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Date: September 12, 2014

TO: MEMBERS, AUDIT COMMITTEE

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 is presenting the following projects: Corporate Communications Assessment, Business Services, and Claims Operations Site Visit audits that were completed and reported in the May 14, 2014 Closed Audit Committee session. These three 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:

- Corporate Communications self-disclosed there was a lack of control to prevent or detect non-compliance with corporate policy. Semi-annual communications will be sent to the two programs that could make this error.
- Business Services audits identified five issues. The issues and action plans relate to improving control activities over vendor management; supply ordering, expense review and approvals, and mailroom access.
- Claims Operations Site Visit identified four issues. The issues and action plans relate to improving control activities and monitoring over:
 - i. Closing files.
 - ii. File maintenance and documentation.

- iii. Liability decisions.
- iv. Balancing of disability payments on claims.
- IAD solicits action plan status monthly by sending out the open issue report to executives.

VII. RECOMMENDATION:

- a. No action needed

VIII. PRESENTATION EXHIBITS:

- None

IX. APPENDIX: I

- Internal Audit Report 2nd Quarter
- Internal Audit Appendix



APPENDIX: INFORMATIONAL DOCUMENT FOR AUDIT COMMITTEE

Completed Closed Audits

Dante Robinson, Chief of Internal Affairs

2013 Corporate Communications Assessment Project PAO 705

Objective/Scope

Assess the associated risks, controls and operational effectiveness of the Corporate Communications daily operations.

Finding	Remediation
<p>No Control to Prevent or Detect non-compliance with Corporate Policy</p>	<p>Investigate whether unauthorized purchase of advertising can be blocked or flagged in Oracle and/or the PCard system</p> <p>Work with Marketing to arrange for quarterly review of specific ledger account expenditures to monitor for any unauthorized advertising purchases</p> <p>Set up quarterly reminder communication to Senior Leadership to cascade to staff on where to direct media inquiries and who the official spokespersons are.</p> <p>Executive: <u>Jennifer Vargen</u> Expected Implementation: <u>3/1/2014</u></p>

Proprietary: No

2013 Business Services Audit PAO 691

Objective/Scope

To provide reasonable assurance that Business Services operations include safeguards and controls for:

- Efficient pool car fleet maintenance.
- Data security procedures within the corporate mail room operations.
- Corporate office supply practices.
- Travel management related to air travel and car rentals.
- Vendor Management

Finding	Remediation
Lack of Sufficient Review of Fleet Vendor Billing Statement	<p>Train the new AGPA position by April 2014 on the definition of specific fees billed by the vendor in connection with the program administration.</p> <p>The fuel cards will be restricted to fuel only purchases.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>5/30/2014</u></p>
Mailroom Access Listing Not Reviewed	<p>REM will provide monthly listings of badge holders who have access to Mail Services to Business Service for review for the next 3 months. After the initial period, the access list will be provided by REM every 6 months.</p> <p>REM has agreed to remove mail operations room access in Pleasanton and Vacaville from the "campus-wide" generic badge access for Executives, Program Mgrs. and consultants. Only Mail Services employees, security guards, Pitney Bowes contractor and select janitorial staff will have access. Any other access will be on an exception-only basis that has to be approved by Business Services.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>5/30/2014</u></p>
Office Max Allowable Listing Not Updated	We will provide a master list of currently approved and available items and prices

