



Audit Committee Meeting

Kirk Marston, Chief Audit Executive, Office of Audit Services
Kevin Cathy, Branch Chief, Office of Audit Services

November 20, 2025

Audit Committee Meeting Agenda

III.	Internal Audit Charter ~ <i>Action</i>	3 - 6
IV.	Advisory Engagement Results ~ <i>Discussion</i> • Invoice Management Evaluation	7 - 19
V.	Audit Results ~ <i>Discussion</i> • Internal Audits ○ Advertising Contracts Audit ○ Contract Management Audit	20 - 30
VI.	Wrap-Up and Next Steps ~ <i>Discussion</i>	31

Internal Audit Charter

Kirk Marston
Chief Audit Executive
Office of Audit Services



INTERNAL AUDIT CHARTER

Background

- Per Government Code section 13886.5, all state organizations' internal audit offices are required to conduct audit activities under the Institute of Internal Auditors' *Global Internal Audit Standards*.
- The Standards require that an Internal Audit Charter must be developed, renewed annually, and include the following elements.

Major Elements

- ✓ **Purpose** – Provides the purpose for having an internal audit office.
- ✓ **Mandate** – Clearly states the Office of Audit Services' authority, independence, organizational position, and reporting relationships.
- ✓ **Audit Committee Oversight** – Lays out the Audit Committee's composition as well as its responsibilities, which include:
 - Ensuring the Office of Audit Services has unrestricted access to the Audit Committee,
 - Approving the Internal Audit Charter, and
 - Approving the Annual Risk-Based Internal Audit Plan.
- ✓ **Chief Audit Executive Responsibilities** – Lays out the Chief Audit Executive's duties, which include:
 - Managing audit staff to perform audits in accordance with the Standards,
 - Ensuring audit staff maintain an objective and unbiased attitude when performing audits, and
 - Communicating with the Audit Committee and senior management.
- ✓ **Scopes and Types of Internal Audit Services** – Summarizes the types of services the Office of Audit Services provides, such as assurance and advisory engagements.



Questions?

PUBLIC COMMENT

CALL: (877) 336-4440

PARTICIPANT CODE: 6981308

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Note: Written comment may be submitted to AuditCommittee@covered.ca.gov

Advisory Engagement Results Invoice Management Evaluation Advisory Engagement

Colin Buttarazzi
BerryDunn Representatives





BerryDunn Presentation to the Audit Committee on Covered California's Invoice Management Process



November 20, 2025

BerryDunn's Evaluation of Covered California's Invoice Management Process

Purpose and Background of the Evaluation:

