



COVERED CALIFORNIA INDEPENDENT EXTERNAL AUDIT: 2021 AUDIT FINDINGS REPORT SUMMARY OF RESULTS

INTRODUCTION AND BACKGROUND

Under the federal Patient Protection and Affordable Care Act (ACA), states were given the option to create a state-based health insurance exchange or participate in the federal multi-state health insurance exchange. In 2010, California was the first state to adopt legislation to establish a state-based health insurance exchange. The California Legislature established the California Health Benefit Exchange, also known as Covered California, to “reduce the number of uninsured Californians by creating an organized, transparent marketplace for Californians to purchase affordable, quality health care coverage, to claim available tax credits and cost-sharing subsidies, and to meet the personal responsibility requirements imposed under the federal act.”

Then, in 2019, California passed healthcare legislation for a new State Subsidy Program that built upon the ACA. Effective January 1, 2020, California became the first state to offer its residents additional state healthcare subsidies and instituted a Minimum Essential Coverage Individual Mandate (Individual Mandate) that required California residents to enroll in and maintain minimum essential coverage or face penalties when they filed their state income taxes.¹ Specifically, the new legislation introduced new Individual Market Assistance over a three-year period, 2020 through 2022, in the form of state advanced premium assistance (state subsidies) for California residents with household incomes at or below 600 percent of the federal poverty level.

Most recently, in March 2021, American Rescue Plan Act (ARPA) was enacted to provide financial relief to millions of Americans that were adversely impacted by the global coronavirus disease (COVID-19) pandemic. The ARPA provided approximately \$1.9 trillion to state and local governments and included provisions for additional financial assistance for customers enrolled in state and federal exchanges.

AUDIT PURPOSE AND SCOPE

Sjoberg Evashenk Consulting, Inc. was contracted by the Covered California to conduct an independent external programmatic audit for the 2021 Program Year. As required by 45 Code of Federal Regulations (CFR) § 155.1200 and related guidance issued by the Centers for Medicare and Medicaid Services (CMS), the purpose of this independent external audit was to evaluate:

- Program effectiveness and results.
- Compliance with 45 CFR Part 155.
- Program efficiencies, including the extent to which programs duplicate, overlap, or conflict with other related programs.

- The effectiveness of the systems of internal controls designed and implemented by Covered California, including those related to preventing improper eligibility determinations and enrollment transactions.

The Scope of this external programmatic audit included operational, programmatic, and administrative functions performed pursuant to 45 CFR Part 155, specifically requirements addressed in subpart C (General Functions), subpart D (Eligibility Determinations), subpart E (Enrollment Functions), and subpart K (Certification of Qualified Health Plans). In addition to assessing compliance with the specified subparts, the audit also focused on the following seven (7) areas:

- The efficiency and effectiveness of Individual Market eligibility and enrollment processes, including eligibility determinations, participation in an IAP and related reporting requirements, special enrollments, notices and tax forms sent to customers, calculation of APTC, and implementation of new program requirements related to ARPA.
- The efficiency and effectiveness of the Navigator Program, including assessing whether Covered California implemented corrective action to address control weaknesses and deficiencies identified during prior external programmatic audits and compliance with Covered California internal policies and procedures, and applicable state and federal regulations.
- The effectiveness of the controls and policies established by Covered California to protect personally identifiable information and assess compliance with 45 CFR §155.260. In addition, to assess protocols in place to ensure required privacy and security training is completed annually.
- The efficiency and effectiveness of Covered California Plan Management Division's oversight and management of qualified health plans, including assessing whether Covered California implemented recommended corrective action, or an alternative approach, to sufficiently address areas of non-compliance and opportunities for improved performance as identified in prior external programmatic audits. In addition to assess the effectiveness of processes and controls in place to ensure accurate and reliable carrier plan data is uploaded into CalHEERS.
- The effectiveness of the controls and processes in place to ensure CalHEERS data migrated from an on-site storage platform to the cloud storage platform was accurate and reliable, including use of exception reports, data validation processes, and testing prior to and after the data migration.
- The efficiency and effectiveness of Ombuds Office operations in fulfilling its assigned duties, mission, goals, and objectives and compliance with Covered California internal policies and procedures, and applicable state and federal regulations.
- Follow-up on the status of prior External Programmatic Audit findings.

