

Audit Committee Meeting

June 20, 2025



Presented by

Kirk Marston, Chief Audit Executive, Office of Audit Services

AGENDA

Item	Presentation	Slides
III.	Fiscal Year 2025-26 Risk-Based Internal Audit Plan (Action)	3 - 15
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FISCAL YEAR 2025-26 RISK-BASED INTERNAL AUDIT PLAN

MISSION, STANDARDS, AND PURPOSE

Office of Audit Services' (OAS) Mission: To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. OAS supports Covered California accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Professional Audit Standards: Government Code Section 13071 requires that state agencies comply with the Institute of Internal Auditors' *Global Internal Audit Standards*, which include the requirement to:

- ✓ Establish an Annual Internal Audit Plan that is based upon an agency-wide risk assessment.
- ✓ Communicate the Plan to the Audit Committee for review and approval before any of the planned audits can commence.

Purpose: The Risk-Based Internal Audit Plan has been prepared by OAS for the Audit Committee's review and approval.

AUDIT PLAN OBJECTIVES

OAS developed this Risk-Based Annual Internal Audit Plan with the following objectives in mind:

- Improve the effectiveness of Covered California's governance, risk management, and control processes.
- Assist Covered California leadership in the discharge of their oversight, management, and operating responsibilities.
- Assist in addressing Covered California's significant financial, operational, and compliance risks by identifying and evaluating management's mitigation efforts.
- Evaluate the existence, efficiency, and effectiveness of mitigating controls.
- Provide assurance to management that internal controls are in place and operating as intended.
- Safeguard against fraud, theft, waste, and abuse of Covered California's resources.
- Add value and improve Covered California's operations.

AUDIT PLAN DEVELOPMENT

Prior to developing the Internal Audit Plan, OAS performed a comprehensive agency-wide risk assessment. The risk assessment efforts included:

- Understanding the operations of Covered California and its divisions.
- Identifying current and potentially emerging risks, anticipating vulnerabilities, and assessing each risk's potential impact on Covered California operations, systems, and strategic pillars.
- Considering prior audit findings and risk exposures identified in recent internal audits and external audits.
- Considering the Office of Audit Services' current resources when determining which business processes to audit.

NOTABLE PROCESS IMPROVEMENTS:

- Interviewing and surveying senior management, including executive management, within all program areas to understand their business processes, challenges, risks, and controls.
- Utilizing more support from OAS team members and leadership to increase proficiencies and showcase the importance of this project to program areas.
- Offering advisory engagements to program areas to add value beyond compliance and support strategic initiatives.

The Internal Audit Plan helps ensure audit resources adequately examine areas with the greatest risk exposure that could affect Covered California's ability to achieve its objectives.

AUDIT PLAN SCOPE

The Internal Audit Plan encompasses the following scope:

- Covers the period from July 1, 2025, through June 30, 2026.
- Includes carryover projects from the prior approved Internal Audit Plan.
- Includes planned advisory engagements.
- Provides audit coverage of key risks, given the existing resources.
- Aligns with Covered California's Strategic Plan and incorporates management input and risk assessment results.
- Proposes audit objectives that are designed to provide assurance that management has identified key risks and are sufficiently mitigating those risks to an acceptable level.

Revisions to the Internal Audit Plan may occur due to changes in business risks, legislation, and staff availability.

The Office of Audit Services will discuss and obtain approval on any substantive changes from the Audit Committee throughout the fiscal year.

INTERNAL AUDIT SERVICES SECTION RESOURCES

The Office of Audit Services is comprised of two sections:

- Compliance & Monitoring section
- Internal Audit Services section

The Internal Audit Services team possesses a variety of experience and skills to execute the Internal Audit Plan which adds value to Covered California.

Team members belong to several professional and accounting organizations. Several members also hold professional certifications:

- Certified Public Accountant, issued by American Institute of Certified Public Accountants
- Certified Internal Auditor, issued by the Institute of Internal Auditors
- Certified Fraud Examiner, issued by the Association of Certified Fraud Examiners
- Certified Internal Controls Auditor, issued by the Institute for Internal Controls

The Office of Audit Services is committed to providing continuing professional education and training to ensure that we remain knowledgeable and updated on industry trends and standards. Auditors are required to have at least 40 hours of training annually. Training is provided in-house and through organizations such as the Institute of Internal Auditors and the California Association of State Auditors.

Total Resources Available (as of June 2025) – Positions within Internal Audit Services			
Position	Number Filled	Number Vacant	Total Number of Positions
Chief Audit Executive	1	0	1
Supervising Management Auditor	1	0	1
Senior Management Auditor	1	0	1
Staff Management Auditor	2	0	2
Staff Management Auditor (Specialist)	0	1	1
Associate Manager Auditor	6	0	6
Total	11	1	12

COMPLIANCE & MONITORING SECTION

Covered California is audited annually by external federal and state control entities. The Compliance & Monitoring Section coordinates those audits with Covered California program areas and external auditors to enhance the value, operations, and compliance activities of Covered California.

