December 30, 2021

Keely Martin Bosler, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Director Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Insurance submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact Catalina Hayes-Bautista, Chief Deputy Commissioner, at (916) 492-3733, catalina.hayes-bautista@insurance.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The California Department of Insurance's (CDI or Department) Strategic Plan guides our efforts to maintain Californians' confidence in the state's insurance regulatory system by reinforcing consumer protections and enhancing internal business processes to better address emerging and future challenges in a dynamic environment. Throughout the pandemic, CDI has demonstrated that it can work to overcome challenges and can continue to provide critical and essential services to all Californians.

For example, since the pandemic, CDI realized more than $2.4 billion (and counting) in consumer cost savings for private passenger automobile and commercial policyholders alone by directing insurance companies to provide premium relief to drivers and businesses due to reduced risk of loss; adopted emergency workers' compensation regulations to reduce pandemic-related costs for businesses; and, outreached to more Californians than ever before. CDI organized a number of informational forums for the public with topics ranging from wildfire prevention and recovery to homeowners' insurance non-renewals and California's FAIR Plan (California's insurer of last resort) to small business insurance resources and economic recovery specific to the pandemic and civil unrest to health care access and insurance fraud prevention. Each of these events was tailored to the specific needs of local communities throughout the state. Additionally, CDI continues to champion legislation that provides new consumer protections in the Insurance Code for wildfire survivors, domestic workers, and working families.

Over the past year, we have also worked to update our Department's Strategic Plan (Plan). The Plan was created through a year-long process, informed by thoughtful, candid input and engagement from all levels of leadership and staff throughout the Department. The Plan outlines a refreshed mission, values, and goals centered around the Department's vision: Insurance Protection for all Californians. Specifically, the Plan serves as our roadmap to facilitate strategic alignment for all staff and identifies areas of strength and opportunities for growth in our work to protect consumers, enhance workforce

development and succession planning, modernize operations, manage risk, and bolster fiscal responsibility.

The Department continues to build on its strong foundation of consumer protection and regulation of the California insurance market. As the state continues to experience climate-intensified natural disasters and other issues that impact the insurance arena – the pandemic, non-renewals for property and casualty risks, wildfire risk scoring models etc. – rate filings have become more complex requiring us to expand our expertise. With these internal and external challenges in mind, we are proactively planning for the future to ensure the Department and staff are able to meet the needs of consumers and the regulated market in real time.

Strategic Plan

CDI is operating under a 2021-2023 Strategic Plan, which is available on the CDI's public website.

Mission

Protect all Californians by fairly regulating the insurance industry to ensure a competitive and sustainable market, investigating fraud, and advocating for change through awareness, public policy, and service.

Vision

Insurance protection for all Californians.

Core Values

Core values embody who we are as an organization, what we believe in, and where we are going. As public servants, we value:

- **Integrity** - We operate ethically and honestly, treating all with dignity and respect.
- **Dedication** - We are committed to fulfilling our mission, advancing our goals, maintaining expertise, and being responsive to Californians.
- **Accountability** - We are empowered to openly communicate, consistently engage in our work, and take responsibility for our actions.
- **Adaptability** - We promote a culture of creativity and problem-solving by valuing new ideas, processes, and technologies to further serve Californians and their needs.
- **Teamwork** - We foster a diverse and inclusive environment to lead, support, motivate, and achieve.

To achieve our mission and vision, CDI has established the following goals and supporting strategies:

Goal 1: Consumer Protection - Empower Californians through education, advocacy, service, regulation, and fraud protection.

- Deliver responsive service and improve the consumer experience through utilization of technological advances such as service automation and expanding self-service options.
- Outreach to the highest number of Californians through engaging digital content and leveraging partnerships with community leaders.
- Conduct risk-focused surveillance through in-house analysis and financial exams of insurers,

and continue to coordinate with other state and federal regulators to best leverage resources and serve Californians.

- Protect consumers by decreasing incidences of fraud.

Goal 2: Workforce Development - Engage and develop employees to maintain a highly skilled and diverse workforce.

- Increase the percentage of employees who have documented procedures and critical tasks to aid in successful knowledge transfer, succession planning, and retention of organizational knowledge.
- Increase engagement through implementation of a new employee recognition program that will increase the number of employees recognized.
- Expand recruitment efforts to engage a skilled and diverse pool of applicants through increased awareness, social media presence, and collaboration with networking platforms by the end of 2022.
- Conduct annual performance appraisals for all employees to provide meaningful professional development opportunities.

Goal 3: Operational Efficiency - Modernize operations for optimal performance and risk management.

- Reduce operational risk through robust utilization of an enterprise risk management system.
- Update, standardize, and align business processes throughout the organization for optimal performance.
- Transform workspaces to increase efficient use of organizational space.

