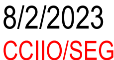
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INDEPENDENT EXTERNAL AUDIT:

2022 AUDIT FINDINGS REPORT

CALIFORNIA

CALIFORNIA HEALTH BENEFIT EXCHANGE

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At-A-Glance Executive Summary

The California Health Benefit Exchange (Covered California) contracted with Sjoberg Evashenk Consulting, Inc., to conduct an independent external programmatic audit for the 2022 Program Year. The scope of this programmatic audit included operational, programmatic, and administrative functions performed pursuant to 45 Code of Federal Regulations (CFR) Part 155. In particular, the audit focused on requirements addressed in subparts C, D, E, and K, as well as Covered California's implementation of relevant American Rescue Plan Act of 2021 (ARPA) provisions, Covered California's Data Warehouse cloud data migration, payments to Small Business agents, the accuracy and reliability of small business enrollments, manual verifications of remote identity verification exceptions, management's oversight of the service center surge contractor, and security controls related to remote access to Covered California networks. In this report, we present eight (8) findings that relate to Covered California's management of its Individual Market and other administrative or supportive programs and functions. Key audit results and recommendations are summarized on the following pages.

2022 EXTERNAL PROGRAMMATIC AUDIT

KEY AUDIT RESULTS

Finding 1. Eligibility Verifications Did Not Always Occur Increasing the Risk that Unqualified Individuals Enrolled, Many Receiving Federal Subsidies

- As of December 31, 2022, for the 2022 Plan Year, almost 189,000 households were conditionally eligible because Covered California was unable to verify the consumer met one or more required eligibility criteria. These potentially ineligible consumers received more than $1.7 billion in advance premium tax credits (APTC), of which at least $35.0 million in APTC was provided to roughly 7,300 consumers whose citizenship or lawful presence was not verified.
- Covered California's uniform application of ROP extensions did not comply with federal regulations, which require that conditionally eligible consumers make a good faith effort, before consumers can receive ROP extensions.
- For 12 of the 30 sampled new and re-enrollments, the consumer had at least one eligibility attribute that was not verified within 95 days of the eligibility determination or at all for the 2022 Plan Year.
- For eight (8) of 15 conditional eligibility cases sampled, conditionally eligible consumers were not verified as required by federal regulations.
- Covered California suspended its process to notify employers when an employee attests that they do not receive employer sponsored minimum essential coverage and receives APTC; as such, some employers were not given the opportunity to appeal and may face penalties and some ineligible consumers may have received federal subsidies.

Finding 2. Manual Verifications of Remote Identity Verification Exceptions Requires Attention

- Two CalHEERS system gaps allowed users to circumvent controls designed to ensure the verification of a person's identity prior to submitting an application through CalHEERS Portal.
- Three (3) households were enrolled prior to completing identity verification.
- Blank or inappropriate documentation was uploaded as proof of identification for 11 cases, and illegible documentation was uploaded for five (5) households, making it difficult to verify the primary contact's information.

Finding 3. Continued Improvements are Needed to Ensure Full Compliance with IRS Form 1095-A Requirements

- Our review of IRS Form 1095-As generated for 15 households found that Covered California generally sent an initial IRS Form 1095-A to the enrollee by January 31, 2023, as required.
- For four (4) of the 15 cases sampled the final IRS Form 1095-A did not align with the invoices sent by the carrier to the customer and for three (3) of these four (4) cases, the Final IRS Form 1095-A did not align with data maintained in the CalHEERS system.
- Regeneration issues were identified for three (3) of the 15 samples.

Finding 4. Special Enrollment Multiple Plan Selection Functionality Does Not Appear to Align with Federal Requirements

- Beginning in the 2022 Plan Year, CalHEERS was updated to allow consumers to make an unlimited number of plan changes during the special enrollment period (SEP) . We find this interpretation to be inconsistent with federal regulation.

Finding 5. Controls Related to Authorizing and Monitoring Remote Access to Covered California's Network Requires Improvement

- Many telework-related cybersecurity best practices were implemented by Covered California, such as developing a Telework Agreement that clearly outlines who is eligible for telework, privacy and security expectations, roles and responsibility, and the process in place to work remotely; and, contracting with an independent security monitoring provider that provides real-time security threat assessments and 24/7 monitoring.
- Remote access granted to contractors and other non-state employees requires greater oversight and immediate action, with at least 92 contractors, consultants, student aids, and Board members having been inappropriately granted access to Covered California's network.
- 22 Covered California employees had remote access, but had not completed a Telework Agreement or Remote Access Agreement.
- Covered California did not retain records necessary to verify the required Acceptable Use Statement was completed by all current employees. In addition, Covered California did not have any records demonstrating contractors completed this form.
- While the majority of Telework Agreements reviewed were completed within 30 days of, or prior to, the effective date, 111 agreements were completed between 31 and 248 days after the effective date. There is no formal policy for when Telework Agreements must be completed.

Finding 6. While Covered California Improved It Oversight of the Individual Market Service Center Surge Contractor, Additional Opportunities for Improvement Remain

- Covered California implemented many strong controls to ensure the Surge Contractor complied with most contract provisions.
- Covered California did not ensure the contractor consistently complied with all information technology and security requirements sampled and has not established formal deadlines for implementing recommendations from an independent security environment audit.
- The Surge Contractor did not always meet bi-lingual staff requirements and total staffing requirements for two of three months reviewed. In those instances, Covered California appropriately applied penalties.
- Covered California was not able to provide written approval for overtime invoiced by the contractor and paid by Covered California, as required by the contract.
- For two of three months reviewed, the bilingual rates charged by the Surge Contractor could not be validated. Prior to June 2022, the contractor was not required to include language information in invoices.

Finding 7. Covered California Implemented Processes and Controls to Ensure Small Business Enrollment Records Are Accurate and Reliable; However, Challenges with Some Carriers Exist

- Covered California implemented several data validation controls for CCSB enrollment information maintained in the NFP Health system, and had processes to reconcile CCSB records with carriers to ensure accurate and reliable enrollment data.
- Carriers did not always implement corrections to resolve discrepancies identified in a timely manner.

Finding 8. Covered California Implemented Strong Controls Over Agent Payments; However, Opportunities for Improvement Exist in Two Areas

- Sampled agent commission payments, totaling more than $10.9 million, tied to underlying reports provided by NFP Health as well as total amounts recorded in Fi$CAL, and Covered California followed processes described to verify the accuracy of reports and ensure amounts paid tied to revenues received
- A formal process to recoup agent commission overpayments has not been established for inactive or decertified agents. Covered California has begun the process of recouping payments, though $24,583 in overpayments still needs to be recovered.
- CCSB system limitations impact Covered California's ability to report out-of-state agent California tax withholdings to the Franchise Tax Board. NFP Health is working to address this system gap and plans to resolve this issue by May 2023.

KEY AUDIT RECOMMENDATIONS

1.1 Covered California should ensure extensions granted to the ROP fully comply with federal regulations.

1.2 Ensure individuals deemed conditionally eligible pending verification of citizenship or, lawful presence, or status as a national are verified by the end of the 95-day ROP.

2.1 Proceed with system changes designed to address gaps in CalHEERS system controls for identity verification.

2.2 Implement a process to validate documentation uploaded as legitimate and valid proof of identification for identity proofing.

3.2 Identify the universe of IRS Forms 1095-As where the total premium and/or total APTC is incorrectly reported and reissue corrected IRS Form 1095-As to impacted consumers.

4.1 Covered California should seek written guidance from CMS for further clarification on the accuracy of its interpretation of 45 CFR 155.420(c)(1).

5.1 Ensure remote access is only granted to those contractors, consultants, and other non-civil service workers that need access to perform their duties, ensure established policies are followed, and required forms completed.

6.1 Ensure all Surge Contractor contract provisions and reporting expectations are enforced.

7.2 Plan Management Division, in collaboration with CCSB, should work with carriers to ensure carriers understand Covered California's expectations for resolving discrepancies identified as part of the CCSB monthly reconciliation process in a timely manner.

8.1 Move forward with it plans to establish and implement a formal policy and process for handling Small Business agent and general agent commission overpayments for inactive agents or general agents.

I. Introduction and Background

Under the federal Patient Protection and Affordable Care Act (ACA), states were given the option to create a state-based health insurance exchange or participate in the federal multi-state health insurance exchange. In 2010, California was the first state to adopt legislation to establish a state-based health insurance exchange. The California Legislature established the California Health Benefit Exchange, also known as Covered California, to "reduce the number of uninsured Californians by creating an organized, transparent marketplace for Californians to purchase affordable, quality health care coverage, to claim available tax credits and cost-sharing subsidies, and to meet the personal responsibility requirements imposed under the federal act."

Then, in 2019, California passed healthcare legislation for a new State Subsidy Program that built upon the ACA. Effective January 1, 2020, California become the first state to offer its residents additional state healthcare subsidies and instituted a Minimum Essential Coverage Individual Mandate (Individual Mandate) that required California residents to enroll in and maintain minimum essential coverage or face penalties when they filed their state income taxes.[1] This legislation introduced an Individual Market Assistance program that provided state advanced premium assistance (state subsidies) for California residents with household incomes at or below 600 percent of the federal poverty level. State subsidies were placed on hold due to the expanded federal subsidies discussed below.

In March 2021, the United States Congress enacted the American Rescue Plan Act of 2021 (ARPA) to provide financial relief to millions of Americans that were adversely impacted by the global coronavirus disease (COVID-19) pandemic. ARPA provided approximately $1.9 trillion to state and local governments, and included provisions for additional financial assistance for customers enrolled in state and federal exchanges. ARPA was set to expire in December 2022.

In August 2022, the United States Congress enacted the Inflation Reduction Act (IRA), which extended the increased financial support initially provided by ARPA through the end of 2025. The IRA also capped health insurance premiums at 8.5 percent of household income, provided free Silver-tier plans for people who earned less than 150 percent of the federal poverty level, and extended financial assistance to middle-income consumers.

Individual Market Enrollment

Since September 2014, Covered California's Individual Market enrollment has increased from more than 1.1 million enrollments to nearly 1.7 million enrollments by September 2022, as shown in Exhibit 1. Similar to prior years, most customers that enrolled in a qualified health plan offered by Covered California received federal subsidies, with nearly 1.5 million subsidized customers as of September 2022, or 89 percent.

[1] Senate Bill 78 (Chapter 38, Statutes 2019), Senate Bill 106 (Chapter 55, Statutes of 2019) 10 CCR §6910 and §6912, allow Covered California to grant exemptions from the Individual Mandate for religious conscience and hardship.

EXHIBIT 1. INDIVIDUAL MARKET ENROLLMENTS

	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18	Sept-19	Sept-20	Sep-21	Sep-22
Total	1,142,420	1,260,750	1,305,450	1,311,170	1,341,940	1,297,200	1,551,470	1,664,940	1,659,410

Source: Covered California Active Member Profiles Sept. 2014-2022.

Notable 2022 Accomplishments

During the 2022 Plan Year, Covered California reported near record-high enrollment in the Individual Market. According to Covered California, the record enrollment and healthy consumer pool were key factors in its ability to negotiate a preliminary rate increase of 1.8 percent in 2022 for the Individual Market. In addition, below is a list of several accomplishments reported by Covered California management:

- The Privacy and Information Security Offices implemented Covered California's newly-formed Data Governance Committee to oversee the internal use and external disclosure of all individually-identifiable consumer records that were used for the Health Evidence Initiative Project.
- The California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS) project team, Covered California Policy, Eligibility, and Research Division (PERD), and Covered California Information Technology Division (CCIT) worked together to successfully implement CalHEERS system changes resulting from ARPA and IRA, completed system enhancements to ensure that the CalHEERS system functioned as intended during Covered California's annual renewal period, and implemented other updates such as, functionality related to Medi-Cal transition auto-enrollment and increases to the reasonable compatibility threshold from 25 percent to 50 percent.
- Covered California began an auto-discontinuance batch process in the second quarter of 2022 for individuals with Incarceration, Deceased, Citizenship, and Lawful presence designations that had not been validated within the reasonably opportunity period. In the third quarter of 2022, Covered California successfully cleared the income inconsistency of over 250,000 consumers. Lastly, Covered California successfully removed subsidies for consumers with unverified Minimum Essential Coverage (MEC) and an expired reasonable opportunity period (ROP) date.

- The Service Center enhanced its escalation process to address concerns raised to Service Center Representatives by creating escalation and supervisor phone queues to support increased first contact resolution.
- The Business Service Branch revised its Procurement and Contracting Manual and its Program Contract Management Handbook, and implemented DocuSign to automate and record the contract approval workflow.

II. Scope and Methodology

The California Health Benefit Exchange, also known as Covered California, commissioned Sjoberg Evashenk Consulting, Inc., to conduct an independent external programmatic audit for the 2022 Program Year. As required by 45 Code of Federal Regulations (CFR) Part 155 and related guidance issued by the Centers for Medicare and Medicaid Services (CMS), the purpose of this independent external audit is to evaluate:

- Program effectiveness and results;
- Compliance with 45 CFR Part 155;
- Program efficiencies, including the extent to which programs duplicate, overlap, or conflict with other related programs; and
- The effectiveness of internal controls designed and implemented by Covered California, including those related to preventing improper eligibility determinations and enrollment transactions.

Scope

The scope of this external programmatic audit included operational, programmatic, and administrative functions performed pursuant to 45 CFR Part 155, specifically, requirements addressed in subpart C (General Functions), subpart D (Eligibility Determinations), subpart E (Enrollment Functions), and subpart K (Certification of Qualified Health Plans). In addition to assessing compliance with the specified subparts, the audit also focused on the following six (6) areas:

- The efficiency and effectiveness of Individual Market eligibility and enrollment processes, including eligibility determinations, participation in an Insurance Affordability Program (IAP)—such as a federal Advanced Premium Tax Credit (APTC) and Cost-sharing Reduction (CSR)—and related reporting requirements, special enrollments, notices and tax forms sent to customers, manual verifications of remote identity verification exceptions, and implementation of new program requirements related to ARPA.
- The effectiveness of the controls and policies established by Covered California to protect personally identifiable information and assess compliance with 45 CFR §155.260. In addition, to assess protocols in place to grant and monitor remote access to Covered California networks and practices in place to oversee Covered California's Telework Program.
- The sufficiency of Covered California's oversight of the Service Center Surge Contractor, and the contractor adheres to contract requirements and meets Covered California's service performance expectations.
- The accuracy and reliability of Covered California for Small Business (CCSB) enrollment records, including data transmissions to and from carriers and processes to reconcile carrier enrollment records to Covered California enrollment records;
- The effectiveness of the controls and policies established by Covered California to ensure accurate and timely Small Business Agent and General Agent commission payments.

- The effectiveness of the controls and processes in place to ensure Data Warehouse data migrated to the new cloud storage platform was accurate and reliable, including use of exception reports, data validation processes, and testing prior to and after the data migration.

Methodology

Sjoberg Evashenk Consulting performed this external programmatic audit in accordance with generally accepted government auditing standards (GAGAS) as promulgated by the United States Comptroller General and applied a variety of audit tasks, tests, and analyses that included those discussed in this section.

Background and Expertise of Sjoberg Evashenk Consulting

Sjoberg Evashenk Consulting was founded in 2000 by former partners Kurt Sjoberg and Marianne Evashenk, the former California State Auditor General and Chief Deputy State Auditor. The firm offers decades of experience conducting programmatic audits in accordance with GAGAS. Since forming Sjoberg Evashenk Consulting, the firm has successfully undergone seven (7) required triennial external peer reviews, the latest as of December 31, 2020; all seven (7) resulted in unqualified opinions with no management letter issues. Sjoberg Evashenk Consulting conducted the federally mandated External Programmatic Audits of Covered California each year from 2014 through 2021. Sjoberg Evashenk Consulting also previously conducted an enterprise-wide risk assessment to assist Covered California management in preparing for its submission of the bi-annual report pursuant to the California State Financial Integrity and State Manager's Accountability Act (now referred to as the State Leadership Accountability Act).

Audit Process and Methodology

To address the audit objectives, we interviewed key Covered California and CalHEERS management and staff to gain an understanding of the roles and responsibilities of key personnel, and the business processes employed to carry out the core functions and responsibilities of the Exchange. We also reviewed general background information, CFR and California Code of Regulations (CCR), prior studies and evaluations of Covered California, policies and procedures, annual reports and performance statistics, organizational charts, annual budgets, CalHEERS business requirements and reports, and control activities for each of the program areas identified in the audit scope of work. In order to observe, test, and evaluate the effectiveness of Covered California's system of internal controls, we further performed the following procedures:

- **Individual Market Eligibility and Enrollment Compliance Testing:** Reviewed Covered California's policies and procedures related to eligibility and enrollment processes and controls and selected a diverse sample of enrollment records to test compliance with established requirements. This included:
    - 15 new enrollments and 15 re-enrollments;
    - 15 conditional eligibility enrollments;
    - 15 Internal Revenue Service (IRS) Form 1095-As issued in 2022 for the 2021 Plan Year;
    - 15 terminations;
    - 20 cases impacted by ARPA; and
    - 50 cases that were alternatively verified due to failure of the remote identify review process.

  For each sample, we assessed compliance with federal and state provisions related to eligibility and enrollment (particularly 45 CFR Part 155, subparts D and E) and internal policies and procedures.

In addition to this sample of enrollments, we selected a sample of 45 enrolled individuals to review and evaluate notifications and communications initiated by CalHEERS to inform the individuals of their enrollment status.

While the audit team reviewed policies surrounding special enrollments for compliance with federal and state regulations, no sample cases were reviewed because Covered California indicated that it had not addressed prior audit findings related to special enrollment processes and did not require customers to provide underlying documentation supporting the reason selected for special enrollment. In addition, the audit team did not review employer notices because Covered California did not send notifications to employers whose employees enrolled in an IAP and reported that they did not receive employer sponsored minimum essential coverage during the 2022 Plan Year.

- **Individual Market Service Center Surge Contractor:** Conducted interviews with key Covered California and TTEC Government Solutions, LLC (Surge Contractor) staff; identified and reviewed Covered California's policies, procedures, and practices related to oversight and management of the contract and contractor performance. Reviewed all contracts between Covered California and Surge Contractor to identify cost and payment provisions, scope of work, performance requirements, and other key contract provisions. Selected a sample of three (3) invoices submitted and paid during the 2022 Plan Year to ensure invoices were mathematically accurate and complied with contract invoice and cost provisions, including allowable rates and services, required performance metrics were met, penalties appropriately calculated and applied, required staffing levels were met, and Covered California pre-approved overtime charges. Selected a sample of six (6) Surge Contractor employees whose hours were billed to Covered California in 2022 to verify hours billed agreed with underlying support. We reviewed exams scores for new hires included in the March and June 2022 hiring waves to ensure the minimum passing score was achieved. Selected a sample of 20 Surge Contractor employees to verify required finger printing and background checks were completed prior to billing time against the contract.
- **Small Business Eligibility and Enrollment:** Conducted interviews with key Covered California, Pinnacle Claims Management Incorporated (Pinnacle), and National Financial Partners Health Service Administrators, LLC (NFP Health) management and staff; identified and reviewed Covered California's policies, procedures, and practices related to the accurate and timely enrollment of plan members; reviewed Small Business membership information for 2022, Covered California's contracts with Pinnacle and NFP Health, and detailed process flows; evaluated monitoring and enforcement efforts and mechanisms utilized by Covered California to ensure regulatory compliance; and assessed alignment of enrollment between Covered California's records and carriers records for a sample of three (3) carriers: Kaiser, Blue Shield of California (Blue Shield), and Health Net. From the discrepancies identified, selected a sample of 60 samples (20 from each of the three carriers) for detailed review and determined root cases for identified discrepancies.
- **Small Business Agent Payments:** Interviewed key Covered California and NFP Health staff to gain an understanding of processes and controls in place and established policies and procedures related to paying Small Business Agents. Reviewed the standard templates for Small Business Agent and General Agent contracts in place during the 2022 Plan Year to identify payment provisions and commission rates. Selected four (4) months, January, March, June, and August 2022, to verify the total payment amount for all agents was mathematically accurate, agreed with the actual amounts paid by the State Controller's

Office (SCO), and tied to underlying reports. From the four months sampled, selected a total of 20 agents to review payment amounts, including 16 in-state agents and four (4) out-of-state agents. For each agent sampled, selected three (3) small businesses to compare commission amounts to related small business invoices and premium payments. Verified the commission amounts paid were mathematically accurate and complied with Covered California policies and procedures and payment provisions in agent contracts. For exceptions identified, conducted further analysis to determine the cause.

