



MEMORANDUM

November 9, 2023

TO: Kelly Long, Deputy Director
Business Services Branch

FROM: *Kevin Cathy*
Kevin Cathy, Branch Chief, Supervising Management Auditor
Program Integrity Division, Office of Audit Services

RE: Business Services Branch and Financial Management Division – Final
Audit Report – Contracting Audit (Assignment 2122.06)

In accordance with the *Government Code*, Section 13400 et seq. and State Administrative Manual, Section 20060, all levels of management are responsible for assessing and strengthening the systems of internal control to provide reasonable assurance that the state agency's objectives will be achieved and to minimize fraud, errors, abuse, and waste of government resources.

To provide reasonable assurance of the existence and strength of the Covered California's internal controls, the Office of Audit Services conducted an audit of the Business Services Branch's and Financial Management Division's internal controls over the contracting process during the audit period, January 1, 2021, through September 30, 2022. Our report of this audit is attached.

We appreciate the cooperation and assistance of the Business Services Branch's and Financial Management Division's management and staff during our audit. If you have any questions regarding this report, please contact me at (916) 670-8339 or Kevin.Cathy@covered.ca.gov.

cc: Executive Office
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REVIEW OF INTERNAL CONTROLS OVER THE CONTRACTING PROCESS

COVERED CALIFORNIA
BUSINESS SERVICES BRANCH
FINANCIAL MANAGEMENT DIVISION

FINAL REPORT

ISSUED ON:
NOVEMBER 9, 2023

PREPARED BY:
COVERED CALIFORNIA
OFFICE OF AUDIT SERVICES

AUDIT TEAM:
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EXECUTIVE SUMMARY

Objective and Scope

The Office of Audit Services conducted an audit to obtain reasonable assurance that internal controls over Covered California's contracting process during January 1, 2021, through September 30, 2022, were administered in accordance with policies, procedures, and applicable requirements.

Positive Observations

- **Contract Development and Renewal** – During our audit, the Business Services Branch (BSB):
 - Implemented the Contract Lifecycle Management System, which increases the transparency and efficiency of various contracting activities, improving BSB's overall administration of the contracting process.
 - Enhanced a quality assurance checklist used for developing and renewing contracts, which strengthens BSB's effectiveness with ensuring required contracting-related administration steps are sufficiently performed.
- **Contract Reporting** – BSB accurately and timely reports pertinent contract information on the Covered California website, which contributes to Covered California's Organizational Excellence strategic pillar and goal of maintaining and enhancing its trusted brand and reputation through transparency and accountability.
- **Contract Invoice Payment Process and Budget Tracking** – The Financial Management Division (FMD) accurately and timely processes contract invoice payments and tracks contract budgets, which ensures allowable invoice payments are processed timely and within the contracts' respective budgets.

Reportable Conditions

We noted some matters below that we consider to be reportable per the *International Standards for the Professional Practice of Internal Auditing*:

- **Program contract managers did not sufficiently maintain all required documentation within their contract management files**
- **Program contract managers did not complete required contract trainings**

Follow-up

The Office of Audit Services will follow up with management on their progress of corrective action plans and will report updates accordingly to the Audit Committee. A follow-up audit may be performed to determine the completion and adequacy of the corrective action plans.

This report is intended for the information and use of Covered California management and is not intended to be, and should not be, used by anyone other than the specified parties.

BACKGROUND, OBJECTIVE, SCOPE, AND METHODOLOGY

BACKGROUND

According to Covered California's Procurement and Contracting Manual, contracting for vendors to perform functions that cannot be fulfilled by current state employees allows for timely acquisition of goods and services to further promote the best interests of Covered California, the public, and the State of California, which ultimately aids in serving Covered California in its efforts to fulfill its mission and vision.

BSB is responsible for the overall administration of the procurement and contract activities to comply with applicable state and federal laws, rules, regulations, and procedures.

FMD is responsible for providing funding pre-approval for contract/amendment requests, encumbrance processing, and ensuring timely payments are made to all contractors.

Other divisions are responsible for managing contracts once executed to comply with applicable state and federal laws, rules, regulations, procedures, and contract terms.

OBJECTIVE

The objective of this audit engagement was to obtain reasonable assurance that internal controls over Covered California's contracting process were administered in accordance with policies, procedures, and applicable requirements.

SCOPE

The scope of this audit covered contracts that were processed from January 1, 2021, through September 30, 2022.

