

California Health Benefit Exchange

2015 SLAA REPORT

February 22, 2016

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the California Health Benefit Exchange submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Thien Lam, Program Integrity Director, at (916) 228-8600, Thien.Lam@covered.ca.gov.

BACKGROUND

Under the federal Patient Protection and Affordable Care Act (Affordable Care Act) signed into law in March 2010, states were required to decide whether to create a state-based health insurance exchange or participate in the federal multi-state health insurance exchange. California elected to establish a state-based health insurance exchange. In 2010, state law [Government Code 100500 et seq.; Chapter 655, Statutes of 2010 (Perez) and Chapter 659, Statutes of 2010 (Alquist)] was enacted to implement the provisions of the Affordable Care Act and to “reduce the number of uninsured Californians by creating an organized, transparent marketplace for Californians to purchase affordable, quality health care coverage, to claim available tax credits and cost-sharing subsidies, and to meet the personal responsibility requirements imposed under the federal act.” This legislation established the California Health Benefit Exchange (Exchange).

To achieve the goals outlined in legislation, the Exchange identified the mission to increase the number of insured Californians, improve health care quality, lower costs, and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and providers that give them the best value. To achieve this mission, the Exchange adopted the following six values:

1. **Consumer-focused:** At the center of the Exchange’s efforts are the people it serves, including patients and their families, and small business owners and their employees. The Exchange will offer a consumer-friendly experience that is accessible to all Californians, recognizing the diverse cultural, language, economic, educational, and health status needs of those we serve.
2. **Affordability:** The Exchange will provide affordable health insurance while assuring quality and access.
3. **Catalyst:** The Exchange will be a catalyst for change in California’s health care system, using its market role to stimulate new strategies for providing high-quality and affordable health care, promoting prevention and wellness, and reducing health disparities.
4. **Integrity:** The Exchange will earn the public’s trust through its commitment to accountability, responsiveness, transparency, speed, agility, reliability, and cooperation.
5. **Partnership:** The Exchange welcomes partnerships, and its efforts will be guided by working with consumers, providers, health plans, employers and other purchasers, government partners, and other stakeholders.
6. **Results:** The impact of the Exchange will be measured by its contributions to expanding coverage and access, improving health care quality, promoting better health and health equity, and lowering costs for all Californians.

RISK ASSESSMENT PROCESS

To conduct our organization-wide risk assessment for the 2014-2015 reporting cycle, the Exchange utilized internal audit reviews, contracted audits by independent audit firms (as required per federal regulations), and weekly executive risk and issue reviews. Specifically:

- The internal audit reviews focused on operational controls, adherence to control safeguards, informational communication, and oversight and monitoring.
- The Exchange has been audited by federal and state oversight entities, including the Office of Inspector General and the California State Auditors; had site reviews performed by the Centers for Medicare and Medicaid and the Office of Management and Budget; and independent external financial and programmatic audits.

The risks identified in the SLAA report is inclusive of the aforementioned operational and programmatic audits and reviews. The audits and reviews capture a wide range of operational and programmatic functions and afford the Exchange leadership a more comprehensive risk assessment perspective and opportunity to efficiently prioritize risks for mitigation efforts. Executive and senior leadership meet on a weekly basis to analyze and review risks, as well as identify any new emerging risks. Management uses a Prioritization Criteria Framework tool to assist in maintaining departmental priorities related to risk management. The Exchange is always striving toward excellence and is in the process of implementing the all-inclusive risk management processes described below.

EVALUATION OF RISKS AND CONTROLS

Compliance- Internal- Priorities Conflicting with Laws or Regulations

The Exchange had just three years to create a new, fully functional state department that could manage and operate a statewide health insurance exchange for millions of Californians. Because the Exchange's startup costs were provided by a federal grant award, the Exchange was required to remain compliant with the numerous federal and state laws, rules and regulations that are inherent with federal grant awards, which include provisions for adequate oversight and monitoring. The Exchange experienced some challenges in establishing and maintaining a consistent level of overarching oversight and monitoring during such a dynamic growth period.

This risk was identified and management began a reorganization plan in late 2014. The restructure included the effectuation (July 1, 2015) of a new Program Integrity Division that includes a Program Oversight and Compliance (POC) Branch that will oversee ongoing performance reviews, program testing, internal control assessments, follow-ups on status of mitigating areas, and the facilitation of the risk assessments. The Exchange has been committed to maintaining the functionality and integrity of our entire organization since day one, and transferring all of our ongoing efforts into one division better coordinates our many, sometimes overlapping, efforts. The implementation of SLAA in June 2015 coincidentally coincided with (and complemented) this reorganization effort.

In addition, the Exchange is well underway in developing a standardized risk assessment analysis tool (risk analysis tool) and process. All program directors will receive training in the risk assessment process and use of the risk analysis tool. Beginning in January 2016, the risk analysis tool will be completed by program directors (or designees) at the end of every first and third quarter, to assist with the implementation of the ongoing risk assessment process by integrating a cultural ideology, which aligns with our budget, enrollment, and reporting cycles. Program directors' risk analysis reports will be due 30 days from the end of the respective quarters. The risk analysis report will include a description of risks and risk ratings identified in the previous six months and provide an update on the progress of corrective action plans.

