



MEMORANDUM

April 5, 2024

TO: Darci Haesche, Director
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Kevin Cornish, Chief Information Officer
Information Technology Division

Jim Watkins, Director
Financial Management Division

FROM: *Kevin Cathy*
Kevin Cathy, Branch Chief, Supervising Management Auditor
Program Integrity Division, Office of Audit Services

RE: Administrative Services Division, Information Technology Division, and
Financial Management Division – Final Audit Report –
Employee Separation Audit (Assignment # 2122.04)

In accordance with the *Government Code*, Section 13400 et seq. and State Administrative Manual, Section 20060, all levels of management are responsible for assessing and strengthening the systems of internal control to provide reasonable assurance that the state agency's objectives will be achieved and to minimize fraud, errors, abuse, and waste of government resources.

The Office of Audit Services conducted an audit to provide reasonable assurance of the existence and strength of Covered California's internal controls over the employee separation process. This audit specifically examined the Administrative Services Division's, Information Technology Division's, and Financial Management Division's internal controls during the audit period from July 1, 2021, through December 31, 2023. Our report of this audit is attached.

We appreciate the cooperation and assistance of the Administrative Services Division's, Information Technology Division's, and Financial Management Division's management and staff during our audit. If you have any questions regarding this report, please contact me at (916) 670-8339 or Kevin.Cathy@covered.ca.gov.

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REVIEW OF INTERNAL CONTROLS OVER THE EMPLOYEE SEPARATION PROCESS

COVERED CALIFORNIA
ADMINISTRATIVE SERVICES DIVISION
INFORMATION TECHNOLOGY DIVISION
FINANCIAL MANAGEMENT DIVISION

FINAL REPORT

ISSUED ON:
APRIL 5, 2024

PREPARED BY:
COVERED CALIFORNIA
PROGRAM INTEGRITY DIVISION
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EXECUTIVE SUMMARY

Objective and Scope

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

Positive Observations

- The Human Resources Branch (HRB), 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 includes HRB's update to their process for how they ensure required notifications are sent to the Department of Justice when employees separate from Covered California.
- The Business Services Branch (BSB), within the Administrative Services Division, ensures employees transferring within Covered California have only the applicable necessary physical access to certain restricted areas. This access enables physical security to sensitive information within these restricted areas.
- The Information Technology Division (ITD) improved their controls for removing system access when employees separate to ensure information and systems are secure by not being able to be accessed by individuals who are no longer employed by Covered California. In addition, ITD is enhancing the service ticket system to have better data retrieval and reporting capabilities
- The Financial Management Division (FMD) correctly verifies outstanding accounts receivable when an employee separates. This process helps ensure the accuracy and timeliness of the accounts receivable collection process.

Reportable Conditions

We noted some matters below that we consider to be reportable under the *International Standards for the Professional Practice of Internal Auditing*:

- BSB did not always deactivate access identification badges or ensure that badges were returned when employees separated from Covered California.
- ITD did not effectively review user access and account privileges for all Covered California IT systems.

- ITD did not always maintain sufficient documentation for the issuance and return of IT equipment.
- HRB did not always process outstanding accounts receivable from separating employees.
- BSB did not always maintain sufficient documentation for the return of office/ergonomic equipment.

Follow-up

The Office of Audit Services will follow up with management on their progress of corrective action plans and will report updates accordingly to the Audit Committee. A follow-up audit may be performed to determine the completion and adequacy of the corrective action plans.

BACKGROUND, OBJECTIVE, SCOPE, AND METHODOLOGY

Background

The employee separation process occurs when an individual voluntarily or involuntarily leaves employment with Covered California. An efficient and functioning employee separation process:

- Ensures all necessary employee offboarding actions and tasks take place in a timely manner.
- Prevents unauthorized access to facilities, systems, and confidential information.
- Allows for state property to be returned from the separating employee.
- Ensures collection of monies for outstanding accounts receivable.

The Human Resources Branch (HRB), within the Administrative Services Division, is primarily responsible for overseeing the employee separation process, including collection of a separating employee's accounts receivable and performing offboarding tasks in collaboration with managers and other divisions.

The Business Services Branch (BSB), within the Administrative Services Division, is responsible for removing physical access and collecting office/ergonomic equipment accurately and timely when an employee separates from Covered California. In addition, BSB is responsible for changing physical access needs, if needed, when an employee transfers within Covered California.

