



INFORMATIONAL DOCUMENT FOR BOARD OF DIRECTORS

Completed Closed Audits

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2012 Investments Audit PAO 679

Objective/Scope

This audit was co-sourced with PWC to conduct an assessment of the operational, financial and monitoring controls within the Investment process. The period under review covered fiscal year 2012.

Methodology

- Interviewed individuals charged with responsibility over Investment process
- Identified process controls
- Assessed the design and operating effectiveness of key controls in the investments process
- Developed process narratives, flowcharts and control matrix
- Designed test plans

Findings and Process Improvements

- Reviews of Third Party Assurance SSAE 16 reports (scope)
- Reviews of Third Party Assurance SSAE 16 reports (frequency)
- Financial instruments fair value disclosures (SSAP 100)
- Monthly Portfolio compliance monitoring
- Weekly meetings with Investment Managers
- Daily review of securities ratings' changes
- Formalization of Equity Trading Process and Controls

Remediation

- The review of SSAE reports will include user control considerations and impact analysis. The SSAE 16 review will be completed by the 2nd quarter of 2013.

- The Clearwater SSAE 16 report will be reviewed on a quarterly basis starting in May 2013.
- State Fund will confirm and document our understanding of Clearwater's pricing method and determine the appropriateness of Clearwater's fair value categories for the quarterly or annual financial statements.
- Beginning with the April 2013 month-end compliance report, State Fund will ensure the Clearwater compliance report agrees with the Portfolio Managers' report and document any discrepancies.
- Effective April 1st, 2013, the weekly meeting minutes will include the reasons for any meeting cancellation.
- Effective March 21, 2013, daily rating review will also include a section to track the dates when no rating changes occurred.
- Equity trading process and controls will be documented by April 30, 2013.

Proprietary: No

2012 Actuary Audit PAO 654

Objective/Scope

This audit was co-sourced with PWC to assess the operational, financial and monitoring controls within the Actuarial process. PWC evaluated the processes, controls and documentation to determine whether they were appropriately designed and operating effectively.

Methodology

- Interviewed individuals charged with responsibility over the actuarial process
- Identified process controls
- Assessed the design and operating effectiveness of controls
- Developed process narratives, flowcharts and control matrix
- Designed test plans
- Performed testing over the operating effectiveness of key controls
- In addition assisted management with preparing their responses to the CDI questionnaires

Findings and Process Improvement

- Enhance formal documentation of peer review
- Cell protection in key spread-sheets
- Enhance formal documentation surrounding additional data considered in the reserving analysis

- Timing of technical review by the Lead Actuary
- Enhance formal documentation regarding the drivers of differences between the actuarial analysis and the booked reserves
- Key Man risk
- Exception in aggregation of data reconciliation
- Enhance formal documentation of accident year reconciliation performed
- Enhance formal documentation of transfer data
- Enhance documentation of peer review over Milliman report
- Enhance formal documentation of approvals and booking confirmation of reserves
- Enhance formal documentation of the review of claim data performed by the Actuarial Department
- Considerations for the reserving analysis

Remediation

- State Fund will make the guideline or the checklist more detailed to insure that reviews are performed consistently.
- State Fund will identify those major spreadsheets not cell protected and make them cell protected.
- The segmented data can be combined to be reconciled with the total to better verify its accuracy.
- The data was reviewed before the booking, but the review signature was captured after the completeness of the whole review. Once a detailed check list is built up, the signature can be captured for each step of the review.
- Several people put their due diligence in reviewing the booking. In addition, we will consider putting it in a formal documentation.

Proprietary: No

2012 Reinsurance Audit PAO 686

Objective/Scope

This audit was co-sourced with PWC to assess the operational, financial and monitoring controls within the Actuarial process. PWC evaluated the processes, controls and documentation to determine whether they were appropriately designed and operating effectively.

Methodology

- Conducted interviews with individuals charged with responsibility over the Reinsurance process;

- Identified process controls;
- Assessed the design and operating effectiveness of controls;
- Developed process narratives, flowcharts and control matrix;
- Designed test plans;
- Performed testing over the operating effectiveness of key controls.
- In addition assisted management in preparing their response to the CDI questionnaires.

