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Maine Department of Health and Human Services

Finance Transformation Strategy Refresh

Deloitte Consulting LLP

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Deloitte.

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Introduction

Background

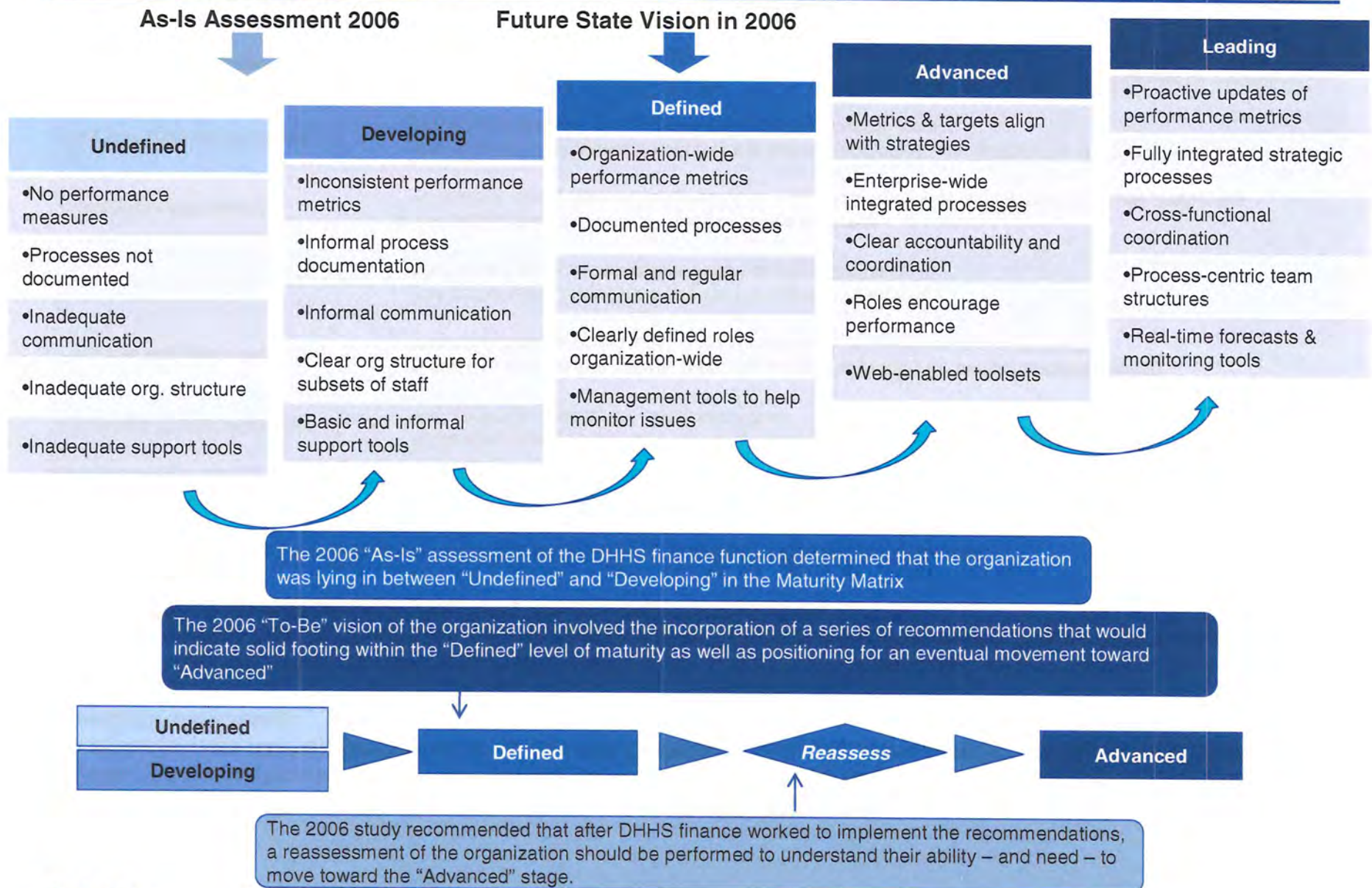
In 2006, the Maine Department of Health and Human Services (DHHS) and the Maine Department of Administrative and Financial Services (DAFS) Service Center worked with Deloitte Consulting to define a vision for transforming DHHS's finance operations and strategy.

The project focused on the capabilities and performance of the DHHS financial management and audit functions and the support operations that DAFS provides to the programs/offices. The project also focused on determining the needs of the programs/offices as they relate to both DHHS Finance and DAFS services.

The evaluation of the DHHS finance functions uncovered a number of fundamental issues:

| Operational Dimension | Fundamental Issues in 2006 |
|-----------------------------------|--|
| Planning & Budget Management | <ul style="list-style-type: none">•Extensive change precluded planning, causing reactive vs. proactive approaches•Insufficient accountability and coordination |
| Financial Analysis & Reporting | <ul style="list-style-type: none">•Little and inconsistent internal reporting, existed especially for performance monitoring•Report building process lacks good controls with no "single source of the truth" |
| Performance Management & Advice | <ul style="list-style-type: none">•No coordinated, substantive internal management reporting•Insufficient Medical Economics expertise and information |
| Stakeholder Management | <ul style="list-style-type: none">•No regular planned finance status meetings occurred•Customer needs were not understood or met, and terminology differences increased challenges |
| Risk Management & Control | <ul style="list-style-type: none">•No apparent Risk Management process existed, and there was an absence of Internal Financial Controls•Insufficient Medical Insurance and Regulatory Policy Expertise |
| Compliance & Rate Setting | <ul style="list-style-type: none">•Persistent and substantial findings were identified by the State Auditor without a process for correction•Rates were built upon dated Audit Reports and questionable budget data |
| Financial Organization Management | <ul style="list-style-type: none">•Lack of a clear vision with aligned Goals and Metrics for DHHS Finance•Poor coordination impeded proper assignment of accountability for cross-team initiatives |

