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Date: November 23, 2015

**TO: MEMBERS, BOARD OF DIRECTORS**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 7bi – Completed Closed Audits
<b>II. NAME AND PROGRAM:</b>	Dante Robinson, Chief of Internal Affairs
<b>III. ACTIVITY:</b>	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

**V. EXECUTIVE SUMMARY:**

Internal Audit Department (IAD) completed eight projects in Q2 that were reported in the prior Audit Committee Closed Session. We are reporting on the four non-proprietary projects only. The remaining four projects are deemed to be proprietary. The audits we are reporting on are: Claims Legal Operations, Claims Operations Combined (2014), Claims Operations Site Visit and File Review – Redding, and Corporate Communications Distribution List Consulting Engagement.

IAD identified eleven issues in the four audits: *(See attached Completed Closed Audits)*

- Three of the issues were closed by management in Q3 - pending IAD validation
- Two of the issues were closed by management in Q4 – pending IAD validation
- Six issues are current

**VI. ANALYSIS:**

- a. In the Claims Legal Operations audit we identified seven issues. The issues and action plans relate to improving controls over succession planning, case handling, case load disparities, legal support classifications, subrogation metrics, timely case referral to Subrogation Legal, and standards for filing petition of credit.
- b. In the Claims Operations Combined report we identified two issues. The issues and action plans relate to improving controls over the timely payment

of the three day waiting period and the sending of litigation notice letter (Form 1100) to the employers.

- c. In the Claims Operation Site Visit and File Review – Redding we identified two issues. The issues and action plans relate to improving controls over sending timely benefit notices and posting of case plans.
- d. In the Corporate Communications Distribution List consulting engagement we identified redundancy in efforts between Communications and Human Resources. Information Technology was in process of implementing a system to automate the Senior Leadership Team List management process.

**VII. RECOMMENDATION:**

- a. No action needed

**VIII. PRESENTATION EXHIBITS:**

- a. None

**IX. APPENDIX:**

- a. Internal Audit Appendix – Completed Closed Audits



**APPENDIX: INFORMATIONAL DOCUMENT FOR BOARD OF DIRECTORS**

**Completed Closed Audits**  
 Dante Robinson, Chief of Internal Affairs

**2015 Claims Legal Operations PAO 764**

**OPINION \***

**Needs Improvement**

Number of specific control weaknesses or risks that were not properly mitigated were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.

**Objective/Scope**

The objectives of this audit were to identify key business risks and to evaluate the system of internal control and the effectiveness of risk management practices associated with Claims Legal Operations. The time period subject to review was January 1, 2014 through March 20, 2015. Based on the risk assessment completed with input from management, our audit focused on the following business processes:

- Review of the program’s objectives, goals and strategic initiatives.
- Evaluate Claim Legal’s workflows and processes including workflow management, litigation case management, and legal record keeping to ensure controls are operating properly.
- Evaluation of working relationships with stakeholders and performance.

<b>Findings</b>	<b>Remediation</b>	<b>Status</b>
Lack of Robust Succession Planning	1. <u>Establish a Law Clerk Program</u> – The Legal Department will continue to work with HR regarding strategies to attract and retain qualified candidates to meet current and future	Current – Target 12/31/2015

Findings	Remediation	Status
	<p>business needs. Although the use of law clerks in the past did not result in appreciable numbers of law clerks coming to work for State Fund upon graduation, we will revisit the possibility of using law clerks as part of our succession plan. We will also explore other options for addressing future staffing needs.</p> <p>2. <u>Senior Staff Mentors</u> – The department is in the process of developing a program that best allocates the time and availability of our senior attorneys to provide mentoring to all attorneys on a more consistent and reliable basis. This same approach will be utilized for our support staff structure.</p> <p>3. <u>Succession plan</u> – We are currently working with our HR partner to conduct the People Review for management succession planning. In addition, the department will identify subject matter experts throughout the various legal units to create a more formalized knowledge sharing and transfer resource.</p> <p style="text-align: center;"><b>Executive:</b> <u>Steve Hunckler</u>  <b>Expected Implementation:</b> <u>12/31/2015</u></p>	
Poor Case Handling	<p>4. <u>Although we agree with IAD’s recommendations, we do have a concern with the limited sample size of 20 cases; it is not a representative sample of a department caseload of over 40,000.</u></p> <p>Corrective action to be taken:</p> <ol style="list-style-type: none"> <li>1. Administer annual quality review</li> <li>2. Update and implement work guidelines</li> <li>3. Use formal and informal feedback to ensure high quality work</li> <li>4. Review and balance staffing and workload by location and function</li> <li>5. Review inventory and close/finalize cases as appropriate</li> </ol>	Current – Target 12/31/2015

