

December 03, 2025

Kim Johnson, Secretary
California Health and Human Services Agency
1215 O Street
Sacramento, CA 95814

Dear Secretary Kim Johnson,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Managed Health Care submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2025.

Should you have any questions please contact Nichole Eshelman, Deputy Director – Office of Administrative Services , at (916) 217-1439, Nichole.Eshelman@dmhc.ca.gov.

GOVERNANCE

Mission and Strategic Plan

Created by consumer sponsored legislation in 1999, the Department of Managed Health Care (DMHC) regulates health plans under the provisions of the Knox-Keene Health Care Service Plan Act of 1975, as amended (Knox- Keene Act). The Department protects the health care rights of 30.2 million Californians and regulates over 140 health plans.

OUR MISSION

The mission of the Department of Managed Health Care is to ensure health plan members have access to equitable, high-quality, timely, and affordable health care within a stable health care delivery system.

OUR APPROACH

The DMHC accomplishes this important mission by:

- Regulating health plans
- Enforcing California's strong consumer protection laws
- Assisting health plan members

OUR VISION

The DMHC's vision is to improve health care access, quality, and value to empower all Californians to live healthier lives. This vision will be realized when all Californians under the DMHC's jurisdiction can easily access high-quality, affordable health care.

OUR VALUES

The DMHC anchors its organization via a set of six organizational values that serve as the moral and behavioral compass for the organization, guiding decision making, fostering public trust, and ensuring accountability in its regulatory role.

- Diversity, Equity, Inclusion and Belonging: We create a safe space where everyone is seen, heard, and valued.
- Respect: We treat everyone with professionalism and dignity.
- Teamwork: We encourage collaboration, and value creativity and innovation.
- Excellence: We strive for quality in everything we do.
- Integrity: We operate with transparency and fairness.
- Agility and Adaptability: We remain flexible to respond dynamically to change.

OUR STRATEGIC FOCUS

The Department will prioritize investment in the following strategic areas that are necessary to close the gap between the organization's current operational reality and its future vision.

ACCOUNTABILITY

Hold health plans accountable by enforcing the strong consumer protections in the law.

POLICY

Identify, recommend and implement regulatory changes that protect health plan members' rights and support a stable health care delivery system.

PRODUCTIVITY

Leverage technology to enhance information management and drive process modernization.

PEOPLE

Develop the DMHC's capabilities and leaders necessary for the future.

PARTNERSHIP

Adopt a robust communication and outreach practice to encourage collaboration and inform priorities.

The DMHC's Director's Office (DO) provides leadership and direction to DMHC employees. The DO includes members of the Executive Management Team consisting of the Director, Chief Deputy Director, General Counsel, and the Deputy Directors for Communications and Planning, Legislative Affairs, and Health Policy and Stakeholder Relations. To carry out its mission, the DMHC is organized into eight functional Offices, with each led by a Deputy

Director who reports to the Chief Deputy Director and is a member of the Executive Management Team: 1) Administrative Services, 2) Enforcement, 3) Financial Review, 4) Help Center, 5) Legal Services, 6) Plan Licensing, 7) Plan Monitoring, and 8) Technology and Innovation. Lastly, the DMHC administers the operations of the Financial Solvency Standards Board, which is responsible for advising the Director and the DMHC regarding factors affecting the financial stability of the health care delivery system.

Control Environment

It is the policy of the DMHC to comply with the ethical standards required by the Conflict of Interest Code and the Political Reform Act. It is the expectation of the DMHC that employees will promote ethical professional behavior and act in a manner consistent with their public responsibilities, in order to maintain the confidence and trust of the public, regulated entities and co-workers. All new employees must provide an acknowledgement of receipt and understanding of the policy which is placed in the employees' online account in the DMHC Learning Management System, Aspire. Additionally, in compliance with California law, DMHC employees and consultants complete an ethics training course every two years. Employees provide a certificate of completion to the DMHC's Training Office for placement in their Aspire account within six months of hire and every odd numbered year thereafter. All employees in conflict-of-interest positions are required to comply with the Political Reform Act by filing the Fair Political Practice Commission's Form 700 upon assuming office, annually, and upon vacating office.

