The California State Auditor released the following report today:

**New High Risk Entity**

*Covered CaliforniaAppears Ready to Operate California’s First Statewide Health Insurance Exchange, but Critical Work and Some Concerns Remain*

**BACKGROUND**

Federal law known as the Affordable Care Act includes numerous provisions that take effect over several years—beginning in 2010—aimed at expanding access to health insurance, control health care costs, and improve the quality and efficiency of the health care delivery system. To implement the Affordable Care Act, California enacted legislation creating a state-operated health insurance exchange. This independent public entity, now named Covered California, must be operational by October 2013 and must become financially self-sufficient by January 2015. Until Californians actually enroll in the exchange’s qualified health plans (QHPs), the future solvency of the exchange remains uncertain. Therefore, we are adding Covered California’s operations to our list of high-risk issues that warrants attention.

**KEY FINDINGS**

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

- It has complied with most key federal and state requirements related to governance and oversight.
- As of May 2013 it has spent only 14 percent of the nearly $911 million in federal funds awarded to it for research, planning, information technology development, and its implementation.
- It appears to follow a procurement policy that emphasizes competition—it used a competitive process in awarding approximately 98 percent of the total dollar amounts contracted as of May 2013.
- Although it has a comprehensive certification process for QHPs that will be sold through the exchange, it has not yet developed a process for how it will monitor, recertify, and decertify the QHPs.
- Even though its current efforts and plans appear adequate, it still has substantial work to do in developing its processes for evaluating and enrolling insurance applicants.
  - It hired a systems developer to design and implement an information technology (IT) system that will provide online tools for obtaining health coverage through the exchange.
  - It hired a firm to independently review the work of the IT systems developer and also created a contingency plan to outline actions it will take in the event of a system failure.
  - It is facing some challenges that could slow implementation of its three service centers—it has yet to sign a lease agreement for one site and had only made 44 hiring offers when it had planned to hire 354 employees by May 2013.
- Its outreach plans include conducting education, outreach, and marketing activities to ensure awareness of the newly available coverage programs and to establish an assister program to reach diverse populations and help them enroll in the exchange.
- Because federal and state laws prohibit using federal grants or the State’s General Fund to support ongoing operations beginning January 2015, Covered California will assess a participation fee on QHPs offered through the exchange to support its activities.

**RECOMMENDATIONS**

We recommended to Covered California that it formally adopt a policy to retain confidentiality only for certain contracts necessary to protect the State’s interest in future contract negotiations, and that it develop procedures to monitor, recertify, and decertify QHPs. Moreover, Covered California should conduct regular reviews of enrollment, costs, and revenues to promptly adjust its financial sustainability plan as necessary. As with all issues on the high-risk list, the state auditor will continue to monitor Covered California’s developments and challenges.

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