

Audit Committee Meeting

April 18, 2024



Presented by

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AGENDA

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AUDIT COMMITTEE'S BOARD REPORTING PROCESS RECOMMENDATION

RECOMMENDATION: BOARD REPORTING PROCESS

Background:

The Audit Committee Charter states the Committee should “regularly report to the Board about Committee activities, issues, and related recommendations.” The Office of Audit Services is providing recommendations and soliciting the Audit Committee’s feedback on the reporting process.

Research:

- The Office of Audit Services performed research to:
 - ✓ Identify what topics could be reported to the Board
 - ✓ Determine how often these report-outs would occur
 - ✓ Determine the best method for how report to the Board
- Research efforts included:
 - ✓ Reviewing guidance provided by the Institute of Internal Auditors
 - ✓ Requesting and evaluating information from other agencies’ Chief Audit Executives*
 - ✓ Examining Board meeting minutes and Audit Committee reports of other agencies*

*The Office of Audit Services researched the following public entities: California Department of Veteran Affairs, Department of General Services, California Department of Fish and Wildlife, Department of Consumer Affairs, Department of State Hospitals, California Public Utilities Commission, Department of Water Resources, California State Teachers’ Retirement System, Solano County, California Energy Commission, and California Public Employees’ Retirement System.

RECOMMENDATION: BOARD REPORTING PROCESS

We recommend the Audit Committee to consider our proposal for the Office of Audit Services to report to the Board regarding audit activities, on the Audit Committee's behalf.

- **Frequency:**

- ✓ Annually during a 4th Quarter Board Meeting
- ✓ Ad-hoc basis for any major items for discussion that occur throughout the fiscal year

- **Topics:**

- ✓ Status of Audit Committee Charter and Internal Audit Charter approvals
- ✓ Statement of whether the Office of Audit Services generally conforms to the Institute of Internal Auditors' Standards based on the most recent Quality Assurance and Improvement Program assessment
- ✓ Progress of audits listed on the recently approved Annual Audit Plan
- ✓ List of completed audits, including the high-level status of corrective action plans

- **Method:**

- ✓ Discussion with the Audit Committee to confirm agreement with the prepared report topics
- ✓ Presentation and written report to the Board by the Office of Audit Services on behalf of the Audit Committee

- **Next Steps:**

- ✓ Obtain the Audit Committee's feedback on the reporting process
- ✓ Office of Audit Services to present a high-level summary of the reporting process at the May 2024 Board Meeting



Questions

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QUALITY ASSURANCE AND IMPROVEMENT PROGRAM INTERNAL ASSESSMENT RESULTS

QUALITY ASSURANCE & IMPROVEMENT PROGRAM - INTERNAL ASSESSMENT RESULTS

The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (Standards) requires a Quality Assurance & Improvement Program to be completed. The Office of Audit Services must perform this internal self-assessment annually.

The period reviewed was for July 1, 2022 through June 30, 2023. The objectives of the Quality Assurance & Improvement Program were to evaluate the Office of Audit Services':

- ✓ Conformance with Standards and Code of Ethics.
- ✓ Efficiency and effectiveness in carrying out its mission, as set per the Internal Audit Charter.
- ✓ Practices and opportunities for continuous improvement to enhance the efficiency and effectiveness of internal audits and adding value to Covered California.

Results of Fiscal Year 2022-23 Quality Assurance and Improvement Program:

- ✓ **It is our overall opinion that the Office of Audit Services generally conforms to the Standards and the Code of Ethics.**
- ✓ **Successful Practices:**
 - The Internal Audit Charter was timely reviewed and updated by the Chief Audit Executive and approved by the Audit Committee.
 - All internal audit team members fulfilled more than the minimum required Continuing Professional Education training hours.
 - The Office of Audit Services developed and implemented a comprehensive and useful Policies and Procedures Manual.

QUALITY ASSURANCE & IMPROVEMENT PROGRAM - INTERNAL ASSESSMENT RESULTS

Based on our assessment, we identified areas where the Office of Audit Services could improve our processes to promote compliance, efficiencies, and effectiveness. The corrective action plans developed by the Office of Audit Services will correct these observations.

