

December 22, 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 State Department of Health Care Services 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 Wendy Rasmussen, Chief, Internal Audits, at (916) 713-8902, [Wendy.Rasmussen@dhcs.ca.gov](mailto:Wendy.Rasmussen@dhcs.ca.gov).

## **GOVERNANCE**

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### **Mission and Strategic Plan**

The Department of Health Care Services (DHCS) provides equitable access to quality health care, leading to a healthy California for all. Through Medi-Cal, California's Medicaid program, DHCS delivers integrated services across physical, behavioral, and social health domains. Additionally, DHCS administers programs for special populations and several other non-Medi-Cal programs, as well as county-operated community mental health and substance use disorder treatment programs.

Serving approximately 15.2 million Medi-Cal members—over one-third of the state's population—DHCS is the largest health care purchaser in California. The Department's success is built on collaboration with federal, state, county, and community partners, and is supported by an annual budget of approximately \$202.7 billion.

The 2023-2027 DHCS Strategic Plan outlines the Department's goals:

- **Be Person-Centered:** Put people first and design programs and services for whole person care in the community.
- **Increase Meaningful Access:** Ensure individuals get care when, where, and how they need it by strengthening health care coverage, benefits, and provider and service capacity.
- **Achieve Excellence in Health Outcomes:** Improve quality outcomes, reduce health disparities, and transform the delivery system.

- **Be an Employer of Choice:** Attract, develop, and retain a diverse and talented team that is empowered and impactful.
- **Strengthen Operations:** Enhance our organizational structures, processes, and systems to improve program administration.
- **Leverage Data to Improve Outcomes:** Drive better decisions and results with meaningful information.

DHCS is a dynamic department with ambitious goals and a dedicated 5,000-member workforce committed to delivering quality health care to Californians. The 2026-2028 DHCS Workforce and Succession Plan provides a framework to attract, develop, and retain a skilled and diverse workforce capable of meeting California's evolving health care needs.

## **Control Environment**

DHCS has established an internal control environment that promotes integrity, accountability, and operational effectiveness and efficiency. At the foundation lies DHCS' commitment to ethical principles, expressed through its core values—belonging, equity, innovation, stewardship, and sustainability—embedded in the Strategic Plan and reflected in daily operations.

DHCS' Enterprise Governance framework provides structure to set strategic goals and priorities, allocate resources, manage issues and risks, and measure and monitor performance. The framework ensures alignment between objectives and resources, clear delegation of authority and responsibility, and well-defined roles through organizational charts and duty statements. Such a structure reinforces accountability and operational efficiency across the organization.

Oversight responsibilities are carried out by the Directorate, Senior Staff, Executive Staff, and the Office of Compliance, along with external entities such as the United States Department of Health and Human Services' (U.S. HHS) Centers for Medicare & Medicaid Services (CMS) and Office of Inspector General (OIG) as well as the California State Auditor (CSA), all of which assess the Department's operational effectiveness.

To promote ethical behavior, DHCS maintains a Promoting Workplace Integrity portal and requires ethics training for employees designated to file a Statement of Economic Interests (Form 700). Additional required training includes Sexual Harassment and Discrimination Prevention and Information Privacy and Security. Duty statements define employee responsibilities and expectations, reinforcing a culture of integrity.

Administrative policies are documented in the Health Administrative Manual. Enterprise Risk Management ensures adherence to policies and proper functioning of internal control systems through risk identification, mitigation, and performance monitoring.

To support a skilled and ethical workforce, DHCS offers ongoing training and professional development through its Strategic Planning and Workforce Development Division. Training programs and development opportunities equip team members with the knowledge and tools necessary to meet operational and ethical standards.

Accountability is reinforced through performance monitoring, risk assessments, and ethical safeguards. DHCS addresses workload pressures and potential risks proactively, fostering a transparent and compliant work environment.

### **Information and Communication**

DHCS maintains structured processes to collect and communicate relevant, reliable information supporting operational, programmatic, and financial decision-making. Key systems include the Financial Information System for California (FI\$Cal), Medi-Cal Eligibility Data System (MEDS), and Management Information System/Decision Support System (MIS/DSS).

Internal communication flows through daily senior leadership meetings, monthly executive meetings, quarterly supervisor and manager meetings, and an annual Team DHCS Forum as well as all-team member emails as appropriate. Communication tools include direct emails (using Outlook), Microsoft Teams chat, the Pulse intranet, signage, and a weekly electronic newsletter. Communication occurs upward, downward, and laterally among leaders and teams, and across organizational lines.

External engagement includes the DHCS' website, bi-monthly Coverage Ambassador webinars, weekly or ad hoc stakeholder updates, quarterly Stakeholder Advisory Committee (SAC) and Behavioral Health SAC meetings, Medi-Cal Children's Health Advisory Panel (MCHAP), Medi-Cal Member Advisory Committee (MMAC), the Medi-Cal Voices and Visions Council, press releases, earned media, social media, and other standing or ad-hoc forums.