■ **Background:**

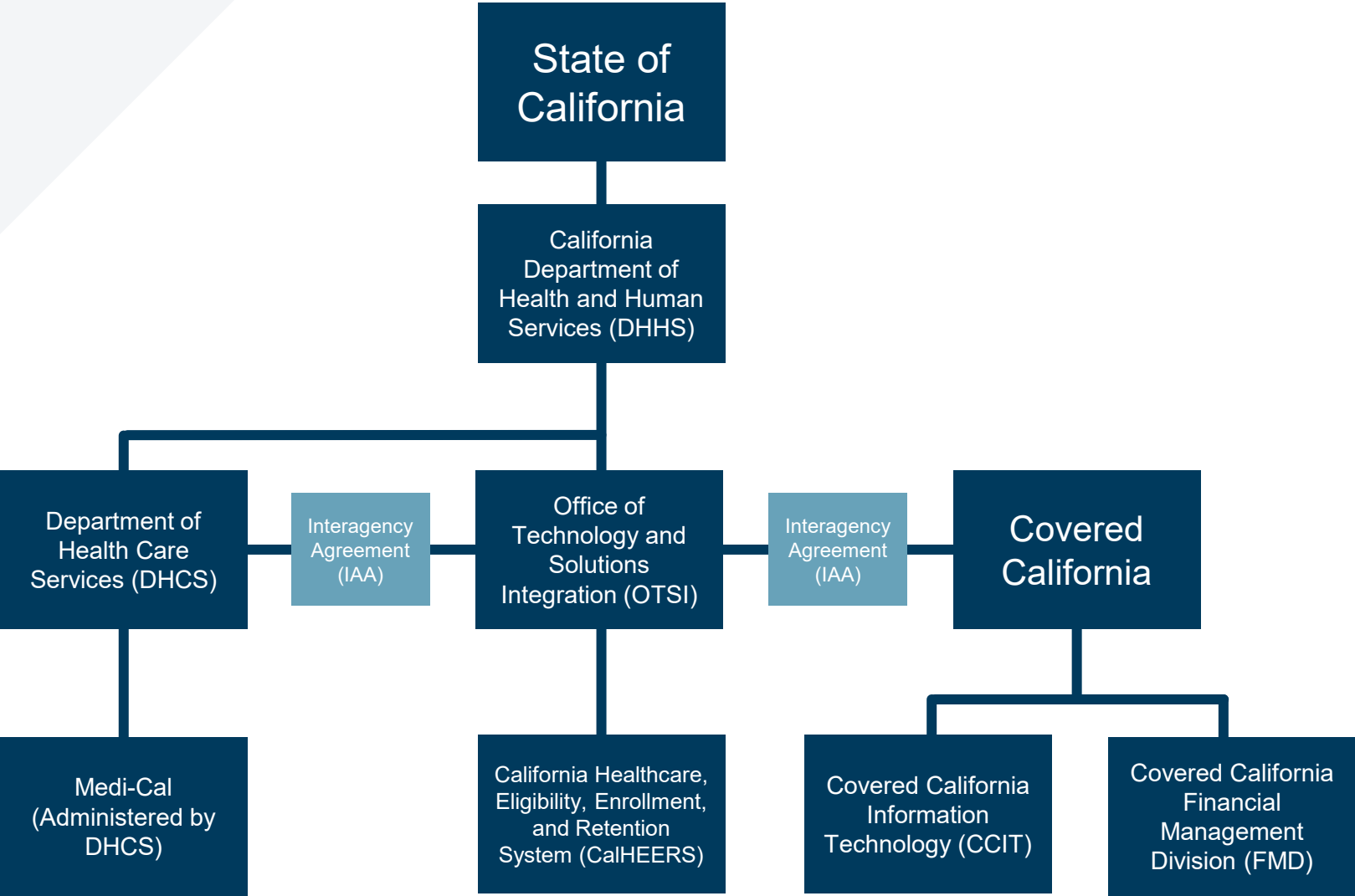
- BerryDunn performed an evaluation of the invoice management process between Covered California and the California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS) Project Management Office at the Office of System Technology and Integration (OTSI) during the period from **July 1, 2024 – December 31, 2024.**
- CalHEERS is managed by OTSI on behalf of Covered California and Department of Health Care Services (DHCS). CalHEERS works collaboratively with OTSI to help validate and process invoices.

■ **Purpose:**

- Provide clarity regarding the roles and responsibilities associated with the processing of invoices, and
- Gain a better understanding of the specific activities performed by OTSI and CalHEERS throughout the invoice management process.



Organizational Charts of Departments Involved Within the Invoice Process



Departments Responsibilities

Entity	Primary Responsibilities	Department Invoice Responsibilities
Covered California Information Technology (CCIT)	Responsible for supporting, maintaining, and enhancing the technological infrastructure that enables the State's health benefit exchange to operate effectively.	- Ensure invoices are paid in accordance with State and internal requirements. - Ensure a contract, authority for bill, and authority for payment are provided prior to payment.
Covered California's Financial Management Division (FMD)	Primarily responsible for overseeing all financial-related activities with Covered California such as Finance and Accounting, Budgeting, and Governmental Compliance.	- Vet invoices and send a DocuSign to OTSI. - Ensure invoice costs are within Covered California's budget. - Ensure quality document retention for reference purposes.