Findings	Remediation	Status
	<ol style="list-style-type: none"> <li>6. Implement and complete the Claims/Legal Collaboration</li> <li>7. Maintain regular touch points with Claims leadership to foster collaboration</li> <li>8. Use formal and informal feedback to improve collaboration with Claims &amp; business partners</li> <li>9. Continue with training of attorneys and support staff</li> <li>10. Update and implement the annual quality review of files and the mid-year targeted review</li> </ol> <p><b>Executive:</b> <u>Steve Hunckler</u>  <b>Expected Implementation:</b> <u>12/31/2015</u></p>	
Case Load Disparities	<p>We are in the process of identifying a proper workload balance of the varying aspects of our attorneys' work. Based on that workload identification, we can then identify an appropriate and realistic caseload. We agree with the finding that the caseloads and workloads, especially within the State Contract Services program, are too high. Additional staffing within several of these offices has recently been approved. We are in the process of filling these new positions to reduce the caseloads and workloads in State Contracts to approximately 180 cases per attorney on average at these specific locations. Additionally, we are in the process of promoting eligible Attorneys to Attorney III and upgrading to include one Attorney IV per unit so that we can have staff at appropriate levels to assign work according to complexity.</p> <p><b>Executive:</b> <u>Steve Hunckler</u>  <b>Expected Implementation:</b> <u>10/31/2015</u></p>	<p>Current – New Target 3/31/2016</p> <p><b>11/02/15:</b> We are continuing the process of identifying a proper workload balance of the varying aspects of our attorneys' work including identifying factors of complexity and litigation triggers. Based on the completion of the workload factors identification work, we can then identify an appropriate and realistic caseload. We expect to complete this evaluation by March 31, 2016. We agree with the finding that the caseloads and workloads, especially within the State Contract Services program, are too high. Additional staffing within several of these offices has recently been approved. We have filled the majority of these new positions to reduce the caseloads and workloads in State Contracts and transferred staff into State Contracts in locations with capacity.</p>

Findings	Remediation	Status
		<p>Unfortunately the case loads have not dropped to the expected approximately 180 cases per attorney on average at these specific locations. We are continuing to address the inventory with additional efforts such as an inventory review of all open cases project to determine whether cases should be open or closed; and close all cases that should be closed. We expect the inventory review to be completed by March 31, 2016. We have completed promoting eligible Attorneys to Attorney III. The upgrade of one Attorney IV per unit so that we can have staff at appropriate levels to assign work according to complexity is expected to be completed by December 31, 2015. Overall, we expect to complete this finding by March 31, 2016.</p>
<p>Lack of Depth in Legal Support Classifications</p>	<p>State Fund Legal currently uses three classifications within Legal Support: Senior Legal Typists; Legal Support Supervisors, who supervise the senior legal typists; and Legal Support Managers, who supervise Legal Support Supervisors. We are currently working with our HR partners to explore additional career path options for our support staff.</p> <p style="text-align: center;"><b>Executive:</b> <u>Steve Hunckler</u>  <b>Expected Implementation:</b> <u>12/31/2016</u></p>	<p>Current – Target 12/31/2016</p>
<p>Lack of Subrogation Metrics</p>	<ul style="list-style-type: none"> <li>• Standardized Processes for Attorneys and Support Staff: <ul style="list-style-type: none"> <li>a. Subro Legal will initiate a more complete and objective detailed analysis of its current work flow processes – finding what works well, what does not work well, and</li> </ul> </li> </ul>	<p>Current – Target 12/31/2015</p>