The table below outlines the activities that the Compliance & Monitoring Section plans to coordinate and undertake during Fiscal Year 2025–26:

Activity	Description
Centers for Medicare & Medicaid (CMS) APTC Audits	Assist CMS contracted auditors with information requests related to audits of issuers to assess their compliance with the Advanced Premium Tax Credit (APTC) program requirements
Programmatic Audit	Engage and coordinate with an independent auditing firm to perform an annual programmatic audit to determine Covered California's compliance with federal regulations (e.g., eligibility and enrollment, etc.)
Financial Statements Audit	Engage and coordinate with an independent external auditing entity to perform an annual financial audit
Other External Audits	Coordinate other external federal and state audits that may be initiated by CMS, California State Auditor, State Personnel Board, State Controller's Office, etc.
Ad Hoc Audits	Obtain additional assurance via contracted external audits initiated by the Office of Audit Services
Corrective Action Plan Tracking	Ensure corrective action plans resulting from external audit recommendations are timely prepared and submitted to the external auditors

OTHER ACTIVITIES

In addition to conducting internal audits, all team members allocate hours towards other audit-related projects including:

Activity	Description
Advisory Services	Provide ad hoc assurance assistance with certain projects or concerns at the request of business areas
Corrective Actions	Follow up on and validate the progress of corrective action plans supplied by business areas for previously completed internal audits
Audit Manual	Update the Office of Audit Services' Policies and Procedures Manual on an on-going basis to align with ever-evolving policies and new audit standards, as well as streamline various practices
Training	Complete trainings to ensure the team remains knowledgeable and updated on industry trends and standards
Certification Application Evaluation	Review carriers' responses during the annual Certification Application Evaluation specifically pertaining to their audit process
Contract Management	Ensure contracts between the Office of Audit Services and contractors are in compliance with contract terms and conditions
Annual Internal Audit Plan	Perform the agency-wide risk assessment to develop next fiscal year's Annual Internal Audit Plan
Internal Quality Assurance Assessment	Conduct the annual quality assurance self-assessment
External Quality Assurance Assessment	Participate in the required independent external assessment, conducted by the Department of Finance

PROPOSED INTERNAL AUDITS

Process Under Review	Audited Business Area	Objective	Associated Strategic Pillar	Start Timeframe	Estimated End Timeframe
<u>Carryover from FY 2024-25 Internal Audit Plan</u>					
Patch Management Controls	Information Technology Division	To verify if the Information Technology Division's management controls of security patches for workstations comply with federal requirements.	Organizational Excellence	FY 2024-25 Quarter 3	FY 2025-26 Quarter 1
Contract Management	Policy, Eligibility, and Research Division	To determine whether contracts managed by the Policy, Eligibility, and Research Division are adequately monitored in accordance with policies, procedures, and applicable requirements.	Affordable Choices	FY 2024-25 Quarter 3	FY 2025-26 Quarter 1
Advertising Contracts	Marketing Division	To determine whether advertising contracts are adequately monitored in accordance with policies, procedures, and applicable requirements.	Reaching Californians	FY 2024-25 Quarter 3	FY 2025-26 Quarter 1

PROPOSED INTERNAL AUDITS

Process Under Review	Audited Business Area	Objective	Associated Strategic Pillar	Intended Start Timeframe	Estimated End Timeframe
<u>Internal Audits for Fiscal Year 2025-26</u>					
FMLA Compliance	Human Resources Branch	To assess HRB's compliance with Family Medical Leave Act (FMLA) leave of absence, notification, and certification procedures, in accordance with state and federal regulations.	Organizational Excellence	FY 2025-26 Quarter 1	FY 2025-26 Quarter 3
Hardware Asset Management	Information Technology Division	To assess the Information Technology Division's effectiveness in managing Covered California's hardware asset tracking and inventory processes.	Exceptional Service	FY 2025-26 Quarter 1	FY 2025-26 Quarter 3
Health Plan Payments	Plan Management Division	To determine whether cost sharing reduction payments made to contracted health plans are accurate and timely.	Affordable Choices	FY 2025-26 Quarter 2	FY 2025-26 Quarter 4
Physical Security	Business Services Branch	To determine whether the Business Services Branch's procedures comply with all applicable regulations to effectively ensure optimal physical security for Covered California's facilities.	Organizational Excellence	FY 2025-26 Quarter 2	FY 2025-26 Quarter 4
Navigator Grant Contracts	Outreach and Sales Division	To assess whether Navigators are effectively monitored to ensure compliance with the performance standards specified in their grant contracts.	Reaching Californians - Affordable Choices	FY 2025-26 Quarter 3	FY 2025-26 Quarter 4
* Agent Agreements	Outreach and Sales Division	To assess whether Agents are effectively monitored to ensure compliance with their agreements.	Reaching Californians - Affordable Choices	FY 2025-26 Quarter 3	FY 2025-26 Quarter 4
* Surge Vendor User Access Audit Follow-Up	Service Center Division	To determine whether the corrective actions taken in response to the recommendations from the 'Service Center Surge Vendor User Access Audit' have been effectively implemented and are operating as intended to mitigate the risks identified by the Office of Audit Services.	Organizational Excellence	FY 2025-26 Quarter 3	FY 2025-26 Quarter 4