- **Plan Management:** Reviewed Plan Management's processes to oversee and manage carrier compliance with contractual and regulatory requirements. Read the model contract used for carriers in 2022 to understand requirements and processes in place to ensure compliance. Verified required carrier reports and information was uploaded to the Covered California website for the 2022 benefit year.
- **Data Warehouse Migration:** Conducted interviews with the CalHEERS project team and various Covered California units involved in the planning, implementation, and validation of the modernization and re-design of the data warehouse to better utilize and leverage Covered California's existing cloud database and reviewed pertinent documentation to determine whether controls were in place to ensure the accuracy, reliability, and availability of data of CalHEERS in cloud storage. Selected a sample of four (4) qualified health plan carriers, including Los Angele Care Health Plan (LA Care), Kaiser, Valley Health Plan (Valley Health), and Bright Health Care (Bright Health), and conducted a comparison of all enrollment records for the four carriers as of October 20, 2022, comparing data reported from CalHEERS to data reported from the data warehouse.
- **Protection of Personally Identifiable Information:** Reviewed Covered California's privacy and security policies and procedures and federal requirements, and identified processes, control requirements, and any reporting requirements; interviewed Covered California staff to identify tools and methods used by Covered California to monitor and ensure its workforce adheres to privacy and security policies and requirements. Reviewed privacy incident reports for remote access related privacy incidents for 2022 relating to Covered California employees, as well as a review of the new security monitoring dashboard. Reviewed protocols in place to manage and monitor remote access to Covered California's network, including reviewing remote work access paths and identifying control points. Identified industry leading practices from the Government Accountability Office, Statewide Information Management Manual, and National Institute of Standards and Technology; such as ensuring there is continuous monitoring of the system for security and privacy incidents, established multi-factor authentication protocols and password security controls, as well as continuous assessment of system and technology needs and updates for continued security. Requested and reviewed a universe of all users with virtual private network access (VPN), including both Covered California employees and contractors, and universe of all active telework user agreements as of October 2022. Compared the entire VPN access universe to the telework agreement universe to identify users that had not completed a telework agreement. Reviewed Covered California's procedures for reconciling and reviewing VPN access, Telework Agreements, Remote Access Agreements, and Acceptable Use Statements and whether that is consistent with Covered California's policies.
- **Prior Audit Follow-up:** Followed-up with Covered California management regarding the status of prior External Programmatic Audit findings and recommendations. Refer to Section VI of this report for a

summary of prior audit findings and recommendations for which management has indicated further corrective action is needed and planned.

Audit fieldwork was performed between August 2022 and February 2023. On March 17, 2023, a draft of this report was provided to management for review and discussion and an Exit Conference was held on March 24, 2023. Responses and feedback provided by management were considered and incorporated where applicable in the final report. Covered California's official response is attached at the end of this report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

III. Glossary of Abbreviations & Acronyms

Abbreviation	Definition
ACA	Patient Protection and Affordable Care Act
AI/AN	American Indian/Alaskan Native
APTC	Advance Premium Tax Credit
ARPA	American Rescue Plan Act of 2021
Blue Shield	Blue Shield of California
CalHEERS	California Healthcare Eligibility, Enrollment, and Retention System
CCIT	Covered California Information Technology Division
CCR	California Code of Regulations
CCSB	Covered California for Small Business
CEW	County Eligibility Worker
CFR	Code of Federal Regulations
CMS	Centers for Medicare and Medicaid Services
Covered California	California Health Benefit Exchange
COVID-19	Corona Virus Disease
CR	Change Request
CSR	Cost-sharing Reduction
ESI	Employer Sponsored Insurance
FARS	Fraud Archive Reporting Service
Fi$CAL	California Statewide Financial System
FMD	Covered California Financial Management Division
FPL	Federal Poverty Limit
FTB	California Franchise Tax Board
FTE	Full-Time Equivalent
FTI	Federal Tax Information
GAGAS	Generally Accepted Government Auditing Standards
GAO	United States Government Accountability Office
GI	Get Insured – enrollment component system of CalHEERS
HBEX	Health Benefit Exchange – eligibility component system of CalHEERS
HRB	Covered California Human Resource Branch
IAP	Insurance Affordability Program
IRA	Inflation Reduction Act

Abbreviation	Definition
IRS	Internal Revenue Service
ISO	Covered California Information Security Office
Kaiser	Kaiser Permanente
LA Care	Los Angeles Care Health Plan
MEC	Minimum Essential Coverage
MEDS	Medi-Cal Eligibility Data System
NFP Health	National Financial Partners Health Service Administrators, LLC
NIST	National Institute of Standards and Technology
Non-ESI	Non-Employer Sponsored Insurance
OSD	Covered California Outreach and Sales Division
PERD	Covered California Policy, Eligibility, and Research Division
PID	Covered California Program Integrity Division
PII	Personally Identifiable Information
Pinnacle	Pinnacle Claims Management Incorporated
QHP	Qualified Health Plan
REM	Covered California Reconciliation of Enrollment and Members
RIDP	Remote Identity Proofing
ROP	Reasonable Opportunity Period
SAWS	California Statewide Automated Welfare System
SCO	California State Controller's Office
SCR	Service Center Representative
SEP	Special Enrollment Period
SIR	Service Investigation Report
SSN	Social Security Number
Surge Contractor	TTEC Government Solutions, LLC
VPN	Virtual Private Network

IV. Audit Findings

This report presents the results from the 2022 External Programmatic Audit, recognizing Covered California's successes, its progress toward addressing prior audit findings and recommendations, and its commitment to continuous improvement. In this report, we present eight (8) findings that relate to Covered California's Individual Market and other operational programs and functions of the Exchange. The first three findings of this report require immediate action from Covered California and pose the greatest risk. The first finding, which is related to eligibility determinations, poses significant risk of not only non-compliance with federal regulations, but the use of public funds for subsidies provided to ineligible consumers. The second finding is related to the process to manually verify consumers for identity, and the risk of inappropriate to private and sensitive information. The third finding is related to compliance with IRS Form 1095-A notices, and the impact the accuracy and timeliness of notices has on consumers.

The remaining five findings pose lower risk and are generally areas where Covered California could further enhance and improve its operations to better ensure compliance with federal regulations, where applicable, and internal policies and procedures. Specifically, we found that special enrollment period (SEP) unlimited plan selection does not appear to align with federal requirements; Covered California implemented many leading practices related to network security, but controls related to remote access require improvement; opportunities exist to provide better oversight of the Individual Market Service Center Surge Contractor; opportunities exist to improve oversight over Agent payments; and Covered California implemented processes to ensure Small Business records are accurate and reliable, though some challenges with carriers exist.

In addition, we reviewed Covered California's implementation of relevant provisions of ARPA, compliance with 45 CFR Part 155 subpart K, Individual Market terminations, accuracy and timeliness of eligibility notices sent to consumers, and processes and controls in place over the data warehouse refresh. Overall, we found Covered California performed well in these areas and complied with relevant requirements. The results for each are discussed below:

Covered California Complied with American Rescue Plan Requirements for Cases Sampled

We tested a sample of 20 enrollments during the 2022 Plan Year to determine if the CalHEERS system appropriately identified and applied new ARPA provisions for IAP eligibility and benefits calculations. Consistent with the ARPA guidance and federal regulation for the revised IAP eligibility and APTC calculation, we found all 20 sampled cases were appropriately deemed eligible for the APTC Federal Poverty Limit (FPL) adjustment and the CalHEERS system correctly calculated the amount of APTC for consumers impacted by the APTC FPL adjustment.

Individual Market Eligibility Notices Were Generally Accurately Generated and Sent to Customers in a Timely Manner

To assess the accuracy and timeliness of notices we reviewed notices generated for 45 cases, including 15 new enrollments, 15 re-enrollments, and 15 enrollments with conditional eligibility. Our review found that the notices were accurately generated and sent to the customer in a timely manner for 44 of the 45 cases reviewed. For one conditional eligibility case tested, we found that while the notices were generated timely,

two notices sent to the consumer reported the wrong ROP due date for the customer to submit the required documentation. This issue is discussed in detail in Finding 1 of this report.

Sampled Terminations Complied with Federal Regulations and Covered California Guidance

Carriers and Covered California generally complied with federal regulations for terminating consumers coverage. Specifically, federal regulations require that carriers must provide consumers that are enrolled in an IAP, such as APTC and CSR, a three-month grace period before terminating health coverage for non-payment. Additionally, Covered California policy requires state-subsidized consumers to also be provided a three-month grace period when notified of non-payment. Federal regulations and Covered California policy require that after the grace period expires, the consumers health coverage should be retroactively terminated to the last day of the first month of the grace period. To assess whether federal regulations and Covered California policies were followed during the 2022 Plan Year, we sampled 15 terminations and found that the appropriate termination date was applied all 15 terminations.

Covered California Complied with Federal Requirements Established in 45 CFR 155 Subpart K

Covered California's Plan Management Division is tasked with improving the cost, quality, and accessibility of the health care delivered to consumers by selecting, negotiating with, and holding Covered California's contracted carriers accountable for delivering quality health care while fostering improvements in care delivery.

To assess whether Covered California implemented sufficient process and controls to oversee carriers, we completed a review of data for the 2021 Plan Year performance reporting that was completed in 2023. Testing included verifying performance reported and verifying methodologies used to calculate performance credits and penalties for the folllowing four performance standard groups agreed with contract provisions:

- Group 1 – Customer Service: 1.1-1.2,
- Group 2 – Operational: 2.1-2.2, and
- Group 3 – Quality, Network Management and Delivery System: 3.1 and 3.2.
- Group 4 – Covered California Performance; Group 1 measures

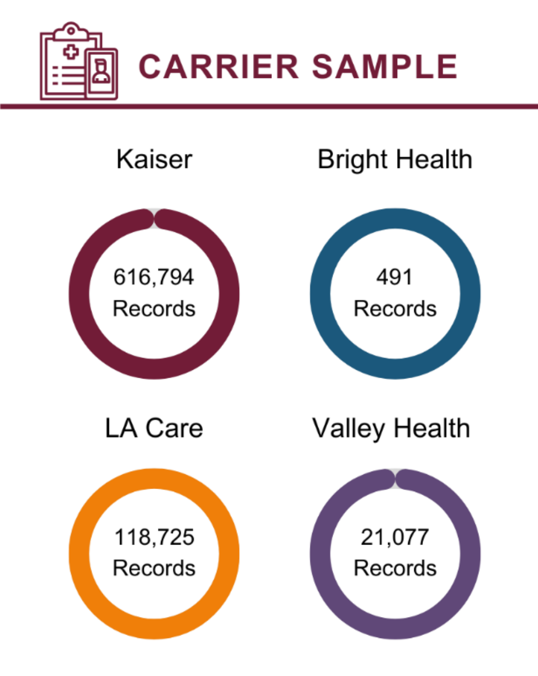
Performance metrics were calculated in accordance with Attachment 14 of the qualified health plan (QHP) contract. Further, penalties and credits were appropriately assessed where applicable. Lastly, we found that Covered California has an adequate system in place to ensure that quality ratings were reported to the public and ratings were posted to the Covered California website for Plan Year 2022.

Covered California Successfully Completed its Data Warehouse Cloud Refresh and Implemented Strong Controls to Ensure the Accuracy and Reliability of Data

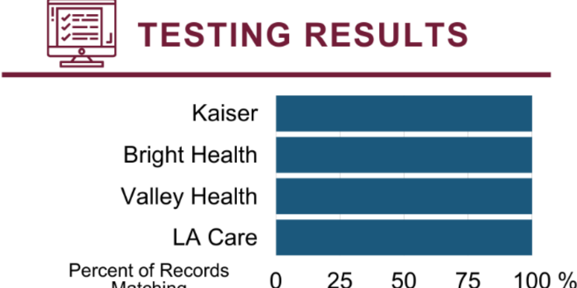
In 2022, Covered California migrated the data warehouse from an Oracle-based platform to a Snowflake platform. Prior to the decommissioning of the Oracle platform, data was pulled to both platforms for a period of three weeks. While the CalHEERS project team owned and managed project, other program areas, including the PERD, Covered California Information Technology Division (CCIT), Program Integrity Division (PID), and the Financial Management Division (FMD) were involved in the process. These program areas

were involved at various points throughout the entire process, providing input and additional oversight, including conducting User Acceptance Testing and performing data validations. To assess controls and processes in placed we conducted interviews with the CalHEERS project team and Covered California stakeholders involved in control and validation roles. Overall, we found that the CalHEERS project team and Covered California's documented and described processed appear to have had appropriate controls in place to detect potential issues and validate the successful transition, ensuring accurate and reliable data was available through the new platform. Moreover, in order to measure the level of synchronicity between CalHEERS and the Data Warehouse, we compared system-generated reports from CalHEERS to system-generated reports from the Data Warehouse for four (4) carriers: Valley Health, LA Care, Kaiser, and Bright Health. Our review identified minor discrepancies (less than 1 percent) between the system-generated extracts that were due to the timing of when the reports were generated, indicating that sampled records were synchronized for all tested attributes and were consistent with the validations conducted by the CalHEERS project team and other program areas. The results of our testing are consistent with the reported validations conducted by the CalHEERS project team and Covered California program areas, suggesting controls in place for the migration and subsequent validation efforts were appropriate. Exhibit 2 summarizes the results of our testing.

EXHIBIT 2. DATA WAREHOUSE CLOUD REFRESH TESTING RESULTS



- Case ID
- Individual ID
- Enrollment ID
- Year of Birth
- Enrollment Year
- Plan Selection Date
- Issuer Name
- Plan Name
- Issuer Plan Number
- Coverage Start Date
- Coverage End Date
- Monthly APTC Amount
- Monthly Gross Premium
- Monthly CSR Amount



Source: Auditor-generated graphic of CalHEERS vs Data Warehouse testing results.

In the following sections, we present eight (8) findings that relate to Covered California's Individual Market and other operational programs and functions of the Exchange.

Finding 1. Eligibility Verifications Did Not Always Occur Increasing the Risk that Ineligible Individuals Enrolled, Many Receiving Federal Subsidies

As of September 2022, there were nearly 1.7 million enrollments in the Individual Market for the 2022 Plan Year, of which 89 percent were subsidized enrollees participating in a Covered California IAP. As of December 31, 2022, for the 2022 Plan Year, 188,459 households were conditionally eligible because Covered California was unable to verify eligibility of a member of the household. While the number of conditionally eligible households decreased by 70,740—from 259,199 households in Plan Year 2021 to 188,459 households in Plan Year 2022, the total APTC received by these households increased by nearly $18.1 million from $1.72 billion to $1.73 billion during the same period—suggesting that while Covered California has done a better job of verifying eligibility, the magnitude of the problem has actually increased.

Further, a subset of this population included households with members who were conditionally eligible for citizenship or lawful presences. Unlike other eligibility attributes, this criterion generally cannot be extended. Specifically, $34.9 million in APTC was provided to more than 7,276 households with members whose citizenship or lawful presence was not verified by Covered California during the 2022 Plan Year, as required.[2] Compared to the 2021 Plan Year, the number of households and total APTC received significantly dropped for households with at least one member still conditionally eligible for citizenship or lawful presence at the conclusion of the 2022 Plan Year—from 20,038 households in Plan Year 2021 receiving roughly $121.4 million in APTC, to 7,276 households in Plan Year 2022 receiving about $34.9 million in APTC, reductions of 12,762 households and $86.5 million, respectively.

In Exhibit 3, we provide a comparison of households with at least one conditionally eligible member and total APTC received as of December 31,2021 to December 31, 2022

EXHIBIT 3. FEDERAL SUBSIDIES PAID TO CONSUMERS DURING THE 2021 AND 2022 PLAN YEARS WITH CONDITIONAL ELIGIBILITY AS OF DECEMBER 31ST

Reason for Conditionally Eligibility[A]	Plan Year 2021		Plan Year 2022		Difference in Households[C]	Difference in Total APTC
	Households[C]	Total APTC	Households[C]	Total APTC		
1 or More Required Eligibility Attributes[B]	259,199	$1,715,517,246	188,459	$1,733,594,844	(70,740)	$18,077,598
Citizenship, Lawful Presence, Status as a National	20,038	$121,421,506	7,276	$34,908,893	(12,762)	($86,512,613)
Citizenship, Lawful Presence, Status as National Percent of Total	7.7%	7.1%	3.9%	2.0%		
Income[D]	198,472	$1,313,593,567	156,430	$1,433,594,844		
Income Percent of Total[D]	76.6%		83.0%			

[2] 45 CFR 155.315(g) states that for an applicant who does not have documentation necessary to demonstrate a good faith effort, due to such documentation not existing or being reasonably available for which the Exchange may resolve the inconsistency, the Exchange may provide an exception through the acceptance of an applicant's attestation, except in the case of inconsistencies related to Citizenship or Immigration Status (Lawful Presence).

Source: Unaudited CalHEERS system-generated reports of all consumers conditionally eligible as of December 31, 2021 and December 31, 2022; and unaudited reports from PERD generated from the Data Warehouse of households conditionally eligible for income only and PERD methodology for estimated total APTC amounts provided to these households as of December 31, 2021 and December 31, 2022.

Notes: [A]Eligibility was not verified through automated or manual verifications.

[B]Includes American Indian/Alaska Native, Citizenship/Lawful Presence, Incarceration, Income, Minimum Essential Coverage, and Social Security

[C]Reports the number of households with at least one member still conditionally eligible at the conclusion of the benefit year.

[D]To determine the number of households and total APTC amount for households only conditionally eligible for income, auditors utilized a key provided by PERD to determine the number of households and estimate the total APTC. While auditors calculated the same number of households as PERD for the 2022 Plan Year, we did not derive the same number of households for the 2021 Plan Year.

According to PERD, a large percent of the households unverified for one or more required eligibility attributes at the conclusion of the Plan Years 2021 and 2022 were households that were only conditionally eligible for income. Based on estimates provided by Covered California, this equated to approximately $1.3 billion in APTC during the 2021 Plan Year, and $1.4 billion in APTC during the 2022 Plan Year being provided to households conditionally eligible for income only.

While Covered California demonstrated some improvements during the 2022 Plan Year towards discontinuing consumers ineligible for Covered California plans and IAP—particularly those with conditional eligibility related to Citizenship, Lawful Presence, or Status as a National, problems persist. Covered California has a fiduciary responsibility to ensure that federal tax dollars provided to consumers participating in IAPs are only provided to eligible individuals that meet the criteria established in state and federal regulations.

Eligibility Criteria is Unambiguous

Federal and state regulations set forth a variety of criteria applicable to all state-based exchanges. These include criteria stipulating who may enroll in a QHP and who may participate in an IAP—including APTC, CSR payments, or other subsidies.

To be qualified for enrollment in a Covered California QHP, an individual must meet requirements specified by federal and state regulations, which state applicants must:[3]

- Be a United States citizen, status as a national, or is a non-citizen who is lawfully present;
- Reside in the service area;
- Not be incarcerated;
- Provide a Social Security Number (SSN).

Under state and federal regulations, an individual is eligible to receive APTC if the individual meets the following requirements:[4]

- Individual meets the eligibility requirements for enrollment in a QHP listed above;

[3] 45 CFR §155.305(a)

[4] 45 CFR §155.305(f) and 10 CCR §6474

- Has a household income between 100 and 400 percent of the federal poverty line, and one or more applicants for whom the tax filer expects to claim a personal exemption deduction on his or her tax return for the Plan Year meets the eligibility requirements for enrollment in a QHP;[5]
- Is not eligible for MEC through employer sponsored insurance (ESI), non-employer sponsored insurance (Non-ESI), Medi-Cal Eligibility Data System (MEDS), or Medicare, and is enrolled in a QHP through the Exchange;
- If the U.S. Department of Health and Human Services notifies the Exchange that APTC payments were made on behalf of the tax filer or their spouse if the tax filer is a married couple for a year for which tax data would be utilized for verification of household income and family size, and the tax filer or his or her spouse did not comply with the requirement to file an income tax return and reconcile the advance payments of the premium tax credit for that period.

An applicant is eligible for CSR if:[6]

- He or she meets the eligibility requirements for enrollment in a QHP listed above,
- Meets the requirements to receive APTC,
- Is expected to have a household income that does not exceed 250 percent of the federal poverty line for the Plan Year in which coverage is requested

For new enrollments, Covered California has an automated process in place for verifications, in which the CalHEERS Portal runs verifications automatically through the Federal Data Services Hub to validate information provided by the consumer on the application for coverage. If any of the required verifications cannot be validated and verified, the consumer is deemed conditionally eligible, and has 95 days to submit supporting documentation.[7]

For re-enrollments, Covered California sends customers an annual redetermination notice between the first day of the month before open enrollment begins and the first day of the open enrollment period.[8] Following this notice, customers have 30 days to report any changes that would affect his or her eligibility. If no changes are reported by the customer, Covered California proceeds with the eligibility redetermination using the information it has on file for the customer, which are known as passive enrollments. According to CFR, Covered California must redetermine the eligibility of a qualified individual on an annual basis.[9]

Federal regulations require state-based exchanges to provide a customer 95-day ROP to verify their eligibility if deemed conditionally eligible, though state-based exchanges may extend this period if certain criteria are met. Specifically:

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[5] The American Rescue Plan Act removed the 400 percent FPL upper-limit for APTC eligibility and established a maximum applicable percentage of 8.5 percent, effectively extending financial assistance to middle-income consumers. The Inflation Reduction Act extended this change to the end of 2025.

