Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
November 6, 2019

**Present:** Eddie Chan, Pharm D, Reece Fawley, Steven Fugaro, MD, Greg Wagner, Emily Webb, Skip Bishop, John F. Grgurina, Jr., Rand Takeuchi, and Nina Maruyama (note taker)

**Absent:** None

**Guests:** Chris Pritchard and Rianne Suico, Moss Adams Consultants, LLP, Robert Harder, City National Bank, and Jake Blackshear, Director, Finance, UCSF/ZSFG

Reece Fawley, Chair, Finance Committee, chaired the meeting and identified the public guests. Mr. Fawley asked for public comments and there were none.

**Call to Order and Public Comment on any matters within the SFHA/SFCHA purview**

**1. Approval of Minutes from September 4, 2019 Finance Committee Meeting**

The minutes of the September 4, 2019 Finance Committee meeting were approved with no changes.

**2. Review and Approval of the Annual Independent Audit Report for FY 18-19**

**Recommendation:** Review and Approval of the Annual Independent Audit Report for FY 2018-19.

Chris Pritchard, Partner, and Rianne Suico, Senior Manager, Moss Adams Consultants, the independent audit firm hired by SFHP, presented the FY 2018-19 independent financial audit report. The auditors gave SFHP an "Unmodified Opinion," which is the highest opinion available (also known as a "clean opinion"). There were no significant, or material, comments in the Communication to the Governing Board. There were no required or recommended adjustments to the journal entries.

Ms. Suico reviewed the following key points of the audit report:

- Over the years, SFHP has been very consistent, which is a testament to management's ability to produce financial statements without material error.

- All reported receivables and assets were properly supported and appropriate.
- All payments and liabilities were appropriated accounted.
- Assumptions and information used by SFHP's actuary for the Incurred But Not Reported (IBNR) were tested and all liabilities were reasonably stated.
- All capitation payments to providers were properly supported.
- Recording of operational expenses were in accord with accounting policies and principles.
- Trends were consistent with expectations, without any unusual spikes.
- SFHP's tangible net equity (TNE), which is a measure of an organization's financial health, was very strong.
- There were no issues with the transition to a new Chief Financial Officer.
- There were no disagreements with SFHP's management.

Ms. Suico noted that the pension asset had been a net pension liability in 2018, but in 2019, it was reported as an asset. Mr. Fawley asked why this happened. Ms. Suico responded that in 2019, there are more assets in the pension plan than a liability. When SFHP's pension is overfunded, then the funds are an asset.

Mr. Fawley commented that it would be helpful for Moss Adams to change the company color palette so that the colors used in bar graphs are easier to distinguish. Ms. Suico acknowledged the subtlety in colors used and stated she would make note of this suggestion.

John Grgurina, Jr., CEO, stated that while the TNE is very strong, the situation will change in 2021, when the TNE levels will be much higher with the carve-in of long-term care services for Medi-Cal. This will result in higher revenues and expenses, resulting in a subsequent need for a higher level of TNE.

Dr. Fugaro asked what will be change in the TNE. Mr. Grgurina stated that when long-term care, transplants, duals and the Medicare D-SNP are added, the TNE by 2023 could be three to four times the TNE currently required. The upper end of SFHP's reserve could be about $200 million.

The consultants discussed that the audit went well. There was one control item identified in the accounts payable unit. When one Accounting staff was promoted to supervisor, his access to the system was not changed so that he was still able to create an account and could have issued a check to that account. No issues occurred, but the control was not in place. SFHP corrected this control issue on October 21, 2019. SFHP will create a system control process, as well.

Greg Wagner asked to confirm that while the staff had the ability, he did not create an account and create a payment. Mr. Grgurina confirmed that the staff did not create an account and create a payment for the account.

SFHP staff left the meeting to allow the Finance Committee meet with the auditors without staff present.

Upon returning to the meeting, Mr. Fawley, stated that they discussed the need for internal audits and role-based access improvements. Nina Maruyama, Officer, Compliance and Regulatory Affairs, thanked the committee for identifying these needs and stated that SFHP has created an internal audit workplan, which is more robust than in past years, implemented an anti-fraud software platform, Pondera, and is working on a comprehensive role-based access procedure to address the known issue of access control oversight when staff move to new positions within the organization.

Mr. Fawley stated that the Finance Committee has confidence in the Finance department leadership and recommended the Committee approve the Moss Adams independent audit report.

The Finance Committee unanimously approved the independent auditor’s report for FY 2018-19.

