COVERED CALIFORNIA

INDEPENDENT EXTERNAL AUDIT: 2016 AUDIT FINDINGS REPORT

<u>**SUMMARY OF RESULTS**</u>

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, 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."

To achieve the intent of the State's legislation, Covered California identified its mission 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. To achieve its vision and mission, Covered California continues to develop annual goals and department objectives mapped to its strategic pillars to help ensure its activities and resources continue to align with Covered California's mission.

Plan Year 2016 was Covered California's third year of ACA administration. Covered California accomplished several significant milestones towards achieving its mission, which include:

- Certified eleven (11) qualified health plans in the individual exchange, including two new plans, further increasing competition in the marketplace.

- Negotiated an average state-wide health insurance premium rate increase of seven (7) percent for Plan Year 2017, which is significantly lower than the national average benchmark premium rate increase of 22 percent.

- Further decreased California's uninsured rate to 7.1 percent, which is lower than the national average and 9.9 percentage points lower than California's uninsured rate in 2013.

- Improved controls, both manual and automated, over non-subsidized eligibility determinations and enrollments.

- Improved carrier reporting requirements, enhanced monitoring efforts, and established practices to help ensure compliance with federal requirements established in 45 Code of Federal Regulations (CFR) subpart K.

SCOPE AND OBJECTIVES

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). The audit focused on the following five areas:

- Covered California's oversight and management of contractors, including Navigators and Covered California Individual Market eligibility and enrollment information system developer;

- Individual market eligibility and enrollment processes, including eligibility determinations, participation in insurance affordability programs and related reporting requirements, special enrollments, and enrollment terminations;

- The effectiveness and efficiency of the processes employed by Covered California to oversee the help desk ticketing process;

- Covered California's oversight and management of Qualified Health Plans (referred to as carriers throughout this report), including oversight of data transmissions and 834 transactions; and

- Follow-up on the status of prior External Programmatic Audit findings.

COVERED CALIFORNIA'S COMMENTS ON THE AUDIT

Covered California has established a solid foundation for maintaining robust enrollment, expanding access to healthcare, lowering costs, and improving the consumer experience. We are committed to achieving our mission and Covered California is proud of accomplishing significant milestones in our efforts to effect continuous improvement in the efficiencies and effectiveness of program operations.

In addition to accomplishments acknowledged by external auditors Sjoberg Evashenk Consulting, Inc. (SEC), Covered California continued to focus on consumer-centered initiatives, including the following:

- Performance of user acceptance testing on all 17 California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) enhancement releases that implemented 47 change requests to promote a positive consumer experience during Open Enrollment.

- Further improvement of the data reconciliation process and increase in reconciliation frequency with all health and dental plans within CalHEERS core systems, resulting in a 99%+ accuracy rate pertaining to consumer data.

- An upgrade of all call centers to maximize efficiencies, updated training for all service center representatives, and completion of over 60,000 courtesy call-backs to consumers.

- Creation of a new Help on Demand referral program that resulted in over 24,000 referrals by directly connecting consumers requesting enrollment assistance with Certified Enrollers for prompt call-backs through a custom app.

- Refined eligibility processes to ensure that consumer communications are clear and effective.

- Improved Insurance Affordability Programs transitions, protecting consumers from experiencing gaps in coverage.

- Completed all translations in the threshold languages for eligibility notices.

AUDIT FINDINGS, RECOMMENDATIONS AND CORRECTIVE ACTIONS

During the 2016 benefit year, Covered California implemented many process and information system enhancements to improve its oversight of operations, enhance the integrity and reliability of data, and better ensure compliance with federal and state requirements. For example, as a result of the 2015 External Programmatic Audit that identified issues related to data reliability and accuracy of Covered California's information system, Covered California explained that it implemented a process to reconcile a number of data elements recorded in the component systems comprising the CalHEERS to improve the accuracy and reliability of its information.

Additionally, in mid-2015 with the establishment of the Covered California Program Integrity Division (PID), Covered California established Internal Audit Services, the Office of Consumer Protection, CalHEERS Testing and Performance Review unit, and

the Reconciliation of Enrollment and Membership unit—all aimed at enhancing oversight, increasing program integrity, and strengthening the agencies control environment. Covered California also established several working groups, such as an IRS (Internal Revenue Service)-1095A working group and ticketing working group, to assess the effectiveness of core operations and identify areas where programs could become more effective and better comply with state and federal requirements.