Goal 4: Fiscal Responsibility - Responsibly manage and optimize Department resources and utilize them to further priorities.

- Engage all employees in fiscal responsibility through open communication, financial transparency, and awareness of larger environmental challenges.
- Align resources to the Department's mission and promote budget discipline.
- Use resources wisely and create agility with positions and program structure.
- Acquire and maintain a suite of enterprise-wide services and technology capabilities that optimize staff productivity and are cost-effective.

Control Environment

CDI management is actively involved in maintaining an effective control environment through continuous ongoing monitoring facilitated by its Enterprise Planning Risk and Compliance (EPRC) Office. All levels of CDI management are responsible for ensuring that adequate internal controls are in place within their respective program areas. The business unit managers and process owners (Program Monitors) are CDI's first line of defense, and are tasked with the responsibility to address potential risks as the risk owners.

Any critical items identified are evaluated by Program Monitors and executive leadership for mitigation. CDI's senior executives consult on the highest-level priorities to properly address issues, assign resources, and monitor progress. EPRC evaluates internal control systems on a quarterly basis to ensure risks are adequately addressed. The responsibilities of executive monitoring sponsors are

assigned to the Chief Deputy Commissioner, Senior Deputy Commissioner, and Special Counsel to the Commissioner. Their responsibilities include verifying that CDI internal control monitoring practices are implemented and functioning as intended.

CDI ethics and values are communicated formally through written codes of conduct and policies, staff meetings, memos, etc. and informally during day-to-day operations. Managers are held to a higher standard and are expected to model the behavior. Employees are empowered to report ethical concerns to management or through the CDI and/or State Auditor Whistleblower Program.

CDI aims to maintain a competent workforce through a number of initiatives. The CDI Office of Strategic Planning and the Human Resources Management Division offers opportunities for training and development with classes geared to address core competences for the various classifications. CDI has a succession plan and provides leadership courses to prepare emerging professionals for leadership roles. Management documents policies and procedures to ensure staff have resources to follow.

Information and Communication

CDI's main avenue for risk communication is through the quarterly Enterprise Risk Management (ERM) meetings. The purpose of these meetings is to: communicate the ongoing monitoring process; discuss and document the monitoring and testing of internal controls; and, evaluate progress.

Pertinent departmental topics and concerns are discussed at CDI's weekly executive staff meetings. CDI management then communicates relevant information down and across reporting lines. Information also flows up from staff members to management in staff meetings. Management selects the appropriate methods of internal communication from a range of newsletters, new employee orientation, emails, bulletins, employee training, staff meetings, and the Department's intranet site.

To facilitate communication of reliable information, CDI utilizes committees as part of the governance structure. Among other responsibilities, these committees assist in evaluating and communicating both operational and financial information. For example, they review program requests with significant financial impact, such as major information technology system purchases and projects. Because of collective information and analysis, these committees are able to come up with solutions to complex problems and provide recommendations to leadership.

All information that will be released publicly is vetted by subject matter experts, then reviewed by program leadership, and CDI's Communications Team. Depending on the importance and nature of the information, it may also be reviewed by the Chief Deputy Commissioner, Senior Deputy Commissioner, and/or Special Counsel to the Commissioner. Once information is believed to be accurate, CDI communicates publicly through CDI's external website, social media pages, or other pertinent media. Program specific information that needs to be communicated to external stakeholders may be communicated in person, over the phone, or through email by the designated Program contact.

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 Insurance monitoring practices are implemented and functioning. The

responsibilities as the executive monitoring sponsor(s) have been given to: Catalina Hayes-Bautista, Chief Deputy Commissioner; Michael Martinez, Senior Deputy Commissioner; and Bryant Henley , Special Counsel to the Commissioner.

All levels of CDI management and personnel are empowered to report any internal control deficiencies within their respective program areas. In a more formalized fashion, CDI utilizes designated Branch Monitors who report to their daily organizational hierarchy and to the CDI ongoing Enterprise Risk Management (ERM) process. Through the ERM process, CDI maintains a risk assessment database to document risks and the associated ongoing monitoring. Branch monitors evaluate internal controls to ensure they are functioning as intended. The CDI SLAA agency facilitators assure the ERM database is updated and facilitate quarterly meetings with all branch monitors to review ongoing monitoring efforts.

Depending on the severity and/or likelihood of issues discussed at the quarterly meeting, risks are elevated for resolution. Branch monitors are experienced in discerning the 'due diligence' of impact on business processes and they assist in identifying critical issues. Where possible, critical issues are mitigated immediately. Risks that are considered enterprise-wide may require additional oversight by internal auditors, IT management, and/or the Chief Information Security Officer, senior executive management, and up to and including the Commissioner.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of Insurance 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, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, and potential impact to mission/ goals/objectives.