PROPOSED ADVISORY ENGAGEMENTS

Process Under Review	Requesting Business Area	Objective	Associated Strategic Pillar	Start Timeframe	Estimated End Timeframe
<u>Advisory Engagements for Fiscal Year 2025-26</u>					
Population Health Initiative	Equity & Quality Transformation Division	To evaluate the effectiveness and integrity of the eligibility determination, outreach, and funding processes for the Grocery Support Program and Child Savings Account Program under Covered California's Population Health Initiative.	Quality Care	FY 2025-26 Quarter 1	FY 2025-26 Quarter 2
Employee Engagement Survey	Office of Organizational Culture, Inclusion, & Engagement	To assess the effectiveness and oversight of data collection and follow-up processes related to employee engagement surveys.	Organizational Excellence	FY 2025-26 Quarter 2	FY 2025-26 Quarter 3
Case Inquiry Backlog	Ombuds Office	To assess whether the Ombuds Office's process improvements to address the backlog of case inquiries are working as intended to achieve the desired outcomes.	Exceptional Service	FY 2025-26 Quarter 2	FY 2025-26 Quarter 3



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EXTERNAL AUDIT RESULTS PAYROLL AUDIT

BACKGROUND AND OBJECTIVE

Background:

Since 2013, the State Controller's Office (SCO) began performing payroll audits of state agencies to gain assurance that departments maintain adequate internal control over their payroll functions, provide proper oversight of their decentralized payroll processing, and comply with various state laws and regulations regarding payroll processing and related transactions.

Objective:

SCO audited Covered California's payroll process and transactions for the period of July 1, 2018, through June 30, 2021. SCO's audit objectives were to determine whether Covered California:

- Maintained adequate and effective internal controls over its payroll process;
- Processed payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures; and
- Administered salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

AUDIT FINDINGS & CAP SUMMARIES

Finding #1: Inadequate segregation of duties and lack of compensating controls over payroll transactions	
Finding	Summary of Corrective Action Plan
SCO found that Covered California lacked adequate segregation of duties within its payroll transactions unit to ensure that only valid and authorized payroll transactions were processed.	<p>Covered California implemented measures to address the issue, including the adoption of the Workday system to improve time and absence reporting, supervisory approval, and real-time auditing capabilities. Additionally, effective mid-2023, Covered California introduced dual authorization for payroll transactions, requiring all work to be reviewed by a second Personnel Specialist or Personnel Supervisor I. This additional authorization better aligns with segregation of duties requirements and safeguard against errors.</p> <p><i>Status: Implemented</i></p>
Finding #2: Inappropriate keying or inquiry access to the State’s payroll system	
Finding	Summary of Corrective Action Plan
SCO found that Covered California lacked adequate controls to ensure that only appropriate staff members had keying access to the State’s payroll system.	<p>Since the review, Covered California has added an assistant to the security monitor to ensure prompt notification of any changes. In addition to the assistant security monitor, Covered California requires the Payroll Benefits Unit (PBU) Section Chief, as the security monitor, to review and validate the listing of authorized users every month as an additional safeguard.</p> <p><i>Status: Implemented</i></p>

AUDIT FINDINGS & CAP SUMMARIES

Finding 3: Missing timesheets for regular pay

Finding	Summary of Corrective Action Plan
SCO found that Covered California lacked adequate controls to ensure that timesheets were maintained to support regular pay.	<p>With the implementation of Workday in August 2021, Covered California has now redesigned the employee timesheet process, eliminating the need to receive, reconcile, and retain paper copies of timesheets.</p> <p><i>Status: Implemented</i></p>

Finding 4: Excessive vacation and annual leave balances

Finding	Summary of Corrective Action Plan
SCO found that 59 employees exceeded the limits set by collective bargaining agreements and state regulations.	<p>At the time of the audit, Covered California had a Leave Management policy and process. This enabled employees with excess leave to establish a leave reduction plan, lowering leave balances to the required maximum levels or lower. Covered California consistently participates in the leave buy-back program when made available by the control agencies and to the extent departmental funds allow.</p> <p><i>Status: Implemented</i></p>