Observations for Improvements	Corrective Action Plans
An internal assessment was not completed in Fiscal Year 2022-23 nor prior years.	<i>Implemented</i> – An internal assessment was conducted this fiscal year and will be conducted at least annually henceforth.
An external assessment has not been conducted within the last five years.	<i>TBD</i> – Once a new Chief Audit Executive is hired and onboarded, they will determine when the external assessment should be scheduled.
Custody and retention requirements for audit and consulting engagements have not yet been established.	<i>By July 1, 2024</i> – The Office of Audit Services will establish custody and retention requirements.
Audit engagements were not timely.	<i>Implemented</i> – Audit objectives are more focused and engagements are being closely monitored to ensure timeliness.



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INTERNAL AUDIT RESULTS CONTRACTING AUDIT

BACKGROUND & POSITIVE OBSERVATIONS

Background:

The Office of Audit Services conducted an audit to obtain reasonable assurance that internal controls over Covered California's contracting process were administered in accordance with policies, procedures, and applicable requirements. The audit period was during January 1, 2021 through September 30, 2022.

Positive Observations:

- During our audit, the Business Services Branch, within the Administrative Services Division:
 - Implemented the Contract Lifecycle Management System, which increased the transparency and efficiency of various contracting activities. This improved their overall administration of the contracting process.
 - Enhanced a quality assurance checklist used for developing and renewing contracts. This strengthened the Business Services Branch's effectiveness when ensuring required contracting-related administration steps are sufficiently performed.
- The Business Services Branch accurately and timely reported pertinent contract information on the Covered California website. This contributed to Covered California maintaining its trusted brand and reputation through transparency and accountability.
- The Financial Management Division accurately and timely processed contract invoice payments and tracked contract budgets. This ensured allowable invoice payments were processed timely and within the contracts' respective budgets.

AUDIT FINDINGS, IMPLICATIONS, & CAP SUMMARIES

Finding 1: Program contract managers did not sufficiently maintain all required documentation within their contract management files

Finding	Implications	Summary of Corrective Action Plans
<p>Program contract managers within Covered California divisions are required to maintain different types of documentation within a contract management file. This substantiates that hired contractors are adequately managed and monitored.</p> <p>We reviewed contracts managed by 9 divisions. We identified that all 9 divisions did not sufficiently maintain the applicable types of documentation within their contract management files.</p>	<p>If program contract managers are not adequately maintaining all required documentation to substantiate that they are adequately managing and monitoring their contractors, there exists the following potential contractor risks:</p> <ul style="list-style-type: none"> • Inadequate deliverables • Non-compliance with applicable requirements • Wasted funds (e.g., additional services need to be contracted out to complete the job that was inadequately performed by the prior contractor) 	<p>As of December 2023, the Business Services Branch provides direct and formal communications with the program contract manager at the start of the contracting process. Quarterly reminders are sent communicating the contract managers' functions and record keeping requirements. The communication also directs the contract managers to resources and training needed to fully understand these requirements and the documentation needed to adequately maintain the contract files.</p> <p><i>Status: Implemented December 2023</i></p>

AUDIT FINDINGS, IMPLICATIONS, & CAP SUMMARIES

Finding 2: Program contract managers did not complete required contract trainings

Finding	Implications	Summary of Corrective Action Plans
<p>Program contract managers are required to complete all parts of the 4-part Contracts Training Series.</p> <p>We reviewed the training records of 56 program contract managers. We identified that most program contract managers:</p> <ul style="list-style-type: none"> • Did not complete all parts of the Contracts Training Series, or • Were not listed on training compliance reports which made us unable to determine their training completion status. 	<p>By not completing the Contracts Training Series, program contract managers may not be fully educated on how to:</p> <ul style="list-style-type: none"> • Complete the contracting solicitation and amendment processes. • Adequately manage and monitor their contractors' performance, deliverables, compliance, and budgets. 	<p>Business Services Branch will implement a process to ensure program contract managers complete all parts of the Contracts Training Series.</p> <p><i>Status: Partially implemented - expected to be fully implemented by December 2024.</i></p>



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INTERNAL AUDIT RESULTS EMPLOYEE SEPARATION AUDIT

BACKGROUND & POSITIVE OBSERVATIONS

Background:

The Office of Audit Services conducted an audit to obtain reasonable assurance that internal controls over Covered California's employee separation process were administered in accordance with policies, procedures, and applicable requirements. The audit period was during July 1, 2021 through December 31, 2023.

