



INFORMATIONAL DOCUMENT FOR BOARD OF DIRECTORS

Completed Closed Audits

Dante Robinson, Chief of Internal Affairs

2012 Human Resources Payroll Transactions Audit PAO 668

Objective/Scope

Evaluate the effectiveness of operational and financial controls and processes in Human Resources (HR) payroll transactions processes. Payroll transactions processed from June 2012 through August 2012.

Methodology

Review HR's intranet website to identify the HR department's mission and objectives

- Identify HR's payroll transaction processes by:
 - Reviewing HR's payroll transaction procedures provided by HR Transactions Manager
 - Interviewing HR managers, such as HR Transactions Manager and HR Transactions Unit Manager
 - Interviewing HR Transactions Specialists
- Walk through HR's processes for payroll transactions involving Absence without Leave (AWOL), overtime, salary advances, leave cash-out, employee separations, and changes to employee information, to identify process controls
- Test a judgmental sample of payroll transactions covered during the walkthrough to evaluate effectiveness of controls
- Document issues found and send referrals to HR management to get agreement to the findings

Findings

1. Lack of multiple-level review on payroll transactions.
2. Lack of reconciliation control between State Fund Oracle Absence Management system and the State Controller's Office payroll system.
3. Not all procedures in the Human Resources Transactions Specialist Manual were updated.

Remediation

1. Review current procedures and determine if supervisory review procedures need to be implemented and whether procedure would be cost effective.
2. Enhance the overtime report to include second run date to capture overtime not entered timely. Create and implement an exception report that compares Oracle Absence Management to State Controller's Office payroll data. Implement new procedure that requires Transaction Specialist audit and correct any exceptions. Report to be run monthly for prior three months to ensure all exceptions are reviewed and corrected.
3. Human Resources in process of reviewing and updating all procedures for the Transactions Specialist.

Proprietary: No

2012 Reimbursement of Employee Expenses PAO 656

Objective/Scope

Employee Personal Vehicle Mileage expense claims under the Fixed and Variable Reimbursement (FAVR) and the Cents per Mile (CPM) programs submitted and approved through the Runzheimer International Business Vehicle Service program during the period July 1, 2011 through December 31, 2011. Evaluate the program's ability to achieve its objectives of controlling costs. Develop data analytics for continuous control monitoring of State Fund's Personal Vehicle Mileage Reimbursement Program, using Runzheimer data and Automated Command Language (ACL) software to assess effectiveness of remediation plans.

Methodology

- Review Business Services' vehicle reimbursement policies and procedures
- Interview Runzheimer's Plan Administrator and Business Services' Management
- Review three of Runzheimer's online processes, enrollment, driver mileage entry, and management approval, and identify the controls
- Analyze Runzheimer's entire data population for the period July 1, 2011 through December 31, 2011
- Develop data analytics with ACL consultant using ACL software

Findings

1. Runzheimer's approval screen feature would allow circumvention of the approval process.
2. Employee separation process did not require notification to Business Services.

Remediation

1. The Runzheimer website requires manager review and approval before mileage reimbursement is paid. This is an improvement over the previous manual travel claims because each trip is logged and verified, and is retained in the database for easy review.

Managers may not know all the qualifications/exceptions for business miles and other managers have accepted vague and generic log entries. The Runzheimer system cannot be modified. Two action items to improve the accuracy of the managers' review and approval process are:

1. Create a CBT refresher training course for managers and drivers which clarify what mileage is reimbursable and how to clearly state trip information (and commute miles) in the mileage log.
 2. Begin quarterly quality control audits of a random sample of drivers to test accuracy of input and approvals.
2. Effective March 2012 multiple controls were put into place to assist in keeping the database of enrolled drivers up to date. The most important controls are:
 - Human Resources list of active employees is downloaded bi-monthly and matched up against list of Runzheimer enrollees. Any non-matches are verified with the approving manager to determine the separation date or status of employee.
 - The Business Services Transportation mailbox alert link has been added to the HR Separation and Transfer Checklists to ensure timely notification.

Proprietary: No

2012 State Contracts Services Audit PAO 661

Objective/Scope

Evaluate whether management's monitoring of claims performance and business processes are adequate to comply with the terms of the Master Agreement. Assess compliance with claims procedures and responsibilities described in the Master Agreement for State Fund and agencies. Claims adjusting activity was limited to the period from February 1, 2011, to February 1, 2012.