**3. Review and Approval of Unaudited Monthly Financial Statements and Investment Reports**

**Recommendation:** Review and Approval of Unaudited Monthly Financial Statements and Investment Reports

Skip Bishop, CFO, and Rand Takeuchi, Director, Accounting, reviewed the financial statements for the period ending September 2019. Mr. Bishop discussed the following highlights:

1. September 2019 results produced a margin of $1,519,000 versus a budgeted loss of ($426,000). After removing Strategic Use of Reserves (SUR) activity, the actual margin from operations would be $1,952,000 versus a budgeted margin of $557,000.

   In September, we received $119,868,000 in Directed Payments funding related to FY17-18. The FY19-20 budget projected Directed Payments funding of $74,201,000. For FY19-20, we projected $148,402,000 in Directed Payments with 50% to be received in September 2019 and 50% to be received in March 2020. The Department of Health Care Services (DHCS), however, staggered the payments differently than expected. SFHP received $45,667,000 more in Directed Payments than expected, which skewed the medical loss ratio (MLR) higher and our administrative expense ratio lower. The payment expected in March will be much lower than anticipated.

   The Directed Payments funds were disbursed to Zuckerberg San Francisco General (ZSFG), UCSF Medical Center and other private hospitals in our network. Per DHCS, health plans are allowed to treat this funding as revenue and medical expense.

**2.** Variances between September actual results and the budget include:

a) A net increase in revenue of $47,277,000 due to:
   i. $45,667,000 more in Directed Payments funding related to FY17-18.
   ii. $1,788,000 more in premium revenue. In September, DHCS informed SFHP that FY19-20 Medi-Cal rates would be increased by 1.7% effective July 1, 2019. This increase was driven by a population acuity adjustment. The Medi-Cal population has decreased, but utilization has not decreased at the same rate, which indicates a higher acuity of the remaining population. This additional revenue includes the increase related to July and August as well. The 1.7% increase will be an additional $8 million in the fiscal year.
   iii. $92,000 less in Hepatitis C revenue as the result of 47 fewer Hepatitis C treatment weeks.
   iv. $130,000 less in Maternity revenue as the result of 15 fewer maternity events.
   v. $44,000 more in third-party administrative fees which can be attributed to Healthy Kids grant funding.

b) A net increase in medical expense of $45,138,000 due to:
   i. $45,667,000 more in Directed Payments funding related to FY17-18.
   ii. $550,000 less in SUR activity when compared to the budget.
   iii. $234,000 less in pharmacy expense due to lower utilization and fewer Hepatitis C treatment weeks.
   iv. $255,000 more net capitation and fee-for-service expense.

c) A net increase in administrative expense of $182,000. The majority of this variance can be found in:
   i. $79,000 more in Compensation, Benefits and GASB 68 – several open positions were filled sooner than expected.
   ii. $62,000 more in Lease, Insurance and Depreciation – 50 Beale Street common area maintenance (CAM) charges and real estate taxes related to prior periods.
   iii. $81,000 more in Professional Fees and Consulting – Operations ($53,000) and ITS ($28,000) consulting services related to the prior fiscal year.
   iv. $40,000 less in Other Expenses – information technology support costs were slightly less as these costs were budgeted a little heavier in the early months of the fiscal year.

**3.** Below is a chart highlighting the key income statement categories with adjustments for SUR activity in order to show margin from ongoing operations for the month of September.