AUDIT FINDINGS & CAP SUMMARIES

Finding 5: Improper payments and missing timesheets for overtime pay

Finding	Summary of Corrective Action Plan
SCO found that Covered California lacked adequate controls over the processing of overtime pay. Covered California lacked adequate supervisory review to ensure accurate processing of overtime pay.	<p>Covered California has employed controls to prevent improper overtime payments, including the implementation of Workday. Employees and supervisors document overtime on their electronic time submissions, which PBU reviews and keys into SCO. Regular monitoring, review, and audit of the pay issued by the Personnel Supervisor I against the Overtime Report in Workday has demonstrated accurate and proper controls are in place over the last three years since the implementation of Workday.</p> <p><i>Status: Implemented</i></p>

Finding 6: Inaccurate leave accounting; improper and late separation lump-sum payments

Finding	Summary of Corrective Action Plan
SCO found that Covered California lacked adequate controls over the processing of employee separation lump-sum pay.	<p>Covered California has implemented oversight controls such that all lump-sum calculations now require review and approval prior to an employee separation being processed for payment. Covered California will continue to provide regular training to all transaction staff to maintain the integrity of the state payroll system, comply with all federal and state laws, and ensure employees receive accurate and timely separation pay.</p> <p><i>Status: Implemented</i></p>

AUDIT FINDINGS & CAP SUMMARIES

Finding 7: Failure to collect outstanding salary advances

Finding	Summary of Corrective Action Plan
SCO found that Covered California lacked adequate controls over salary advances to ensure that advances were collected in a timely manner in accordance with state law and policies.	<p>PBU and Financial Management Division meet regularly to review outstanding salary advances and remedy any issues that arise. Additionally, Human Resources Branch has developed new tracking mechanisms to monitor balances and collection efforts.</p> <p><i>Status: Implemented</i></p>

Finding 8: Inaccurate leave accounting for leave buy-back

Finding	Summary of Corrective Action Plan
SCO found that Covered California lacked adequate controls to ensure that credits that had been bought back were properly reduced in the State's leave accounting system.	<p>All leave records were accurately updated in Workday. PBU now requires a "dual authorization" of these transaction types to be reviewed by the Personnel Supervisor prior to leave being deducted and paid out to the employee(s). Additionally, PBU has updated written procedures for staff and, prior to the buy-back programs being authorized, will provide annual training to transaction staff on the proper processing of the leave buy-back transactions.</p> <p><i>Status: Implemented</i></p>



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REVIEW OF ANNUAL AUDIT ACTIVITIES BOARD REPORT

THE AUDIT COMMITTEE'S ANNUAL REPORT TO THE BOARD

BACKGROUND FOR OUR NEW AUDIT COMMITTEE MEMBERS

The Internal Audit Charter states that the Committee will “communicate with the Board at least annually regarding audit resources, activities, issues, and recommendations.” To fulfill this obligation, the prior Audit Committee members instructed OAS to prepare a presentation for the Board on their behalf.

Research Efforts:

- OAS obtained and reviewed guidance from the Institute of Internal Auditors.
- OAS compared report out proceedings of other agencies.
- OAS identified what topics to report out, determined how often they should occur, and the best method.

Previous Committee's Agreements:

- The annual Audit Committee Report should be presented during a Board meeting with the option to bring ad hoc items for discussion throughout the fiscal year.
- The report should inform the Board of the approval of the Internal Audit Charter, our adherence to standards, completed audits, in-progress audits, corrective action plans, and next year's Audit Plan.
- The Audit Committee will first preview the report and provide feedback at an Audit Committee meeting.

In support of our new Audit Committee members, OAS will present the FY 2024-25 Audit Committee Report to the Board at the August 2025 Board meeting.

The following slides are a preview of the Audit Committee's Report to the Board.

BACKGROUND & PURPOSE OF THE AUDIT ACTIVITIES REPORT

Background

California Government Code §13886.5	<ul style="list-style-type: none">A state organization’s internal audit office must follow the internal auditing standards set forth by the Institute of Internal Auditors.
The Internal Audit Standards	<ul style="list-style-type: none">The Audit Committee’s responsibilities must be listed within an Internal Audit Charter.The internal audit office must functionally report to the Audit Committee.
Covered California’s Audit Committee	<ul style="list-style-type: none">Comprised of two Board members: Sumi Sousa and Craig Cornett.
Covered California’s Internal Audit Charter	<ul style="list-style-type: none">Renewed and approved during the December 18, 2024 Audit Committee Meeting.The Committee will “communicate with the Board at least annually regarding audit resources, activities, issues, and recommendations.”

