COVERED CALIFORNIA

MEMORANDUM

September 15, 2025

TO: Glenn Oyoung, Director
Marketing Division

Kirk Marston

FROM: Kirk Marston, Chief Audit Executive
Program Integrity Division, Office of Audit Services

RE: Marketing Division – Final Audit Report –
Advertising Contracts Audit (Assignment #2425.05)

In accordance with the Fiscal Year 2024-25 Internal Audit Plan that was approved by Covered California's Audit Committee in August 2024, 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 for the scope period July 1, 2023, through June 30, 2024. Our report of this audit is attached.

We appreciate the cooperation and assistance of the Marketing Division management and staff during our audit. If you have any questions regarding this report, please contact me at If you have any questions regarding this report, please contact me at 916-954-3498 or kirk.marston@covered.ca.gov.

Cc: Executive Office
Jessica Altman, Executive Director
Doug McKeever, Chief Deputy Executive Director, Program
Brandon Ross, General Counsel, Program Compliance & Accountability

Marketing Division
Yuliya Andreyeva, Branch Chief, Advertising & Operations
David Fitzhenry, Staff Services Manager I, Marketing Operations

Program Integrity Division
Thien Lam, Director
Kevin Cathy, Branch Chief, Office of Audit Services
Alicia Watts, Section Chief, Office of Audit Services
Kurt Faubion, Audit Manager, Office of Audit Services
Galina Rub, Internal Auditor, Office of Audit Services
Gurpreet Dhillon, Internal Auditor, Office of Audit Services

ADVERTISING CONTRACTS AUDIT

COVERED CALIFORNIA
MARKETING DIVISION

FINAL AUDIT REPORT

ISSUED ON:
SEPTEMBER 15, 2025

PREPARED BY:
COVERED CALIFORNIA
PROGRAM INTEGRITY DIVISION
OFFICE OF AUDIT SERVICES

AUDIT TEAM:
KIRK MARSTON, CHIEF AUDIT EXECUTIVE
KEVIN CATHY, BRANCH CHIEF
ALICIA WATTS, SECTION CHIEF
KURT FAUBION, AUDIT MANAGER
GALINA RUB, INTERNAL AUDITOR
GURPREET DHILLON, INTERNAL AUDITOR

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Executive Summary

Objective and Scope

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 for the scope period July 1, 2023, through June 30, 2024.

Positive Observations

The following are areas we noted with reasonable assurance where the Marketing Division demonstrated effective controls over the contract management process. These positive observations reflect the Marketing Division's commitment to Covered California's Strategic Pillars of Reaching Californians and Organizational Excellence:

- The Marketing Division demonstrated effective oversight and monitoring of the advertising contract, which ensured marketing objectives were met.
- The Marketing Division maintained comprehensive contract work plans, which ensured key deliverables were planned for and delivered.
- The Marketing Division effectively managed the advertising contract budget by utilizing comprehensive budget trackers, which ensured accurate budget oversight, project execution, and invoice reconciliation.
- The Marketing Division 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.

Reportable Conditions

We noted a matter below that we consider to be reportable under the *Global Internal Audit Standards*:

- **Applicable contractor employees did not complete the required Statement of Economic Interests form and ethics training.**

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.

Background, Objective, Scope, and Methodology

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. Covered California's marketing and advertising efforts are anchored in effectively reaching California's diverse population, across cultures, regions, ethnicities, and languages.

The Marketing Division manages Covered California's advertising contractor. The contract in place during fiscal year 2023-24 was valued at $400 million with a contract term from February 2020 through March 2025. Contract expenditures for fiscal year 2023-24 totaled $52.3 million. The advertising contractor serves as a collaborative and strategic partner in the development and implementation of a comprehensive marketing and advertising strategy. The contract's key deliverables are strategic marketing plan development, advertising creative development and production, paid media strategy and placement, advertising campaign effectiveness and research, and social media strategy.

Objective

The objective of this audit was to assess the Marketing Division's advertising contract management processes in accordance with policies, procedures, and applicable requirements.

Scope

The scope of this audit covered the Marketing Division's contract management processes for the period of July 1, 2023, through June 30, 2024.

Methodology

Our evaluation included gaining an understanding of the Marketing Division's policies, procedures, and administration over the contract management process. Additionally, audit procedures were performed to provide assurance on whether the Marketing Division effectively managed the contractor's performance and deliverables, the contract budget, and invoice processing in accordance with Covered California's Administrative Manual, Procurement and Contracting Manual, Program Contract Management Handbook, the California Prompt Payment Act (Government Code Section 927, et seq.), the Political Reform Act (Government Code Section 81000, et seq.), and written procedures.

Results

Positive Observations

The following are areas we noted with reasonable assurance where the Marketing Division demonstrated effective controls over the contract management process. These positive observations reflect the Marketing Division's commitment to Covered California's Strategic Pillars of Reaching Californians and Organizational Excellence:

- The Marketing Division demonstrated effective oversight and monitoring of the advertising contract, which ensured marketing objectives were met.

- The Marketing Division maintained comprehensive contract work plans, which ensured key deliverables and other aspects of the contract were planned for and delivered.

- The Marketing Division effectively managed the advertising contract budget by utilizing comprehensive budget trackers, which ensured accurate budget oversight, project execution, and invoice reconciliation.

- The Marketing Division 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.

Findings & Recommendations

Finding #1 – Applicable contractor employees did not complete the required Statement of Economic Interests form and ethics training.