Compliance- Internal- Priorities Conflicting with Laws or Regulations

Departments must improve website accessibility so that persons with disabilities have comparable access to state services online. The Exchange's website is in the process of being developed in compliance with California Government Code 11135, located in Section D of the California Government Code. Code 11135 requires that all electronic and information technology developed or purchased by the State of California Government is accessible to people with disabilities. There are various types of physical disabilities that impact user interaction on the web. Vision loss, hearing loss, limited manual dexterity, and cognitive disabilities are examples, with each having different means by which to access electronic information effectively. The Exchange's goal is to provide a good web experience for all visitors.

The Exchange has made significant progress in fulfilling website accessibility requirements by providing instructions to consumers to customize their browsers, magnify their page views, create keyboard and mouse shortcuts, manage browser add-ons, and make navigation changes, to name a few. The Exchange's Information Technology Branch (ITB), in cooperation with the California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) administrators, continue to update online content and strive to make it accessible to all persons with disabilities. In the process, the ITB and CalHEERS will correct website accessibility deficiencies identified during an accessibility review; ensure the Exchange for Small Business and Shop and Compare websites meet accessibility compliance requirements; develop and follow written accessibility test approaches to include manual and automated testing of website updates; and develop and follow written procedures to regularly review web accessibility complaints.

Operations- Internal- Oversight, Monitoring, Internal Control Systems

Individual units within the Exchange have been creating job aids and internal manuals as our organization grows, but the Exchange as a whole has yet to consolidate all of the individual processes into a comprehensive and formalized repository. Without more formalized written procedures to reference, processes can potentially be applied inconsistently in the variety of documentation forms currently being used. This lack of a comprehensive or consolidated repository creates the possibility of inconsistencies and confusion for staff and our consumers.

The Exchange has identified this risk and the need to standardize practices throughout the organization to minimize confusion and inconsistency. Currently, the Exchange is conducting a complete review of existing resources relative to the eligibility and enrollment process. The goal will be to develop a procedural manual to assist staff in interpreting governing regulations and linking those regulations to current step-by-step procedures outlined in the task guides. Additionally, existing task guides and job aids will be updated to mirror regulations in a user-friendly overview. The manual will be proactively updated whenever processes and/or regulations change, and that information will be disseminated promptly to all appropriate staff.

ONGOING MONITORING

Through our ongoing monitoring processes, the California Health Benefit Exchange reviews, evaluates, and improves our systems of internal controls and monitoring processes. The California Health Benefit Exchange is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of California Health Benefit Exchange, Peter V. Lee, Executive Director, is responsible for

the overall establishment and maintenance of the internal control system. We have identified Desi Malone, Grant Compliance Officer, as our designated agency monitor(s).

Frequency of Monitoring Activities

Beginning in January 2016, the Exchange's Program Integrity Division will implement a comprehensive biannual risk assessment process, which will be used by executive and senior leadership to closely monitor program areas. The Program Integrity Division will also use the results of the risk assessment analysis tool to determine which internal programs to audit. Furthermore, the Exchange is federally mandated to contract with independent audit firms to conduct annual comprehensive fiscal and programmatic audits and submit corresponding corrective action plans. As a result of these multiple layers of oversight, the Exchange undergoes comprehensive audits on an annual basis.

Reporting and Documenting Monitoring Activities

The POC Branch is responsible for the development, training, and coordination of the risk assessment process and reporting. All levels of management will be involved in evaluating, strengthening, and monitoring internal controls in an ongoing effort to timely detect and correct weaknesses (risks). The Exchange's managers will be responsible for identifying areas of risks; ranking those risks on likelihood, impact, and significance; developing the necessary correction actions; and documenting the results on the risk analysis tool. The completed risk analysis tools will be assessed by executive and senior leadership to determine reportable risks. The policies and procedures for establishing a general framework for ongoing monitoring, documenting results, and reporting are still in the developmental stage.

Procedure for Addressing Identified Internal Control Deficiencies

Audit and review findings require corrective action plans. The internal audit unit, within the POC Branch, is responsible for tracking and reporting progress on formal corrective action plans to the audit review entity. The timeframe for correcting deficiencies or findings varies as to the complexity of the issue. The POC Branch tracks all audit review findings, corrective action plans, and works with executive and senior leadership to ensure timelines are adhered to and corrective actions are taken.

CONCLUSION

The California Health Benefit Exchange strives to reduce the risks inherent in our work through ongoing monitoring. The California Health Benefit Exchange accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Peter V. Lee, Executive Director
California Health Benefit Exchange

cc: Department of Finance
Legislature
State Auditor
State Library
State Controller
Secretary of Government Operations