2006 Maturity Assessment and “To-Be” Vision Implementation

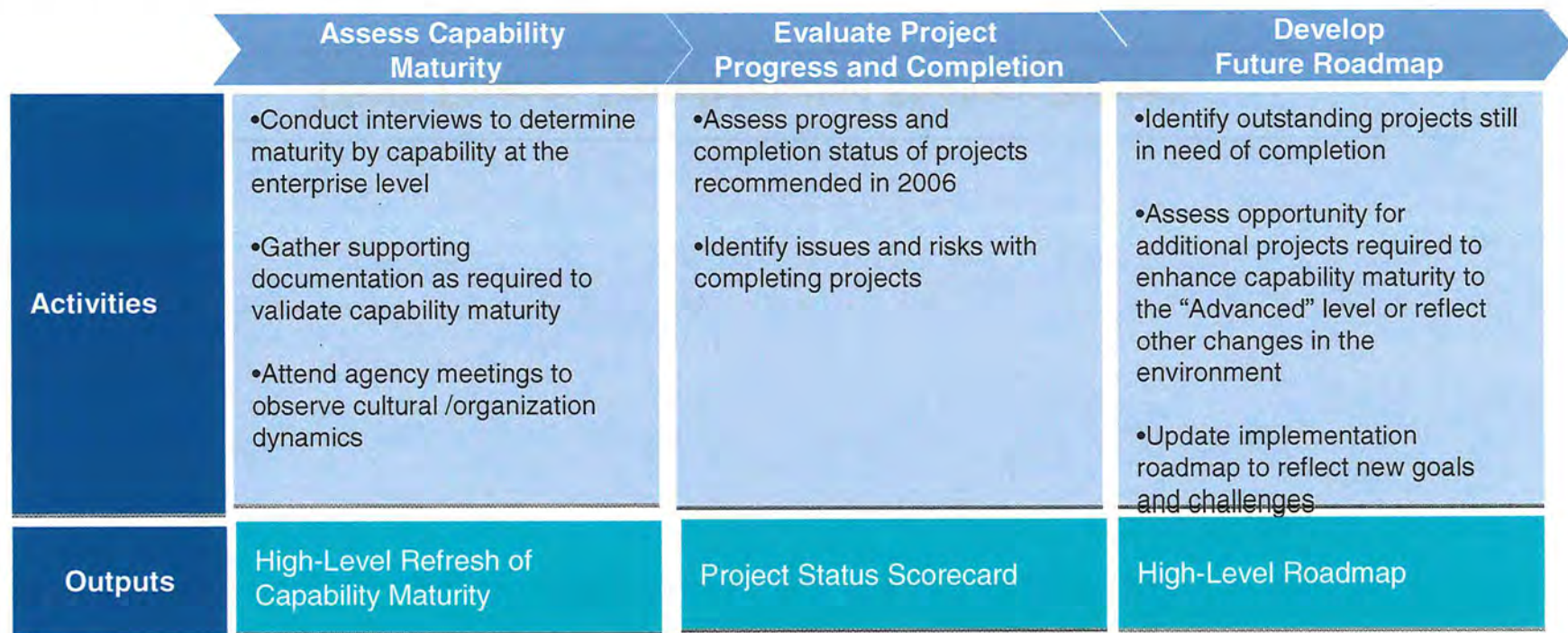


2010 “To-Be” Vision Refresh – Our Approach

Since 2006 DHHS has worked to implement many of the recommended improvements in order to bring them to a “Defined” stage of maturity. This report is intended to serve as a “check point” along this path; the state may choose to conduct the deeper, more detailed “re-assessment” referred to in the 2006 study to explore and define requirements and resources for meeting any new challenges/opportunities highlighted in this report.

A series of fourteen one-hour interviews of individuals (both internal DHHS staff and external State staff) were conducted, and the Deloitte team attended three cross-functional and two internal meetings. We based the discussions around our understanding of progress made to-date and focused the analysis at the “executive level.” **It is important to note that the maturity assessment framework in the body of the report does not include characteristics of an “undefined” organization as they no longer apply to DHHS.**

The figure below depicts our approach to this “refresh” effort:



DHHS Finance Transformation Strategy Refresh

Key Financial Management Themes

Overall, the story that DHHS can tell regarding its financial transformation effort is a good one. Much of the effort (and hence the progress) since late 2006 has involved bringing the Finance division to a steady state wherein the appropriate, basic functions are well managed.

The body of this report provides an overview of some of the progress made with respect to some specific recommendations made nearly four years ago. And although the incremental implementation of many of these recommendations has required some specific actions and/or tools, much of what was discussed – much of what the interviewees *wanted* to discuss – surrounded topics that were far less specific and perhaps ultimately more important: they wanted to discuss the changes in terms of the new collaborative and purpose-driven culture that has matured during the last several years. Their discussions centered around three key themes:

We're All In This Together

The notion that there is more at stake in this transformation effort than simply the reputation of DHHS Finance staff was a common theme among executive leadership during our short time with them, and it is clear that they recognize how the far-reaching implications of a well-managed Finance organization. For example, as the Programs/Offices improve their collaboration and communication on financial matters, their improved ability to negotiate more efficient vendor contracts and set more appropriate rates may allow them to make more efficient use of their existing funding – especially important during times of change (such as with the impending implementation of Health Reform) or during challenging financial situations. Understanding financial reports, financial processes and the financial impact of programmatic activities can empower the DHHS staff teams and bring greater understanding of each person's role in DHHS's – and the State's – success.