AUDIT FINDINGS

The report presents the results from the 2021 External Programmatic Audit, recognizing Covered California's successes, its progress toward addressing prior audit findings and recommendations, and its commitment to continuous improvement. In this report, Sjoberg Evashenk Consulting, Inc. presents five (5) findings that relate to Covered California's Individual Market and other operational

programs and functions. The first two findings of this report require immediate action from Covered California and pose the greatest risk. The first finding, which is related to eligibility determinations, poses significant risk of not only non-compliance with federal regulations, but the use of public funds for subsidies provided to ineligible consumers. The second finding, is related to compliance with enrollment termination and notice requirements, including eligibility notices and IRS Form 1095-A notices, and the impact the accuracy and timeliness of notices has on consumers.

The remaining three findings pose lower risk and are generally areas where Covered California could further enhance and improve its operations to better ensure compliance with federal regulations, where applicable, and internal policies and procedures. Specifically, the auditors found that:

- The Ombuds Office program activities generally aligned with industry standards and complied with federal requirements.
- The Navigator Program had strong oversight practices and controls in place to ensure grantee compliance with grant provisions.
- Opportunities exist to improve user management practices in the Learning Management System to better ensure accurate and reliable reporting of Privacy Awareness and Information Security Awareness trainings.

In addition, Sjoberg Evashenk Consulting, Inc. reviewed Covered California's implementation of ARPA provisions, oversight and management of carrier contracts, accuracy and reliability of plan carrier data in CalHEERS, and processes and controls in place over the CalHEERS data cloud migration. Overall, we found Covered California performed well in these areas and complied with relevant requirements with results listed below.

- Covered California complied with American Rescue Plan requirement for cases sampled.
- Covered California implemented sufficient processes and controls to oversee carriers' contracts.
- Strong processes and controls were in place to ensure accuracy of carrier data in CalHEERS.
- Covered California successfully completed CalHEERS data cloud migration and implemented strong controls to ensure the accuracy and reliability of data.

During the 2021 Plan Year, Covered California worked to help people get health coverage and stay covered during the COVID-19 pandemic. In addition, Covered California successfully completed its CalHEERS cloud migration, and implemented CalHEERS system enhancements, including new functionality related to ARPA, periodic data matching to check for updated deceased and Medicare information, and a system change to improve the eligibility notice generation process to more accurately and effectively communicate with consumers and prevent duplicate notice generation. Covered California also continued its trend of negotiating the best value for consumers by announcing a 1.8 percent rate change for California's individual market in 2022. The announcement meant the average rate increase for 2020 through 2022 was only 1.1 percent.

In addition, below is a list of several accomplishments reported by Covered California management:

- Covered California developed the new Quick Calculator for the consumer website (CoveredCA.com) to help users easily determine their eligibility for subsidies, including additional benefits from ARPA, as well as the starting premium cost of a Silver plan.
- Covered California University developed and implemented training and training resources for ARPA.
- CalHEERS implemented Multi-Factor Authentication across CalHEERS to continue keeping CalHEERS Eligibility and Enrollment system in alignment with leading edge security practices and enforcement of appropriate systems access controls.

CONCLUSION

Since the prior external programmatic audit, Covered California continued efforts to improve its operations and implemented processes to better ensure compliance with federal regulations. While the audit identified several areas where notable improvements were achieved, the audit also found that Covered California should continue to improve upon these efforts, as recommended, and thereby improve operational efficiencies and effectiveness; data integrity; and ensure compliance with federal regulations.

COVERED CALIFORNIA'S OFFICIAL RESPONSE

Covered California's purpose is to make health insurance more affordable and easier to purchase for small business and individuals. Our mission is to increase the number of insured Californians, improve health care quality, lower costs, and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and providers that give them the best value.

