December 30, 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 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, 2019.

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

GOVERNANCE

Mission and Strategic Plan

The Office of Statewide Health Planning and Development's (OSHPD) 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, ensure safe healthcare facilities, support informed decisions, and cultivate a dynamic workforce. The program activities described below are carried out through 475.7 authorized positions and a budget of $263.7 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 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, OSHPD 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.

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 through grant, loan repayment, and scholarship programs 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 department is guided by a comprehensive Strategic Plan administered by an executive-level governance structure. The plan includes prioritized goals and objectives, and is flexible so that OSHPD can evolve and keep pace with the changing needs of California.

OSHPD'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 OSHPD's workforce; identifies knowledge, skill gaps, and risks within the workforce; and discusses strategies for mitigating these issues.

Control Environment

OSHPD's control environment is guided by the Director and all members of the department's executive staff. Executives are encouraged to lead by example and model OSHPD's core values, which include: communication, accountability, service, professionalism, integrity, respect, innovation, teamwork, and community. 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. Documentation of the control system is maintained by the Leadership Accountability coordinator and is regularly reviewed by executive staff.

Management recruitment efforts, plans for staff development, and steps to ensure a competent workforce continue to be a priority. OSHPD is currently updating examination bulletins to be more attractive and appeal to target groups in the private sector. OSHPD also changed all examinations for department specific classifications to be continuous filing. This allows candidates to take the examinations on a frequent basis and increases the hiring pool. In addition OSHPD has implemented the use of Handshake, LinkedIn, Facebook, and Twitter to post job vacancies and examination announcements to increase applicant pools. Additionally, career ladders for hard to recruit for classifications have been provided to Deputy Directors to explore hiring at lower levels and provide additional options for upward mobility and improve retention of new staff.

OSHPD management evaluate 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

OSHPD 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.

At monthly executive meetings, Leadership Accountability issues are discussed and this information is taken back to divisions via Deputy Directors and senior management. This is done through all-staff, unit, and various other meeting formats, as well as department emails and updates to administrative procedures.

In 2019, OSHPD's executive staff received training from the Department of Finance on new requirements for Leadership Accountability compliance. OSHPD will incorporate additional communication for all levels of the department to increase awareness of Leadership Accountability requirements, enhance a risk-intelligent culture, and improve compliance. Additional training from the

Department of Finance for OSHPD's entire manager/supervisor team will be conducted in 2020. OSHPD will 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.

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 Office of Statewide Health Planning and Development monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Monica Erickson, Administrative Deputy Director.

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 for discussion to executive staff.

OSHPD'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 Office of Statewide Health Planning and Development 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: Staff Key Person Dependence, Workforce Planning

OSHPD is guided by its current Workforce Management and Succession Plan 2017-2021. Based on the data in this plan, over 50 percent of OSHPD employees are age 50+ and over 17 percent are age 60+. Additionally, almost 70 percent of executives and more than 60 percent of supervisors/managers are age 50+. The loss of key leadership and subject matter experts without the ability to replace the long-term institutional knowledge and expertise could cause delays, disruptions, and risks to current business processes.

OSHPD has identified 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.

OSHPD's programs are highly technical, especially in the Facilities Development Division, Cal-Mortgage Loan Insurance Program, 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 OSHPD's smaller department size, staff often perform multiple functions and there is limited capacity for cross-training and back-up functions.

Control: A

OSHPD's Workforce Management and Succession Plan 2017-2021 provides guidance for the department's workforce development and succession planning activities. OSHPD continues to implement the Action Plan strategies and track progress and outcomes through its Strategic Governance structure, which meets monthly. In 2019, OSHPD hired a dedicated human resources specialist to administer the Workforce Plan. This employee is enrolled in the California Department of Human Resources' (CalHR) 2020 Workforce Planning Program. The program will provide additional tools and training to assist in updating OSHPD's current Plan and in tracking its effectiveness.

Risk: Staff Recruitment, Retention, Staffing Levels

OSHPD is responsible for diverse programs that require many specialized classifications including engineers, architects, fire/life/safety officers, health program specialists, information technology specialists, and research scientists. Some of 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 employees. This impacts employee retention, knowledge management, program compliance, and the efficiency of business operations.

Control: A

OSHPD is exploring more innovative ways to address recruitment challenges and improve retention. Work has begun to research potential feeder classifications to create a pathway for more technical classifications and to increase internal upward mobility opportunities. This strategy may create more attractive entries into state employment and yield new career pathways and methods for retention. OSHPD is assessing the use of technology and online recruitment platforms to reach a broader candidate pool. Information, training, and resources from CalHR's 2020 Workforce Planning Program will be incorporated as appropriate to support new recruitment and retention activities.

