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Date: February 7, 2014

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 4 – Completed Closed Audits
II. NAME AND PROGRAM:	Dante Robinson, Chief of Internal Affairs
III. ACTIVITY:	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

The Internal Audit Department (IAD) is presenting the following projects: Statement of Economic Interest – Form 700 Compliance, and Dummy Test Check Copies Incident that were completed and reported closed in the November 13, 2013 Closed Audit Committee session. These engagements are considered non-proprietary and we are presenting them in the Open Session of the Audit Committee in compliance with the Bagley Keene Act.

The findings identified during the audit do not represent significant risk to State Fund and are correctable in the normal course of business. Management has provided their corrective action plans and IAD monitors the completion of the corrective action plans. IAD validates closed high risk issues and on a sample basis for medium risk issues to ensure management’s corrective actions are functioning as intended.

No action for the Board at this time.

VI. ANALYSIS:

Ethics and Labor Relations is responsible for the Annual Statement of Economic Interest Form 700 Compliance for employees and consultants. The audit identified three findings pertaining to the eDisclosure system: inefficient review of all Form 700s, disciplinary actions did not appear to ensure compliance with Form 700 filings, and periodic reviews were not being performed.

The Dummy Test Check Copies Incident relates to IT using live data in the test environment and “ghost checks” found on a printer. The IAD identified the following issues: live data being used for testing purposes, segregation of duties of responsibilities among staff, negotiable checks were used in User Acceptance Testing (UAT), plans to use legacy system in new claims system and finally, use of On Demand Checks resulting in duplicate payments.

VII. APPENDIX: Q4-13 AC Item 4 – Completed Closed Audits Open Session



APPENDIX: INFORMATIONAL DOCUMENT FOR AUDIT COMMITTEE

Completed Closed Audits

Dante Robinson, Chief of Internal Affairs

2013 Statement of Economic Interest – Form 700 Compliance PAO 693

Review Assignment: *AC Members –*

Objective/Scope

Assess the adequacy of controls in place to ensure consultants and State Fund employees abide by State Fund's Conflict of Interest Code, disqualify themselves from participating in decisions which may affect their personal economic interests and timely electronically filed 2012 Statement of Economic Interest (SEI) Form 700.

The scope of this review included the following:

1. 2012 Annual Form 700 electronic filings reflecting the year ending 12/31/12 for both consultants and employees.
2. Processes for identifying:
 - a. Conflict of Interest filers (new and separating workers).
 - b. Non-compliance with Form 700 filing requirements.
 - c. Completeness and accuracy of filings.
 - d. Potential conflicts of interest after receipt of Form 700 and applicable schedules from filers.
3. Actions taken after a conflict of interest is identified.
4. Disciplinary measures taken against violators of Conflict of Interest Code.
5. Oversight, monitoring, and enforcement of the Conflict of Interest Code.

Methodology

- Review prior audits concerning conflicts of interest.
- Explored the Ethics and Labor Relations (ELR) website.
- Reviewed ELR's policies and procedures.
- Interviewed the Information, Analysis & Compliance (IAC) Unit manager and staff.
- Performed a walkthrough of IAC's processes pertaining to Form 700.
- Used Judgmental and random sampling to test the completion and timely submission of Forms 700.

- Tested how current the information is in the eDisclosure application.
- Documented issues found and conveyed them to IAC for clarification and/or agreement.

Findings

- The information in the eDisclosure system was outdated.
- The IAC Unit relies on manually tracking important data that is readily available in the eDisclosure system.
- The eDisclosure system was not utilized to identify potential conflicts of interest.
- A complete review of all Form 700s submitted appeared to be inefficient and possibly ineffective.
- Current Disciplinary actions did not appear to ensure compliance with Form 700 filing or mandatory trainings.
- Periodic reviews and updates to procedures were not performed.

Remediation

- IAC unit is crosschecking documentation to validate for accuracy and will update the eDisclosure database to reflect the correct information.
- IAC Unit intends to maximize use of eDisclosure for reports and documentation and investigate feasibility of ongoing customized reporting.
- IAC Unit will review recommendation with Senior Management, investigate feasibility of creating ongoing or customized report and will update procedures to institute a quarterly review of amendments filed.
- IAC review process exceeds FPPC requirements so will review with Senior Management the legal requirements, continuation or modification of the extra steps currently taking.
- By end of first quarter 2014 Performance Development and Learning & Development will work with the internal Audit Department (IAD) and IAC to determine process to enhance reporting and disciplinary action for noncompliance with mandatory training and SEI requirements.

Proprietary: No

2013 Dummy Test Check Copies Incident PAO 719

Review Assignment: *AC Members* –

Objective/Scope

Investigate the incident reported by Treasury on July 25, 2013, where “ghost checks” that could be fraudulent were found on a printer.

Methodology

- Conducted telephone conferences with process owners
- Examined the checks found on the printer
- Observed the process used for the User Acceptance Testing for the new claims application’s Online Payment function
- Interviewed staff engaged in the new claims application’s Online Payment function project

Conclusion

IAD verified the explanation for this incident and noted issues that require action plans.

Findings

- Live production data was used in the test environment.
- Lack of proper segregation.
- Negotiable checks were used in the User Acceptance Testing (UAT) process.
- Plan to use legacy system in new claims application
- Use of On Demand Checks resulting in duplicate payments.

Remediation

- Data will be scrubbed of personally identifiable attributes for future claims projects.
- IT will inform and educate UAT testers in the protocol and process for payment verification.
- IT will add a “non-negotiable” or “spoiled” watermark to all UAT checks before the checks are sent to the UAT testers for verification.
- Project plan with milestones and removal date for legacy system (Four items remain open for legacy system functionality) expected to be completed Q2 2014.
- Straight Pay project scheduled for December 2014 release; once requirements set and internal controls designed a copy will be provided IAD.

Proprietary: No