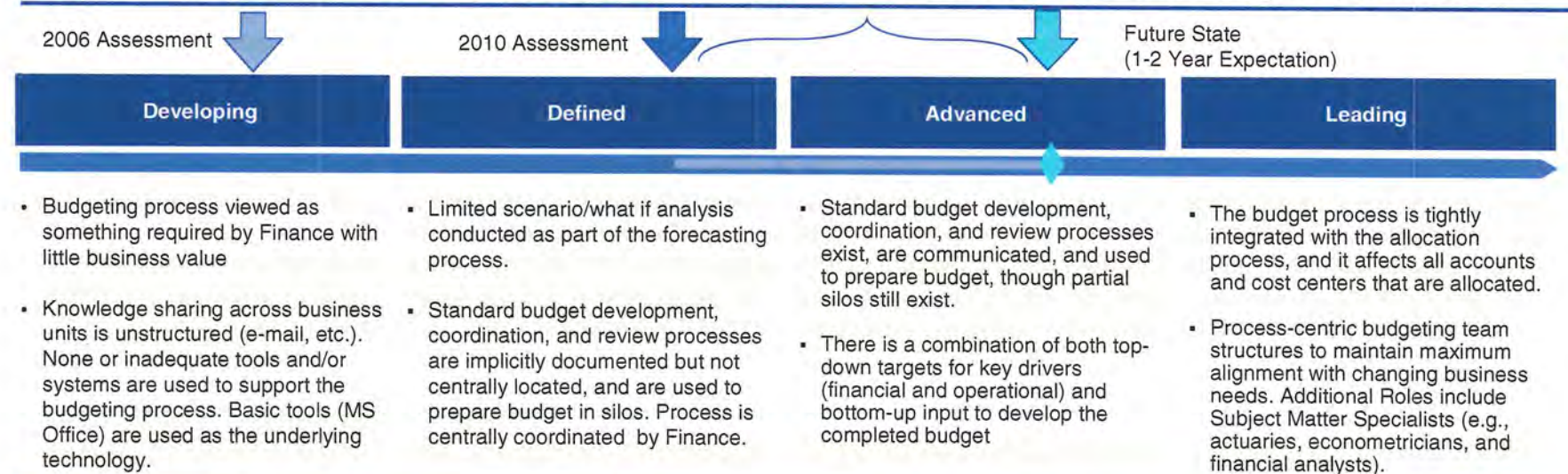
Information is Power

We know that financial transparency builds trust among stakeholders, but this transparency cannot be achieved without full organizational agreement on what constitutes reliable data/information. DHHS leadership, as well as external DHHS stakeholders, recognize the continued imperatives to provide the programs/offices with meaningful and detailed financial data, to streamline the charts of accounts, and to develop a sound data management strategy in order to add a degree of sophistication to the discussions of financial management (e.g., integrated financial and programmatic performance measures). These advancements will be particularly important as the Agency faces a great deal of uncertainty surrounding Health Reform.

Standardization = Stability and Financial Discipline = Freedom

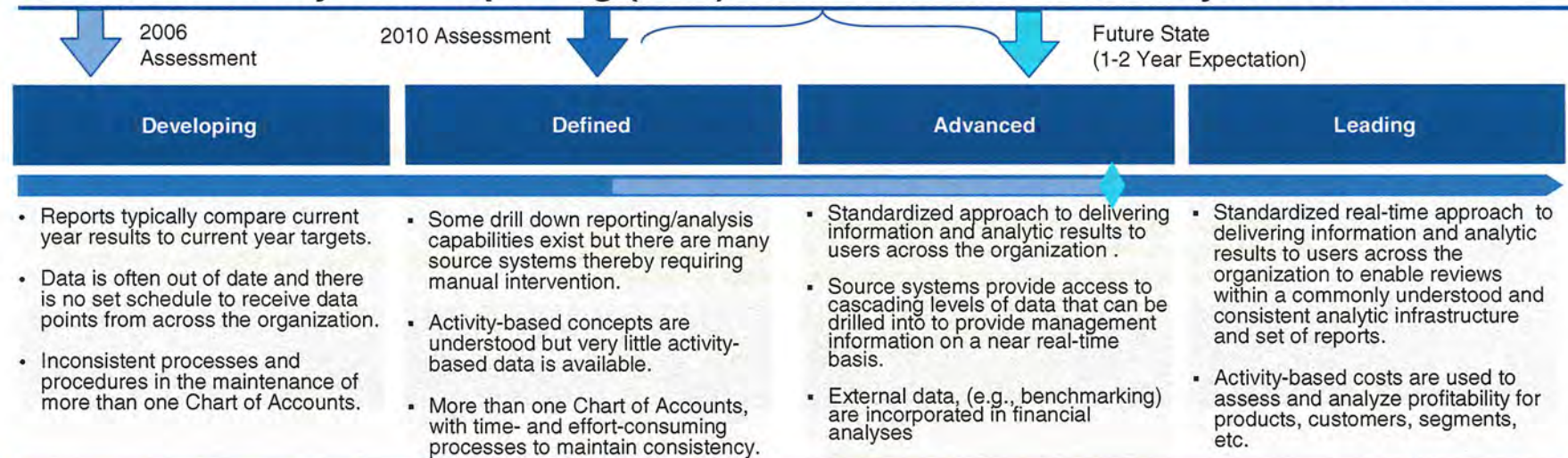
DHHS is at a critical juncture in its organizational maturity curve, having recently transitioned from developing to defined. Its size, complexity and external visibility should continue the already-begun process of stabilizing and standardizing financial processes and systems in order to provide a way to achieve operations excellence and prepare for leadership change. Also, by embracing financial discipline throughout the organization DHHS has aimed to achieve a certain level of freedom: freedom from inefficient and overly restrictive financial controls, freedom to be more in control of its operations, and freedom to begin to analyze and improve core business operations. In other words, DHHS Finance has built trust.