While Covered California has improved its control environment since the prior External Programmatic Audit, the SEC auditors found that some issues still exist and additional enhancements are recommended. As discussed in the following section, the SEC auditors noted areas where Covered California did not fully comply with federal and state regulations. The SEC auditors also identified instances where program areas could further improve operations to better ensure programs are operating efficiently and effectively, while maintaining necessary systems of internal controls. This includes more clearly defining the roles and responsibilities of Covered California's program areas and PID, implementing oversight over the CalHEERS delivery and ticketing process, improving the cost effectiveness of the Navigator program, and validating carriers' performance reporting and enrollment records.

The SEC auditors presented eight (8) findings and 25 recommendations. Covered California reviewed the recommendations and agrees that even though improvements in its control environment have been made, opportunities to improve remain. Covered California has developed appropriate corrective actions to address the recommendations, as shown in the table below.

	Auditors' Recommendation	Covered California's Responses and Intended Corrective Action Plans
Finding 1: Controls over Individual Market Eligibility Determinations and Enrollments Improved, but Some Work is Needed		
1.1	Continue efforts to help ensure individuals deemed conditionally eligible are re-reviewed at the end of the reasonable opportunity period (ROP), help ensure all required verifications occur in a timely manner, and only qualified individuals are allowed to enroll during the special enrollment period.	Beginning in September 2016, with the implementation of system enhancements and refinements through Change Request (CR) 27819, Covered California's enrollment process allows for the automated discontinuance of consumers who have not provided verification for citizenship, lawful presence, incarceration or deceased status during the ROP. We continue to focus on processing manual verification documents in a timely manner. Also, the Program Integrity Division/Enterprise Fraud Risk & Reporting Section (PID/EFRR) implemented the special enrollment random sampling verification process in August 2016.

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1.2	Move forward with plans to implement a practice similar to Centers for Medicare & Medicaid Services (CMS) and require all customers and certified enrollers to submit documentation supporting the qualifying life event reported.	For the 2016 Plan Year, Covered California enacted a random sampling process for the Special Enrollment Period similar to the process employed by CMS. For the 2019 Plan Year, Covered California's goal is to conduct pre-enrollment electronic verifications of, at a minimum, the Qualifying Life Event loss of minimal essential insurance coverage.
1.3	Continue to provide refresher training courses to certified enrollers and service center representatives to help ensure established policies and processes related to eligibility determinations, terminations, and special enrollment are followed.	Covered California provides ongoing and updated annual refresher and recertification training to Certified Enrollers and Service Center Representatives (SCRs) on individual market eligibility determinations, terminations and special enrollment processes. The Service Center has partnered with Covered California University in the Service Center Refresher Training workgroup. SCRs are scheduled for the appropriate training courses as they are developed. In addition, the Outreach and Sales Division provides webinars to the Certified Enrollers in preparation of Open Enrollment and Special Enrollment. Certified Enrollers are required to take an annual recertification course through computer-based training. Also, Navigator entities are required to participate in webinars and meetings that the Outreach and Sales Program facilitates.
1.4	Continue efforts to review policies and system business rules for compliance with state and federal requirements. Where instances of non-compliance are identified, update Covered California policies and procedures and work with the CalHEERS team to update system rules.	This audit recommendation accurately captures Covered California's ongoing approach to compliance. The Policy Division will continue to proactively update policies and procedures to help ensure compliance with state and federal requirements and disseminate this information to appropriate staff.

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Finding 2: Covered California Oversight of Individual Market Insurance Affordability Program Participation Needs Improvement		
2.1	Move forward with plans to expand current processes to include all failure-to-reconcile (FTR) codes and develop a process to re-verify customers who received a tax filing extension, were flagged with a 009 FTR code, and those customers that self-attested.	Per the December 2017 "2018 Benefit and Payment Parameter" regulations, Covered California is prohibited from denying eligibility for APTC based on failure to reconcile taxes. This is in effect due to IRS privacy safeguards that do not allow Covered California to send "direct notification" to consumers, as required by regulation. To address this recommendation, Covered California is developing a corrective action plan.
2.2	Move forward with plans to expand manual verification processes and help ensure enrollees deemed conditionally eligible are timely reviewed at the end of the ROP.	Covered California continues to focus on processing manual verification documents in a timely manner, allowing for the automated discontinuance of consumers who have not provided verification for citizenship, lawful presence, incarceration or deceased status during the ROP. The implementation of the Business Process Management tool was started in February 2017. This allows for further improvements in the processing of manual verification documents. Additional CR is scheduled for release in 2019 and will implement automatic reverification and redetermination for cases that exceed the ROP for social security number, income, American Indian/Alaska Native, and minimum essential coverage.
2.3	Implement a process to audit both automated and manual processes to help ensure business processes and controls are functioning as intended and in compliance with federal requirements in 45 CFR 155.305(f)(4).	The Program Oversight and Compliance Branch's Internal Audit Services (IAS) is performing an audit of both automated and manual eligibility processes for participation in Insurance Affordability Programs. The results of this audit will enable IAS to prepare recommendations to relevant program areas for improvement of current processes and controls and development of new ones - all to help ensure they are functioning as intended and in compliance

