



Covered California Internal Audit Charter

Policy

It is the policy of Covered California to establish and maintain an independent and objective internal audit function and provide the resources necessary to enable the Office of Audit Services (OAS) to achieve its mission and discharge its responsibilities.

Purpose (Definition of Internal Control)

The purpose of Covered California OAS is to provide independent, objective assurance and consulting services designed to add value and improve Covered California's financial and operations systems. 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.

Mission

The mission of OAS is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. OAS assists Covered California's management in the discharge of its 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. OAS 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 financial and operational control processes.

Core Principles for the Professional Practice of Internal Auditing

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.

Authority

OAS operational authority is cited in the follow statutes and guidelines:

- Government Code section 1237 – establishment of an internal audit unit
- Government Code section 13071 – establishment of standards
- Government Code sections 13885 to 13888 – Internal Audits
- State Administrative Manual section 20040 – Internal Audit Organizations
- The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing
- U.S. Government Accountability Office (GAO) Generally Accepted Government Audit Standards

In the performance of their duties, internal auditors are authorized to:

- Review and evaluate all policies, procedures, and practices for any Covered California activity, program, or function.
- Have full, free, and unrestricted access to all functions, records, documentation, computer files, property, and personnel relevant to the performance of any audit assignment, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scope of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of Covered California, as well as other specialized services from within or outside Covered California, in order to complete the audit objectives.

Internal auditors are not authorized to:

- Perform any operational duties for Covered California activities, programs, or functions.
- Initiate or approve transactions external to OAS.
- Direct the activities of any Covered California employee not employed by OAS except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.

Accountability and Report Structure

To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, internal auditors will be independent of the activities they audit. This independence is based primarily upon organizational status and objectivity and is required by external industry standards.

The Chief Audit Executive functionally reports to the Board of Covered California, through the Audit Committee, and administratively reports to the Program Integrity Director, under the General Counsel. Internal auditors report to the Chief Audit Executive.

Internal auditors report to the Chief Audit Executive. The Chief Audit Executive will report to the Board of Covered California, through the Audit Committee. The Audit Committee will consist of two Board members that are independent of the organization. The Board will appoint committee members who shall serve on the committee until replacement, with or without cause, by the Board.

The Chief Audit Executive will have unrestricted access to, and communicate and interact directly with, the Board including in private meetings without management or executive leadership present.

Independence and Objectivity

OAS has complete independence with respect to the units under audit, and consequently, is free from interference in determining the scope of internal auditing, performing work, and communicating results. The Chief Audit Executive will ensure that OAS remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner. Where the Chief Audit Executive has or is expected to have roles or responsibilities, or both, that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. Internal auditors will not assess specific operations for which they had responsibility within the previous year. If the Chief Audit Executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

The Chief Audit Executive will confirm to the Board, at least annually, the organizational independence of OAS.

Scope of Internal Audit Activities

The scope of internal audit activities is to determine whether Covered California's network of risk management, control, and organizational governance processes, as designed and represented by management at all levels, is adequate and functioning. The scope may include:

- Ensuring programs and systems are operating within the highest standards and are directed toward the requirements defined in federal and state law and Covered California policies and procedures.
- Reviewing the reliability and integrity of financial and operating controls and information and the means used to identify, measure, classify, and report such information.
- Assessing business risks and verifying appropriate mitigating control mechanisms are in place.
- Reviewing established system of internal control to ascertain whether they are functioning as designed.
- Appraising the efficiency of processes and resources deployed.
- Evaluating information technology governance and security practices and ensuring that they adequately protect information assets, support Covered California's objectives, and are in compliance with applicable policies, rules, and regulations.
- Evaluating Covered California's qualified health plan issuers, grantees, contractors, and vendors for compliance with contractual provisions and laws, based on resources and risk assessment and per the objectives of the selected audit(s).

The Chief Audit Executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. Internal auditors may perform special operational reviews, consulting and advisory services at the request of the Board, executive leadership, or senior management related to organizational governance, risk management, and control processes, as appropriate.

Upon request by the Board, executive leadership, senior management, or control agencies including the California State Auditor, internal auditors may also perform special reviews or investigations. These are independent evaluations of allegations generally focused on improper governmental activities including misuse of resources, fraud, financial irregularities, significant control weaknesses, and unethical behavior or actions. Excluded special reviews or investigations are those conducted by specific internal Covered California divisions, such as the Human Resources Branch.

Opportunities for improving management control, quality and effectiveness of services, and Covered California's reputation identified during audits are communicated by OAS to the appropriate levels of management.

Responsibility

Under the direction of the Chief Audit Executive, OAS has the responsibility to:

- Submit, at least annually, to the Audit Committee a flexible, risk-based internal audit plan prior to the end of the fiscal year, including any significant risk

exposures and control issues identified by the Board, executive leadership, and senior management, for review and approval.

- Communicate to the Audit Committee any significant interim changes to or impact of resource limitations on the internal audit plan.
- Issue quarterly reports to the Audit Committee summarizing the results of audit activities and any corrective action plans not effectively implemented.
- Issue an annual report to the Audit Committee summarizing the prior fiscal year's activities, including audit activities, special investigations, corrective action plans and learnings for the organization.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter.
- Provide consulting services to assist management in meeting its objectives.
- Provide consulting services or investigate employee misconduct or suspected fraudulent activities, in consultation with the Human Resources Branch and the Office of Legal Affairs, within or external to Covered California and notify the Board of the result.
- Develop a Quality Assurance and Improvement Program, incorporating both internal and external assessments, that covers all aspects of the internal audit activity.
- Ensure conformance with the IIA *International Standards for the Professional Practice of Internal Auditing* or the GAO *Generally Accepted Government Auditing Standards*, or both, as applicable.

Standards for the Professional Practice of Internal Auditing

OAS will govern itself by adherence to the mandatory elements of the 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 (Standards)*, and the Definition of Internal Auditing. Where applicable, OAS will also adhere to the GAO *Generally Accepted Government Audit Standards*. The Chief Audit Executive will report periodically to the Board regarding OAS's conformance to the Code of Ethics and the Standards.

Quality Assurance and Improvement Program

The Standards require that internal audit organizations develop and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit organization. The QAIP will include an evaluation of OAS's conformance with the standards and an evaluation of whether internal auditors apply the IIA Code of Ethics. The QAIP will also assess the efficiency and effectiveness of OAS and identify opportunities for improvement.

The Chief Audit Executive will communicate to the Board on OAS's QAIP, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every three years by a qualified, independent assessor or assessment team from outside Covered California.

Approval

Approved by the Audit Committee of
Covered California on _____, 20____

Signature

Committee Member (printed)

Title

Signature

Committee Member (printed)

Title