December 30, 2017

Diana Dooley, Secretary
California Health and Human Services Agency
1600 9th Street #460
Sacramento, CA 95814

Dear Ms. Diana Dooley,

In accordance with the State Leadership Accountability Act (SLAA), the
Office of Statewide Health Planning and Development submits this report on the review of our internal
control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Fran Mueller, Chief Deputy Director, at (916) 326-3600,
Fran.Mueller@oshpd.ca.gov.

BACKGROUND

OSHPD's mission is to advance safe, quality healthcare environments through innovative and responsive
services and information. This is accomplished through its products and services that finance emerging
needs, enable safe facilities, support informed decisions, and cultivate a dynamic workforce. The program
activities described below are carried out through 481.6 authorized positions and a budget of $165 million.

OSHPD'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 ensures compliance with building
safety requirements, thereby protecting the safety of patients, healthcare workers, and the public in those
facilities. Through the Cal-Mortgage Loan Program, OSHPD provides loan insurance to nonprofit and public
health facilities to borrow money for capital needs. This guarantee allows these facilities to arrange for lower
interest financing to continue to serve their communities.

OSHPD administers healthcare workforce programs designed to increase access to health care for
underserved populations by advancing the recruitment and training of future health professionals, and
through grants and loan repayments that encourage medical professionals to serve in these areas.

OSHPD'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 work of OSHPD is guided by a comprehensive Strategic Plan administered by a strong strategic
governance model. The plan includes prioritized goals and objectives, yet is flexible to ensure OSHPD can
evolve and keep pace with the changing needs of California. In 2017, OSHPD published its first WorkForce
Management and Succession Plan which was developed to closely align with our Strategic Plan. The
Workforce Plan outlines the current composition of the OSHPD workforce, identifies knowledge, skill gaps,
and risks within the workforce, and discusses strategies for mitigating these issues.

ONGOING MONITORING

As the head of Office of Statewide Health Planning and Development, Robert David, Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

Executive Monitoring Sponsor(s)

The executive monitoring sponsor responsibilities include facilitating and verifying that the Office of Statewide Health Planning and Development internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Robert David, Director, Fran Mueller, Chief Deputy Director, Monica Flowers, Deputy Director, Administrative Services Division, and Lilia Young, Manager Financial Services Section.

Monitoring Activities

The processes used to ensure effectiveness of internal controls are conducted through the regular course of business operations using management meetings, email notification, 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. Monitoring is also conducted through separate evaluations including testing systems, mapping processes, validating desk manuals and operating procedures, and conducting surveys, questionnaires, and focus group discussions.

OSHPD has established a SLAA team, which includes Executive Management and a SLAA Coordinator, to confirm the effectiveness of internal controls. The team meets regularly to evaluate the status of existing risks and evaluate 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 ensure that internal controls are working effectively.

Addressing Vulnerabilities

Risk assessment and addressing internal control deficiencies are conducted department-wide on an ongoing basis. Identified internal control deficiencies are assigned 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 Department Director, Chief Deputy Director, and the SLAA Executive Monitoring Sponsor along with a risk evaluation summary, corrective action plan, and timeline for implementation. Status reports for each risk mitigation plan are reviewed during monthly SLAA Team meetings and monthly Strategic Governance meetings, or more frequently as needed, to ensure that the deficiency has been remedied and internal controls are working effectively. This provides a regular forum at the executive level to address deficiencies, identify appropriate risk mitigation strategies, and develop a plan for ongoing monitoring to ensure compliance.

Communication

OSHPD developed a central SLAA SharePoint site to maintain status reports, spreadsheets, surveys, and document discussions on all risks, triggers, and controls. This site is available to the SLAA team, which will update and review the status of each risk. The SLAA Coordinator completes a monthly report that displays the status of each risk, including newly identified risks, and the effectiveness of each control. The reports are reviewed by the SLAA team during monthly meetings. The SLAA Executive Sponsor then presents the reports at monthly Strategic Governance meetings to facilitate evaluation of existing controls and the identification of new or existing, unidentified risks and

controls. The most recent SLAA report is published on OSHPD's external website.

Ongoing Monitoring Compliance

The Office of Statewide Health Planning and Development has implemented and documented the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the Office of Statewide Health Planning and Development systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Office of Statewide Health Planning and Development risk assessment process: Executive Management, Middle Management, and Front Line Management.