Findings

- Key Man risk
- Enhance formal documentation of review of ageing report
- Formalize processes surrounding uncollected receivables

Remediation

- State Fund will identify current reinsurance monitoring activities requiring ongoing continuity and develop formalized procedures that can be shared with backup staff.
- State Fund will create a sign-off page to document review and check off standard actions related to outstanding balances.
- State Fund will work with Claims to formalize current division of responsibilities between Claims & ASR regarding collections, and define roles for communicating with intermediaries and maintaining appropriate documentation.

Proprietary: No

2012 Billing and Collection Audit PAO 664

Objective/Scope

Ensure controls are adequate in policy billing processes that are managed by Credit and Collections for policies for the period 1/1/2012-6/30/2012.

Methodology

- Interviewed stakeholders
- Performed a walkthrough to document the process
- Sampled and tested controls for each of the audit objectives

Findings

- Deficient controls covering the handling of excess Premium on Account (POA) process needs improvement. *(Control Issue)*
- Changes in the Stipulated Billing process require manual intervention, causing inefficiency. *(Control Issue)*
- Lack of automated controls and oversight of manual cancellation withdrawals, i.e., policyholder reinstatements. *(Control Issue)*
- The current State Fund system, Premium Billing System (PBS), was not capable of handling all types of bills. *(Operational Efficiency Issue)*
- The Work Management Application does not work up to user specifications. *(Operational Efficiency Issue)*
- The Processing of Estimated Bills requires manual intervention, causing inefficiency. *(Operational Efficiency Issue)*
- Elimination of payroll auditor positions and transferring most of them to the Workforce Solutions program resulted in an excessive amount of waived audits. *(Operational Efficiency Issue)*

Remediation

- New Billing System Requirements will allow for premium excess to be handled by the system.
- Changes to the EAP midterm or during the policy term are unavoidable. A report has been created to identify policies that have had adjustments and where the paid premium is compared to the EAP. There will be no retro refunds for previous periods paid unless paid premium is greater than the entire EAP.
- **Short Term:** Management will develop an assurance process to conduct monthly audits of the manual cancellation withdraw process. This will ensure actions have approvals and are within the policies and procedures. This will include a sample section based on a percentage of cancellation withdrawals that will be tested monthly. Follow-ups will address performance issues or training. **Long Term:** The policy administration system will have an automated tracking system which will ensure proper audit trail, approvals to substantiate a correction was needed.
- New Billing System requirement definitions will include a requirement that system handles recalculations.
- Only policies that have estimated bills in the last 10 years will be routed for pre-coverage. All policies with a final bill that has an outstanding will be rerouted. The system has been corrected to exclude

policies with 3200 notes if all other requirements are satisfied. Currently management is working with IT for reports and refining DBA and common name hits.

- New billing system will include an automated calculation for estimated bills.
- New screening process for audits will be implemented in January 2013 to reduce the number of waived audits. This screening changes the definition of a mandatory audit. Billing & Collections will work with premium audit to refine process.

Proprietary: No

2012 Corporate Claims – Field Offices PAO 659

Objective/Scope

Develop a claims query with IT to be used for Adjuster Claims Handling and File Review from Claims Quality Assurance.

Methodology

- Developed an auditing tool to test the claims activities for compliance with regulations and policies and procedures.
- Worked with IT department to develop claims queries to match the claims activities to be evaluated.
- Created formulas to pull the query data from IT into the auditing tool.
- Tested the query data and formulas used to pull data into the audit tool to ensure results were correct.
- Trained a team of auditors to ensure the tool was calibrated.

Results

IT developed a claims query and Internal Audit developed an audit tool and formulas to pull the query data into the tool. A team of auditors was trained to conduct Claims office reviews using the query and tool. The audit tool and queries were completed and the team trained to pilot the Field office visits in the 1st Quarter 2013.

Proprietary: No