As stated above, oversight is provided by the Executive Management Team. One of the Executive Management Team's priorities is to help foster a culture of excellence throughout the Department. To assist in achieving this goal, the DMHC equips managers and supervisors with the necessary tools, training, and resources to succeed. This aligns with DMHC efforts to innovate as a high-performing organization that develops, recognizes, and retains talent, while fostering learning, growth, and performance accountability. The Executive Management Team meets at least weekly to discuss departmental operations, policies, and news, thereby ensuring continuous and uniform oversight of the DMHC. Management-level staff meet monthly and more frequently within each of the functional DMHC offices in order to plan operations and execute their office's duties. The DMHC continuously updates its internal policies, procedures, and other manuals or guides in order to ensure all control systems are up-to-date and are capable of guiding DMHC operations at all times.

The DMHC establishes a competent workforce through a thorough recruitment process which begins with clearly delineating staff roles and responsibilities in duty statements. The DMHC enforces the merit-based principle of the civil service by competitively scoring applicants and ensuring an equitable interview process. Every new DMHC employee receives an employee expectation memo on their first day of work which includes information regarding the DMHC's

policies, procedures, and performance expectations. New DMHC employees also attend and participate in a four-hour new employee orientation (NEO) which provides insight into the DMHC, its programs, and the health care industry it regulates. Each hiring manager is responsible for onboarding the new employee by establishing a regular communication schedule and providing the employee with key information including a training plan to ensure proficiency in job tasks and organizational norms, guidelines, policies, and procedures. Managers are also responsible for providing staff regular performance assessments in-person or in writing through job assignments as well as probationary and annual reports. In an effort to sustain and retain employees, the DMHC makes training readily available, provides reasonable accommodations, and rewards staff for their hard work through the Superior Accomplishment, Sustained Superior Accomplishment, and other employee award or recognition programs.

Information and Communication

Effective internal and external communication is crucial to the DMHC's success. Each office within the DMHC has programmatic policies and procedures which can be accessed online on the DMHC's HUB (SharePoint/Home for Unit Business). To help supplement the programmatic policies and procedures, the DMHC has a guiding Departmental Administrative Manual (DAM), which acts as the foundation for all policies and procedures. The DAM can also be found on the DMHC's HUB.

The DMHC uses the following additional information systems:

- Microsoft SharePoint Suite– The DMHC has a fully-developed SharePoint, with each Office having its own SharePoint HUB, with pages and document libraries set up as needed for each unit or project. The SharePoint site is linked to the DMHC Microsoft Office Suite, thereby ensuring a coordinated team environment across all platforms. In addition to email communications through Microsoft Outlook, the DMHC employs Microsoft Teams as a primary application for instant communications, file sharing, and teleconferencing.
- FISCAL – California's statewide accounting, budget, cash management and procurement system.
- Spotlight – All consumer cases handled by the Help Center are recorded in Spotlight which helps inform the DMHC's annual report, surveys, media requests, enforcement actions, as well as identifying trends and much more.
- E-Filing – Health plans and health care entities upload and transmit data and/or documents related to the licensing and registration of risk bearing organizations.
- WASP– An internal workflow system for submitting tickets for requests pertaining to human

resources, information technology, and facilities management.

In an effort to communicate the Department's mission, goals, and strategic direction, the DMHC Director and Chief Deputy Director facilitate biannual all-staff meetings to share both operational and program information as well as discuss issues that impact the Department. Communication within the DMHC is primarily achieved through e-mail, including monthly HUB highlights, as it is the quickest form of communication. Regular on-going updates are also posted on the DMHC's HUB. For issues that require formal written communication, formal memos, policies, and procedures are shared with employees.

External stakeholders receive information regarding the DMHC's objectives through press releases, quarterly stakeholder newsletters, meetings, and social media outreach. The Executive Management Team communicates with health care stakeholders and consumers through speaking engagements and ad hoc meetings throughout the year. The majority of information communicated to external stakeholders is accomplished through the quarterly Health Plan Roundtable and Consumer Advocates meetings. Additionally, the DMHC holds a number of public meetings, including but not limited to the biennial meeting on Large Group Aggregate Rates and Prescription Drug Costs, the quarterly Financial Solvency Standards Board meetings, and meetings regarding the implementation of legislation.

The DMHC takes inefficiencies and inappropriate actions very seriously. The first step a DMHC employee can take is to report inefficiencies and/or inappropriate actions to their respective manager. DMHC employees may also contact the appropriate unit within the Workforce Services Division regarding issues related to Human Resources, Equal Employment Opportunity (EEO), Reasonable Accommodation, and Health and Safety. Employees may file an EEO complaint if they believe their rights protected under state and federal EEO laws and Department policies have been violated. Additionally, external complaints from non-employees and/or employee complaints may be filed directly with the California Department of Fair Employment and Housing and/or the EEO Commission. The DMHC upholds the Political Reform Act and the California Whistleblower Protection Act by encouraging employees to report wrongdoing to the respective oversight entities, the Fair Political Practices Commission, and the California State Auditor.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Department of Managed Health Care monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Nichole Eshelman, Deputy Director – Office of Administrative Services.