| CATEGORY | SEP 2019 ACTUAL | SEP 2019 BUDGET | SEP 2019 FAV (UNFAV) | SEP 2019 % FAV (UNFAV) | FYTD 19-20 THRU SEP ACTUAL | FYTD 19-20 THRU SEP BUDGET | FYTD 19-20 THRU SEP FAV (UNFAV) | FYTD 19-20 THRU SEP % FAV (UNFAV) |
|---|---|---|---|---|---|---|---|---|
| REVENUE | $ 169,582,000 | $ 122,306,000 | $ 47,276,000 | 38.7% | $ 265,857,000 | $ 219,061,000 | $ 46,796,000 | 21.4% |
| MEDICAL EXPENSE | $ 163,879,000 | $ 118,741,000 | $ (45,138,000) | -38.0% | $ 250,672,000 | $ 209,790,000 | $ (40,882,000) | -19.5% |
| MLR | 97.1% | 97.7% | | | 95.2% | 96.8% | | |
| ADMINISTRATIVE EXPENSE | $ 4,340,000 | $ 4,158,000 | $ (182,000) | -4.4% | $ 12,694,000 | $ 12,570,000 | $ (124,000) | -1.0% |
| ADMINISTRATIVE RATIO | 2.1% | 2.8% | | | 3.9% | 4.7% | | |
| MARGIN (LOSS) | $ 1,519,000 | $ (426,000) | $ 1,945,000 | | $ 3,118,000 | $ (2,799,000) | $ 5,917,000 | |
| OPERATING ADJUSTMENTS: | | | | | | | | |
| FY15-16 SUR PMTS | $ - | $ - | | | $ - | $ - | | |
| FY16-17 SUR PMTS/ACCRUALS | $ - | $ - | | | $ - | $ - | | |
| FY17-18/CY2018 SUR PAYMENTS/ACCRUALS | $ - | $ - | | | $ - | $ - | | |
| FY18-19 SUR PMTS/ACCRUALS | $ 433,000 | $ 983,000 | | | $ 1,773,000 | $ 6,429,000 | | |
| TOTAL SUR | $ 433,000 | $ 983,000 | | | $ 1,773,000 | $ 6,429,000 | | |
| MARGIN FROM OPERATIONS | $ 1,952,000 | $ 557,000 | $ 1,395,000 | 250.4% | $ 4,891,000 | $ 3,630,000 | $ 1,261,000 | 34.7% |
| MLR W/O SUR PMTS | 96.8% | 96.9% | | | 94.5% | 93.8% | | |

On a year-to-date basis through September and after the removal of SUR activity, SFHP is $1,261,000 above budget on margin. This improvement over budget projections is due to the Medi-Cal rate increase related to the population acuity adjustment as well as greater than expected returns on investments.

- Overall net revenue is above budget by $46,796,000. After removing the impact of Directed Payments, net revenue is still up $1,129,000. We are down 1,582 member months, however, the impact of the 1.7% rate increase for the population acuity adjustment yields a positive margin on revenue.
- Overall medical expense is above budget by $40,882,000. After removing the impact of Directed Payments and SUR activity, medical expense is $129,000 below budget.
- Overall administrative expense is above budget by $124,000. The majority of this increase can be found in additional building costs at the 50 Beale Street location and additional costs for information technology services.

## PROJECTIONS

Financial projections through March 2020:

1. As of September 2019, SFHP has added $2,500,000 to the PIP program related to the FY18-19 Strategic Use of Reserves (SUR) program. A total of $5 million will be added to the CY2019 PIP program for professional providers. The CY2019 PIP actually runs for 18 months, therefore the remaining $2,500,000 will be accrued over the period of October 2019 through June 2020.

2. Effective July 2019, SFHP's Medi-Cal premium rates were increased by a weighted average of 0.8%. In September, DHCS informed SFHP that

premium rates will be increased 1.7% as the result of a population acuity adjustment.  This increase is retroactive to July 2019 and will deliver an additional $8 million in revenue for FY19-20.

3. Hepatitis C reimbursement rates were reduced effective July 2019.  The rate reduction for non-340B Hepatitis C drugs was 30.9% ($1,169 per treatment week) while the rate reduction for drugs purchased under 340B rules was 23.3% ($683 per treatment week).  DHCS has reduced the Hepatitis C rates as lower cost generic drugs continue to enter the marketplace.  SFHP is slightly above break even through September as members have been transitioning to the lower cost generic drugs and pharmacy rebates have increased.

4. Proposition 56 – These are the enhanced payments to medical groups for qualifying physician services.  Utilization at Federally Qualified Health Centers (FQHCs) is excluded.  SFHP continues to make disbursements for FY17-18 as well as FY18-19.

5. The remaining $20 million in Directed Payments funding related to FY17-18 is expected to be received in March 2020.  This funding covers the Enhanced Payment Program (EPP), Quality Incentive Pool (QIP) and Private Hospital Directed Payments (PHDP).

## HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS

### DHCS Medi-Cal Rate Adjustment For July 2019 Through December 2020

In September, DHCS notified Medi-Cal managed care plans that premium rates would increase as the result of implementing a population acuity adjustment retroactive to July 2019.  Although the California Medi-Cal population has been decreasing, utilization has not decreased at the same rate.  This is an indication that healthier individuals have exited the Medi-Cal program leaving behind members who utilize services with greater frequency.

For SFHP, the impact of the population acuity adjustment is a weighted average increase of 1.7%.  This increase will generate approximately $8 million in additional Medi-Cal revenue for FY19-20.

