

Covered California

Invoice Management
Evaluation
Deliverable version – Final



Submitted by:

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1. Background

Berry, Dunn, McNeil & Parker, LLC (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.

The purpose of this evaluation was to provide clarity regarding the roles and responsibilities associated with the processing of invoices and to gain a better understanding of the specific activities performed by OTSI and CalHEERS throughout the invoice management process. 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. By documenting the steps taken by each entity, we aimed to support improved transparency, alignment, and efficiency across the process. For the purposes of this report, references to “CalHEERS” specifically refer to the CalHEERS team who work directly for OTSI to process invoices related to Covered California.

Figure 1 below provides an overview of each department that is involved within the invoice process.

Figure 1: Organizational Chart of Departments Involved within the Invoice Process

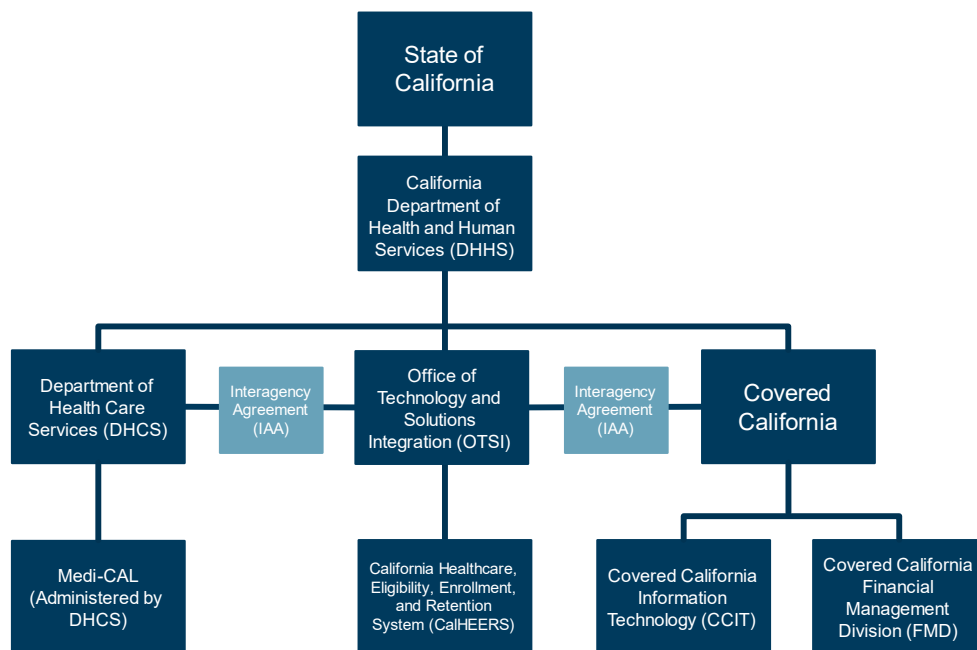


Table 1 below provides a high-level summary of the key responsibilities assigned to each group.

Table 1: Departments Responsibilities that are Involved within the Invoice Process

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.
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.
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,	- 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.

Entity	Primary Responsibilities	Department Invoice Responsibilities
	Medi-Cal, and Healthy Families.	• Upload supporting documentation to the Covered California Extranet. • Internally review and approve invoices. • Send invoices to OTSI after review.

1.1 Summary of Interagency Agreement Requirements

OTSI

OTSI's roles and responsibilities within the invoice process are listed within the Interagency Agreement. For vendor invoices, they are responsible for processing the invoice, auditing for compliance with contract requirements, and paying invoices for goods and services to the level of detail required by the approved contract terms and conditions and the Project Fiscal Office requirements. OTSI is also responsible for ensuring all contractor and consultant invoices have sufficient detail to determine appropriate methodology to be used for cost allocation to benefit programs in conformance with OMB Circular A-87. For Service Center Technology billing, OTSI is responsible for assigning the appropriate billing code to procurement documents and for processing and paying the associated invoices. Service Center Technology invoices relate to the operation of Covered California's Service Center, which supports consumer enrollment and assistance activities. NWN Corporation operates the Service Center and incurs associated technology and operational costs, which are invoiced to OTSI for review and processing.

Once the Service Center Technology invoices for goods and services are reviewed and approved by Covered California, OTSI processes and pays the invoices.

When processing OTSI invoices to Covered California, submitted in the form of memo bills, OTSI is responsible for preparing invoices for Project Management services to the level of detail required by approved Advanced Planning Documents (APD), and sponsor requirements and submitting them to the sponsor for payment in a timely manner.