Risk Identification
OSHPD's Director, Chief Deputy Director, and Executive Management team convene monthly to address strategic goals and objectives, including the identification and discussion of significant department-wide risks. The discussion is designed to conduct a high-level examination of the current state of controls within the department, as well as the status of previously identified risks. OSHPD's management team conducted a comprehensive risk analysis within each division and program area to identify and evaluate the threats or risks that could impact OSHPD's ability to achieve its mission and strategic goals.

Risk Ranking
OSHPD ranked each risk according to the potential impact to continuity of business processes, considering the scope, immediacy, and intensity of the potential impact.

RISKS AND CONTROLS

Risk: Operations -External-FI$Cal Implementation, Maintenance, Functionality, or Support
Operational delays caused by the implementation of FI$Cal may adversely affect OSHPD's ability to execute contracts, pay invoices, receive payments, and meet statutory fiscal reporting requirements.

Delayed implementation of FI$Cal is due to the requirements of FI$Cal to complete business processes that do not exist in legacy systems. The significant workload to maintain the existing legacy systems, while completing the data input for FI$CAL cannot be completed or sustained with existing staff.

Delayed implementation of FI$CAL results in past due invoices, expired checks that must be reissued, incomplete agreements that OSHPD cannot transact on, delayed fiscal reporting, and redundant workload to maintain multiple systems.

Control A
OSHPD will continue to work with the FI$Cal project team and the Department of Finance to resolve problems transacting within FI$Cal. As solutions are determined, OSHPD will establish internal processes and procedures to complete transactions in FI$Cal. OSHPD will also develop system resources and crosswalk tools to aid in the translation of legacy coding. OSHPD will continue to redirect staff from outside the Accounting Office to complete the data transfer from existing

systems into FI$CAL and manage the ongoing workload.

Risk: Operations -Internal-Staff—Key Person Dependence, Workforce Planning

In 2017, OSHPD published its first Workforce Management and Succession Plan for 2017-2021. Over 50 percent of OSHPD employees are age 50+ and over 17 percent are age 60+. Additionally, almost 70 percent of executives and 62 percent of supervisors/managers are age 50+. The loss of key leadership and subject matter experts without the resources to replace the institutional knowledge and expertise could cause delays, disruptions, and risks to current business processes.

OSHPD is responsible for diverse programs that require many specialized classifications including engineers, architects, fire/life/safety officers, health program specialists, and research scientists. These positions require specialized college degrees and licenses which present recruitment and retention challenges when competing with private sector firms that pay higher salaries than the State of California. OSHPD's smaller size and unique programs limit the scope of some career paths, which then limits promotional opportunities for our employees. This in turn can negatively impact employee retention and knowledge management. Some of the specialized work entails years of training and practical experience, which has created key person dependencies in many program areas.

OSHPD has identified recruitment, retention, knowledge transfer, training, and succession planning gaps. The attrition of key staff and expertise in a small department without onboarding or identifying new staff trained to fill the vacant roles at the same level of aptitude creates significant risk in the continuity of business operations. This may adversely impact service delivery and compliance with program requirements.

Control A

OSHPD's Workforce Management and Succession Plan 2017-2021 provides guidance for our department's workforce development activities over the next five years. OSHPD will implement the Action Plan strategies and will track the progress of implementation and outcomes through our existing Strategic Governance model.

Risk: Compliance-Internal-Staff Adherence to Policies, Procedures, or Standards

OSHPD staff are performing duties across multiple administrative disciplines in ways that may affect compliance with laws and regulations.

Administrative procedures are not properly documented, existing delegation authority is out-dated and overly complicated, and management and staff lack appropriate training.

Department staff are unclear about correct procedures and legal authority, which increases the risk of noncompliance with statutory and regulatory requirements. This could result in improper administrative activities in areas of accounting, budgeting, purchasing and contracting, human resources, and business services.

Control A

OSHPD executive management will evaluate current administrative processes and: 1) develop a comprehensive plan to document and maintain procedures, 2) establish effective internal controls, and 3) design a delegation authorization process that ensures appropriate review and approval of administrative documents, reports, and agreements.

CONCLUSION

The Office of Statewide Health Planning and Development strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Robert David, 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