Departments Responsibilities

Entity	Primary Responsibilities	Department Invoice Responsibilities
Office of Technology and Solutions Integration (OTSI)	- A division within the California Health and Human Services Agency responsible for managing IT projects and systems that support health and human services programs statewide. - Primarily responsible for procuring, managing, and delivering technology systems that support the delivery of health and human services to Californians.	- Process invoices and route them to CalHEERS for validation. - Compile validated invoices into memo bills. - Manage invoice budgets for Covered California and DHCS. - Manage statutory and process for disputes. - Verify invoices align with contract expenditures and comply with the Interagency Agreement.
California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS)	- Operates under OTSI's oversight and serves as a critical system for determining eligibility and facilitating enrollment for Covered California and Medi-Cal programs. - Serves as the consolidated system support for eligibility, enrollment, and retention for the Covered California, Medi-Cal, and Healthy Families.	- Handle initial receipt and processing of invoices. - Review and approve invoices to ensure all costs are allowable and accurate. - Ensure all contract requirements and expectations are met. - Prepare invoice packages with necessary supporting documentation. - Upload supporting documentation to the Covered California Extranet. - Internally review and approve invoices. - Send invoices to OTSI after review.



Observation and Recommendation #1

Invoice Review Procedures Do Not Align With the Interagency Agreement

Observation

- ▲ CCIT did not have full access to all supporting documentation for invoices.
 - As a result, CCIT relied on the OTSI and CalHEERS to confirm that invoice charges were accurate.
- ▲ The Interagency Agreement (IAA) requires Covered California to review and validate invoices, including desk audits for accuracy and support.
 - Discussions with CCIT revealed that these additional review steps are not being performed.

Recommendation

- ▲ **Align Internal Procedures with the Interagency Agreement**
 - CCIT should consider formalizing internal procedures to independently review and validate invoices in accordance with the IAA.
 - CCIT could also consider revising the IAA to reflect the current practice of relying on OTSI and CalHEERS to perform these functions.
 - If CCIT chooses to continue relying on OTSI and CalHEERS, it should work with them to establish clear expectations regarding the supporting documentation that must be uploaded to the designated SharePoint site for each invoice.



Observation and Recommendation #2

Lack of Clarity Around Invoice Review Roles and Responsibilities

Observation

- ▲ BerryDunn identified a general lack of clarity among stakeholders regarding which entities are responsible for specific invoice review and approval tasks.
- ▲ CCIT staff were not fully aware of the detailed steps these groups take to validate, review, and approve invoices prior to submission for payment.
- ▲ BerryDunn's review found that OTSI and CalHEERS maintain a robust and timely invoice review process.
- ▲ Because CCIT does not have direct visibility into many of these internal workflows, they are often unaware of the extent and rigor of the review and approval activities being performed.



Recommendation

- ▲ **Document Invoice Review Roles and Responsibilities**
 - BerryDunn recommends that CCIT work with FMD and OTSI/CalHEERS to formally establish and document clear roles and responsibilities for each group involved in the invoice review process.

Observation and Recommendation #3

Absence of Formal Procedures for Invoice Redaction

Observation

- ▲ BerryDunn observed that the process for redacting invoice documentation lacks formal written procedures.
- ▲ Instead, redaction practices are generally guided by informal expectations or verbal instructions.
- ▲ In the absence of standardized guidance, there is a risk of inconsistent application of redaction protocols, which could result in the inadvertent release of sensitive information.

Recommendation

- ▲ **Establish a Formal Invoice Redaction Policy and Review Process**
 - BerryDunn recommends that CCIT work with OTSI to develop and implement a formal, written redaction policy to provide clear and consistent guidelines on how invoice redactions are handled.
 - In addition, BerryDunn recommend establishing a standardized redacted invoice review process that outlines the required supporting documentation to accompany each redacted invoice.



Observation and Recommendation #4

Interagency Agreement Should Be Updated

Observation

- ▲ BerryDunn examined the updated Interagency Agreement (IAA) applicable to the period July 1, 2024, through December 30, 2024 and identified several areas where updates could improve clarity and accuracy.
 - A table contains an incorrect total sum.
 - The agreement no longer includes the CalHEERS Project Budget by fiscal year or the Cost Allocation Plan (CAP) Calculator percentage rates used to allocate costs between Covered California and DHCS.
 - The agreement requires that OTSI develops invoices in accordance with OMB Circular A-87. However, this circular has been superseded by 2 CFR Part 200, Subpart E – Cost Principles.



