

December 30, 2025

Joe Stephenshaw, Director  
California Department of Finance  
915 L Street  
Sacramento, CA 95814

Dear Director Joe Stephenshaw,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the California Health Benefit Exchange 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 Thien Lam, Program Integrity Director, at (916) 228-8600, Thien.Lam@covered.ca.gov.

## **GOVERNANCE**

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### **Mission and Strategic Plan**

The mission of the California Health Benefit Exchange (Covered California) is to increase the number of insured Californians, improve health care quality, lower costs, and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and providers that give them the best value.

Beginning September 2023, Covered California has operated under a three-year strategic plan adopted by its Board of Directors (Board). This plan guides our decisions, priorities, initiatives, and annual budgets. With its adoption, the Board reaffirmed the revised strategic pillars and core values that represent how Covered California will continue to fulfill its mission and deliver on the promise of providing Californians with access to high-quality, affordable health care. As we approach the third year of this strategic plan, leadership is actively working on the next phase to ensure we remain mission-focused and continue serving Californians effectively for years to come.

Covered California focuses its efforts on six strategic pillars within the strategic plan, each with underlying strategic goals that form the foundation for achieving our mission and meeting the evolving needs of Californians.

**Affordable Choices:** We connect consumers to financial assistance and a choice of affordable plans and providers that give them the best value.

*Strategic Goals:*

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- Connect as many Californians as possible to financial assistance to maximize take-up of affordable coverage.
- Ensure that all Californians have robust and meaningful choices and understand their choices of affordable coverage.
- Research, implement improvements, and provide technical assistance to inform the policy dialogue about lowering premiums and out-of-pocket costs for consumers.
- Participate in and reinforce the state's efforts to contain costs.

**Quality Care:** We ensure consumers consistently receive accessible, equitable, high-quality care.

*Strategic Goals:*

- Produce measurable, equitable improvements in health outcomes.
- Hold qualified health plan and qualified dental plan issuers accountable for consistent, standard levels of quality.
- Increase access to and support of high-quality, diverse providers who practice with cultural humility.
- Make demonstrable progress in addressing health disparities and increasing health equity.
- Increase access to and quality of behavioral health care.

**Organizational Excellence:** We foster a nimble culture of continuous improvement that empowers and motivates our team to deliver on our mission with high standards.

*Strategic Goals:*

- Attract, retain, and invest in our team by fostering an inclusive, innovative, and collaborative workplace culture.
- Maintain and enhance Covered California's trusted brand and reputation through transparency, accountability, security, and sustainability.
- Optimize data as meaningful information to drive decision making.
- Incorporate diversity, equity, and inclusion in everything we do.
- Provide employees with the tools, training, and support they need to do their jobs well.

**Reaching Californians:** We are unwavering in our pursuit to reach Californians and connect them to comprehensive and affordable coverage.

*Strategic Goals:*

- Reach all Californians, including those most in need of coverage through a culturally resonant and linguistically appropriate, data-driven approach.
- Strive to enroll and maintain coverage for as many Californians as possible.
- Develop a comprehensive community engagement strategy to enhance our ability to

reach historically marginalized communities and populations statewide.

- Utilize data and technology to customize outreach, facilitate enrollment, and minimize gaps in coverage for Californians.
- Expand efforts to connect California's small business owners and their employees to affordable coverage, either through Covered California for Small Business (CCSB) or the individual marketplace.

**Catalyst for Change:** We pioneer new ideas and disseminate our learnings to drive improvement in health care in California and nationally.

*Strategic Goals:*

- Build and use evidence to empower decision makers and foster innovation in how to deliver affordable coverage and quality care.
- Enhance the way we share the innovative work that Covered California is doing.
- Increase alignment between and amplify the work of partners, including Medi-Cal, the California Public Employees' Retirement System, the California Department of Health Care Access and Information, and the California Department of Managed Health Care to enhance affordability, coverage, quality, and equity.

**Exceptional Service:** We provide the highest level of service and exceed our consumers' expectations.

*Strategic Goals:*

- Provide consumers with a seamless and consistent consumer experience regardless of which channel they use.
- Make the self-service enrollment process as simple as possible and provide a seamless transition to assistance when needed.
- Provide clear and understandable information to assist consumers to apply for, use and maintain coverage, in a culturally resonant and linguistically appropriate way.
- Increase the consistency and efficiency of consumer interactions with Covered California and enrollment partners.

As Covered California looks to the future and builds upon the Affordable Care Act, our strategic plan strives to improve our workplace, our marketplace, our health care system, and our state. Our commitment to diversity, equity, and inclusion runs across all six pillars as the lens we embed in our work. Throughout the six pillars, our consumers remain our North Star. Four central strategies summarize how we aim to improve our consumers' experiences and outcomes:

- **Coverage You Can't Miss:** We will reach Californians where and when they need us, while ensuring historically marginalized and hard-to-reach populations aren't left behind.
- **Coverage That Resonates:** We will construct our efforts for all Californians, deepening our

understanding of the needs of our diverse communities and further tailoring our strategies to meet them.

- **Coverage That's Easy:** We will minimize barriers to coverage by having our system do the work for consumers, rather than consumers having to work for our system.
- **Coverage For California's Future:** We will maximize our levers to achieve hard-fought progress on affordability, cost, quality, and equity.

Covered California's strategic pillars and goals will guide the organization when making decisions, setting priorities, and preparing annual budgets.

## **Control Environment**

Covered California is governed by a five-member Board which provides oversight and strategic guidance for the organization. The Executive Office is composed of the Executive Director and four Chief Deputy Executive Directors. The Chief Deputy Executive Directors oversee Operations; Programs; Equity and Quality Transformation; and, Program Compliance and Accountability. The Executive Office develops organizational strategy (in concert with the Board), provides leadership direction and broad oversight of operations to achieve our mission.