Finding	Remediation
	<p>listed in the online State Fund OfficeMax catalog to Enterprise Procurement to add as an amendment to the contract and update every six months.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>5/1/2014</u></p>
<p>Travel Related Billing Statements Paid Without Department Approval</p>	<p>This action item is shared with Financial Operations.</p> <p>Financial Operations uploaded the January 2014 American Express invoices to the SharePoint site currently available to Program Managers and Budget Liaisons and is drafting and releasing a new statewide communication for the organization. Program Mgrs. and Budget Liaisons will be required to check the SharePoint site monthly and review travel charges for correct cost center allocation.</p> <p>We will continue to be vigilant in manually notifying travel agencies every two weeks of employee separations.</p> <p>The American Express bill will continue to be paid timely (without individual approvals) in order to avoid late fees and adverse credit rating.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>6/15/2014</u></p>
<p>Vendor Management Needs Improvement</p>	<p>The travel agency reservation system will be going out to bid in 2014 with a RFI first to determine the travel solutions available today in the marketplace. The travel agencies may be replaced by an online self-service booking website with workflow approval built in. The RFI and subsequent RFP will be conducted by Enterprise Procurement, Business Services, and Financial Operations.</p> <p>A master list of currently approved and available items and prices listed in the online State Fund catalog will be provided to Enterprise Procurement to add as an amendment to the contract every six months.</p> <p>Business Services maintains a current and accurate list of State Fund locations</p>

Finding	Remediation
	<p>serviced by its courier. This list shall be provided to Enterprise Procurement to add as an amendment to the contract and updated whenever there is a location change for courier delivery.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>11/01/2014</u></p>

Proprietary: No

2013 Claims Operations Site Visit Audit PAO 698

Objective/Scope

Assess compliance with California workers' compensation regulatory requirements and State Fund claims procedures. Identify claims operational risks, fraud risks, assess and detect fraud, waste and abuse. Evaluation of claims adjusting activity was limited to the period from February 1, 2012, to January 31, 2013, for the review of claims for Greater Bay Area Claims, and the period from June 1, 2012, to May 31, 2013, for the review of claims for Riverside and Monterey Park.

Findings	Remediation
<p>Liability</p> <p>Monitoring was not adequate to ensure that liability decisions to accept claims were timely, and that three point contacts were conducted.</p>	<p>A system enhancement is scheduled for implementation 5/30/14; upon implementation the system will generate an automatic letter that will be sent to employers with a current active policy when a claim is reported late. The letter will remind employers of their obligations to report timely.</p> <p>Will discuss findings with Underwriting to explore incentives that encourage ER timely reporting.</p> <p>Adjusting locations and Claims Regulatory Division (CRD) will collaborate on the review of current case make-up process and update or develop uniform procedures. This will include monitoring liability decisions timeliness and a uniform method to ensure procedures followed.</p> <p>Disseminate PAO 698 Claims Operations Site Visit Audit findings and resulting</p>

Findings	Remediation
	<p>remediation plans to adjusting location management.</p> <p>Executive: <u>Beatriz Sanchez</u> Expected Implementation: <u>6/30/2014</u></p>
<p>Disability</p> <p>Monitoring was not adequate to ensure that claims were balanced properly.</p>	<p>Current case balancing procedures will be reviewed to ensure balancing occurs at critical touch points:</p> <ul style="list-style-type: none"> • Stop/restart of benefits • Change of benefit types • Award payments <p>This entails CRD updating the Claims Reference Manual section which outlines the current procedure. The update will be disseminated to Claims via a link to our website and the expectation is that management will review with their staff.</p> <p>Executive: <u>Beatriz Sanchez</u> Expected Implementation: <u>7/31/2014</u></p>
<p>Other (Fraud Referral to SIU, Settlement Authority, Medicare Set Aside, Closing)</p> <p>A uniform timeliness standard for closing non-rated and non-litigated claims does not exist.</p>	<p>Current procedures outline closure timeframes which are dependent on specifics of the case. CRD will send a memo to adjusting locations reminding of the need to do the Low Activity report on a monthly basis.</p> <p>Executive: <u>Beatriz Sanchez</u> Expected Implementation: <u>3/30/2014</u></p>
<p>File Maintenance</p> <p>Claims Reference Manual procedures are not in place to ensure that adjusters utilize ECF Claims Diary and properly document claims activity using ECF Notes.</p>	<p>Adjusting locations and CRD to collaborate on the development of a job aid that promotes the benefits of utilizing ECF Claims Diary. The job aid will be disseminated to the adjusting locations and posted in the Claims Tool Box.</p> <p>Executive: <u>Beatriz Sanchez</u> Expected Implementation: <u>6/30/2014</u></p>

Proprietary: No