



# **Fiscal Year 2022-23 Annual Audit Plan**

**Office of Audit Services  
Program Integrity Division**

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# Introduction

## Office of Audit Services

The purpose of the Office of Audit Services is to provide independent, objective assurance and consulting services designed to add value and improve Covered California's operations. We help Covered California accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and organizational governance processes.

The Office of Audit Services conducts internal audits, reviews, and consulting services to determine whether Covered California's network of risk management, control, and organizational governance processes are adequate and functioning. Additionally, we coordinate external audit activities by facilitating federally mandated audit and assisting program areas with audit conducting by external entities, such as federal and state control agencies. We also assist with federal compliance initiatives, such as the newly created State Exchange Improper Payment Measurement.

As required by the *International Standards for the Professional Practice of Internal Auditing* and the Office of Audit Services' Internal Audit Charter, a risk-based annual audit plan has been prepared for the Audit Committee's review and approval.

## Mission

The mission of the Office of Audit Services is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Office of Audit Services assists Covered California's management in the discharge of their oversight, management, and operating responsibilities through independent audits and consultations designed to assess and promote the systems of internal controls, including effective and efficient operations. The Office of Audit Services will accomplish this through communication, monitoring, and collaboration with management. This supports the accomplishment of Covered California objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of organizational governance, risk management, and control processes.

## Authority

The Office of Audit Services was created based upon Government Code section 1237 which requires that state agencies with aggregate annual spending of fifty million dollars (\$50,000,000) or more annually consider establishing an internal audit unit. Additionally, Government Code section 13886 states, in part, "Any governing body that oversees a state agency that performs or reviews internal audits shall establish an audit committee . . ."

The Office of Audit Services has an Internal Audit Charter that further outlines the authority, as well as the purpose, mission, and responsibilities.

## Professional Audit Standards

The Office of Audit Services conforms to the mandatory elements of The Institute of Internal Auditors' (IIA) International Professional Practices Framework, including the Core Principles for the Professional

Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing* (IIA Standards), and the Definition of Internal Auditing. Where applicable, the Office of Audit Services will also adhere to the U.S. Government Accountability Office's *Generally Accepted Government Audit Standards*.

IIA Standard 2010 states, "The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals." IIA Standard 2020 states, "The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations."

### **Annual Audit Plan Objectives**

The Office of Audit Services has developed this risk-based Annual 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 management in addressing Covered California's significant financial, operational, and compliance risks and making informed risk acceptance decisions.
- Support efforts to identify, evaluate, and mitigate risks; Evaluate the existence, efficiency, and effectiveness of mitigating controls.
- Provide assurance to management that internal controls are in place and operating as intended.
- Add value and improve Covered California's operations.

## **Audit Plan Development & Scope**

### **Development**

The Office of Audit Services is continuing to execute the approved Fiscal Year (FY)21-22 Annual Audit Plan (plan) which was based on a comprehensive audit risk assessment. Therefore, the FY 22-23 Annual Audit Plan will build on the prior year's audit risk assessment and plan.

- Ensure the most critical risks are identified and incorporated into the Audit Plan. Ensure optimum use of limited audit resources, maximized impacts to the organization, and constant stakeholder engagement.
- Conform with professional auditing standards.

Audit risk assessment, separate from Enterprise Risk Management's organization-wide risk assessment, and the annual audit plan development process provides a consistent methodology for the Office of Audit Services to systematically:

- Understand the operations of Covered California and its divisions.
- Identify current and potentially emerging risks; anticipate vulnerabilities; and assess each risk's potential impact on Covered California and its operations. This also includes consideration of prior audit findings and risk exposures identified in management reviews.

- Identify, evaluate and prioritize potential audits based on the level of risk and significance to Covered California. This ensures optimum use of limited audit resources, maximized impacts to the organization, and constant engagement with internal and external stakeholders.

The annual audit plan is intended to ensure that internal audit coverage adequately examines areas with the greatest exposure to the key risks that could affect the organization's ability to achieve its objectives.

### **Scope**

This Annual Audit Plan covers the period from July 1, 2022 through June 30, 2023. This annual audit plan includes carry-forward projects from the prior year's approved audit plan.

The Office of Audit Services' Annual Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget. The Office of Audit Services completed a risk assessment of Covered California's operations for the purpose of developing this Audit Plan, as required by the *Standards*. The Audit Plan aligns with Covered California's Strategic Pillars and incorporates management input and risk assessment results. Proposed audits and audit objectives are designed to provide assurance that management has identified key risks, and that management is sufficiently mitigating those risks to an acceptable level.

### **Acceptable Level of Risk**

Although this Audit Plan contemplates a wide-ranging scope of activities, it does not provide coverage for all of Covered California's operations or systems. The Office of Audit Services has tried to maximize the limited resources to provide reasonable coverage to the activities believed to require the most attention based on the risk assessment results.