I. Planning and Budget Management (PBM) Observations and Maturity Assessment



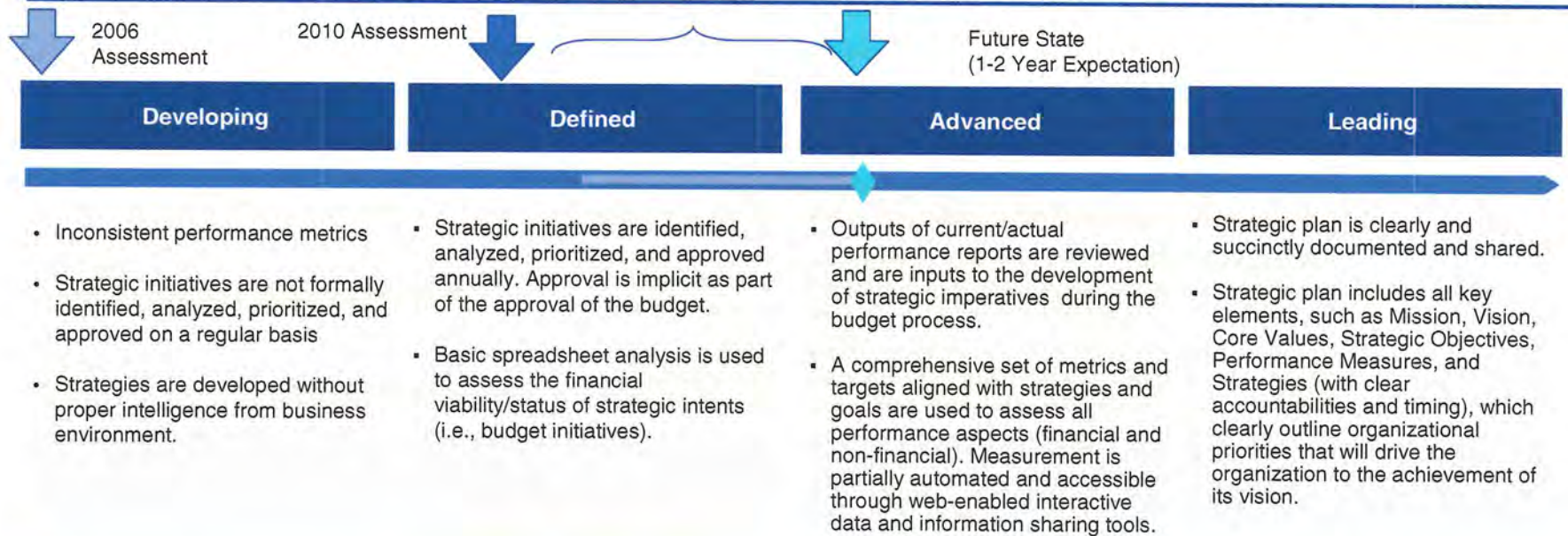
| 2006 Recommendations | 2010 Observations | Progress Toward Goal |
|---|--|----------------------|
| Creation of budgeting calendar to track each step and ownership. | Significant improvement in budget allocation process, with process rationalized with Bureau of the Budget, and roles/workflows/approvals defined and tracked. A bottom-up/top-down budget development process (a characteristic of an "Advanced" maturity stage) still evolving. | |
| Clearly defined roles and responsibilities | Key players and stakeholders are deeply involved in the process, and general responsibilities around budget initiative development/tracking are understood. Some lack of clarity around roles and responsibilities for budget development process organization-wide (primarily because it's still evolving). | |
| Clearly defined processes with stakeholder contacts defined and communicated | Stakeholders in the budgeting process appear to be well managed, though again the process is not yet totally defined. | |
| Contracts linked directly to the budget (no funds / no contract') | Major improvement in contracts management – significant reduction of unencumbered contracts. Allocation review provides solid baseline. | |
| Rolling forecasting and analysis to reduce need for Budget Orders and Financial Orders | Significant reduction of emergency Budget/Financial Orders; some rolling current year forecasting – though not for out years of budget | |
| Leadership engagement in the planning process so that the DHHS Planning group has a strategy to implement in their work with the Programs | Creation of PFC group, as well as integrated management team meetings, is the conduit for the strategy communication and budget initiative tracking; bottom-up creation of the budget next year will test the abilities of PFCs in this regard. | |