Findings	Remediation	Status
	<p>what additional work flow areas need to be included.</p> <p>b. Subro Legal will assign its more experienced subrogation attorneys to develop a detailed and relevant 'Playbook' guideline/trainer for both attorneys and our support staff.</p> <p>c. Subro Legal will reach out to our Claims Subrogation Specialists to identify and develop more efficient and effective work flow processes that will help align both programs and benefit State Fund.</p> <ul style="list-style-type: none"> <li>• Development of meaningful metrics for Subro Legal. <ul style="list-style-type: none"> <li>a. Subro Legal will work with its attorneys and support staff to identify specific metrics that are relevant and pertinent to goal setting and that align with our Claims Subrogation Unit.</li> </ul> </li> </ul> <p><b>Executive:</b> <u>Steve Hunckler</u>  <b>Expected Implementation:</b> <u>12/31/2015</u></p>	
<p>Case Referral to Subrogation Legal Not Timely</p>	<ol style="list-style-type: none"> <li>1. Referral Process – Dollar and Complexity Factors <ol style="list-style-type: none"> <li>a. Subro Legal will take additional steps to continue to identify all factors that currently get in the way of standardizing Referral threshold factors.</li> </ol> </li> <li>2. Referral Process – Standard Guidelines for Referral <ol style="list-style-type: none"> <li>a. Subro Legal will work with Subro Claims to identify all data that supports the issues raised above and to evaluate a best practices approach to reduce and eliminate those factors that cause the referral issues.</li> <li>b. Subro Legal will also work with Subro Claims to develop a written set of guidelines for our Claims Subrogation Specialists that are relevant, concise and user friendly.</li> <li>c. Subro Legal and Claims will also work together to provide initial and ongoing training sessions to review what works well and what can be improved upon.</li> <li>d. Subro Legal will encourage the use of an Early Intervention referral process whereby Legal can become</li> </ol> </li> </ol>	<p>Closed by Management on 10/31/2015</p> <p><b>10/31/15:</b> All subrogation cases are assigned to a CSU specialist. When the following criteria are present, a referral will be made to Subrogation Legal for legal support:</p> <ul style="list-style-type: none"> <li>• Receipt of Summons or Complaint</li> <li>• CSU specialist (and Subrogation Attorney) decides to file a Complaint</li> <li>• 18 months from the DOI with SOL issues</li> <li>• Catastrophic/Death</li> <li>• Request from Legal or Assistant Subrogation Manager (ASM)</li> <li>• CSU specialist request</li> </ul>

Findings	Remediation	Status
	<p>involved earlier on for more targeted information and direction, without Claims having to fully refer the case out of its inventory or control.</p> <p><b>Executive:</b> <u>Steve Hunckler</u>  <b>Expected Implementation:</b> <u>7/31/2015</u></p>	<p>(identifies a need)</p> <ul style="list-style-type: none"> <li>• Out-of-state cases</li> <li>• Cases with a complaint filed</li> <li>• Aircraft Accident cases</li> <li>• Products Liability Cases</li> </ul> <p>To insure timely assignment to Subrogation Legal, a process for collaborative review of cases is being implemented in which CSU specialists and Subrogation Legal attorneys may request a joint review of cases before assignment or during the course of a case. Where there is a joint review, a follow up date will be included as part of the collaboration process, if appropriate.</p>
<p>Lack of Standard Regarding Filing of Petition of Credit</p>	<ol style="list-style-type: none"> <li>1. Subro Legal will re-evaluate the current established policy regarding the standards for credits to be sought, and determine whether: <ol style="list-style-type: none"> <li>a. more clarification to the standards are needed</li> <li>b. more training is needed</li> <li>c. a more detailed standard is needed</li> <li>d. a combination of all of the above</li> </ol> </li> <li>2. Subro Legal will include this Credit issue as a significant touch-point process to be clarified and formalized when working with Claims Subrogation in our business model referenced above in 5.1.c.</li> <li>3. Subro Legal will create an internal report that more quickly identifies cases that lack the Petition for Credit.</li> <li>4. Subro Legal will work with Subro Claims to track the recoveries and develop a standard by which to determine</li> </ol>	<p>Closed by Management on 10/31/2015</p> <p><b><u>10/31/15</u></b>: Issue reported closed. Where State Fund is entitled to 3rd party credit, Subrogation Legal attorneys or the CSU specialist (depending on the case assignment) will prepare a Petition for Credit and forward it to the assigned workers' compensation attorney who will have it filed at the WCAB. If the case is not litigated, the CSU specialist will forward the petition to the adjuster for jet-filing.</p>



Findings	Remediation	Status
	<p>when a future credit is worth more, or more beneficial, than actual cash recovery. This will also include developing a process by which this evaluation can be done on a case by case basis.</p> <p><b>Executive:</b> <u>Steve Hunckler</u>  <b>Expected Implementation:</b> <u>7/31/2015</u></p>	

**Proprietary: No**

**2015 Claims Operations Combined (2014) PAO 767**

**Objective/Scope**

The objectives of this audit were to:

- 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.