Our control environment is modeled after The Institute of Internal Auditors' Three Lines Model:

- **First Line** - The greatest opportunity to identify risks early. All managers and team members act as risk managers to oversee and monitor the internal controls embedded in their day-to-day operations.
- **Second Line** - Includes Enterprise Risk Management, the Information Security Office, and various Compliance units housed within divisions. These areas monitor, provide expertise, support, and assist with related risk matters in concert with the divisions to support the Executive Office and Senior Leadership.
- **Third Line** - Includes the Office of Audit Services, which provides independent and objective assurance and advisory services to help the divisions reach their goals by testing procedures and providing recommendations to remediate control gaps. This third Line helps assure the Executive Office, Senior Leadership, and the Board that internal controls are in place, working as intended, and are effective.

Each Line works collaboratively on the control environment and risk assurance towards the effective and efficient operations of Covered California and reports risks impactful to our mission and strategic plan to the Executive Office and Board.

Covered California embodies integrity and ethical values through its governance structure and leadership oversight. Leadership takes to heart the mission, vision, strategic plan, and core values of the organization.

### **Our Core Values:**

- **We Value People.** We respect people for who they are and value their contributions. We seek and embrace diverse perspectives. We create an inclusive and welcoming environment for all through behaviors that show empathy and care for others. We empower individual talent to help create positive impacts for consumers, Californians, and their communities.
- **We Work Together.** We create a culture of trust and shared responsibility. We actively seek opportunities to engage and collaborate with our partners and stakeholders. We are transparent in our decision-making and welcome input.
- **We Do the Right Thing.** We operate with the highest degree of honesty, respect, and fairness in everything we do. We take ownership and responsibility for our decisions and hold ourselves and others accountable. We are mindful stewards of the public trust and responsibly manage our resources.
- **We Innovate.** We value curiosity, responsible risk-taking, and enthusiastic pursuit of new ideas even at the risk of failure. We are nimble and unafraid of change. We foster creativity that challenges constraints and drives progress.
- **We Follow Through.** We keep our commitments and do what we say we will do. We are results-driven and focus on outcomes that will deliver the highest value to Californians.

Our core value, "We Do the Right Thing," reflects Covered California's commitment to earn the public's trust through accountability, responsiveness, transparency, speed, agility, reliability, fairness, and cooperation. Leadership demonstrates doing the right thing through integrity and ethics in the work they do and the actions they take. These actions reinforce a positive tone at the top that is infused throughout the organization.

Covered California promotes these values by modeling ethical behavior, encouraging prompt reporting of misconduct, and creating a safe and trusting environment. Managers exemplify and promote principled behavior, reinforcing accountability and integrity. This accountability and action to address concerns reinforces Covered California's commitment to integrity and ethical values. Team members at all levels are encouraged to report potential risks or concerns through various channels. Reporting channels include:

- Forms available on the intranet for reporting harassment, discriminatory action or practices, information security incidents, privacy incidents, fraud and risk or internal control concerns.
- Team members are encouraged to talk with their supervisors or their human resources liaison if they are unsure how to escalate a particular concern.
- Team members can also report issues via email, phone, or Microsoft Teams.

To ensure awareness of ethical responsibilities all Covered California team members and officials must complete the mandated state employee ethics training. Standards of conduct

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are communicated through policies and various communication strategies (e.g., emails, memos, newsletters, performance appraisals, and meetings).

Internal controls are documented and maintained at the organization and division levels. Internal controls are communicated to team members through written policy and procedures, Covered California Training University, enterprise-wide communication through task guides, the intranet, emails, and meetings. Documentation is reviewed and updated in response to legislative and regulatory changes or due to business needs.

Covered California has established an Enterprise Risk Management infrastructure to foster collaboration across all divisions and share knowledge and resources on sound governance, risk, and compliance management principles. This improves operational performance in order to support Covered California's mission and strategies.

The Enterprise Risk Management Unit works to build a risk-intelligent culture by meeting with divisions to discuss current and potential risks, identify gaps or weaknesses in controls, and document internal controls.

The Enterprise Risk Management Unit holds regularly scheduled initiative-specific risk discussion meetings. These meetings welcome all areas of the organization to attend, share their voice, and participate in the decision-making process. Risks are identified, rated on their impact to the organization, likelihood of occurring, and how well the controls mitigate the risk. The risk and controls are then reassessed as the initiative progresses.

The Enterprise Risk Management Unit also proactively reaches out to divisions to offer training and assistance in identifying and documenting potential risks and control gaps. The Enterprise Risk Management Unit engages with risk and control owners to complete risk assessments through our risk collaboration process.

Enterprise-level risks will be brought to the Risk Alliance forum comprised of all Division Directors or their delegates for assessment. This provides a platform for discussing enterprise-wide risks at the leadership level. The Executive Office will receive reports which include risk summaries, risk rating criteria, risk assessments, and mitigation strategies.

All divisions encourage accountability, transparency, effectiveness, efficiency, and risk management by independently reviewing key policies, business areas, and operations to comply with state and federal laws, regulations, and policies. Covered California divisions recognize the importance of compliance and accountability. Examples of program-level accountability include the Service Center's Quality Assurance Program; the Policy, Eligibility and Research Division's (PERD) Eligibility Compliance Unit, which ensures we comply with policies and regulations; the Regulatory Compliance Unit within the Office of Legal Affairs; and, the Data Integrity Section within the Program Integrity Division.

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In addition to program-led accountability, the Enterprise Risk Management Unit works with the divisions to conduct biennial enterprise risk assessments. The enterprise risk assessment enhances accountability and partnerships. The results of the biennial enterprise risk assessment are shared with the Executive Office and Senior Leadership, holding us accountable as an organization.

## **Information and Communication**

Covered California employs many different processes to collect and communicate relevant and reliable information necessary for operational, programmatic, and financial decision-making. We are an evidence-based and data-driven organization. The way in which we collect, validate, and reconcile data ensures that it is reliable and in sync when it is transmitted and stored between multiple systems. We collect data through our systems, as well as consumer focus groups and surveys. Focus groups and surveys provide invaluable qualitative and quantitative data to tell us where we may need to reconsider, adjust, or create new policies. They also help us discover where we can develop and improve operational efficiencies.