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		with regulations. The audit is estimated to be completed in 2018.
Finding 3: Established Controls to Ensure Accuracy of IRS Form 1095-As Should be Improved		
3.1	Establish controls to help ensure accurate and reliable IRS Form 1095-As are generated and system defects identified are resolved.	In April 2017, the defects were resolved in the releases 16.4 and 16.9. To address the additional system controls, CR 36110 was implemented in the 15.9 release. PID has incorporated additional financial details into the monthly reconciliation process, and the anticipated timeline for incorporation of automated corrective action of financial inconsistencies during reconciliation is scheduled for the 2018 benefit year. Also, IAS recommended in its forecasted Annual Audit Plan to review systems and procedures used by carriers to record and report on enrollment and premium billings.
3.2	Move forward with plans to incorporate financial components into the reconciliation process, and help ensure reconciliations conducted include reviewing independent system generated reports.	As of April 2017, the reconciliation process includes monthly financial information for comparison with the carrier systems. Discrepancy types are evaluated for root cause and corrective action through the reconciliation process. Ongoing data integrity efforts have resulted in the deployment of proactive strategies to identify and improve the overall quality of financial data within CalHEERS. As noted, reconciliation of financial components will occur in 2018. Key Performance Indicators are used to manage and monitor data accuracy of financial information in concert with enrollment changes that occur throughout the benefit year.
Finding 4: Covered California Enhanced its Oversight and Management of Carriers, but Opportunities for Improvement Remain		
4.1	Establish processes to validate carrier activities and reporting to help ensure data provided by carriers is accurate and reliable.	Plan Management Division (PMD) will develop new, and expand on existing, resource documents that allow for feedback from carriers and Covered California subject matter experts. These resources will help

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		ensure consistency and reliability of data reported across all carriers.
4.2	Take a more proactive role to address issues related to carrier performance and contract compliance.	As of August 2017, PMD developed and implemented a formal process for addressing contract compliance on activities managed by PMD as well as those managed by other divisions across Covered California.
4.3	Continue working with CalHEERS to help ensure the reporting functionality necessary to evaluate the timeliness and accuracy of carrier 834 and 999 transactions is implemented as scheduled.	PMD provided CalHEERS with the reporting requirement specifications needed to monitor carrier transactions. The CalHEERS team will develop and validate the report when the data is available for production. Once the report has been tested and validated, CalHEERS will share the report with PMD staff. PMD will have a valid report that they can share with the carriers.
Finding 5: Ticketing Processes Should Be Enhanced to Ensure Tickets are Effectively Resolved in a Timely Manner		
5.1	Work with both the Office of Systems Integration (OSI) and the information system contractor to help ensure adequate resources are assigned to meet projected ticketing demands as they fluctuate throughout the year. Evaluate ticketing trends and establish a baseline to project future workload.	The CalHEERS team provides support using a contact volume expectation of up to 6,000 contacts per month. As there are frequently more than 6,000 contacts per month, the team has worked with Covered California and the Department of Health Care Services (DHCS) for CR 73405 and CR 76606 to add additional capacity to address this finding. Covered California Information Technology Department (ITD) is currently working with OSI and the information system contractor (as well as DHCS as our joint sponsor) to review ticketing trends, to reduce the number of tickets coming in, and identify whether the remaining tickets exceed the current contractually required work.
5.2	Work with the OSI and the information system contractor to review the current Help Desk	The CalHEERS Team conducts weekly Help Desk Workgroup meetings with both Covered California and DHCS. During these