[6] 45 CFR §155.305(g)

[7] 45 C.F.R. §155.315(f)(2) and 10 CCR § 6492(a)(2)

[8] 45 C.F.R. §155.410(d)

[9] 45 C.F.R. §155.335(a)

- The “exception for special circumstances” provision in 45 CFR 155.315(g) allows Covered California to provide an exception, on a case-by-case basis, to accept an applicant’s attestation for information that cannot otherwise be verified along with an explanation of circumstances as to why the applicant does not have documentation. This provision cannot be used to extend the ROP for applicants with inconsistencies related to citizenship or immigration status.
- 45 CFR 155.315(f)(3) allows Exchanges to extend the ROP “for an applicant if the applicant demonstrates that a good faith effort has been made to obtain the required documentation during the period.”
- CMS Center for Consumer Information and Insurance Oversight released guidance to all state health benefit exchanges indicating that, for the 2023 Plan Year, CMS will continue to not act on data from the Internal Revenues Service for consumers who failed to file tax returns and reconcile a previous year’s APTC due to the COVID-19 pandemic. In response, Covered California continued to pause system functionality that would disqualify individuals who failed to reconcile premium tax credits when they failed to file their federal income taxes or did not file the federal income taxes from participating in IAP.

Individuals applying for enrollment in a QHP or an IAP must demonstrate compliance within 95 days of their application—known as the ROP. Based on the criteria outlined above, we assessed Covered California’s processes for ensuring eligibility for all QHP and IAP enrollments within the ROP deadline.

Covered California ROP Extensions Did Not Comply with Federal Regulations

While federal regulations either require the applicant to provide evidence of a good faith effort or explanation of why the applicant does not have documentation, Covered California indicated that due to the continued COVID-19 public health emergency, it extended the ROP beyond the required 95-day period established in regulation. Covered California implemented three ROP extensions between October 2021 and June 2022, as shown in Exhibit 4.

EXHIBIT 4. PLAN YEAR 2022 ROP EXTENSIONS ENACTED BY COVERED CALIFORNIA

Date Enacted	Eligibility Attributes with Extended ROP	ROP Extension Due Date
October 2021	• Deceased • Incarceration • Income (Subsidy) • SSN • MEC (ESI, Non-ESI, Medicare, MEDS) • American Indian/Alaskan Native (AI/AN)	April 5, 2022
January 2022	• Income (Subsidy) • Citizenship • Lawful Presence • SSN • MEC (ESI, Non-ESI, Medicare, MEDS)	June 30, 2022

Date Enacted	Eligibility Attributes with Extended ROP	ROP Extension Due Date
June 2022	For mixed households only, applicants with inconsistencies related to: • Income (Subsidy) • Citizenship • Lawful Presence • SSN • MEC (ESI, Non-ESI, Medicare, MEDS)	December 31, 2022

Source: SC.688 22.6 COVID-19 ROP Extensions Talking Points

Pursuant to this, Covered California ceased requiring applicants to demonstrate a good faith effort to provide the required documentation before uniformly extending the ROP, or requiring applicants to provide an explanation of circumstances as to why the applicant did not have documentation.

Although Covered California disagrees with this finding, as discussed in the 2021 External Programmatic Audit, Covered California's blanket ROP extensions do not comply with federal and state regulations. Covered California does not have the authority to issue blanket and indefinite extensions of the ROP. Rather, CFR only authorizes state-based exchanges to extend ROPs under the circumstances described above. In particular, 45 CFR 155.315(f)(3) allows Exchanges to extend the ROP "for an applicant if the applicant demonstrates that a good faith effort has been made to obtain the required documentation during the period." Further, in accordance with 45 CFR 155.315(g), state-based exchanges may accept an applicant's attestation for information that cannot otherwise be verified along with an explanation of circumstances as to why the applicant does not have documentation—except when documentation is necessary to demonstrate citizenship or lawful presence. This provision requires the exception to be applied on a case-by-case basis and requires an explanation of circumstances as to why the applicant does not have documentation.

Coinciding with Covered California's blanket extensions, it issued a Policy Variance Memo that detailed its rationale for extending the ROP for all applicants with eligibility inconsistencies related to the following six eligibility attributes:

1. Income (Subsidy)
2. Incarcerated
3. Deceased
4. SSN
5. MEC (ESI, Non-ESI, MEDS, Medicare)
6. AI/AN

Consistent with federal regulations, Covered California's Variance Memo did not recognize matters of citizenship or lawful presence as valid criteria for extending the ROP. Rather, it was silent on variances related to citizenship and lawful presence:[10] Covered California's practice does not comply with federal regulations, CMS guidance, or its own Variance Memo.

[10] PERD Policy Variance Memo "Plan Year 2022 Temporary Pausing of Data Inconsistency Actions", last revised February 7, 2022.

In addition to noncompliance, this practice increased the risk of unqualified individuals enrolling in a QHP offered through Covered California and inappropriately receiving federal subsidies. As noted previously, as of December 31, 2022, there were 188,459 households with individuals with one or more conditional eligibility attributes that collectively received more than $1.7 billion in federal APTC subsidies during the 2022 plan year, of which 7,276 households had one or more members that were conditionally eligible due to unverified citizenship or lawful presence and received a total of $34.9 million in APTC.

According to Covered California, due to the ongoing Public Health Emergency, Covered California extended the reasonable opportunity period due date for eligibility verifications. Covered California indicated that the more than $1.4 billion in APTC paid to income only conditionally eligible households during the 2022 Plan Year is lower risk because these households should reconcile amounts received when they file their taxes and indicated that, in-line with CMS guidance, Covered California did not act on data from the Internal Revenue Service for consumers who failed to file tax returns and reconcile a previous year's APTC due to the COVID-19 pandemic and allowed consumers that failed to file or failed to reconcile their prior year APTC to proceed with APTC eligibility.

As discussed in the following sections, Covered California's failure to act on income inconsistencies for the purposes of eligibility verification is inconsistent with the language of CFR and CMS guidance on ROP extensions. While Covered California does not believe households that were conditionally eligible for income only should be included in our assessment, there are several significant risks both to consumers and the federal government because Covered California has a fiduciary responsibility for ensuring federal subsidies are only paid to eligible consumers. First, Covered California's decision to not terminate APTC for households conditionally eligible for income could create a significant financial hardship for the consumer if their actual income is greater than reported to Covered California and they reconcile the APTC received when they file their taxes. For consumers where the amount of APTC received exceeds what they are eligible for based on their actual income, these consumers will owe the excess amount back to the federal government. For example, if a two-person household reported an income of $40,000 and received $914.04 per month in APTC, but had an actual income of $60,001 and should have received $664.65 per month in APTC, they would owe approximately $3,000 back to the IRS if the household filed taxes. By not actively redetermining eligibility and terminating APTC for conditionally eligible households that fail to provide supporting documentation or attestation, households such as the example above may be left with sizable tax liabilities after filing taxes. Further, CMS's guidance issued on July 18, 2022 noted that, even though CMS and the state-based exchanges are not to act on discontinuing consumers who failed to file tax returns and reconcile a previous year's tax payments, this does not change the general requirement for taxpayers for whom APTC was paid to file their taxes and reconcile the APTC with the Premium Tax Credit allowed for the year. For households that are conditionally eligible due to income inconsistencies, Covered California's decision to not act on income inconsistencies may result in consumers receiving the short-term benefit of APTC during the Plan Year, while experiencing a delayed hurt of consumers potentially owing back thousands of dollars when later filing their taxes with the IRS. This risk is amplified with a recent change implemented by Covered California during the 2022 Plan Year, that increased the income inconsistency threshold from 25 to 50 percent. As a result, an income inconsistency is only triggered if a household reports an income that is different by more than 50 percent from the income verified by Covered California.

Second, with Covered California not acting on consumers that failed to file or failed to reconcile, there is an increased risk that the funds provided to these consumers that were also conditionally eligible for income, will also not file or reconcile APTC for the 2022 tax year. As a result, the federal government may not receive reimbursements for the excess amounts paid.

Lastly, Covered California has a fiduciary responsibility to ensure that federal subsidies are only provided to eligible consumers. A recent audit report issued by the U.S. Government Accountability Office's (GAO) in March 2023, found that for fiscal year 2021, the delivery of almost $58 billion in APTC among the federally facilitated marketplace and state-based exchanges represented a significant financial commitment for the federal government and risk of improper payments. In a review of five state-based exchanges, the GAO found that California and Colorado continued to provide ROP extensions from the onset of the COVID-19 pandemic in March 2020, and continued this in 2021 and 2022. Notably, the GAO reported that while state-based exchanges have the legal authority to extend the ROP, this is limited to cases that have demonstrated a good faith effort to obtain the required documentation. Moreover, the GAO noted that CMS regulations permit state-based exchanges to provide exceptions, in the form of an individual's attestation on a case-by-case basis, for consumers who cannot reasonably obtain the required documentation for resolve verification inconsistencies. By uniformly extending ROPs in the absence of a good faith effort or consumer attestation, and not terminating coverage and/or IAP for consumers failing to provide supporting documentation, Covered California is neglecting a key control activity meant to detect and prevent fraud. According to the GAO, a key factor in administering APTC effectively and efficiently is enrollment-control activities, which reasonably assure that only qualified individuals receive the premium tax credit any advance payments towards their insurance premiums.

Covered California reported that it had resumed the auto-discontinuance batch in 2022 for certain eligibility attributes, and had conducted a pilot process leading to the clearing of 250,000 consumers income inconsistencies; however, as of December 2022, Covered California had reported that the full income inconsistency verification and auto-discontinuance process would not be turned on until 2023. By not discontinuing coverage or IAP for consumers conditionally eligible for required eligibility attributes, Covered California is in effect providing benefits to households that may be ineligible. Covered California should ensure extensions granted to the ROP fully comply with federal regulations.

Covered California Continued to Not Always Verify Consumers' General and IAP Eligibility

We tested a sample of 30 enrollments (15 new enrollments and 15 re-enrollments) for consumers' general eligibility for a QHP through the Exchange, and eligibility for IAP. As illustrated in Exhibit 5, we found that for 12 of the 30 sampled enrollments, or nearly 40 percent, the consumer had at least one eligibility attribute that Covered California did not verify as required, either within 95 days of the eligibility determination or at all for the 2022 Plan Year.

EXHIBIT 5. INDIVIDUAL MARKET ENROLLMENT ELIGIBILITY VERIFICATION TESTING RESULTS[A]

Unverified Required Data	Not Verified within 95 Days of Eligibility Determination	Not Verified by the End of the Initial Extended ROP (4/5/2022)	Not Verified for the 2022 Benefit Year	Total Sampled Enrollments Not Verified Timely
General Eligibility Verifications				
Citizenship, Lawful Presence, or Status as a National	1	1	0	1 out of 30
SSN	0	0	0	0 out of 30
Incarceration Status	0	0	0	0 out of 30
IAP Required Verifications (30 out of 30 enrollments were enrolled in an IAP)				
Household Income	3	3	5	8 out of 30
MEC through ESI	0	0	0	0 out of 30
MEC through a Non-ESI	1	0	0	1 out of 30
MEC through MEDS	2	1	1	3 out of 30
Medicare	1	1	0	1 out of 30
Total Cases	**7**	**6**	**6**	**12 out of 30**

Source: Auditor-generated from CalHEERS system-generated reports and review of the CalHEERS Portal.

Note: [A]Eligibility was not verified through automated or manual verification.

[B]Covered California allows individuals to attest to California residency; as such, this attribute was not verified.

[C]All 30 samples were enrolled in an IAP.

For this analysis, we tested (1) the general eligibility attributes consisting of Social Security, citizenship or lawful presence, incarceration status, and California residency; and (2) the IAP eligibility elements of household income, MEC in the form of ESI, Non-ESI, MEDS, and Medicare. This analysis revealed:

- **Six (6) Enrollments Were Not Fully Verified for the Entirety of the 2022 Plan Year.** Of the 30 enrollments sampled, we identified six (6) instances where consumers were not fully verified for at least one attribute for the entirety of the 2022 Plan Year. Collectively, the households for these cases received a total of $23,854.61 in APTC during the 2022 Plan Year while at least one member was conditionally eligible. In addition, four (4) of the households received monthly CSR benefits ranging from $15.24 to $263.43 during the 2022 Plan Year. Unlike APTC, there is no requirement or process in place to reconcile CSR.

- **Seven (7) Enrollments Had One or More Eligibility Attributes That Were Not Verified within 95 Days.** For seven (7) of the 30 enrollments reviewed, Covered California did not verify one or more eligibility attributes within 95 days of consumers' initial determination or redetermination for the 2022 Plan Year. The most prevalent eligibility attributes lacking timely verifications related to minimum essential coverage (3 cases) and household income (3 cases). The one (1) enrollment conditionally eligible due to citizenship and lawful presence was verified by Covered California's unallowable June 30, 2022 ROP extension.[11] Of the seven (7) cases not verified within 95 days, six were also not verified by the end of the initial ROP extension on April 5, 2022—six (6) of these cases were verified prior to the June 30, 2022 subsequent ROP extension due date and one (1) case was not verified until September 30, 2022.

[11] 45 CFR 155.315 (g)

Further, for 9 of the 12 cases, Covered California eligibility records did not contain documentation demonstrating either a good faith effort had been made by the applicant to provide the required documents or an explanation of circumstances as to why the applicant did not have documentation, as required by CFR. As a result, individuals that may not be eligible for enrollment in a QHP or IAP continue to be enrolled in both.

Conditional Eligibility Not Always Verified as Required by Federal Regulations

To assess whether Covered California appropriately conducted required verifications for conditionally eligible consumers, we selected a sample of 15 cases where an enrollee was deemed conditionally eligible. For eight (8) of the 15 cases sampled, or 53 percent, Covered California did not conduct the required verifications within the ROP or at all by December 31, 2022.

Specifically, Covered California management made a policy decision to not leave on the auto discontinuance functionality in CalHEERS designed to terminated coverage or disenroll consumers from an IAP if they were conditionally eligible for certain eligibility attributes at the end of their ROP nor follow its manual process to terminate or discontinue coverage at the end of the ROP for consumers with conditional eligibility attributes not included in that automated process. As a result, for two (2) out of the eight (8) enrollments with exceptions, consumers were not verified for income for the entirety of the 2022 Plan Year. As a result, these consumers may have received benefits they were not eligible for and Covered California did not adhere to federal eligibility verification requirements. During the 2022 Plan Year, these two households received a combined $16,320 in APTC benefits.

In addition, for four (4) of these eight (8) enrollments, consumers were not verified within 95 days or at the end of the extended ROP of June 30, 2022. Rather, all four enrollments were verified more than two months later in September 2022. While federal and state regulations, generally requires consumer eligibility to be redetermined within 95 days of the conditional eligibility notice, exceptions may be permitted if the applicant demonstrates, and Covered California documents, a good faith effort to comply or on a case-by-case basis an exceptional circumstance is identified and recorded—as noted previously.[12] There was no documentation indicating the applicant had made a good faith effort for any of the six cases where exceptions were noted. As discussed below, for two (2) of the eight (8) cases, the customer submitted documentation within 95-days of their eligibility determination, but Covered California did not verify the documentation until after the extended ROP expired.

Although Customers Submitted Verification Documentation, Covered California Did Not Always Review Documentation Submitted by the Customer Timely

For four (4) cases where the customer submitted documentation to Covered California to clear an outstanding verification, Covered California did not review submitted documentation and re-determine eligibility in a timely manner, as shown in Exhibit 6. This same issue has been raised in the 2019 External Programmatic Audits. For example, in one case, the customer provided required documentation on December 30, 2021, prior to the initial ROP due date of April 3, 2022, and Covered California did not review the documentation and clear the customer's eligibility until May 16, 2022—nearly five months after it was submitted. According to the Service Center, for one of the cases, the Service Center Representative (SCR) assigned to the process made

[12] 45 C.F.R. §155.315(f)(2) and 10 CCR § 6492(a)(2)

a note in the system that the member's income had already been verified. For the remaining cases, SCRs did not leave any explanation for the delayed verifications.

EXHIBIT 6. EXCEPTIONS WHERE COVERED CALIFORNIA DID NOT REVIEW DOCUMENTATION TIMELY

Sample Item Number	End of Extended Reasonable Opportunity Period	Date Documentation Submitted by Customer	Covered California Verification Date	Months to Verify
1	4/5/2022	1/26/2022	4/28/2022	3 months
9	4/3/2022	12/30/2021	5/16/2022	4.5 months
2	4/5/2022	3/29/2022	4/26/2022	0.8 months
11	4/5/2022	1/21/2022 3/14/2022	4/26/2022	3.2 months 1.4 months

Source: Results from Auditor Testing based on CalHEERS system generated reports and review of the CalHEERS Portal.

Lastly, we noted that a SCR inappropriately retroactively reinstated one of the eight cases. Specifically, the consumer was appropriately terminated for coverage due to unverified citizenship on August 6, 2022. Approximately one month later, on September 16, 2022, the consumer's citizenship was verified, and on September 22, 2022, the consumer's coverage was reinstated by a Service Center L3-override user, who cited the Public Health Emergency to retroactively reinstate the consumer. However, per federal regulations, the public health emergency qualifying life event does not qualify for retroactive coverage start dates.[13]

For every month that passes, potentially ineligible enrollees may continue to receive public benefits in the form of APTC and CSRs, a practice that costs taxpayers and jeopardizes Covered California's reputation. To ensure compliance with federal regulations, Covered California should ensure individuals deemed conditionally eligible are verified by the end of the 95-day ROP. Further, Covered California should only extend the ROP if a customer provides a good faith effort to provide required documentation during the initial ROP. If a customer's eligibility cannot be verified by the deadline, the customer should be deemed ineligible and disenrolled in a qualified health plan offered by Covered California and/or removed from participation in an IAP dependent on the outstanding verification attribute(s), as required.

Several System Defects Impacted the Accuracy of the CalHEERS Portal and Eligibility Notices

During our review of the 15 conditionally eligible enrollments discussed earlier, we also noted instances where information displayed in the CalHEERS Portal and/or sent to the consumer in an eligibility notice was not accurate. According to the CalHEERS project team, three CalHEERS defects impacted the accuracy of notices and information displayed in the CalHEERS Portal for two cases reviewed.

For two (2) sampled enrollments, the "See Full Details" Individual Eligibility Results page within the CalHEERS Portal inaccurately reported the attributes for which the consumers were conditionally eligible. In both cases, while the 2021 renewal notices correctly reported that the consumers' eligibility was conditional on the submittal of verifiable income information, the CalHEERS Portal reflected conditionally eligibility for income and citizenship, although citizenship status was verified in 2019 and 2015 respectively. In one case,

[13] 45 CFR §155.420

the CalHEERS Portal also displayed an incorrect ROP due date. The CalHEERS project team indicated that two defects, SIR 228812 and 206755, caused the consumers' eligibility and the ROP due date to be incorrectly displayed and in the CalHEERS Portal. The CalHEERS project team reported that SIR 206755 was addressed in CalHEERS Release 22.9 in September 2022 and a resolution date had not been set for SIR 228812.

In addition, a separate defect also impacted the accuracy of the ROP due date reflected in two (2) eligibility notices sent for one (1) of these cases. Specifically, two notices sent on August 30, 2022 and September 21, 2022, notified the consumer that they were conditionally eligible for income and needed to submit income verification documentation by June 30, 2022—a date that had already passed. According to the CalHEERS project team, a known CalHEERS system defect, SIR 206335, caused the system to restore prior ROP due dates for cases that had reported a change following a ROP batch run. The CalHEERS project team reported that a system fix for this defect was implemented in CalHEERS Release 22.7 in July 2022; however, the CalHEERS team reported no additional cases have been identified as experiencing this defect and that it would continue to monitor for this scenario.

Exhibit 7 provides a description of each of the three defects, the number of cases that the CalHEERS project team reported were impacted by the defect, and the resolution or expected resolution system release number and date.

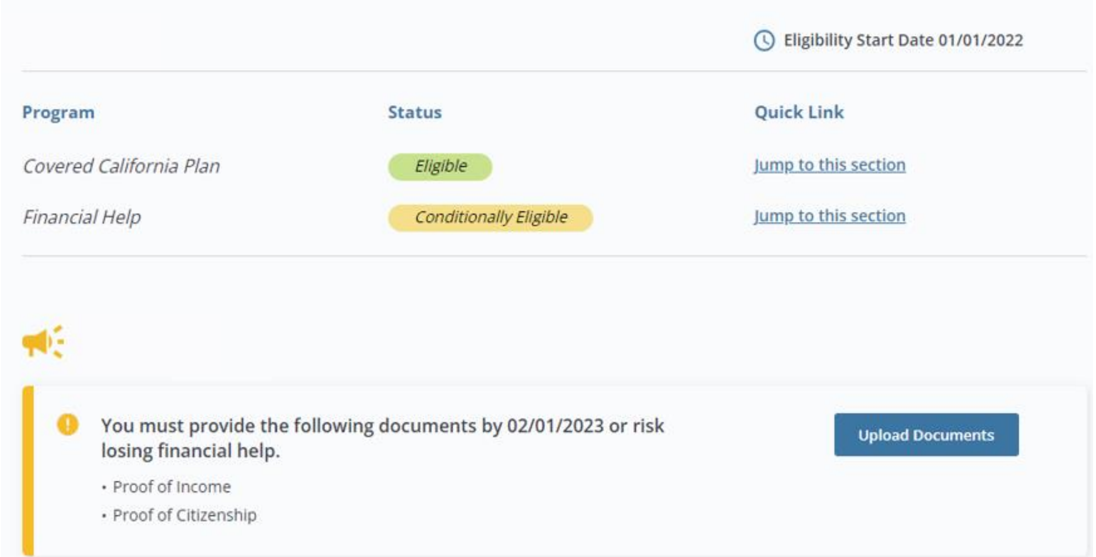
EXHIBIT 7. SYSTEM DEFECTS IMPACTING THE ACCURACY AND RELIABILITY OF NOTICES AND CALHEERS PORTAL

Defect Number/ Issue	Defect/Issue Description	Date Defect Identified	Cases Impacted	CalHEERS Release Number	Date Resolved/ Expected Resolution
SIR 206335	Subsequent RAC post ROP batch run is restoring previous ROP date	5/12/2022	1	Initial: R22.7	Initial: 7/18/2022
SIR 206755	View Results page is displayed incorrectly with ROP date post discontinuance in eligibility. No impact to eligibility.	5/17/2022	3	R22.9	9/19/2022
SIR 228812	"Proof of citizenship" is asked for the individual whose Citizenship verification is passed and ROP batches are run for the same.	12/5/2022	12	TBD	TBD

Source: Audit responses provided by the CalHEERS project team.