METHODOLOGY

Our evaluation included gaining an understanding of policies and procedures and testing the internal controls of BSB, FMD, and other divisions. Additionally, we performed verification steps to determine whether staff is effectively and efficiently administering and monitoring BSB's, FMD's, and other divisions' contracting processes in accordance with policies, procedures, and applicable requirements.

RESULTS

POSITIVE OBSERVATIONS

The following are areas of the contracting process that auditors reviewed and noted with reasonable assurance where internal controls were strengthened during the audit or were identified as effective and working as intended:

- **Contract Development and Renewal** – During our audit, BSB:
 - Implemented the Contract Lifecycle Management System, which increases the transparency and efficiency of various contracting activities, improving BSB’s overall administration of the contracting process.
 - Enhanced a quality assurance checklist used for developing and renewing contracts, which strengthens BSB’s effectiveness with ensuring required contracting-related administration steps are sufficiently performed.

- **Contract Reporting** – BSB accurately and timely reports pertinent contract information on the Covered California website, which contributes to Covered California’s Organizational Excellence strategic pillar and goal of maintaining and enhancing its trusted brand and reputation through transparency and accountability.

- **Contract Invoice Payment Process and Budget Tracking** – FMD accurately and timely processes contract invoice payments and tracks contract budgets, which ensures allowable invoice payments are processed timely and within the contracts’ respective budgets.

FINDINGS & RECOMMENDATIONS

Finding # 1 - Program contract managers did not sufficiently maintain all required documentation within their contract management files

Finding Rating:	Priority	High	Medium	Low
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Condition

Per the *Program Contract Management Handbook (PCMH)*, program contract managers within Covered California divisions are required to maintain a total of 14 separate types of documentation within each contract management file as the means to substantiate that hired contractors are adequately managed and monitored.

We reviewed contracts managed by nine divisions. Two of the 14 types of required documentation were not applicable to the contracts we reviewed. We identified that all nine divisions did not sufficiently maintain all 12 applicable types of documentation within their contract management files, as presented in the Table below:

Division	# of required documents within the division's contract management file	# of required documents <i>not</i> within the division's contract management file
1	10	2
2	6	6
3	4	8
4	4	8
5	4	8
6	2	10
7	2	10
8	1	11
9	1	11

Criteria

PCMH, Chapter 6: Contract Management Procedures, Section 6.1: Contract Management File states, in part, "Preparing the contract management file and keeping it current is a critical component of contract management. To ensure the contract management file remains current throughout the life of the contract, the program contract manager must update the file diligently whenever new documentation is created or received." Section 6.1 of the *PCMH* proceeds to provide a listing of the 14 separate types of documentation that each contract management file must include (when applicable), such as a copy of the executed contract, copies of all Contractor Performance Reports, a budget tracking spreadsheet, etc.

Cause

BSB has not yet made it a practice of theirs to provide direct, on-going, and formal communications regarding all the responsibilities that program contract managers must fulfill, including the *PCMH* requirement for the types of documentation that need to be sufficiently maintained within contract management files.

Effect

By not sufficiently maintaining all required documentation within their contract management files, program contract managers cannot substantiate that they adequately managed and monitored their contractors' performance, deliverables, compliance, and budgets. If program contract managers are not adequately managing and monitoring their contractors, there exists the following potential risks:

- Poor Service
- Inadequate deliverables
- Non-compliance with applicable requirements
- Wasted funds

Recommendation

BSB should provide direct, on-going, and formal communications to all program contract managers regarding all responsibilities that program contract managers must fulfill, including the *PCMH* requirement for the types of documentation that need to be sufficiently maintained within contract management files.

Finding # 2 - Program contract managers did not complete required contract trainings

Finding Rating:	Priority	High	Medium	Low
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Condition

Per the *Procurement and Contracting Manual (PCM)*, program contract managers are required to complete all parts of the four-part Contracts Training Series.

We reviewed the training records of 56 program contract managers and identified that most program contract managers either did not complete all parts of the Contracts Training Series or were not listed on training compliance reports which made it unable for us to determine their training completion status, as presented in the Table below:

Contracts Training Series Parts	# of program contract managers who completed the training	# of program contract managers who did <u>not</u> complete the training	# of program contract managers who were <u>not listed</u> on training compliance reports
Pre-Planning	4	31	21
Pre-Approval	3	32	21
Competitive Solicitation	3	27	26
Contract Management	2	28	26

Criteria

PCM, Chapter 2: Procurement Roles and Responsibilities, Section 2.3.3: Program Contract Manager states, in part, “Program contract managers shall complete all parts of the Contracts Training Series provided by BSB and Covered California University.”

