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Maine Department of Health and Human Services

Finance Transformation Strategy Refresh

Deloitte Consulting LLP

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Introduction

Background

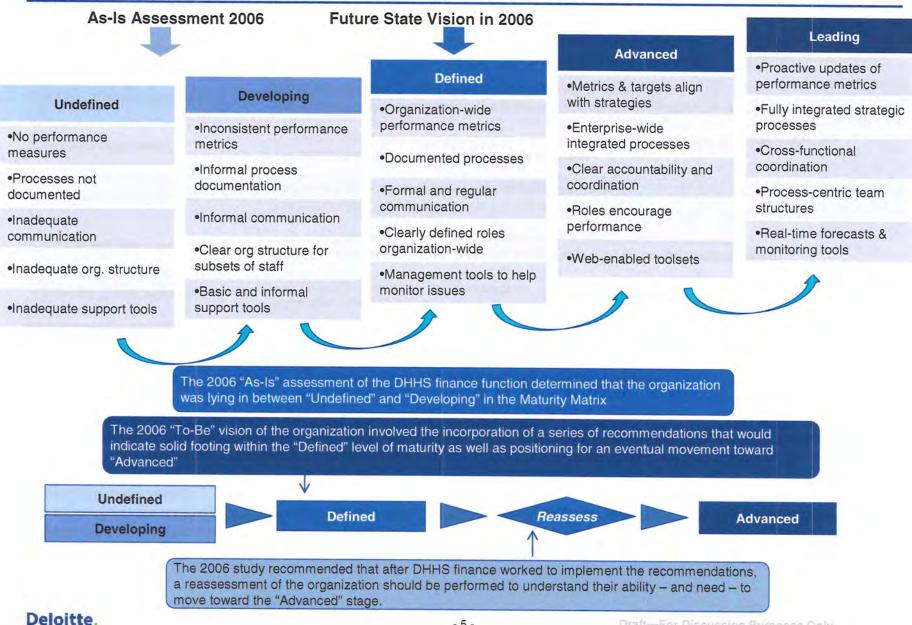
In 2006, the Maine Department of Health and Human Services (DHHS) and the Maine Department of Administrative and Financial Services (DAFS) Service Center worked with Deloitte Consulting to define a vision for transforming DHHS's finance operations and strategy.

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	•Extensive change precluded planning, causing reactive vs. proactive approaches •Insufficient accountability and coordination
Financial Analysis & Reporting	•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	No coordinated, substantive internal management reporting Insufficient Medical Economics expertise and information
Stakeholder Management	•No regular planned finance status meetings occurred •Customer needs were not understood or met, and terminology differences increased challenges
Risk Management & Control	•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	 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	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



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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:

	Assess Capability Maturity	Evaluate Project Progress and Completion	Develop Future Roadmap
Activities	Conduct interviews to determine maturity by capability at the enterprise level Gather supporting documentation as required to validate capability maturity Attend agency meetings to observe cultural /organization dynamics	Assess progress and completion status of projects recommended in 2006 Identify issues and risks with completing projects	•Identify outstanding projects still in need of completion •Assess opportunity for additional projects required to enhance capability maturity to the "Advanced" level or reflect other changes in the environment •Update implementation roadmap to reflect new goals and challenges
Outputs	High-Level Refresh of Capability Maturity	Project Status Scorecard	High-Level Roadmap

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.