Purpose

To assure the Board that the Office of Audit Services and the Audit Committee are promoting effective operations and appropriate oversight at Covered California by reporting on its audit resources, activities, issues, and recommendations for Fiscal Year 2024–25.

FISCAL YEAR 2024-25 INTERNAL AUDITS

Title	Objective	# of Recommendations	# CAPs Implemented	# CAPs In-Progress
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 working as intended to mitigate the risks identified by the external auditor.	0	N/A	N/A
Business Continuity Plan Audit	To determine whether all applicable government-required business continuity program elements are addressed within Covered California's Business Continuity Plan.	1	0	1
Travel Expense Reimbursement Audit	To obtain reasonable assurance that reimbursements of expense claims comply with the state's travel expense regulations.	1	0	1
CalHEERS Manual Override Audit	To assess whether internal controls over CalHEERS manual override functionalities are operating appropriately.	3	0	3
Follow-Up on State Personnel Board's Compliance Review	To assess the progress and effectiveness of corrective actions taken in response to findings identified in the State Personnel Board's Compliance Review Report.	6	0	6
State Privacy Requirements Audit	To assess the Privacy Office's compliance with state privacy requirements protecting consumer personal information.	2	0	2
Patch Management Controls Audit	To verify if the Information Technology Division's management controls of security patches for workstations comply with federal requirements.	In Progress		
Contract Management Audit	To determine whether contracts managed by the Policy, Eligibility, and Research Division are adequately monitored in accordance with policies, procedures, and applicable requirements.	In Progress		
Advertising Contracts Audit	To determine whether advertising contracts are adequately monitored in accordance with policies, procedures, and applicable requirements.	In Progress		

FISCAL YEAR 2024-25 EXTERNAL AUDITS

Title	Objective	# of Recommendations	# CAPs Implemented	# CAPs In-Progress
2024 Programmatic Audit <i>(performed by BerryDunn)</i>	To evaluate Covered California's operations, program compliance, and administrative functions in accordance with 45 Code of Federal Regulations (CFR) Part 155.	6	1	5
FY 2023-24 Financial Statements Audit <i>(performed by Macias, Gini, & O'Connell LLP)</i>	To obtain reasonable assurance regarding whether Covered California's financial statements as a whole are free from material misstatement, whether due to fraud or error.	0	N/A	N/A
Payroll Audit <i>(performed by the State Controller's Office)</i>	To determine if Covered California 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.	8	8	0
Duplicate Government Sponsored Health Care Coverage Audit <i>(This is an audit on the Centers for Medicare & Medicaid Services performed by the Government Accountability Office.)</i>	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, Children's Health Insurance Program, and Exchanges). <i>Note: Covered California was surveyed in support of this audit.</i>	N/A	N/A	N/A

FISCAL YEAR 2024-25 OTHER ACTIVITIES

Title	Objective
Internal Audit Charter	To establish OAS' position with Covered California, define the scope of activities, and outline the roles and responsibilities of OAS and the Audit Committee. – <i>Approved 12/18/2024</i>
CalHEERS Invoice Management Process Advisory Engagement	To identify areas for improvement and provide actionable recommendations to enhance efficiency and accuracy within the CalHEERS invoice management process (performed by BerryDunn; managed by OAS).
Improper Payment Pre-Testing and Assessment (IPPTA)	To prepare state-based exchanges for the planned measurement of improper payments. – <i>In Progress</i>
Internal Audit Policies and Procedures Manual Revision	To identify and revise the sections of the Internal Audit Policies and Procedures Manual that require modifications to align with the new <i>Global Internal Audit Standards</i> .
Quality Assurance and Improvement Program – Internal Assessment of Fiscal Year 2023-24	To assess the efficiency and effectiveness of the Office of Audit Services' practices as well as to evaluate its conformance with the IIA Standards for the period of Fiscal Year 2023-24.
Annual Risk-Based Internal Audit Plan	To create a risk-based internal audit plan for Fiscal Year 2025-26 that focuses on the organization's processes that have the most risk exposures.