We appreciate the auditor's acknowledgment that "Covered California's Individual Market enrollment has increased each year (since September 2014), with enrollment increasing from more than 1.1 million enrollments to nearly 1.7 million enrollments as of September 2021." During the 2021 plan year, Covered California worked to ensure that many Californians not only enrolled in health coverage, but stayed enrolled during the COVID-19 pandemic.

We would like to thank the team at Sjoberg Evashenk Consulting, Inc. for closely analyzing our operational, programmatic, and administrative functions. Covered California also appreciates the auditor's recognition of areas where notable improvements have been achieved, and we will continue to improve upon those efforts. We acknowledge the importance of the issues identified in the five specific findings presented in the audit report and look forward to addressing each finding and recommendation in our corrective action plans.

While we agree that improvements can be made, we would like to address the concerns outlined in the audit report regarding the 95-day reasonable opportunity period. Due to the ongoing public health emergency, Covered California, in consultation with CMS, extended the reasonable opportunity period due date for the eligibility verifications to June 30, 2022. Covered California's approach of extending the reasonable opportunity period during the public health emergency was widely used in exchanges

across the country and consistent in intent with the federal Medicaid maintenance of eligibility requirements.

Covered California has resumed the reasonable opportunity period discontinuance batch for incarceration and deceased as of April 2022. In July 2022, the reasonable opportunity period discontinuance batch for citizenship and lawful presence has resumed. Covered California will continue our efforts to resolve all verification inconsistencies.

We further appreciate the report's acknowledgment of Covered California's significant growth and substantial accomplishments. Specifically, the details regarding Covered California's full compliance with the American Rescue Plan requirements; our successful CalHEERS data cloud migration; and the strong controls to ensure data accuracy. Covered California moved quickly to implement the American Rescue Plan during the ongoing public health emergency. The expedited implementation efforts required policy and system changes to comply with the provisions of the American Rescue Plan. These accomplishments were the product of monumental efforts by our staff and contractors, so we value your team's observation of their hard work.

Covered California appreciates that the report identified these accomplishments. To further underscore our efforts over the past year, we note some additional accomplishments that should not go unnoticed:

- As the Open Enrollment period approached its final day in January, Covered California joined President Biden in establishing a Special Enrollment period to keep its doors open throughout the spring and provide Californians with more time to sign up for health insurance. Covered California made similar efforts in 2020. The Special Enrollment period allowed uninsured individuals to sign up for coverage without satisfying the normal qualifying life events, such as recent loss of coverage or moving.
- In April, President Biden's American Rescue Plan enhanced the Affordable Care Act by substantially increasing financial assistance to consumers who otherwise qualified for only minimal or no assistance. The new Special Enrollment period allowed Californians to immediately benefit from these increased subsidies, especially the uninsured or those who were previously ineligible for financial help due to higher incomes.
- Covered California supported the new subsidies with a statewide media campaign that featured actual consumers who shared personal stories of what the increased financial help meant for their lives. Many people were able to get covered for \$1 per month. More than half of subsidized consumers paid less than \$10 per month, and 75 percent paid less than \$100 for their brand-name health plan.
- Covered California, the Department of Health Care Services, and CalPERS recently formed a partnership to address racial and ethnic health disparities. The three agencies, which represent about 40 percent of California's overall population, committed their health issuers to ensuring that Covid-19 vaccines are accessible to all enrollees while also addressing preventive care gaps caused by patients' not getting needed services.

- Covered California approved a \$403 million budget for fiscal year 2021-22, which included ongoing funding for marketing and outreach investments. These investments have helped it achieve one of the best take-up rates and healthiest risk mixes in the nation.
- In November, Covered California launched Open Enrollment with a kickoff event that included U.S. Health and Human Services Secretary Xavier Becerra. The event highlighted a new era for the Affordable Care Act under the Biden Administration and promoted the increased savings now available through the American Rescue Plan.
- Also in November, Covered California announced that three of its biggest health insurance issuers— Anthem Blue Cross, Blue Shield of California, and Kaiser Permanente — would increase the amount they pay insurance agents who provide independent assistance to consumers who are signing up for coverage in the individual market.
- In December, Covered California held a Virtual Bus Tour, getting the word out about Open Enrollment in cities throughout the state, from Redding to San Diego, as well as targeted events for ethnic communities. Covered California held events for the African American, Chinese, Korean, Spanish-speaking, and Vietnamese communities, along with a health equity event for other Asian/Pacific Islander communities.