Management is responsible for determining an acceptable level of risk. Acceptable risk describes the likelihood of an event whose probability of occurrence is small, whose consequences are slight, or whose benefits are great, that management is willing to take the risk of the event happening. If the Chief Audit Executive determines that management has accepted a level of risk that may be unacceptable, the Chief Audit Executive must discuss the matter with senior management. If there continues to be a disagreement, the matter must be communicated to the Audit & Finance Committee.

### **Annual Audit Plan Modification**

Interim changes to the Audit Plan will occur from time to time due to changes in business risks, timing of and changes to legislation, and staff availability. We will report Audit Plan changes to the Audit & Finance Committee. Amendments to the approved Audit Plan deemed to be significant (based on discussions with the committee) will be submitted for approval in advance.

### **Quality Assurance and Improvement Plan (QAIP)**

Internal Audits is required to comply with the *Standards* as published by the Institute of Internal Auditors (IIA) and/or the U.S. Government Accountability Office (GAO). The audit plan provides a

provision for conducting an internal quality assessment review. External Assessments (peer reviews) are required every 3 years by GAO standards and every 5 years by IIA standards.

The QAIP is designed to provide on-going assurance that the internal audit activity is conforming to the mandatory elements of the International Professional Practices Framework (IPPF) and GAO standards. These elements include the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, Standards, and the Definition of Internal Auditing.

### **Audit Results Reporting**

All audit reports are reviewed by the audit clients and/or program management (as applicable), and by Internal Audits' management prior to release. This procedure helps ensure that the report is factual, accurate, and free of bias. In addition, a self-review checklist is used by Internal Audits to ensure the audit reports are properly supported by sufficient audit evidence. The final audit report is signed by the chief of Internal Audits and distributed to program management, Division directors, applicable members of the Covered California's management and executive staff, and members of the Audit Committee.

### **Audit Follow-up**

The *Standards* require follow-up as part of each audit. The Audit Plan includes time necessary to determine the status of resolving previous audit findings. The Office of Audit Services will monitor previous audit findings to ensure that management is implementing the agreed-upon corrective action plans or, alternatively, if management's acceptance of the risk is appropriate.

## **Office of Audit Services Resources**

### **Resources**

The Office of Audit Services comprises staff with a variety of experience and skills designed to execute the annual audit plan and add value to Covered California. We are in the process of rebuilding the team and enhancing our skill set to best serve Covered California in internal audits and external audit coordination. The Office of Audit Services consists of ten allocated auditor positions and two analyst positions overseen by three managers: Kurt Faubion, Archana Newcomb, and Jeff Diefenbach. The Office of Audit Services section chief is Dan Washburn and the Chief Audit Executive is Ginny Veneracion-Alunan.

## Professional Organizations

The Office of Audit Services team are members of several professional and accounting organizations. These groups are excellent sources for obtaining information and training on auditing, accounting, business management, and other professional issues. Some of these organizations also provide certifications to show proficiency in a variety of auditing and accounting subject areas.



Several team members also hold professional certifications and/or licenses issued by the sponsoring professional organizations.



## Continuing Professional Education

The Office of Audit Services is committed to providing continuing professional education and training to our team to ensure that we remain knowledgeable and updated on industry trends and standards. IIA Standards state that Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development. Auditors are provided at least 40 hours per year of training per audit standards. Training is provided in-house and through organizations such as The Institute of Internal Auditors and California Associations of State Auditors.

# 2022-23 Annual Audit Plan

## Total Resources Available – Filled Positions

Position	Number of Positions <sup>1</sup>	Total Available Hours	Leave Hours <sup>2</sup>	Net Hours Available
Chief Audit Executive	1	1,000	138	862
Section Chief (Senior Management Auditor)	1	2,000	180	1,820
Unit Managers (Staff Management Auditor)	3	6,000	1,048	4,952
Auditors (Associate Management Auditor)	6	12,000	1,180	10,820
Associate Governmental Program Analyst	1	2,000	180	1,820
<b>Total</b>	<b>12</b>	<b>23,000</b>	<b>2,926</b>	<b>20,274</b>

