



CalOptima Health
A Public Agency
505 City Parkway West
Orange, CA 92868
☎ 714-246-8400
📞 TTY: 711
🌐 caloptima.org

April 7, 2023

Sent via email

The Honorable Grant Parks
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

SUBJECT: 2022-112 — Response to Confidential Draft Audit Report

Dear Mr. Parks:

On behalf of CalOptima Health and our 975,000 members, we appreciate the opportunity to respond to the draft audit report. Since June 2022, you and your dedicated team have undertaken a tremendous effort at the direction of the Joint Legislative Audit Committee, and throughout the course of this audit your staff has exhibited professionalism in every step of the process — thank you.

As noted in the initial engagement letter dated August 4, 2022, CalOptima Health has welcomed this audit and acknowledges the hard work of your office in analyzing data and facts, collaborating with our staff and executives, briefing legislators, and answering questions from the media. As a public agency accountable to our members and the taxpayers, CalOptima Health recognizes the need for top-notch leadership, strategic vision, flexibility and accountability in administering Medi-Cal health insurance benefits to our members.

While we understand the audit scope required your office to look back nearly one decade, we cannot speak to all the decisions of past leadership. As such, CalOptima Health cannot fully concur with all the findings and recommendations, as the timeframe of the audit does not account for recent leadership actions over the past year. These actions have been based on our *new* vision and strategic priorities, as approved by current leadership and Board of Directors (Board) in March 2022 and June 2022, respectively. Be assured we are guided by our mission to provide members with dignified and comprehensive health care along with measurable outcomes.

As noted in this response, CalOptima Health has already rectified many of the changes subsequently recommended in the audit and did so prior to the audit findings and recommendations being finalized. In addition, CalOptima Health and its Board have made additional significant investments with our providers and community partners that continue to address access to care and homelessness — including a street medicine program specifically designed to address the medical needs of unhoused individuals living on the streets of Orange County that launched on April 3, 2023.

We are committed to delivering the mission and the vision of CalOptima Health in order to best serve our members. That means committing ourselves to improvement every day. Thank you again for the efforts put forth by the audit team and the professional collaboration.

Finding #1: CalOptima Has Accumulated Surplus Funds It Should Have Used To Improve Services

Acknowledgment #1: CalOptima Health partially concurs with the findings.

As the report notes, CalOptima Health has drastically accelerated its allocation of surplus funds since Michael Hunn became interim Chief Executive Officer in November 2021. This has included major updates to our infrastructure and funding programs specifically targeted to Orange County's most vulnerable. Leadership will continue to evaluate more opportunities with our providers and community partners and identify additional programs on which to prudently spend our taxpayer funds. Aggregated, CalOptima Health has newly allocated \$262.5 million to be spent on programs in fiscal year (FY) 2021–22. Another \$285.4 million has been allocated since July 2022 after the audit review period.

Some key initiatives funded since FY 2021–22, along with their total program costs, are listed below:

- **\$153.5 million:** Five-year hospital quality program
- **\$108.1 million:** COVID-19 supplemental payments to health networks and qualified providers
- **\$100.0 million:** Digital transformation and workplace modernization strategy
- **\$50.1 million:** Five-year comprehensive community cancer screening and support program
- **\$50.0 million:** Five-year grant to community health centers
- **\$40.1 million:** Housing and Homelessness Incentive Program grant funding
- **\$25.0 million:** Medi-Cal and OneCare pay-for-value programs
- **\$19.9 million:** Applied Behavioral Analysis provider rate increases
- **\$15.0 million:** Be Well OC investment towards forthcoming Irvine campus
- **\$15.0 million:** Medi-Cal annual wellness visit initiative
- **\$10.0 million:** Three-year skilled nursing facility access program
- **\$8.0 million:** Street medicine program
- **\$7.0 million:** Orange County Health Care Agency outreach and engagement team
- **\$5.0 million:** Five-year National Alliance for Mental Illness peer support program
- **\$4.3 million:** Mental health provider rate increases
- **\$4.1 million:** Skilled nursing facility rate increase
- **\$2.0 million:** CalFresh enrollment outreach
- **\$2.0 million:** Two-year in-home care pilot program
- **\$1.0 million:** Be Well OC grant for intake and admissions coordination at Orange campus
- **\$1.0 million:** Medicare member incentive program
- **\$0.7 million:** Homeless Clinical Access Program extension

CalOptima Health currently has a Board-designated reserve policy that the Board will review to ensure it includes processes for evaluating surplus funds as well as their general uses. Specifically, CalOptima Health's three-year strategic plan and annual budget processes are the appropriate venues for the Board to determine organizational priorities and consider the detailed uses and allocations of those funds. As unanticipated needs and opportunities arise, the Board also takes separate actions throughout the year to

use surplus funds. Together, these satisfy the requirements of the county ordinance to develop a financial plan regarding the expenditure of surplus funds. An additional, separate financial process would cause duplication and potential misalignment. As acknowledged in the report, whenever CalOptima Health has spent surplus funds, it has always been consistent with the recommended purposes of expanding access, improving benefits or augmenting provider reimbursement.

However, it would not be fiscally prudent for CalOptima Health to continuously spend down unallocated surplus funds in their entirety to the current reserve requirement of two months within a recurring defined period (e.g., 12 months). As a government agency, it would be poor practice to meet only minimum thresholds. To wit, when the State of California has historically been unable to pass a budget, the Department of Health Care Services (DHCS) failed to pay Medi-Cal managed care plans. Further, Medicaid funding has been recouped in the past due to overpayments by the federal government. If CalOptima Health were ever to experience insolvency, taxpayers would foot the bill — not the state or federal government. As of February 2023, our Board-designated reserves and unallocated fund balance only represent approximately 101 total days of cash on hand.