According to the CalHEERS project team, SIR 206755 was addressed with system release 22.9 on September 19, 2022; however, as shown in Exhibit 8, the display issue was still present in the CalHEERS Portal on February 2023. As such, it does not appear the resolution fully addressed the problem identified.

EXHIBIT 8. SAMPLE 7 ELIGIBILITY RESULTS PAGE EXHIBITING DEFECT SIR 206755 IN CALHEERS PORTAL, AS OF FEBRUARY 28, 2023



Source: Auditor-generated screenshot of Sample 7's November 20, 2021 Eligibility Determination results page for coverage starting January 1, 2022.

To better ensure eligibility notices and information presented in the CalHEERS Portal is accurate and reliable, Covered California should move forward with plans to implement system fixes to address the defects identified. Moreover, Covered California should continue efforts to identify the cause and ensure resolutions implemented fully address the issues identified related to defects SIR 206335, 206755, and 228812.

Covered California Did Not Send Required Notices to Employers

During the 2022 Plan Year, although required by federal regulations, Covered California suspended its process to notify employers when an employee attests that they do not receive employer sponsored minimum essential coverage and receives APTC. Specifically, employers with 50 or more employees that do not provide minimum essential coverage to those employees may be liable for the Employer Shared Responsibility Payment assessed under section 4980H of the Internal Revenue Code.[14] Once notified by Covered California, if an employer believes the employee was erroneously deemed eligible for APTC because the employee was offered an opportunity to enroll in employer-sponsored MEC, then the employer has the right to appeal with the United States Department of Health and Human Services.

Similar issues of non-compliance with this requirement were raised in the 2014, 2019, and 2021 External Programmatic Audits, where recommendations were made to implement processes to ensure employers are notified timely when an employee indicates they do not receive employer sponsored MEC and receive APTC benefits. While Covered California agreed with prior recommendations and indicated its corrective action plan would be implemented by September 2022, this did not occur. According to PERD, while Covered California had hoped to send notices to employers by the last quarter of 2022, the timeline for sending employer notices

[14] 26 United States Code (USC) § 4980H

was extended to the first quarter of 2023, citing challenges with obtaining accurate and reliable employer addresses. Further, staff indicated that Covered California was in the process of working with the California Employment Development Department to implement a process to obtain employer information that could be used to obtain information necessary to contact employers and adhere to federal requirements.

As a result, some employers were not given the opportunity to appeal and may face IRS penalties related to the 2022 Plan Year. Further, consumers may have enrolled in an IAP and received federal subsidies for which they were not eligible. For the 2022 Plan Year, approximately 4,400 households receiving a total of approximately $30.8 million in APTC and $4.3 million in CSR reported that they did not receive employer sponsored minimum essential coverage, but had reported employer information in their application. While it is likely that many of these households appropriately reported that they did not receive employer sponsored MEC, it is also likely that some households were offered employer-sponsored MEC and should not have been eligible for enrollment in an IAP. By not noticing the employers of this subpopulation of IAP participants, Covered California risks unqualified individuals receiving federal benefits that they are not eligible for, and risks employers erroneously facing IRS penalties for employees that already receive, or are eligible for, employer sponsored MEC.

Finding 2. Manual Verifications of Remote Identity Verification Exceptions Requires Attention

All health benefit exchanges are required to verify the identity of customers applying to the individual market online or by phone, prior to disclosure of any information obtained through the Federal Data Services Hub.[15] To support state-based health exchanges, CMS provides a remote identity proofing (RIDP) service that interfaces with the Federal Data Services Hub, via an external credit bureau (Experian). Using core identity attributes (i.e., full legal name, social security number, date of birth, residential address, and telephone number), the RIDP service locates the applicant's personal information in Experian and automatically generates a set of questions, based on the applicant's credit history. The applicant can answer these questions while filling out their own online application, or if they are applying over the phone or in person with the Exchange. If the applicant's identity cannot be verified through the RIDP process, the applicant needs to submit documentation to the Exchange sufficient to verify their identity.

As a condition of accessing the Federal Data Services Hub, CMS requires that state-based health exchanges establish identity verification procedures for consumers who apply online and over the phone. To meet this requirement, Covered California enacted CCR §6464, which details which CalHEERS users may assist in verification (referred to as certified representatives), conditions that trigger the identity verification requirement, and the types of documentation must be uploaded for applicants who fail the RIDP process. For applicants who fail the automated RIDP process, CalHEERS system initiates a call to the Fraud Archive Reporting Service (FARS). If the applicant is unable to verify their identity through FARS, their identity must be verified through alternative methods.

[15] CMS Guidance Regarding Identity Proofing for the Marketplace, Medicaid, and CHIP, and the Disclosure of Certain Data Obtained through the Data Services Hub (June 11, 2013).

CCR §6464 defines what constitutes a certified representative, including Service Center Representatives, Certified Enrollment Counselors, Certified Application Counselors, Certified Insurance Agents, or Certified Plan-Based Enrollers. Additionally, the regulation specifies alternative methods for identity verification, which include visual verification, through which a certified representative can upload identity documentation, or the applicant can complete and mail a paper application to the Service Center, with the applicant's signature qualifying as proof of identity. Per CCR §6464, and consistent with CMS guidance, an applicant only needs to be verified for identity once—either prior to initiating an application or, if the consumer submitted their application prior to the effective date of the regulation (September 17, 2014), after they have made a change to the Primary Contact screen (containing the primary contact's basic information). If the applicant elects to verify their identity by way of visual verification, the applicant must submit documentation to Covered California from one of two categories, as detailed below, in Exhibit 9.

EXHIBIT 9. IDENTITY DOCUMENT OPTIONS FOR VISUAL VERIFICATION

Option A	Option B
Requires **one** document from the list below:	Requires **two** documents from the list below:
• Identification card issued by a federal, state, or local governmental entity • School identification card • Voter registration card • Military dependent's identification card • Native American Tribal document • U.S. Coast Guard Merchant Mariner card • Certificate of Naturalization (Form N-550 or N-570) • Certificate of U.S. Citizenship (Form N-560 or N-561) • Permanent Resident Card or Alien Registration Receipt Card (Form 1-551) • Employment authorization document that includes a photograph (Form I-766) • Foreign Passport or identification card issued by a foreign embassy or consulate that contains a photograph	• Birth certificate • Social Security card • Marriage certificate • Divorce decree • Employer identification card • High school or college diploma (including high school equivalency diplomas) • Property deed or title • Adoption decree for the adoptee • Foreign school record that includes a photograph • Notice from a public benefits agency • Union or worker center identification card

Source: CCR § 6464(c)(2)(A)

While CFR and CMS guidance does not stipulate the quality of documents that are uploaded as proof of identification, CCR requires that, when submitting a valid identification card issued by a state, federal, or local entity, the identification card should bear a recognizable photograph of the applicant or other identifying information of the individual such as name, age, sex, race, height, weight, eye color, or address.[16]

Upon successful verification by a certified representative, the customer may proceed with their application and enrollment.

[16] CCR § 6464(c)(2)(A)(1)(i)

Established CalHEERS System Controls Can Be Circumvented

While the CalHEERS system was designed to prevent an applicant from moving forward with their application until their identity had been verified, two (2) system gaps allow for users to circumvent this control. First, a CalHEERS Portal user could update the website link (Uniform Resource Locator) of the CalHEERS Portal to the next page in the application flow. This would require the user to know the web address for the next page and willfully circumvent the control. Second, a CalHEERS Portal administrative user, such as a SCR or county eligibility worker, or Agent could upload an unrelated or blank document to the CalHEERS Portal and certify they verified the consumer's identity to move the application forward. CalHEERS system functionality does not have the ability to verify that the appropriate documentation was uploaded and is designed to allow the user to move forward once a document is uploaded. As discussed later in this finding, we noted multiple instances where blank or inappropriate documentation was uploaded and the customer was able to enroll despite the lack of appropriate documentation being uploaded. The ability to circumvent established system controls was identified by the CalHEERS project team on November 1, 2022. A system change request is in progress to address this issue and expected to be released in CalHEERS Release 23.2.2; CR 225474 – RIDP Security Enhancements is slated for April 1, 2023. In addition to proceeding with system changes designed to address gaps in CalHEERS system controls for identity verification, Covered California should also implement a process to validate documentation uploaded as legitimate and valid proof of identification.

Several Improvements Are Needed to Ensure Applicants are Appropriately Identity Proofed

We tested a sample of 50 households that failed the RIDP process and needed to be verified by an alternative method prior to enrollment into a QHP, and whether appropriate documentation had been uploaded into the CalHEERS Portal.

EXHIBIT 10. RIDP EXCEPTIONS TESTING RESULTS

Dataset	Enrolled Before Passing Identity Verification	Identity Documentation Not Allowable	Illegible Documentation Submitted	Not Submitted by Eligible Certified Representative	Total Sampled Households Not Verified Appropriately
Initial RIDP Exceptions Dataset	3	10	4	2	16 out of 30
Regenerated RIDP Exceptions Dataset	0	1	1	0	2 out of 20
Total Cases	**3**	**11**	**5**	**2**	**18 out of 50**

Source: Auditor-generated based on auditor testing results of the alternative identify process.

As illustrated in Exhibit 10, we identified problems with 18 of the 50 selected households. Specifically, we found that three (3) households were able to enroll in coverage before Covered California verified the applicants' identities; CalHEERS administrative users and agents submitted non-allowable documentation for eleven (11) households, preventing valid identity verification; Agents submitted illegible or non-identifiable identity documentation for five (5) households, and county eligibility workers, who are not considered to be

certified representatives under California regulation, completed identity verification for two (2) households applying to Covered California. In the following sections, we provide a detailed discussion of each issue.

- **Three Households Were Enrolled Prior to Completing Identity Verification.** For three (3) of 50 households, applicants were able to enroll in a QHP prior to completing identity verification. For all three (3) cases, applicants had been enrolled prior to the 2022 Plan Year, despite completing identity verification in 2022. For two of these cases (one enrolled in 2016, while the other enrolled in 2021), the CalHEERS project team was unable to provide any additional identity verification records that might support the applicants in these cases having been verified prior to their application and enrollment into the Individual Market during these applicants' initial enrollment years.

  For the other case, the CalHEERS project team reported that the applicant originally had a Medi-Cal application, which would lead to CalHEERS not triggering identity verification, as CalHEERS is set up to automatically accept consumers whose applications were submitted through the Statewide Automated Welfare System (SAWS); Covered California considers applicants routed through SAWS as already having been reasonably verified. Based on our review of the case in the CalHEERS Portal, the applicant had an initial application that was submitted by an Agent, prior to the Medi-Cal application, which lead to an eligibility determination that found the household eligible for coverage through Covered California. In essence, the application originated in CalHEERS system for Covered California enrollment, rather than SAWS. As such, it is unclear how the applicant was able to proceed to member benefit selection, prior to completing identity verification two days later. This suggests that the CalHEERS Portal is not operating as intended—to prevent applicants moving beyond the initial application prior to being able to enroll in coverage, and more importantly, provide a reasonable level of assurance that the individual's identity as been verified prior to receiving access to private, personal information. According to CMS, a robust identity proofing process is a key piece of the comprehensive privacy and security framework that is needed when providing interactive access to an eligibility process that includes sensitive federal and state data.

- **Blank or Inappropriate Identity Documentation was Uploaded by Administrative Users or Agents for 11 Cases.** We identified 11 instances in which documentation inconsistent with CMS guidance and CCR requirements was uploaded by Administrative Users and Agents as proof of identity for cases that failed the RIDP process and needed to go through the alternative identification process. For example, in one instance, a Service Center Representative uploaded a sticky note that was flagged as "Proof of Identification", as shown in Exhibit 11.

EXHIBIT 11. SCREENSHOT OF DOCUMENTATION SUBMITTED AS PROOF OF IDENTIFICATION

Source : CalHEERS Portal, Sample 8, Documents & Correspondance page.

Among the 11 cases with inappropriate identity documentation submissions, 10 were enrolled prior to the start of the 2022 Plan Year and had either been enrolled prior to RIDP implementation by Covered California or had an application transmitted to CalHEERS via the SAWS access channel. According to the Service Center, anecdotally, it is likely the SCRs assumed the cases had already been verified and were erroneously being flagged for identification. Additionally, for seven (7) of the 11 cases with inappropriate documentation worked by SCRs, the Service Center reported that while there were no Customer Relationship Management system case notes related to the identity documents uploaded by SCRs, for three of these cases, the SCRs had reported receiving error codes while attempting to complete the applications. Further, for three (3) of the seven (7) cases, the same SCR uploaded blank documentation for three of the cases with inappropriate documentation.

Of the 11 cases we identified submitting inappropriate identity documentation, only one (1) household truly required identity verification. The remaining cases had either already been verified or had applications coming through the SAWS access channel. According to Service Center, there is presently not a way for SCRs to clearly identify whether the identity of a household's primary contact has been verified—this is not a verification reported in CalHEERS Portal's Manual Verification Page, which contains the verification records for eligibility attribute verifications.

- **Illegible Identity Documentation was Submitted for Five (5) Households.** For five (5) out of the 50 households sampled, Agents uploaded illegible documentation, making it difficult to determine whether documentation was a) appropriate, and b) for the primary contact. Examples include instances in which a photo was taken of an identification card where the photo was too blurry to identify the person in the photo and/or the text of identification cards was too blurry to make out any details beyond the initials of the first and last name of the primary contact. While CMS RIDP guidance does not specify the quality of the identity documentation to be submitted to the Exchange, the California Code of Regulations does specify that identification documentation should bear "a

recognizable photograph of the applicant or other identifying information of the individual, such as name, age, sex, race, height, weight, eye color, or address".[17]

The Outreach and Sales Division (OSD) issued guidance to Agents in March 2022 detailing the RIDP process and alternative methods for identity verifications, and reinforced the requirement that users only upload valid identification documentation; however, the guidance does not specify the quality of the upload. This is not unique to OSD. Other forms of Covered California guidance also lack specificity in regards to the readability of documentation uploaded for uploading identity proofing. Identity documentation that lacks sufficient quality (e.g., too blurry or pixelated to read) creates the risk of certified representatives uploading inappropriate or unverifiable documentation, and by extension, allowing unauthorized users access to private, personal information. To reduce the risk of certified representatives uploading documentation other than what is required for identity proofing or inappropriate, Covered California should update all internal and external guidance on visual verification to specify that documentation submitted for identity proofing must be of sufficient quality to be independently verified.

- **Identity Documentation was Not Submitted by Certified Representatives for Two (2) Households.** For two (2) of 50 sampled households, proof of identity documentation was uploaded by county eligibility workers. In one (1) instance, a county eligibility worker submitted a 2013 tax document on June 30, 2022 in lieu of appropriate identity documentation, as shown in Exhibit 9. In another instance, the county eligibility worker uploaded an illegible, non-identification document.

  The California Code of Regulations stipulates that only certified representatives, in the form of Service Center Representatives, Certified Enrollment Counselors, Certified Application Counselors, Certified Insurance Agents, or Certified Plan-Based Enrollers may complete the RIDP or visual verification process on behalf of the applicant.[18] According to PERD and Office of Legal Affairs, Department of Health Care Services and counties follow their own regulation and identity proofing guidance, and state law requires a "no wrong door" approach. While this is consistent with CFR requirements for a single, streamlined application, and does not appear to be prevented by CMS guidance on the RIDP process, California regulations do not consider county eligibility workers as certified representatives.[19,20] Covered California should work to update CCR § 6464 to specify county eligibility workers as allowable application assisters during the identity proofing process. This would allow Covered California processes, the California Code of Regulations, and Department of Health Care Services guidance to counties to be aligned.[21]

In addition to the earlier recommendation that Covered California develop a process to validate identity proofing documentation, Covered California should also consider adding identity proofing to the Manual

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[17] CCR § 6464(c)(2)(A)(1)(i)

[18] CCR § 6464(a)(3), ibid.(c)-(d)

[19] 45 CFR § 155.405

[20] CMS Guidance Regarding Identity Proofing for the Marketplace, Medicaid, and CHIP, and the Disclosure of Certain Data Obtained through the Data Services Hub (June 11, 2013)

[21] Medi-Cal Eligibility Division Information Letter No.: I 14-02 (March 24, 2015)

Verifications Page to allow administrative users to confirm whether or not an applicant has been appropriately verified.

Finding 3. Continued Improvements are Needed to Ensure Full Compliance with IRS Form 1095-A Requirements

Federal regulations require Covered California to provide consumers an IRS Form 1095-A to provide evidence of health coverage and to reconcile actual APTC received to eligible tax credits based on household income reported to the IRS on or before January 31 of the year following the calendar year of coverage. According to the Service Center, as of September 2022, the number of IRS 1095-A disputes filed declined by 31 percent from the prior year. Our review of IRS Form 1095-As generated for 15 households found that Covered California generally sent an initial IRS Form 1095-A to the enrollee by January 31, 2023, as required. However, for three (3) cases sampled, one or more new or corrected IRS Form 1095-As were generated after the January 31, 2023 deadline. We also found that for four (4) of the 15 cases sampled the final IRS Form 1095-A did not align with the invoices sent by the carrier to the customer, and for three (3) of the four (4) cases, the Final IRS Form 1095-A did not align with data maintained in the CalHEERS system.

The Final IRS Form 1095-A Did Not Always Align with the CalHEERS Portal and/or Carrier Invoices

For three of the sampled cases, issues were noted related to the monthly premium amounts, the total premiums, and/or total APTC amounts reflected on the final IRS Form 1095-A. Specifically, testing found that premium and/or APTC amounts reported on the final IRS 1095-A did not agree with amounts recorded in CalHEERS and did not agree with what the customer experienced with the carrier. Each of these cases included mid-month changes that resulted in pro-rated premiums.

For example, in one case, the customer enrolled mid-month on May 27, 2022; this mid-month enrollment resulted in a prorated monthly premium of $49.21. While both the CalHEERS Portal and carrier invoices reflected the correct pro-rated premium for May, the final IRS Form 1095-A reported an incorrect premium of $305.11—the full-month rate.

For two other cases, the total premium and total APTC reflected on the final IRS Form 1095-A was mathematically incorrect and total amounts reported were significantly higher than the sum of the individual months. For example, as shown in Exhibit 12, the final IRS Form 1095-A reflected total premiums of $26,221.77; however, the sum of individual monthly premiums was only $2,148.11. Similarly, the IRS Form 1095-A reported total APTC of $8,122.44; however, the sum of APTC for individual months was only $830.76—a difference of $7,272.14. For this case, the APTC reported in the CalHEERS Portal and in invoices provided by the carrier also did not align with the APTC on the Final IRS Form 1095-A.

EXHIBIT 12. CASE SAMPLE: COMPARISON OF IRS FORM 1095-A, CALHEERS PORTAL, AND CARRIER INVOICE MONTHLY PREMIUMS AND APTC AMOUNTS

	IRS Form 1095-A		CalHEERS Portal		Carrier Invoice		IRS Form 1095-A vs CalHEERS Portal	IRS Form 1095-A vs Carrier Invoices
Month	Premium	APTC	Premium	APTC	Premium	APTC	Difference in Monthly APTC	Difference in Monthly APTC
January	$617.27	$190.22	$617.27	$209.76	$617.27	$209.76	($19.54)	($19.54)
February	$765.42	$260.10	$765.42	$260.10	$765.42	$260.10	$0.00	$0.00
March	$765.42	$190.22	$765.42	$190.22	$765.42	$190.22	$0.00	$0.00
April (Non-Payment)		$190.22		$190.22		$190.22	$0.00	$0.00
Total (Auditor Calculated)	$2,148.11	$830.76	$2,148.11	$850.30	$2,148.11	$850.30	($19.54)	($19.54)
Total Per IRS Form 1095-A	$26,221.77	$8,122.44					$7,272.14	$8,122.44

Source: Auditor-generated from sample testing of consumer IRS Form 1095-As, carrier invoices, and carrier payment records.

The CalHEERS project team reported that changes to financial information on these two cases during the monthly reconciliation process caused duplicate entries in the database, leading to incorrect total amounts record on the final IRS Form 1095-As. Although the CalHEERS project team indicated the error stemmed from changes made during the reconciliation process, this issue has never been identified in prior audits for cases where multiple data fixes had occurred as a result of the reconciliation process. It appears this issue may be tied to cases where the monthly premium or APTC amount is prorated due to a mid-month enrollment or plan change.