OTSI explained that while the Interagency Agreement requires invoices to align with the APD is primarily designed to support the DHCS in requesting Federal Financial Participation (FFP) from the Centers for Medicare & Medicaid Services (CMS) by federal fiscal year (FFY). Although the Covered California share of costs is included, it is minimally detailed since Covered California does not claim FFP and is not dependent on APD approval to pay invoices. OTSI supports the development of the APD's narrative and cost tables, which are ultimately reviewed by both DHCS and Covered California. However, DHCS is the primary stakeholder due to its reliance on CMS approval to access federal funding. OTSI noted that while the APD is referenced in the

agreement, this may be more of a formal requirement than a practical necessity for Covered California.

Sponsors – Covered California and DHCS

The Interagency Agreement lists multiple roles and responsibilities for Covered California and DHCS. When handling vendor invoices, these two groups are responsible for reviewing invoices that were submitted from OTSI, helping to ensure the documentation aligns with federally approved APD and confirming the detail is sufficient to allocate costs. If any invoices do not meet the sufficient criteria, Covered California and DHCS must return the invoices to OTSI. Prior to issuing contracts for Service Center Technology support with the OTSI billing code, Covered California and DHCS must discuss the contracts and obtain approval from OTSI. Other responsibilities for these two groups include reviewing, auditing for compliance with contract requirements, and approving Service Center Technology invoices for goods and services to the level of detail in accordance with the approved contract terms and conditions. Covered California and DHCS must provide written confirmation to OTSI to pay these invoices.

Covered California and DHCS also have roles and responsibilities for handling OTSI invoices to Covered California. These responsibilities include performing desk audits of OTSI invoices to ensure the accuracy, support, and validity of costs as well as confirming the invoice contains the level of detail required by approved APDs. These two groups are also responsible for paying OTSI invoices for Project Management services in a timely manner.

1.2 Summary of Invoice Processes

Office of Technology and Solutions Integration (OTSI)

OTSI's invoice process is a structured and collaborative effort involving multiple roles and responsibilities. The OTSI/California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) project is sponsored by Covered California and the Department of Health Care Services (DHCS). OTSI is responsible for overall project management, and on behalf of Covered California and DHCS, holds contracts with vendors that provide services to the Exchange, such as Deloitte. Invoices are submitted to OTSI's Fiscal and Legislative Services Division (FLSD) accounts payable mailbox, FLSD documents receipt of the invoices and uploads a copy to the internal SharePoint site to initiate the CalHEERS review process. CalHEERS is responsible for validating each invoice to ensure the charges are accurate, allowable, and align with contractual terms. Once reviewed and approved, the invoices are returned to FLSD for further processing. Another step that is taken while reviewing the invoices is the redaction process. OTSI reported that they redact any information on the invoice that is not directly related to the project/organization they are reviewing. Examples of these types of invoices include shared legal fees, technology services, and trainings. Additional details on CalHEERS' internal review procedures are provided in a later section of this report.

After validation, OTSI compiles the approved invoices into memo bills. These are categorized into several groups:

- Deloitte – For Deloitte related costs.
- Regular Fiscal Month – All project monthly costs, with the exception of vendor related invoices.
- Other Vendor Fiscal Month – Other vendor invoices with the exception of Deloitte.
- CMS – Any invoices costs associated with VCI Hub services.

All the above listed categories of memo bills follow a monthly cadence; however, the timing of issuance can vary depending on the receipt of the invoices from vendors and cash flow considerations for OTSI. OTSI reported that the CMS costs only occurred during our review period and are no longer applicable at this time. CalHEERS is responsible for the accuracy of the invoices and memo bills prior to submission to Covered CA and DHCS, and documentation is maintained by OTSI Accounting on a shared SharePoint site for reference and tracking

Once assembled, the memo bills are submitted to the appropriate program sponsors, Covered California and DHCS, to request reimbursement for costs that OTSI has paid on their behalf. Generally, memo bills are used to request reimbursement for costs that have already been incurred. However, in some cases, particularly when invoices are large, OTSI may request expedited reimbursement from the sponsoring departments to ensure sufficient cash flow is available to process the payment.

The cost of services is allocated according to a federally approved Cost Allocation Plan (CAP), which is updated annually based on enrollment data for Covered California and Medi-Cal. Covered California and DHCS work together to determine the allocation percentages on an annual basis and OTSI/CalHEERS is only responsible for helping to ensure that the costs are split according to the established plan. During the period under review, Covered California was responsible for 13.46% of shared services.

The payment process also involves coordination with the Department of General Services (DGS) and the State Controller's Office (SCO). Invoices follow a 45-day processing timeline, initiated upon receipt of the invoice, typically divided into three 15-day segments: one for OTSI internal review, one for DGS processing, and one for SCO disbursement. To allow sufficient time for downstream processing, OTSI aims to complete its internal invoice review within the first five days.

When DGS receives an invoice from OTSI, its role is to confirm that sufficient funding is available to process the payment voucher. Once this validation is complete, the invoice is forwarded to the SCO, which is responsible for verifying that a valid contract is in place within the system and for issuing the corresponding pay warrant.