IAD limited the evaluation of claims adjusting activity to a one year period for each location as follows:

- Eureka State Contract Claims            March 1, 2013, to February 28, 2014
- Fresno Regional Claims                    March 1, 2013, to February 28, 2014
- Santa Ana Regional Claims                June 1, 2013, to May 31, 2014

Finding	Remediation	Status
<p>DISABILITY: The Three Day Waiting Period was Paid or Paid Timely in Only 18 of 29 Claims (62.07%)</p>	<p>1) Continued use of the existing management report that targets possible missing waiting periods. This report will continue to be produced on a monthly basis.</p> <p>2) Expand the use of existing management report that targets the second issues of TD benefits. A handful of locations use this report to screen for missing waiting periods. As this report is produced on a weekly basis it often helps us identify missing waiting periods prior to incurring a penalty. The plan is to</p>	<p>Closed by Management on 9/8/2015.</p> <p><b><u>09/08/15 update:</u></b> Issue Remediated. To improve the accuracy and timeliness of paying the 3 day waiting period:</p> <ul style="list-style-type: none"> <li>• All regional offices are using the Unpaid Compensation Waiting Period report to identify claims where the 3 day waiting period may be due and issue payments, if appropriate.</li> </ul>

Finding	Remediation	Status
	<p>use this report across all the Insured and State Contract locations</p> <p>3) Evaluate from the results what is the core issue that is contributing to missed waiting periods. Evaluate if a diary at the time of case intake could help issue this payment in a timely manner. Evaluate if there are training needs with either our New Case Make Up units or our adjusters. If so, develop a training plan and implement the training.</p> <p><b>Executive:</b> <u>Steve Hunckler</u>  <b>Expected Implementation:</b> <u>7/31/2015</u></p>	<ul style="list-style-type: none"> <li>All insured regional offices have implemented and are using the 2nd TD Check report to identify claims that need to be reviewed for potential payment of the 3 day waiting period and issuing payments, if appropriate. This report will not be used by State Contracts because it does not accurately reflect payment status for IDL; State Contracts will use the Unpaid Compensation Waiting Period report.</li> <li>Each issue identified during the site audits has been reviewed and addressed within the office it occurred.</li> </ul> <p>As the regional offices use the management reports they will identify and address training needs.</p>
<p>LITIGATION: State Fund Form Letter 1100 Was Sent to the Employer in Only 15 of 29 claims (51.72%)</p>	<p>Agree with the audit finding that ECF Letter 1100 was sent out in 51.72% of the files reviewed. This is not a regulatory required letter, rather a letter that is intended to provide higher levels of notice and service to our policyholders. The letter is well intended but it is also not required in every situation. In response to this finding the following steps will be taken:</p> <ol style="list-style-type: none"> <li>Evaluate if the letter was omitted appropriately. If not, follow up with the claims staff to reiterate the value in sending out this notice at the time of new litigation.</li> <li>Evaluate the current Claims Reference Manual guideline and make clear that sending out this letter is optional based on the specifics of each claim.</li> </ol> <p><b>Executive:</b> <u>Steve Hunckler</u></p>	<p>Current – New Target 12/31/2015</p> <p><b>09/29/15:</b> Revised Target Completion Date to 12/31/2015.</p> <p>After conducting an analysis of the need for State Fund letter 1100, Litigation Notice and Information Request to Employer, it has been determined that there is no longer a need for this letter. The letter will be retired and CRM section 10-20-809A, Litigation File Make-up, will be revised to reflect the current process with all references to letter 1100 removed.</p>

Finding	Remediation	Status
	<b>Expected Implementation: <u>9/30/2015</u></b>	

**Proprietary: No**

**2015 Claims Operations Site Visit and File Review – Redding PAO 772**

**Objective/Scope**

The objectives of this audit were to:

- 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.

IAD limited the evaluation of claims adjusting activity to the period from November 1, 2013, to October 31, 2014.

Finding	Remediation	Status
<p>DISABILITY: Benefit Notices Were Not Consistently Sent Timely</p>	<p>We are involved in an ongoing effort to create a proactive and strategic adjusting structure and culture. This will be achieved through consistent messaging regarding the central elements of quality adjusting including the use of diaries, case plans and appropriate estimates. We agree that the need for timely benefit notices is fundamental to quality claims adjusting. In our review of this finding we believe that the core of the issue is actually the need for a more effective use of our diary system. This behavioral change alone would have eliminated half of the findings in this audit issue. We plan to mitigate the results of this finding through the use of training, oversight and a reassessment plan. We will have ongoing discussions at our claims unit and one on one meetings about the necessity of fully utilizing the diary system. Additionally we will have discussions in the next claims meeting regarding the need for a consistent use of diaries to achieve timely and accurate Benefit Information notices.</p>	<p>Closed by Management on 9/29/2015.</p> <p><b><u>09/29/15:</u></b> Issue Remediated. Benefit Notice training was provided at the 7/15/15 Claims Meeting. Training included:</p> <ul style="list-style-type: none"> <li>• Sending notice every time there is a change to benefits (e.g., start, stop, delayed, denied)</li> <li>• Addressing PD whenever a TD Final is sent</li> <li>• Sending a subsequent Notice on or before the date indicated in the letter when a benefit has been delayed (TD or PD) and requires further delay</li> <li>• Scheduling diaries to facilitate sending required notifications timely</li> <li>• Review content of Notice prior to</li> </ul>

