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Date: May 13, 2016

INFORMATIONAL ONLY FOR BOARD OF DIRECTORS

TO: MEMBERS, AUDIT COMMITTEE

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 8bi: 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 three projects for the first quarter 2016 Audit Committee meeting:

- 2015 Talent Acquisition Audit
- 2015 Claims Operations Site Visit and File Review – Stockton
- 2015 Accounts Payable Confirmations Project

VI. ANALYSIS:

- a. In the 2015 Talent Acquisition Audit we identified one issue related to improving formal written policies and procedures to be followed by staff.
- b. In the 2015 Claims Operation Site Visit and File Review – Stockton we identified two issues related to improving controls over sending timely benefit notices, and the posting of case plans.
- c. In the 2015 Accounts Payable Confirmations Project IAD developed a process to validate vendor invoice payments, and verify vendor refund payments were received by State Fund.

VII. RECOMMENDATION:

- No action needed

VIII. PRESENTATION EXHIBITS: None

IX. APPENDIX:

- a. Internal Audit Appendix – Completed Closed Audits



APPENDIX: INFORMATIONAL DOCUMENT FOR AUDIT COMMITTEE

Completed Closed Audits

Dante Robinson, Chief of Internal Affairs

2015 Talent Acquisition Audit PAO 782

OPINION *

Effective

Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are 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 Talent Acquisition and Retention. The period subject to review was August 1, 2014 through August 1, 2015.

The scope of our audit included testing of:

- Focused Recruitment
- External Recruiting i.e., Career Fairs, Monster Jobs, and LinkedIn
- Exam Planning and Development i.e., Administering, Making Changes, Handling exam appeals
- Weight Watchers
- Smoking Cessation Program
- Flu Shot Program
- Employee Mid-year Recognition
- RAVE

Finding	Remediation	Status
Lack of Formal Written Policies and Procedures	<p>Talent Acquisition and Retention continues to write knowledge base articles for our Ask HR service platform.</p> <p>Talent Retention work is primarily project based. Talent Acquisition work has more daily activities. Staff is currently writing a policy for hiring and expects it to be done before the end of the year.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>12/31/2015</u></p>	Current – implementation changed to 5/31/2016

Proprietary: No

2015 Claims Operations Site Visit and File Review Audit – Stockton PAO 783

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 July 1, 2014 to June 30, 2015.

Finding	Remediation	Status
Disability: Benefit Notices Were Not Sent Timely	<p>We are involved in an ongoing effort to create a proactive and strategic adjusting structure and culture.</p> <p>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 and compliance.</p> <p>In our review of this finding we believe that the core of the issue is actually the need for using the change in benefit checklist as a reminder of the items that need to be completed and sent including the Subsequent Reports of Injury (SROI) fields and mandatory benefit notices.</p>	Current

Finding	Remediation	Status
	<p>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 existing tools in our shared drive. Additionally we will have discussions in the next claims meeting regarding timely and accurate Benefit Indemnity (BI) notices.</p> <p>During this training we will specifically target Temporary Disability (TD) rate change notices, including wage loss (3 out of 11) and use of the local Maximum Medical Improvement (MMI), Permanent and Stationary (P&S) checklist and enter optional note in CARE stating benefit letters completed.</p> <p>We will be utilizing a management report to capture open claims indicating TD paid in an ongoing effort to correct and verify that appropriate benefit notices are being sent. Assistant Claims Manager (ACMs) will review the weekly TD report and Med-Legal report for compliance in this area.</p> <p>We will ensure training is completed by January 31, 2016. In terms of oversight, our expectation is that ACMs review the weekly TD and Med-Legal list to ensure appropriate letters are sent out timely per CRM 10-20-403A.</p> <p>In addition, the Claims Manager (CMs) will do a random review of 5 files per month from January to March 2016 to ensure that appropriate benefit letters are sent out as required. We will collect our findings no later than April 8, 2016 to ensure we have improved in this area.</p> <p style="text-align: center;">Executive: <u>Steve Hunckler</u> Expected Implementation: <u>05/31/2016</u></p>	
File Maintenance: Case Plans Were not Posted or Posted	We are diligently working to change the culture and behavior of our claims adjusters by ensuring proactive and strategic handling of claims files. Case	Current

Finding	Remediation	Status
<p>Untimely</p>	<p>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).</p> <p>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.</p> <p>During the first audit reviews, case plans were identified as an area that needed improvement.</p> <p>We discussed these findings and provided training based on our Claims Reference Manual (CRM) section in our October claims meeting on October 15, 2015. One of our ACMs came up with the acronym (RAD) which stands for Relevant, Accurate and Directional. Our adjusters liked that and RAD makes it stick.</p> <p>Our leadership team will provide oversight in this area by reviewing adequacy of case plans at the time of Quality Claims Reviews, definite pay requests, any additional escalations and any other general claims reviews. We will also use the management reports to monitor case plan activity. These include the Med-legal report, No Permanente Disability (PD) paid in 45 days, and Critical Activities report.</p>	

Finding	Remediation	Status
	<p>We will ensure training is completed by December 31, 2015.</p> <p>The issue of case plans is also being addressed on a Corporate level. We have provided Quality Estimate training to all CMs during the week of 12-7/12-11-15. These were train the trainer sessions completed with the intent that the CMs will train the ACMs and staff in their respective locations. The training emphasized the need to complete a case plan at the time of estimate and when a strategy is developed. Training should be completed in all locations by the end of February 2016.</p> <p>Additionally training to improve the quality and timeliness of case plans is being conducted corporately and should be completed by the first quarter of 2016.</p> <p>In terms of oversight, our expectation is that everything that escalates to the ACMs has an appropriate case plan and that it is also timely. If not timely, they should remind the adjuster that case plans must be completed per CRM guideline 10-20-806C. In addition, the CMs will do a random review of 10 files per month from January to March 2016 to ensure that case plans are completed as required. We will collect our findings no later than April 8, 2016.</p> <p>Executive: <u>Steve Hunckler</u> Expected Implementation: <u>05/31/2016</u></p>	

Proprietary: No

2015 Accounts Payable Confirmation Project PAO 801

Objective/Scope

Accounts Payable Confirmations Project was added to the 2015 audit plan to develop a process that will deliver vendor confirmation letters in 2016 and beyond. Vendor confirmation is a process of obtaining and evaluating a direct communication from a vendor in response to a request for information about payments made by State Fund for the services rendered.

The confirmation process includes:

- Randomly selecting vendors from each risk-based group.
- Communicating the confirmation request to the appropriate vendors electronically first via email, followed by a hard copy
- Obtaining the response from vendors.
- Evaluating the information, or lack thereof, provided by the vendors and escalating appropriately based on the final project guidelines and procedures.
- Developing a reporting process for detailed and summary results.

Proprietary: No