Methodology

1. Assessed compliance with claims procedures and responsibilities described in the Master Agreement in the following areas:
 - Reviewed 100 randomly selected denied claims.
 - Reviewed 80 randomly selected finalized claims.
2. Evaluated management's monitoring of the Master Agreement by performing the following:
 - Requested official Minutes of monthly meetings (12) attended by Department Personnel Administration, State Fund, and the departments engaged in measuring performance under the contract.
 - Requested staffing data that showed adjuster assignments, case load capacity and management team assignments. Conducted an interview with Claims Operations Manager to verify that staffing was evaluated to assure adequate coverage for servicing claims under the Master Agreement.
 - Requested Penalty Logs, Penalty Summary Reports, and Penalty Explanation Reports. Validated that penalties were monitored at the three levels of review: 1st Level - Adjuster, 2nd Level - Assistant Claims Manager, 3rd Level - Claims Manager. Randomly selected 30 penalties from the Penalty Summary Report to evaluate 1st Level review. Selected three months of Penalty Logs and Penalty Summary Reports to evaluate 2nd and 3rd Level reviews.
 - Requested "Forward Bill Queue Reports" for a three month period. Selected 30 past due bills over \$5,000 to verify that ACM follow up occurred for assuring payment on bills. Calculate the time from follow up to payment for reporting on the effectiveness of bill monitoring using the daily "Forward Bill Queue Report". This calculation was not performed because documentation of follow up was not retained by State Contract Services.
3. Evaluated management's monitoring of case inventory by obtaining documents from one Maintenance Review and two quarterly reports of caseloads that were sent to the DPA.
 - Evaluated one bi-annual Maintenance Review and randomly select 30 cases closed as a result of the Maintenance Reviews to verify the review and confirm that cases were closed in compliance with procedures.
 - Verified whether quarterly reporting of caseloads to the DPA occurred during the scope period as required by the Master Agreement.

Findings

1. A control was not in place to provide oversight of Assistant Claims Managers' duty to approve denials.
2. Claims guidelines for Stipulation Settlement approval levels were not clear and consistent. An approval hierarchy for Stipulation Settlements did not exist.
3. A formal management evaluation of the Master Agreement did not routinely occur to monitor whether terms of the Master Agreement are viable and whether responsibilities are exercised between the parties.

Remediation

1. We agree with Internal Audit's recommendation that State Contract Claims Services in collaboration with Corporate Claims Operations, and Information Technology develop a system edit to integrate the Assistant Claims Manager (ACM) approvals. This would enable electronically allowing a denial letter be released only if approval is indicated. This update should not just be for State Contracts but for all State Fund Claims. Until the system is updated where there is automatic escalation and documentation to the ACM for Denials, we will need to develop a consistent Electronic Claims File, ECF workflow process to capture ACM review and approval of denials and provide training to all Claims staff in ECF Documentation
2. Current guidelines will be evaluated to determine the appropriate Stipulation Settlement approval process for State Contract Offices. Following the evaluation CRM section 10-20-408A and the 2/20/2011 CCO Inter-communication will be revised to clearly state the Stipulation Settlement approval process.
3. The Master Agreement has an annual re-opener for price adjustments and necessary amendments to reflect business needs and/or law changes. This presents an opportunity to discuss whether terms of the Master Agreement are viable and whether responsibilities are exercised between the parties. However, CalHR has not expressed a need to re-open and it was not the intent of the annual re-opener to monitor viability. We will discuss this Issue in detail with CalHR as we do take it seriously. Realistically, our next opportunity to address this is when negotiations for a subsequent Master Agreement commence on or about July 1, 2013. Changes to the Master Agreement are communicated via e-mail to CalHR who will notify the agencies.

Although the Master Agreement does list these required documents some agencies do not require or want all of the documents. The Master Agreement could be revised to state "provided upon request". The new finalization tab in ECF will provide a uniform procedure to document when the "proposed finalization" package was sent to the department. Only a small subset of delayed claims would be considered disputed by the employer. The process for disputed claims is outlined in the Master Agreement on page 13, section 5(f). "If a claim is being disputed, the employer must notify State Fund in writing the specific details of why the claim is disputed".

We agree with the finding of untimely caseload reports to CalHR (formerly DPA). Some of them were timely, others were not.

Short term, we have an opportunity through the Monthly Management Meetings with the larger agencies and CalHR to stress the importance of exercising the responsibilities outlined in the Master Agreement, and to seek clarification on sections that may be unclear. There are also quarterly Forums open to all

Return-to-Work Coordinators (RTWC) where issues relating to the Master Agreement can be brought up. Long-term, we can explore a new set-up for the Master Agreement, one that focuses more on measurable results.

Proprietary: No

2012 Vacaville CPC Incoming and Returned Check Review PAO 653

Objective/Scope

Internal Audit performed a review of the incoming and returned check log maintained at the Vacaville Claims Processing Center (CPC). The review covered checks received in May of 2012.

Methodology

- Performed a walkthrough and completed process narratives for the various incoming and returned check processes within Vacaville's CPC.
- Obtained check logs for all incoming and returned checks received during May and July 2012.
- Searched the Banking Online system and noted the check status (cancelled, stop payment, cashed, outstanding, deposited to UPA, etc.).
- Reviewed payment history in ECF to confirm that credits were applied to the corresponding claims file.
- For discrepancies, followed up with the adjusting locations to obtain the disposition of the check.
- Confirmed with Treasury & Investment's Cash Receipts and/or IT Data Control that all incoming checks were credited to claims or miscellaneous income.

