Elaine M. Howle State Auditor

CONTACT: Margarita Fernández | (916) 445-0255, x343 | MargaritaF@auditor.ca.gov

The California State Auditor released the following report today:

High Risk—Covered California

It Must Ensure Its Financial Sustainability Moving Forward, and Its Use of Sole-Source Contracts Needs Improvement

BACKGROUND

A 2010 federal law known as the Affordable Care Act includes numerous provisions aimed at expanding health insurance coverage and making health care more accessible and affordable. To implement this law, California created a state-operated health insurance exchange known as Covered California. This independent entity is a competitive insurance marketplace in which eligible individuals and small businesses have been able to purchase qualified health plans since October 2013. Covered California must become financially self-sufficient by September 2016 when it exhausts its federal funds. In a prior report, our office identified Covered California as high risk and because we continue to have concerns regarding its financial sustainability, it remains on our high-risk list.

KEY FINDINGS

During our audit of Covered California, we noted the following:

- Although Covered California has developed a plan to help ensure its future financial self-sufficiency, it needs to continue to monitor the plan and conduct a formal analysis of its reserve level.
  - ✓ To cover its operating expenses, the plan relies heavily on revenue generated from assessments it charges on qualified health plans, which are based on how many consumers enroll in those plans. If enrollment projections fall short, Covered California will need to raise plan assessments, cut costs, or use its reserves to maintain solvency.
  - ✓ Because its enrollment projections are primarily based on prior year or other recent data, and Covered California has a short operational history, enrollment projections are an area of risk that requires careful monitoring.
- Although state law requires Covered California to establish contracting practices and use a competitive process to award contracts, its contracting practices need improvement.
  - ✓ The board-adopted procurement policy in place during our review allowed the use of a noncompetitive contracting process (sole-source) when *timeliness* or *unique expertise* were required, which was overly broad and did not limit the use of sole-source contracts. Covered California has since adopted policies similar to those in the *State Contracting Manual*.
  - ✓ Of the 40 sole-source contracts and amendments we reviewed, Covered California did not sufficiently justify the need for nine (or nearly 25 percent) and, for another three, we questioned the validity of the justification because there was time to use a competitive process or the vendor was not unique.
- Nearly $493 million has been spent on CalHEERS—the computerized system that enables consumers to enroll in Covered California's qualified health plans and provides other functions—and, although functional, its rapid design, development, and implementation have resulted in some risks to the system's maintainability.

KEY RECOMMENDATIONS

We made several recommendations to Covered California including that it perform the following:

- Monitor and revise its financial viability plan and complete a formal analysis of its reserve level by December 31, 2016, and update this analysis as needed to ensure it maintains solvency.
- Regularly review and update its enrollment projections.
- Ensure staff comply with new changes to its recently-adopted procurement manual.
- Adequately document and justify when it does not competitively bid for services.
- To ensure CalHEERS does not face delays and cost overruns, immediately contract with an independent party to provide independent verification and validation services to highlight and address potential risks going forward.

Date: February 16, 2016 **Report: 2015-605**