its Leadership Accountability report and to monitor and track implementation plan status. This site is used by the Leadership Accountability coordinator and team members to produce monthly reports

that track the status of each risk, including newly identified risks, and the effectiveness of each control.

Training on new requirements for Leadership Accountability compliance will be requested from the Department of Finance for HCAI's entire management team. Similar training was conducted in 2019 for HCAI's executive team. HCAI has and will continue to actively seek feedback from all levels of the organization to improve communication, reinforce a safe "speak up" culture for reporting of issues, and to identify opportunities for ongoing improvement.

Management communicates with and obtains quality information from external parties using established reporting lines. External parties include suppliers, contractors, service organization, regulators, external auditors, state entities, and the general public. For example, HCAI meets regularly with external stakeholders via advisory boards and committees to discuss subjects pertaining to hospital building safety, supplier diversity, loan insurance and health care payments data. Items of discussion include codes and processes, energy conservation and management, technology and research, data collection and release, and education and outreach. Information communicated to management can include matters relating to risks, changes, or issues that impact the HCAI's internal control system. Management evaluates these communications to take appropriate action if needed.

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 Health Care Access and Information monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Monica Erickson, Administrative Deputy Director.

The Leadership Accountability coordinator and team members perform monitoring activities to assess the internal control system and evaluate the results. Criteria is established to evaluate the effectiveness of the control and will make changes to the criteria to better address the risks of the internal control.

The processes used to support the effectiveness of internal controls are conducted through the regular course of business operations using management meetings, email notifications, risk assessment documentation, program review checklists, formal reconciliation documents, authorization and sign-off forms, compliance summaries, budget detail worksheets, accounting documents, monitoring reports, and strategic planning documents. Controls are also conducted through separate evaluations including testing systems, mapping processes, validating desk manuals and operating procedures, audits and compliance reviews, and also through surveys, questionnaires, and other systems for feedback. These activities are discussed at management meetings and elevated to the executive team for discussion.

HCAI's Leadership Accountability team, which includes executive management and the Leadership Accountability coordinator, reviews and evaluates the effectiveness of internal controls. The team meets regularly to evaluate the status of existing and emerging risks to reduce waste and strengthen controls. Status reports for each risk mitigation plan are reviewed during monthly executive-level Strategic Governance meetings to verify that internal controls are working effectively and to address opportunities for improvement.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of Health Care Access and Information 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: 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.

Assessing risk and addressing internal control deficiencies are conducted department-wide on an ongoing basis. Identified internal control deficiencies are assigned to an executive owner who is responsible for developing a plan to mitigate or correct the risk and ensure adequate controls are in place and tested regularly. Identified deficiencies are reported to the Director, Chief Deputy Director, the Leadership Accountability executive monitoring sponsor, and appropriate executive staff. This is done through a risk evaluation summary, corrective action plan, and timeline for implementation.

Status reports for each risk mitigation plan are reviewed during monthly Leadership Accountability team meetings and monthly Strategic Governance meetings, or more frequently as needed. These reviews evaluate whether the deficiency has been remedied and if internal controls are working effectively. This provides a regular forum at the executive level to review deficiencies, identify appropriate risk mitigation strategies, and track compliance progress.

RISKS AND CONTROLS

Risk: Business Interruptions and Safety Concerns

Due to the COVID Pandemic, HCAI has suspended in-person construction review meetings with hospital and health facility clients. It is standard practice in our health facility building standards work to monitor on-site the construction phase of a project and verify in-person the appropriate use of financing proceeds towards construction. Clients also frequently request in-person meetings to review post approval documents. HCAI anticipates staff will resume these in-person meetings by spring 2022.

Additionally, staff are required to provide documents to the public for review as part of the Public Records Act. Most building plans and documents are scanned and provided electronically to the requestor; however, some plans are so cumbersome that scanning is not feasible. In these cases, the requestor makes an appointment to physically visit the Sacramento warehouse or LA office to review the documents. Staff must be present when the requestor is reviewing such documents.

HCAI conducts testing for Inspector of Record (IOR) certification and recertification of IORs twice per year in Sacramento and Los Angeles. Often, HCAI will administer a retake of the exam for those who did not pass the Hospital Inspection Certification Exam (HICE) or the recertification exam. These exams are administered in person and proctored by the HCAI Inspection Services Unit staff.

Control: A

HCAI is mitigating the risk of in-person travel by requiring electronic progress reports and photographs from on-site construction project managers. Additionally, for those on site at the Sacramento and Los Angeles offices, hand sanitizer, social distancing, the use of face masks and testing of employees who have not provided vaccination status are all measures applied and practiced to reduce the risk of exposure to COVID.

Risk: Telework/Hybrid Work Environment and Procedures

HCAI has been conducting our work successfully with primarily remote work but also recognizes the benefits of in-person collaboration. We are moving to a hybrid workplace model in 2022. This requires successfully planning, implementing, and managing the necessary technology, business processes, and management procedures to support performant telework opportunities of a new hybrid workforce. With the new hybrid model, there is a need to update emergency resources and plans, Injury and Illness Prevention Program (IIPP) procedures, and navigate access to Employee's Official Personnel Files and historical Human Resources documents.

Control: A

To support the hybrid workforce, we are initiating new processes and estimating the resource needs. We also continue to update procedures and will hire a new Health and Safety Officer to update the emergency plan and IIPP procedures.

Risk: Workplace Environment and Staff Safety

Due to the COVID Pandemic, in-person meetings both onsite and offsite have been impacted. HCAI staff may be required on occasion to appear offsite to represent the Department in depositions, trials, administrative hearings, and other matters. It is also anticipated that in person meetings of its various boards and commissions under Bagley-Keene public meeting requirements will resume in 2022.