Partnership is a core value for Covered California, which is reflected in our five core values: We Value People, We Work Together, We Do the Right Thing, We Innovate, and We Follow Through. Partnership efforts are guided by working with consumers, providers, issuers, employers and other purchasers, government partners, and other stakeholders. As mentioned above, we engage with our consumers and collaborate with the Centers for Medicare and Medicaid Services, Department of Managed Healthcare, Department of Healthcare Services, and Department of Finance. In addition, the Executive Office and Senior Leadership meet regularly with the Board to communicate relevant and reliable information to act on important policies that strive to achieve the organization's mission, core values, and objectives.

We also value the input of many other external partners. The Open Enrollment Kick-Off Meetings are joined by agents, certified enrollers, local, regional and state partners, elected representatives, and other stakeholders. Regularly, Covered California meets with external stakeholders and advocacy groups. Another example of our commitment to partnerships is our weekly calls to qualified health plan issuers. These calls discuss upcoming changes and priorities so that all parties can ask questions. The goal is to plan accordingly for seamless policy and operational changes that impact the consumer. Additionally, we distribute press releases, host webinars, and send emails to communicate information to external parties.

Relevant and reliable information is communicated to team members through various channels. The Executive Office hosts monthly meetings to share program updates. Unit, divisional, and project meetings are normal practice for management and team members to

share information on a timely basis. In these meetings, risks may be discussed, documented, and rated. Team members understand the importance of reporting risks. Risks and controls are regularly assessed at initiative meetings and cross-divisionally during the risk discussion meetings.

Covered California shares information in risk discussion meetings to minimize silos and to assess the impact of changes across the organization. These cross-divisional collaborations ensure understanding and program and priority alignment. The Enterprise Risk Management Unit will also facilitate a Risk Alliance forum to discuss enterprise risks at the Senior Leadership level to ensure all business areas have insight into risks that may impact their area. This forum will allow divisions to be aware of high-level risks and provide their input into how a risk may impact their business area, what controls they may be able to own to help mitigate the risk, and provide their insight into the impact and likelihood of the risk occurring.

As a part of Covered California's commitment to continuous improvement, we are dedicated to nurturing and advancing our risk culture. A risk-intelligent culture is about being aware of the potential challenges we may face and ensuring we have robust strategies in place to manage them effectively. Our ongoing efforts to enhance our risk management process and provide comprehensive training demonstrate our commitment to cultivating a risk-intelligent culture. This commitment is not limited to our risk management Unit but extends to every one of us.

## **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 California Health Benefit Exchange monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Thien Lam, Program Integrity Director.

### **Divisional Roles and Responsibilities**

Covered California requires divisions to maintain internal controls to actively monitor day-to-day operations and identify concerns as they arise. Each division is responsible for documenting and implementing their ongoing monitoring processes as required by the State Leadership Accountability Act. This includes regular reviews, evaluations, and continuous improvements to identify opportunities to strengthen controls. Divisions must ensure their processes comply with internal policies and legal requirements while effectively mitigating risks. To achieve this, divisions monitor their processes to ensure they perform as expected, conducting internal compliance reviews and working with the Enterprise Risk Management Unit when needed. The Enterprise Risk Management Unit can facilitate discussions to identify

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potential gaps in processes and help divisions in developing and implementing controls to mitigate any gaps.

Covered California's commitment to effective monitoring is showcased through various division-level efforts. The Service Center Quality Assurance Unit plays a key role by regularly monitoring consumer calls to ensure accurate information is provided, monitoring training materials to ensure they remain current, and assessing procedures to evaluate the strength of internal controls. Similarly, the Office of Legal Affairs and the PERD Eligibility Compliance Unit monitor relevant legal developments to ensure current processes and procedures comply with rules and regulations. Another example is the Carrier Management, Certification and Contract Branch, which ensures that qualified health and dental plan issuers comply and perform according to their contractual obligations.

Along with day-to-day monitoring, the Program Integrity Division oversees the establishment and processes for monitoring internal controls and evaluating the results. The division includes four key assurance areas to evaluate and monitor our internal controls: California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) Testing and Performance Review Section, Data Integrity Section, Integrated Fraud Management Unit, and the Enterprise Risk Management Unit.

The CalHEERS Testing and Performance Review Section conducts ongoing testing of CalHEERS. CalHEERS is Covered California's real-time online automated eligibility and enrollment system that:

- Serves as the consolidated system support for eligibility, enrollment, and retention for Covered California and Modified Adjusted Gross Income Medi-Cal.
- Streamlines resources from which individuals can research, compare, check their eligibility, and purchase health coverage.

This team conducts ongoing testing of CalHEERS through User Acceptance Testing, Baseline Testing, and Post-Implementation Review to confirm that enhancements and other system changes comply with business rules, design documents, and state and federal regulations. The team also specializes in researching and providing recommendations to internal and external organizations regarding issues identified through testing.

The Data Integrity Section manages, monitors, and reconciles consumer data to verify that qualified health and dental plan issuers have accurate eligibility and enrollment data. This helps consumers access affordable plans and providers that give them the best value.

The Integrated Fraud Management Unit provides early detection for fraud, waste, and abuse. Its efforts help Covered California comply with applicable state and federal laws and regulations regarding fraud management to combat fraud. The Integrated Fraud Management Unit is the central fraud reporting hub for Covered California divisions, external

partners, qualified health and dental plan issuers, and stakeholders. When a complaint is brought to our attention, the team performs a thorough assessment which includes reviewing applications and monitoring agent and qualified plan issuer websites to confirm issues are being addressed. The reviews provide insight that help us continuously improve and streamline our processes to ensure we can remain effective in anticipating and mitigating any attempts at fraud.

### **Office of Audit Services Roles and Responsibilities**

The Office of Audit Services is an independent, assurance business area designed to improve our organization's operations and compliance. The Office of Audit Services helps Covered California accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The biennial risk assessment process helps inform the annual risk-based audit plan process.

### **Enterprise Risk Management Unit Roles and Responsibilities**

The Enterprise Risk Management Unit provides oversight of risk management to ensure effective integration and coordination of all risk management activities. In addition, they provide the organization with education and services to help identify and assess risks and control activities.