Timely processing is essential, as OTSI is subject to financial penalties under applicable State law in accordance with The Prompt Payment Act if payment deadlines are not met. This statute requires State agencies to pay properly submitted, undisputed invoices within 45 calendar days of initial receipt. If an organization does not meet the 45-calendar day deadline, they are subject

to a daily penalty equivalent to 1% over the Pooled Money Investment Account rate from the prior June 30th, unless the vendor is a small business. For small business vendors, the rate is a daily rate based on 10% above the United State Prime Rate from the prior June 30th. For FY 2024-25, the daily penalty rate was .015% and 0.51%, respectively.

Throughout this process, OTSI is responsible for managing project costs and documentation in compliance with Covered California's budget and regulatory requirements.

CalHEERS

BerryDunn interviewed staff within the CalHEERS team and reviewed the CalHEERS Invoice Process Guide to determine each step in the invoice process. Through this review we identified that CalHEERS has established a five-component method for processing invoices. While the process follows a general sequence, certain tasks, such as updating the invoice trackers, do not need to be completed in a fixed order and may occur periodically throughout the process.

1. Receiving the Invoice

Once OTSI FLSD receives an invoice and uploads it to the internal SharePoint site, CalHEERS begins its detailed review process. FLSD and CalHEERS then have 15 days to complete the processing. As part of this process, CalHEERS applies a standardized naming convention to the uploaded files, Vendor Invoice Name/Contract Number_Contract Year_Contract Month, to support consistency and traceability.

A contract manager at CalHEERS is responsible for overseeing individual contracts. Upon receiving an invoice, the Contract Manager must verify that all agreed-upon duties have been completed by the contractor in compliance with the invoice and contract details, which include various items such as deliverables and taxes. They are one of several signatures required to approve an invoice.

The final step in this component is to review the invoice for accuracy, which is performed by the Contract Manager within CalHEERS upon receipt from OTSI. The contract manager reviews time sheets, monitors the work being done, assigns tasks, and verifies that the work is completed on schedule. They ensure the timing aligns monthly and confirm that the hourly rates match the contract terms. An internal checklist is used to validate that the work and hours are in accordance with the contract. Additionally, a burndown rate is included to ensure the budget is adhered to.

Key fields to verify include the signatures, invoice date, hours worked, date received, invoice name/number, contract number, billing details, and purchase order (PO) number. OTSI also indicated that they verify the vendor name and ID number as well as the account code (COA). Contract Managers are one of several signatures required to approve an invoice. Then the invoice submittal tracker is updated with the invoice date, OTSI receive date, and Project receive date which will then auto-populate the due dates.

2. Preparing the Invoice

The second component within CalHEERS' Invoice Processing Guide involves preparing the invoice for routing and approval. This begins by copying the previous month's invoice-related documents from the vendor folder located in OTSI's fiscal subsite under Contracts and Invoices. Files to be copied include:

- CAP Calculator
- Drawdown
- Contract Manager Invoice Approval Checklist
- Invoice Approval Routing Slip

These files are renamed to reflect the current month and then updated for the new invoice. This step helps ensure continuity by retaining the correct list of signatories and the updated contract balance, eliminating the need to recalculate or reference past approvals manually.

CalHEERS then inputs the invoice amount into the applicable CAP Calculator, which determines how the total invoice cost is split among stakeholders. The drawdown is also prepared, summarizing the updated running balance for the contract. If applicable, the Contractor Validation Tracker is created to document approved hourly rates by contractor.

Another critical document is the Contract Manager Invoice Approval Checklist, which helps ensure all required steps and reviews are completed. Finally, the Invoice Approval Routing Slip is updated to include key fields such as:

- Vendor
- Contract Services
- Service Period
- Invoice Amount
- Invoice Number
- PO Number
- Route and Due Dates
- Originator contact
- Required reviews and approvals

This Invoice Approval Routing Slip helps ensure the invoice is reviewed and signed by the appropriate parties.

3. Routing for Signatures

Once all invoice materials are prepared, the third component within CalHEERS' Invoice Processing Guide involves routing them for signature via DocuSign. A DocuSign envelope is

created containing all required documents, including:

- Invoice Page – The Invoice page requires the Project Director to input signature tags at multiple points throughout this document.
- Invoice Approval Routing Slip – Notably, the Invoice Approval Routing Slip will need each recipient to sign their initials and date of signature within the invoice.
- Contract Manager Invoice Approval Checklist – When completing this form, the Contract Manager needs to be listed as the recipient to ensure the signature tags display the correct signer. Multiple checkboxes are placed within this document that are required to be checked by the Contract Manager. This form also requires a text box to be added onto the line that starts with “There is sufficient money available.....”. The purpose of this box is to help ensure the contract balance after applying the current invoice payments aligns with the amount listed on the drawdown. It is also important to note that the last line of the Checklist is only filled out if the current invoice is the final invoice for the entire contract. A checkbox tag and textbox tag are added for the remaining contract balance if the Invoice is the last one within the agreement.
- CAP Calculator
- Drawdown
- Supporting Documentation
- Invoice Email from OTSI

Upon all files having the proper DocuSign tags inputted, the next step is to transmit the invoice back to OTSI FLSD and, ultimately Covered California. This process is described below in the fourth component of CalHEERS’ Invoice Processing Guide.