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	ticketing prioritization process to assess how tickets are categorized and determine if additional categories should be created to better prioritize tickets. In addition, work with OSI and the contractor to evaluate the methodology employed to address outstanding tickets.	meetings, the team discusses ticket priorities, as well as current ticket categories. ITD has worked with OSI, the contractor, and DHCS to re-evaluate the prioritization of tickets. For Covered California, we believe the current prioritization is appropriate. DHCS has requested ITD to evaluate the feasibility of having different teams to work with the contractor on Covered California's versus DHCS' initiated Help Desk tickets. The feasibility of this approach is currently under review.
5.3	Help ensure key roles and responsibilities related to Help Desk tickets are clearly defined and delineated amongst program areas.	We agree that roles and responsibilities need to be better defined, delineated, and documented for the various program areas related to the resolution of Help Desk tickets. ITD has assigned a business analyst to specifically work with the program areas and the contractor. This effort was completed in September 2017. The CalHEERS Team has clearly defined roles related to the handling of Help Desk tickets. These roles are outlined in the Accenture Operations and Maintenance Manual.
5.4	Review available data and reports to assess the feasibility of providing estimated processing times to customers calling in to check the status of their ticket. In addition, if there is a known defect that negatively impacts customers, establish a process to notify customers and provide a timeline for resolution.	Covered California will develop methods to determine the average handle times for tickets in each of the ticket priorities. The feasibility of contacting and timely notifying the consumer about their aged ticket's status will be reviewed. In an effort to continuously provide improved service, the Service Center Priority Support Unit contacts consumers upon receipt of an escalated incident to notify the consumer of the resolution to their request or the need to submit a Help Desk ticket.

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Finding 6: Covered California Should Enhance its Oversight of the Delivery of the CalHEERS System		
6.1	Establish an oversight and monitoring role that coordinates the review and verification of activities carried out by all program areas as they relate to the CalHEERS project, including: • Verification of information system contractor's achievement of the Service Level Agreement (SLA) performance standards; • Categorization, prioritization, and timely resolution of tickets; • Overall system functionality and ability to meet the needs of various Covered California program areas; and • Review and approval of contractor invoices.	In May 2017, ITD hired for the newly created Deputy Chief Information Officer (CIO) Strategic Initiatives position. This position is responsible for: • Verification of information system contractor's achievement of SLA performance standards. • Overall system functionality and ability to meet the needs of various Covered California program areas. Moreover, ITD recently filled a newly created business analyst vacancy. The business analyst has been assigned to assist with the resolution of system defects and Severity-6 defects, which are design gaps in the system. Related to invoices, mechanisms are currently in place to assure Design and Build milestones are met with our interagency agreement with OSI. ITD's focus is to help ensure the CRs have been completed prior to the implementation phase being paid. We are working with the OSI team to refine the invoice approval process to provide approval to the implementation milestone.
Finding 7: Opportunities Exist to Enhance the Overall Cost-Effectiveness of the Navigator Program		
7.1	Take into consideration geographical need for Navigators by comparing the Navigators locations and enrollment/ renewal goals to uninsured populations eligible for benefits through Covered California.	The 2016 Navigator Grant Program focused on selecting partners that were geographically located throughout the State of California. The program focuses on ethnicity, targeted populations, and partners who have previously demonstrated the ability to enroll consumers, and regions with subsidy-eligible consumers. Covered

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		California intends to issue a Request for Application (RFA) for Fiscal Year 2018/19 to recruit new and additional Navigator grantees. Part of the selection criteria for selecting recipients will be their geographical reach relative to the uninsured populations eligible for benefits through Covered California. It is important to note, Covered California cannot fund partners in regions where we do not receive responses to our RFA.
7.2	To help optimize the outcomes of the Navigator program, consider implementing a different funding model for the program to ensure that limited funding is awarded to Navigators with a demonstrated record of success, including demonstrable success in providing cost-effective enrollment, outreach, education, and post-enrollment services.	The Navigator Grant Program was implemented in Fiscal Year 2014/15 with a pay-for-performance model. The pay-for-performance model did not give credit for all the work that was expected of the grantees; such as, outreach, education, and post-enrollment services. Based on discussion and feedback from stakeholders, the Board decided to move from a pay-for-performance model to a block grant model that allows grantees to get paid and continue to provide outreach, education, renewal, enrollment, and post-enrollment support. Covered California will have an opportunity to change its funding model after we issue an RFA for Fiscal Year 2018/19. During that process, we intend to evaluate a variety of funding mechanisms, which incentivize performance, as well as provide the stability necessary for grantees to meet or exceed their goals.
7.3	Incorporate into the funding model methods that incentivize optimal performance and enable Covered California to hold Navigators accountable for performance and/or non-compliance. In doing so, consider:	Based on discussion and feedback from stakeholders, the Board decided to move from a pay-for-performance model to a block grant model that allows grantees to receive payment and continue to provide outreach, education, renewal, enrollment,