We again thank Sjoberg Evashenk Consulting, Inc. for its recognition of Covered California's recent achievements. We further appreciate their tremendous effort in preparing the audit report, which identified five findings that will be addressed in our corrective action plans. We look forward to sharing our progress with Sjoberg Evashenk Consulting, Inc. in the future.

AUDIT FINDINGS, RECOMMENDATIONS AND CORRECTIVE ACTION PLANS

Finding 1. Eligibility Verifications Did Not Always Occur Increasing the Risk that Unqualified Individuals Enrolled, Many Receiving State and Federal Subsidies	
1.1	<p>Covered California should ensure individuals deemed conditionally eligible pending verification of citizenship or, lawful presence, or status as a national are verified by the end of the 95-day ROP. If a customer's citizenship or, lawful presence, or status as a national eligibility cannot be verified by the deadline, the customer should be deemed ineligible and disenrolled in a qualified health plan offered by Covered California, as required.</p> <p><i>CAP Response:</i></p> <p>Covered California agrees with the finding and piloted the ROP batch run towards the end of August with a sample population of about 700 cases selected for the pilot. During the pilot run, there was a defect identified related to lawful presence and the ROP discontinuance batch where the system was not performing as expected. This defect was resolved with the 22.2 CalHEERS release on 2/21/2022.</p> <p>Covered California is planning to turn on the ROP discontinuance batch for citizenship/lawful presence starting Q3 2022.</p> <p><i>Completion Date: 9/30/2022</i></p>
1.2	<p>As previously recommended in prior audits and most recently in the 2020 External Programmatic Audit, ensure individuals deemed conditionally eligible are re-reviewed at the end of the reasonable opportunity period, ensure all required verifications occur in a timely manner, in compliance with state and federal requirements.</p> <p><i>CAP Response:</i></p> <p>Covered California does not agree with the finding that eligibility verifications were not completed. Due to the ongoing Public Health Emergency, Covered California, in consultation with CMS and in accordance with 45 CFR § 155.315(f)(3), extended the reasonable opportunity period due date for the eligibility verifications:</p> <ul style="list-style-type: none">• Incarceration and deceased extended to 04/05/2022• All other eligibility verifications extended to 06/30/2022 <p>As of April 2022, Covered California has resumed the ROP discontinuance batch for incarceration and deceased. In July 2022, the ROP discontinuance batch for citizenship and lawful presence will resume. Covered California will continue our efforts to resolve all verification inconsistencies.</p> <p><i>Completion Date: 9/30/2022</i></p>

1.3	<p>As previously recommended in the 2019 External Programmatic Audit, implement processes to ensure employers are notified timely when an employee indicates they do not receive minimum essential coverage and receive APTC benefits.</p> <p>CAP Response:</p> <p>Covered California agrees with the finding. While the process was put on hold due to the public health emergency Covered California will restart the employer notification process.</p> <p>Completion Date: 9/30/2022</p>
-----	---

Finding 2. Continued Improvements are Needed to Ensure Full Compliance with Notice and Enrollment Termination Requirements

2.1	<p>As previously recommended in the 2020 External Programmatic Audit, move forward with plans to implement CalHEERS updates to address defects impacting the accuracy and timeliness of notices as well as defects causing display issues in the CalHEERS Portal. Once implemented, verify system update addressed defect concerns.</p> <p>CAP Response:</p> <p>Covered California agrees with the finding. Four defects were originally identified. After fixes were put in place for three of the defects the fourth was no longer an issue.</p> <p>Service Investigation Report (SIR) 180548: discrepancy in eligibility start date and premium effective date after ARP batch during testing in April 2021. Cases were reprocessed proactively and successfully after a code fix in April 2021: Zero impacted cases.</p> <p>SIR 181380: APTC calculation regarding date values and remaining APTC. Identified and fixed in May 2021.</p> <p>SIR 193034: Wrong ROP date populating in the reapply scenario for conditional eligibly notices; issue was proactively identified and fixed in December 2021.</p> <p>Originally an additional code fix was to be implemented: SIR 200190: Warning notices (NOD03) is not generating when ROP date is not populated after Covered California ROP extension. Impacted cases currently at zero. Fix was targeted for release 22.6 A code fix was not necessary; the batch runs for particular days after cutover fixed the immediate issue with no indications of the issue afterwards. This was no longer an issue after the workarounds were implemented.</p>
-----	---