Positive Observations:

- The Human Resources Branch, within the Administrative Services Division, improved several internal controls that better provide assurance that Covered California's employee separation process is administered in accordance with policies, procedures, and applicable requirements. One of these improvements include the Human Services Branch updating their process on how they ensure required notifications are submitted to the Department of Justice when employees separate.
- The Business Services Branch, within the Administrative Services Division, ensures employees transferring within Covered California have necessary physical access to certain restricted areas. Implementing these assurance controls that restrict access to sensitive areas exclusively to authorized staff members enhances the protection of sensitive information.
- The Information Technology Division improved their controls for removing system access when an employee separates to ensure information and systems are secure. In addition, they are enhancing the service ticket system to have better data retrieval and reporting capabilities.
- The Financial Management Division correctly verifies outstanding accounts receivable when an employee separates. This process helps ensure the accuracy and timeliness of the accounts receivable collection process.

AUDIT FINDINGS, IMPLICATIONS, & CAP SUMMARIES

Finding 1: Business Services Branch did not always deactivate access identification badges and/or ensure that badges were returned when employees separated from Covered California

Finding	Implications	Summary of Corrective Action Plans
<p>We reviewed a sample of 20 employees to determine whether their assigned physical access identification badges were deactivated and returned to the Business Services Branch. We identified that:</p> <ul style="list-style-type: none"> • Employee badges were not deactivated timely. • Employee badges were not returned. • Employee badges were not returned timely. 	<p>Failure to deactivate badges or ensure that badges are returned when an employee separates from Covered California increases the risk of unauthorized access to Covered California facilities.</p>	<p>The Business Services Branch will undertake a thorough examination of the current badge deactivation protocols and workflows to pinpoint any potential gaps. Necessary updates will be implemented to enhance these processes.</p> <p><i>Status: Expected to be implemented by September 2024</i></p>

AUDIT FINDINGS, IMPLICATIONS, & CAP SUMMARIES

Finding 2: Information Technology Division did not effectively review user access and account privileges for all Covered California IT systems

Finding	Implications	Summary of Corrective Action Plans
<p>We reviewed the Information Technology Division’s monitoring procedures to determine whether they sufficiently reviewed Covered California’s active system users. We identified that, although the Information Technology Division reviews access to the Covered California Active Directory system, they do not review access to all other systems, including the CalHEERS system.</p>	<p>By not performing user access reviews for all Covered California IT systems (including CalHEERS), there is a risk of inappropriate access to sensitive information, which could include personally identifiable information (PII).</p>	<p>The Information Technology Division will perform a review of systems used in Covered California that may include sensitive information and do not have single sign on access. This review will help determine whether those identified systems should be included in the monthly review process.</p> <p><i>Status: Expected to be implemented by September 2024</i></p>

AUDIT FINDINGS, IMPLICATIONS, & CAP SUMMARIES

Finding 3: Information Technology Division did not always maintain sufficient documentation for the issuance and return of IT equipment

Finding	Implications	Summary of Corrective Action Plans
<p>We reviewed a sample of 20 employees to determine whether their IT equipment was returned, and identified that:</p> <ul style="list-style-type: none"> Employee records did not have sufficient documentation to show what IT equipment was originally issued. Employee records did not have sufficient documentation to show what IT equipment was returned. 	<p>By not maintaining sufficient documentation for what IT equipment employees were issued, as well as what IT equipment employees returned when separated, there is a risk that not all equipment has been accounted for and returned at the time of separation. This could result in unauthorized access to PII and unnecessary additional costs for replacements.</p>	<p>The Information Technology Division will implement a new system for tracking issued and returned IT equipment. The Information Technology Division will improve relevant procedures that document the overall tracking process.</p> <p><i>Status: Expected to be implemented by July 2025</i></p>

AUDIT FINDINGS, IMPLICATIONS, & CAP SUMMARIES

Finding 4: Human Resources Branch did not always process outstanding accounts receivable from separating employees

Finding	Implications	Summary of Corrective Action Plans
<p>We reviewed a sample of 7 separated employees to determine whether the Human Resources Branch withheld outstanding accounts receivable owed to the state from their final pay. We identified that:</p> <ul style="list-style-type: none"> • Employees' outstanding accounts receivable balances were not withheld by any amount. • Employees were not sent notifications from the Human Resources Branch to collect the whole or remaining outstanding balances after separation. 	<p>By not always withholding separated employees' outstanding accounts receivable, and by not sending notifications to the separated employees to attempt collection of outstanding balances, there is a risk of financial losses for the organization.</p>	<p>The Human Resources Branch will work to resolve this issue through corrective measures such as enhanced monitoring and reporting, management controls that include regular reviews and monthly audits, process enhancements to accounts receivable notifications, along with development of desk guides for personnel specialists and supervisors.</p> <p><i>Status: Expected to be implemented by August 2024.</i></p>