The Information Technology Division (ITD) is responsible for removing information systems access and collecting IT equipment accurately and timely when an employee separates from Covered California. In addition, ITD is responsible for changing information systems access needs when an employee transfers within Covered California.

The Financial Management Division (FMD) is responsible for verifying and reporting outstanding accounts receivable when an employee separates from Covered California.

In addition, managers and supervisors play a significant role by providing advance notification of pending separations through the service ticket portal and Workday systems. These systems then notify HRB, BSB, ITD, and FMD of pending separations. Managers and supervisors are also responsible for completing required offboarding tasks.

Objective

The objective of this audit engagement was to obtain reasonable assurance that internal controls over Covered California's employee separation process were administered in accordance with policies, procedures, and applicable requirements.

Scope

The scope of this audit covered employee separations that were processed from July 1, 2021, through December 31, 2023.

Methodology

Our evaluation included gaining an understanding of policies and procedures and testing the internal controls of HRB, BSB, ITD, and FMD over the employee separation processes. Additionally, audit procedures were performed to determine whether management and staff are effectively and efficiently administering and monitoring HRB's, BSB's, ITD's, and FMD's employee separation processes in accordance with policies, procedures, and applicable requirements.

RESULTS

Positive Observations

The following are areas of the employee separation process that we reviewed and noted with reasonable assurance where internal controls were identified as effective and working as intended or strengthened during the audit:

- HRB improved how they submit required notification to the Department of Justice when an employee separates, which ensures Covered California is following applicable background check requirements.
- HRB improved how they oversee the proper system notifications submitted by supervisors and managers when an employee separates, which helps ensure the offboarding process is initiated timely.
- HRB is currently redeveloping the Exit Survey to produce meaningful data for the organization to improve workforce succession planning and create positive changes.
- HRB issued Return of State Equipment Letters for involuntarily separated employees, which helps ensure employees who are involuntarily separated return all assigned equipment timely.
- BSB ensures employees transferring within Covered California have only the applicable necessary physical access to certain restricted areas within Covered California facilities, which ensures physical security to sensitive information within restricted areas.
- ITD removed Covered California information systems access timely and accurately for separating employees with the implementation of a new ITD policy in August 2022, which ensures access to systems and information remains secure.
- ITD is enhancing their service ticket system which will make it easier to retrieve data and have better reporting capabilities.
- FMD correctly verifies and reports outstanding accounts receivable to HRB when an employee separates, which helps ensure the accounts receivable collection process is accurate and timely.

Findings & Recommendations

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

Finding Rating:	Priority	High	Medium	Low
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Condition

We reviewed a sample of 20 employees who separated from Covered California to determine whether their assigned physical access identification badges (badges) were deactivated and returned to BSB, and identified that:

- 4 employees' (20%) badges were not deactivated timely by BSB.
- 7 employees' (35%) badges were not returned to BSB.
- 3 employees' (15%) badges were not returned to BSB timely.

Criteria

Covered California Administrative Manual, Chapter 9, Section 405, states, in part, "Upon an employee's suspension or separation from employment, the individual's access identification badge shall be immediately obtained by and surrendered to BSB, HRB, or the applicable Covered California supervisor and delivered to the BSB Security Coordinator within one business day."

Facilities Desk Procedures, Expo Access Identification Badge Procedure, states, in part, "On the date of separation, deactivate access identification badge in Security Badge System."

Cause

BSB has not always consistently followed the policies and procedures for ensuring that badges are deactivated timely and returned.

Effect

Failure to deactivate badges and/or ensure that badges are returned to BSB when an employee separates from Covered California increases the risk of unauthorized access to Covered California facilities.

Recommendation

BSB should ensure badges are deactivated timely and returned when an employee separates from Covered California.

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

Finding Rating:	Priority	High	Medium	Low
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Condition

We reviewed ITD’s Information Security Office’s monitoring procedures to determine whether ITD sufficiently reviewed users’ access and account privileges to Covered California’s IT systems to ensure only active users have access to those systems. We identified that although ITD reviews access to the Covered California Active Directory system, they do not review access to all other systems, including the CalHEERS system.

Criteria

Covered California Information Security Policy, Subsection 1020: Account Management, states, in part, “All accounts shall be reviewed at least quarterly by the data owner to ensure that access and account privileges are commensurate with job function, need-to-know, and employment status.”

Cause

ITD’s procedures do not include directions to perform user access reviews for all Covered California IT systems.

Effect

By not performing user access reviews for all Covered California IT systems, including the CalHEERS system, there is a risk of inappropriate access to sensitive information, which could include personally identifiable information (PII).

