

COVERED CALIFORNIA AUDIT COMMITTEE MINUTES
Friday, June 20, 2025

Main Location:

Covered California Tahoe Auditorium
1601 Exposition Blvd.
Sacramento, CA 95815

Alternate Location:

Oakland Office
7677 Oakport Street # 800
Oakland, CA 94621

Agenda Item I: Call to Order, Roll Call, and Welcome

Kirk Marston, Chief Audit Executive, Office of Audit Services (OAS) at Covered California, welcomed everyone to the meeting.

Mr. Marston called the meeting to order at 1:32 PM.

Mr. Marston welcomed new committee members, Sumi Sousa and Craig Cornett, highlighting their experience and perspectives. Mr. Marston also acknowledged Executive Director Jessica Altman, alongside other directors, managers, and team members attending both in person and virtually.

Audit Committee Members Present During Roll Call:

Craig Cornett
Sumi Sousa

Conflict Disclosure: A conflict disclosure was performed and there were no conflicts from the Committee members that needed to be disclosed.

Agenda Item II: December 18, 2024 – Audit Committee Meeting Minutes

Mr. Marston presented the December 18, 2024, meeting minutes for approval. He noted that although the current members were not part of the committee at that time, they did have the authority to approve the minutes.

Discussion: Mr. Cornett inquired about the reference to Global Internal Audit Standards in the Internal Audit Charter, confirming it pertains to the Institute of Internal Auditors, an international organization. Mr. Cornett noted recent changes to these standards and asked if adjustments to the charter were necessary.

Mr. Marston confirmed that the required changes were made and were reflected in the revised Audit Charter presented in December.

Motion/Action: Craig Cornett moved to approve the Audit Committee Meeting Minutes for December 18, 2024. Sumi Sousa seconded the motion.

Public Comment: None

Vote: The motion was approved by unanimous vote.

Agenda Item III: Fiscal Year 2025-26 Risk Based Internal Audit Plan

Mr. Marston presented the Annual Internal Audit Plan prepared by OAS for Covered California. The plan outlines the audit team's mission, methodology, and planned activities for the upcoming fiscal year.

The Annual Internal Audit Plan is a comprehensive framework aimed at identifying and addressing risks, improving operations, and ensuring compliance across Covered California. The plan emphasizes collaboration, adaptability, and resource optimization to fulfill the mission. The audit plan includes a list of audits for the next fiscal year, carryover audits from the prior year, and advisory engagements. Mr. Marston underscored significant improvements in audit procedures and timing under the current leadership. The proposed audits and advisory engagements are designed to address high-risk areas and improve operational effectiveness. Pre-approval of potential audits ensures flexibility to adjust the audit plan if staff availability arises.

Mr. Marston requested the Audit Committee's approval for the plan.

Audit Committee Discussion:

Ms. Sousa complimented the explanation of the audit development process and asked whether the risk assessment is typically shared with the Audit Committee or the full Board. She also inquired about the board's involvement in interviews and whether raw risk assessment data is shared with the Audit Committee. Ms. Sousa expressed interest in reviewing the risk assessment to gain a deeper understanding of organizational priorities and values in the future. Additionally, she requested more information regarding the external assessment conducted by the Department of Finance (DOF).

Mr. Marston explained that risk assessments are not shared with the Audit Committee or the full Board but are shared internally with managers, deputy directors, and executive leadership. However, he indicated that they were open to discussing this further. He explained the process for identifying and scoring risks, which includes input from past audits, external audits, and business areas. Mr. Marston also clarified that the full Board is not involved in the interview process for risk assessment. Regarding the external assessment by DOF, he explained that it is a required independent audit of the audit team's practices, chosen for their cost-effectiveness and familiarity with state agencies. He described the external assessment as "auditors auditing the auditors."

Mr. Cornett stated that an overview of the risk assessments would be useful and expressed a strong belief in the importance of both internal and external audits, emphasizing their role in improving management and ensuring program integrity. He inquired about OAS' reporting structure and asked how many audits are required by CMS. Additionally, he expressed approval for the ability to modify the audit plan as needed throughout the year, with such changes going through the Audit Committee. He also requested details on the standard protocol for follow-ups and corrective action

plans and asked if there are regular rotations for certain internal audits, regardless of risk assessments.

Mr. Marston explained that he reports administratively to Thien Lam, the Director of the Program Integrity Division, who in turn reports to Brandon Ross, the Chief Legal Counsel, and ultimately to Jessica Altman, the Executive Director. Regarding CMS' audit requirements, he clarified that the programmatic audit and the financial statement audit are required by law, highlighting that the financial audit had zero findings this year. He confirmed that modifications to audit plans are brought to the Audit Committee for approval and described the near-constant quarterly follow-up process for corrective action plans, which is tied to quarterly meetings. Additionally, he noted that audits are occasionally revisited, particularly previous audit findings, to ensure that the identified issues have been resolved.

