

Memorandum

To: William R. Landry, Esq.
CC: Richard A. Fritz
From: Patricia North-Martino
Date: 11/21/2011
Re: Audit Program Sampling Methods

As requested, the following is a description of the sampling techniques expected to be used for applicable audit procedures as described in the OHIC Market Examination - Audit of Compliance with Recommendations program.

For recommendation #5, the audit procedure requires selecting a sample of complaints for review from the Complaint Log. The assumption is that the total population will be small and that a judgmental method will be used to decide on an adequate number of samples to select for testing to provide assurance of compliance with policy. A random sampling method will also be used to select every nth item, to ensure all complaints in the log have the same chance to be selected. However, should the population of complaints be large enough we would select the sample size based on additional criteria including desired confidence level and precision rate (sampling error rate) using a statistical sampling calculation. An Excel spreadsheet created for premium members of AuditNet, a website offering subscriptions to the professional audit community, is used to calculate the sample size based on input of population size, confidence level and precision rate.

For recommendation #6, the audit procedures require selecting a sample of referrals and complaints presented to the Quality Management Committee and senior management, to determine compliance with policy. It's expected that the total population size will be small and we would also judgmentally select the number of items to test, also using a random method to make the actual selection. A very small total population could also result in testing 100% of the population.

For recommendation #11, audit procedures call for selecting a sample of appeals to test for compliance with the fifteen day turnaround time. The sample size selected will depend on the size of the total population. If the population is large, the size selected will be based on confidence level and precision rate desired using the Excel spreadsheet referenced above. If the population is small, statistical sampling calculations may not be adequate to select an appropriate sample size, and in this case we would judgmentally select the number to select for testing, and use a random sampling method to select every nth item to ensure each item in the population has an equal chance of being selected for testing.

If you should require any additional information or have any questions on the above, please feel free to contact me at your convenience.