II. Financial Analysis & Reporting (FAR) Observations and Maturity Assessment



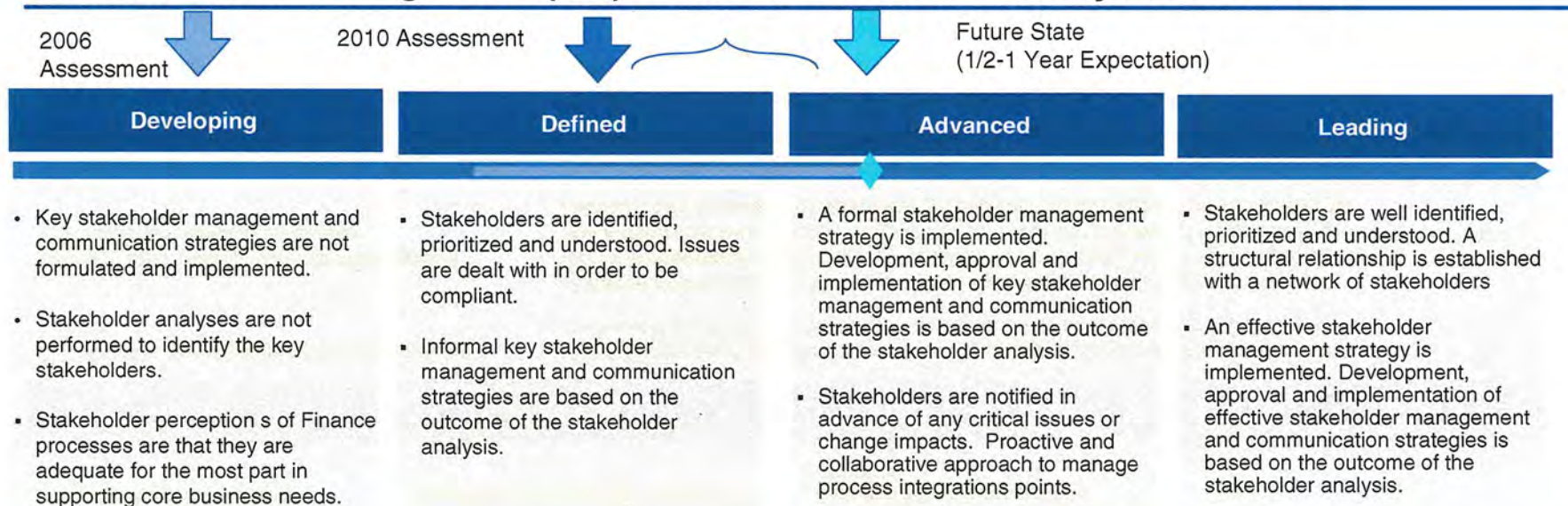
| 2006 Recommendations | 2010 Observations | Progress Toward Goal |
|---|--|----------------------|
| Creation of standardized summary and dashboard reports | Under development – will become more meaningful with new SQL and claims management systems. Some standardized summary reporting exists: weekly A/P status reports, cash reports in development, revenue forecasting done twice yearly. | |
| Creation of reporting calendar to track each step and ownership | The organization (DHHS Finance, DHHS Programs/Offices, and DAFS Service Center) share a big picture vision for reporting needs and timing required. New SQL reporting tool and claims system promise to fill existing gap in available data. | |
| Clearly defined roles and responsibilities | Significant improvements in core accounting functions; Progress in Program staff's contracts management capabilities. | |
| Clearly defined processes with stakeholder meetings incorporated. | Creation of PFC group and their subsequent regularly scheduled meetings with Program staff & DAFS Service Center employees provide previously missing link. | |
| Development of a single source of the truth through consistent reports and reconciliation between systems | Progress made with creation of PDF reports; major progress will be made after new SQL reporting tool implementation and chart of account redesign. | |
| Catch up on regulatory reporting | Significant improvement; current on all FSR Filings audit finding responses. | |
| Work with Advantage ME to identify areas for account structure redesign | Programmatic and administrative needs conceptually defined; implementation plan is not developed – must coincide with biennial budget process. Stakeholders on board but no significant progress to date on large but important effort. | |

III. Performance Management and Advice (PMA) Observations and Maturity Assessment



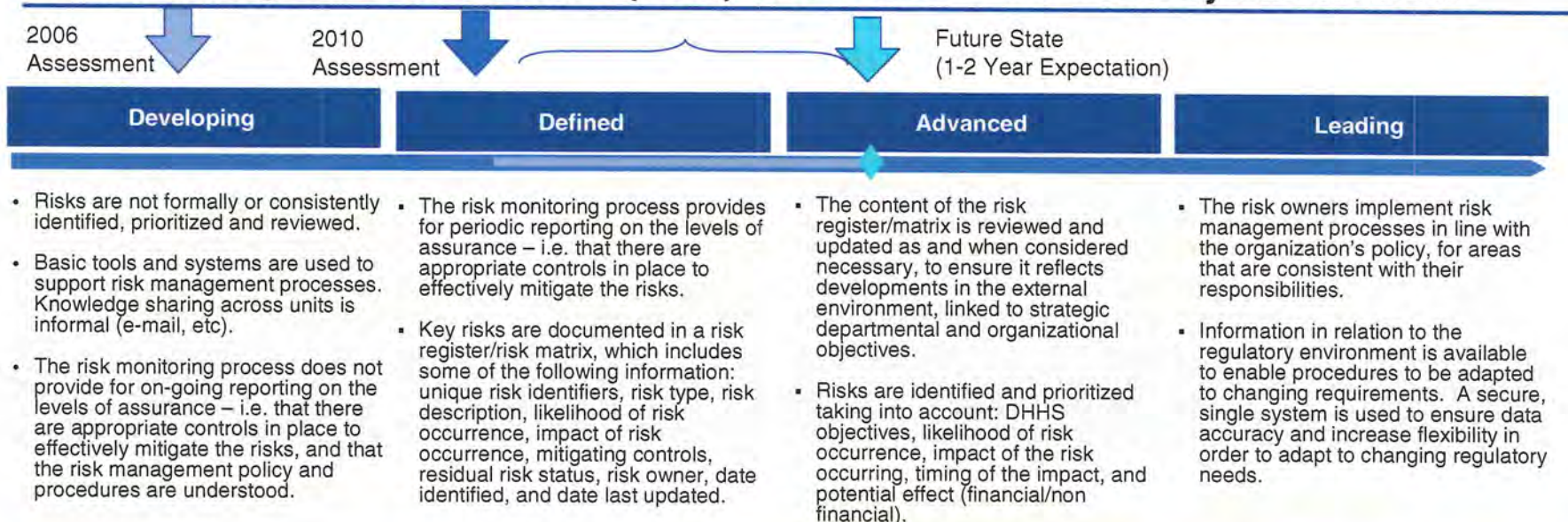
| 2006 Recommendations | 2010 Observations | Progress Toward Goal |
|--|--|----------------------|
| Creation of Internal reports and dashboards to measure performance | High degree of understanding among staff of what constitutes their successful development of pragmatic and practical performance measures to establish baselines. Internal reporting of some basic measures established though still evolving. | |
| Establish metrics aligned with leadership goals to compare the program offices against | Major progress in developing basic metrics and reports since 2006; the new claims management system will provide additional data collection/analysis capabilities to move to next level of sophistication. A certain level of uncertainty exists in the data management strategy necessary to develop a solid project plan for moving forward. | |
| Setting monthly meetings to discuss outcomes and next steps with Program leadership | Monthly meetings exist and are used to incrementally develop processes, tools, and ultimately a culture that encourages the programs/offices, Finance, and leadership to begin to measure performance and develop strategies. Forward progress depends on capabilities of new claims management system's data capture/output capabilities. | |