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• Implementing incentives into the grant agreement, including establishing a lower base funding amount and incorporating incentives based on goal attainment (e.g., 80 percent goal attainment, 100 percent goal attainment, 120 percent goal attainment, etc.) for enrollment and related services. • Incorporating cost-effectiveness as a meaningful element in evaluating whether a Navigator grant will be renewed. • More clearly defining what it means for a Navigator to fail to perform as required, and exercise Covered California's ability to withhold payments from Navigators for failure to perform and/or non-compliance with grant agreements.	and post- enrollment support. Our plan is as follows: • Create a performance monitoring and compliance program with clear and concise timelines, with posted expectations and due dates, milestones and deliverable details, while incorporating expectations and points of clarification. • Further develop accurate and timely reports and grantee statistics for the purposes of ensuring contract compliance and optimal performance standards. • Communicate clearly defined performance measures and definitions of performance through Corrective Action Plans, personally identifiable information (PII) analysis, timely reporting, and grantee goal and agreement alignment. • Help ensure performance measures are met through consequences, such as withholding payments and lowering base funding amount. By July 2018, we intend to evaluate a variety of funding mechanisms that incentivize performance, as well as provide the stability necessary for grantees to meet or exceed their goals.

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7.4	Enhance program and compliance oversight of Navigator grants by ensuring Navigators are informed in a timely manner of all areas of non-compliance; submit corrective action plans, and help ensure program staff follow up with the Navigator to verify compliance in a timely manner.	During Fiscal Year 2016/17, Covered California implemented stricter oversight of the Navigator grant program, including mandatory bi-monthly meetings, and our annual contract compliance site visits to help ensure grantees are in compliance with the requirements of regulations and the contract. While we are steadfast in our oversight of the grantees, we will seek to install more mechanisms for ensuring contract compliance during the new contract that comes from the RFA process in Fiscal Year 2018/19.
7.5	Provide guidance to Navigators regarding how event and outreach activities should be reflected in periodic reporting, and how documentation supporting such events should be maintained in program files.	Navigators are required to report monthly their community events to Covered California. A Program Guide with instructions is currently posted to the Navigator website and will be updated to inform Navigators of "who, what, when, where, why, and how" the events should be reflected. By July 2018, the program will implement a process to help ensure that all events on the work plan or bi-monthly reports are, or have been, posted to the Covered California Event Portal. As of September 2016, Navigators have reported on the events they hosted or participated in, for that reporting period in the Event Portal.

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7.6	Consider revising the format of the strategic work plan to be more flexible for Navigators, require less time to complete, and results in a more realistic set of expectations for the upcoming program year.	Annual strategic work plans are submitted by grantees during the beginning month of the grant term. Covered California created a process for Fiscal Year 2016/17 to review the work plans with the grantees during the bi-monthly meetings - all to help ensure updates are appropriately recorded and Covered California has an understanding of the actual work being performed. In the new contract that comes from the RFA in Fiscal Year 2018/19, we will seek to change both the template for the work plan, as well as the frequency it must be submitted to Covered California.
7.7	Improve security over PII provided to, and maintained by, Navigators by providing definitive guidance and monitoring compliance on a regular basis.	In April 2017, Covered California implemented a process to review random samples of consumers' PII authorization forms for compliance. Any non-compliance identified required corrective action. All 46 Navigator site-visits were completed by May 9, 2017. The sites were informed random sampling would occur every year. The reviews were instrumental to promote compliance, improve security over PII forms, and provide guidance to Navigators.
Finding 8: Program Accountability and Clearly Defined Roles and Responsibilities are Key to Operational Effectiveness		
8.1	Help ensure roles and responsibilities are clearly defined amongst program areas and PID. Ensure key functions, such as oversight of the delivery of the CalHEERS project, are assigned to a program area.	PID understands the importance of program accountability and clearly defined roles and responsibilities across Covered California. In 2018, PID will facilitate an update of Covered California's enterprise-wide oversight and monitoring plan that incorporates all divisions' roles and responsibilities.