Recommendation

- ▲ **Update and Align the IAA with Current Practices and Federal Requirements**
 - BerryDunn recommends that Covered California, OTSI, and CalHEERS collaborate to update the IAA to improve accuracy, clarity, and alignment with current federal requirements.
 - Review and revise the expenditure table in Exhibit B to ensure that the annual totals are accurate and sum correctly to the stated overall agreement total.
 - Reinstate the CalHEERS Project Budget by fiscal year and the CAP Calculator percentage rates used to allocate costs.
 - Replace the outdated reference to OMB Circular A-87 with the current federal cost principles outlined in 2 CFR Part 200, Subpart E.

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This report/communication is intended solely for the information and use of the Board and its committee and management and is not intended to be, and should not be, used by anyone other than these specified parties.



Questions?

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Audit Results



Internal Audit Results

Advertising Contracts Audit

Kevin Cathy
Branch Chief
Office of Audit Services



ADVERTISING CONTRACTS AUDIT

BACKGROUND

The Marketing Division develops and implements Covered California's comprehensive marketing campaign to motivate Californians to enroll in and renew their health insurance through Covered California. The Marketing Division manages Covered California's advertising contractor, who serves as a collaborative and strategic partner in the development and implementation of the marketing and advertising strategy. The contract expenditures for this advertising contractor for fiscal year 2023-24 totaled \$52.3 million.

AUDIT OBJECTIVE

The Office of Audit Services conducted an audit to assess the Marketing Division's advertising contract management processes in accordance with policies, procedures, and applicable requirements. The audit reporting period was July 1, 2023, through June 30, 2024.

POSITIVE OBSERVATIONS

The Office of Audit Services verified, with reasonable assurance, that the Marketing Division demonstrated effective controls over the contract management process. The Marketing Division:

- Demonstrated effective oversight and monitoring of the advertising contract, which ensured marketing objectives were met.
- Maintained comprehensive contract work plans, which ensured key deliverables and other aspects of the contract were planned for and delivered.
- Effectively managed the advertising contract budget by utilizing comprehensive budget trackers, which ensured accurate budget oversight, project execution, and invoice reconciliation.
- Demonstrated efficiency by promptly reviewing and approving all invoices upon receipt from the contractor, which ensured each invoice was supported, accurate, and complied with contract provisions.

ADVERTISING CONTRACTS AUDIT

SUMMARY OF AUDIT FINDINGS		
Finding	Recommendation	Estimated Implementation Dates of CAPs
Finding 1: Applicable contractor employees did not complete the required Statement of Economic Interests form and ethics training.	While the Business Services Branch (BSB) evaluates any needed updates to the Program Contract Management Handbook and supporting process, the Marketing Division should work with BSB to ensure applicable contractor employees complete the required Form 700 and ethics training on a timely basis.	October 2025 <i>In process of validating</i>



Questions?

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Internal Audit Results

Contract Management Audit

Kevin Cathy
Branch Chief
Office of Audit Services



CONTRACT MANAGEMENT AUDIT

BACKGROUND

The Policy, Eligibility, and Research Division (PERD) oversees Covered California's eligibility and enrollment policies. PERD advises management on program policies, including federal and state exchange regulations, and oversees contracts for advanced data analytics and consultation services. The contracts provided sophisticated data analytics and consultation services to inform and support a wide range of enterprise needs.

AUDIT OBJECTIVE

The Office of Audit Services conducted an audit to assess PERD's contract management processes in accordance with policies, procedures, and applicable requirements. The audit reporting period was July 1, 2023, through June 30, 2024.