The CalHEERS project team indicated that these issues identified for all three cases would be resolved with the implementation of CR 189474 Plan Choice and Assister Portal in May 2023. In addition, Covered California should work with the CalHEERS project team to identify the universe of cases impacted by this problem and should issue revised IRS Form 1095-As, as consumers may not be aware their IRS Form 1095-As are incorrect and could potentially face financial repercussions when they reconcile APTC received to APTC that they were eligible for when filling their taxes.

Lastly, for one additional case, the final IRS 1095-A did not reflect the actual premium invoiced by the carrier. Specifically, the carrier billed an incorrect premium of $1,010.21 for October 2021, instead of $1,375.33 reported on the IRS Form 1095-A. While the premium for October 2021 was correctly reported on the IRS Form 1095-A, it does not align with the premium invoiced by the carrier. Although CalHEERS is the system of record, the IRS Form 1095-A should align with what the customer experienced. This would not have been an issue, if Covered California had successfully identified and resolved the discrepancy during its 2021 Plan Year monthly reconciliation process.

Additional Oversight of IRS Form 1095-A Reissuances is Necessary

In some cases, Covered California may need to issued corrected IRS Form 1095-A, this may result from changes identified as part of the monthly reconciliation process, disputes filed by customers, or other

inaccuracies with the initial form. Our review identified regeneration issues for three (3) of the 15 samples. Specifically:

In one case, the initial IRS Form 1095-A generated in January 2022 was for a member who did not have coverage during the benefit year—though the individual was listed on the original application—but the 1095-A did not include the primary enrollee who did receive coverage. According to the CalHEERS project team, an SCR had taken actions during the 2021 year that overwrote one of the consumer's information on the other and vice versa, resulting in an inaccurate initial IRS Form 1095-A. At the request of Covered California, the CalHEERS project team manually issued a new "Original" IRS Form 1095-A on May 5, 2022 where the sub-enrollee was removed and the subscriber was added; however, a voided form was not sent for the initial form that was sent in January 2022.

For another case, the original IRS Form 1095-A issued in January 2022, included the wrong social security number for the enrollee. The CalHEERS project team received a ticket to correct the social security number and issue a revised IRS Form 1095-A; however, on March 15, 2022, the CalHEERS project team issued an "Original" form with the corrected information, instead of a "Corrected" form due to a manual error.

Lastly, for another case, a combination of service request tickets submitted to the CalHEERS project team and manual changes to the application from both Service Center Representatives and designated Agent to correct social security numbers and remove household members resulted in 11 separate IRS Form 1095-As to be generated and sent to the consumer, three of which were "Original" forms and eight "Corrected", as shown in Exhibit 13. Similar, to the cases above, multiple "Original" IRS Form 1095-As were issued. It is unclear why Covered California did not identify the incorrect social security numbers and enrollees during the plan year as part of its eligibility verifications and enrollment record reconciliation processes. In addition, the last four forms were sent after the April 18, 2022 tax filing deadline. Prior to making changes to a case, Covered California should ensure the change made is accurate and will fully resolve the issue identified to reduce potential impacts to both the accuracy of enrollment records maintained in CalHEERS and impacts changes will have on IRS Form 1095-As issued and sent to the consumer.

EXHIBIT 13. SAMPLE 2 IRS FORM 1095-A NOTICES SENT TO CONSUMER

Number	Date IRS Form 1095-A Issued	Type
1	January 7, 2022	Original
2	March 15, 2022	Original
3	March 16, 2022	Original
4	March 23, 2022	Corrected
5	April 7, 2022	Corrected
6	April 12, 2022	Corrected
7	April 15, 2022	Corrected
8	April 19, 2022	Corrected
9	April 19, 2022	Corrected
10	May 10, 2022	Corrected
11	June 1, 2022	Corrected

Source: CalHEERS Portal

Several factors contributed to the issues identified, including manual changes to enrollment records by Service Center Representatives and Agents; manual errors when the CalHEERS project team regenerated corrected IRS Form 1095-As; and the lack of a formal policy related to generating and reissuing IRS Form 1095-As. We also noted that Covered California does not have a formal policy related to generating and reissuing IRS Form 1095-As. As a result, there may be confusion and inconsistencies when correcting IRS 1095-As to mark the forms as "Original" vs "Corrected", and when to send the consumer a "Void" form.

To improve the IRS Form 1095-A generation process, the CalHEERS project team reported that a manual process was implemented to help reduce several multi-form generation outcomes. Specifically, in the short-term, a manual reconciliation process was implemented that included a new mandatory step to ensure there are no blank SSNs in forms prior to generation. In addition, the CalHEERS project team reported that a longer-term solution was established in Change Request 181476 (Case Linkage – Phase II) implemented in R22.6, that enhanced system functionality to assign the same Individual ID and Household ID, when an individual comes back for coverage after a termination or cancellation.

To further reduce the risk of multiple notices being generated, potential confusion for the consumer on which form to use when more than one "Original" form is sent, and ensure corrected IRS Form 1095-As are sent to the consumer prior to the federal tax filing deadline, Covered California should:

- Continue its monthly reconciliation processes and resolve discrepancies in a timely manner;
- Ensure required eligibility verifications, such as social security number, are completed within the ROP;
- When submitting additional IRS Form 1095-As, if a new "Original" form is generated send the consumer a "Void" form for any previous forms sent, as well as ensure that IRS Form 1095-As that are manually generated appropriately designate that the forms are "Corrected" not "Original"; and
- Establish a formal policy on when a reissued IRS Form 1095-A should be considered "Corrected" vs "Original", and when a "Void" form is required.

Finding 4. Special Enrollment Multiple Plan Selection Functionality Does Not Appear to Align with Federal Requirements

Beginning in the 2022 benefit year (effective February 21, 2022, with CalHEERS Release 22.2), Covered California updated CalHEERS to allow consumers to make an unlimited number of plan changes during their SEP window. According to Covered California, this decision was based on a new Covered California interpretation of the Code of Federal Regulations. Specifically, Covered California's new interpretation of 45 CFR 155.420(c)(1) is that CFR only states that individuals have 60 days from the date of a triggering event to select a QHP, and that neither state nor federal law includes any restrictions on the number of times a consumer can plan select or change their QHPs during their SEP.

This interpretation is inconsistent with 45 CFR 155.420(c)(1), which states that, "*Unless specifically stated otherwise herein*, a qualified individual or enrollee has 60 days from the date of a triggering event to select *a* QHP" (emphasis added), suggesting that a consumer may only select one QHP during an SEP. According to Covered California's PERD and Office of Legal Affairs, the regulation imposes no restrictions on how many times an enrollee may change their QHP during a SEP, citing 45 CFR 155.420(a)(1), which requires that the

Exchange "provide special enrollment periods consistent with this section, *during which qualified individuals may enroll in QHPs and enrollees may change QHPs*." (Emphasis added). We disagree with this interpretation as 45 CFR 155.420(c)(1) specifies regulations for special enrollments regarding the availability and length of the SEP. As CFR explicitly specifies a section for the availability and length of special enrollments periods, stating that "Unless specified otherwise…", this suggests that 45 CFR 155.420(a)(1) is not speaking to the parameters in which QHP plan selection could be made; rather, it is speaking to the general requirement that the Exchange provide SEPs. Further, federal regulators expounded upon the general requirement in 45 CFR 155.420(a)(1) that Exchanges must offer SEPs by designating a specific section, 45 CFR 155.420(c) "Availability and length of specific enrollment periods" that builds upon the general requirement to offer SEPs. As such, we find Covered California's interpretation of the unlimited plan selection to not be inconsistent with CFR, and implementation of unlimited plan selection to not be in compliance with CFR requirements for special enrollment periods.

In addition to being non-compliant with CFR, Covered California risks creating an unduly burdensome process for carriers to administer. Covered California's policy decision to allow unlimited plan selection during a special enrollment period poses a risk to the sustainability of the program, as customers may leave and enter the health coverage market disruptively. This risk of market volatility is further compounded by the numerous SEPs established by Covered California during the 2022 Plan Year and Covered California's decision to not require consumers to complete pre-enrollment verification for qualifying life events for consumers seeking to enroll during a special enrollment period. Although Covered California disagrees with this finding, given that this is a recent change in interpretation by Covered California, auditors recommend Covered California should seek written guidance from CMS for further clarification. Additionally, without formal written guidance from CMS or changes in CFR to support unlimited plan selection, Covered California should turn off CalHEERS system functionality that would allow a consumer to make an unlimited number of plan changes during an SEP window.

Finding 5. Controls Related to Authorizing and Monitoring Remote Access to Covered California's Network Requires Improvement

Within Covered California, several program areas, include HRB, CCIT, and contract managers from different program areas are responsible for ensuring required forms related to the Telework Program, remote access, and Acceptable Use Statement are completed by Covered California employees, contractors, Board Members, and student aids. In addition, CCIT is responsible for granting and monitoring remote access to Covered California's networks and Covered California Information Security Office (ISO) is responsible for monitoring and managing cyber security risks and breaches related to remote access.

While Covered California generally implemented strong controls and practices to oversee and monitor network security, we noted three areas where opportunities for improvement exist related to oversight of access granted to contractors and Board members, communication between program areas responsible for maintaining telework agreements and granting remote access, records retained related to the Acceptable Use Statement, and the timeliness of employee Telework Agreement completion.

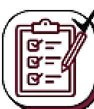
Many Telework Cybersecurity Best Practices Have Been Implemented

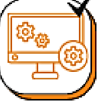
With the implementation of Covered California's Telework Program and ability of Covered California employees and contractors to remotely access Covered California networks, new security and privacy risks appear. Some of those risks come from the abrupt shift in employees and contractors working at secure and managed physical workplaces to unsecured home environments due to the COVID-19 pandemic, with little time for the agencies, IT staff, and administrators to check networks, improve existing policies for remote access to systems, or apply necessary updates to sufficiently monitor system access. To assess whether Covered California implemented leading practices related to its Telework Program and remote access to Covered California networks, we compared practices implemented by Covered California to leading practices identified by the Government Accountability Office, Statewide Information Management Manual, and National Institute of Standards and Technology.

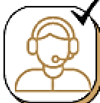
As shown in Exhibit 14, our review found that Covered California implemented many leading practices, with Covered California's current Telework Program and remote access processes aligning with 15 of the 16 leading practices identified. For instance, Covered California:

- Established working groups to identify teleworker and organization technology needs;
- Developed a Telework Agreement that clearly outlines who is eligible for telework, privacy and security expectations, roles and responsibility, and the process in place to work remotely;
- Contracted with an independent security monitoring provider that provides real-time security threat assessments and 24/7 monitoring;
- Implemented multi-factor authentication at multiple points of access to prevent security breaches in compliance with Statewide Information Management Manual and National Institute of Standards and Technology guidance; and
- Ensured the ISO and Work Station Management teams met on a weekly or bi-weekly basis to discuss technology needs, system patches, and software updates.

EXHIBIT 14. TELEWORK BEST PRACTICES IMPLEMENTED BY COVERED CALIFORNIA

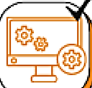

Agency should conduct periodic assessments of teleworker and organizational technology needs.


Develop guidelines on whether the organization or the employee will provide necessary technology, equipment and supplies for telework.


Agency should have established standards for the equipment in the telework environment.

Agency must provide technical support to address any technical issues and security risks related to telework.

Agency has publicized telework policies and procedures that serve as guidance and an agreement of accountability.

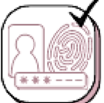

Teleworkers only use agency-approved technology and collaboration tools, including but not limited to chat and video conferencing platforms.

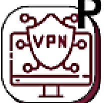
Teleworker and manager enter into a clear written agreement that outlines the agreed upon specific work arrangement.

Agency has a clear eligibility criterion for employees applying for a teleworking arrangement to ensure that teleworkers are approved on an equitable basis.

Event logging include password changes, failed logons or failed accesses related to systems, security or privacy attribute changes, administrative usage, etc.

Continuous monitoring at the system level facilitates ongoing awareness of the system security and privacy posture to support organizational risk management decisions.


Teleworker accounts shall require two-factor authentication, including when using a Web-based apps, such as Outlook Web Access (OWA) or others



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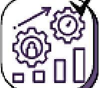
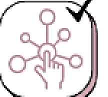
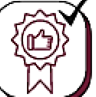
Centrally manage remote access granted, including planning, implementing, assessing, authorizing, and monitoring access.

Telework training should address policy and procedure, general information about the program, policy updates and an orientation.


Telework training should focus on telework program activities such as information technology applications, performance management, and time management.


Agency managers and teleworkers are required to complete an interactive telework training program.


Telework training should include best practices, such as using approved file sharing methods, storing work on agency equipment or approved cloud services, logging off while away from the device, etc.

Source: Auditor-generated list of best practices, based on authoritative guidance issued by the Government Accountability Office, Statewide Information Management Manual, and National Institute of Standards and Technology.

Key: ✓ = Implemented, P = Partially Implemented

However, we found that Covered California should improve its oversight and management of remote access to better ensure access is only granted to those individuals that require access to fulfill their work-related duties and access is disabled promptly when an individual leaves or no longer requires access.

VPN Access Granted to Contractor and Other Non-State Employees Requires Greater Oversight and Immediate Action

During our review of remote access granted to Covered California's network through a virtual private network connection (VPN), we identified 191 contractors, consultants, student aids, and Board members with VPN access. Our high-level review found that only 11 of these individuals had completed a Remote Access Agreement, Covered California did not provide documentation demonstrating that any of the 191 individuals had completed the required Acceptable Use Statement (Form HBEX 243), and we found that access granted for at least 92 of these individuals appears to have been inappropriately granted.

While Covered California has not established a formal policy requiring contractors to complete the Remote Access Agreement, in practice Covered California has inconsistently had some individuals complete a Remote Access Agreement which detailed usage and cyber security expectations—a good practice to help ensure contractors, consultants, and other non-civil service workers comply with Covered California's established expectations. Covered California should establish a formal process and requirement for the remaining 180 individuals with remote access and any future contractors to sign a formal agreement that details Covered California's expectations and requirements for remote access prior to granting access.

In addition, although the Covered California Administrative Manual requires that all users "shall agree to, acknowledge and follow the security protocols outlined in the Acceptable Use Statement", there was no single program area within Covered California responsible for ensuring compliance. Further, contract language included in at least three contracts with separate vendors, included either no reference to the Acceptable Use Policy or language varied between contracts. For instance, the Service Center Surge Contractor contract required that "All Contractor staff performing work under this agreement will participate in the Covered California's Acceptable Use and Security Training as well as sign the Covered California's Acceptable Use policy." A recent internal audit conducted by Covered California's Office of Audit Services in 2022 found that the Surge Vendor was not in compliance with this requirement and was utilizing their own internal document instead of the required Covered California Acceptable Use policy. Similarly, although a CCSB contract stated the "Contractor shall ensure all employees participate in Covered California's acceptable use and security training when new employees are hired, and on an ongoing basis thereafter", the Covered California contract manager was unaware of the policy and indicated that contractor staff had not signed any policy. While the CCSB contract language is not clear on how this requirement will be fulfilled and tracked, it does not appear that this contract provision was enforced. A third contract that was managed by CCIT, did not include any language referencing the Acceptable Use Statement policy.

According to the Human Resources Branch, although contractors did not sign the Acceptable Use Statement, contractual requirements include confidentiality clauses and have overlapping provisions with the Acceptable Use Statement. Yet, as illustrated earlier, for at least three contracts reviewed as part of this audit, the language included was not the same. The inconsistent practices and lack of a formal process to retain evidence of individual contract employees completing the form, as is required for Covered California civil service employees, increases the risk that contractors and consultants with access do not fully understand their roles and responsibilities as defined in the policy. Further, as noted in the internal audit, signing the Covered California Acceptable Use Policy helps mitigate the risk of allowing access to unauthorized individuals to Personally Identifiable Information (PII)/Federal Tax Information (FTI) and reinforces staff's responsibility for information security such as protecting PII/FTI.

To better ensure the Acceptable Use Policy is implemented and followed consistently for contractors and consultants across programs, Covered California should ensure consistent language related to the Acceptable Use Policy is used across contracts, provide a refresher training of expectations to contract managers, and establish a policy requiring contract managers to retain documentation demonstrating the requirement was fulfilled, such as retaining copies of signed Acceptable Use Statements for all contractor staff. If Covered California determines that the current contract language is sufficient and the Acceptable Use Statement is not necessary then Covered California should revise the Covered California Administrative Manual pertaining to the Acceptable Use Statement. However, this requirement is in line with leading

practices and helps to ensure that both the contractor and its employees are aware of Covered California's expectations.

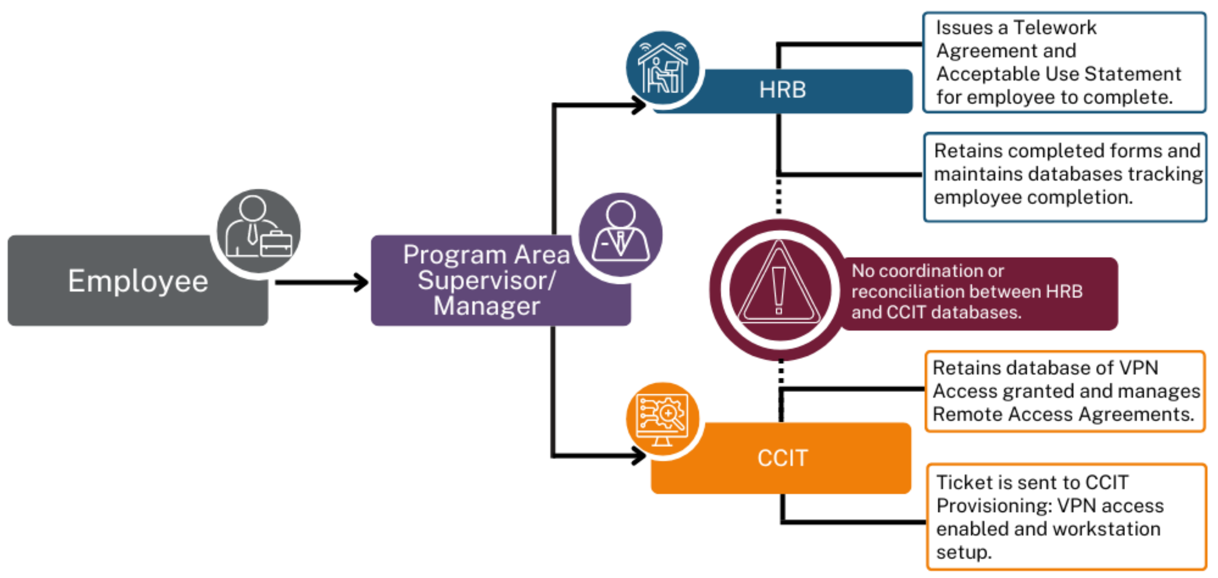
In addition, we found that 84 Pinnacle contractor employees and eight (8) Board Members, appear to have been inappropriately granted Covered California VPN access credentials as part of a batch script that was run during the pandemic to quickly allow Covered California civil service workers to work from home because these users were part of the Executive and OSD operating units. OSD indicated that they did not request these credentials be added for Pinnacle employees and new Pinnacle employees are not given this access. Similarly, because Board Members were part of the Executive operating unit, they were also given access, although access was not required to perform their Board duties. According to CCIT, Board Members only require access to SharePoint. Although three (3) of the eight (8) Board Members had exited their positions between 2018 and June 2022, these individuals still had active profiles as of January 2023. According to CCIT, these users were not automatically offboarded as part of the 60-day disable because the Executive operating unit is excluded from the script. Further, CCIT's *ad hoc* manual process for overseeing and managing profiles in the Executive operating unit did not identify these users to be disabled and off-boarded. According to CCIT, one of the prior Board members was not offboarded at the request of the former Executive Director of Covered California; however, no support was provided and this is not in-line with leading practices. Upon notification, in March 2023, CCIT removed VPN access from all current Board Member profiles and disabled the accounts for the three former Board Members.

To better ensure VPN access is only granted to those contractors, consultants, and other non-civil service workers, established policies are followed, and required forms completed, Covered California should conduct a detailed review of VPN access granted to this user group, and in-line with the principle of least privilege, remove VPN access for those individuals that do not require it to perform their duties and who no longer work for Covered California. In addition, Covered California, should update its informal processes for overseeing the Executive operating unit as well as Board Member offboarding processes to ensure users, particularly Board Members, are offboarded timely.

A Gap Exists in Current Processes Related to Remote Access Granted for Covered California Employees

Within Covered California, two separate divisions are involved in managing the Telework Program and granting remote access to Covered California employees, HRB and CCIT respectively. While each program area has a unique responsibility, when Covered California transitioned to a largely remote workforce during the COVID-19 pandemic a gap was created. Specifically, while a large percent of employees with remote access had completed required forms, 22 of the 1,316 employees with remote access as of October 2022, had not completed either a Telework Agreement managed by HRB nor a Remote Access Agreement managed by CCIT. Our review found that a lack of coordination between HRB and CCIT and no process to reconcile databases contributed to these employees having access granted, but not completing required forms, as shown in Exhibit 15.