Employees report inefficiencies or inappropriate actions through supervisors or managers, with formal escalation mechanisms available. Processes reinforce transparency and continuous improvement.

### **MONITORING**

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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 State Department of Health Care Services monitoring practices are implemented and functioning. The responsibilities as the executive monitoring

sponsor(s) have been given to: Erika Sperbeck, Chief Deputy Director, Policy and Program Support.

DHCS strengthens internal control monitoring through a structured, multi-layered approach. Program areas track key performance indicators, conduct reconciliations, and hold operational meetings to identify potential issues early. Reviews are conducted by staff who are not involved in daily operations (i.e., Internal Audits) or by external audit entities to ensure objectivity and independence.

Operational outcomes are compared against goals and objectives to detect variances and determine whether corrective actions or process changes are necessary. This comparison supports data-driven decision-making and continuous improvement. Accountability is assigned to address identified vulnerabilities, with responsibilities documented in risk registers and action plans. Clear ownership ensures timely follow-through and transparency.

Progress on corrective actions is tracked through centralized trackers and reviewed by executive leadership. Monitoring efforts focus on reducing vulnerabilities and enhancing the effectiveness of internal controls across DHCS.

The Office of Compliance enhances oversight by standardizing risk tracking, monitoring federal and state program requirements, and addressing deficiencies. The Office of Compliance also monitors federal legislation, regulations, and rules, while the Office of Legislative and Governmental Affairs monitor state legislation that may impact DHCS.

Executives meet regularly to assess enterprise risks and controls and maintain open communication with oversight agencies to ensure compliance. Program areas continuously monitor their operations and outcomes to support accountability and performance.

## **RISK ASSESSMENT PROCESS**

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The following personnel were involved in the State Department of Health Care Services 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, external stakeholders, questionnaires, consideration of potential fraud, performance metrics, and other.

The following criteria were used to rank risks: potential impact to mission/goals/objectives, potential impact of remediation efforts, and other.

## RISKS AND CONTROLS

### Risk: Staffing

DHCS continues to experience staffing reductions and shortages and an over-reliance on key personnel, largely due to ongoing budget challenges and recruitment and retention challenges. Resulting impacts include staff burnout, missed deadlines, and a loss of institutional knowledge.

#### Control: Workforce Stability and Operational Continuity

DHCS implemented a range of internal controls focused on workforce stability and operational continuity. Training and cross-training are prioritized to ensure staff can perform mission-critical functions across teams, and institutional knowledge is being preserved through documentation and knowledge-sharing practices.

### Risk: Funding

Ongoing reductions and uncertainty in federal and state funding due to federal administration policy changes and state General Fund budget shortfalls present significant risks to continued delivery of critical health programs.

#### Control: Regulatory Alignment and Strategic Oversight

DHCS monitors federal guidance and updates policies to ensure compliance. Additionally, DHCS advocates with federal and state oversight entities for policies and resources to sustain its programs. Lastly, DHCS identifies and implements

program and operational efficiencies to ensure the integrity of its programs and the effective and efficient use of its resources.

## **Risk: Complexity of Laws and Regulations**

Due to the complexity and frequent changes in federal and state laws, regulations, and rules, combined with an increasing number of new initiatives, DHCS faces operational strain, potential delays in implementing changes to ensure member access to benefits, and resource challenges.

### **Control: Legal and Regulatory Risk Integration**

DHCS integrates legal and regulatory risk into its enterprise risk management framework. Complexity of laws and regulations is consistently ranked among the Department's top risk categories, and mitigation strategies are updated annually through the SLAA process to reflect emerging challenges and lessons learned.

To address the complexity of legal and regulatory requirements, DHCS emphasizes the importance of proactive legal interpretation and policy guidance. Programs receive regular updates and technical assistance to ensure consistent understanding and application of new laws. Internal Audits and external audit entities assess compliance and identify areas where additional training or clarification is needed.

Cross-program coordination is strengthened to align with oversight partners and ensure timely regulatory deliverables.

## Risk: Technology

DHCS faces persistent technology risks due to outdated systems, limited automation, and insufficient data interoperability and integration. Without modernization, resource constraints increase reliance on manual workarounds, delays in financial reporting, and reduce operational efficiency.

### Control: Enterprise Data Governance and System Modernization

DHCS invests in system upgrades and enhances data governance to support modernization and data use. Legacy systems are integrated with newer technologies to enhance interoperability, with enterprise technology and data teams oversee the organization, security, accessibility, and use of health data across platforms.

Internal timelines are aligned with oversight deadlines, and fiscal and program teams collaborate to ensure timely financial data collection and reconciliation. Enterprise-wide risk tracking and third-party oversight support accurate reporting and operational resilience. Controls are designed to streamline processes, reduce manual interventions, and improve the quality of financial and operational outputs.

## CONCLUSION

The State Department of Health Care Services 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.

**Michelle Baass, 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