Finding	Remediation	Status
	<p>During this training we will specifically target PD Subsequent Delay notices, which were 4 out of 7 findings, found during the audit. We will be utilizing a management report to capture open claims indicating PD Delay/TD Delay notice sent without a current diary in an ongoing effort to correct and verify that we are changing our adjusting culture and correcting this issue.</p> <p style="text-align: center;"><b>Executive:</b> <u>Steve Hunckler</u>  <b>Expected Implementation:</b> <u>8/31/2015</u></p>	<p>submitting for printing to ensure all information is correct</p> <p>In addition, the timeliness of benefit notices is evaluated on an ongoing basis as part of the Quality Claims Review (QCR).</p>
<p>FILE MAINTENANCE: Case Plans Were Not Consistently Posted</p>	<p>We are diligently working to change the culture and behavior of our claims adjusters by ensuring proactive and strategic handling of claims files. Case plans that are created and updated at key intervals containing the strategic direction on the claim will be vital to achieving this result. We will accomplish this change through frequent messaging to adjusters and oversight by supervisors and managers during file reviews. Additionally, these positive behaviors will be reinforced during one on one meetings with claims supervisors. We agree and recognize that case plans at the onset of a claim are vitally important to quality claims adjusting. The initial assessment and strategy frame the issues and drive the ultimate outcome. We support the use of subsequent case plans as they are needed to refocus the direction of the claim and/or discuss significant events. We do question the applicability and necessity of the guideline that requires a case plan at set intervals (120 day requirement). In some of the audit findings the need for a case plan at 120 day increments would not have had any impact on the claim's outcome and would have served to only reiterate the prior case plan. Our plan to mitigate the results of this finding will also include the following training, oversight and reassessment components. We will discuss in our next claims meeting the need to post case plans at the onset of a disability claim (7 findings) and after every significant</p>	<p>Closed by Management on 9/29/2015.</p> <p><b>09/29/15:</b> Issue Remediated. Case Plan training was provided at the 7/15/15 Claims Meeting. Training included:</p> <ul style="list-style-type: none"> <li>• Information must be current and relevant</li> <li>• Required every 120 days for active claims and annually on maintenance cases</li> <li>• Update following significant events, change in strategy/ medical condition/benefit provision/status, and prior to completing an estimate</li> <li>• Reviewed each strategy section and discussed the types of information to provide in each</li> </ul> <p>In addition, establishing and updating case plans is evaluated on an ongoing basis as part of the Quality Claims Review (QCR).</p>

Finding	Remediation	Status
	<p>event (2 findings). Our leadership team will continue to review adequacy of case plans at the time of Quality Claims Reviews, escalations and any other general claims reviews. We will also use management reports to monitor case plan activity. Additionally we plan as a leadership team to continue to discuss with our adjusters the importance of ongoing reviews of diaries, case plans and estimates each time they review a claim.</p> <p><b>Executive:</b> <u>Steve Hunckler</u>  <b>Expected Implementation:</b> <u>8/31/2015</u></p>	

**Proprietary: No**

**2015 Corporate Communications Distribution Lists (Consulting Engagement) PAO 798**

**Objective/Scope**

This assignment was an advisory consulting engagement and was not an audit. Although State Fund has hundreds of distribution lists, the focus of this assignment only included identifying control and process improvements to the Senior Leadership Team Distribution Listing.

**Conclusion**

The Internal Audit Department collaborated with Corporate Communications, Human Resources, and Information Technology to improve the efficiency and effectiveness of the SLT Distribution List management process. IAD found that Corporate Communications and Human Resources jointly owned the SLT Distribution List and this has caused redundancy of efforts. IAD believes that the process to update the SLT Distribution List should be well defined and clearly communicated to process users and owners.

Information Technology was in the process of implementing a system called IBM Security Identity Manager (ISIM), which would automate the SLT Distribution List management process. Prior to the implementation of the ISIM Corporate Communications should update the distribution list directly in Outlook.

**Proprietary: No**