FISCAL YEAR 2025-26 INTERNAL AUDIT PLAN

Process Under Review	Audited Business Area(s)	Objective	Associated Strategic Pillar	Start Timeframe	Estimated End Timeframe
<u>Carryover from FY 2024-25 Internal Audit Plan</u>					
Patch Management Controls	Information Technology Division	To verify if the Information Technology Division's management controls of security patches for workstations comply with federal requirements.	Organizational Excellence	FY 2024-25 Quarter 3	FY 2025-26 Quarter 1
Contract Management	Policy, Eligibility, and Research Division	To determine whether contracts managed by the Policy, Eligibility, and Research Division are adequately monitored in accordance with policies, procedures, and applicable requirements.	Affordable Choices	FY 2024-25 Quarter 3	FY 2025-26 Quarter 1
Advertising Contracts	Marketing Division	To determine whether advertising contracts are adequately monitored in accordance with policies, procedures, and applicable requirements.	Reaching Californians	FY 2024-25 Quarter 3	FY 2025-26 Quarter 1

FISCAL YEAR 2025-26 INTERNAL AUDIT PLAN

Process Under Review	Audited Business Area	Objective	Associated Strategic Pillar	Intended Start Timeframe	Estimated End Timeframe
Internal Audits for Fiscal Year 2025-26					
FMLA Compliance	Human Resources Branch	To assess HRB's compliance with Family Medical Leave Act (FMLA) leave of absence, notification, and certification procedures, in accordance with state and federal regulations.	Organizational Excellence	FY 2025-26 Quarter 1	FY 2025-26 Quarter 3
Hardware Asset Management	Information Technology Division	To assess the Information Technology Division's effectiveness in managing Covered California's hardware asset tracking and inventory processes.	Exceptional Service	FY 2025-26 Quarter 1	FY 2025-26 Quarter 3
Health Plan Payments	Plan Management Division	To determine whether cost sharing reduction payments made to contracted health plans are accurate and timely.	Affordable Choices	FY 2025-26 Quarter 2	FY 2025-26 Quarter 4
Physical Security	Business Services Branch	To determine whether the Business Services Branch's procedures comply with all applicable regulations to effectively ensure optimal physical security for Covered California's facilities.	Organizational Excellence	FY 2025-26 Quarter 2	FY 2025-26 Quarter 4
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* Surge Vendor User Access Audit Follow-Up	Service Center Division	To determine whether the corrective actions taken in response to the recommendations from the 'Service Center Surge Vendor User Access Audit' have been effectively implemented and are operating as intended to mitigate the risks identified by the Office of Audit Services.	Organizational Excellence	FY 2025-26 Quarter 3	FY 2025-26 Quarter 4

FISCAL YEAR 2025-26 INTERNAL AUDIT PLAN

Process Under Review	Requesting Business Area	Objective	Associated Strategic Pillar	Start Timeframe	Estimated End Timeframe
<u>Advisory Engagements for Fiscal Year 2025-26</u>					
Population Health Initiative	Equity & Quality Transformation Division	To evaluate the effectiveness and integrity of the eligibility determination, outreach, and funding processes for the Grocery Support Program and Child Savings Account Program under Covered California's Population Health Initiative.	Quality Care	FY 2025-26 Quarter 1	FY 2025-26 Quarter 2
Employee Engagement Survey	Office of Organizational Culture, Inclusion, & Engagement	To assess the effectiveness and oversight of data collection and follow-up processes related to employee engagement surveys.	Organizational Excellence	FY 2025-26 Quarter 2	FY 2025-26 Quarter 3
Case Inquiry Backlog	Ombuds Office	To assess whether the Ombuds Office's process improvements to address the backlog of case inquiries are working as intended to achieve the desired outcomes.	Exceptional Service	FY 2025-26 Quarter 2	FY 2025-26 Quarter 3



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WRAP-UP AND NEXT STEPS

Potential Future Meeting Dates	Potential Agenda Topics	Action/Discussion
August 21, 2025 (Board Meeting)	<ul style="list-style-type: none">• Present Annual Audit Activities Report to Board	Discussion
August 21, 2025	<ul style="list-style-type: none">• Review Results of Completed Audits	Discussion
November 20, 2025	<ul style="list-style-type: none">• Review and Approve Internal Audit Charter• Review Results of Completed Audits	Action Discussion

APPENDIX

QUARTERLY REPORT ON AUDIT ACTIVITIES

APPENDIX – QUARTERLY REPORT ON AUDIT ACTIVITIES

Audit Activity	Slides
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Status of Corrective Action Plans for Completed Internal Audits	38 - 40
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Status of Corrective Action Plans for Completed External Audits	42 - 44
Status of Non-Audit Projects	45

QUARTERLY REPORT ON AUDIT ACTIVITIES

STATUS OF IN-PROGRESS INTERNAL AUDITS			
Name	Business Area	Objective	Estimated Completion Timeframe
State Privacy Requirements Audit	Office of Legal Affairs Privacy Office	To assess the Privacy Office's compliance with state privacy requirements protecting consumer personal information.	FY 2024-25 Quarter 4
Patch Management Controls Audit	Information Technology Division	To verify if the Information Technology Division's management controls of security patches for workstations comply with federal requirements.	FY 2025-26 Quarter 1
Contract Management Audit	Policy, Eligibility, and Research Division	To determine whether contracts managed by the Policy, Eligibility, and Research Division are adequately monitored in accordance with policies, procedures, and applicable requirements.	FY 2025-26 Quarter 1
Advertising Contracts Audit	Marketing Division	To determine whether advertising contracts are adequately monitored in accordance with policies, procedures, and applicable requirements.	FY 2025-26 Quarter 1