EXHIBIT 15. PROCESS FLOW FOR TELEWORK AGREEMENT AND REMOTE ACCESS PROVISIONING



Of the 1,316 employees with remote access, 1,294 had competed either a Telework Agreement and/or Remote Access Agreement. For the remaining 22 employees, these individuals had been granted remote access, but had not completed either of the forms. According to HRB, these 22 employees were either permanently on-site (17 employees), new hires (two (2) employees), or were on a leave of absence (three (3) employees). Further, according to CCIT, during the COVID-19 Pandemic CCIT began granting all new employees remote access and gave remote access to all existing employees. With the implementation of the Telework Program, CCIT did not consistently require employees to complete its Remote Access Agreement. CCIT also indicated that it did not coordinate with HRB to verify a Telework Agreement was completed prior to granting remote access and indicated that no process is in place to reconcile remote access users to the HRB Telework database. In March 2023, CCIT had two (2) of the 17 on-site staff complete a Remote Access Agreement and indicated that the remaining 15 on-site staff did not have devices that would require remote access. As such, in line with the principles of least privilege CCIT should remove access for these individuals.

Both the Telework Agreement, which outlines roles and responsibilities, security controls and requirements, as well as details acceptable technology needs, and the Remote Access Agreement, which details security controls and requirements, are intended to provide users with Covered California expectations and are one control in place to help mitigate the risk of inappropriate access and use of PII stored on Covered California networks. By not requiring all employees with remote access to complete either the Telework Agreement or Remote Access Agreement, employees may not be aware of Covered California's remote access security and user expectations and the controls implemented to help mitigate improper use or access are not working as intended. Covered California should ensure all employees with remote access complete either a Telework Agreement or Remote Access agreement. Further, Covered California should ensure remote access is necessary and was requested by the employee's supervisor or manager prior to providing this provision when establishing new user accounts.

Covered California Did Not Retain Records Necessary to Verify the Required Acceptable Use Statement Was Completed by All Current Employees

As discussed earlier, the Covered California Administrative Manual requires that all users "shall agree to, acknowledge and follow the security protocols outlined in the Acceptable Use Statement" (Form HBEX 243). HRB is responsible for ensuring Covered California employees complete this form during the onboarding process and beginning in August 2022 began using the Workday system to track completion. While we attempted to verify that all users with remote access had completed this form, HRB indicated that it could only provide records for new employees that had been onboarded from August 2022 forward when the new system was implemented. As such, HRB only had records for 19 employees and had not retained documentation for employees that were previously onboarded. As a result, Covered California cannot demonstrate that this requirement was met. As noted earlier in this report, signing the Covered California Acceptable Use Policy helps mitigate the risk of allowing access to unauthorized individuals to PII/FTI and reinforces staff's responsibility for information security such as protecting PII/FTI. On a go forward basis, to ensure all employees have completed the required form, Covered California should identify current employees that have not completed the form and require these employees to re-submit the form for record retention in the new system.

Telework Agreements Were Not Always Completed Timely

While a majority of Telework Agreements reviewed were completed within 30 days of or prior to the effective date (91 percent), approximately 9 percent, or 111 agreements, were completed between 31 and 248 days after the Telework Agreement effective date. For example, for one employee whose effective start date for teleworking was February 1, 2022, the agreement was not completed until October 7, 2022—248 days later. In another example, the new telework agreement had an effective start date of February 1, 2022; however, the agreement was not signed until August 24, 2022—204 days later. According to HRB, there is no formal policy dictating when Telework Agreements must be completed. However, given that the Telework Agreement is a control implemented by Covered California to help mitigate the risk of inappropriate use and access of PII, Covered California should ensure these forms are completed in a timely manner and should establish timeframes for when the agreement must be completed.

Finding 6. While Covered California Improved Its Oversight of the Individual Market Service Center Surge Contractor, Additional Opportunities for Improvement Remain

In April 2020, Covered California executed an $80 million contract with a third-party vendor, referred to as the Surge Contractor, to assist the Covered California Individual Market Service Center by providing additional call center capacity and customer support services—primarily during open enrollment and peak periods. Services to be provided include support of up to 1,200 Full-Time Equivalent (FTE) staff for voice, chat and data entry. Within Covered California, the Service Center is responsible for overseeing and managing the contract with the Surge Contractor, including ensuring the contractor is meeting Covered California's expectations, establishing staffing needs, developing schedules to meet expected workload, monitoring contractor compliance with contract provisions, and approving contractor invoices for payment.

We found that the current contract between Covered California and the Surge Contractor included provisions for staffing, costs, the scope of work to be performed, and performance provisions; and Covered California

actively monitored and enforced many of the key contract provisions. Our review of Covered California's oversight and management of the contract found that Covered California implemented many strong controls and testing of key contract provisions found that the contractor generally complied with contract provisions and instances where the contractor did not comply, Covered California took action by either assessing penalties, where appropriate and applicable, or working with the contractor to develop a corrective action plan. Specifically, we found:

- Provisions for key personnel, including a Site Director, Information Technology Manager, Training Manager, Quality Assurance Manager, and three Operations Managers, were met.[22]
- Contract provisions related to completing employee background checks prior to billing Covered California for staff time and performing work were met for all 20 staff sampled.
- Support staff requirements, such as required number of technical leads and required levels of supervision were generally met.
- The Surge Contractor provided required monthly staff ramp up plans to Covered California.
- For the three months sampled (January, March, and August 2022), the Surge Contractor provided all five required reports, including: Call Interval Report: Real Time Agent Report, Call Quality Report, Call Handling Report, and Disposition Report.
- For the three months reviewed, with the exception of staffing requirements, the Surge Contractor met most of the key performance indicators.

However, we also found that although Covered California addressed most of the 2018 External Programmatic prior audit recommendations related to the lack of performance provisions in the Surge Contractor contract, a prior auditing finding related to approval of surge contractor overtime remained a problem, and additional opportunities exist to clarify contract language and better ensure contract compliance. Specifically, as discussed in the following sections, Covered California did not consistently ensure the contractor complied with certain provisions related to information technology and security requirements, the contractor did not meet all performance requirements for months sampled, requirements related to overtime were not followed, and opportunities exist to clarify contract language.

Covered California's Oversight of Contractor Compliance with Provisions Related to Information Technology and Information Security Require Improvement

Covered California's oversight of contractor compliance with provisions related to information technology and security (Exhibit A Sections 12 and 14 of the contract) appear to have improved over the audit period for the areas reviewed; however, our review found that Covered California did not ensure the contractor consistently complied with all information technology and security requirements sampled and has not established formal deadlines for implementing recommendations from an independent security environment audit. While the Service Center is ultimately responsible for ensuring contractor compliance with contract requirements, two other program areas, CCIT and the ISO, assist in the Service Center in its oversight of the Surge Contractor's compliance with some of the contract provisions related to information technology and information security. Specifically, per the contract, CCIT is responsible for comparing the total active Surge Contractor staff to the

[22] The contract includes seven (7) key positions; however, in August 2022, Covered California approved the Surge Contractor's request in writing to combine the Training Manager and Quality Assurance Manager into one position.

total active staff in the Covered California active directory each month. While the contract does not designate the ISO as responsible for ensuring compliance with information security provisions, according to former ISO staff, in 2022 they found that the Surge Contractor was not complying with several security requirements and the Surge Contractor had not implemented all recommendations from an external security environment audit report that was issued August 2021. As a result, the OSI began holding joint weekly meetings with the Surge Contractor and Service Center contract manager to address contract compliance with security provisions and implementation of the remaining audit recommendations.

Exhibit A Sections 12 and 14 of the contract include 30 requirements related to information technology and security. We selected four (4) of the 30 provisions included in these two sections to assess whether the contractor complied and determine the level of oversight provided by Covered California. Our review found that, for two of the requirements related to monthly security scan reports and monthly reporting on the status of operating system updates, the Surge Contractor did not provide Covered California with required information for the first half of 2022. When notified by Covered California, the contractor began providing the information in July 2022. Covered California did not provide evidence that monthly documentation was submitted demonstrating Contractor workstation hard drives were encrypted as required during 2022. According to the ISO, as of March 2023 this report is now being provided. Further, CCIT indicated that it did not conduct monthly comparisons of the total active contractor staff in Covered California's active directory to monthly reports of current employees provided by the contractor as required. According to CCIT, a reconciliation is conducted annually. In Exhibit 16 we provide testing results for the four (4) provisions reviewed.

EXHIBIT 16. SURGE CONTRACTOR COMPLIANCE WITH SAMPLED INFORMATION TECHNOLOGY AND INFORMATION SECURITY REQUIREMENTS DURING 2022

Contract Requirement	Evidence of Compliance Provided
Monthly documentation of evidence that all workstation hard drives are encrypted as required by the contract.	No documentation provided.
The contractor must ensure desktop operating systems are kept current to the same version as Covered California and a release that is current and supported by Microsoft	Partial – Surge Contractor began providing documentation in July 2022, no reports from January – June 2022.
Contractor must provide a monthly security scan report to Covered California	Partial – Surge Contractor began providing documentation in July 2022, no reports from January – June 2022.
The contractor shall provide a monthly spreadsheet formatted report to CCIT of all active staff for CCIT to compare and total active staff in the Covered California active directory to contractors' active users report. If the totals are of the comparison do not match, the Contractor must identify the discrepancies of the active list and provide a plan to resolve the discrepancies within 72 business hours.	No – CCIT indicated that it conducts annual comparisons, not monthly as stated in the contract.

Further, in August 2021, an external audit report was issued detailing the Surge Contractor's compliance with information technology and security requirements. According to Covered California, the audit identified 96 recommendations, of which 65 had been implemented and 31 were outstanding as of December 2022. In March 2023, Covered California provided documentation that reflect only seven (7) recommendations remained. Covered California ISO indicated that while they met with the Surge Contractor and the Service

Center contract manager weekly to discuss the audit finding status, no timelines had been established for when the Surge Contractor needed to fully implement the remaining outstanding recommendations. Further, although the ISO is providing assistance with overseeing the implementation of the audit recommendations, as the contract manager, the Service Center is ultimately responsible for ensuring compliance with the contract and should work with the ISO to establish timelines for implementing the remaining recommendations.

Lastly, a recent audit conducted by Covered California's Office of Audit Services found that although the contract requires the Surge Contractor staff to sign Covered California's Acceptable Use Policy, the Surge Contractor is using their own internal documents and is not utilizing the Covered California Acceptable Use policy and the Service Center was not enforcing this requirement.

The Service Center, as the contract manager, should ensure processes are in place to assess and enforce compliance. Further, to ensure access to Covered California's active directory is only granted for current employees and reduce the risk of PII being inappropriately accessed, CCIT should implement a process to compare staffing reports provided by the Surge Contractor to active users in the active directory each month and work with the Surge Contractor to identify discrepancies and promptly remove access for former employees.

Covered California Appropriately Applied Associated Penalties When Bi-lingual and Total Staffing Requirements Were Not Met

The contract included a number of minimum staffing requirements, such as required support staff positions, bi-lingual staff, quality assurance staff, training staff, team lead expected time on the phone, and ratios for supervisors and leads to staff. As discussed earlier, our review found that the Surge Contractor generally met most of the staffing requirements established in its contract with Covered California; however, we found that the contractor did not always meet bi-lingual staff requirements and total staffing requirements for two of three months reviewed, as shown in Exhibit 17.

EXHIBIT 17. SCR BI-LINGUAL LANGUAGE AND TOTAL FTE REQUIREMENTS PER CONTRACT COMPARED TO ACTUALS

Language	Contract Requirement	January 2022	March 2022	August 2022
Arabic	2	✓	✓	✓
Armenian	2	✓	✓	✓
Cambodian	2	✓	✓	✓
Cantonese	1% of SCRs	✓	✓	✓
Farsi	2	✓	✓	✓
Hmong	2	✓	✓	✓
Korean	2% of SCRs	X	✓	✓
Laotian	2	X	X	✓
Mandarin	2% of SCRs	X	✓	✓
Russian	2	✓	✓	✓
Spanish	20% of SCRs	X	✓	✓

Language	Contract Requirement	January 2022	March 2022	August 2022
Tagalog	2	✓	✓	✓
Vietnamese	1% of SCRs	✓	✓	✓
Total FTE Requirement	January: 600 FTE March: 300 FTE August: 250 FTE	X	✓	✓

Source: Auditor generated table based on data provided by surge center, including performance scorecards
Key: X = requirement not met; ✓ = requirement met

The Exhibit A Section (D)(1)(e) of the contract requires that 20 percent of the SCR staff be bilingual in Spanish/English; 2 percent bilingual in Korean, and Mandarin; and 1 percent in Cantonese and Vietnamese. Additionally, it requires the SCRs to provide additional staff in the following languages: Arabic, Armenian, Cambodian, Farsi, Hmong, Laotian, Russian, and Tagalog. Our review found that though the Surge Contractor typically met the required number of FTE staff and bilingual staff, the Surge Contractor did not meet some requirements in January and March 2022, as shown in Exhibit 17 above. For example, in January 2022, the Surge Contractor did not meet the required FTE staff and filled only 402 of the 600 required positions, and in some areas lack sufficient bilingual staff over a period of four days during the month. Additionally, in March 2022, although the Surge Contractor was required to have two (2) Laotian speaking SCRs every day, it did not have any.

A similar issue was noted in the 2018 External Programmatic Audit; however, the prior contract did not include provisions for penalities or liquidated damages. The current contract includes provisions to withold 2.5 percent of the monthly invoice amount if the Surge Contractor does not meet bilinguage staffing requirements. For two (2) months of three sampled months (January and March 2022), the Surge Contractor did not meet the requirement for bilingual staff and, as such, Covered California appropriately applied the 2.5 percent penalty to each respective invoice. To address the deficiency, on March 15, 2022, Covered California worked with the vendor to recruit and schedule an off-season training class that specifically focused on the languages that were deficient or at a minimal bench.

The current contract also includes a 2.5 percent penalty if the Surge Contractor does not meet staffing requiredments established in Exhibit A Section (D)(1)(a) of the contract. The contractor did not meet staffing requirements for one of the three months reviewed. Specifically, in January 2022, the Surge Contractor only provided 402 FTE; however, they were required to provide 600 required FTE. As such, Covered California appropriately withheld an additional 2.5 percent from the January invoice.

Contract Provisions Related to Overtime Were Not Always Followed

Prior to performing overtime work, Exhibit A Section D of the contract requires that the Surge Contractor obtain written approval from Covered California. In addition, the contract states that compensation for overtime is calculated at one and half times the basic pay rate for all hours in excess of eight hours per day or 40 hours per week. Although the contract includes clear provisions related to compensation for overtime, our review of overtime charges found that Covered California was not always able to provide written approval for overtime invoiced by the contractor and paid by Covered California. Specifically, our review of overtime

charged found that for all six sample items Covered California could not provide evidence that written pre-approval was obtained.

For example, on January 31, 2022, one production SCR worked 3.73 hours of overtime; however, Covered California was unable to provide documentation demonstrating that the Surge Contractor had obtained prior written approval for the overtime. This overtime charge was included in the amount invoiced by the Surge Contractor and paid by Covered California. According to Covered California, although the contract includes this overtime provision, Covered California made an informal policy decision to not require written overtime approval for calls completed that extend past the SCR's end-of-shift.

For the three months reviewed, Covered California paid $203,160 for expenses related to overtime. To assess whether amounts charged were pre-approved as required by the contract, we selected overtime charges related to six employees for review. Covered California did not provide documentation of pre-approval for all six samples. The same finding was identified during the 2018 External Programmatic Audit.

Rates Charged Could Not Be Validated for Two of the Three Months Reviewed

To assess congruence between contract-specified Surge Contractor rates and invoices, we selected three months for review—January 2022, March 2022, and August of 2022. As background, Exhibit B Attachment 1 of the contract specifies different rates for bi-lingual staff, and each language corresponds to a different rate. However, the invoices associated with both January 2022 and March 2022 did not include a breakdown of language information and, as such, we were unable to validate whether or not the invoices were calculated appropriately and aligned with contract specifications. As mentioned, for the August 2022 invoice, we were able to assess the included rates and costing details for accuracy, and we found that the detailed reported amounts agreed with aggregate amounts invoiced by the Surge Contractor. Covered California reported that, prior to June 2022, the Surge Contractor was not required to include language information in invoices, so in previous months, this information was excluded. Covered California should continue its practice of requiring language information to be included on the all invoices to allow for appropriate monitoring and oversight of the Surge Contractor and, specifically, to ensure contract provisions related to bilingual rates are being applied appropriately.

Two Opportunities Exist to Further Clarify Some Contract Language

The agreement between Covered California and the Surge Contract generally identified Covered California's performance expectations, the scope of work, required deliverables, and provisions for payment. However, our review identified the following two areas where contract provisions either do not fully align or the contract did not clearly define when a contract deliverable was required to be implemented.

- **Two sections of the contract related to performance penalties do not fully align.** In response to a prior audit recommendation, Covered California implemented penalties for non-compliance with key performance indicators. Specifically, the key performance indicator section of the contract (Exhibit A Section D.8) states that the total amount withheld for payment from an invoice due to non-performance shall not exceed 10 percent of the total monthly invoice. Although the Key Performance Indicator section of the contract indicates that no more than 10 percent of the total invoice may be withheld, the Invoicing and Payment Section withing Exhibit B of the contract includes a table of five

of these metrics that could result in a withholding of up to 12.5 percent if all five key performance indicator metrics are not met. This conflicts with Exhibit A Section D.8. While this did not impact the months reviewed as part of the audit, this could result in conflicts in the event the contractor does not meet all performance requirements and Covered California seeks to assess either a 10 percent or 12.5 percent penalty.

- **The contract did not establish a deadline for developing the required written telework plan.** During audit fieldwork, the contractor had not established a formal Telework Plan as required by Exhibit A Section D.10 of the contract. Specifically, the third amendment was executed in June 2022, Covered California included a requirement for the Surge Contractor to develop a written telework plan consistent with Covered California's Telework standards and requirements, and required the plan to be approved in writing by Covered California. However, the contract did not clearly define when the plan needed to be completed. According to Covered California, as of February 2023, the Surge Contractor was still in the process of developing a draft telework plan for Covered California's review and approval. At the time audit fieldwork was completed, the plan had yet to be finalized. Covered California should continue to work with the Surge Contractor to finalize the required plan, and clearly define its expectations for when such reports or plans should be implemented.

In addition, as noted earlier, Covered California approved in writing the combination of two required positions. However, the contract was not formerly amended to reflect this change. In the next contract amendment, Covered California should update contract language to reflect agreed upon changes and ensure language related to performance penalties is consistent throughout the agreement.

Finding 7. Covered California Implemented Processes and Controls to Ensure Small Business Enrollment Records Are Accurate and Reliable; However, Challenges with Some Carriers Exist

CCSB has over 50,000 members and is one of the largest Small Business Health Option Programs (SHOP) exchanges in the country. In January 2020, Covered California executed a $12.7 million contract with NFP Health to provide a new technology platform for CCSB. This platform serves as the system of record for Small Business enrollments and stores information related to employers and their enrolled employees, Small Business agents, agencies, general agents book of business and commission information, and Small Business invoices and premium payments. CCSB fully transitioned to the new platform in September 2021, when records were migrated from the former legacy system to the new platform.

Our review of processes and controls in place to ensure accurate and reliable CCSB enrollment information is retained in the NFP Health system, found that Covered California has implemented data validation controls throughout the enrollment lifecycle from initial enrollment to termination, to ensure information is accurately reflected in the enrollment system, and to detect and correct any inconsistencies between CCSB and carrier records. While Covered California implemented controls to detect discrepancies between Covered California and carrier records in a timely manner, testing found that carriers did not always implement corrections to resolve discrepancies identified in a timely manner and a known issue exists with how one carrier reflects the start date for newborns added to a plan.

Specifically, CCSB enrollment requests are either received via a paper application or direct enrollment into the employer portal from either their employer, agent, or general agent. In addition, if an application is received by "paper" it is manually entered into the NFP Health system by Pinnacle staff. To ensure information is accurately entered into the NFP Health system, the Pinnacle audit team reviews 20 percent of the new enrollment records that were manually added to verify information recorded in the NFP Health system aligns with the original application. Once a new employer group is setup and plans selected for each member, the NFP Health system generates a quote, collects the binder payment, and then transmits the enrollment information to the appropriate carrier. Similar to the Individual Market, information is transmitted daily via 834 transaction files from CCSB to each carrier. Carriers are required to submit two acknowledgement files back to CCSB, the 999 and TA1 transaction files. The 999 transaction file is used for the carrier to confirm that the carrier received the enrollment level detail and information transmitted meets Health Insurance Portability and Accountability Act, or HIPAA, requirements. The TA1 transaction file is used to confirm the receipt of the 834 transaction file and to confirm the total number of records received by the carrier. If errors are identified through this process, CCSB works with the carrier to resolve the issues. This control helps to ensure that enrollment information sent by CCSB was received by the carrier and files submitted met established requirements necessary for the carrier system to process and implement the enrollment information in their systems.

