MEMORANDUM

March 20, 2026

TO: Taylor Priestley, Director
Health Equity & Quality Transformation

Kevin Cathy

FROM: Kevin Cathy, Branch Chief
Program Integrity Division, Office of Audit Services

RE: Health Equity & Quality Transformation – Advisory Engagement – Population Health Investments (Assignment #2526.03)

In accordance with the Fiscal Year 2025-26 Internal Audit Plan that was approved by Covered California's Audit Committee on June 20, 2025, the Office of Audit Services conducted an advisory engagement to assess the Population Health Investments (PopHI) Child Savings Account Program for the period of January 1, 2025, through September 30, 2025.

We appreciate the cooperation and assistance of the Health Equity & Quality Transformation management and staff during this engagement. If you have any questions, please contact me at (916) 954-3270 or Kevin.Cathy@covered.ca.gov.

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Background

The Health Equity & Quality Transformation (EQT) Division requested the Office of Audit Services (OAS) to perform an advisory engagement for the Population Health Investments (PopHI) program.

The PopHI program invests millions of dollars from underperforming health plans into population health programs benefitting enrollees. PopHI is funded through a contractual requirement for Qualified Health Plan (QHP) Issuers called the Quality Transformation Initiative (QTI).

This initiative is designed to improve healthcare quality and reduce health disparities for Covered California enrollees. Under QTI, if health plans fail to meet required performance measures, they are obligated to make quality payments. These payments accrued approximately $15 million in 2023, which was used to fund the PopHI programs in 2025.

In 2025, EQT administered three PopHI programs:

1. **Child Savings Account (CSA)** - This program helps families save for their children's future, aiming to enhance financial security and access to education and healthcare opportunities.

2. **Grocery Support** - This program seeks to reduce food insecurity by offering financial assistance and resources to low-income families, supporting access to nutritious food and better health.

3. **Equity and Practice Transformation (EPT)** - This program improves primary care practices serving Covered California and Medi-Cal members by offering expert guidance, virtual training, peer collaboration, data integration, testing, and a statewide learning system for sharing best practices.

Of the three PopHI programs, the EQT Division requested that the CSA program be the primary focus of review for this advisory engagement. As such, we assessed CSA program funding across its three components:

- Vendor Administrative Fees
- Undisbursed Funds
- Disbursed Funds

Covered California does not directly manage PopHI funds. Instead, the contracted vendor, FORWARD, was selected to oversee key responsibilities, including conducting CSA enrollee eligibility assessments as well as managing the collection and disbursement of CSA funds.

The CSA program was allocated approximately $1.1 million dollars in QTI payments in 2023. The table below lists each fund type, a description of the funds, and the amount that was funded during our engagement scope period of January 1, 2025, through September 30, 2025:

CSA Fund Type	Description	Amount
Vendor Administrative Fees	Administrative fees paid to the contracted vendor (FORWARD) for management of the program. The fees are based on 10% of CSA funds accrued.	$111,106
Undisbursed Funds	CSA funds held in the bank account that have not been deposited into the eligible enrollees' accounts.	$902,958
Disbursed Funds	CSA funds that have been disbursed to eligible enrollees during the engagement scope period.	$97,000
	Total CSA Funds	**$1,111,064**

Objective

The objective of this advisory engagement was to review the EQT Division's process for monitoring the CSA program from fund calculation to disbursement, and to evaluate whether the funds were properly accounted for, reached their intended recipients, and were spent in compliance with program requirements.

Scope

The scope of this advisory engagement covered PopHI's CSA program during the period of January 1, 2025, through September 30, 2025.

Methodology

We conducted this advisory engagement by performing the following:

- Gathered documents to verify how CSA funds are calculated, tracked, and disbursed to enrollees.
- Inquired about formal EQT Division procedures outlining oversight responsibilities for the contracted vendor.
- Examined the vendor monitoring process, including fund calculation, movement tracking, discrepancy flagging, and communication with program administrators.
- Analyzed records to verify fund calculations and vendor disbursements.
- Reviewed spending records to ensure compliance with executed agreements.
- Assessed the process for compensation of the contracted vendor and funds not yet disbursed.

Observations

Observation #1: Written policies and procedures for contract oversight have not yet been formally established.

The CSA program requires oversight of the contracted vendor, FORWARD, to ensure the vendor is in adherence with the executed agreement in managing the CSA program. Although there is a process in place to track CSA program funds and ensure completion of the disbursements to the enrollees, we identified that written policies and procedures to monitor these funds have not yet been formally established.

Without documented policies and procedures, the EQT Division may rely on informal practices, which could lead to inconsistencies and errors while tracking CSA program funds and ensuring completion of the disbursements to the enrollees.

After discussing this matter with EQT Division leadership, they agreed that formal, written policies and procedures specific to vendor management and contract oversight for the CSA program would strengthen program governance.

Observation #2: Formal verification processes for Vendor Administrative Fees and Undisbursed Funds have not yet been developed.

We evaluated bank statements and verified that:

- ✓ Vendor Administrative Fees were accurately collected by the vendor.
- ✓ Undisbursed Funds remained intact in the bank account.
- ✓ All Disbursed Funds were successfully deposited into enrollees' accounts.

Although the EQT Division has an established verification process to confirm that Disbursed Funds are deposited into enrollees' accounts, similar verification processes have not been implemented to verify that Vendor Administrative Fees were accurately collected by the vendor or to monitor Undisbursed Funds and related accrued interest. We found that the required monthly accounting of expenses was neither requested by the EQT Division nor submitted by the vendor, despite Section 2.a.i–ii of the agreement with FORWARD requiring "an accounting of expenses supported by QTI payment funds used for program administration and other PopHI Sponsor costs" on a monthly basis. Additionally, the executed agreement with FORWARD does not specify the negotiated administrative fee rate of 10 percent of accrued CSA funds, which may create confusion or potential disputes regarding vendor compensation in the future.

Without a monthly formal verification process, the EQT Division does not currently perform consistent ongoing assurance that Vendor Administrative Fees are accurately collected and that Undisbursed Funds and related interest remain intact. This gap in oversight increases the risk of financial discrepancies, misuse of funds, unaccounted-for interest, and reduced transparency and accountability.

After discussing this matter with EQT Division leadership, they agreed that establishing a monthly verification process for Vendor Administrative Fees and Undisbursed Funds would ensure CSA funds are properly monitored, calculated, and accounted for.

Conclusion

We appreciate the opportunity to work with your team, and we value the collaborative dialogue that occurred during this advisory engagement. Overall, based on the procedures performed and discussions held, it is our opinion that the CSA program within PopHI is being managed with diligence and a strong commitment to its objectives. The program is supported by a team that demonstrates professionalism, accountability, and a clear dedication to achieving positive outcomes.

Based on our discussions, it is our understanding that management is generally aligned with the recommendations outlined in this memorandum and intends to address the identified matters. We believe implementation of these recommendations will further strengthen processes and oversight going forward.

We may follow up at a later time to understand progress and offer any additional support that you feel would be helpful. In the meantime, if you have any questions or would like assistance related to these topics or other areas, please do not hesitate to reach out. We remain available as a resource and look forward to continuing to support your team.