The Enterprise Risk Management Unit maintains a risk database which identifies, documents, prioritizes, and tracks all risks. Risk identification, assessment, and reporting are standard practices throughout the organization. As part of the risk assessment process, the Enterprise Risk Management Unit will monitor the risks and controls logged in the database. This activity includes conducting internal reviews of the information and discussing the risks and controls with the owners to ensure the risks are properly described, the controls are valid, and the risk rating criteria for each risk are accurate.

Potential risks and control concerns can be identified in several ways. The Enterprise Risk Management Unit may initiate discussions with divisions or respond to risk or control concerns raised by them. Additionally, Covered California encourages team members to report potential concerns using the risk reporting form on the intranet or by contacting the Enterprise Risk Management Unit directly.

Depending on the concern identified, the Enterprise Risk Management Unit works in concert with the divisions to identify and document the risk(s); inform affected divisions of the risk; and identify controls, assess the risk(s), and set up a monitoring plan. If a risk impacts multiple divisions or is an enterprise risk, additional discussion and review with a larger audience will occur.

The Enterprise Risk Management Unit facilitates enterprise-wide risk assessments, including the biennial enterprise risk assessment process in collaboration with the Executive Office and Senior Leadership. Through two-way communication and risk collaboration, the Enterprise Risk Management Unit promotes transparency, organizational alignment, resource allocation, and partnerships. These collaborations break down silos and create an enterprise-wide view of risks and controls.

The Enterprise Risk Management Unit engages with the organization to promote a risk-intelligent culture, prioritize risk(s), and foster transparency. This occurs through the following actions:

- Regularly scheduled risk discussions involving leadership and any interested team members. The risks and controls to major initiatives are discussed in these meetings.
- Risk collaboration meetings focus on a key risk and include risk and control owners. The group defines the risk, objective, risk statement, root causes, current controls, and the necessary controls to mitigate the risk.
- The Risk Alliance is composed of Division Directors or their delegates and may include their subject matter experts. Enterprise-level risks are brought to this forum for discussion to ensure alignment and prioritization. Newly identified risks or concerns may be raised at this forum to determine the risk and control owners and identify next steps. Risks reviewed through the risk collaboration process may be brought to the forum for additional insight and to confirm that all impacted divisions have been properly identified. This forum promotes transparency and discussion, allowing all divisions to have a voice in sharing their thoughts on how a risk may impact their division and the organization.

Control deficiencies are promptly addressed by prioritizing, measuring, and monitoring them until they are fully remediated. Through various channels, deficiencies are identified and assessed, then prioritized by Risk Alliance members, team members, and management based on their potential impact. The effectiveness of implemented control improvements is measured, and progress is closely monitored until the risk is mitigated and the control is fully implemented. This approach ensures operational effectiveness, regulatory compliance, and most importantly, that Covered California can continue to offer affordable, high-quality health care to Californians.

## **RISK ASSESSMENT PROCESS**

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The following personnel were involved in the California Health Benefit Exchange 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, 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.

The Enterprise Risk Management Unit oversees and monitors Covered California's risk management assessment and reporting process. The risk management process assists all divisions with their risk analysis and evaluation of operations, internal controls, policies and procedures. As part of the risk reporting process, divisional managers must assess each identified risk. The assessment requires consideration of the impact the risk could potentially have on the organization and its strategic plan; likelihood of occurrence; and an evaluation of the current internal controls or mitigation strategies. Enterprise risks are tracked and monitored on an ongoing basis. These risks are reviewed by the Risk Alliance to foster and promote transparency, collaboration, communication, and partnership across all divisions and recommend priorities to the Executive Office.

## RISKS AND CONTROLS

### Risk: Federal Changes – Program Delivery/Operations

The Federal Government enacted policies impacting enrollment and eligibility for health care through H.R.1 of 2025 and the Centers for Medicare & Medicaid Services Final Rule. These new policies create challenges for our program delivery and operations, such as:

- Difficulties delivering on our mission to increase the number of insured Californians, improve health care quality, lower costs, and reduce health disparities.
- Potential for reduced operational efficiency as staff work to adjust systems and processes.
- Increased workloads and uncertainty during these transitions, which may lower employee morale, potentially impacting exceptional service.

**Objective:** To uphold Covered California's mission by delivering effective and efficient programs and operations, while providing exceptional service to our consumers and sustaining team morale.

### **Control: Disseminate Information on Healthcare Affordability Metrics to External Stakeholders**

This control plays a critical role in mitigating risks to program delivery and operations. By influencing federal-level decision-making, maintaining healthcare affordability, and educating consumers, this control supports enrollment and strengthens program stability.

This control relies on reliable and accurate data to assess the impacts of federal changes on healthcare affordability. Covered California analyzes and documents this data to provide actionable insights for external stakeholders, such as policymakers. Sharing data-driven evidence helps inform decisions that prioritize affordability, sustain program operations, and protect consumers.

Covered California leverages this research to emphasize the importance of healthcare affordability by providing technical assistance to policymakers. These efforts may result in legislative or regulatory actions that mitigate risks to program delivery and operations. This ongoing control provides continuous monitoring, assessment, and communication to address affordability challenges.

Multiple divisions collaborate to ensure the reliability, impact, and effective dissemination of the data:

- PERD: Conducts research, analyzes consumer data, and develops affordability metrics. Produces reports such as the Inflation Reduction Act issue briefs and Member Affordability reports, which offer accurate, data-driven insights to inform policymaker decisions and strengthen enrollment and operational strategies.
- Communications and Public Relations: Collaborates with PERD to identify consumers for "Real Stories" that illustrate the impact of federal changes on affordability. Uses data and Real Stories to educate consumers, empower informed decision-making, boost enrollment, and support a healthier risk

pool.

- External Affairs and Community Engagement: Disseminates information and identifies key audiences, such as policymakers or external stakeholders, works with PERD to tailor data for specific groups, and relays stakeholder feedback to them for further analysis and refinement.

This collaborative approach ensures affordability metrics are communicated effectively to external stakeholders. By informing policy decisions, educating consumers, and supporting enrollment efforts, Covered California safeguards program delivery and operational stability while prioritizing healthcare affordability.