In addition to the controls discussed above, records maintained by CCSB in the NFP Health system are reconciled to carrier records. Carriers provide a daily data extract to NFP Health. Using a script, NFP Health compares CCSB enrollment records with the carriers' enrollment records. Specific elements compared between the data sets include, but are not limited to, coverage month, start date, and subscriber ID. If a new discrepancy is identified, the discrepancy is added to an error/discrepancy table maintained by NFP Health. On a daily basis, NFP Health reviews the discrepancy table and records discrepancies in a master discrepancy spreadsheet. Carriers receive a copy of this spreadsheet on a weekly or bi-weekly basis, depending on the number of enrollments. The spreadsheet, includes the discrepant record, error type, date error identified, status, notes on resolution efforts, resolution date, and next steps. As such, this spreadsheet reflects continuous and ongoing reconciliation efforts. According to Covered California, to ensure the most time sensitive issues are addressed in a more expedient manner, each issue is categorized accordingly. For instance, the error category "missing in carrier", is considered the highest priority, as this error could lead to an interruption in coverage and access to care for customers. However, there are not clear timelines for when issues need to be resolved.

To assess the synchronicity between CCSB's and carriers' enrollment records, we selected three carriers to compare records as of October 31, 2022. Our comparison found that reports provided by both Covered California and carriers were missing some enrollment records, included duplicate records, were not generated per the specifications requested, and some of the discrepancies identified were due to the timing of when the reports were generated. In Exhibits 18 and 19, we provide a breakdown of the high-level comparison results.

EXHIBIT 18. CARRIER TO CCSB ENROLLMENT RECORDS HIGH-LEVEL TOTAL RECORD COMPARISON BY CARRIER

Record Source	Kaiser		Blue Shield		Health Net		Total	
	Total Records Raw Data	Total Effectuated Records[A]	Total Records Raw Data	Total Effectuated Records[A]	Total Records Raw Data	Total Effectuated Records[A]	Total Records Raw Data	Total Effectuated Records[A]
CCSB	42,082	40,038	34,720	32,242	2,005	1,860	78,807	74,140
Carrier	40,985	40,985	33,919	33,857	5,199	1,578	80,103	76,420
Variance	1,097	947	801	1,615	3,194	(282)	1,296	2,280
	2.7%	**2.3%**	**2.4%**	**4.8%**	**61.4%**	**(17.9%)**	**1.6%**	**3.0%**

Source: Auditor-generated from Small Business to Carrier records synchronization testing, data extracts as of October 31, 2022 for all active effectuated records from January 1 to October 31, 2022.

Note: [A]Count of current effectuated, non-duplicate records as of October 31, 2022.

EXHIBIT 19. CARRIER TO CCSB ENROLLMENT RECORD SYNCHRONIZATION RESULTS BY CARRIER

Carrier	Record Source	Total Effectuated Records[A]	Count of Member IDs Not Found in Carrier Records	Count of Member IDs Not Found in CCSB Records	Count of Matched Member ID, But Unmatched Start and Term Dates Records CCSB to Carrier	Count of Matched Member ID, But Unmatched Start and Term Dates Records Carrier to CCSB
Kaiser	Carrier	40,985	--	1,570	8,537	--
	CCSB	40,038	624	--	--	160
	Percent of Total Records Unmatched		**1.6%**	**3.8%**	**20.8%**	**0.4%**
Blue Shield	Carrier	33,857	--	1,776	831	--
	CCSB	32,242	171	--	--	86
	Percent of Total Records Unmatched		**0.5%**	**5.3%**	**2.5%**	**0.3%**
Health Net	Carrier	1,578	--	80	685	--
	CCSB	1,860	368	--	--	691
	Percent of Total Records Unmatched		**19.8%**	**5.1%**	**43.4%**	**37.2%**
Total	Carrier	76,420	--	3,426	10,053	--
	CCSB	74,140	1,163	--	--	937
	Percent of Total Records Unmatched		**1.6%**	**4.5%**	**13.2%**	**1.3%**

Source: Auditor-generated from Small Business to Carrier records synchronization testing, data extracts as of October 31, 2022 for all active effectuated records from January 1 to October 31, 2022.

Notes: [A]Count of current effectuated, non-duplicate records as of October 31, 2022.

To determine the root-cause for the discrepancies identified, we selected a total of 60 samples, which included a sample of five records for each of the four comparisons reflected in Exhibit 19 for each carrier—a sample of 20 records per carrier—for detailed review. Most of the discrepancies identified, 54 of 60, or 90 percent, were due to timing of when the reports were generated or incomplete reports provided by Covered California or the carriers. For the remaining six (6) records where discrepancies were identified, NFP Health

had also identified the discrepancies through their reconciliation process and was actively working with the carriers to resolve the discrepancies, as shown in Exhibit 20.

EXHIBIT 20. ENROLLMENT RECORD DISCREPANCIES BETWEEN COVERED CALIFORNIA AND CARRIER RECORDS

Sample	Record Source	Coverage Start Date	Coverage Start Date	Date Discrepancy Identified	Discrepancy
12B	Blue Shield	4/1/2022	12/31/2022	December 2022	Enrollment Segments Do Not Align
	CCSB	4/1/2022	11/30/2022		
18B	Blue Shield	4/10/2022	12/31/2022	September 2022	Enrollment Segments Do Not Align - Newborn
	CCSB	7/1/2022	12/31/2022		
19B	Blue Shield	6/9/2022	12/31/2022	July 2022	Enrollment Segments Do Not Align - Newborn
	CCSB	7/1/2022	12/31/2022		
2H	Health Net			June 2022	Carrier Missing Member
	CCSB	4/1/2022	10/31/2022		
6H	Health Net			September 2022	Carrier Missing Two Members
	CCSB	9/1/2022	12/31/2022		
10H	Health Net	1/1/2022	12/31/2022	May 2022	Member Coverage Terminated in 2021.
	CCSB				

As shown above in Exhibit 20, we noted true discrepancies between CCSB and Blue Shield three (3) records. In one case, the end date provided by the carrier did not align with CCSB records. According to NFP Health, this issue was identified in December 2022 as part of the reconciliation process and subsequently resolved on February 9, 2023. In two other cases where discrepancies were identified, related to how Blue Shield was reflecting start dates when a newborn child was added to a plan. While these individual discrepancies were noted during the reconciliation process, CCSB reported that a larger issue related to how Blue Shield was applying coverage start dates for new born was identified in the fall of 2022. As of February 2023, Blue Shield advised that they would be implementing a process to resolve this issue. Further, while the discrepancy was still outstanding for one case at the time audit fieldwork was completed, NFP Health reported that the discrepancy for another case had been resolved on February 24, 2023, nearly seven months after the discrepancy was identified in July 2022.

We also noted three (3) discrepancies between CCSB and Health Net enrollment records, as shown in Exhibit 21. For two of the cases, carrier records were missing one or more household members and for one case the carrier was incorrectly reporting coverage for a member for the entirety of the 2022 plan year, although the member had terminated coverage in 2021. According to NFP Health, although 834 transactions were sent to the carrier, and subsequent manual requests were sent to the carrier for corrections for each of the cases, at the time audit fieldwork had concluded in February 2023, Health Net has not updated their records.

Although CCSB has implemented controls and processes to help ensure, accurate reliable information is maintained in the NFP Health enrollment system, and steps to ensure synchronicity between carrier and

Covered California enrollment records, the current contracts between Covered California and carriers do not clearly identify Covered California's expectations for resolving discrepancies identified in a timely manner nor include language for timelines for implementing requested changes. CCSB should continue its processes for reconciling enrollment records with carriers and continue to work with carriers to determine the root-cause and resolve discrepancies identified. To reduce the risk of gaps in coverage or inaccurate coverage periods, Plan Management Division, in collaboration with CCSB, should work with carriers to ensure carriers understand Covered California's expectations for resolving discrepancies identified as part of the CCSB monthly reconciliation process in a timely manner. In addition, Plan Management Division should incorporate language into future Small Business carrier agreements that clearly outlines timelines and expectations for resolving enrollment discrepancies identified during the monthly CCSB reconciliation process. In addition, CCSB should continue efforts to work with Blue Shield, while Blue Shield establishes a process to ensure the start dates assigned for future newborn enrollments align with CCSB records.

Finding 8. Covered California Implemented Strong Controls Over Agent Payments; However, Opportunities for Improvement Exist in Two Areas

The CCSB unit within OSD is responsible for coordinating CCSB billing, including agent and general agent commission payments and working with the FMD, State Controller's Office (SCO), and third-party contractor NFP Health, to process agent commission payments. As of August 2022, Covered California reported 2,107 active Small Business agents and general agents. Our review of processes and controls in place to ensure accurate, reliable, and timely agent commission payments, found that Covered California has implemented many good controls to ensure commission amounts paid are accurate and supported. Our testing of commission payments to a total of 20 agents and general agents found that amounts paid were accurate, timely, supported by underlying documents, and complied with payment provisions in agent and general agent agreements with Covered California. While we found Covered California had implemented strong controls over agent commission payments, we noted two areas where continued action is needed, particularly related to California tax withholdings for out-of-state agents and processes for recouping agent over payments. In both areas, Covered California management was aware of the issues and was working towards resolutions.

Overview of Agent Payment Process

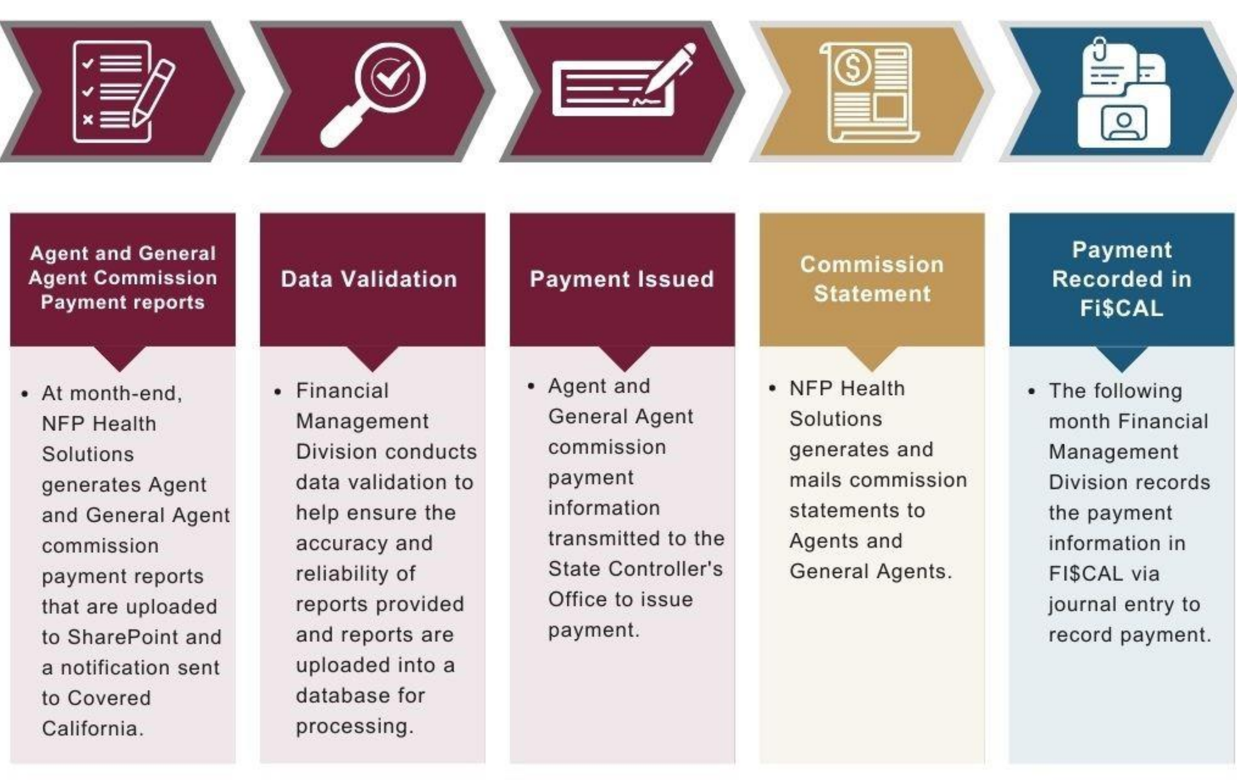
At the end of each month, Covered California's third-party Small Business provider, NFP Health, generates several payment reports including the NOD25A (agent commission payment report) and NOD25GA (general agent commission payment report) that detail commission amounts owed to agents and general agents based on actual premium payments received from employers and any retroactive enrollment adjustments. This report excludes negative payments and payments due to agents that are less than $5. Prior to providing the report to Covered California, NFP Health is required to conduct several data verifications, such as checking for negative amounts payable (i.e., offsets), validating that the agent listed is the current agent of record, ensuring no decertified agents are listed, and validating agents against California Department of Insurance endorsements.

After NFP Health has validated the commission payment reports, the reports are transmitted to Covered California, where the FMD conducts additional validations. FMD verifies the correct agent is assigned, the

commission payment amounts total the same amount as premium payments received from Small Businesses, and the correct effective dates are applied; compares the volume and amounts of payments to prior months; and conducts other verifications. If discrepancies are identified, FMD works with NFP Health directly to resolve the issues prior to processing the payments. After the agent payment information has been reviewed and validated by FMD, NFP Health transmits the files directly to the SCO to process the payment. The SCO issues payments to agents through warrants (checks), and to general agents through an electric funds transfer. Meanwhile, NFP Health generates and mails a separate statement to each agent and general agents that details the commission amounts paid to. The following month after month-end close, FMD posts summary-level journal entries in Covered California's financial system, Fi$CAL, to record the payment information. FMD maintains the detailed line-item records as backup support in its records—a subsidiary ledger.

In Exhibit 21 we provide a high-level overview of the commision payment process.

EXHIBIT 21: AGENT AND GENERAL AGENT PAYMENT PROCESS



Source: Auditor Generated

Covered California Implemented Strong Controls to Ensure Accurate and Timely Small Business Agent Commission Payments

Our review of commission payments to agents and general agents for four sample months (January, March, June, and August 2022) found that total amounts paid were accurate, tied to underlying support, timely paid, and compliant with contractual payment provisions. Specifically, we found that the payments totaling more than $10.9 million tied to underlying reports provided by NFP Health as well as total amounts recorded in Fi$CAL, and Covered California followed processes described to verify the accuracy of reports and ensure

amounts paid tied revenues received. In addition, to further ensure the payment amounts issued and recorded were accurate, we selected a total of 20 agents and general agents and verified whether the payment reports (NOD25A and NOD25GA) aligned with the NFP Health commission statements provided to the agents. Our review found that all 20 sample agent payments aligned and reconciled. Lastly, we selected three (3) small businesses from each of the 20 selected agents and general agents, for a total of 60 small businesses, to compare commission payments tied to the selected small businesses to the small business employee information reflected on the small business premium invoice and related payment. Our review found that the commission amounts paid agreed with underlying support for all 60 employers.

A Formal Process to Recoup Agent Commission Overpayments Has Not Been Established

If an error is identified or retroactive adjustment is needed after Covered California has processed and paid agent commissions that resulted in either an over or under-payment, Covered California generally makes an adjustment in the following month's payment cycle. For example, if an agent was overpaid due to a change in the agent of record that was not reflected or retroactive employer employee terminations and adds, the agent commission is adjusted in the following month to account for the adjustment. Or, if an agent was overpaid by $2,000, but their current book of business is worth $500 in commission per month, it would take four months to repay the overpayment. While this process generally addresses most overpayments, there may be instances where an agent does not have future commission payments to offset amounts that were overpaid, such as agents that no longer contract with Covered California. In these instances, there is not a process to recoup the overpayments.

As of January 13, 2023, Covered California reported that there had been 16,064 instances in which Covered California had overpaid agent commissions by a total of $476,244. For context, over a three-month period, Covered California paid more than $10.9 million to agents. Covered California subsequently recovered $451,661 of these overpayments. However, $24,583 in overpayments remains outstanding, some of which date back to April 2020.

Covered California is aware of this issue and indicated that CCSB is currently working with FMD and the Office of Legal Affairs to establish a policy and process for this type of overpayment; however, the policy and process has not been finalized yet due to the pressing demands of Open Enrollment and peak season for CCSB. In October 2022, Covered California drafted a letter to send to agents with overpayments that providing options for repayment. However, this letter is not currently being used. CCSB is in the process of working with FMD to finalize the process of notifying these agents of the overpayment and expects to set a release date by June of 2023. To collect the remaining amounts owed and reduce the risk of future over payments not being recouped, Covered California should move forward with plans to establish and implement a formal policy and process for handling Small Business agent and general agent commission overpayments.

System Limitations Impact Covered California's Ability to Report Out-of-state Agent California Tax Withholdings to the Franchise Tax Board

In January 2020, Covered California executed a $12.7 million contract with NFP Health to provide a new technology platform for CCSB employers and their employees, agents, agencies, general agents, carriers, and Covered California staff that provided improved sales tools, enrollment technology, financial management technology, and processes to support the maintenance of current membership and facilitate future growth. Covered California management indicated that CCSB transitioned to the new platform in

September 2021. Although the contract (Exhibit A Section D(9)) with NFP Health requires the NFP Health platform be able to provide a system that supports the withholding of out-of-state agent commissions for the Franchise Tax Board (FTB) and NFP Health stated that its existing software provided this capability without requiring any software modifications in its response to the solicitation for services, Covered California reported that the system does not currently have this capability. Covered California indicated that NFP Health is working to address this system gap and plans to conduct testing of new system functionality to resolve this issue in mid-May 2023. Covered California indicated that it will be required to pay penalties to FTB. However, Covered California has not submitted FTB taxes since December 2021, and will not be assessed the penalty or given an estimate until Covered California has prepared to report on this.

FMD indicated that a small percent of agents and general agents are out-of-state. As such, Covered California estimates that the penalty amount owed will likely be $500 or less. Further, according to CCSB, the out-of-state agent withholding was not implemented at go-live of the NFP Health transition in September 2021. Understanding that this gap existed, CCSB included a specific milestone deliverable in Amendment 3 of the NFP Health contract; completion of this milestone was expected to resolve the issue, allowing out-of-state agent payment withholdings to be completed appropriately.

To address this system gap, Covered California should continue to work with NFP Health to implement a software solution update that allows NFP Health to capture and report the tax withholding for out-of-state agents.

V. Recommendations

Below is a numerical list of recommendations corresponding to the findings from Section II of this report that would help improve Covered California's programmatic procedures.

	Recommendation	Benefit of Implementation
Finding 1. Eligibility Verifications Did Not Always Occur Increasing the Risk that Ineligible Individuals Enrolled, Many Receiving Federal Subsidies		
1.1	Covered California should ensure extensions granted to the ROP fully comply with federal regulations.	Compliance with federal regulations and better assurance that only qualified individuals are enrolled in a plan offered by Covered California and receiving federal subsidies.
1.2	As previously recommended in prior audits and most recently in the 2021 External Programmatic Audit, ensure individuals deemed conditionally eligible are re-reviewed at the end of ROP, ensure all required verifications occur in a timely manner, in compliance with state and federal requirements. Covered California should ensure individuals deemed conditionally eligible pending verification of citizenship or, lawful presence, or status as a national are verified by the end of the 95-day ROP. If a customer's citizenship or, lawful presence, or status as a national eligibility cannot be verified by the deadline, the customer should be deemed ineligible and disenrolled in a qualified health plan offered by Covered California, as required. This recommendation replaces the following prior programmatic audit recommendations: 2014 (8), 2015 (3.1), 2016 (1.1 and 2.2), 2017 (3.1), 2018 (2.1), 2019 (4.1), 2020 (3.1), and 2021 (1.1 and 1.2)	Compliance with federal regulations and better assurance that only qualified individuals are enrolled in a plan offered by Covered California and receiving federal subsidies.
1.3	As previously recommended in prior audits and most recently recommended in the 2021 External Programmatic Audit, implement processes to ensure employers are notified timely when an employee indicates they do not receive minimum essential coverage and receive APTC benefits. This recommendation replaces the following prior programmatic audit recommendations: 2019 (4.6) and 2021 (1.3)	Compliance with federal regulations and better assurance that only qualified individuals are receiving federal subsidies.
1.4	To better ensure eligibility notices and information presented in the CalHEERS Portal is accurate and reliable, Covered California should move forward with plans to implement system fixes to address the defects identified. Moreover, Covered California should continue efforts to identify the cause and ensure resolutions implemented fully address the issues identified related to defects SIR 206335, 206755, and 228812.	Compliance with federal regulations and improved accuracy of information presented in notifications sent to consumers and reflected in CalHEERS.
Finding 2. Manual Verifications of Remote Identity Verification Exceptions Requires Attention		
2.1	To ensure applicants are verified for identity prior to enrollment, Covered California should proceed with system changes designed to address gaps in CalHEERS system controls for identity verification.	Compliance with federal requirements to complete identity proofing and prevent non-verified users from accessing private, sensitive information.
2.2	To better ensure documentation submitted for identity proofing is legitimate and valid, Covered California implement a process to	Compliance with federal requirements to complete identity proofing and prevent

	validate documentation uploaded as legitimate and valid proof of identification.	non-verified users from accessing private, sensitive information.
2.3	Covered California should update internal procedures and external guidance related to visual verification to specify that documentation submitted for identity proofing must be of sufficient quality to be independently verified.	Compliance with federal requirements to complete identity proofing and prevent non-verified users from accessing private, sensitive information.
2.4	Covered California should work to update CCR § 6464 to specify county eligibility workers as allowable application assisters during the identity proofing process.	Compliance with state regulation.
Finding 3. Continued Improvements are Needed to Ensure Full Compliance with IRS Form 1095-A Requirements		
3.1	Recognizing the CalHEERS is the system of record, ensure that the final IRS Form 1095-A issued to consumers aligns with the consumers actual experience. Continue monthly reconciliation activities with carriers to identify and resolve discrepancies between carrier and Covered California enrollment records in a timely manner. This recommendation replaces the following prior programmatic audit recommendations: 2021 (2.3)	Compliance with federal regulations and improved consumer experience.
3.2	Covered California should work with the CalHEERS project team to identify the universe of IRS Forms 1095-As where the total premium and/or total APTC is incorrectly reported and reissue corrected IRS Form 1095-As to impacted consumers.	Compliance with federal regulations and improved consumer experience.
3.3	To reduce the risk of multiple notices being generated, potential confusion for the consumer on which form to use when more than one "Original" form is sent, and ensure corrected IRS Form 1095-As are sent to the consumer prior to the federal tax filing deadline, Covered California should: • Ensure required eligibility verifications, such as social security number, are completed within the ROP; • When submitting additional IRS Form 1095-As, if a new "Original" form is generated, send the consumer a "Void" form for any previous forms sent, as well as ensure that IRS Form 1095-As that are manually generated appropriately designate that the forms are "Corrected" not "Original"; and • Establish a formal policy on when a reissued IRS Form 1095-A should be considered "Corrected" vs "Original", and when a "Void" form is required.	Compliance with federal regulations, reduction in the number of IRS Form 1095-As sent to consumers, and improved consumer experience.
Finding 4. Special Enrollment Multiple Plan Selection Functionality Does Not Appear to Align with Federal Requirements		
4.1	Covered California should seek written guidance from CMS for further clarification on the accuracy of its interpretation of 45 CFR 155.420(c)(1). Until formal guidance is obtained, Covered California should consider pausing system functionality that allows for unlimited plan selections during an SEP.	Compliance with federal regulation.
Finding 5. Controls Related to Authorizing and Monitoring Remote Access to Covered California's Network Requires Improvement		
5.1	To better ensure remote access is only granted to those contractors, consultants, and other non-civil service workers that need access to perform their duties, ensure established policies are followed, and required forms completed, Covered California should:	Reduce the risk of PII/FTI being inappropriately accessed, compliance with internal policies, and improved user remote access controls.