IV. Stakeholder Management (SM) Observations and Maturity Assessment



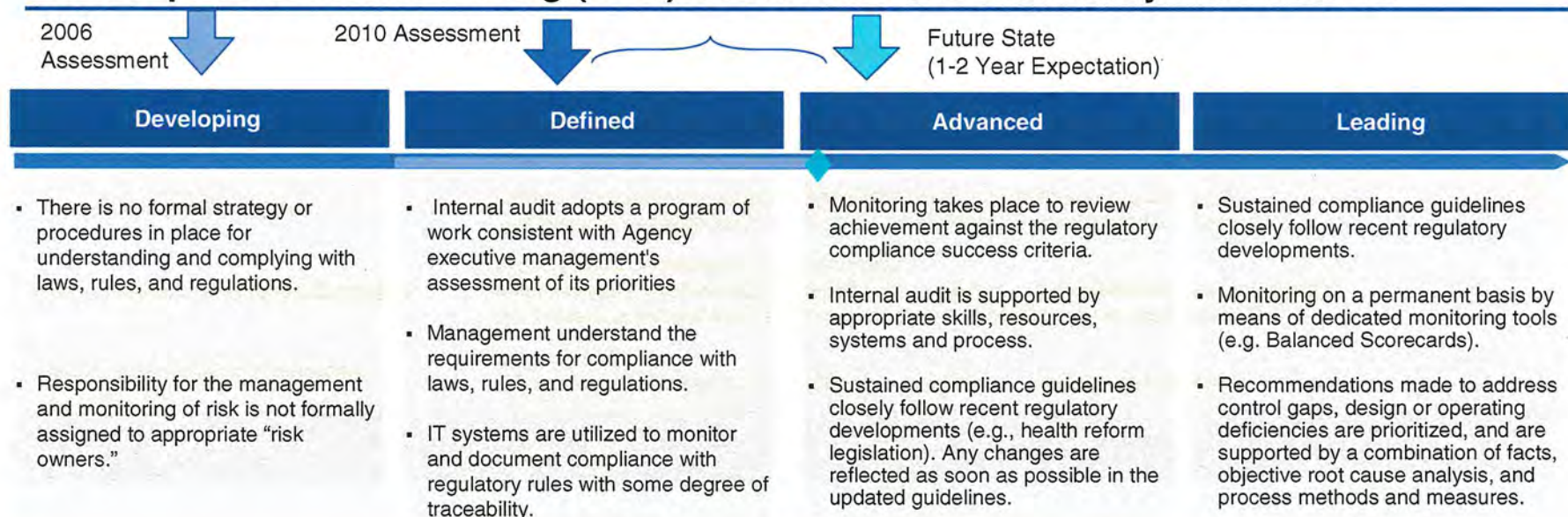
| 2006 Recommendations | 2010 Observations | Progress Toward Goal |
|---|---|----------------------|
| Hold monthly meetings with Program leadership to discuss performance and emergent issues. | Regular monthly financial status meetings with Program Management leadership have been established and their importance/value appears to be nearly institutionalized. | |
| Utilize program meetings to develop a common language for discussing financial issues. | In coordination with the Program Fiscal Coordinator group, the Programs/Offices appear to be able to discuss financial affairs without significant gaps in understanding. | |
| Identify primary and secondary stakeholders. | The relationship between DHHS Finance and DAFS's DHHS Service Center, as well as between DHHS Finance and CMS, is, according to those interviewed, the most productive and collaborative it has ever been. | |
| Identify needs of primary and secondary stakeholders | Many of the project currently underway, such as the SQL project, are in more or less direct response to needs that the Programs/Offices and/or Legislature have identified. | |
| Put all staff through customer service training | There has been an effort to increase access and availability of internal training classes, with a strong focus on formalized training for new hires in the Service Center and in the PFC group. A formal customer service training program has been developed and is planned for roll-out soon. | |