	<p>Completion Date: Completed 6/20/2022</p>
2.2	<p><i>To ensure information used by program areas and retained in CalHEERS is accurate and reliable, Covered California and the CalHEERS project team should implement a process to work together to notify the appropriate program areas and correct information in a timely manner when a typo or other error is identified.</i></p> <p>CAP Response: Covered California agrees with the recommendation. Service Investigation Report (SIR) 205205 has been created and associated to Production Change Request (PCR) 205192 for tracking the cosmetic adjustment of the defect number in the specific affected case notes with the typo. CalHEERS has a Production Defect Triage process already in place. Through the Production Defect Triage process CalHEERS works with Covered California, Service Center, CCIT, and other relevant Covered CA teams to discuss and ascertain the priority of the issue. In finding 2.2, SIR 205205 has been logged to track the incorrect SIR number in case notes and resolve the issue by applying PCR 205192. SIR 205205 will go through the Production Defect Triage process to prioritize the data fix based on severity and impact to system or consumers, if any. PCR 205192 will facilitate the updating of the internal-facing case notes to align the correct description with the correct defect number.</p> <p>Completion Date: 9/30/2022</p>
2.3	<p><i>Recognizing the CalHEERS is the system of record, ensure that the final IRS Form 1095-A issued to consumers aligns with the consumers actual experience. Continue monthly reconciliation activities with carriers to identify discrepancies between carrier and CalHEERS enrollment records.</i></p> <p>CAP Response: Covered California agrees with this recommendation. Currently, Covered California conducts a monthly reconciliation process to ensure that data between carrier system and CalHEERS is accurate and help identify any discrepancies. Fundamental to this process is the ability to readily find, track, and resolve artifacts that result from transactions between Covered California and its carriers through the California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS).</p> <p>Implemented: Current Process</p>
2.4	<p><i>Covered California should continue efforts to work with carriers to ensure grace periods are appropriately applied for consumers and the correct benefit termination date used.</i></p> <p>CAP Response: Covered California agrees with the recommendation and will continue efforts to work with carriers to ensure that grace periods are appropriately applied and the correct benefit termination date is used. Covered California's Program Integrity Division (PID) has a monthly reconciliation process that validates enrollment information such as Start Dates and End Dates. If any discrepancies are identified with enrollment</p>

	<p>information, PID notifies carriers of these discrepancies. Covered California's Plan Management Division will notify the carrier identified during testing that the case identified did not meet the appropriate grace periods and coverage ends dates per Covered California policy and will provide the appropriate Covered California policy guidance regarding grace period requirements.</p> <p>On 5/20/22, Plan Management Division notified the carrier identified during testing that the case identified did not meet the appropriate grace periods and coverage ends dates per Covered California policy and provided the appropriate Covered California policy guidance regarding grace period requirements. On 5/23/22, the Carrier confirmed that they have and understand the grace period policy guidance.</p> <p>Completion Date: Completed on 5/23/2022</p>
<p>Finding 3. Ombuds Program Activities Generally Aligned with Industry Standards and Complied with Federal Requirements; However, Some Opportunities Exist for Enhancements</p>	
<p>3.1</p>	<p><i>The Ombuds Office should assess whether its practice of implementing appeals decisions poses a risk to its independence from performing a compliance function of Covered California and whether this activity is in alignment with the standards outlined by the International Ombudsman Association.</i></p> <p>CAP Response: Covered California agrees that implementing appeals is not in alignment with IOA standards. However, after assessment, we do not believe the risk to our independence is great enough to change our practices.</p> <p>Completion Date: Completed April 2022</p>
<p>3.2</p>	<p><i>Ensure staff are knowledgeable of and familiar with established policies and procedures for implementing appeals decisions.</i></p> <p>CAP Response: Covered California agrees with the recommendation. Covered California's Ombuds Office has updated their task guides based on preliminary audit findings regarding case documentation to ensure notes are complete and consistent between the analysts. The Ombuds Office will also have task guide reviews and updates ongoing on a quarterly basis during its Team meetings.</p> <p>Completion Date: Completed 4/1/2022</p>
<p>3.3</p>	<p><i>Update Ombuds Affairs Unit policies and procedures to include requirements to maintain documentation of consumer authentications conducted and/or include a field for staff to document the date and method used to authenticate consumers that contacted the Ombuds Office through e-mail.</i></p> <p>CAP Response: Covered California agrees with the recommendation and have submitted a request with Salesforce to change some fields that we aren't using to</p>

