



INTERNAL ASSESSMENT

COVERED CALIFORNIA OFFICE OF AUDIT SERVICES PROGRAM INTEGRITY DIVISION

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM JULY 2022 THROUGH JUNE 2023

PREPARED BY:
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EXECUTIVE SUMMARY

The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (*Standards*) require the chief audit executive (CAE) to develop and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activity. Specifically, the QAIP is designed to enable an evaluation of the internal audit activity's conformance with the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The QAIP must also self-assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. The Office of Audit Services (OAS) conducted this self-assessment for the period of July 1, 2022, through June 30, 2023.

To form an overall opinion, OAS' internal assessment team reviewed the internal audit charter, annual audit plan, Audit Committee meeting minutes, policies, processes, and tools for conformance with the *Standards*. The internal assessment team also reviewed a sample of work papers and assessed the degree of compliance with established policies and processes. Furthermore, the internal assessment team reviewed training reports and professional certificates of staff.

It is our overall opinion that the OAS generally conforms to the *Standards* and the Code of Ethics.

The internal assessment team identified successful practices that OAS has implemented as well as opportunities for improvement. Successful practices include the professional development of staff, development and implementation of a comprehensive audit manual, and establishing a clear internal audit charter. We also noted some opportunities for improvement. These include completing internal/external QAIP assessments, establishing custody and retention requirements, and reducing the length of time to complete audit engagements.

Refer to Attachment A within the Appendix section of this report for full details of OAS' successful practices. Attachment B identifies opportunities for improving OAS' internal audit function. Attachment C includes an Evaluation Summary which provides a detailed list of OAS' conformance with individual *Standards* and the Code of Ethics as well as the rating definitions.

BACKGROUND

The CAE must develop and maintain a QAIP that covers all aspects of the internal audit activity. A QAIP is designed to enable an evaluation of the internal audit activity's conformance with the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. As part of an internal audit activity's efforts to maintain quality assurance, the *Standards* dictate that QAIP assessments must be conducted. There are two different types of QAIP assessments: external and internal.

An external assessment of an internal audit activity is conducted at least once every five years by a qualified, independent assessment team from outside the organization. For California government agencies, these external assessments are overseen by the California Department of Finance.

An internal assessment of an internal audit activity is conducted once every year by the internal audit activity itself to evaluate and opine if they are indeed in conformance with the *Standards* and the Code of Ethics.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of this QAIP internal assessment were to:

- Assess OAS' conformance with the *Standards* and the Code of Ethics.
- Evaluate OAS' efficiency and effectiveness in carrying out its mission, as set forth in the internal audit charter.
- Identify successful internal audit practices and opportunities for continuous improvement to enhance the efficiency and effectiveness of the internal audit activity and add value to Covered California.

Scope

This assessment covers internal audit activities conducted between July 1, 2022, through June 30, 2023. OAS reviewed all elements required by the *Standards* to be evaluated (for full details, please see Attachment C), which include its level of conformance with:

- **Purpose, Authority, and Responsibility** – which consists of subjects such as maintaining an effective and approved internal audit charter as well as the ability to communicate with the Audit Committee
- **Proficiency and Due Professional Care** – which consists of subjects such as ensuring that internal auditors are enhancing their knowledge, skills, and other competencies through continuing education
- **Quality Assurance and Improvement Program** – which consists of subjects such as performing annual QAIP internal assessments as well as ensuring QAIP external assessments are conducted every five years
- **Managing the Internal Audit Activity** – which consists of subjects such as ensuring proper and frequent communications are occurring amongst all relevant parties and that the internal auditors are following established policies and procedures to guide them
- **Nature of Work** – which consists of subjects such as evaluating the effectiveness of risk management
- **Engagement Planning** – which consists of subjects such as properly allocating the internal audit activity's resources
- **Performing the Engagement** – which consists of subjects such as documenting sufficient, reliable, relevant, and useful information to support engagement results
- **Communicating Results** – which consists of subjects such as ensuring that communications are accurate, objective, clear, concise, constructive, complete, and timely

- **Monitoring Progress** – which consists of subjects such as maintaining a system to monitor the disposition of results communicated to management
- **Communicating the Acceptance of Risks** – which consists of subjects such as the CAE communicating to the Audit Committee when an auditee accepts a level of risk that the CAE deems to be too high to disregard

Methodology

To evaluate the degree of conformance to the *Standards* and the Code of Ethics and the effectiveness and efficiency of the internal audit activity, we performed the following:

- Reviewed the Definition of Internal Auditing, the Code of Ethics, and the *Standards* applicable to the period under review to obtain an understanding of the requirements.
- Reviewed the 2017 Quality Assessment Manual for the Internal Audit Activity published by the IIA for guidance in conducting quality assurance review and internal assessments.
- Reviewed one completed internal audit project and its associated work papers and report, and verified that ongoing monitoring activities were carried out to ensure conformance to the *Standards*, the Code of Ethics, and the OAS' policies and procedures.
- Reviewed the OAS' Quality Control System.
- Reviewed training reports and professional certificates of staff.
- Identified successful practices and opportunities for improving the OAS' internal audit function.