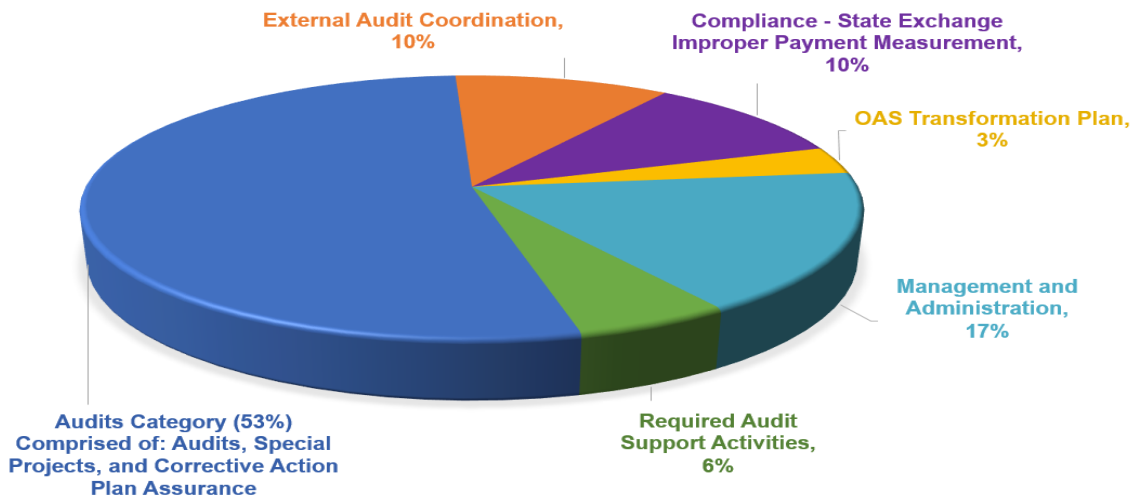
Notes:

- 1) The following vacancies currently exist: 4 Staff Services Management Auditor/Associate Management Auditor; 1 Associate Governmental Program Analyst.
- 2) Leave hours are estimates based upon average leave accumulated per year and past usage. Actual leave may vary.

## Office of Audit Services Activities Summary

The chart below depicts the distribution of hours in the proposed FY 22-23 annual audit plan. It demonstrates that the majority of planned hours are allocated to internal audits, with the remaining time allocated to our other lines of services, advisory services, audit coordination, as well as follow-up monitoring and support activities. It also demonstrates our maturity as an internal audit function and the importance of devoting time to management and training.

### DISTRIBUTION OF HOURS FOR OFFICE OF AUDIT SERVICES ACTIVITIES



## Audits

Internal Auditing adds value and improves Covered California’s operations by providing independent, objective assurance and consulting activities. The Office of Audit Services helps Covered California accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Area Under Review	Description/Objective	Hours
<u>Carry-over from Prior Year Approved Audits</u>		
Business Continuity Planning (in-progress)	Compliance audit over business continuity and technology recovery planning. Assess that business continuity planning is being performed and that plans are reviewed regularly and are accessible.	158
Accounts Payable (in-progress)	Review internal controls over Financial Management Division’s (FMD) review, processing, and encumbrance of invoices	1,020
Contracting (in-progress)	Review internal controls over contract development, renewal, monitoring, and payment approval	873
Call Center User Access (in-progress)	Review internal controls over user access at the call center surge vendor (TTEC, formerly Faneuil)	200
Employee Separation (in-progress)	Review internal controls over employee separation	601
Human Resources	Review internal controls over employee pay, time reporting, and leave balances (evaluate controls after Workday implementation)	800
<u>Carry-over from Prior Year Approved Advisory/Consulting</u>		
Covered California for Small Business Internal Control Consultation	Consulting on internal controls of Covered California for Small Business’s operations with NFP (request by leadership)	250
<u>Internal Control Audits</u>		
Service Center	Review internal control over CalHEERS manual override (specifically L3 system functionality) authorization, use, and monitoring	550
Agent Payments	Review internal controls over agent payments and its monitoring	550
CalHEERS/CCIT	Review internal controls over CalHEERS help desk ticket process	600



Expense Reimbursements	Review internal controls over travel/expense reimbursements and the appropriate use of Concur (State Travel Agent)	600
	<b>Workpaper/Audit Report Review</b>	<b>2,404</b>
<b>Total</b>		<b>8,356</b> 41%

### Special Projects

Internal Auditing adds value in a variety of ways, including consulting and advisory services. These are provided to assist management and the Board by performing evaluations, participating in special projects, providing training on internal controls, and assisting other divisions with a variety of issues.

Activity	Description/Objective	Hours
Special Projects (Board/Audit Committee/Executive Leadership)	Special requests where the Office of Audit Services can provide a unique and independent assessment.	330
Internal Control Advisory Services	Advising management on the development and implementation of internal controls.	280
Compliance Support	Support and advisory services to management on compliance with laws, regulations, etc.	200
Agency/Division Training (Internal Control)	Training on internal controls and audits provided to Covered California employees during onboarding and annually.	200
<b>Total</b>		<b>1,010</b> 5%

### Corrective Action Plan Assurance

Activity	Description/Objective	Hours
External/Internal Audit Corrective Action Plan (CAPs) Monitoring	Monitoring and assurance that corrective action plans from prior audits are completed timely and appropriately mitigate the risk identified.	1000 (External) 400 (Internal)
<b>Total</b>		<b>1400</b> 7%

## External Audit Coordination

Covered California is audited annually by external federal and state control entities. The Office of Audit Services coordinates those audits with internal audit clients and ensures timely communication, and any findings from those audits are timely and corresponding corrective actions are appropriately resolved.