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- Conduct a detailed review of remote access granted to contractors, consultants, and other non-civil service workers, and in-line with the principle of least privilege, remove remote access for those individuals that do not require it to perform their duties and who no longer work for Covered California;
- Develop formal, written processes for overseeing access granted to users assigned to the Executive operating unit and processes to offboard Board Members, to ensure users in this operating unit are offboarded timely; and
- Ensure consistent language related to the Acceptable Use Policy is used across contracts, provide a refresher training of expectations to contract managers, and establish a policy requiring contract managers or another designated group within Covered California to retain documentation demonstrating the requirement was fulfilled, such as retaining copies of signed Acceptable Use Statements for all contractor staff.
  - If Covered California determines that current standard contract language is sufficient and the Acceptable Use Statement is not necessary, then Covered California should revise the Covered California Administrative Manual pertaining to the Acceptable Use Statement. However, this requirement is in line with leading practices and helps to ensure that both the contractor and its employees are aware of Covered California's expectations.

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To better ensure remote access is only granted to Covered California employees that need access to perform their duties, ensure established policies are followed, and required forms completed, Covered California should:

- Establish processes to ensure all employees with remote access complete either a Telework Agreement or Remote Access agreement;
- Ensure remote access is necessary and was requested by the employee's supervisor or manager prior to providing this provision when establishing new user accounts;
- Identify current employees where a completed Acceptable Use Statement form is not on file, and require these employees to re-submit the form for record retention in the new system; and
- Ensure Telework Agreements are completed in a timely manner and establish formal, written timeframes for when the agreement must be completed.

</td><td>Reduce the risk of PII/FTI being inappropriately accessed, compliance with internal policies, and improved user remote access controls.</td></tr>
<tr><td colspan="3">Finding 6: While Covered California Improved Its Oversight of the Individual Market Service Center Surge Contractor, Additional Opportunities for Improvement Remain</td></tr>
<tr><td>6.1</td><td>The Service Center should ensure all contract provisions and reporting expectations are enforced. In addition, the Service Center should work with the ISO to establish timelines for implementing the remaining recommendations from the August 2021 security audit.</td><td>Compliance with Surge contractor contract requirements and improved oversight of contractor activities.</td></tr>
<tr><td>6.2</td><td>To ensure access to Covered California's active directory is only granted for current Surge Contractor employees and reduce the risk of PII being inappropriately accessed, CCIT should implement a process to compare staffing reports provided by the Surge Contractor to active users in the active directory each month and work with the</td><td>Compliance with Surge contractor contract requirements and reduced risk of PII being inappropriately accessed.</td></tr>
</table>

	Surge Contractor to identify discrepancies and promptly remove access for former employees.	
6.3	Covered California should ensure contract provisions related to overtime are enforced. If Covered California deems the current overtime provisions do not align with its expectations, the contract language should be updated.	Compliance with Surge Center contractor and improved oversight and management of contractor functions.
6.4	In the next contract amendment, Covered California should update contract language to reflect agreed upon changes and ensure language related to performance penalties is consistent throughout the agreement. On a go forward basis, if deliverables are added to the contract, Covered California should specify when the deliverables must be completed.	Compliance with Surge Center contractor and improved oversight and management of contractor functions.
Finding 7: Covered California Implemented Processes and Controls to Ensure Small Business Enrollment Records are Reliable and Accurate; However, Challenges with Some Carrier Exist		
7.1	CCSB should continue efforts to work with Blue Shield, while Blue Shield establishes a process to ensure the start dates assigned for future newborn enrollments align with CCSB records.	Enhanced recordkeeping and minimization of the risk of gaps in coverage for consumers.
7.2	Plan Management Division, in collaboration with CCSB, should work with carriers to ensure carriers understand Covered California's expectations for resolving discrepancies identified as part of the CCSB monthly reconciliation process in a timely manner. In addition, Plan Management Division should incorporate language into future Small Business carrier agreements that clearly outlines timelines and expectations for resolving enrollment discrepancies identified during the monthly CCSB reconciliation process.	Enhanced recordkeeping and minimization of the risk of gaps in coverage for consumers.
Finding 8: Covered California Implemented Strong Controls Over Agent Payments; However, Opportunities for Improvement Exist in Two Areas		
8.1	To collect the remaining amounts owed from agent commission overpayments and reduce the risk of future over payments not being recouped, Covered California should move forward with it plans to establish and implement a formal policy and process for handling Small Business agent and general agent commission overpayments for inactive agents or general agents.	Increased fiscal oversight.
8.2	Covered California should continue to work with NFP Health to implement a software solution update that allows NFP Health to capture and report the tax withholding for out-of-state agents to the FTB.	Compliance with state regulations and elimination of monetary penalties.

VI. Outstanding Recommendations from Prior External Programmatic Audits

In the table below, we provide the current status and expected completion dates for those findings and recommendations presented in prior External Programmatic Audits for which Covered California management has concluded that continued action is required to fully resolve the audit finding.

	Recommendation	Status as of February 2023 & Expected Completion Date
2014 External Programmatic Audit Report		
Finding 1. Exchange Does Not Ensure Authorized Representatives Fulfill Responsibilities or Comply with Confidentiality Conflict of Interest Laws.		
1	Ensure all authorized representatives have formal agreements to maintain confidentiality of information; to fulfill all responsibilities to the same extent as the applicant or enrollee he or she represents; and to comply with state and federal laws concerning conflicts of interest and confidentiality of information.	**Status (online application):** Complete **Status (paper application):** In-progress **Estimated completion:** TBD
Finding 14. Required Attestations for APTC May Not Be Obtained from the Primary Tax Filer		
14	Revise the application for health insurance with financial assistance to ensure that it obtains the required attestations from the tax filer when the person completing the application is not the tax filer.	**Status:** In-progress **Estimated completion:** TBD
2016 External Programmatic Audit Report		
Finding 8. Program Accountability and Clearly Defined Roles and Responsibilities are Key to Operational Effectiveness		
8.1	Ensure roles and responsibilities are clearly defined amongst program areas and PID. In addition, ensure key functions, such as oversight of the delivery of the CalHEERS project, are assigned to a program area.	**Status**: In-progress **Estimated completion**: 6/30/2024
2017 External Programmatic Audit Report		
Finding 1. While Change Control Practices Include Many Industry Best Practices, Additional Opportunities for Improvement Exist		
1.4	Covered California should consider centralizing project oversight, including User Acceptance Testing (UAT), change request oversight and verification, and defect management in CC IT, while shifting the role of the PID to providing independent, third-party testing and examination of system functionality and to evaluate the effectiveness and efficiency of the systems of internal controls established to oversee CalHEERS.	**Status:** In-progress **Estimated completion:** 8/01/2023
Finding 2. Continued Monitoring of the Integrity of CalHEERS Data and System Generated Reports is Required		
2.1	Covered California should continue efforts to identify discrepancies between Get Insured (GI) and Health Benefit Exchange (HBEX) data and practices to conduct root-cause analysis to resolve discrepancies identified and ensure the underlying problem causing the discrepancy is resolved.	**Status:** In-progress **Estimated completion:** 6/30/2023

	Recommendation	Status as of February 2023 & Expected Completion Date
2019 External Programmatic Audit Report		
Finding 4. Continued Improvements are Warranted to Ensure Full Compliance with Federal Requirements for Individual Market Eligibility Determinations and Enrollment		
4.3	Covered California should continue efforts to ensure Service Center Representatives are familiar with established policies and procedures related to appropriate documentation that can be used to verify applicants' eligibility.	**Status:** In-progress **Estimated completion:** 12/31/2023
Finding 5. Although Improved, the Reconciliation of Covered California's and Carrier Enrollment Records Remains Incomplete		
5.2	Covered California should consider reviewing each carriers' processes for gathering and reporting enrollment information used for the monthly reconciliation to ensure those processes meet Covered California's expectations, are consistent, and result in accurate, reliable information being sent to Covered California.	**Status:** In-progress **Estimated completion:** 6/30/2023
Finding 7. While the DIVS System is Working as Intended Opportunities Exist to Enhance System Functionality and the Benefits of System Are Not Yet Fully Realized		
7.1	In order to fully assess any cost savings obtained, Covered California should begin tracking and reporting the cost of conducting manual verifications and analyze changes in costs and workload over time.	**Status:** On hold **Estimated completion:** TBD
7.3	To address DIVS results display issues in CalHEERS, Covered California should move forward with plans to update the system to resolve the system defect. In addition, Covered California should consider expanding CalHEERS system functionality to indicate on another page outside of the Personal Verifications page when a document has been verified by DIVS.	**Status:** In-progress **Estimated completion:** TBD
2020 External Programmatic Audit Report		
Finding 1. Additional Controls Are Necessary to Ensure the Accuracy and Reliability of Data Maintained in CalHEERS and System Generated Reports		
1.1	To ensure the integrity and reliability of data maintained in CalHEERS and accuracy of system generated reports, Covered California should consider taking the following steps: • Continue its efforts to monitor the system administrator's processes and controls for ensuring data maintained in component systems is synchronized. As part of these efforts, Covered California should work with the CalHEERS project team to ensure CalHEERS system defects and cases impacted by the defects are resolved and fixed in a timely manner. • Continue to work with the CalHEERS project team to ensure there is a quality control review process in place when generating ad hoc system reports.	**Status:** In-progress/Partially implemented **Estimated completion:** 5/01/2023
Finding 2. Carrier Reconciliation Processes Are More Effective than in the Past, But Continued Improvements Are Necessary		

	Recommendation	Status as of February 2023 & Expected Completion Date
2.1	To ensure Covered California and carrier enrollment records are synchronized and reconciliation processes are working as intended, Covered California should review each carriers' processes for gathering and reporting enrollment information used for the monthly reconciliation to ensure those processes meet Covered California's expectations are consistent, and result in accurate, reliable information being sent to Covered California.	**Status:** In-progress **Estimated completion:** 6/30/2023
Finding 3. Improvements are Needed to Ensure Full Compliance with Eligibility Determination and Enrollment Requirements		
3.4	To ensure compliance with internal policies and procedures related to coverage start dates, Covered California should continue efforts for continual education for Service Center Representatives and conduct additional training when deficiencies or knowledge gaps are identified.	**Status:** In-progress **Estimated completion:** 12/31/2023
Finding 7. Escalation Process is Effective, but Opportunities for Improvement Identified		
7.1	To ensure optimal Customer experience and compliance with internal policies, Covered California should ensure established policies are followed.	**Status:** In-progress **Estimated completion:** 12/31/2023
7.2	Covered California should assess whether escalation resolution timelines and targets should be established.	**Status:** In-progress **Estimated completion:** 12/31/2023

VII. Conclusion

Covered California continued efforts to improve its operations and implemented processes to better ensure compliance with federal regulations. While the audit identified several areas where notable improvements were achieved, the audit also found that Covered California should continue to improve upon these efforts, as recommended, and thereby improve operational efficiencies and effectiveness; data integrity; and ensure compliance with federal regulations.

We confirm to the best of our knowledge that the information included in this Audit Findings Report is accurate and based on a thorough review of the documentation required for this report.

SIGNATURE OF AUDIT FIRM:

COMPLETION DATE OF AUDIT FINDINGS REPORT: August 2, 2023

VIII. Covered California's Response

July 24, 2023

Nicole Dyer
Director
Sjoberg Evashenk Consulting, Inc.
455 Capitol Mall, Suite #700
Sacramento, CA 95814

Subject: Covered California's Response to Program Year 2022 External Programmatic Audit

Dear Ms. Dyer,

Covered California has reviewed the audit report, entitled "Independent External Audit: 2022 Audit Findings Report," issued by Sjoberg Evashenk Consulting, Inc., on April 17, 2023, and provides the following response.

Covered California's purpose is to make health insurance more affordable and easier to purchase for small businesses and individuals. Our mission 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.

Covered California entered 2022 with a concentrated lens to build upon the Affordable Care Act through increased coverage and lower costs driven by the American Rescue Plan. We kicked-off the year with 1.7 million enrollees, which represented a record high enrollment for the second consecutive year. The auditor's acknowledged that the high enrollment and healthy consumer pool were key factors in negotiating a preliminary rate increase for California's individual market of just 1.8 percent for 2022, and a three-year average of only 1.1 percent (2020-2022).

We thank the Sjoberg Evashenk Consulting, Inc. team for closely analyzing our operational, programmatic, and administrative functions. Covered California also appreciates the auditor's recognition of areas where notable improvements have been achieved. We acknowledge the importance of the issues identified in the eight specific findings presented in the audit report and look forward to addressing each finding and recommendation in our corrective action plans.

While we agree that improvements can be made, we would like to address the concerns outlined in the audit report under Findings 1 and 4. In response to the COVID-19 pandemic and public health emergency, Covered California extended consumer deadlines for resolving eligibility inconsistencies during the 2020 and 2021 plan years. During 2022, Covered California

BOARD MEMBERS Dr. Mark Ghaly, Chair Mayra Alvarez Jarrett Barrios Jerry Fleming Kate Kendell EXEC. DIR. Jessica Altman

phased out these extensions and returned to pre-pandemic operations for resolving and acting on eligibility inconsistencies.

In Finding 1, the audit report references approximately 7,000 households conditionally eligible for citizenship and immigration status at the end of plan year 2022. This represents 0.6 percent of California households and three percent of the $7.9 billion in APTC paid on behalf of Covered California enrollees in 2022. A portion of the households may have been within their statutorily required 95 days to clear their inconsistency. Others may have maintained their coverage because they are part of the Medi-Cal and Covered California mixed household families. Unfortunately, these nuances were not captured in the data requested by the audit team. (1)

Approximately 45,000 individuals were terminated from coverage during 2022 for failure to timely resolve inconsistencies for Qualified Health Plan enrollment (e.g., citizenship and immigration status inconsistencies). Over 50 percent of those terminated from coverage returned to Covered California after their termination was processed to resolve their inconsistency and reestablished their coverage. This outcome identifies opportunities for Covered California to review our internal processes to effectively balance program integrity objectives with our mission to provide exceptional service and access to affordable, high-quality coverage to Californians.

In addition, Covered California looks forward to implementing new federal flexibility for accepting consumer attestation of income afforded in the 2024 Notice of Benefit and Payment Parameters. In promulgating the rule, the Centers for Medicare and Medicaid Services notes the current process *"is overly punitive to consumers and burdensome to Exchanges."* 88 Fed. Reg. 25818 (April 27, 2023).

As for Finding 4 regarding unlimited plan selections during a special enrollment period, Covered California disagrees with the finding. We see no prohibition in law (or federal authority) to prevent a consumer to change their plan choice during the open enrollment period or a special enrollment period with a qualifying life event. California state law, furthermore, requires us to automatically enroll individuals losing Medi-Cal into the lowest cost silver plan and specifically requires us to allow plan changes during the consumers' special enrollment period. (2)

We appreciate the report's acknowledgment of Covered California's significant growth and substantial accomplishments. Specifically, our record-high enrollment in the Individual Market; successful implementation of CalHEERS system changes resulting from the American Rescue Plan Act and the Inflation Reduction Act; updates in functionality related to Medi-Cal transitions and the auto-enrollment process into Covered California; resolving the income inconsistency of over 250,000 consumers; the Service Center escalation enhancements; the formation of the Data Governance Committee; and the implementation of DocuSign to automate record and contract approval.

To further underscore our efforts in 2022, we note some additional accomplishments, which we are particularly proud of:

- To promote the final days of open enrollment, Covered California teamed up with the mayors of Los Angeles and San Francisco and aired television ads during the National Football League's NFC Championship game between the Los Angeles Rams and San Francisco 49ers.

- Covered California celebrated the 12th anniversary of the signing of the Affordable Care Act in March, reminding consumers that they could still sign up for coverage if they had a significant change in their lives — such as losing health coverage, getting married, having a baby, permanently moving to California or moving within the state.

- In June, Covered California approved a $411 million budget for fiscal year 2022-23, which included ongoing funding for marketing and outreach investments. These investments have helped Covered California continuously achieve one of the best take-up rates and healthiest risk mixes in the nation.

- Covered California won three prestigious Telly Awards for the Spanish-language television ad "Corazón," which aired during the most recent open-enrollment period. The ad depicted a father watching his daughter grow from a toddler through to her quinceañera, highlighting how important proper health care coverage can be in that journey.

- With concerns rising over a stalemate in Congress regarding the future of the American Rescue Plan Act subsidies, Covered California updated an analysis that showed how the expiration of the landmark law would double premiums for 1 million low-income Californians.

- Covered California unveiled its rates and participating Qualified Health Plan issuers for the 2023 coverage year. The rate increases of 5.6 percent (initially announced as six percent, but revised downward after the passage of the Inflation Reduction Act) was below the national average and reflected a return of medical trends to pre-pandemic levels.

- Covered California added competition by welcoming Aetna/CVS Health to the Marketplace and expanding coverage areas and options for Anthem Blue Cross and Blue Shield of California, giving Californians more options to choose from.

- In November, Covered California launched the 10th open enrollment in Affordable Care Act history with its "10 Years Strong" campaign. The kickoff event in Los Angeles included U.S. Health and Human Services Secretary Xavier Becerra and highlighted the ongoing strength and effectiveness of the law, as well as promoted the continuation of the increased and expanded savings available through the Inflation Reduction Act.

- The “10 Years Strong” campaign traveled the state, visiting San Francisco, Sacramento, San Diego, Fresno, Bakersfield and Northern California.

- Covered California wrapped up the year by holding roundtable events with the state’s diverse population — meeting with African American, Chinese, Korean and Spanish-speaking communities — along with a behavioral health event to promote enrollment and improve access to care.

We again thank your team for its recognition of Covered California’s recent achievements. We further appreciate your team’s tremendous effort in preparing the audit report.

Should you have any questions, please feel free to contact me directly, or our Program Integrity Division Director, Thien Lam, who can be reached at 916-228-8600, or via e-mail at Thien.Lam@covered.ca.gov.

Sincerely,

Jessica K. Altman

Jessica Altman
Executive Director

Comments

SJOBERG EVASHENK CONSULTING'S COMMENTS ON THE RESPONSE FROM COVERED CALIFORNIA

To provide clarity and perspective, we are commenting on the response to our audit report from Covered California. The numbers below correspond with the numbers we have placed in the margin of its response.

1

In Finding 1 on page 19 of this report, we note that as of December 31, 2022, 7,276 households were conditionally eligible due to Citizenship, Lawful Presence, Status as a National. These household received more than $34.9 million in APTC during the 2022 Plan Year, of which only 157 households were considered mixed households, with one or more member enrolled in Medi-Cal and Covered California. These households received $1.4 million in APTC during the 2022 Plan Year and represented 2.2 percent of the 7,276 households identified by the audit.

As discussed in Finding 4 on pages 40 and 41 of this report, "*Unless specifically stated otherwise herein*, a qualified individual or enrollee has 60 days from the date of a triggering event to select *a* QHP" (emphasis added), suggesting that a consumer may only select one QHP during an SEP. Further, because Covered California recently reinterpreted federal regulations, we recommend that Covered California seek guidance from CMS to ensure their interpretation is consistent with federal requirements.