Recommendation

ITD should update their procedures to include directions to perform user access reviews for all Covered California IT systems.

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

Finding Rating:	Priority	High	Medium	Low
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Condition

We reviewed a sample of 20 employees who separated from Covered California to determine whether the IT equipment that was issued to them was returned upon their separations, and identified that:

- 9 employees' (45%) records did not have sufficient documentation to show what IT equipment was originally issued during the employees' tenures.
- 2 employees' (10%) records did not have sufficient documentation to show what IT equipment was returned upon the employees' separations.

Criteria

Minimum Acceptable Risk Standards for Exchanges, Volume III, Section 1.13: Personnel Security (PS), Table 212, PS-4: Personnel Termination, states, in part, "The organization, upon termination of individual employment retrieves all security-related organizational information system-related property."

Cause

The systems that are used to track IT equipment have limitations that decrease their capabilities to show certain historical data for equipment issued and returned. Additionally, procedures do not exist for how ITD is to sufficiently document the issuance and return of IT equipment from separating employees.

Effect

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 IT equipment has been accounted for and returned at the time of separation, which could result in unauthorized access to PII and unnecessary additional costs for replacements.

Recommendation

ITD should develop and implement a more efficient system capable of accurately displaying necessary data for tracking the issuance and return of IT equipment, as well as establish procedures for proper documentation of these processes.

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

Finding Rating:	Priority	High	Medium	Low
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Condition

We reviewed a sample of 7 Covered California employees who separated from state service to determine whether HRB withheld outstanding accounts receivable owed to the state from their final pay, and identified that:

- 5 employees' (71%) outstanding accounts receivable balances were not withheld by any amount upon or after separation.
- 7 employees (100%) were not sent notifications from HRB in attempts to collect the whole or remaining outstanding balances after separation.

Criteria

Government Code, Section 19838, states, in part, "An employee who is separated from employment prior to full repayment of the amount owed shall have withheld from any money owing the employee upon separation an amount sufficient to provide full repayment."

Human Resources Branch Accounts Receivable Process (Desk Guide), Process for Separated Employees, provides guidance regarding how to attempt to settle accounts receivable balances for employees who have already separated from state service. The *Desk Guide* states, in part, "Immediately prepare and mail the first notification letter for the separated employees. The separated employee is allowed 30 calendar days to respond before the second and third notification letters are mailed."

Cause

HRB management stated that many of their functions required modifications while working through emergency telework during the COVID-19 pandemic from early 2020 through early 2022. Priority of tasks was given to bare essential functions, such as ensuring employees were paid timely.

Effect

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.

Recommendation

HRB should provide proper oversight to ensure that outstanding accounts receivable are withheld from separating employees' final pay and that notification letters are sent to attempt collection of outstanding balances.

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

Finding Rating:	Priority	High	Medium	Low
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Condition

We reviewed a sample of 20 employees who separated from Covered California to determine whether the office/ergonomic equipment that was issued to them was returned upon their separations, and identified that:

- 7 employees' (35%) records did not have sufficient documentation to show what office/ergonomic equipment was returned upon the employees' separations.
- 1 employee's (5%) record did not include the necessary form that is to be completed when equipment has not been returned.

Criteria

State Administrative Manual, Chapter 8643: Accounting for Property Disposition – Lost, Stolen, or Destroyed Property, states, in part, "Agencies/departments will prepare a Property Survey Report form, STD. 152, whenever property is lost, stolen, or destroyed."

Covered California Administrative Manual, Section 9-706.5: Off-Boarding Employees, states, in part, "Employees who leave Covered California who had ergonomic equipment issued to them shall return all such items to the Health and Safety Unit and the Information Technology Division, as applicable, on or before the date of separation."

Cause

BSB has not always consistently followed the policies and procedures for tracking and documenting the return of office/ergonomic equipment from separating employees.

Effect

By not sufficiently tracking and documenting when office/ergonomic equipment is either returned or not returned for separating employees, there is a risk that not all office/ergonomic equipment has been accounted for, which could result in unnecessary additional costs for replacements.

Recommendation

BSB should ensure all separating employees' returned or unreturned office/ergonomic equipment is properly accounted for and clearly documented.

MANAGEMENT RESPONSES

Presented below is the Administrative Services Division’s and Information Technology Division’s management responses and corrective action plans.