POSITIVE OBSERVATIONS

The Office of Audit Services verified, with reasonable assurance, that PERD demonstrated effective controls over the contract management process by:

- Demonstrating effective oversight and monitoring of the contracts they manage, which ensured objectives and deliverables were met.
- Managing contract budgets, which ensured accurate budget oversight, project execution, and invoice reconciliation.
- Demonstrating efficiency by promptly reviewing and approving all invoices upon receipt from the contractor, which ensured each invoice was supported, accurate, and complied with contract provisions.

CONTRACT MANAGEMENT AUDIT

SUMMARY OF AUDIT FINDINGS		
Finding	Recommendation	Estimated Implementation Date of CAPs
Finding 1: Applicable contractor employees did not complete the required Statement of Economic Interests form and ethics training.	PERD should work with the Business Services Branch (BSB) to ensure applicable contractor employees timely complete the required Form 700 and ethics training.	December 2025



Questions?

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WRAP-UP AND NEXT STEPS

Potential Future Meeting Dates	Potential Agenda Topics	Action/Discussion
February 19, 2026	Review Results of Completed Audits	Discussion
June 18, 2026	- Review and Approve Annual Risk-Based Internal Audit Plan - Review Annual Audit Activities Board Report - Review Results of Completed Audits	Action Discussion Discussion
August 20, 2026	Review Results of Completed Audits	Discussion
August 20, 2026 (Board Meeting)	Present Annual Audit Activities Report to Board	Discussion
November 19, 2026	- Review and Approve Internal Audit Charter - Review Results of Completed Audits	Action Discussion

Appendix

Quarterly Report on Audit Activities



TABLE OF CONTENTS

01	Status of Internal Audit Projects	34
02	Status of Corrective Action Plans for Completed Internal Audit Projects	35 - 36
03	Status of External Audits	37
04	Status of Corrective Action Plans for Completed External Audits	38 - 40
05	Status of Non-Audit Projects	41

Appendix ~ Quarterly Report on Audit Activities

STATUS OF IN-PROGRESS INTERNAL AUDIT PROJECTS

Name	Business Area	Objective	Estimated Completion Timeframe
Patch Management Controls Audit	Information Technology Division	To verify if the Information Technology Division's management controls of security patches for workstations comply with federal requirements.	FY 2025-26 Quarter 2
Population Health Investments Advisory Engagement	Equity & Quality Transformation Division	To evaluate the effectiveness and integrity of the eligibility determination, outreach, and funding processes for the Child Savings Account Program under Covered California's Population Health Investments program.	FY 2025-26 Quarter 3
FMLA Compliance Audit	Human Resources Branch	To assess the Human Resources Branch's compliance with Family Medical Leave Act (FMLA) leave of absence, notification, and certification procedures, in accordance with state and federal regulations.	FY 2025-26 Quarter 3
Hardware Asset Management Audit	Information Technology Division	To assess the Information Technology Division's effectiveness in managing Covered California's hardware asset tracking and inventory processes.	FY 2025-26 Quarter 3
Employee Engagement Survey Advisory Engagement	Office of Organizational Culture, Inclusion, & Engagement	To assess the effectiveness and oversight of data collection and follow-up processes related to employee engagement surveys.	FY 2025-26 Quarter 3
Health Plan Payments Audit	Plan Management Division	To determine whether cost sharing reduction payments made to contracted health plans are accurate and timely.	FY 2025-26 Quarter 4
Physical Security Audit	Business Services Branch	To determine whether the Business Services Branch's procedures comply with all applicable regulations to effectively ensure optimal physical security for Covered California's facilities.	FY 2025-26 Quarter 4