The rates received from DHCS are high-level draft rates.  Rate documents that show the impact of these rate changes at a category of service level are expected in November.  Upon receipt of these documents, SFHP will apply the normal capitation rate calculation methodology to determine potential rate changes by category of aid as well as the overall impact to each provider network.  This analysis will be presented at the Governing Board meeting in January.

DHCS is transitioning from a fiscal rate year to a calendar rate year.  As such, the rates effective July 2019 will remain in place for 18 months, or through

December 2020. Our current practice is to recommend and implement capitation and fee-for-service rate changes January 1st of each year. With the State moving to a calendar rate year, we do not expect to receive rate updates until November which means the earliest the Finance Committee and Governing Board can vote on rate changes would be January for an earliest implementation date of April 1st of each year. We will discuss this in more detail at our January 8, 2020 meeting. Mr. Bishop concluded by stating that while we started the year cautiously, the finances are improving. He further stated, however, that SFHP would continue to monitor expenses carefully.

The Finance Committee unanimously approved the unaudited monthly financial statements and investment reports for forwarding to the full Board for approval.

**4. Review and Approval of Payment of CalPERS Unfunded Liability**

**Recommendation:** SFHP recommends approval to pay the entire projected amount of SFHP's CalPERS pension unfunded accrued liability estimated to be $1,459,218, which is projected forward to June 30, 2020. If approved, payment will be made by November 15, 2019.

Mr. Grgurina reviewed the background with the Finance Committee.

**Background:**

The Government Accounting Standards Board (GASB) Statement number 27 (GASB 27) is in reference to an accounting standard for pension by State and Local Government Employers. It specifies that an employer's fiscal years ending on or after 2015 must accrue for unfunded pension liabilities.

SFHP is a government employer in the CalPERS Miscellaneous Pooled Plans for the defined benefit pension plan known as 2% @ 55 for employees with hire dates prior to January 1, 2013 and 2% @ 62 for employees with hire dates after December 31, 2012.

According to CalPERS, SFHP's projected unfunded accrued liability as of June 30, 2020 would be as follows:

| | |
|---|---|
| • Classic Miscellaneous Plan | $ 739,512 |
| • PEPRA Miscellaneous Plan | $ 719,706 |
| Total unfunded accrued liability | $1,459,218 |

When projecting how future year pension obligations will be met, CalPERS assumed a 7.0% annual rate of return on its investment portfolio. Although CalPERS achieved an 8.6% return for the year ending June 30, 2018, a reduction in the discount rate assumption from 7.25% to 7.0% along with the implementation of a new actuarial valuation software system more than offset the existing surplus and investment gains resulting in an unfunded liability.

This payment will be treated as Prepaid Pension Expense for FY19-20. The Prepaid Pension Expense will be amortized and recorded as an administrative expense during FY 20-21.

CalPERS offers the following options to pay the unfunded accrued liability:

1) Pay it back over a 15-year period with annual interest payments of 7.0% (this is the assumed annual investment rate of return CalPERS is using for all pension funds). This would mean total payments of $2,507,159 (interest payments would be $1.0 million of this total amount).
2) Pay it back over a 10-year period or whatever shortened time period the organization selects.
3) Pay it all back now.

SFHP recommended the Governing Board to pay off the entire amount now. The reasons are:

1) It is financially advantageous to pay the entire amount to avoid the annual 7.0% interest payments (totaling $1.0 million over 15 years) versus keeping the cash in our Liquid Management Portfolio account at a current annual investment return of 1.89%.
2) Because of SFHP's strong financial balance sheet, we currently have the cash to pay off the entire amount now.
3) Paying off the unfunded accrued liability would place SFHP's CalPERS pension funding level at approximately 100% (currently at 98.3%).

CalPERS reported a preliminary 6.7% net return on investments for the 12-month period ending June 30, 2019. The next annual valuation reports are expected to be available in July 2020 at which time CalPERS will provide an update of pension funding levels.

The Finance Committee unanimously approved SFHP to pay the entire projected amount of SFHP's CalPERS pension unfunded accrued liability estimated to be $1,459,218, which is projected forward to June 30, 2020, for forwarding to the full Board for approval.

**5. City National Bank Discussion on Investments and Environment**

This items was for discussion only. No action was required.