Finding 1:	<i>Business Services Branch did not always deactivate access identification badges or ensure that badges were returned when employees separated from Covered California</i>
Recommendation 1:	BSB should ensure badges are deactivated timely and returned when an employee separates from Covered California.
BSB Management Response/ Corrective Action	BSB 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.
Targeted Completion Date:	June 2025

Finding 2:	<i>Information Technology Division did not effectively review user access and account privileges for all Covered California IT systems</i>
Recommendation 2:	ITD should update their procedures to include directions to perform user access reviews for all Covered California IT systems.
ITD Management Response/ Corrective Action	The scope of the information security program is safeguarding sensitive data. The Information Security Office (ISO) within ITD has already included the review of active users who have access to CalHEERS and to Covered California systems that have single sign on access. ISO will perform a review of other 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 ISO monthly review process.
Targeted Completion Date:	September 2024

Finding 3:	<i>Information Technology Division did not always maintain sufficient documentation for the issuance and return of IT equipment</i>
Recommendation 3:	ITD should develop and implement a more efficient system capable of accurately displaying necessary data for tracking the issuance and return of IT equipment, as well as establish procedures for proper documentation of these processes.
ITD Management Response/ Corrective Action	ITD/BSB will be implementing ServiceNow Hardware Asset Management (HAM) for tracking issued and returned IT equipment. ITD will improve relevant procedures that document the overall tracking process. The improvement of the asset management process will include offboarding and onboarding request initiated by HR through Workday integration.
Targeted Completion Date:	July 2025

Finding 4:	<i>Human Resources Branch did not always process outstanding accounts receivable from separating employees</i>
Recommendation 4:	HRB should provide proper oversight to ensure that outstanding accounts receivable are withheld from separating employees' final pay and that notification letters are sent to attempt collection of outstanding balances.
HRB Management Response/ Corrective Action	HRB accepts this finding and will work to resolve it 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.
Targeted Completion Date:	August 2024

Finding 5:	<i>Business Services Branch did not always maintain sufficient documentation for the return of office/ergonomic equipment</i>
Recommendation 5:	BSB should ensure all separating employees' returned or unreturned office/ergonomic equipment is properly accounted for and clearly documented.
BSB Management Response/ Corrective Action	BSB 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. This includes clarifying the process around both essential and non-essential office equipment.
Targeted Completion Date:	June 2025

EVALUATION OF RESPONSES

The correction action plans identified by the Administrative Services Division's and Information Technology Division's management, if implemented as intended, should be sufficient to correct the reportable conditions noted. The Office of Audit Services will conduct a follow-up review in 60 days, and each 6 months thereafter, to provide reasonable assurance that the corrective action plans have been implemented and are operating as designed. Additionally, a follow-up audit may be performed to determine the completion and adequacy of the corrective action plans.

We thank the Administrative Services Division, Information Technology Division, and Financial Management Division for their help and cooperation during this audit.

APPENDIX A

Finding Ratings

Finding	Priority	High	Medium	Low
1. Business Services Branch did not always deactivate access identification badges or ensure that badges were returned when employees separated from Covered California				
2. Information Technology Division did not effectively review user access and account privileges for all Covered California IT systems				
3. Information Technology Division did not always maintain sufficient documentation for the issuance and return of IT equipment				
4. Human Resources Branch did not always process outstanding accounts receivable from separating employees				
5. Business Services Branch did not always maintain sufficient documentation for the return of office/ergonomic equipment				

Rating Definitions

Priority	<p>Immediate and on-going threat to the achievement of division or Covered California strategic goals and objectives. In particular:</p> <ul style="list-style-type: none"> - Significant adverse impact on reputation - Non-compliance with statutory requirements - Potential or known financial losses - Substantially raising the likelihood that risks will occur <p>Management must implement corrective actions as soon as possible and monitor the effectiveness.</p>
High	<p>High probability of adverse effects to the division or Covered California as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions.</p> <ul style="list-style-type: none"> - High potential for adverse impact on reputation - Increase in the possibility of financial losses - Increase in the likelihood that risks may occur
Medium	<p>Medium probability of adverse effects to the division or Covered California as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions.</p> <ul style="list-style-type: none"> - Medium potential for adverse impact on reputation - Potential increase in the likelihood that risks may occur
Low	<p>Low probability of adverse effects to the division or Covered California as a whole, but that represent an opportunity for improving the efficiency of existing processes. Correcting this will improve the efficiency and/or effectiveness of the internal control system and further reduce the likelihood that risks may occur.</p>