Finding Rating:	Priority	High	Medium	Low

Condition

We reviewed six contractor employees who were designated as Statement of Economic Interests (Form 700) filers and identified that:

- Five contractor employees did not have completed annual Form 700s on file (for both 2023 and 2024).
- One contractor employee submitted their 2023 annual Form 700 past the April 1, 2024, deadline (approximately 8 months late).
- All six contractor employees did not have copies of Attorney General's Ethics Training for State Officials certificates on file.

Criteria

Program Contract Management Handbook (PCMH), Section 6.3 Designated Form 700 Filers, states that contractor staff designated as Form 700 filers are required to complete and file an annual Form 700 no later than April 1st. Additionally, designated filers must also complete the Attorney General's Ethics Training for State Officials at the same time that the initial Form 700 is due and repeated every two calendar years.

Cause

The PCMH developed by the Business Services Branch (BSB) does not clearly define the roles and responsibilities between BSB and program contract managers regarding Form 700 filings and ethics training certificates. Additionally, the PCMH states, "The program contract manager must assist BSB in ensuring that the Contractor and its employees are aware of and comply with these requirements." However, the Marketing Division stated BSB did not notify the Marketing Division of any deficiencies when contractor staff did not complete their Form 700 filings with BSB. As a result, the annual Form 700 filings and ethics training requirements were not met.

Effect

Non-compliance with Form 700 and ethics training requirements could expose Covered California to reputational damage and potential violations of state regulations, including penalties. Additionally, operational inefficiencies such as unclear roles, miscommunication, and lack of coordination could impact the monitoring of contractor compliance with filing and training processes.

Recommendation

While BSB evaluates any needed updates to the PCMH 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.

Conclusion

The Marketing Division demonstrated effective controls over the contract management process. The controls ensure alignment with applicable contract management policies, procedures, requirements, and activities. However, as highlighted in the finding we identified, there is an opportunity to improve compliance with Form 700 filer requirements. While the finding is rated as low risk, correcting it will further improve the effectiveness of the Marketing Division's contract management process and reduce potential negative impacts to Covered California's reputation, and potential violations of state regulations, including penalties.

Management Response

Presented below is the Marketing Division's management response to the finding which includes their corrective action plan.

Finding 1:	Applicable contractor employees did not complete the required Statement of Economic Interests form and ethics training.
Recommendation:	While BSB evaluates any needed updates to the PCMH 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.
Marketing Division Management Response/ Corrective Action:	Thank you to the Audit team for their collaboration and positive working relationships throughout this process, and for their positive observations regarding the Marketing Division's management of contract files, work orders, invoices and budget. The Marketing Division pays close attention to detail of overall contract management, and of the processing of work orders and invoices in accordance with Covered California's Program Contract Management Handbook (PCMH) and general accounting best practices. The audit identified missing Form 700s and Ethics training certificates for contractor staff. However, it is important to note that, in this area, the PCMH contains significant gaps in the detailing of the expected activities of the program contract managers; the PCMH instructions are as follows: "The program contract manager must assist BSB in ensuring that the Contractor and its employees are aware of and comply with these requirements." As no assistance was requested from the Marketing Division, nor deficiencies identified, the Division believed that Business Services had collected the needed documentation. It is the understanding of the Marketing Division that the Audit team notified Business Services of the potential for process updates to be made to the PCMH. While Business Services is reviewing the PCMH for potential updates, the Marketing Division will work with BSB and the Office of Legal Affairs (OLA), while we conduct our own internal audit of all contracts to ensure Form 700 and Ethics training compliance. Additionally, the

	Marketing Division is updating our internal desk procedures to ensure re-occurring follow-up with Business Services, to ask them to communicate to us if any contractor staff are missing Form 700 annual filings and Ethics Training certificates. Should deficiencies be identified, the Marketing Division will notify and work with Business Services and the contractor to ensure requirements are met and that documentation is retained. The desk procedures will include a living document that will track each Form 700 filer, the expected date of the recurring Form 700 filings and Ethics training and will notify Division leadership monthly of those individuals that are outstanding, allowing sufficient time to notify the contractor. With a better understanding of the roles and responsibilities, and updated internal desk procedures, the Marketing Division is confident that no recurring deficiencies will occur.
Targeted Completion Date:	October 31, 2025

Evaluation of Response

The corrective action plan provided by the Marketing Division if implemented as intended should be sufficient to correct the reportable condition noted. The Office of Audit Services will conduct quarterly follow-ups to provide reasonable assurance that the corrective action plan has been implemented and is operating as designed. Additionally, a follow-up audit may be performed to determine the completion and adequacy of the correction action plan.

We thank the Marketing Division for their help and cooperation during this audit.

Appendix A

Finding Ratings

Finding	Priority	High	Medium	Low
1. Applicable contractor employees did not complete the required Statement of Economic Interests form and ethics training.				X

Rating Definitions

Priority	Immediate and on-going threat to the achievement of division or Covered California strategic goals and objectives. In particular: - Significant adverse impact on reputation - Non-compliance with statutory requirements - Potential or known financial losses - Substantially raising the likelihood that risks will occur Management must implement corrective actions as soon as possible and monitor the effectiveness.
High	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. - High potential for adverse impact on reputation - Increase in the possibility of financial losses - Increase in the likelihood that risks may occur
Medium	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. - Medium potential for adverse impact on reputation - Potential increase in the likelihood that risks may occur
Low	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.