



Audit Committee Charter

Purpose

The purpose of the Audit Committee is to provide a structured, systematic oversight of the organization's governance, risk (and controls), and compliance practices. The committee assists the Covered California Board (Board) and management by providing advice and guidance on the adequacy of the organization's system of internal controls, the internal audit process (executed by the Office of Audit Services [OAS]), and Covered California's process for monitoring compliance with laws.

Mandate

Government Code section 13886, subdivision (a) states, "Any governing body that oversees a state agency that performs or reviews internal audits shall establish an audit committee that generally meets the frameworks recommended by the American Institute of Certified Public Accountants, as set forth in the publication entitled 'AICPA Audit Committee toolkit: Government Organizations.'"

The *International Standards for the Professional Practice of Internal Auditing* state in section 1111 that "the chief audit executive must communicate and interact directly with the board." Additionally, section 2060 states, "The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the *Standards*. Reporting must also include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board." These and other communication requirements are referenced throughout the *Standards*.

Authority

In discharging its responsibility, the Audit Committee will have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties.

The Audit Committee has authority to approve audits, operational reviews, or investigations into any matters. It is empowered to:

- Appoint, compensate, and oversee all audit and non-audit services performed by auditors, including the work of any registered public accounting firm employed by the organization.

- Meet with any Covered California staff, Board members, independent auditors, outside counsel, and others as needed.
- Resolve any disagreements between management and the internal or external auditors.
- Preapprove all audit and non-audit services performed by auditors. Review and approve the annual risk-based internal audit plan and all major changes to the plan. Discuss the extent to which it addresses high-risk areas.
- Review external and internal audit reports and responses, and monitor the completion of recommendations.
- Approve the internal audit mission statement, charter, and other governance documents related to internal audit activities.
- Assure the effectiveness of the internal audit function, including its organizational structure, adequacy of staffing and budget, performance relative to its annual plan, and ensure there are no unjustified restrictions or limitations.
- Retain independent counsel, consultants, accountants, subject matter experts, or others to advise the committee or assist in an investigation.

Composition of the Audit Committee

The Audit Committee will consist of two Board members that are independent of the organization. The members should collectively possess sufficient knowledge of audit, finance, health industry, governance, risk, and control. The Board will appoint committee members who shall serve on the committee until replacement, with or without cause, by the Board. To ensure continuity within the Audit Committee, the appointment of members should be staggered.

Meetings

In accordance with audit standards, the Audit Committee will meet at least quarterly or more frequently as the committee deems necessary. Meetings may be in person or via tele- or video-conference and will be held in accordance with the Bagley-Keene Open Meeting Act requirements. The committee may invite members of management, staff, internal or external auditors, or others to attend the meeting and provide pertinent information, as necessary. In accordance with applicable laws, the committee may also hold special or emergency meetings, as well as closed session meetings with internal auditors or anyone else as desired by the committee. Board members who are not members of the committee may attend the committee's open session meetings as observers and may attend closed sessions only at the committee's request. Meeting agendas and any appropriate briefing materials will be prepared and provided in advance to committee members and made available for public inspection as required under the Bagley-Keene Open Meeting Act. Minutes will be prepared for the committee's review and approval.

Responsibilities

It is the responsibility of the Audit Committee to provide the Board with independent, objective advice on the adequacy of management's arrangements with respect to the following aspects of the management of the organization:

Charter and Resources

- Review the Audit Committee Charter annually, reassess the adequacy of this charter, and recommend any proposed changes to the Board.
- Review and approve the Internal Audit Charter at least annually. The charter should be reviewed to ensure that it accurately reflects the internal audit activity's purpose, authority, and responsibility, consistent with the mandatory guidance of the Institute of Internal Auditors' International Professional Practices Framework.
- Advise the Board about increases and decreases to the requested audit resources to achieve the internal audit plan. Evaluate whether any additional resources are needed.

Covered California's Internal Control System

- Consider the effectiveness of Covered California's internal control system, including information technology security practices and governance.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain report on significant findings and recommendations, together with management's response.

Internal Audit Process

- Review the results of internal audit reports, reviews, assessments, and management letters, including any difficulties encountered. As necessary, meet with OAS management and internal auditors for clarification.
- Review the status of corrective actions taken to address audit findings.
- Review OAS's performance relative to its plan.
- Ensure that OAS follows the Institute of Internal Auditors' International Professional Practices Framework and other auditing standards as appropriate, and maintains an effective quality assessment and improvement program.
- Review the effectiveness of the internal audit function, including conformance with The Institute of Internal Auditors' Definition of Internal Auditing, Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*.
- Receive confirmation from the Chief Audit Executive of the independence of the internal audit organization and its activities.

Organizational Governance

- Review and provide advice on the governance process established and maintained within Covered California and the procedures in place to ensure that they are operating as intended.
- Obtain reasonable assurance with respect to the organization's governance process.

Reporting

- Regularly report to the Board about committee activities, issues, and related recommendations.
- Provide an open avenue of communication between OAS and the Board members.

Other Responsibilities

- Perform other activities related to this charter as requested by the Board.
- Institute and oversee special investigations as needed.
- Regularly evaluate its performance and that of its individual members.

Approval

Approved by the Covered California Board on _____, 20__

Appointed Members:

_____ Title

Committee Member

_____ Title

Committee Member