AUDIT FINDINGS, IMPLICATIONS, & CAP SUMMARIES

Finding 5: Business Services Branch did not always maintain sufficient documentation for the return of office/ergonomic equipment

Finding	Implications	Summary of Corrective Action Plans
<p>We reviewed a sample of 20 separated employees to determine whether their office equipment was returned. We identified that:</p> <ul style="list-style-type: none"> Employee records did not have sufficient documentation to show what office equipment was returned. One employee record did not include the required form that must be completed when equipment has not been returned. 	<p>By not sufficiently tracking and documenting when office equipment is either returned or not returned for separating employees, there is a risk that not all equipment has been accounted for. This could result in unnecessary additional costs for replacements.</p>	<p>The Business Services Branch will undertake a thorough examination of the current office/ergonomic equipment return/unreturned protocols and workflows to pinpoint any potential gaps. Necessary updates will be implemented to enhance these processes.</p> <p><i>Status: Expected to be implemented by June 2025.</i></p>



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QUARTERLY REPORT ON AUDIT ACTIVITIES

QUARTERLY REPORT ON AUDIT ACTIVITIES STATUS OF INTERNAL AUDITS

QUARTERLY REPORT: STATUS OF INTERNAL AUDITS

INTERNAL AUDITS

Name	Objective	Status	Findings	Estimated Implementation Date of Corrective Action Plans
Surge Vendor User Access Audit	To obtain reasonable assurance that internal controls over the oversight and monitoring of Surge Vendor user access are in place and operating as designed and that the process is administered in accordance with the applicable federal, state, and department rules, regulations, and statutes.	Complete	1. System user access deprovisioning requests are not processed timely.	October 2024
			2. Required background checks and requested access levels are not verified prior to provisioning system access.	Implemented
			3. System user access is not effectively monitored and does not comply with segregation of duties control requirements.	September 2024
			4. Covered California's required Privacy and Information Security training are not always completed prior to provisioning system access.	May 2024
Covered California for Small Business (CCSB) Financial Reconciliations	To obtain reasonable assurance that internal controls over the financial reconciliations of CCSB are in place and operating as designed and that the process is administered in accordance with the applicable federal, state, and department rules, regulations, and statutes.	Complete	None	N/A

QUARTERLY REPORT: STATUS OF INTERNAL AUDITS

INTERNAL AUDITS				
Name	Objective	Status	Findings	Estimated Implementation Date of Corrective Action Plans
Contracting Audit	To obtain reasonable assurance that internal controls over Covered California’s contracting process were administered in accordance with policies, procedures, and applicable requirements.	Complete	1. Program contract managers did not sufficiently maintain all required documentation within their contract management files.	Implemented
			2. Program contract managers did not complete required contract trainings.	December 2024
Employee Separation	To obtain reasonable assurance that internal controls over the Human Resources Branch’s employee separation process are in place and operating as designed and that the process is administered in accordance with the applicable federal, state, and department rules, regulations, and statutes.	Complete	1. Business Services Branch did not always deactivate access identification badges and/or ensure that badges were returned when employees separated from Covered California.	September 2024
			2. Information Technology Division did not effectively review user access and account privileges for all Covered California IT systems.	September 2024
			3. Information Technology Division did not always maintain sufficient documentation for the issuance and return of IT equipment.	July 2025
			4. Human Resources Branch did not always process outstanding accounts receivable from separating employees.	August 2024
			5. Business Services Branch did not always maintain sufficient documentation for the return of office/ergonomic equipment.	June 2025

QUARTERLY REPORT: STATUS OF INTERNAL AUDITS

INTERNAL AUDITS

Name	Objective	Status
CalHEERS Help Desk Ticket Audit	To determine whether the corrective actions for the recommendations pertaining to the CalHEERS help desk ticket process within the 2018 Programmatic Audit were implemented and are working as intended to mitigate the risks identified by the external auditor.	In Progress
Business Continuity Plan Audit	To determine whether all applicable government-required business continuity program elements are addressed within Covered California's Business Continuity Plan.	In Progress
Travel Expense Reimbursement Audit	To obtain reasonable assurance that reimbursements of expense claims comply with the state's travel expense regulations.	In Progress
CalHEERS Manual Override Audit	To determine whether the Service Center Division's internal controls over CalHEERS manual override authorization, use, and monitoring procedures are in accordance with the applicable rules and regulations.	In Progress