	<p>document Ombuds Affairs Unit’s initial contact with consumer. We have also already changed how the team documents emails within Salesforce by making sure to include the “To, From, and Date” section of the emails with consumers.</p> <p>Completion is dependent on what the Salesforce system can do for us and when. Internally changes with documents have already taken place.</p> <p>Completion Date: Completed 3/3/2023</p>
--	---

Finding 4. Navigator Program Has Strong Oversight Practices and Controls in Place to Ensure Grantee Compliance with Grant Provisions

<p>4.1</p>	<p><i>Implement a step to review and verify payment provisions are accurate prior to executing and/or amending Navigator grant agreements.</i></p> <p>CAP Response: Covered California agrees with the recommendation. In March 2022, Outreach and Sales, Account Services staff met with Business Services Branch (BSB) to commence planning on a correction amendment for Family Healthcare Network. See below for planning established.</p> <p>To address the issue moving forward, a new process was developed in partnership with BSB staff. For any Navigator contract execution or amendment, a verification list will be created by Account Services and shared with BSB that will detail all values that are tailored to an individual grantee – Enrollment targets, outreach targets, total face value, and individual dollar values for each partial payment. This will allow BSB and Account Services staff to perform two separate reviews, to check for accuracy of each grant agreement.</p> <p>Formal contract review procedures were established within Outreach and Sales and developed and shared with Business Services Branch prior to the end of the FY 2021-22 fiscal year (6/30/2022).</p> <p>The April 14, 2022, Covered California Board of Directors meeting approved an extension to the Navigator grant contracts, and extension amendments were processed beginning 6/15/22. The correction to the existing agreement payment table for Family Healthcare Network was completed at the same time as the extension to avoid two amendments within two months of each other, which would have created undue confusion and duplicative work for both Covered California and the grantee.</p> <p>Completion Date: Completed 6/15/2022</p>
-------------------	--

Finding 5. Opportunities Exist to Improve Management and Reporting of Privacy and Security Training

<p>5.1</p>	<p><i>To better ensure information reported on monthly reports to program areas and used by the Privacy Officer and Information Security Office to track completion are accurate and reliable, Covered California should audit its Learning Management System users to identify and eliminate duplicate accounts and ensure accounts for employees and contractors that have been off-boarded are deactivated.</i></p> <p>CAP Response: Covered California agrees with the recommendation. Covered</p>
-------------------	--

	<p>California University (CCU) has implemented monthly reconciliations with our vendor TTEC (formerly Fanueil), to assure that our records accurately reflect their active users. We sent the first report to TTEC on March 11, 2022. CCU has scheduled reconciliation reports be sent to TTEC on a monthly basis going forward, which will verify active vs. inactive status, current names, and email addresses (verifying there are no names changes or duplicate email addresses on file). With this reporting process in place, our records will remain updated and accurate on a monthly basis.</p> <p>TTEC will be given 2 weeks to respond and CCU will update our records and send the next month's report.</p> <p><i>Completion Date: Completed 3/11/2022</i></p>
--	--