Findings

1. Live checks forwarded unnecessarily to the adjusting locations via inter-office mail
2. Documentation of disposition not retained electronically.
3. Adjusting office inappropriately allocates large dollars from one claim to another using a check from State Fund to State Fund rather than using a simple journal entry.
4. Development of redundant returned check report.

Remediation

1. CPC Check Specialist will scan/email the form & returned check to the regional office (assigned adjuster and ACM).

CPC will work with IT to set up a centralized Outlook mailbox. Internal process will be as follows:

- a. Scan/email
- b. Monitor response
- c. Act on response

If no response within 5 business days, forward to Fiscal.

2. Begin scan/indexing of the forms: Unclaimed property account worksheet (3196), Claims memo of cash/check receipt (3226), Claims check cancellation for compensation and medical check only (3437) into ECF.
3. Follow up with CCO and L&D regarding rollout of "Move Money" training module. Once training is rolled out, insure that all Adjusters and ACMs complete the training. At next BACS and CVS ACM meeting on 1/10/13, review proper procedure with all Supervisors. Change in local procedure to require that any voucher requesting a check made payable to State Compensation Insurance Fund be pulled by KDO/PT staff and routed to Claims Manager for review and assessment of situation.
4. CPC will request that Business Services perform the 'Return Mail Report' prior to delivering returned 'keyline' checks. Returned keyline checks after being logged by Business Services will be picked up by CPC Check Specialist. Only returned checks that are identified when CPC mail is opened, will be forwarded to CPC supervisor, logged and picked up by CPC Check Specialist as needed. Will work with Business Services to identify a more streamlined method of communicating/documenting returned checks via SharePoint.

Proprietary: No

2012 Corporate Contracting and Vendor Management PAO 655

Objective/Scope

To determine if controls and processes currently in place effectively address the risks inherent in the contracting and purchasing process. The Enterprise Procurement and/or business unit operations included monitoring and managing compliance with service level agreements. The contracting process is effective in ensuring that the goods and services acquired generate benefits for the organization. Vendors with whom we share State Fund data have a contract that includes a confidentiality and information security clause.

All active contracts for 2011.

Methodology

- Interviewed stakeholders regarding the process for vendor management.
- Requested a copy of all active contracts and tested to verify if Enterprise Procurement/Business units monitored and managed service level agreements.
- Performed data analysis in Accounts Payable to confirm that vendors who are required to have a contract, had an existing contract.

Findings

1. Lack of Vendor Management
2. Vendors, who had access to State Fund data, did not have a contract in place.
3. Contracting requirements not readily available to State Fund personnel.

Remediation

1. Each Line of Business (LOB) is responsible for managing their contract deliverables on a daily basis. Whenever a contract involves specific deliverables, cycle times, Service Level Agreements, etc. they are reviewed in depth with the LOB before the contract is executed. Should any issue arise during the term of the contract, the (LOB) can always engage Enterprise Procurement to help facilitate dialogue and resolution. Enterprise Procurement leverages their 180 day contract expiration report to solicit client feedback and to ensure vendor performance warrants additional work or renewal.

Remaining Steps:

- Establish criteria for determining mission-critical vendors
 - Determine what expanded due diligence and/or monitoring procedures are needed
 - Determine responsibilities for performing expanded due diligence and/or monitoring procedures
2. Enterprise Procurement will update their web site accordingly.
 3. Enterprise Procurement will update their web site accordingly.

Proprietary: No

2012 Claims Estimating and Indemnity Management Assessment Program PAO 657

Objective/Scope

Evaluate and measure timeliness and accuracy of indemnity payments, claims reserves, and evaluate each adjusting location's readiness for DWC PAR audits. Claims Adjusting Location reviewed 59 open, adjuster-estimated claims files reporting in the most recent three-year period. Internal Audit reviewed two randomly selected Claims Adjusting Locations' management assessment results for accuracy and timeliness of indemnity payments and estimates. Claims Regulatory Division provided support to the claims adjusting locations, identified trends from the results of previous program results, maintained the on-line database, and developed a summary of the file review results with action plans.

Methodology

- Claims Adjusting Locations reviewed a sample of 59 files selected by the program sponsor and submitted worksheets, results summary, PAR worksheet and report to Program Sponsor.
- Internal Audit randomly selected two claims adjusting locations for testing, performed testing to assess degree of adherence to the program requirements, selected ten files from the two locations, and reviewed completed worksheets to assess the accuracy of the review.

Findings

The 2012 Management Assessment Program has identified incidents of:

1. Untimely and inaccurate indemnity payments
2. Missing benefit notices
3. Inaccurate estimates
4. Case plans in need of revision
5. Two offices that did not receive passing scores for the Profile Audit Review(PAR) audit

These issues are not included in Internal Audit's issue log as they are tracked by the corporate sponsor and individual Claims Adjusting Locations.

Remediation

The Claims Adjusting Locations and Claims Regulatory Division have multiple action plans to address these issues identified in their management assessment.

Proprietary: No