Appendix ~ Quarterly Report on Audit Activities

STATUS OF CORRECTIVE ACTION PLANS (CAPs) FOR COMPLETED INTERNAL AUDIT PROJECTS

Name	Business Area	Final Report Date	Objective	Findings	Estimated Implementation Date of CAPs
CalHEERS Manual Override Audit	Service Center Division ~ Information Technology Division	March 2025	To assess whether internal controls over CalHEERS manual override functionalities are operating appropriately.	1. Service Center Division L3 system users did not always perform accurate and allowable CalHEERS manual override transactions.	Implemented
				2. Service Center Division did not always provision employees with the correct CalHEERS access levels.	Implemented
				3. Information Technology Division did not ensure quarterly reviews of CalHEERS user accounts were performed.	March 2026
Follow up on SPB Compliance Review Audit	Human Resources Branch ~ Covered California University ~ Equal Employment Opportunity Office	May 2025	To assess the progress and effectiveness of corrective actions taken in response to findings identified in the State Personnel Board's Compliance Review Report issued in March 2023.	1. Human Resources Branch did not consistently retest employees that received bilingual pay within required intervals.	Implemented
				2. Human Resources Branch did not audit employee leave records on a monthly basis.	Implemented
				3. Human Resources Branch did not consistently ensure employees received performance appraisals.	March 2026
				4. Covered California University did not ensure their records accurately reflected the completion of the required ethics training by all designated filers.	Implemented
				5. Covered California University did not ensure all supervisory employees completed mandatory leadership training.	Implemented
				6. Covered California University did not ensure all employees were provided sexual harassment prevention training.	Implemented

Appendix ~ Quarterly Report on Audit Activities

STATUS OF CORRECTIVE ACTION PLANS (CAPs) FOR COMPLETED INTERNAL AUDIT PROJECTS (continued)

Name	Business Area	Final Report Date	Objective	Findings/Observations	Estimated Implementation Date of CAPs
Invoice Management Evaluation Advisory Engagement	Information Technology Division	June 2025	To evaluate the CalHEERS invoice process between Covered California and OTSI, with the goal of identifying improvement opportunities and issuing recommendations to strengthen efficiency and accuracy.	1. Invoice review procedures do not align with the Interagency Agreement.	April 2026
				2. There is a lack of clarity around invoice review roles and responsibilities.	March 2026
				3. There is an absence of formal procedures for invoice redaction.	April 2026
				4. The Interagency Agreement should be updated to align with current practices and federal requirements.	June 2026
State Privacy Requirements Audit	Office of Legal Affairs	June 2025	To assess the Privacy Office's compliance with state privacy requirements protecting consumer personally identifiable information.	1. The Privacy Office did not provide adequate oversight of contractors who access personally identifiable information.	June 2026
				2. The Privacy Office did not track and monitor Workforce training activities to ensure compliance with training requirements.	June 2026
Advertising Contracts Audit	Marketing Division	September 2025	To assess the Marketing Division's advertising contract management processes in accordance with policies, procedures, and applicable requirements.	1. Applicable contractor employees did not complete the required Statement of Economic Interests form and ethics training.	October 2025 <i>In process of validating</i>
Contract Management Audit	Policy, Eligibility, and Research Division	September 2025	To assess PERD's contract management processes in accordance with policies, procedures, and applicable requirements.	1. Applicable contractor employees did not complete the required Statement of Economic Interests form and ethics training.	December 2025

Appendix ~ Quarterly Report on Audit Activities

STATUS OF IN-PROGRESS EXTERNAL AUDITS

Name	External Auditor	Objective	Estimated Completion Date
Duplicate Government Sponsored Health Care Coverage Audit (Audit of CMS)	Government Accountability Office	To assess if Covered CA enrollees are also enrolled in other State programs and have dual coverage (e.g., enrollment in other state Medicaid programs, CHIP, and Exchanges). - <i>Note: Covered California was surveyed in support of this audit.</i>	TBD
FY 2024-25 Financial Statements Audit	Macias, Gini, & O'Connell LLP (MGO)	To obtain reasonable assurance regarding whether Covered California's financial statements are free from material misstatement, whether due to fraud or error.	January 2026
2025 Programmatic Audit	BDMP Assurance, LLP (Formerly BerryDunn)	To evaluate Covered California's compliance with the programmatic requirements under 45 CFR § 155, Subparts C, D, E, and K for the 12-month period January 1, 2025, through December 31, 2025.	May 2026