QUARTERLY REPORT: STATUS OF INTERNAL AUDITS

INTERNAL AUDITS			
Name	Objective	Status	Related External Audit
Payroll, Time Reporting, and Leave Balances	To obtain reasonable assurance that internal controls over the Human Resources Branch’s payroll, time reporting, and leave balances processes are in place and operating as designed and that the process is administered in accordance with the applicable federal, state, and department rules, regulations, and statutes.	Recommend cancellation at next Audit Committee Meeting	Payroll & Benefits Audit – State Controller’s Office
Agent Payments	To obtain reasonable assurance that internal controls over the Financial Management Division’s agent payments process are in place and operating as designed and that the process is administered in accordance with the applicable federal, state, and department rules, regulations, and statutes.	Recommend cancellation at next Audit Committee Meeting	2022 Programmatic Audit – Sjoberg Evashenk Consulting, Inc.
Accounts Payable	To obtain reasonable assurance that internal controls over the Financial Management Division’s reviewing, processing, and encumbrance of invoices are in place and operating as designed and that the process is administered in accordance with the applicable federal, state, and department rules, regulations, and statutes.	Recommend cancellation at next Audit Committee Meeting	Fiscal Year 2021-22 Financial Statements Audit – Macias, Gini, & O’Connell LLP

QUARTERLY REPORT ON AUDIT ACTIVITIES STATUS OF EXTERNAL AUDITS

QUARTERLY REPORT: STATUS OF EXTERNAL AUDITS

EXTERNAL AUDITS

Name	External Auditor	Objective	Status	Estimated Completion Date
2023 Programmatic Audit	BerryDunn	To evaluate Covered California’s operations, program effectiveness and efficiencies, and administrative functions in accordance with 45 Code of Federal Regulations (CFR) Part 155.	In Progress	June 2024
SB260 Audit	BerryDunn	To assess Covered California’s compliance with Senate Bill (SB) 260 during the period from January 1, 2023 – December 31, 2023.	In Progress	June 2024
Financial Statements Audit	Macias, Gini, & O’Connell LLP	To obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and issue an auditor’s report that includes the auditor’s opinion.	In Progress	June 2024
Payroll & Benefits Audit	State Controller’s Office	To obtain reasonable assurance that Covered California: <ul style="list-style-type: none"> • Maintains adequate and effective internal controls over its payroll process; • Processes payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures; and • Administers salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures. 	In Progress	TBD
Duplicate Government Sponsored Health Care Coverage	Government Accountability Office	To assess if Covered CA enrollees are also enrolled in other State programs and have dual coverage (e.g., enrollment in other state Medicaid programs, CHIP, and Exchanges).	In Progress	TBD

QUARTERLY REPORT ON AUDIT ACTIVITIES STATUS OF NON-AUDIT PROJECTS

QUARTERLY REPORT: STATUS OF NON-AUDIT PROJECTS

NON-AUDIT PROJECTS

Name	Objective	Status	Estimated Completion Date
Annual Risk-Based Internal Audit Plan	To create a risk-based internal audit plan for Fiscal Year 2024-25 that focuses on the organization's processes that have the most risk exposures.	In Progress	June 2024
Quality Assurance and Improvement Program – Internal Assessment	To assess the efficiency and effectiveness of the Office of Audit Services' practices as well as to evaluate its conformance with the Institute of Internal Auditors' Standards.	Completed	Completed



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WRAP-UP AND NEXT STEPS

Potential Future Meeting Dates	Potential Agenda Topics
June 20, 2024	<ul style="list-style-type: none">• Review and Approval of Annual Risk-Based Audit Plan• External Audit Results: Fiscal Year 2022/2023 Financial Statements Audit• Quarterly Report on Audit Activities
September 19, 2024	<ul style="list-style-type: none">• External Audit Results: 2023 Programmatic Audit• Quarterly Report on Audit Activities
November 21, 2024	<ul style="list-style-type: none">• Review and Approval of Audit Committee Charter• Review and Approval of Internal Audit Charter• Review and Approval of Annual Audit Activities Board Report• Quarterly Report on Audit Activities