Mr. Grgurina introduced Robert Harder, from City National Bank, who was invited to present on the investment landscape. Mr. Grgurina stated that there are cycles of ups and downs, particularly with the state budget. He stated that times are changing again. SFHP will likely experience that expenses and revenues will be closer, with tighter margins. SFHP will likely be entering a period when it will not have strategic use of reserves because it will need to build the reserves with the expected increased level of TNE that will be required in future years due to the carve in of long-term care and potentially dual eligibles. He stated that this period may last four to five years.

The following are highlights from Mr. Harder's presentation. (The full presentation was included in the Finance Committee packet.)

Market and Economy update:
- Low unemployment, lowest since 1968.
- Gross domestic product (GDP) drives economy. The growth in GDP has been a non-inflationary rate of 2%.
- Concerns: trade policy, but some reassessments may be taking place.
- Recession? 10-20% chance (down from 30-40%). Tariffs will determine.
- Inflation is tame.

Outlook
- Slow, but economy is still growing, 1.75% to 2.75%
- Federal policy has been supportive.
- After three federal meetings, the interest rates have been decreased. Tariffs are the issue and are slowing global growth.
- Germany is an issue; where Germany goes, Europe goes. They are experiencing difficulties with exports and its own GDP is an issue. Germany needs stimulation of its economy, but there are significant political issues.
- Things are very difficult in Europe.

Interest Rates
- Federal government appears to be done with rates as interest rates are expected to hold steady in 2020.

Expansion
- U.S. economy has seen an expansion for the past 120 months.
- Anticipate sustainable, but slow growth, 2%.
- There is a low recession risk – now about 10-20% chance.

Fiscal tailwinds
- Business investment is slowing due to unknown tariffs.
- Companies have changed their supply chains due to unknown tariffs and trade issues, which is more expensive.
- This increased cost will keep investments down and will be consumer driven.

Steven Fugaro, MD, asked about the federal debt level. Mr. Harder stated that the debt is a problem, but no one is looking at it. The cost of debt is low; 1.5% is cheap. The 10-year security rate is at 1.8%, which is very low interest. The debt will become a problem when interest rates increase. Janet Yelin, believes we should worry about the debt.

The Finance Committee thanked Mr. Harder for his presentation and insights.

## 6. Semi-Annual Compliance Report

Ms. Maruyama presented the semi-annual compliance report to the Finance Committee. The Committee was provided with a memo that contained the following report.

I. Anti-Fraud Efforts

Training Efforts

On an annual basis, the Compliance Department provides training for all SFHP staff. All employees are required to complete the training course dedicated solely to the identification and reporting of fraud, waste, and abuse. The training course emphasized that it is everyone's responsibility to report any suspicion of possible fraud, waste, abuse and/or misconduct. Topics included the following: 1) definition of fraud, waste and abuse, 2) several examples to assist staff in detecting fraud, waste, and abuse, and 3) how to report fraud, waste, and abuse, including the contact information for the SFHP Officer, Compliance and Regulatory Affairs and the Compliance Hotline. In 2019, 100% of all employees, including temporary employees and contractors, completed the training.

Anti-Fraud Software Vendor

- In August 2019, SFHP implemented the Pondera anti-fraud software. With Pondera, SFHP will be able to review claims, encounter, provider and member data against other databases and identify patterns of fraud, waste and abuse in both the SFHP's claims and encounters.
- SFHP's first steps will be to use the data from the Pondera analyses to improve business processes and implement SFHP system changes, as needed, to improve payment, i.e., prevent overpayment of claims. SFHP will also inform and educate delegated medical groups of its findings so that the medical groups can look for similar improvements needed in their systems.
- SFHP will inform providers about billing practices that may be inappropriate. Decisions to recover payments made for inappropriate billing will be made on a case-by-case basis.
- SFHP will then create short and long-term plans to systematically address potential fraud, waste and abuse issues that may be discovered.
- SFHP's reports from Pondera have just been completed as of mid-October and the SFHP Anti-Fraud workgroup will begin its review of the data and make recommendations for next steps, e.g., configuration changes, provider education, or further investigation, as appropriate.

Suspected Fraud and Abuse Cases

The Compliance Department monitors the SFHP toll-free confidential hotline and the Compliance e-mail in-box for suspected fraud, waste and abuse cases. In 2019, there were no reports of suspected fraud reported via the hotline, but SFHP received a report of a potential breach that also became a potential fraud case regarding PillPak, which is described in the next section regarding breaches.