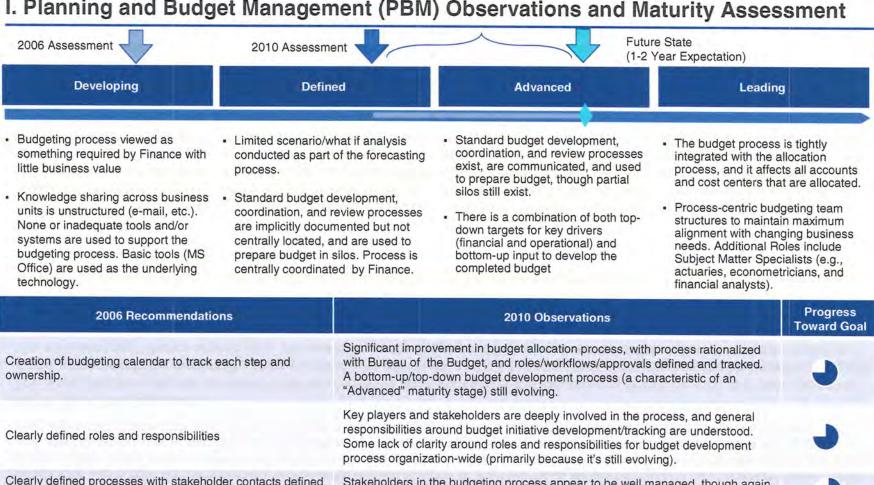
Information is Power

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

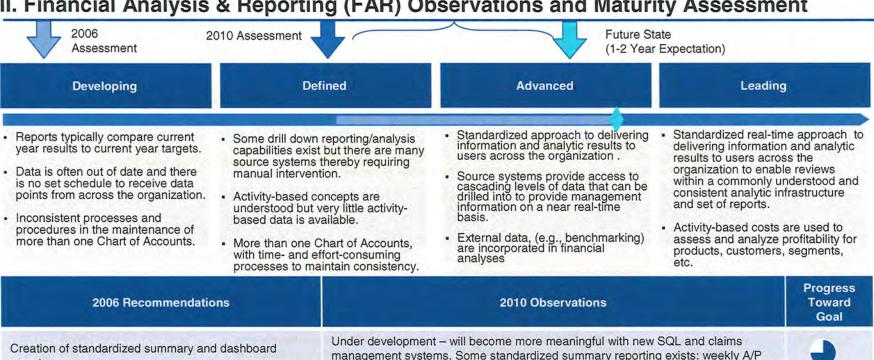
DHHS is at a critical juncture in its organizational maturity curve, having recently transitioned from developing to defined. Its size, complexity and external visibility should continue the already-begun process of stabilizing and standardizing financial processes and systems in order to provide a way 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



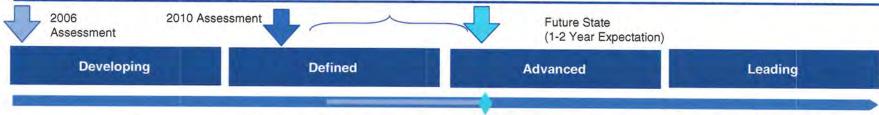
2006 Recommendations	2010 Observations	Progress Toward Goal
Creation of budgeting calendar to track each step and ownership.	Significant improvement in budget allocation process, with process rationalized with Bureau of the Budget, and roles/workflows/approvals defined and tracked. A bottom-up/top-down 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.	3
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.	1
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.	1
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.	9
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.	

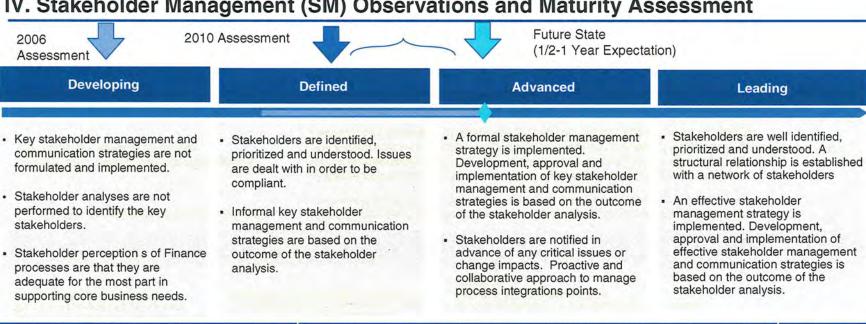
III. Performance Management and Advice (PMA) Observations and Maturity Assessment



- · Inconsistent performance metrics
- Strategic initiatives are not formally identified, analyzed, prioritized, and approved on a regular basis
- Strategies are developed without proper intelligence from business environment.
- Strategic initiatives are identified, analyzed, prioritized, and approved annually. Approval is implicit as part of the approval of the budget.
- Basic spreadsheet analysis is used to assess the financial viability/status of strategic intents (i.e., budget initiatives).
- Outputs of current/actual performance reports are reviewed and are inputs to the development of strategic imperatives during the budget process.
- A comprehensive set of metrics and targets aligned with strategies and goals are used to assess all performance aspects (financial and non-financial). Measurement is partially automated and accessible through web-enabled interactive data and information sharing tools.
- Strategic plan is clearly and succinctly documented and shared.
- Strategic plan includes all key elements, such as Mission, Vision, Core Values, Strategic Objectives, Performance Measures, and Strategies (with clear accountabilities and timing), which clearly outline organizational priorities that will drive the organization to the achievement of its vision.