4. Submitting the Invoice

After all necessary signatures are obtained through DocuSign, the fourth component within CalHEERS’ Invoice Processing Guide is to submit the invoice. The following documents are submitted:

- **To OTSI FLSD Accounting:** A PDF of the first page of the approved invoice with the CAP in a document as well as in Excel format.
- **To Covered California:** All documents routed and approved through DocuSign.

5. Updating Invoice Trackers

The final component within CalHEERS’ Invoice Processing Guide is to update relevant invoice tracking spreadsheets. While this step can be performed at any point in the process, team members promptly complete this step after the invoice is approved by the Project members, to maintain timely records.

The trackers are located in the Contracts Tracking Worksheets folder on the CalHEERS OTSI SharePoint and include:

- **Contracts FY 20XX–XX:** Tracks monthly payments for each support contract by the month of service. For NWN contracts, there is a separate tab for tracking with the goal of updating the file immediately after receiving an invoice. For each row, enter the invoice amount for each month of service, change the cell to white or “no color,” and update the “Straight Lined” formula to include the additional month of service if necessary.
- **Master Invoice Tracker:** Records all invoices, including dates received, approval dates, amounts, and any disputes. Due to this file recording the approved date and amount of an invoice, the file can be updated either during the entire invoice process or once at the end of the invoice approval process.
- **Contractor Burn Rate Document:** Monitors the rate at which contract funds are being spent.

Timely updates to these trackers support accurate financial oversight and effective contract management.

NWN Contracts:

The contract with NWN is managed by a contract manager from Covered California. This unique contract, held and executed by Covered California, involves shared costs between both sponsors, Covered California and DHCS. NWN submits its invoices to OTSI on behalf of Covered California. CalHEERS serves primarily as a conduit in this process, as the NWN contract is a shared cost between the two sponsoring entities. As a result, CalHEERS is involved in the invoice routing process. Once received, the invoice is date-stamped by OTSI and then routed to CalHEERS for project-level review and approval.

The Contract Manager is responsible for helping to ensure that all invoices from NWN are accurate and comply with the contract terms. Invoices are submitted to the Contract Manager for initial verification and approval before being processed by OTSI, which acts as an intermediary to help ensure the charges are accurate and match the approved amounts. The documentation provided for NWN invoices is driven by Covered California's requirements, with OTSI's involvement being focused on verifying compliance with Form 20 and helping ensure figures are within the allocated budget.

NWN is involved in call center activities for Covered California enrollees, handling troubleshooting for enrollment applications and related issues. The contract is valued at approximately \$79 million over many years, includes various services primarily related to call center activities. NWN invoices are included in memo bills assembled by OTSI to bill DHCS for their share of the costs. Form 20 is a detailed document submitted by Covered California, outlines the services to be provided under the NWN contract and the associated budget, which OTSI reviews to help ensure compliance.

The responsibilities of the NWN contract are currently being transitioned to Deloitte, with Deloitte taking over the majority of the effort as NWN's services are not at the same capacity as once before. The CalHEERS Fiscal Team maintains a spreadsheet to track the total budget of the NWN contract and the monthly invoices against Form 20, ensuring expenditures are within the allocated budget.

FMD Invoice Management Process

Within Covered California, the Financial Management Division (FMD) is responsible for coordinating the internal routing and processing of invoices submitted by OTSI. Upon receipt, OTSI invoices are distributed by email to several parties, including the Accounting and Budget units within FMD, the CalHEERS team, and the FMD Financial Reporting Team. The Accounting unit initiates the process by creating a DocuSign envelope and attaching the invoice. This envelope is first routed to CCIT for review and approval, as CCIT serves as the contract manager and is responsible for validating that the invoice aligns with contract terms and deliverables.

Once CCIT has approved the invoice, the DocuSign envelope is sent to the Budget Office within FMD. Although FMD does not perform a validation of invoice details or supporting documentation, the Budget team reviews the invoice to confirm that the charges fall within the appropriate budget limits and applies the correct budget coding needed for payment. After both CCIT and Budget approvals are documented, the envelope is returned to the Accounting unit. Accounting performs a final review to verify that all required approvals have been completed. The invoice is then processed for payment and submitted to the California SCO for disbursement.