~~Ms. Sousa~~ Mr. Cornett asked about the functioning of the audit committee, specifically how audit findings are handled. ~~She~~ Ms. Sousa compared Covered California's approach to other models, such as Golden 1 Credit Union's audit structure, where certain types of audits (including annual financial audits or high-priority audits) are directly reported to the Audit Committee. She sought clarification on whether Covered California follows a similar model or has a different approach. Additionally, Ms. Sousa emphasized the value of engagement, particularly the advisory engagement piece, for internal divisions and programs, describing it as invaluable. She felt that adding context would aid in understanding and evaluating internal audit plans. To enhance future internal audit plans, she suggested including an additional column or comments to explain the prioritization of audits, providing more detailed insight into why certain audits receive high priority (such as factors like financial impact or reputational risk), and offering more details about the risks and how they are weighted.

Mr. Marston clarified that Covered California's programmatic audit is managed by OAS' external audit unit in collaboration with the program areas. He explained that programmatic audit findings are reported to the Audit Committee, while financial statement audits are reported to the Finance Committee instead of the Audit Committee. Mr. Marston emphasized the distinction between these two types of audits and noted that program areas are responsible for implementing corrective action plans. At this stage of an audit, OAS plays a supportive role, assisting programs and ensuring that the necessary work is completed.

Mr. Cornett expressed agreement with Sumi's point, noting that extra information provides valuable context. While he had no concerns about the proposed internal audit list, he raised questions about physical security. Specifically, he inquired whether Covered California needs to review the Fresno office, which is now partially managed by DMV, and whether physical security audits are required for subleased spaces or if the DMV should take responsibility. Additionally, Mr. Cornett raised concerns about cybersecurity, asking if there are any additional measures or plans that could provide reassurance regarding this sensitive area.

Executive Director Jessica Altman clarified that while Covered California subleases part of the Fresno building to DMV, it still maintains a physical presence for staff in that facility. She emphasized that Covered California does not hold leases for facilities where it lacks a physical presence.

Mr. Marston responded to Cornett's concerns about cybersecurity, explaining that the issue is an ongoing topic discussed with executive leadership. He noted that Covered California plans to conduct IT-related audits in the next fiscal year and stated that the Information Technology Division and Information Security Office are actively implementing changes. Mr. Marston assured Mr. Cornett that the audit team plans to collaborate with IT staff after these changes are in place to address cybersecurity concerns effectively.

Mr. Cornett concluded by expressing agreement with Marston's explanation, stating that the approach "makes total sense."

Executive Director Jessica Altman informed the audit committee that Covered California is adapting to significant changes in federal cybersecurity standards, which are set to be implemented by next spring. Future fiscal years will allow for evaluation of compliance with these new standards. Additionally, Covered California provides cybersecurity planning reports to both CMS and the California Department of Technology.

Mr. Cornett inquired about the purpose of advisory engagements related to the employee engagement survey. Specifically, he asked whether these engagements focus on evaluating the appropriateness of data collection or assessing management's follow-through on implementing changes based on survey results. Cornett emphasized interest in understanding whether management has made adjustments in response to survey findings.

Mr. Marston clarified that the advisory engagements primarily focus on the effectiveness and oversight of data collection. He further explained that the engagements also include follow-up processes related to the survey. Mr. Marston highlighted that advisory engagements differ from audits in that they are more open-ended, with objectives often guided by the business area they are assisting. Unlike audits, advisory engagements involve collaboration with the business areas to address their specific needs.

Ms. Sousa sought clarification about the agent agreements, particularly referencing an older audit from 2022 conducted by Sjoberg Evashenk Consulting (SEC), which highlighted improper payments to agents and the process of recouping overpayments. Ms. Sousa noted that this issue seemed unresolved and inquired whether it was related to the current audit or if the new audit was broader in scope. She stressed the importance of the matter, given the significant role agents play in driving traffic, and expressed curiosity about the distinction between the audits.

Mr. Marston acknowledged the questions about the agent agreement area and confirmed the older audit Ms. Sousa referenced was conducted by SEC 2022. He

clarified that it was part of a programmatic review and that the new audit being conducted is broader and slightly different in focus. Mr. Marston assured Ms. Sousa that he would follow up with more information.