For several months in 2019, SFHP also worked with the California Department of Justice (CA DOJ) to assist with their confidential investigation of uBiome, a local genetics company. SFHP provided relevant claims and provider data to the CA DOJ per their request. According to the media, the FBI also began investigating uBiome. As of early October 2019, the company filed for bankruptcy and plans to shut down. SFHP identified that its claims configuration correctly denied the majority of claims from uBiome. The claims that were paid appear to have been appropriately paid, but our audit staff are continuing to research these claims.

## II. HIPAA Privacy Updates

<u>Training Efforts</u>

On an annual basis, the Compliance Department provides HIPAA training for all SFHP staff. All employees are required to complete training course on HIPAA privacy and security awareness. The training course reviewed the requirements and restrictions when using or disclosing protected health information (PHI) and best practices. The course also provided training for employees to be aware of social engineering attacks such as phishing attempts and other computer system viruses and threats. In 2019, 100% of all employees, including temporary employees and contractors, completed the training.

<u>Privacy Incidents and Breaches</u>

From the period January 2019 to present, SFHP has not had any direct breaches, but has had the following privacy incidents or breaches by other entities:

1. SFHP was notified on January 22, 2019 of a breach that occurred with Re-Solutions, a division of RSC Insurance Brokerage, Inc.(RSC), who contracts with SFHP as a reinsurance broker. Although reported on January 22nd, the breach occurred on August 23, 2018, when an RSC employee had a password-protected, but unencrypted laptop, stolen while on vacation in Europe. The RSC staff notified the local law enforcement, changed the employee's credentials for access to the RSC systems and initiated an investigation. Approximately 2,000 SFHP members' data were involved. Through RSC's investigation with a cyber security firm, they did not see evidence that the data was viewed, accessed, or misused. This was identified as a breach by RSC, a contracted business associate (BA) per HIPAA, who was then required to notify the impacted members, the federal

Office of Civil Rights and California Attorney General's office. SFHP assisted with the translation of the member notice, but RSC reimbursed SFHP for the translation costs. SFHP also required a corrective action plan from RSC including timely reporting to SFHP of potential breaches and encryption of laptops.

2. On March 11, 2019, during an individual member medication review by an SFHP pharmacist, an SFHP pharmacist noticed that the member had two dozen denied claims from PillPak. The initial concern was this member needed special packaging for their medications. When it was discovered that neither the member nor the provider had any relationship to PillPak (no clinical need for special packaging and no prescription had been sent to Pillpak to fill), SFHP pharmacy staff researched other data submitted by PillPak. Upon determining that PillPak was not a contracted provider, but that it had submitted prescription claims for actual SFHP members and SFHP providers, SFHP pharmacy reported the information to SFHP Compliance Officer on March 15. SFHP Pharmacy reported that PillPak's claims were appropriately denied as out-of-network and without authorizations. SFHP was concerned that PillPak may have obtained access to our members' prescription data that allowed them to attempt to bill claims for SFHP members. SFHP Compliance reported the incident to DHCS as a potential data breach.

   SFHP Compliance Officer further investigated the claims with PillPak and was informed by PillPak that it was submitting the claims as "test claims." The Compliance Officer informed PillPak that submission of "test" claims in SFHP's production system is not only creating inappropriate volume for SFHP's systems and is equivalent to fraudulent billing. The Compliance Officer inquired how PillPak obtained the members' and providers' information, but three attempts to obtain the information went unanswered. SFHP's Pharmacy staff suspected that PillPak was inappropriately accessing a national database to use patient information for billing. SFHP Compliance Officer then reported the case to the CA DOJ on March 21, 2019, as a potential fraud case because the claims submitted to SFHP were either not actual claims or were submitted using a PillPak pharmacist (no longer with PillPak) that had not seen SFHP members. The case also involved a multi-state company, which exceeds the investigation capabilities of SFHP. SFHP's Compliance Officer communicated to DHCS and CA DOJ that it would be happy to help with providing additional information, but that it would refer to their investigative teams for the multi-state case. SFHP also determined that no breach of SFHP systems occurred, so it requested DHCS to close privacy incident report.

   In July 2019, CNBC reported that PillPak was using a prescription database to obtain patient data, confirming SFHP's suspicions. It is further confirmed that Surescripts, the database used, did not authorize the use of the data by PillPak. Surescripts has referred the case to the FBI. As noted earlier, the

CA DOJ was made aware of the case and began an investigation as well. SFHP has not received any updates on the case to date.

SFHP Compliance and Regulatory Affairs will provide the next semi-annual Compliance Report in March 2020.

## 7. Adjourn

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Reece Fawley, Secretary