Control: A

To mitigate the risks associated with these meetings, the use of social distancing, face masks, and hand sanitizer will be practiced, reducing the risk of exposure to COVID.

Risk: Technology-Data Security

HCAI continues to monitor cybersecurity threats to its data systems. HCAI annually collects millions of confidential records on California residents, requiring sophisticated tools and highly trained information security staff to protect its data systems and secure technical operations. HCAI security staff monitor internal and external threats, manage mandated security compliance requirements, coordinate risk and security incident response, and conduct security related investigations.

HCAI is subject to independent information security assessments by the California Military Department to identify areas of improvement in information security controls, policies, and procedures.

Robust security policies and continuous training are necessary to help employees actively support the security of department data, assets, and IT systems. These policies must comply with information

security and privacy policies, standards, and procedures issued by the California State Information Security Office. Failure to implement these policies could result in a data breach.

Phishing is the most common type of attack within most networks potentially resulting in data breaches. HCAI staff need continuous training on how to identify and combat these fraudulent communications. The consequences of a successful phishing attack could be severe if confidential information is accessed, exposed or stolen.

HCAI's large data repositories must be properly identified and protected from any unauthorized access. Compliance and Data Loss Prevention (DLP) controls are necessary to properly protect these data. The HCAI Information Security Office is responsible to develop and manage formal standards and practices for ensuring sensitive data is protected from loss, theft, corruption, and misuse.

HCAI staff must undergo ongoing training to identify, contain, eradicate, and recover from security threats as well as proper incident response and system recovery to respond to any potential threat to its data and data systems.

Control: A

HCAI has reviewed all security policies and will continue to evaluate the need for new policies, as needed. The required annual Security and Awareness Training performed October 2021 was successful.

HCAI has developed a Phishing Requirements Plan to comply with the State of California's SIMM 5325A requirements, which requires State Agencies to follow certain procedures in order to conduct adequate and sanctioned phishing training.

HCAI has completed a gap analysis of the baseline security requirements contained in the California Department of Technology's State-Defined Security Parameters. The final report is in draft. This analysis includes a review of 25 control families including: risk assessment, personnel security, access control, and incident response.

HCAI will complete the State-Defined Security Parameters Findings Report. HCAI will also conduct additional training for Data Loss Prevention (DLP) and incident response management and complete additional refinement of its phishing training program to implement more realistic phishing scenarios.

Risk: Staff Key Person Dependence, Workforce Planning

HCAI is guided by its current Workforce Management and Succession Plan 2017-2021. Based on the 2021 data, just under 50 percent of HCAI employees are age 50+ and over 20 percent are age 60+. Additionally, almost 60 percent of executives and just under 50 percent of supervisors/managers are age 50+. The loss of key leadership and subject matter experts without the ability to replace long-term institutional knowledge and subject matter expertise could cause delays, disruptions, and risks to current business processes.

HCAI continues to identify knowledge transfer, training, and succession planning gaps. The attrition of key staff due to retirements and limited upward mobility opportunities create risk in the continuity of program operations. This may adversely impact service delivery and compliance with program

requirements.

HCAI's programs are highly technical, especially in the Facilities Development Division, Cal- Mortgage Loan Insurance Program, the growing Healthcare Work Force Division and healthcare data reporting programs. Some of the specialized work entails years of training and practical experience, which has created key person dependencies in critical areas. Due to HCAI's growing department size, staff often perform multiple functions and there is limited capacity for cross-training and back-up functions.

Control: A

HCAI appointed a new Director in December 2020 and Chief Deputy Director in May 2021. HCAI's enrollment in the California Department of Human Resources' (CalHR) 2020 Workforce Planning Program (WFPP) has been deferred to a future date to be determined. HCAI continues to compile workforce data on a monthly basis for the restart of CalHR's WFPP. Action Plan strategies and outcomes continue to be monitored as the Department revises the structure of monthly Strategic Governance meetings.

Risk: FI\$Cal Implementation, Maintenance, Functionality

New FI\$Cal milestone implementations and incorrectly built modules for prior year fiscal data delayed the completion of year-end closing for Fiscal Year 2020-21 and timely submittal of Financial Statements to the State Controller's Office. As a result, Fiscal Year 2021-22 month end close, Planning of Financial Adjustments, and expenditures have not been completed. Office Revolving Fund reconciliation has not been completed for Fiscal Year 2020-21 and 2021-22. In addition, HCAI's current cost allocation methodology is overly complicated and needs to be updated to increase efficiency and ensure that costs are properly allocated.

Control: A

HCAI continues to work with the FI\$Cal project team and the Department of Finance to resolve transaction errors from prior fiscal years. It is anticipated these fixes will resolve these challenges and as result HCAI will be able to close Fiscal Year 2021-22 timely. HCAI has also identified an issue with asset depreciation and will develop procedures for staff to follow.

HCAI has completed various internal procedures based on new requirements in FI\$Cal, streamlined many of its processes, and increased transparency. Compared to prior years, staff have become more proficient with the system. HCAI continues to evaluate training needs and staffing levels within the Accounts Payable, Accounts Receivable, Cashiering, and General Ledger areas to meet the workload demands of FI\$Cal. The cost allocation workgroup continues to evaluate and streamline the current cost allocation methodology to improve the labor-intensive, manual processes that cause operational delays and increase the rate of errors. Improving these processes will provide for more accurate financial data and transparency of allocated costs to all programs, which will support effective management decisions. Ongoing work will continue in 2022.

CONCLUSION

The Department of Health Care Access and Information 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.

Elizabeth Landsberg, 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