### **Control: Design and Implement a State Premium Subsidy Program to Maintain Healthcare Affordability**

The 2026 California Premium Subsidy Program will provide continuity for Covered California's lowest-income enrollees by maintaining the enhanced Premium Tax Credit levels they currently receive under the Inflation Reduction Act. By maintaining affordability, this control helps mitigate the risk to program delivery and operations by preserving Covered California's role as a safety net for vulnerable populations facing coverage loss and uncertainty due to federal changes. This program will enable our most price-sensitive consumers to remain covered, support a balanced risk pool, and strengthen operational stability, ultimately promoting the health and well-being of Californians.

The Program will maintain zero-dollar premium Silver plans for enrollees up to 150% of the Federal Poverty Level and extend subsidies on a sliding scale for those with incomes slightly above this threshold, up to 165%. This program, which PERD oversees, aligns with Covered California's commitment to address health disparities and increase health equity. A key dependency for execution is CalHEERS. Subsidies will be automatically calculated in CalHEERS, allowing consumers to receive subsidies without additional steps or barriers to access.

The Program is estimated to cost \$175 million, which will be funded through the Health Care Affordability Reserve Fund (HCARF). Covered California will operate

the program with a \$190 million budget, providing a buffer against overspending due to the significant uncertainty in projecting enrollment under the unprecedented loss of federal premium assistance. While Covered California cannot fully offset the loss of over \$2 billion in federal funding, the state funds enable new modeling and tradeoffs to allocate subsidies across consumer segments. This funding supports retention among low-income consumers, helping maintain a healthy risk pool and manage annual premium increases for all enrollees. By providing continuity for the most vulnerable Californians, the Program reinforces the stability of program delivery and operations and strengthens Covered California's role as a safety net for populations at risk of losing coverage.

The Program will run for Plan Year 2026 — January 1 through December 31, 2026. While currently only for Plan Year 2026, it is subject to yearly appropriations.

### **Control: Educate and Proactively Outreach to Consumers and Stakeholders**

This control helps mitigate risks to program delivery and operations by improving the consumer experience, minimizing barriers, and maintaining satisfaction. Covered California educates consumers on health coverage options to empower them to utilize their plan. Communications are updated regularly, aligned with enrollment cycles, federal policy changes, and targeted outreach campaigns.

Marketing builds consumer trust and awareness through omnichannel outreach, such as phone, email, and social media, as well as having an “always-on advertising” approach. Outreach focusing on growth and retention, brand-building, and a multicultural approach fosters trust and inclusivity. Efforts to improve accessibility include localized and multicultural outreach and materials in multiple languages.

Covered California ensures program communication remains accurate and timely by coordinating messaging and consumer notices. Key systems used to provide assistance and send notices include CalHEERS and our toll-free Interactive Voice Response system.

Covered California works to reduce consumer barriers, ensuring smoother operations and fewer delays. Service Center Representatives and certified enrollment partners are provided many resources to achieve this, such as:

- Task guides and talking points.
- Training guides, job aids, and enroller toolkits.

External Affairs and Community Engagement distribute information to representatives, government entities, advocates, and community partners via roundtables and direct messaging. This enables stakeholders to address issues effectively. Consistent and clear messaging improves public understanding of eligibility and enrollment changes.

By engaging in the strategies outlined, we aim to educate consumers and enrollment channel partners by helping them navigate the program changes and make the best decision for health coverage. Outreach campaigns (including outbound calls, personalized consumer notices, and Certified Enroller engagement) address consumer concerns, promote plan utilization, and showcase the importance of maintaining coverage.

By providing education and proactive outreach to consumers and enrollment channel partners, Covered California reduces risks of negative experiences and supports effective program delivery.

### **Control: Train and Equip Internal and External Stakeholders for Implementation of Federal Changes**

While this control shares the goal of improving the consumer experience with “Educate and Proactively Outreach to Consumers and Stakeholders,” it focuses on equipping internal teams and enrollment partners with tools, training, and updates necessary to implement federal changes effectively. By ensuring staff

and partners are prepared, this control complements consumer outreach efforts by maintaining readiness and consistent support during times of change.

Covered California mitigates this risk by equipping staff with timely support, structured training updates, and coordinated communication. Training content is updated to maintain accuracy, consistency, and readiness across all consumer-facing teams through collaboration between Covered California Training University; PERD; CalHEERS; Service Center; and, Outreach and Sales.

- **Policy Monitoring and Coordination:** Federal policy changes are monitored to assess operational impact and program areas collaborate to implement system updates and issue Policy Alerts or procedural changes.
- **Training Content Updates:** The CalHEERS Readiness Team provides walkthroughs and documentation ahead of system releases, which are used to update task guides, talking points, and training materials.
- **Cross-Divisional Communication:** Key program areas collaborate to ensure updates are understood. Daily huddles, urgent alerts, and highlighted changes support staff readiness.
- **Enrollment Channel Partner Alignment:** Enrollment partners receive updated guidance, with enroller-specific materials shared via the Enroller Service Center.
- **Toolkits and Webinars for Enrollment Channel Partners:** Toolkits are updated with policy changes related to Renewals, Open Enrollment, and Special Enrollment Periods, while Outreach and Sales teams host webinars to explain system updates and help align enrollment partners with organizational changes.
- **Unified Messaging:** Marketing and external messaging are shared across consumer-facing teams to provide consistent communication and reduce confusion.

This control ensures that training and development teams deliver content and monitor, validate, and incorporate changes into their materials. The emphasis remains on organizational readiness, compliance, and consistent consumer support across all divisions.

### **Risk: Federal Changes – Enrollment Losses**

The Federal Government enacted policies impacting eligibility and enrollment for health care through H.R.1 and the Centers for Medicare & Medicaid Services Final Rules. These new policies and the potential sunset of the enhanced Premium Tax Credits create challenges in sustaining enrollment, such as:

- Affordability challenges due to the loss of enhanced Premium Tax Credits resulting in loss of health insurance for hundreds of thousands of Californians and nearly 1.7 million Californians will be at risk of significant increases to their monthly premium costs.
- Stricter program requirements such as the shortened open enrollment period, verification requirements, limited eligibility criteria, and the end of auto-enrollment is estimated to impact hundreds of thousands of Californians.
- Significant program changes will cause consumer confusion and frustration leading to a poor experience (e.g., misinformation, misunderstanding, and lack of trust).
- Loss of enrollment impacts our mission and financial sustainability due to a reduction in revenue from enrollment losses.