Activity	Description/Objective	Hours
CMS APTC Audits	Covered California assists CMS contracted auditors with information requests related to audits of issuers to assess compliance with the APTC program requirements. (45 CFR § 156.480, 156.705, and 156.715)	100
Programmatic Audit	45 CFR § 155.1200(c) requires Covered California to engage an independent qualified auditing entity to perform an annual independent programmatic audit.	500
Ad Hoc Audit	Additional external audits are sometimes contracted for to obtain additional assurance. Last year, this included an audit of state subsidies.	300
Financial Statement Audit	45 CFR § 155.1200(c) requires Covered California to engage an independent qualified auditing entity to perform an annual independent external financial audit.	400
Other External Audits	Coordination of other external federal and state audits that may be initiated by CMS, California State Auditor, etc.	500
Corrective Action Plan Tracking	Ensuring that corrective action plans (CAPs) resulting from audit recommendations are timely prepared and submitted to the auditors. See CAP Assurance work outlined separately below.	300
<b>Total</b>		<b>2,100</b> 10%

**State Exchange Improper Payment Measurement**

Activity	Description/Objective	Hours
<p>State Exchange Improper Payment Measurement (SEIPM)</p>	<p>Dedicated project team responsible for coordinating with CMS on the organization-wide Pilot pre-implementation project to prepare for the official SEIPM annual measurement cycle planned for 2024.</p> <p>Background: The Payment Integrity Information Act (PIIA) of 2019, government agencies are required to identify, report and reduce improper payments. In compliance with the PIIA, the CMS’ SEIPM program will identify, measure and report erroneous payments. The SEIPM program will measure improper payments for Advance payments of the Premium Tax Credit (APTC) administered by the exchanges. The SEIPM program is currently under development. Covered California is working with CMS under a Pilot Phase to review methodology and ensure readiness for the official rollout of the official SEIPM annual measurement program planned for 2024.</p> <p>These SEIPM activities fall under the Compliance responsibilities of the Office of Audit Services.</p>	<p>2,100</p>
<p><b>Total</b></p>		<p><b>2,100</b> 10%</p>

## Office of Audit Services Transformation Plan

Enhance the audit skill set and train the audit team; assure continued compliance with audit standards.

Activity	Description/Objective	Hours
Continuing Professional Education	Auditors are required to take approximately 40 hours per year of continuing professional education in order to comply with audit standards	440
Office of Audit Services Transformation Plan	Continue to enhance the audit skill set and train the audit team; ensure compliance with audit standards.	150
Training	Additional audit and Covered California required professional development training	80
<b>Total</b>		<b>670</b> <b>3%</b>

## Management and Administration

Management and supervision is provided in order to maintain high operational standards and ensure our auditors are continuing to improve and learn new skills.

Activity	Description/Objective	Hours
Audit Committee Support	Requests of the audit committee; Audit Committee meeting preparation; Interim reporting to include final audit reports received	96
Management & Supervision	Management and supervision of audit functions and personnel	2,200
Administrative Support	Administrative support activities such as timekeeping, leave accounting, training tracking, expense reimbursements, etc.	942
Contract Development & Monitoring	Various contracts for external audits and/or consulting services	60
Staff Recruitment	Activities for recruiting and filling open and vacated positions	200
<b>Total</b>		<b>3,498</b> <b>17%</b>

## Required Audit Support Activities

The Office of Audit Services performs non-audit activities that support improvement and management of the office. These activities seek to provide efficiencies in how we provide audit services and improve the services we provide to Covered California.

Activity	Description/Objective	Hours
Electronic Workpapers Implementation	Procurement and implementation of an audit software solution to streamline the audit process, to improve performance, to better demonstrate compliance, and to manage and document the audit activities of the Office of Audit Services	448
Quality Assurance and Improvement Program	Continued development and implementation of a Quality Assurance and Improvement Program to ensure conformity with IIA and GAGAS standards and promote ongoing improvement of our audit activities.	300
Annual Risk Assessment and FY 23-24 Audit Plan	Activities related to the annual risk assessment and development of an annual audit plan, including risk discussions with senior management, Audit Committee, and the Board.	194
Data Analytics Implementation	Implementation of a data analytics program to identify areas for continuous improvement and monitoring of controls. We will define and implement various analytics to review trends and unusual transactions that might identify risk areas. We will also identify collaboration opportunities with other business units within the Administration Division and FMD. This initiative will also provide more robust and timely audit results and recommendations.	200
<b>Total</b>		<b>1,142 6%</b>