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Date: November 1, 2013

**TO: MEMBERS, BOARD OF DIRECTORS**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 8bi – Update on Completed Closed Audits
<b>II. NAME AND PROGRAM:</b>	Dante Robinson, Chief of Internal Affairs – Internal Audit
<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 is presenting the following projects: Treasury Audit, Legal Departments' Peer to Peer Review, and Unclaimed Property-Escheatment Processes Review that were completed and reported closed in the August 13, 2013 Closed Audit Committee session. These three engagements are considered non-proprietary and required to be presented 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 Internal Audit monitors the completion of the corrective action plans. Closed issues are validated on a sample basis to ensure management's corrective actions are functioning as intended.

No action for the Board at this time.

**VI. ANALYSIS:**

Treasury is responsible for cash management, cash forecasting and banking compliance. The audit identified two findings related to controls over managing/reconciliation of suspense accounts, three findings related to controls over preventing misappropriation of checks and one finding related to the availability of supporting documentation to validate Daily Cash Receipt reconciliation totals.

Legal established a Peer to Peer Review to be used as a Quality Assurance tool for legal activity on cases. The audit identified eight findings related to the Peer to Peer process that impact the ability to achieve the Quality Assurance objectives. The Unclaimed Property-Escheatment review noted some weakness in documenting evidence of the research on forwarding addresses and the ability to misdirect checks.

## **VII. APPENDIX:**

Q3 2013 Completed Closed Audits



## APPENDIX: INFORMATIONAL DOCUMENT FOR AUDIT COMMITTEE

### Completed Closed Audits

Dante Robinson, Chief of Internal Affairs

#### **2013 Treasury Audit PAO 712**

##### ***Review Assignment:***

##### **Objective/Scope**

Assess manager's execution of their responsibilities, compliance with corporate guidelines, policies and procedures. Assess operational effectiveness in cash management, cash forecasting, banking compliance and identify opportunities to enhance efficiency and to address gaps in current procedures and practices. The scope of this audit was July 1, 2012 through April 1, 2013.

##### **Methodology**

- Interviewed Treasury managers to gain an understanding of their roles, functions, and areas of responsibilities.
- Interviewed rank-and-file technicians and analysts to gain understanding of their roles, responsibilities, and their understanding of management expectations.
- Analyzed financial statements and tested report samples to assess the effectiveness and accuracy of the reconciliation, cash forecasting, and cash management processes.
- Reconciled activity reports from multiple sources to gauge the effectiveness of Treasury's physical and logical access controls.
- Conducted announced and undisclosed observational walk-through within the department to compare and contrast established policies and guidelines against actual business practices.

##### **Findings**

- Suspense Account contained old unresolved items
- Transaction Owners were not responding timely to Treasury inquiries for suspense payment allocation decisions.
- Exception checks could be redirected to a different address.
- Unauthorized access to Bank Remittance room containing the lock box.
- Incoming checks placed in bins are vulnerable to theft from unauthorized individuals.
- Daily Cash Receipts reconciliation packets did not have supporting documentation to validate the totals.

## **Remediation**

- Management and reconciliation of the suspense report was assigned to the Receipts Resolution Unit.
- Timeframes for responding to requests for information regarding suspense items have been implemented.
- Effective June 3, 2013, a second review of these exception letters was implemented.
- REM was asked to provide a monthly Bank Remittance Room Access report that will be reconciled with Treasury & Investments' own internal access report.
- Bins have been moved to the front of the room so the checks are visible at all times by staff.
- Effective May 2013, this task of providing supporting documentation validating totals was assigned to the Receipts Resolution Unit (RRU). The RRU Analyst preparing the Daily Cash Receipts Report will make sure that all required documentation is attached prior to a secondary review that is performed by the RRU Supervisor. The RRU Supervisor reviews and verifies that all supporting documentation is attached and that the totals are correct before signing off on the report.

**Proprietary:** No

## **2013 Audit of Legal Departments' Peer to Peer Review PAO 701**

### ***Review Assignment:***

### **Objective/Scope**

To verify that the Legal quality assurance self-assessment audit of workers' compensation case management i.e. the Peer to Peer Audit, appropriately covered the associated process risks. Evaluate the program to ensure thoroughness, effectiveness, completeness and accuracy of and to ensure results of the audit could be relied upon by management. The audit main objective was to determine whether or not the self-assessment audit activities performed by Legal accurately and effectively assessed the performance of the responsible personnel.

### **Methodology**

- Obtained Information through contact with the Workers' Compensation legal team.
- Reviewed the Peer to Peer Audit procedures, processes and work programs.
- Obtained data from questionnaires completed by the Attorneys in Charge (Auditors).
- Observed the Peer to Peer Audit process performed by several Attorneys in Charge (Auditors).
- Obtained a random sample of audit files and re-performed the reviews to verify original results.

### **Findings**

- Peer to Peer audit questions and criteria were subjective.
- The Peer to Peer audit team was not properly calibrated.

- Peer to Peer sample was selected haphazardly and not random.
- Peer to Peer audit tool included a review of old/stale activity on the file.
- The Peer to Peer audit tool did not include an evaluation of the quality of litigation work and results.
- There was a lack of multi-level review of the final evaluation on a file.
- There was no due process in the Peer to Peer reporting.
- The consolidated results of the Peer to Peer program were not reported to the Board of Directors

### **Remediation**

- The audit questions will be revised to target specific measurable criteria set forth by Legal Management.
- A specialized team of auditors will be created to audit all units and post training, the team will conduct a test audit to measure the team's ability to score with accuracy, consistency, and predictability
- Legal Department Management will establish a step by step methodology for file selection to ensure random and verifiable selection of files.
- The file's historical picture will be reviewed for a maximum of only the past two years if there was continuity of counsel.
- The Peer to Peer questions will be revised to add categories of inquiries to measure litigation work quality as compared to industry norms.
- A specialized and highly trained auditing team will conduct all audits. No less than 2 auditors will audit each file. A final score will be given for each file only after both auditors reach a consensus on that file.
- The written instructions for the Peer to Peer Audit will include instructions for an appeal process.
- The Supervising Attorneys will report up to their Deputy Chief Counsel once all corrective action on their files is completed.
- The Chief Counsel or General Counsel will report the final results of each Peer to Peer Audit to the Board of Directors or designated committee.

**Proprietary:** No

## **2013 State Fund Unclaimed Property-Escheatment Processes Review PAO 714**

### ***Review Assignment:***

### **Objective/Scope**

IAD conducted a limit scope agreed upon procedure review of the escheatment process.

### **Methodology**

- Review written procedures for Escheatment pertaining to claims, policy, and operating expenses.

- Interviewed responsible business owners to understand how they are handling their part of the Escheatment process, frequency with which they perform tasks, and the related internal control structures.

**Conclusion**

Agreed upon procedures review was information-seeking purposes, rather than a formal audit. Management raised concerns pertaining to staffing levels that limit time available to research Unclaimed Property Account (UPA) checks. In addition, they noted lack of documentation evidencing the research performed and forwarding addresses. IAD noted the appearance of control weakness as it is possible for a person at the regional location to misdirect a check to an inappropriate address.

**Proprietary:** No