OSHPD continues to assess its staffing levels across the organization on an ongoing basis to ensure appropriate resources are in place to perform key functions and meet department goals.

Risk: FI$Cal Implementation, Maintenance, Functionality

Operational inefficiencies, new requirements, and system errors in FI$Cal impact the accuracy and timeliness of payment and receipt processing, completing monthly reconciliations, and meeting statutory fiscal reporting requirements. Complex requirements and challenges in learning the new system have resulted in late payments to vendors, backlogged reconciliations, delayed Plan of Financial Adjustments, and late submission of required financial statements.

FI$Cal requires additional steps to complete transactions, adjustments, reconciliations, and other financial processes, which were not required in the prior legacy system. Additional workload and complexity has resulted in the need for more extensive training and new skill sets to perform the work. Continuous system updates that add new functionality extend learning curves for staff and lengthen processing times. OSHPD continues to evaluate training needs and staffing levels to operate in the FI$Cal environment.

OSHPD's current cost allocation methodology is overly complicated and needs to be updated to increase efficiency and ensure that costs are properly allocated. OSHPD's current accounting workforce is dedicated to meet other statutory obligations and has been unable to dedicate resources to this effort.

Control: A

OSHPD continues to work with the FI$Cal project team and the Department of Finance to resolve transaction errors from prior fiscal years. These issues have delayed timely month-end and year-end closing for Fiscal Year 2018-19. OSHPD continues to develop and update internal procedures based on new requirements in FI$Cal. As employees become more proficient with the system, OSHPD 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.

OSHPD formed a cost allocation workgroup to evaluate and streamline the complex and redundant processes used in the current cost allocation methodology. The current methodology relies on labor-intensive, manual processes that cause operational delays and increase the rate of errors. Streamlining the methodology will provide for more accurate data and transparency of allocated

costs to all programs, which will support effective management decisions. Ongoing work to streamline the allocation methodology will continue in 2020.

Risk: Oversight, Monitoring, Internal Control Systems

OSHPD staff are performing duties across program and administrative areas in ways that may affect compliance with laws and regulations. Procedures are not all properly documented, and management and staff may lack appropriate training and tools. 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 operations in various program and administrative areas, including but not limited to: accounting, budgeting, purchasing and contracting, human resources, business services, and core program operations.

Control: A

OSHPD's executive staff and senior managers continue to evaluate current program and administrative requirements and processes. Ongoing work continues to update procedures and desk manuals, provide necessary training to staff, and establish effective internal controls to achieve objectives and respond to risks.

In 2020, OSHPD will begin a department-wide assessment of program and administrative statutory requirements. A program sponsor will work with executive staff and the legal office to review statutory requirements for program operations and administrative functions to determine compliance levels and identify areas for improvement. Assessment results will be brought to OSHPD executive staff for evaluation and potential action.

Risk: Technology-Data Security

OSHPD's Information Security Office has seen an increased threat to its data systems. OSHPD collects millions of confidential records on California citizens and requires sophisticated tools and highly-trained information security staff to protect its data systems and continue secure operations. OSHPD security staff monitor internal and external threats, manage mandated security compliance, coordinate risk and security incident response, and conduct security related investigations.

OSHPD's first independent information security assessment by the California Military Department identified inadequate information security 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/privacy policies, standards, and procedures issued by the California Information Security Office. Failure to implement these policies could result in a data breach.

Phishing is the most common type of attack for data breaches within most networks. OSHPD staff need continual training on how to identify and combat these fraudulent communications. The consequences of a successful phishing attack could be severe if confidential information is exposed or stolen.

Control: A

OSHPD is in the process of reviewing and revising all security policies and procedures to comply

with the California Information Security Office's requirements. OSHPD's Information Security Office is working with its Legal Office and Privacy Program Coordinator to identify all security and privacy requirements applicable to our programs to establish proper security controls.

OSHPD is evaluating awareness training products to assist in keeping up with the changing sophistication of phishing emails received by the department. Increasing employee education and awareness will assist employees in staying abreast of the latest phishing news, trends, and tactics to better protect data assets and systems. OSHPD's Information Security team is working with the California Health and Human Services Agency's Information Security Officer to determine appropriate staffing levels and skill sets needed to meet the more rigorous information security requirements of the State Information Security Office and the California Department of Technology.

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 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.

Marko Mijic, Acting 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