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The Executive Management Team holds weekly meetings to discuss issues and key developments within the Department. As internal control issues are identified, they are raised to collectively brainstorm solutions and ensure the impact is fully recognized and mitigated. In addition, the Deputy Directors meet individually with the Director and/or the Chief Deputy Director regularly, affording additional opportunities to elevate internal control issues. The DMHC also holds monthly meetings with management at the Staff Services Manager I (or equivalent) level and above to share information as well as address risks, issues, and concerns.

Lastly, on a bi-monthly basis, the State Leadership Accountability Act Coordinator solicits updates regarding the status of each risk to evaluate the progress of implementation plans. The DMHC is committed to working as efficiently and effectively as possible. Any deficiencies identified during the monitoring process will be immediately addressed and an action plan put in place to mitigate the deficiency. When deficiencies are identified, a subject matter expert (SME) team evaluates the internal control weakness and provides management with alternatives and a recommendation for how to mitigate the risk. Depending on the level of risk, some issues may elevate to the Executive Management Team for discussion and input. The SMEs implement management's preferred strategy, as feasible, depending on the complexity of the issue. Progress is monitored through updates to the Executive Management Team.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of Managed Health Care risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, questionnaires, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

RISKS AND CONTROLS

Risk: Staff—Recruitment, Retention, Staffing Levels

Staff—Recruitment, Retention, Staffing Levels: challenges in filling vacancies or retaining highly qualified staff due to the complex workloads, competing pay, or uncertainty of long term telework plan.

Control: Succession Planning

Continued emphasis on succession planning activities, trainings, and team buildings for staff to mitigate workforce loss. Internal workload/resource matrices and analyses track workload distribution to ensure as much equity within a team's workload distribution as possible. In cases where the DMHC does not have active employment lists, managers are encouraged to work with human resources staff to find available employment lists and/or to create and offer exams to drive new lists as needed. The DMHC continues to engage in mass marketing of job openings. In cases where managers do not believe existing classifications accurately represent workload complexity, managers are encouraged to work with HR to request CalHR consideration of new pay differentials or classifications. Analyzing potential staffing and resource needs in the human resources area. As workload needs are determined, the DMHC will request additional positions and dollars as necessary to address recruitment and outreach efforts.

Risk: Retire PTS and transition fully to Fi\$CAL

Existing legacy systems are outdated and require manual processing to translate the information into the Fi\$CAL Environment. Existing manual spreadsheet tracking and reporting is inefficient, has a high risk of error and utilizes an excess of existing resources (staff time) that could be better redirected to other essential functions. Control should

be changed to allow Fi\$CAL as the single system of use with all manual processes eliminated by automating within Fi\$CAL.

Control: Transition fully to Fi\$CAL

The DMHC is using legacy systems to support functionality lacking within the Fi\$CAL system and manual spreadsheet tracking and reporting strategies to ensure accurate expenditure, encumbrance, and projection data is provided to Program areas, DOF and SCO. Elevating issues to Fi\$CAL staff and requesting additional technical assistance, requesting additional trainings for staff on the Fi\$CAL program, reviewing workflow processes for continual improvement.

Risk: Implementation of Identity and Access Management (IDAM) to mitigate Cybersecurity risks

The DMHC submitted a BCP and obtained approval in the FY 25/26 Governor's budget for planning dollars to support the implementation of DMHC's IDAM project. The DMHC was unable to receive approval for Project dollars in FY26/27. One of the major initiatives of this project was to reduce Security Risk. The current enterprise application ecosystem forces external users to manage multiple accounts across multiple applications. Each of those accounts is a cybersecurity vector point, which creates unnecessary user account vulnerabilities. By consolidating all of these disparate user accounts into a single account for each user, the DMHC significantly reduces these vulnerabilities and enhances overall system security.

Control: Implement an IDAM solution that provides single sign-on capability to external users of DMHC systems.

DMHC has implemented NIST complex password requirements, and multi-factor authentication to mitigate risks across an external user's multiple personas and

associated log ins. This does not mitigate risks brought on by a single user being required to have multiple log ins to DMHC systems.

CONCLUSION

The Department of Managed Health Care strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Mary Watanabe , Director

CC: California Legislature [Senate, Assembly]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency