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Date: February 6, 2015

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 7bi – 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) highlights four completed closed audit projects: Proxy Settings Observation, Premium Audit Services, Enterprise Procurement, and Claims Operations Site Visit audit.

VI. ANALYSIS:

- a. The Proxy Settings Observation identified two issues. The issues and action plans relate to improving the control activities over internet access and tracking of internet activity.
- b. The Premium Audit Services audit identified 12 issues. The issues and action plans relate to improving control activities over written procedures, updating the reference manual, security of records, records retention, training of regional staff, system assigning of audits, back up support, timely completion of audits, In-House audits, vendor management, and consistent Quality Assurance reviews.
- c. The Enterprise Procurement audit identified five issues. The issues and action plans relate to improving control activities over tracking spending by contract, consistent contract and vendor management, active contracts and maintenance of Certificates of insurance.
- d. The Claims Operational Site Visit project identified one issue. The issue and action plan related to improving the control activities for processing disability payments.
- e. IAD solicits action plan status monthly by sending out the open issue report to executives.

VII. RECOMMENDATION: No action needed

VIII. PRESENTATION EXHIBITS: None

IX. APPENDIX:

- a. Internal Audit Appendix



APPENDIX: INFORMATIONAL DOCUMENT FOR AUDIT COMMITTEE

Completed Closed Audits

Dante Robinson, Chief of Internal Affairs

2014 Proxy Settings Observation PAO 739

Objective/Scope

A confidential investigation was conducted in which internet activity of a specific individual was requested and the Websense report indicated no activity for the individual for period of seven months.

Findings	Remediation
<p>State Fund Internet Users Can Access Prohibited Web Sites</p>	<p>The cause of this issue is the current internet policy (browser and firewall) which allows State Fund employees to change their proxy settings, disable the proxy entirely, and obtain uncontrolled access to the internet (which can't be monitored).</p> <p>Concerns and findings are focused on the internet traffic that is bypassing the proxy server filtering end-user traffic to the internet.</p> <p>It is recommended that enforcement and control of the proxy settings be attained through AD / Group Policy (GPO). This will set a universal and standardized control that would prevent desktop and laptop users from making changes and bypassing controls. Exceptions would be provided through a process of management approval and IT review. These exceptions could be documented and tracked via the current ticket tracking system.</p> <p>In order to implement this solution, Network Support will have to work with the Client Support Team. The Riverside proxy failover apparently is operational but not fully configured. The current challenge is the firewalls are not clustered or load balanced. If the Vacaville proxy fails, network traffic will not automatically failover to Riverside. Once these issues are addressed GPO can be implemented. IT will have to meet with the Client Team to determine a timeframe for resolution.</p> <p>Although there is an option to use the firewall, this is not the recommended method as it would involve creating and adding rules sets. In addition, IT is in the process of preparing for the replacement of the current Checkpoint firewall, which would delay</p>

Findings	Remediation
	<p>implementation of the fix to this finding.</p> <p>Executive: <u>Marj Hutchings</u> Expected Implementation: <u>9/30/2014</u></p>
<p>Internet Activity Not Tracked</p>	<p>The cause of this issue is the current internet policy (browser and firewall) which allows State Fund employees to change their proxy settings, disable the proxy entirely, and obtain uncontrolled access to the internet (which can't be monitored).</p> <p>Concerns and findings are focused on the internet traffic that is bypassing the proxy server filtering --end-user traffic to the internet.</p> <p>It is recommended that enforcement and control of the proxy settings be attained through AD / Group Policy (GPO). This will set a universal and standardized control that would prevent desktop and laptop users from making changes and bypassing controls. Exceptions would be provided through a process of management approval and IT review. These exceptions could be documented and tracked via the current ticket tracking system.</p> <p>In order to implement this solution, Network Support will have to work with the Client Support Team. The Riverside proxy failover apparently is operational but not fully configured. The current challenge is the firewalls are not clustered or load balanced. If the Vacaville proxy fails, network traffic will not automatically failover to Riverside. Once these issues are addressed GPO can be implemented. IT will have to meet with the Client Team to determine a timeframe for resolution.</p> <p>Although there is an option to use the firewall, this is not the recommend method as it would involve creating and adding rules sets. In addition IT is in the process of preparing for the replacement of the current Checkpoint firewall that would delay implementation of the fix to this finding.</p> <p>Executive: <u>Marj Hutchings</u> Expected Implementation: <u>9/30/2014</u></p>

Proprietary: No

2014 Premium Audit Services PAO 751

Objective/Scope

Assess Premium Audit Services' execution of its responsibilities, compliance with corporate guidelines, policies, directives, and procedures. Assess the accuracy of completed payroll audits and review procedures for fraud prevention, and identify opportunities to enhance efficiency and address gaps in internal controls, procedures and practices.