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.	3
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 anguage 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.	1
dentify 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.	•
dentify 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



- Risks are not formally or consistently identified, prioritized and reviewed.
- Basic tools and systems are used to support risk management processes. Knowledge sharing across units is informal (e-mail, etc).
- The risk monitoring process does not provide for on-going reporting on the levels of assurance – i.e. that there are appropriate controls in place to effectively mitigate the risks, and that the risk management policy and procedures are understood.
- The risk monitoring process provides for periodic reporting on the levels of assurance i.e. that there are appropriate controls in place to effectively mitigate the risks.
- Key risks are documented in a risk register/risk matrix, which includes some of the following information: unique risk identifiers, risk type, risk description, likelihood of risk occurrence, impact of risk occurrence, mitigating controls, residual risk status, risk owner, date identified, and date last updated.
- The content of the risk register/matrix is reviewed and updated as and when considered necessary, to ensure it reflects developments in the external environment, linked to strategic departmental and organizational objectives.
- Risks are identified and prioritized taking into account: DHHS objectives, likelihood of risk occurrence, impact of the risk occurring, timing of the impact, and potential effect (financial/non financial).
- The risk owners implement risk management processes in line with the organization's policy, for areas that are consistent with their responsibilities.
- Information in relation to the regulatory environment is available to enable procedures to be adapted to changing requirements. A secure, single system is used to ensure data accuracy and increase flexibility in order to adapt to changing regulatory needs.

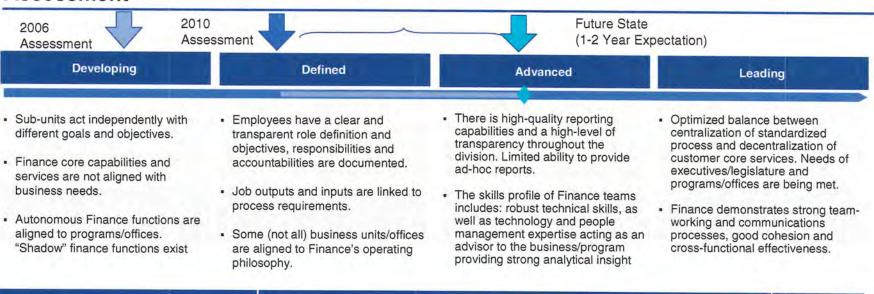
2006 Recommendations	2010 Observations	Progress Toward Goal
Creation of a risk management framework and process	Audit Committee has been created. The creation of a formal risk management framework is underway; risk have largely been tracked reactively, not proactively.	
Creation of an internal controls 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.	1

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

2006 Assessment 2010 Assessment		Future State (1-2 Year Expectation)		
Developing	Defined	Advanced	Leading	
There is no formal strategy or procedures in place for understanding and complying with laws, rules, and regulations.	 Internal audit adopts a program of work consistent with Agency executive management's assessment of its priorities Management understand the requirements for compliance with 	 Monitoring takes place to review achievement against the regulatory compliance success criteria. Internal audit is supported by appropriate skills, resources, systems and process. 	 Sustained compliance guidelines closely follow recent regulatory developments. Monitoring on a permanent basis by means of dedicated monitoring tools (e.g. Balanced Scorecards). 	
Responsibility for the management and monitoring of risk is not formally assigned to appropriate "risk owners."	laws, rules, and regulations. IT systems are utilized to monitor and document compliance with regulatory rules with some degree of traceability.	 Sustained compliance guidelines closely follow recent regulatory developments (e.g., health reform legislation). Any changes are reflected as soon as possible in the updated guidelines. 	 Recommendations made to address control gaps, design or operating deficiencies are prioritized, and are supported by a combination of facts, objective root cause analysis, and process methods and measures. 	

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.	1
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.	1

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 financia 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 a 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 are the existing data from the various systems must be fairly robust. Organizations at the advanced stage often have made significated 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 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.					
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High-Level Improvement Roadmap

Finance Intelligence (Leading)

Finance Excellence (Advanced)

Finance Foundation (Defined)

- Chart of account consolidation project begun concurrent with biennial budget process
- Roles and responsibilities have been defined at the operational level across all areas
- Processes defined, mapped, and centrally located

- Data management/architectur e strategy developed
- Activity-based costing framework developed
- Chart of accounts unified
- Medical economics group/expertise established
- Risk management framework established
- Benchmarks for use in performance analysis, contracting and ratesetting activities established

- Formal encouragement of continuous improvement of skills, based on clearly defined personal and organizational goals
- Training and education support external best practices and use of leadingedge concepts and techniques
- Internal controls and risk management
- frameworks implemented
- An on-going rolling forecast process (12-15 months) is conducted monthly

October 2006 June 2011 June 2012