**Objective:** To uphold Covered California's mission to increase the number of insured Californians, reduce health disparities, and maintain financial sustainability.

### **Control: Leverage Analytics to Develop Data-Driven Strategies**

Covered California leverages advanced analytics and predictive modeling to mitigate enrollment risks stemming from federal changes. This control identifies consumers at risk of disenrollment and eligible uninsured populations likely to enroll, supporting targeted retention and acquisition efforts. By analyzing data trends and consumer behaviors, resources are prioritized for households most impacted by federal changes.

PERD plays a key role by developing predictive tools, like the Retention Model. This model analyzes factors, like premium increases, Federal Poverty Level, plan utilization, consumer demographics, and historical data, to predict disenrollment risks. Insights from the model help identify consumer segments, including eligible

uninsured populations, allowing for tailored services and targeted outreach. The Service Center uses this information to conduct proactive outbound calls to households at risk of disenrollment.

Outreach and Sales collaborates with Marketing and PERD to ensure training materials and outreach strategies for enrollment channel partners are data-driven and informed by demographic trends, to help retain members and reach eligible uninsured populations. Marketing designs personalized communications, including enhanced Premium Tax Credit notices and renewal notices, to inform consumers about financial assistance changes, plan options, and the importance of staying insured. Clear, actionable messaging reduces confusion, improves member retention, educates consumers, and empowers them to make informed decisions.

This control operates seasonally, with heightened efforts during renewal periods and federal changes. Predictive models, demographic data, and chatbot analytics are integrated to identify vulnerable populations and tailor outreach. Marketing amplifies these efforts with consumer market research to conduct omnichannel outreach consisting of direct mail, emails, text messages, social media, and advertising. Marketing, along with other divisions, produces personalized notices and targeted campaigns year-round to ensure consumers understand their plan options, utilize their benefits, and recognize the importance of maintaining or acquiring coverage.

By combining analytics, targeted outreach, and personalized communication, Covered California addresses enrollment risks linked to federal changes.

### **Control: Implement Targeted Communication Strategy**

Covered California addresses enrollment losses caused by federal changes through a targeted communications strategy focused on retaining members and attracting eligible uninsured populations. The Retention Model provides a data-driven strategy to deliver coherent and culturally relevant messaging to reduce confusion, educate consumers about affordability and financial

assistance programs, and lower disenrollment rates while attracting new consumers.

Communications and Public Relations develops and shares consumer-facing content via earned channels such as print, broadcast, and social media, emphasizing platforms that reach broad audiences and ethnic communities with in-language preferences. They also craft internal talking points and support the executive office and spokespersons.

Paid, earned, and owned media target retention and acquisition goals featuring the value of health insurance. Marketing designs omnichannel, multicultural campaigns highlighting affordability, plan value, and support through various channels. Using data from consumer research and the Retention Model, Marketing targets those at risk of disenrollment via email, direct mail, and SMS messaging to engage communities in their preferred languages.

Outreach and Sales ensures consistent messaging by equipping enrollment channel partners with updated talking points. Consumer feedback helps refine strategies to address consumer concerns. Partnerships with trusted messengers, community organizations, and other divisions amplify outreach efforts to reach the eligible uninsured population and reinforce the value of maintaining coverage by ensuring messages resonate.

External Affairs and Community Engagement convenes conversations with trusted messengers and sources feedback on how to best promote enrollment directly to underserved Californians.

Service Center representatives receive training to provide personalized support, address consumer concerns, and guide them through the renewal process. They also engage in proactive outreach and emphasize the importance of retaining health insurance coverage.

This strategy is year-round, focusing on renewal and open enrollment periods. Information on affordability and coverage is shared through website updates, social media, and educational materials. CoveredCA.com is regularly updated with consumer-facing information and resources to help them enroll or renew in multiple languages.

## **Control: Support Certified Enrollment Channel Partners with Member Retention and Acquisition**

Covered California mitigates enrollment losses caused by federal changes through a coordinated strategy led by Outreach and Sales, in collaboration with PERD; Communications and Public Relations; and Marketing. This strategy leverages the extensive statewide network of certified enrollers, which includes 14,500+ enrollment channel partners consisting of Agents, Certified Application Counselors, Navigators, and Plan-Based Enrollers. These enrollers play a critical role in supporting consumers within their communities, ensuring personalized assistance and outreach to retain coverage and attract new members.

The Retention Model helps identify members at risk for disenrollment and eligible uninsured populations. It provides certified enrollers with segmented consumer lists that prioritize at-risk populations for outreach. Simulated renewal files containing updated rates and Advance Premium Tax Credit calculations are distributed to enrollers, enabling them to guide consumers in maintaining coverage and selecting cost-effective plans. Enrollers use the Shop and Compare tool to help consumers evaluate cost-effective plans, the Book of Business Report which provides detailed financial assistance information, training materials, talking points, and consumer lists to address individual needs effectively. Workshops, roundtables, and training events keep enrollers informed about policy changes, retention strategies, and consumer acquisition. Feedback loops further improve resources and processes.

The extensive network of enrollers is vital for reaching diverse and underserved communities. Together these 14,500+ enrollers deliver culturally relevant assistance and education, helping consumers navigate renewals and enrollment in health plans. Communications and Public Relations and Marketing provide multilingual and culturally relevant materials to support enrollers in their outreach efforts. By integrating feedback and data-driven insights from the Retention Model, Covered California ensures that outreach materials resonate with California's diverse populations.

This control supports spring and fall roundtables, Special Enrollment workshops, Open Enrollment events, and renewal seasons. By equipping enrollment channel partners with tools, training, and culturally relevant materials, Covered California strengthens retention efforts, attracts new consumers, builds trust with underserved populations, and helps mitigate enrollment losses.