Cause

BSB has not yet made it a practice of theirs to ensure program contract managers complete all parts of the required Contracts Training Series.

Effect

By not completing the Contracts Training Series, program contract managers may not be fully educated with how to sufficiently and adequately:

- Determine whether other Covered California divisions or California state agencies can provide the needed goods or services
- Obtain required pre-approvals from the appropriate parties for all solicitation, contract, and amendment requests
- Comply with all required competitive solicitation procedures
- Manage and monitor contractors’ performance, deliverables, compliance, and budgets

Recommendation

BSB should develop and implement a practice that henceforth ensures program contract managers complete all parts of the Contracts Training Series.

APPENDIX A

FINDING RATINGS

Finding	Priority	High	Medium	Low
1. Program contract managers did not sufficiently maintain all required documentation within their contract management files				
2. Program contract managers did not complete required contract trainings				

RATING DEFINITIONS

Priority	<p>Immediate and on-going threat to the achievement of division or Covered California strategic goals and objectives. In particular:</p> <ul style="list-style-type: none"> - Significant adverse impact on reputation - Non-compliance with statutory requirements - Potential or known financial losses - Substantially raising the likelihood that risks will occur <p>Management must implement corrective actions as soon as possible and monitor the effectiveness.</p>
High	<p>High probability of adverse effects to the division or Covered California as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions.</p> <ul style="list-style-type: none"> - High potential for adverse impact on reputation - Increase in the possibility of financial losses - Increase in the likelihood that risks may occur
Medium	<p>Medium probability of adverse effects to the division or Covered California as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions.</p> <ul style="list-style-type: none"> - Medium potential for adverse impact on reputation - Potential increase in the likelihood that risks may occur
Low	<p>Low probability of adverse effects to the division or Covered California as a whole, but that represent an opportunity for improving the efficiency of existing processes. Correcting this will improve the efficiency and/or effectiveness of the internal control system and further reduce the likelihood that risks may occur.</p>

MANAGEMENT RESPONSES

Presented below are the Business Services Branch's management responses to the findings which include their corrective action plans.

Finding 1:	<i>Program contract managers did not sufficiently maintain all required documentation within their contract management files</i>
Recommendation 1:	BSB should provide direct, on-going, and formal communications to all program contract managers regarding all responsibilities that program contract managers must fulfill, including the <i>PCMH</i> requirement for the types of documentation that need to be sufficiently maintained within contract management files.
BSB Management Agreement:	Agree
BSB Management Response:	We are in the process of implementing a new contract cover sheet that will provide program contract managers with all the requirements related to their contract management functions and record keeping. The cover sheet will also direct them to resources and training needed to fully understand <i>PCMH</i> requirements and the documentation required for each type of contract to be sufficiently maintained within contract management files. Implementation is estimated to be on or before December 31, 2023. Additionally, contract renewal reminders (already implemented and working) will include reminders about the types of documentation needed to be sufficiently maintained within contract management files.
Targeted Completion Date:	December 31, 2023

Finding 2:	<i>Program contract managers did not complete required contract trainings</i>
Recommendation 2:	BSB should develop and implement a practice that henceforth ensures program contract managers complete all parts of the Contracts Training Series.
BSB Management Agreement:	Agree
BSB Management Response:	<p>BSB will implement a process to (1) obtain a list of current program contract managers, (2) provide instructions on how to report an onboarding or offboarding program contract manager, and (3) annually verify program contract managers within program.</p> <p>Additionally, BSB will work with CCU to determine if Covered CA's Learning Management System (LMS) can provide information on whether a program contract manager has completed the necessary training. With this information, BSB will advise program of their program contract managers outstanding training. Moving forward contract requests in DocuSign CLM will be verified to ensure the requesting program contract manager has completed the necessary training or the DocuSign CLM request will be rejected until training has been completed.</p>
Targeted Completion Date:	March 31, 2024

EVALUATION OF RESPONSES

The correction action plans provided by the Business Services Branch, if implemented as intended, should be sufficient to correct the reportable conditions noted.

The Office of Audit Services will follow up with the progress of these corrective actions on January 9, 2024, and every six months thereafter, until the Business Services Branch has provided sufficient information to substantiate with reasonable assurance that the corrective action plans have been implemented and are operating as designed. Additionally, a follow-up audit may be performed to determine the completion and adequacy of the corrective action plans.

We thank the Business Services Branch and Financial Management Division for their help and cooperation during this audit.