Finding #2: CalOptima Retained A Larger Share Of IGT Funds Than Other Managed Care Plans

Acknowledgment #2: CalOptima Health concurs with the findings.

As affirmed by the report, in August 2022, CalOptima Health reduced its percentage of retained intergovernmental transfer (IGT) funds from 50% to 2%, or less, of federal matching funds received by DHCS. Also, CalOptima Health has successfully allocated all remaining IGT funds it had previously retained, as of December 2022. While we understand the audit reviewed evidence at a point in time in June 2022, CalOptima Health appreciates the report noting these additional developments as well as confirming that there are no further recommendations related to its IGT process.

Since launching its Homeless Health Initiatives (HHI) in 2019, CalOptima Health has been an innovator in exploring how a health plan can take a more proactive, voluntary role in joining community efforts to address homelessness. CalOptima Health is incorporating trackable goals and metrics into all its current and future HHI. CalOptima Health supports a member-focused, metric-driven approach in support of our mission to serve members — including those who are unhoused — with excellence and dignity, respecting the value and needs of each person. Therefore, CalOptima Health will also implement a written policy that incorporates these best practices.

Finding #3: CalOptima Did Not Follow Best Practices When Hiring For Some Executive Positions

Acknowledgement #3: CalOptima Health concurs with the findings.

As recommended in the report, CalOptima Health will add a new hiring policy to complement the current, prescriptive hiring process and which will incorporate additional best practices. The Board is expected to approve this “Recruitment, Selection, and Hiring” policy at its regular meeting on May 4, 2023. CalOptima Health had already established minimum position requirements and a systematic approach to compensation developed from the findings of a third-party compensation survey conducted in 2018. We expect to conduct a new survey in 2024. Most importantly, the recent alignment of

compensation with current market rates has, by design, decreased our year-to-date turnover rates to 10.0% for executives and 10.3% for all employees, despite a highly competitive job market.

CalOptima Health acknowledges that, when appointing the interim CEO #2 in April 2020, its Board — at that time — may have failed to observe the provisions specified in Government Code section 1090, as a result of previous in-house legal counsel concurring with the action and the Board relying on such concurrence. Nonetheless, the current Board reiterated the requirements of Government Code section 1090 into its bylaws, as recommended in the audit report, at its regular meeting on April 6, 2023.

Finding #4: Efforts To Investigate Reports Of Misconduct And Ensure An Atmosphere Free From Retaliation

Acknowledgment #4: CalOptima Health partially concurs with the findings.

Every allegation of misconduct and fraud, waste and abuse (FWA) received by CalOptima Health is taken seriously and reviewed in detail. Regarding the case described in the report, CalOptima Health “determined the allegation had no relation to CalOptima” because CalOptima Health researched the issue and determined the person reporting the issue and any other associated parties did not reside in the CalOptima Health service area and were not CalOptima Health members.

CalOptima Health takes all allegations of potential impropriety or misconduct seriously and makes every effort to understand what is being alleged. Most cases with insufficient information simply do not have enough information to formally investigate. Attempts are always made to reach individuals reporting such allegations. However, in many cases there is limited opportunity to reach them because they either do not answer or return calls, or they have reported the allegation anonymously and decline to provide further information when contacted for follow-up. Whenever allegations can be investigated, they are always investigated under strict, formal processes. Nonetheless, as recommended in the report, CalOptima Health will update its written policy to clarify all current processes.

CalOptima Health has a strong vested interest in any allegations of potential misconduct, FWA and retaliation. In addition to information on the CalOptima Health website about our several reporting channels, we are providing the CalOptima Health Compliance and Ethics Hotline number here for anyone who wishes to make a report: **1-855-507-1805 (TTY 711)**. Issues can be reported 24/7/365 and can be done so anonymously at the preference of the caller.

In addition, CalOptima Health has not identified any patterns of retaliation, and in the limited cases when allegations have been received, swift action was taken. CalOptima Health has a strict anti-retaliation policy that is followed in every case. Every Board member and employee of CalOptima Health — at all levels — is required to complete annual compliance trainings related to misconduct, FWA and retaliation. Not completing such trainings results in disciplinary actions, including up to termination of employment or dismissal from the Board. Nevertheless, CalOptima Health acknowledges that there is always opportunity to improve understanding of current policies and therefore launched an employee survey on March 31, 2023, ahead of the recommendation in the report.

Finding #5: Actions to Improve Timely Access to Care for CalOptima Members

Acknowledgement #5: CalOptima Health concurs with the findings.

As confirmed in the report, since CalOptima Health previously addressed these findings, there are no recommendations to implement. CalOptima Health works closely with all contracted providers to advance timely access to care for our members.

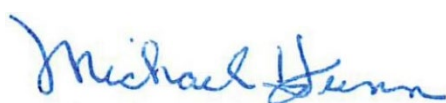
Finding #6: Accessibility of Financial Information on CalOptima's Website

Acknowledgement #6: CalOptima Health concurs with the findings.

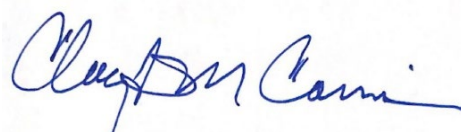
As confirmed in the report, since CalOptima Health previously addressed these findings, there are no recommendations to implement. Detailed financial information, including operating and capital budgets, audited financial statements and monthly financial summaries, are linked to the home page of the CalOptima Health website.

Thank you again for the opportunity to respond to the draft audit report. If you have any questions regarding the contents of this response, please do not hesitate to contact us.

Sincerely,



Michael Hunn
Chief Executive Officer



Clayton M. Corwin
Chair, Board of Directors



Blair Contratto
Vice Chair, Board of Directors