### **Control: Monitor Enrollment and Revenue Trends to Sustain Financial Stability**

Covered California mitigates the risk of federal policy changes disrupting enrollment and financial sustainability by ensuring timely access to material information on enrollment, revenue, and financial performance. This integrated control enables leadership to make informed decisions, adjust operations proactively, and preserve mission delivery. By aligning monthly forecasting with quarterly reporting, Covered California is continuously aware of trends and variances that may impact budgetary outcomes.

- **Monthly Enrollment Forecast:** Financial Management produces a monthly rolling forecast that evaluates actual enrollment, compares it to budgeted enrollment, and projects enrollment through the end of the fiscal year, ensuring Covered California is aware of material enrollment changes in a timely manner.
- **Monthly Revenue Forecast:** Financial Management produces a monthly rolling forecast that evaluates actual enrollment and revenue, compares both to budgeted values, investigates significant variances, and revises the forecast through the end of the fiscal year. This provides timely awareness of operational revenue changes and supports operational response.
- **Quarterly Financial Report:** Financial Management produces quarterly financial reports that present actual expenditures and revenues compared to budgeted values. These reports identify important trends in enrollment and revenue that may impact annual revenues and overall budgetary outcomes, enabling timely and informed decision-making.

Monthly rolling forecasts and quarterly financial reports are produced and reviewed on a consistent schedule to support timely identification of trends, variances, and emerging risks.

Financial Management's Forecasting Unit oversees monthly enrollment forecasts. The Chief Financial Officer collaborates with the unit to evaluate actual enrollment and revenues to budgeted values. They also oversee quarterly financial reports comparing actual expenditures and revenues to budgeted values.

Covered California relies on coordinated data inputs and financial monitoring tools to support timely, informed decision making. These systems help identify trends, anticipate external influences, and guide strategic responses that sustain enrollment and financial stability.

### **Control: Ensure Financial Sustainability Through Fiscal Planning and Analysis**

Covered California mitigates the risk of federal changes disrupting enrollment and financial sustainability by producing a long-term fiscal sustainability study at the start of the budget cycle. This study projects the current budget year plus five additional fiscal years. It considers carrier premiums, participation fee rates, operational expenditures, assumptions regarding inflation, staffing changes, premium rate trends, and enrollment changes. Various stress tests assess material risks, such as the expiration of the enhanced Premium Tax Credits, guiding strategies to address vulnerabilities. The study is enhanced through monthly and quarterly forecasts and reports, keeping leadership aware of trends and variances that may impact financial sustainability.

Key components include:

- Monthly Actual Enrollment and Revenue Forecasts: The rolling monthly forecasts update budget assumptions with actual data and adjust projections as needed. The rolling forecast is compared to the budget forecast and material variances are evaluated to prevent fiscal risks.

- Monthly Financial Reports: Summarize operational and capital expenditures to ensure accountability and transparency.
- Quarterly Financial Statements: Evaluates revenues, expenditures, and investigates variances and possible policy changes that may impact financial budgetary outcomes.
- Annual Participation Fee Rate Studies: Covered California conducts an annual study to determine the participation fee rate needed to ensure revenues cover costs for the current budget year plus five additional fiscal years.

This control operates continuously, with monthly, quarterly and annual components ensuring timely adjustments based on enrollment trends and financial performance. Financial Management's Financial Planning and Analysis Unit, the Chief Financial Officer, and Covered California executives oversee and monitor this control.

Covered California relies on accurate enrollment data, fiscal forecasting systems, and collaboration across divisions for this control to function effectively. By integrating long-term planning, stress testing, and real-time monitoring, this control mitigates the impact of federal changes, ensuring Covered California remains financially sustainable while serving Californians.

### **Control: Ensure Financial Stability and Budget Compliance**

Covered California proactively addresses the risks, such as federal changes that may impact enrollment and financial sustainability, through a rigorous financial planning process outlined in its Comprehensive Operating Budget. This budget reflects the organization's commitment to responsible financial management, informed decision-making, and stakeholder participation. Once the budget is developed and approved, Covered California has controls in place to continually monitor and analyze enrollment, revenue, and expenses to adjust the budget as needed to ensure financial sustainability. Allocated funds are tracked to prevent overspending, while assessments and stress tests evaluate financial risks and the impact of enrollment changes.

To mitigate risks, including the potential expiration of the enhanced Premium Tax Credits beyond December 31, 2025, Covered California has established a comprehensive policy framework that ensures financial stability and consistency in budgeting processes. Key policies include:

- Addressing risks related to enrollment declines and operating revenue reductions.
- Establishing expenditure authorization controls and budget timelines for Fiscal Year 2025-2026.
- Formalizing the submission process for Budget Change Proposals using structured templates and guidelines.

Financial Management, under the direction of the Executive Director, collaborates with all divisions to develop the Comprehensive Operating Budget. A detailed calendar outlines tasks, timelines, and responsibilities to receive input from all divisions. The budget is presented to the five-member Board of Directors for approval. Public hearings allow stakeholders to provide feedback, promoting transparency.

Covered California's financial planning incorporates principles from the Government Accounting Standards Board and best practices from leading public finance organizations to promote long-term economic stability. The organization forecasts operating and capital expenses for the current year and the next five fiscal years while maintaining a reserve of at least six months of unassigned funds to protect against financial disruptions.

By emphasizing stability, transparency, and stakeholder involvement, Covered California is well-prepared to navigate uncertainties while continuing to deliver essential services to Californians.

## Risk: Data Privacy, Security, and Sharing

Establishing and maintaining a framework for data privacy, security, and sharing is essential to ensuring the protection of sensitive information and maintaining stakeholder trust. Without such a framework, significant risks may arise, including:

- Non-compliance with privacy policies, regulations, and laws (e.g., legal penalties, financial losses, and reputational harm).
- Inadequate management and protection of data may lead to unauthorized access, use, or disclosure, which can erode consumer and/or stakeholder trust and compromise the organization's mission and operational excellence.
- An unclear structure and lack of accountability result in poorly defined roles and responsibilities, which can lead to inconsistent practices and reliance on ad hoc approaches.
- Insufficient understanding of data privacy, security, and sharing requirements and best practices increases the likelihood of errors and improper data handling, which can further expose data to unauthorized access.

**Objective:** To uphold our mission and maintain organizational excellence and consumer trust by establishing a clear framework and understanding of data privacy, security, and sharing. This will allow for effective management, utilization, and protection of data while complying with applicable privacy policies, regulations, and laws. We aim to safeguard the trust of those we serve and support our commitment to ethical and responsible data practices.

## Control: Comprehensive Data Governance Framework to Improve Data Access, Privacy, and Security Oversight

To mitigate risks for Data Privacy, Security, and Sharing, Covered California is establishing a centralized and structured approach for effective data management and stewardship. This includes developing clear guidelines for data access, use, sharing, validation, storage, and reporting standards, with oversight and accountability provided by a dedicated data governance leader and team. These efforts will address risks, like unauthorized access, inaccurate reporting and non-compliance, while building stakeholder trust.

Covered California is implementing the following measures:

- Leadership and Accountability: A data governance leader has been appointed and data stewards are anticipated to be assigned by Fiscal Year 2025-2026, Quarter 4.
- Data Risk Mitigation: A dedicated team will proactively address potential data governance risks to ensure organizational resilience.
- Governance Framework: Will ensure compliance with all legal requirements.
- Guidelines and Standards: Policies for stewardship, access, sharing, and validation are being developed to reduce risks, like unauthorized access and misinformation, with drafts expected by Fiscal Year 2026-2027.
- Transparency and Trust: Clear guidelines and proper data management will mitigate reputational risks and build stakeholder confidence.

A charter for the Enterprise Data Governance Council is anticipated by Fiscal Year 2025-2026, Quarter 4. Once launched, the council will define new data roles and responsibilities for participants, data producers, and users across the organization.

Action committees will be formed in sub-domains like data privacy and data quality to align policies and procedures with the framework. Change Management will help staff understand their roles and ensure they are equipped to support the new processes.

Implementation requires coordination across business units, technical teams (Legal, Privacy Office, Information Security Office and Information Technology), and leadership including the Chief Data and Insights Officer, Chief Information Officer, Information Security Officer, Privacy Officer, and the Chief Deputy Executive Directors. Implementation is overseen by the Data and Insights Office.

### **Control: Move from Minimum Acceptable Risk Standards for Exchanges (MARS-E) to Acceptable Risk Control for Affordable Care Act, Medicaid & Partner Entities (ARC-AMPE) to Enrich Data Privacy, Security & Sharing**

This control aims to enhance privacy and security measures for consumer Personally Identifiable Information (PII). It focuses on updating policies to restrict data access to necessary users, supporting proper management, utilization, and protection of data. The goal is to comply with privacy regulations, laws, and new federal ARC-AMPE standards. Implementation is anticipated by Fiscal Year 2025-2026, Quarter 4.

The control addresses four key areas: (1) access controls, (2) PII processing and transparency, (3) awareness and training, and (4) acceptable use. These updates align Covered California with new federal standards and improve privacy and security practices.

Proper privacy and security policies help mitigate risks by protecting sensitive data from unauthorized access, misuse, or incidents. Updating policies for the areas listed above supports proper handling of consumer information and reduces the likelihood of privacy and security incidents. Additionally, the transition from MARS-E to ARC-AMPE compliance requires drafting new privacy and security policies to ensure adherence and alignment with applicable regulatory requirements. Regular updates maintain alignment with evolving regulations and organizational needs. Drafting and updating privacy and security policies is a manual process that will be revisited annually.

The Privacy and Security Offices are responsible for implementing and monitoring this control. Organization-wide privacy and security policies and procedures are required to implement these control updates. External factors that may impact this control include changes to relevant federal or state privacy and security laws, regulations, or standards (including ARC-AMPE).

This control is partially implemented. Existing policies are being updated and new policies are in development to enhance privacy and security compliance with ARC-AMPE standards. The draft policies need further refinement, review, and

approval by stakeholders to maintain alignment with organizational goals, federal and state privacy laws, regulations, and ARC-AMPE standards.

Covered California is actively working to finalize these updates and improve its privacy and security landscape in compliance with federal standards.

## **Control: Standardized Data Management and Compliance Framework for Program Contract Managers**

To mitigate risks for Data Privacy, Security, and Sharing, Covered California is committed to providing effective oversight and guidance to third-party contractors, ensuring they manage their data responsibly throughout the contract lifecycle. To achieve this, a standardized framework of procedures and tools will be developed and implemented by Fiscal Year 2026-2027, Quarter 2.

This framework will equip Program Contract Managers with guidance to oversee third-party contractors' compliance with Covered California's data use, retention, and disposal requirements. Establishing consistent practices will help protect sensitive information and support contract compliance.

The framework will include clear contract provisions, compliance checklists, and documented data management procedures in the Program Contract Management Handbook by December 31, 2026. Procedures will be reviewed annually or when data policies are updated. Compliance checklists will be completed during contractor onboarding and reviewed quarterly or during audits to verify adherence to Covered California's standards.

Key responsibilities include:

- Information Security Office, Office of Legal Affairs, Privacy Office, and Information Technology: Collaborate to create a compliance checklist.
- Business Services Branch: Assist in training Program Contract Managers and communicating procedures. Work collaboratively with relevant stakeholders to develop an audit process aimed at ensuring compliance with established procedures and checklists used by Program Contract Managers.
- Program Contract Managers: Implement framework, complete checklists,

and monitor and communicate requirements to third-party contractors.

To support Program Contract Managers, Covered California will establish a repository for policy documentation, including the Covered California Administrative Manual and Program Contract Management Handbook. Training modules will be developed to educate Program Contract Managers on data management and compliance verification. A checklist template will track data use policy adherence.

By providing structured guidance, training, and tools, this framework will empower Program Contract Managers to maintain consistent oversight of third-party contractor compliance, mitigate risks related to data misuse or mismanagement and uphold Covered California's policies throughout the contract lifecycle.

## **CONCLUSION**

The California Health Benefit Exchange 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.

**Jessica Altman, Executive 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