Findings	Remediation
The Premium Audit Reference Manual (ARM) has Not been Updated Since 2005	Premium Audit (PA) began updating ARM mid-June. A full update will be posted on PA Web page. The new edited segments are on SharePoint, and will be moved to the PA Web page by the estimated completion date. As business rules change, the ARM will be updated within 30 days, by the Audit Operations unit. Executive: <u>Pete Guastamachio</u> Expected Implementation: <u>12/31/2014</u>
The Audit Inventory Tool, Audit Control Environment (ACE) Incorrectly Labeled Waived Audits as Mandatory Audits	New audit screening criteria will be implemented to address this issue. Executive: <u>Pete Guastamachio</u> Expected Implementation: <u>9/30/2014</u>
Audits are Not Completed Within the Specified 90-Day Period	PA has taken steps to assure audits are completed in an average of 90 days: (1) Annual audits are released prior to policy expiration. Cancelled policy audits are released within 3 days of policy expiration (2) Weekly meetings to review and take action on aged inventory and itinerary reviews to verify adequate scheduling (3) Hiring additional resources Executive: Pete Guastamachio Expected Implementation: 11/1/2014
Lack of Proper Retention of Documentation	PA agrees with this recommendation and will add an additional training on scheduling and inspections, and include a reminder to auditors to document their attempts. Please note: PA only requires one attempt on cancelled policies. Executive: Pete Guastamachio Expected Implementation: 1/1/2015
Lack of Vendor Management of Third Party	Short term Plan: Currently updating vendor contract to be in compliance with

Findings	Remediation
Vendor Contracted to Conduct Out-of-State Audits	<p>Privacy requirements. Contract is dependent upon other departments.</p> <p>Long Term plan: Conduct an RFP for a third party vendor to complete out of state audits in 2015.</p> <p>Executive: Pete Guastamachio Expected Implementation: 12/30/2015</p>
No Back-up Person Assigned to Process and Monitor Out-of-State Audits	<p>This issue has already been remediated. PA has reassigned this work to two audit techs in our Audit Operations units.</p> <p>Executive: Pete Guastamachio Expected Implementation: 8/1/2014</p>
Written Procedures Covering Causal Cancellations Lack Specific Timeframes	<p>Update procedure and provide training to all audit staff.</p> <p>Executive: Pete Guastamachio Expected Implementation: 11/1/2014</p>
Quality Assurance Reviews are Not Performed in a Consistent Manner	<p>Short term: Weekly random selection of policies will be reviewed; and enforcement of the current process.</p> <p>Long Term: Establish a Quality Assurance unit upon executive level approval for additional staff.</p> <p>Executive: Pete Guastamachio Expected Implementation: 6/30/2015</p>
In-House Auditors Were Auditing Rewritten Policies and Other Complex Policies	<p>This issue has already been remediated. On August 1, 2014, the new Audit Operations units began functioning full time. These units are completing all re-audits and re-write audits.</p> <p>Executive: Pete Guastamachio Expected Implementation: 8/1/2014</p>
Regional Offices Were Not Providing Consistent Training to Auditors	<p>(1) Develop and implement training plans for all auditors and support staff to include: Specialized fraud training, utilizing internal and external resources and develop specialized auditors.</p>

Findings	Remediation
	<p>(2) Partner and develop a plan with Special Investigations Unit and Underwriting to strengthen fraud detection.</p> <p>Executive: Pete Guastamachio Expected Implementation: 7/1/2015</p>
<p>Policyholders' Private Information, PII Not Properly Secured</p>	<p>Work with REM to create secure areas and retrain staff on securing private information.</p> <p>Executive: Pete Guastamachio Expected Implementation: 12/31/2014</p>

Proprietary: No

2014 Enterprise Procurement PAO 736

Objective/Scope

Protiviti was engaged to co-source with State Compensation Insurance Fund's (State Fund) Internal Audit Department (IAD) to conduct an audit of State Fund's Enterprise Procurement (EP) process. The purpose of the audit was to assess operational, financial and monitoring controls and processes currently in place within the organization. The assessment covered the period of January 1, 2013 to June 30, 2014.