Appendix ~ Quarterly Report on Audit Activities

STATUS OF CORRECTIVE ACTION PLANS (CAPs) FOR COMPLETED EXTERNAL AUDITS

Name	Final Report Date	Findings	Estimated Implementation Date of CAPs
2024 Programmatic Audit	May 2025	1. Covered California disclosed defects in CalHEERS during audit interviews. The defects impacted eligibility determinations during the audit period, where the system determined redundant eligibility for a QHP with APTC, and Medi-Cal, in certain scenarios.	December 2026
		2. Covered California did not discontinue financial assistance for applicants who failed to respond to a conditional eligibility notice for income within the 95-day reasonable opportunity period (ROP).	December 2025
		3. Tax households may not have been awarded the correct amount of APTC for the tax and plan year based on the income, benchmark plan premium, APTC used previously in the year.	Covered California disagrees with this finding
		4. Covered California did not have a formal policy that required employees to complete a Remote Access Agreement before obtaining remote access to Covered California systems. (The prior year finding was identified as 2023 #4)	July 2026
		5. Covered California did not monitor contractors' compliance with the requirement that all staff must sign a Covered California Remote Access Agreement and Acceptable Use Statement. (The prior audit finding was identified as 2023 #5)	July 2026
		6. The California Code of Regulations (CCR) has not been updated to include county eligibility workers as Certified Representatives who can assist customers with the identify verification process. (The prior year finding was identified as 2023 #7)	Implemented

Appendix ~ Quarterly Report on Audit Activities

STATUS OF CORRECTIVE ACTION PLANS (CAPs) FOR COMPLETED EXTERNAL AUDITS (continued)

Name	Final Report Date	Findings	Estimated Implementation Date of CAPs
2023 Programmatic Audit	April 2024	1. Covered California did not discontinue financial assistance for applicants who failed to respond to a conditional eligibility notice for income within the 95-day reasonable opportunity period.	December 2025
		2. Some applicants who were determined conditionally eligible due to outstanding income verification did not receive notices alerting them of the inconsistency and requesting further documentation.	Implemented
		3. Covered California did not complete all the necessary steps to verify lawful presence for 2 sampled cases.	Implemented
		4. Covered California did not have a formal policy that required employees to complete a Remote Access Agreement before obtaining remote access to Covered California systems.	July 2026
		5. Covered California does not have processes in place to monitor contractors' compliance with the requirement that all staff sign a Covered California Remote Access Agreement.	July 2026
		6. Discrepancies were not identified or corrected by the existing monthly reconciliation process.	Implemented
		7. The California Code of Regulations (CCR) has not been updated to include county eligibility workers as Certified Representatives who can assist customers with the identify verification process.	Implemented
		8. Applicants were able to enroll in a qualified health plan prior to the completion of identity verification.	Implemented

Appendix ~ Quarterly Report on Audit Activities

STATUS OF CORRECTIVE ACTION PLANS (CAPs) FOR COMPLETED EXTERNAL AUDITS (continued)

Name	External Auditor	Objective	Recommendations	Estimated Implementation Date of CAPs
2022 Programmatic Audit	Sjoberg Evashenk Consulting	To evaluate Covered California's operations, program effectiveness and efficiencies, and administrative functions in accordance with 45 Code of Federal Regulations (CFR) Part 155.	Covered California has fully implemented 20 of the 22 recommendations.	
			2.2 To better ensure documentation submitted for identity proofing is legitimate and valid, Covered California implement a process to validate documentation uploaded as legitimate and valid proof of identification.	December 2025
			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.	June 2026

Appendix ~ Quarterly Report on Audit Activities

STATUS OF NON-AUDIT PROJECTS

Name	Objective	Estimated Completion Date
Quality Assurance and Improvement Program – External Assessment of Fiscal Years 2020-25	To assess the efficiency and effectiveness of the Office of Audit Services' practices as well as to evaluate its conformance with the IIA Standards for the period of Fiscal Years 2020-25.	November 2025
Improper Payment Pre-Testing and Assessment (IPPTA)	To prepare state-based exchanges for the planned measurement of improper payments.	December 2025