V. Risk Management and Control (RMC) Observations and Maturity Assessment



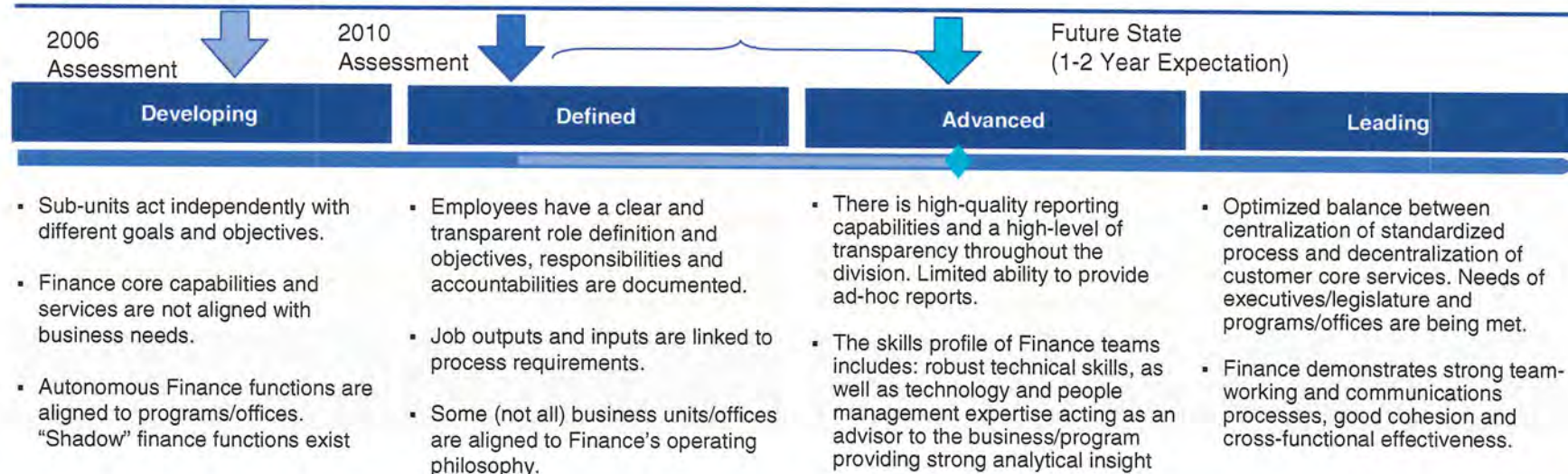
| 2006 Recommendations | 2010 Observations | Progress Toward Goal |
|---|--|----------------------|
| Creation of a risk management framework and process | Audit Committee has been created. The creation of a formal risk management framework is underway; risk have largely been tracked reactively, not proactively. | |
| Creation of an internal controls framework integrated with existing processes | A formal internal controls framework is not yet completed; evidence of improved controls integrated within existing processes was observed, such as the approval of the federal cost allocation plan, significant reductions in disallowed dollar value, overall number, and materiality of audit findings, and A/P invoice processing improvements. | |
| Increased medical cost expertise to mitigate large potential medical cost risk | Some actuarial services outsourced during development of new claims management system; plans to supplement/improve exist. | |
| Clear tracking of budgeting and reporting information (including medical facility settlement liabilities) | Created contracts database and budget initiative-tracking workbooks; instituted policies and procedures around contracting, though not all Programs/Offices are compliant. | |
| Assessment of regulatory policy expertise for adequacy in reporting and funding request policy procedures | Regulatory policy expertise exists in many programs/offices – the challenge has been to complement it with Finance expertise. Sustained improvement in Finance's management of Fiscal Notes for legislature; created policy expertise/responsibility matrix. | |

VI. Compliance & Rate Setting (CRS) Observations and Maturity Assessment



| 2006 Recommendations | 2010 Observations | Progress Toward Goal |
|---|--|----------------------|
| Rate setting aligned with Program Planning & Medical Economics | Rate setting roles and responsibilities have been clarified though the medical economics unit has not been created; however, some of the medical economics functions have been outsourced and plans to supplement and improve capabilities will be evaluated subsequent to go-live of new claims system. | |
| Ensuring that audit data needs are met | Programs and audit now work collaboratively regarding provider audits. Data is shared openly and quality will continue to improve with new claims system data. | |
| Accelerate audits to make them current and reduce unknown cost settlement liability | Continued focus on this area has increased the number of audits in 2008 and 2009, recouping nearly \$6 and \$10 million ,respectively. Audits are as current as possible, and the cost settlement liability is now known. | |
| Reduce facility liability by aligning rates with strategic goals | Strategic goals such as improved enterprise vendor management include plans to rationalize rates that are more aligned with benchmarks/provider cost analyses/ leading practices. Not there yet, though. | |

VII. Financial Organization & Management (OM) Observations and Maturity Assessment



| 2006 Recommendations | 2010 Observations | Progress Toward Goal |
|--|---|----------------------|
| Formal documentation of processes | High degree of process documentation in Purchased Services; some progress in Audit and Service Center. | |
| Clearly defined roles and responsibilities | Not present enterprise wide; significant progress in pockets such as core accounting responsibilities. Program/Office management roles still evolving especially as they relate to expected new budget development process. | |
| Creation of Program Planning | This unit has helped to institutionalize a communication structure previously lacking to regularly exchange information on business needs and to spread information. | |
| Creation of Medical Economics | Unit not officially created; will focus efforts subsequent to new claims management system go-live. Expertise likely be outsourced. | |
| Revised Internal Audit role | Internal Auditor role recently established and gaining traction. Success depends on Audit unit's progress in establishing internal controls and risk framework. | |
| Development of clear SLAs | SLA has recently been developed with the Service Center; SLAs proved to be unnecessary with Programs/Offices largely due to shift toward collaboration. | |