QUARTERLY REPORT ON AUDIT ACTIVITIES

STATUS OF CORRECTIVE ACTION PLANS (CAPs) FOR COMPLETED INTERNAL AUDITS

Name	Business Area	Final Report Issue Date	Objective	Findings	Estimated Implementation Date of CAPs
Contracting Audit	Business Services Branch	November 2023	To obtain reasonable assurance that internal controls over Covered California’s contracting process were administered in accordance with policies, procedures, and applicable requirements.	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.	Implemented
Employee Separation Audit	Administrative Services Division ~ Information Technology Division ~ Financial Management Division	April 2024	To obtain reasonable assurance that internal controls over Covered California's employee separation process were administered in accordance with policies, procedures, and applicable requirements.	1. Business Services Branch did not always deactivate access identification badges and/or ensure that badges were returned when employees separated from Covered California.	June 2025
				2. Information Technology Division did not effectively review user access and account privileges for all Covered California IT systems.	Implemented
				3. Information Technology Division did not always maintain sufficient documentation for the issuance and return of IT equipment.	Implemented
				4. Human Resources Branch did not always process outstanding accounts receivable from separating employees.	Implemented
				5. Business Services Branch did not always maintain sufficient documentation for the return of office/ergonomic equipment.	June 2025

QUARTERLY REPORT ON AUDIT ACTIVITIES

STATUS OF CORRECTIVE ACTION PLANS (CAPs) FOR COMPLETED INTERNAL AUDITS (continued)					
Name	Business Area	Final Report Date	Objective	Findings	Estimated Implementation Date of CAPs
Business Continuity Plan Audit	Business Services Branch	September 2024	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.	1. Business Services Branch did not seek approval from senior level officials to certify Covered California's Business Continuity Plan.	June 2025
Travel Expense Reimbursement Audit	Financial Management Division	February 2025	To obtain reasonable assurance that reimbursements of travel expense claims comply with the state's travel expense regulations.	1. Travel expenses were approved for reimbursement after the business trips had already occurred	June 2025

QUARTERLY REPORT ON AUDIT ACTIVITIES

STATUS OF CORRECTIVE ACTION PLANS (CAPs) FOR COMPLETED INTERNAL AUDITS (continued)

Name	Business Area	Final Report Date	Objective	Findings	Estimated Implementation Date of CAPs
CalHEERS Manual Override Audit	Service Center Division ~ Information Technology Division	March 2025	To assess whether internal controls over CalHEERS manual override functionalities are operating appropriately.	1. Service Center Division L3 system users did not always perform accurate and allowable CalHEERS manual override transactions	July 2025
				2. Service Center Division did not always provision employees with the correct CalHEERS access levels	December 2025
				3. Information Technology Division did not ensure quarterly reviews of CalHEERS user accounts were performed	March 2026
Follow up on SPB Compliance Review Audit	Human Resources Branch ~ Covered California University ~ Equal Employment Opportunity Office	May 2025	To assess the progress and effectiveness of corrective actions taken in response to findings identified in the State Personnel Board's Compliance Review Report issued in March 2023.	1. Human Resources Branch did not consistently retest employees that received bilingual pay within required intervals	November 2025
				2. Human Resources Branch did not audit employee leave records on a monthly basis	July 2025
				3. Human Resources Branch did not consistently ensure employees received performance appraisal	February 2026
				4. Covered California University did not ensure their records accurately reflected the completion of the required ethics training by all designated filers	August 2025
				5. Covered California University did not ensure all supervisory employees completed mandatory leadership training	August 2025
				6. Covered California University did not ensure all employees were provided sexual harassment prevention training	August 2025

QUARTERLY REPORT ON AUDIT ACTIVITIES

STATUS OF IN-PROGRESS EXTERNAL AUDITS			
Name	External Auditor	Objective	Estimated Completion Date
Duplicate Government Sponsored Health Care Coverage Audit (Audit of CMS)	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). - <i>Note: Covered California was surveyed in support of this audit.</i>	July 2025