OBSERVATIONS

The environment in which the OAS operates is well structured. The *Standards* are understood, the Code of Ethics is being applied, and management provides useful audit tools and implements appropriate practices for staff to follow. Based on OAS' self-assessment, the observations are divided into two categories:

- Successful Internal Audit Practices – Areas where OAS is operating in an effective and/or efficient manner and ensuring quality of internal audit activity. These are detailed in Attachment A, along with applicable standards.
- Opportunities for Continuous Improvement – Observations of opportunities to enhance the efficiency or effectiveness of OAS processes. These items do not indicate a lack of conformance with the *Standards* or the Code of Ethics, but rather offer suggestions on how to better align the OAS' internal activities with criteria defined in the *Standards* or Code of Ethics. These are detailed in Attachment B, with applicable standards, and suggested actions.

OPINION

Overall, the OAS internal audit activities generally conform to the *Standards* and the Code of Ethics.

During the assessment, the team identified areas where OAS is operating in an effective and efficient manner. The team also identified areas where opportunities for improvements could be addressed to increase OAS' compliance with the *Standards* as well as enhance upon its effectiveness.

APPENDIX

ATTACHMENT A

Successful Internal Audit Practices

The following areas are highlights of where the Office of Audit Services (OAS) is operating in an effective or efficient manner and ensuring quality of internal audit activity:

- **Standard 1000 (Purpose, Authority, and Responsibility)** – *The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.* During Fiscal Year 2022-23, the Chief Audit Executive and the OAS team refined the internal audit charter to ensure conformance with IIA standards and industry practice. This charter was approved by the Audit Committee and publicly posted on the organization’s website.
- **Standard 1230 (Continuing Professional Development)** – *Internal auditors must enhance their knowledge, skills, and other competencies through continuing education.* OAS supported its team’s skill growth by offering opportunities and funding for continuing professional education (CPE). Each auditor on staff completed at least 38 CPE hours during Fiscal Year 2022-23.
- **Standard 2040 (Policies and Procedures)** – *The chief audit executive must establish policies and procedures to guide the internal audit activity.* During Fiscal Year 2022-23, the OAS team and the Chief Audit Executive rewrote audit related sections of the Covered California Administrative Manual (CCAM). This manual lists the board level policies for Covered California. They also developed and implemented a comprehensive Audit Manual to guide the OAS team members to conduct their audits in a procedural manner and in accordance with the Standards.

ATTACHMENT B

Opportunities for Continuous Improvement

The following area lists opportunities to enhance the efficiency or effectiveness of OAS' processes and ensuring quality of internal audit activities:

- **Standard 1311 (Internal Assessments)** – *Internal assessments must include periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.* During our review, we noted that an internal assessment was not completed in Fiscal Year 2022-23 nor prior years.

Corrective Action: An internal assessment was conducted this fiscal year and will be conducted at least annually henceforth.

- **Standard 1312 (External Assessments)** – *External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.* During our review, we noted that OAS has not undergone an external assessment in the last five years.

Corrective Action: Once a new Chief Audit Executive is hired and onboarded, they will determine when the external assessment should be scheduled.

- **Standard 2330 (Documenting Information)** – *The chief audit executive must develop retention requirements for engagement records. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.* During our review, we noted that records retention requirements for engagements have not yet been established.

Corrective Action: The Office of Audit Services management will work with its team members and other applicable internal and external parties to establish records retention requirements of its audit records by June 30, 2024.

- **Standard 2420 (Quality of Communications)** – *Communications must be accurate, objective, clear, concise, constructive, complete, and timely.* During our review, we noted that an audit engagement was not timely completed. Additionally, although the content of the audit report was accurate, objective, constructive, and complete, it was not clear and concise.

Corrective Action: Audit objectives are more focused, engagements are being closely monitored to ensure they are timely, and report templates have been condensed.

ATTACHMENT C

Evaluation Summary and Ratings Definitions

	GC	PC	DNC
Overall Evaluation	X		

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	CAE Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairment to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program		X	

1310	Requirements of the Quality Assurance and Improvement Program		X	
1311	Internal Assessments		X	
1312	External Assessments			X
1320	Reporting on the Quality Assurance and Improvement Program			X
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
1322	Disclosure of Nonconformance	X		

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		
2100	Nature of Work	X		

2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information			X
2340	Engagement Supervision	X		
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications			X
2421	Errors and Omissions	X		

2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		

Code of Ethics		GC	PC	DNC
	Code of Ethics	X		

X

 = Opportunities for improvement

X

 = Overall rating

RATING DEFINITIONS

GC – “Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with or is failing to achieve many or all the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.