Next Steps

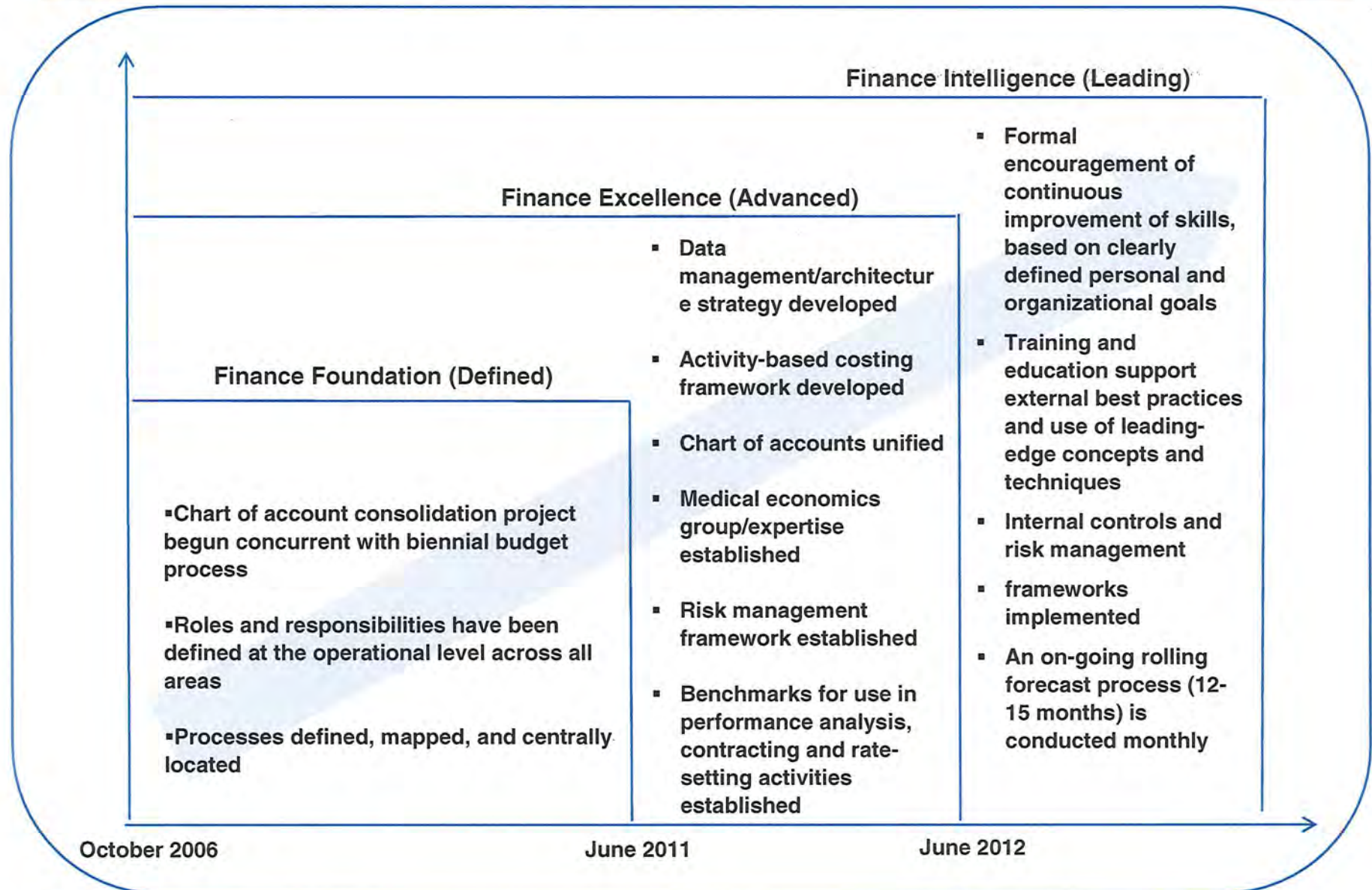
Summary of Opportunities/Challenges Ahead

In most of the operational dimensions, the organization has displayed characteristics consistent with a “Defined” stage of maturity, which in large part is a direct or indirect result of the series of the recommendations and approach outlined in 2006. Some dimensions, however, are further along into the defined stage than others.

The ultimate goal of the Finance organization is to achieve the Advanced stage of maturity. In general terms, this level of maturity requires a significant amount of sophistication in terms of financial expertise as well as enhanced technological and HR capabilities. As contemplated in the original 2006 study, a more thorough and detailed “reassessment” should be undertaken once the organization reaches the Defined stage to assess the organization’s need to achieve the Advanced stage and the costs/benefits of doing so. Below are some potential future opportunities and challenges that might help frame such a discussion:

| Operational Dimension | Potential Opportunities/Challenges Ahead |
|-----------------------------------|--|
| Planning & Budget Management | The current drive toward improving the “bottom-up” budget preparation capabilities at the program/office level, as well as the drive toward greater integration of effectiveness/outcome indicators in the budget development process, suggests that DHHS should consider the impact of the (likely significant) demonstration project and grant funding opportunities that will drive innovation in the current operating model as a result of Health Reform legislation. Achieving innovation will likely require more sophisticated financial management and analysis capabilities in the program/offices in the future. |
| Financial Analysis & Reporting | A unified chart of accounts is required for movement to the advanced stage, but it also is necessary to develop a straightforward and common language for the discussion and analysis of current and future costs. Health Reform promises a significant shift toward integration of services, and therefore a common view of patient/enrollee costs across activities/programs will become crucial. The ongoing improvements in reporting technologies should be sustained. |
| Performance Management & Advice | As the emphasis on linking performance indicators to financial decision-making intensifies, the ability to extract/transform and analyze the existing data from the various systems must be fairly robust. Organizations at the advanced stage often have made significant progress in the development of a data management/architecture plan that aligns with and supports their web-based dashboard/reporting initiatives. |
| Stakeholder Management | Significant changes in program eligibility rules and funding formulas, as well as a number of newly eligible enrollees for Medicaid supported by federal funding, are likely results of health reform; the ability to perform an analysis of – and then to disseminate to the appropriate parties – the potential impact on legislative districts, as well as on other populations/stakeholders, may be required. |
| Risk Management & Control | The creation of a formal risk management framework is a characteristic of a defined stage of maturity; as a starting point toward proactive risk management, DHHS might consider documenting, analyzing, and prioritizing mitigation strategies for potential risks to the continued success of this financial transformation, (e.g., all Programs/Offices compliant with contracting procedures). |
| Compliance & Rate Setting | The challenges currently facing this dimension remain largely similar to those in 2006 with one notable difference: the pressure to progress is greater now due primarily to the imminent roll-out of a new claims management system that will enable improvements in rate setting capabilities, but also as a result of the likely Increased focus on fraud, waste and abuse from Health Reform and will require appropriate monitoring/detection mechanisms and processes. |
| Financial Organization Management | The remaining areas of focus include the rounding-out of the medical economics unit, the continued enhancement of the Program Planning group’s financial analysis and modeling capabilities, as well as a focus on retention and training of current employees. |

High-Level Improvement Roadmap



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