QUARTERLY REPORT ON AUDIT ACTIVITIES

STATUS OF CORRECTIVE ACTION PLANS (CAPs) FOR COMPLETED EXTERNAL AUDITS			
Name	Final Report Date	Findings	Estimated Implementation Date of CAPs
2024 Programmatic Audit	May 2025	1. Covered California disclosed defects in CalHEERS during audit interviews. The defects impacted eligibility determinations during the audit period, where the system determined redundant eligibility for a QHP with APTC, and Medi-Cal, in certain scenarios.	December 2026
		2. Covered California did not discontinue financial assistance for applicants who failed to respond to a conditional eligibility notice for income within the 95-day reasonable opportunity period (ROP).	December 2025
		3. Tax households may not have been awarded the correct amount of APTC for the tax and plan year based on the income, benchmark plan premium, APTC used previously in the year.	Covered California disagrees with this finding.
		4. Covered California did not have a formal policy that required employees to complete a Remote Access Agreement before obtaining remote access to Covered California systems. (The prior year finding was identified as 2023 #4)	July 2026
		5. Covered California did not monitor contractors' compliance with the requirement that all staff must sign a Covered California Remote Access Agreement and Acceptable Use Statement. (The prior audit finding was identified as 2023 #5)	July 2026
		6. The California Code of Regulations (CCR) has not been updated to include county eligibility workers as Certified Representatives who can assist customers with the identify verification process. (The prior year finding was identified as 2023 #7)	Implemented
FY 2023-24 Financial Statements Audit	May 2025	N/A	N/A

QUARTERLY REPORT ON AUDIT ACTIVITIES

STATUS OF CORRECTIVE ACTION PLANS (CAPs) FOR COMPLETED EXTERNAL AUDITS (continued)

Name	Final Report Date	Findings	Estimated Implementation Date of CAPs
2023 Programmatic Audit	April 2024	1. Covered California did not discontinue financial assistance for applicants who failed to respond to a conditional eligibility notice for income within the 95-day reasonable opportunity period.	December 2025
		2. Some applicants who were determined conditionally eligible due to outstanding income verification did not receive notices alerting them of the inconsistency and requesting further documentation.	Implemented
		3. Covered California did not complete all the necessary steps to verify lawful presence for 2 sampled cases.	December 2025
		4. Covered California did not have a formal policy that required employees to complete a Remote Access Agreement before obtaining remote access to Covered California systems.	June 2026
		5. Covered California does not have processes in place to monitor contractors' compliance with the requirement that all staff sign a Covered California Remote Access Agreement.	June 2026
		6. Discrepancies were not identified or corrected by the existing monthly reconciliation process.	Implemented
		7. The California Code of Regulations (CCR) has not been updated to include county eligibility workers as Certified Representatives who can assist customers with the identify verification process.	December 2025
		8. Applicants were able to enroll in a qualified health plan prior to the completion of identity verification.	December 2025

QUARTERLY REPORT ON AUDIT ACTIVITIES

STATUS OF CORRECTIVE ACTION PLANS (CAPs) FOR COMPLETED EXTERNAL AUDITS (continued)				
Name	External Auditor	Objective	Recommendations	Estimated Implementation Date of CAPs
2022 Programmatic Audit	Sjoberg Evashenk Consulting	To evaluate Covered California’s operations, program effectiveness and efficiencies, and administrative functions in accordance with 45 Code of Federal Regulations (CFR) Part 155.	Covered California has fully implemented 20 of the 22 recommendations.	
			2.2 To better ensure documentation submitted for identity proofing is legitimate and valid, Covered California implement a process to validate documentation uploaded as legitimate and valid proof of identification.	December 2025
			8.1 To collect the remaining amounts owed from agent commission overpayments and reduce the risk of future over payments not being recouped, Covered California should move forward with it plans to establish and implement a formal policy and process for handling Small Business agent and general agent commission overpayments for inactive agents or general agents.	October 2025

QUARTERLY REPORT ON AUDIT ACTIVITIES

STATUS OF NON-AUDIT PROJECTS		
Name	Objective	Estimated Completion Date
Annual Risk-Based Internal Audit Plan	To create a risk-based internal audit plan for Fiscal Year 2025-26 that focuses on the organization's processes that have the most risk exposures.	June 2025
Quality Assurance and Improvement Program – Internal Assessment of Fiscal Year 2023-24	To assess the efficiency and effectiveness of the Office of Audit Services' practices as well as to evaluate its conformance with the IIA Standards for the period of Fiscal Year 2023-24.	Completed
Internal Audit Policies and Procedures Manual Revision	To identify and revise the sections of the Internal Audit Policies and Procedures Manual that require modifications to align with the new IIA Standards set to take effect in January 2025.	Completed
Improper Payment Pre-Testing and Assessment (IPPTA)	To prepare state-based exchanges for the planned measurement of improper payments.	December 2025
CalHEERS Invoice Management Process Advisory Engagement	To identify areas for improvement and provide actionable recommendations to enhance efficiency and accuracy within the CalHEERS invoice management process (performed by BerryDunn; managed by OAS).	June 2025