Findings	Remediation
<p>Inability to Track Spend Data by Contract or SOW</p>	<p>Financial Operations will implement an enterprise and permanent solution to review, track, and validate applicable invoice payments against the respective approved contracts prior to payment. This function will be carried out by a new unit called "Contract Payment Management" within Corporate Payables effective January 1, 2015.</p> <p>EP and Financial Operations will be exploring all options (i.e., FTE impact, contract types, system integration, etc.) as the procure-to-pay process continues to be improved in the future. The most cost-beneficial and sustainable options will be elevated to Executive for their input and consideration.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>12/31/2014</u></p>

Findings	Remediation
Lack of Consistent Contract and Vendor Management Practices	<p>EP will provide research and recommendations to the Sr. VP of Business Support and Chief Admin Officer as to the roles and responsibilities of the Business Units and EP in regards to contract and vendor management by September 30th. Changes that will need to be made based on executive direction will be implemented by the end of the Q1 2015.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>1/1/2015</u></p>
Lack of Active Contracts or Timely Contract Renewal for Personal Services Contracting	<ol style="list-style-type: none"> 1) All new IT SOW workspaces created after 9/2/14 will have a 90 day automatic notice before the current expiration date. By October 15th all existing IT SOW workspaces will be updated with the 90 day automatic notice. IT Vendor Management Office (VMO) will be the recipients of the automatic notice. 2) At the beginning of every month the EP sourcing and contract management system will be configured to produce a report to the designated IT Admin managers that identifies all of the SOWs with expiration dates within the next 90 days. The first report will be generated by September 5th. 3) IT Admin managers who require EP system access and do not have it will submit ESP tickets requesting access. This will be completed by September 5. 4) EP will provide IT Admin managers a report of all IT SOWs that have expired in the last 12 months in an effort to verify all IT consultants working at State Fund have current SOWs. 5) EP will report to IT VMO the current month's performance within five business days. <p>EP and IT will develop a process for verifying consultant background checks or employment eligibility Form I-9.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>1/1/2015</u></p>
Lack of Adequate Maintenance of Certificates of Insurance (COI)	<p>EP will continue to match supplier broker summary of coverage (or similar document) provided during the RFX process to the master agreement insurance requirements during contract negotiations. When a new master agreement is executed and finalized within the contract management system, EP will continue to provide Risk Management with a system-generated notification that a new contract has been finalized. Additionally, EP will provide a monthly auto-generated report to</p>

Findings	Remediation
	<p>Risk Management identifying key contract information to facilitate Risk Management's tracking of new contract COI requirements.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>10/1/2014</u></p>
Lack of Formalized Internal Procedures	<p>EP has started reviewing their internal corporate policies to update requirements. Additional EP processes will be reviewed for consistency and process documents will be updated or created as needed.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>3/31/2015</u></p>

Proprietary: No

2014 Claims Operations Site Visit and File Review Audit Eureka State Contract PAO 729

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 March 1, 2013 to February 28, 2014.

Findings	Remediation
Claims Adjusting on Disability Claims Needs Improvement	<p>A (1) Provide refresher training to adjusters covering calculating Average Weekly Wages (AWW), properly documenting the claims file, triaging items in Inboxes, issuing compensation payments, and issuing Benefit Notices (BNs).</p> <p>(2) Assistant Claims Managers to discuss penalty occurrences with adjusters to ensure they develop a plan to mitigate future penalties. If penalties continue due to missed medical reports, adjuster will utilize the assistance of a "Time Management SME" who will work with them on a one-on-one basis to develop strategies for triaging their work.</p>

	<p>(3) Assistant Claims Managers and Claims Manager to reiterate the importance of timely processing of reports in unit meetings and department meetings.</p> <p>(4) Run the Medical-Legal Report to help Assistant Claims Managers monitor Medical-Legal reports and settlement documents in their adjusters' Inboxes.</p> <p>B) Provide refresher Case Balancing training to adjusters and Assistant Claims Managers.</p> <p>Executive: <u>Beatriz Sanchez</u></p> <p>Expected Implementation: <u>11/31/2014</u></p>
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Proprietary: No