Motion/Action: A motion to approve the Fiscal Year 2025-26 Risk Based Internal Audit Plan was made by Craig Cornett and seconded by Sumi Sousa.

Public Comment: None

Vote: The motion was approved by unanimous vote.

Agenda Item IV: External Audit Results - Payroll Audit Performed by the State Controller's Office

Mr. Marston stated that Covered California recently reviewed an external audit conducted by the State Controller's Office (SCO) examining payroll processes and transactions for the period between July 1, 2018, and June 30, 2021. The audit, initiated in late 2021 during the pandemic, assessed how payroll-related disbursements, leave balances, and salary advances were administered in compliance with state laws and collective bargaining agreements. The SCO identified eight findings related to unsupported costs, projecting \$16.5 million based on a small sample size. However, it was emphasized that the SCO is not requesting repayment of this amount, and the projection serves as a caution to minimize risks associated with unsupported payments. Most findings were related to manual processes that have since been automated, partly due to operational adaptations necessitated by the pandemic.

By the time SCO issued its final report in April 2025, Covered California had already implemented corrective actions for all findings. Over the past two years, Covered California has made significant advancements in automating payroll and related processes using technology platforms such as Workday and DocuSign. Mr. Marston reviewed the findings and their corresponding corrective actions noting again that all findings have been addressed and resolved. Covered California continues to refine its systems and processes to minimize risks and ensure compliance.

Audit Committee Discussion:

Mr. Cornett highlighted the challenges of navigating state law and regulations related to personnel, particularly over the past decade. He acknowledged that for private employers, keeping up with these changes has been particularly difficult, and noted the additional complexity for organizations dealing with state requirements layered on top, recognizing the significant challenge this poses.

Mr. Marston reflected on the challenges faced by the unit due to the timing of the issues but praised their ability to respond effectively. Marston expressed appreciation for the unit's commitment to addressing these matters and ensuring the necessary improvements were made.

Ms. Sousa shared positive feedback on the findings and audit process, emphasizing its importance in improving organizational practices. She acknowledged that audits, while difficult and tiresome for staff, are beneficial for improvement and appreciated the focus on small but significant issues like overtime accuracy and lump-sum separation. Ms. Sousa also praised the move away from manual processes, recognizing it as a valuable improvement.

Mr. Marston expressed gratitude for the comments and appreciation for the collaboration and efforts involved.

Public Comment: None

Agenda Item V: Review of Annual Audit Activities Board Report

Mr. Marston explained that the Audit Committee is responsible for communicating audit activities to the Board annually, as outlined in the Internal Audit Charter. The previous Audit Committee members requested Mr. Marston present the information to the Board on their behalf. Mr. Marston stated that the presentation was a preview for the Audit Committee to provide their feedback before the report is presented to the Board at the next Board meeting.

OAS and the Chief Audit Executive prepared a high-level informational presentation summarizing audit activities to ensure transparency and showcase the organization's efforts in supporting Covered California. After researching best practices from the Institute of Internal Auditors (IIA) and other agencies, prior Audit Committee members agreed on an annual and ad hoc reporting structure, including the topics to be presented to the Board, such as completed audits, audit plans, and corrective actions.

The report states that the Internal Audit team set out to work on nine audits in the previous fiscal year. Six audits were completed, and three are on track to be finalized by the end of Q1 of the next fiscal year. Among the completed audits, findings ranged from zero to six across different areas, including the CalHEERS Help Desk Ticket Audit, Business Continuity Plan Audit, and State Personnel Board Follow-Up Audit. While corrective action plans (CAPs) have not yet been fully implemented due to the recent completion of these audits, OAS continues to follow up with program areas to ensure progress and compliance.

The Compliance and Monitoring unit within OAS coordinated several external audits, including the annual Programmatic Audit, which resulted in six findings, and the Financial Statement Audit, which had no official findings. They supported additional external audits such as the State Controller's Office Payroll Audit and the Government Accountability Office's Duplicate Coverage Audit on CMS, where Covered California was not the auditee and had no findings.

In addition to audit coordination, OAS undertook other activities to strengthen its practices. These included renewing the Internal Audit Charter, overseeing advisory

engagements, participating in CMS' pretesting for improper payments, updating audit policies and procedures to align with IIA standards, and conducting an internal assessment of compliance with these standards. The report noted the approval for the next fiscal year's internal audit plan.

Audit Committee Discussion:

Mr. Cornett and Ms. Sousa both expressed their acceptance of the Board Report.

Public Comment: None

Agenda Item V: Wrap-Up and Next Steps

Mr. Marston outlined the potential dates for future meetings as well as the potential meeting topics.

The meeting adjourned at 2:48 PM.