All personnel levels assist in the identification of risks. CDI Programs are required to:

- Define their business activities and document their business objectives (expectations from the activities). Each activity may have multiple objectives. Each objective may have multiple risks.
- Define regulatory requirements for the activity.
- Identify objective categories: strategic, operational, reporting, and compliance.
- Identify the risk(s) that may prevent the achievement of each objective.
- Assign each risk a value based on the likelihood of occurrence and impact with a numeric evaluation.
- Categorize each risk into a risk strategy; a strategy responding to the risk.
- Identify sufficient internal controls to reduce the risk to an acceptable level and cost for risks that are mitigated or transferred. Each risk may have multiple internal controls.
- Repeat the above process for each risk identified.
- Meet with the Enterprise Planning, Risk, and Compliance Office and discuss accuracy of risk identification, ranking, etc.

RISKS AND CONTROLS

Risk: Workforce and Succession Planning

As with many state departments experiencing high retirement rates and staff turnover, CDI is continually assessing and evaluating how best to keep pace with changing workforce needs and how to continue to recruit and retain qualified staff.

It is critical for CDI to recruit qualified talent and increase knowledge transfer so that the Department is able to maintain continuity of critical business functions, meet core objectives, and achieve its mission.

Control: Workforce Development and Succession Plan

CDI has a current Workforce Development and Succession Plan (Plan) in place. This comprehensive Plan includes workforce development and succession planning strategies to maintain a talented, competent workforce that can meet the critical needs of the Department now and in the future. Initiatives focus on recruitment, engagement, development, and knowledge management practices to ensure employees have the knowledge, skills, and abilities to successfully fill positions when vacancies occur. Employee engagement and development is offered through many programs including traditional skill-building and competency-based training, informal mentoring, cross training, eLearning, networking, workshops, and a Lunchtime Series presentation program (an educational forum to increase organizational awareness and professional development), among other initiatives. The Plan aligns resources with the Department's mission and Strategic Plan and, by strengthening staff, it is essential to the achievement of critical objectives.

Control: Recruitment and Strategic Outreach/Employee Engagement and Retention

CDI implements diverse outreach strategies to increase candidate pools and aid in the recruitment of qualified candidates, especially for hard-to-recruit and hard-to-fill classifications. After hiring, the new employee is supported through an onboarding program and other engagement programs and professional development resources to encourage retention. CDI has a unit dedicated to talent acquisition and engagement that provides CDI employees with:

- Career development services
- Recruitment and outreach strategies
- Employee engagement
- Recognition programs

Control: Staff Development

CDI offers workforce development opportunities including targeted technical skills and competency-based learning to all employees. CDI has a Training Unit that coordinates training for the Department, and another unit focused on training enforcement staff due to the specialized nature of the training required. CDI is actively engaging with management on an ongoing basis to determine training needs for all staff in an effort to enhance the annual training plan and ensure all employees are provided the resources and development to build expertise in their positions and succeed at their duties.

Risk: IT Systems and Webpage

Since the pandemic, CDI has relied more heavily on IT systems. As most employees are teleworking and manual workarounds to troubleshoot IT issues are less available, it is critical for CDI to maintain a reliable and secure IT system such as the two-step verification process. CDI continues to train staff on information security issues such as how to handle personally identifiable information.

If CDI systems and webpages are down or inaccessible, prolonged downtime can impede achieving the Department's mission to protect consumers. This can also be very costly and may affect the Department's productivity and reputation.

Control: Automate System/Webpage Backup

With heavy reliance on electronic means of conducting business due to telework, it is important for systems to be active and operational. Applications and their supporting systems, including the internet website, should be available nearly 100 percent of the time during business hours, with time carved out to allow for systems maintenance, patches, upgrades, and backup. CDI conducts frequent backups. In the event of data loss, data will be available from the previous backup.

Control: Recovery Plan Practice

CDI has recovery plans in place and conducts "table top" exercises to practice steps that will need to be taken in the event of an emergency or potential business interruption.

Control: Change Control

CDI follows a change control process if downtime or inaccessibility is due to systems maintenance, patches, upgrades, and backup, which is unavoidable. If this happens internally, CDI Help Desk is contacted. If it happens externally, CDI Webmaster is contacted. If it relates to the Programs' system on the Department's webpage, the individual Program's contact email is provided. For reasons like disaster (natural or manmade), other major incident that disrupts state, national, or international communication infrastructure, then CDI follows the controls/procedures outlined in the recovery plans in place.

CONCLUSION

The Department of Insurance 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.

Ricardo Lara, Insurance Commissioner

CC: California Legislature [Senate (2), Assembly (1)]
    California State Auditor
    California State Library
    California State Controller
    Director of California Department of Finance
    Secretary of California Government Operations Agency