CCIT Invoice Management Process

BerryDunn also met with members of CCIT to understand their perspective of the invoice management process. We interviewed a Budget Analyst within the IT division, the Chief of Enterprise Analysis and Testing Office, and the Chief of Consumer Technology Solutions within the CCIT.

CCIT reported that during our review period, its visibility into invoice contents was limited to viewing only the detail related to change request (CR) costs, which are included in memo bills sent from OTSI to CCIT and typically associated with a vendor such as Deloitte. During our review, we identified that CalHEERS uploaded additional supporting documentation for other invoice costs to a SharePoint site, which they believed CCIT had access to. However, a miscommunication around this process resulted in CCIT not having access to the supplemental invoice documentation during the review period.

As part of the invoice review process, CCIT's role is to help ensure that invoices are paid in accordance with applicable State and internal requirements. For payment to be processed, a valid contract, authority for bill, and authority for payment must be in place. CCIT relies on the Interagency Agreement with OTSI to validate its payments. However, during our review period, CCIT did not have regular access to the detailed invoice information needed to perform consistent invoice reviews.

The invoice process for CRs begins when project sponsors initiate a change. A timeline is established to complete the Statement of Work (SOW), after which the vendor begins work. CCIT reported that during our review period, vendors were granted broad discretion to proceed with work in order to develop the impact assessment, with a general idea of the scope of work prior to the commencement of the project. The cost or “price tag” was tracked from a budget perspective as an estimate until the full impact assessment became available.

When a cost estimate is provided for a change request, it typically includes distinct payment points. Although invoice amounts are expected to trace back to these cost spreadsheets, CCIT reported that line-by-line validation remains difficult due to the structure and level of detail provided. Despite these challenges, CCIT reported that the overall process for change requests is well-documented. During our review period, CCIT reported that they did not perform additional validation of non-change-request-related invoices.

2. Objectives, Scope, Methodology, and Testing

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 OTSI during the period from July 1, 2024 – December 31, 2024. OTSI functions under an Interagency Agreement established on July 1, 2024, and set to expire on June 30, 2025. The invoices issued through this agreement encompass various expenses, such as system maintenance, change requests, subcontracting support, software licensing, and operational costs related to CalHEERS personnel and overhead.

2.1 Objectives

The goal of this evaluation was to identify areas for improvement and provide actionable recommendations to enhance efficiency and accuracy in the invoice management process. BerryDunn understands that ensuring the accuracy of expenditures reported by OTSI is a complex and critical task.

To assess the invoice management process, this evaluation focused on the following key objectives:

1. Verify the accuracy and timeliness of invoices.
2. Verify that the invoice process aligns with contract terms, financial policies, and best practices to prevent errors or discrepancies.
3. Evaluate the efficiency of invoice processing, approval workflows, and payment timelines to identify bottlenecks and opportunities for streamlining.
4. Assess the effectiveness of current controls in preventing errors, fraud, and mismanagement, and recommend improvements for greater financial accountability.

2.2 Scope

During this assessment, BerryDunn examined the invoice management process between Covered California and OTSI from July 1, 2024, through December 31, 2024.

2.3 Methodology

BerryDunn utilized interviews to gather and analyze information throughout the assessment to address the assessment objectives. CCIT also provided copies of all invoices and memo bills for the period of July 1, 2024 – December 31, 2024. This included gaining access to Covered California's SharePoint site. To verify if the procedures were followed, our review focused on the largest invoices in each memo group. The memo groups are broken up between Deloitte

invoices, regular FM invoices, other FM invoices, and Centers for Medicare & Medicaid Services (CMS) invoices.

Interviews

BerryDunn held virtual meetings with staff from OTSI, CalHEERS, and CCIT to gain a detailed understanding of their respective roles and responsibilities, as well as the overall invoice management process. These discussions covered applicable policies and procedures, systems and tools used, and document management practices.

To gather additional information from the FMD, we provided a written set of questions regarding their processes, which they responded to in writing. We reviewed their responses alongside information obtained through the interviews. Across all sources, we also asked about any concerns with the current process and suggestions for improvement from the perspective of each group.

Table 2 below displays the employee titles within each department that BerryDunn interviewed during the engagements fieldwork portion.

Table 2: Interview List

Department	Interviewee Title
CCIT	• Budget Analyst • Chief of Enterprise Analysis and Testing • Chief of Consumer Technology Solutions
FMD	• Accounting Administrator II • Accounting Administrator I
OTSI	• Lead Fiscal and Contract Analyst • Deputy Director • Project Management Analyst • Fiscal Analyst • CFO • Chief Financial & Contract Management

Review of Documentation

In addition to interviewing personnel, BerryDunn reviewed documentation to gain an understanding of the invoice management process. Documents included the OTSI Interagency Agreement, invoices, memo bills, and processing guides. The Interagency Agreement displayed exhibits for the purpose and responsibilities of their work broken down from OTSI to the sponsor, such as Covered California. We received many invoices ranging from Deloitte, OTSI, CMS, California Department of Justice, Technology, and Human Resources. As well as smaller vendors like AgreeYa Solutions Inc., ClearBest, and ProPoint, which are for software contracts,

business analysts, consulting, technical writers, and other professional services. This also included redacted invoices for invoices that included multiple project/organizations charges. In these invoices, OTSI redacts any info related to projects/organizations that is not related to the project or organization they are currently working on. The memo bills were a consolidation of the invoices we received and divided into categories Deloitte, Regular FM, Other FM, and CMS. We received processing guides that explained the invoice processes for Deloitte, Regular invoices, Invoice errors, and the OTSI memo bill process. BerryDunn used the information from these documents, in addition to the interview notes, to determine areas for improvement and test.

2.4 Testing

BerryDunn examined and tested the invoice management process from July 1, 2024, through December 31, 2024. We obtained a complete list of all invoices and memo bills from OTSI and CalHEERS. Initially, we were provided only with the memo bills paid during the review period. Through ongoing discussions with CCIT and OTSI/CalHEERS, we learned that OTSI/CalHEERS maintained extensive supporting documentation for each invoice that CCIT had not been aware of. We coordinated with these groups to obtain access to the relevant SharePoint site, which allowed us to review the necessary documentation to complete our testing

The invoices are broken down into four memo bill groups, Deloitte, regular FM, other FM, and CMS. Each memo bill type is sent out on a different time frame. Deloitte memo bills are issued as invoices are received. Regular FM memo bills are issued monthly. Other vendor FM memo bills are typically issued once a month but may be issued more frequently depending on the volume of invoices or cash flow needs. CMS memo bills are issued based on the receipt of the invoice and demand letter. Once an invoice has been categorized into one of the groups listed above, it will be combined with alike invoices to consolidate into one memo bill and sent to the sponsor. To test the accuracy of the invoice process, we tested every invoice during the period of July 1, 2024, through December 31, 2024.

We observed the steps taken by OTSI and CalHEERS to manage the invoice approval process. CalHEERS operates under OTSI.

Upon receipt of an email notification that a new invoice is available for review and approval CalHEERS recorded the date on the invoice and assigned a PO number. CalHEERS management has 15 days to approve the invoice before it must be sent to DGS for the next step in the process. DGS processing then has 15 days to send it to SCO for disbursement. In the invoice processing guide, it states that this task must be completed within five business days, which allows them extra time for any invoice errors that might need to be disputed. In our review, there were 133 invoices that met the 15-day requirements. We also noted that three invoices were approved after 15 days of being received and one did not have proof of approval.

It was noted in our interviews that CalHEERS redacts any part of the invoice that is not directly related to the organization or project they are currently working on. We observed that the invoices that had redactions during our review period were for NWN, California Department of Justice, Technology, and Human Resources. There was no formal policy written for this process.

We also noted that only three of the eight redacted invoices we reviewed included physical documentation of the invoice being received and all eight did not include documentation of a PO number, OTSI CAP calculator, Contract Drawdown, CalHEERS Invoice Approval Routing slip, and the Contract Manager checklist and final approval.

Next, CalHEERS reviewed the invoice for completeness and accuracy. This included verifying signatures, dates, hours worked, invoice name and number, PO and contract numbers, and billing details. Once reviewed, we examined the CAP Calculator, which allocates the total cost between DHCS and Covered California based on the cost-sharing percentages outlined in the Interagency Agreement. These rates are based on the contract total and created by Covered California. We were not able to verify the percentages, as the agreed-upon rates were not included in the most recent Interagency Agreement. All invoices that required the CAP Calculator had them included in their invoice packages.

A related process, the Contract Drawdown, was also performed. During this step, CalHEERS reconciled the invoice against the contract's remaining balance to maintain a running total. It was found that the NWN Corporation invoices are reviewed by a Contract Manager within Covered California and the Contract Drawdowns are not included in their invoice packages. Also, we observed the Deloitte invoices have a slightly different process. Instead of the Contract Drawdown, Deloitte, CalHEERS, and OTSI performed a Deloitte Invoice Review summary and examined each line item such as software costs, AWS hosting, and time and materials. In our testing, out of 70 invoices that required Contract Drawdowns, 61 of them had them included in the invoice packages. The invoices missing in this report were one Accenture invoice, four Calnet (AT&T) invoices, and four Verizon invoices. The AT&T and Verizon invoices are both under an umbrella contract with OTSI and therefore do not need a PO number or Contract Drawdown in their invoice packages.

Once the calculations were complete, CalHEERS set up the CalHEERS Invoice Approval Routing slip. We observed the Financial Analyst, Chief Enterprise Infrastructure, Lead Fiscal and Contract Analyst, Chief Fiscal & Contract Management, Chief Financial & Contract Management, Chief of Technology, Deputy Project Director, and Deputy Director sign off on their respective areas of the routing slip. The NWN Corporation do not include the CalHEERS Invoice Approval Routing slips. We also noted that the CMS invoices approvals were dated a day before the received by date. After inquiring, we discovered this was due to CMS' vendor pay process using a specific payment system, which caused OTSI to pay before reviewing the invoice. All 85 invoices that required CalHEERS Invoice Approval Routing slips included them in their invoice packages.

After all approvals were collected, the invoice package was submitted to the OTSI contract manager for final review. We observed the Contract Manager Invoice Approval checklist and the contract manager's signature. The contract manager reviewed the checklist with the supporting documentation and provided a final signoff. There was no contract manager listed on the OTSI memo bills due to these bills only including expenses for OTSI-related services, such as wages, deliveries, cell phones, rent, travel, and other consulting services. The NWN invoices are

reviewed and approved by a Covered California contract manager. All other invoices included a completed contract manager check list and signature.

Finally, OTSI submitted the completed invoice package, which included the invoice, CAP Calculator, supplemental invoice pages, Contract Drawdown, any additional backup, contract manager checklist, Invoice Approval Routing Slip, and initial email for when the task started to Covered California through the Covered California Extranet. After working with OTSI and CCIT, we were able to gain access to this site and verify the invoice packages were uploaded.

During our testing, we noted the following totals. Deloitte makes up about 78% of the total payments for our testing period. Also, NWN is a substantial vendor that is included in the OTSI memo bills and makes up about 35% of the OTSI total.

Table 3 displays the total amount of shared costs through memo bills that DHCS and Covered California were responsible for during the audit period.

Table 3: Costs Shared through Memo Bills

Memo Bills	DHCS \$ Amount	Cover CA \$ Amount	SharePoint Total
CMS	12,422,073.23	1,932,067.30	14,354,140.53
Deloitte	66,267,154.38	29,023,743.35	95,290,897.73
OTSI	11,141,171.02	1,732,793.53	12,873,964.55
Total	\$89,830,398.63	\$32,688,604.18	\$122,519,002.81

Table 4 displays the total amount paid to vendors from July 1, 2024, through December 31, 2024.

Table 4: Total Paid to Vendors

Vendor	\$ Amount
Accenture	\$49,500.00
AgreeYa Solutions, Inc	\$980,310.00
California Department Human Resources	\$6,100.00
California Department of Justice	\$4,099.50
California Department of Tech	\$93,858.99
Calnet	\$2,497.03
Calstate Management Group Inc. dba Reliant	\$582,007.50
ClearBest	\$602,800.00
CMS	\$11,185,645.26
County Welfare Directors Association of	\$245,990.00

Vendor	\$ Amount
California	
Deloitte	\$95,290,897.73
Employment Development Department	\$33,465.67
Fiserv (First Data)	\$107,520.00
Franchise Tax Board	\$19,281.03
InterVision	\$241,240.00
NWN	\$4,561,745.77
Oak Tech	\$385,265.50
OTSI	\$7,508,288.91
ProPoint	\$511,837.50
PYXIS	\$106,132.50
Verizon	\$519.92
Total	\$122,519,002.81

Table 5 displays the total population of invoices memo bills we received and tested from our review period July 1, 2024 through December 31, 2024.

Table 5: Invoice and Memo Bill Populations

Test	Population
Memo Bills	22
Invoices	137
Deloitte	6
OTSI	13
CMS	3
Redacted	8
Total	189

3. Observations

Observation 1 – Invoice Review Procedures Do Not Align with the Interagency Agreement

During our review, we found that until recently CCIT did not have full access to all supporting documentation for invoices. As a result, CCIT relied on the OTSI and the CalHEERS to confirm that invoice charges were accurate. The Interagency Agreement (IAA) outlines Covered California's responsibilities to review and validate invoices, including performing desk audits to verify that costs are accurate, valid and include sufficient support. However, through discussions with CCIT, we identified that these additional review steps are not performed.

We learned that OTSI provides memo bills and high-level support to Covered California via DocuSign. Prior to our evaluation Covered California staff believed it was their only available source for documentation. However, CalHEERS also uploads more detailed support documentation for each invoice to a separate extranet site managed by Covered California. These documents are used by CalHEERS to validate invoice costs. Prior to 2016, CalHEERS was part of Covered California, and this detailed documentation was uploaded to an internal intranet site. After CalHEERS moved under OTSI, the same site was transitioned into the current extranet under the OTSI domain, and the process for uploading support materials remained unchanged. Despite this, Covered California was unaware they still had access to this extranet site until recently.

The IAA specifies that CCIT is responsible for reviewing invoices submitted by OTSI to help ensure they include enough detail to allocate costs appropriately. CCIT is also expected to perform desk audits to verify that costs are accurate, supported by documentation, and valid. While the contract manager for Service Center invoices, under the NWN contract, is based within Covered California and provides appropriate review, other service contracts are managed by a CalHEERS contract manager. At this time, CCIT does not conduct additional reviews of these invoices, even though the IAA currently requires this level of oversight.

Recommendation 1

Align Internal Procedures with Interagency Agreement

BerryDunn recommends that Covered California take steps to align CCIT's practices with the responsibilities outlined in the Interagency Agreement (IAA). CCIT should determine whether to (1) formalize internal procedures to independently review and validate invoices in accordance with the IAA, such as conducting desk audits and verifying allowability, or (2) revise 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. This will help ensure that CCIT has sufficient visibility into the review process and can implement periodic spot checks or other oversight activities as needed to maintain accountability.

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CCIT has reviewed and accepted this recommendation and has indicated their intention to work towards implementation.

Observation 2 – Lack of Clarity Around Invoice Review Roles and Responsibilities

During our review, we identified a general lack of clarity among stakeholders regarding which entities are responsible for specific invoice review and approval tasks. While OTSI and CalHEERS carry out the majority of the invoice processing functions, CCIT staff were not fully aware of the detailed steps these groups take to validate, review, and approve invoices prior to submission for payment.

Although CalHEERS is a project housed within OTSI, the distinction between OTSI's broader operational responsibilities and CalHEERS's project-specific tasks was not always clear to external stakeholders. This lack of visibility into internal processes contributed to uncertainty about roles and responsibilities throughout the invoice lifecycle.

Importantly, our review found that OTSI and CalHEERS maintain a robust and timely invoice review process. Each invoice is subject to multiple levels of review and approval and is supported by thorough documentation. CalHEERS has also developed internal process guides to help ensure consistency and accuracy in their review procedures. However, 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.

This gap in understanding may lead to misperceptions about the sufficiency or efficiency of invoice review processes.

Recommendation 2

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. Developing more detailed and guidance, beyond what is currently outlined in the IAA, will help ensure consistent understanding across departments, reduce confusion, and support more efficient and accountable collaboration.

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CCIT has reviewed and accepted this recommendation and has indicated their intention to work towards implementation.

Observation 3 – Absence of Formal Procedures for Invoice Redaction

During our review, we 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. Developing written procedures for invoice redaction would help ensure consistency and compliance with data privacy standards. In our review, we found there were eight redacted invoices from July 1, 2024 through December 31, 2024. The vendors for these invoices were NWN, California Department of Justice, Technology, and Human Resources. These invoices were redacted because they included services that were not directly related to the project. Also, the redacted invoices did not include proof the invoice was received, a PO number, OTSI CAP calculation, OTSI Contract Drawdown, approval signoff on invoice, Contract Manager Invoice Approval Checklist, and CalHEERS Invoice approval routing slip. It was unclear if these invoices were reviewed within the 15-day window.

Recommendation 3

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. This policy should define which types of invoices require redaction, specify what information must be redacted or retained for visibility by the sponsoring entities, and ensure alignment with applicable privacy, security, and contractual requirements. In addition, we recommend establishing a standardized redacted invoice review process that outlines the required supporting documentation to accompany each redacted invoice. This would help ensure that all invoice packages submitted to sponsors are complete, transparent, and support timely and accurate review and approval.

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CCIT has reviewed and accepted this recommendation and has indicated their intention to work towards implementation.

Observation 4 – Interagency Agreement Should Be Updated

During our review, we examined the updated IAA applicable to the period July 1, 2024, through December 30, 2024. We identified several areas where updates could improve clarity and accuracy.

First, the expenditure table in Exhibit B contains inaccuracies. The table lists annual expenditure amounts for fiscal years ending in 2020, 2021, 2022, 2023, 2024, and 2025. While the agreement states a total of \$248,491,348, the sum of the individual fiscal year amounts is \$262,851,523, indicating a discrepancy that should be corrected.

Additionally, the agreement no longer includes the CalHEERS Project Budget by fiscal year or the CAP Calculator percentage rates used to allocate costs between Covered California and DHCS, both of which were included in the prior version. These elements are helpful for transparency and understanding how shared costs are determined.

Finally, 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, and the agreement should be updated accordingly to reflect current federal guidance.

Recommendation 4

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.

Specifically:

- 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.
- Reinstatement of the CalHEERS Project Budget by fiscal year and the CAP Calculator percentage rates used to allocate costs between Covered California and DHCS to enhance transparency and support cost allocation tracking
- Replace the outdated reference to OMB Circular A-87 with the current federal cost principles outlined in **2 CFR Part 200, Subpart E**, to ensure compliance with applicable federal guidance.

These updates will help ensure the agreement reflects current practices, improves oversight of shared costs, and maintains consistency with federal requirements.

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CCIT has reviewed and accepted this recommendation and has indicated their intention to work towards implementation.