

BWC Board of Directors
Audit Committee
Thursday, May 29, 2008, 4:00 P.M.
William Green Building
Neil Schultz Conference Center
30 W Spring St, 2nd Floor (Mezzanine)
Columbus, OH 43215

Members Present: Kenneth Haffey, Chair
Philip Fulton
William Lhota

Members Absent: None

Other Directors Present: Charles Bryan, James Harris, James Hummel, Jim Matesich, and Larry Price

Call to order

Mr. Haffey called the meeting to order at 4:04 PM and the roll call was taken.

Minutes of April 24, 2008

The minutes were approved on a motion by Mr. Lhota, seconded by Mr. Fulton without further changes.

New business / Action items

1.Rule Review

Proposed Rule 4123-21-03.1

Tom Sico, Assistant General Counsel, presented proposed Rule 4123-21-03.1. This is an emergency rule in response to Senate Bill 323, which created the mine safety fund to be administered by the Department of Natural Resources. The bill has been passed by the House and Senate, and should be signed by Governor Strickland shortly. The bill is emergency legislation to preserve public peace, health and safety, and will take effect immediately upon signature, so any proposed emergency rule must also be ready to take effect. Section 4131.03 gives the Administrator the power to promulgate rules, with the advice and consent of the Board, and to transfer investment earnings from the pneumoconiosis fund to the mine safety fund.

Mr. Sico reviewed the common sense business regulation checklist and noted there was abundant stakeholder participation in developing the rule. Mr. Haffey suggested that the checklist for all rules to be reviewed in the future include all questions, including those questions that may not be applicable to the rule at issue. Any questions that may not be applicable should be noted as such.

Mr. Sico reviewed the text of proposed Rule 4123-21-03.1, noting one minor change to paragraph 1 which should read "section 4131.03(B)(2)". The rule contains various checks and balances for fund

transfers and was developed by John Pedrick, Chief Actuarial Officer, and Bruce Dunn, Chief Investments Officer.

Emergency rules are not uncommon. Mr. Sico stated that 21 executive orders for emergency rules were issued in 2007. They are only effective for 90 days. During this time period, the rule will be filed and proceed through public hearing and JCARR review. Mr. Lhota raised the issue of whether Committee and Board motion was the proper method for approval of the rule. Mr. Price and James Barnes, Chief Legal Officer, provided assurances that the procedures were appropriate.

Mr. Fulton moved to recommend approval of the proposed Rule 4123-21-03.1 to the Board of Directors, seconded by Mr. Lhota. The motion was approved by unanimous roll call vote.

b. Subcommittee Charter Amendment

Mr. Lhota moved to accept draft charter language, as corrected by the Governance Committee, allowing the creation of subcommittees, seconded by Mr. Fulton. The motion was approved by unanimous roll call vote.

Discussion items

1. FY 08 3rd Quarter Executive Summary

Joe Bell, Chief Internal Auditor, reviewed several items from the 3rd Quarter Executive Summary, beginning with three new audits. The first involved the Transitional Work Grant Program closeout. Internal Audit concluded the grants were reasonable and quality assurance accurate. Mr. Fulton asked if the program would be reinstated. Administrator Ryan replied there was no plan to do so at this time.

The second new audit involved MCO Audit #3. Internal Audit was pleased with the findings and internal controls are adequate.

The third new audit concerned the Medical Bill Payment Process Audit. Seven recommendations were noted, most significantly a Material Weakness in determining actual administrative costs associated with bill processing. Internal Audit recommends evaluating costs in a more regimented manner, utilizing benchmarks and key performance indicators. Management disagrees this is a Material Weakness, as actual BWC costs and reasonable vendor costs can be determined. Other recommendations in this comment include investigating shortening the 2-year statute of limitations for medical bill payments, and eliminating the levels and backlog of ADR appeals. Robert Coury, Chief of Medical Services and Compliance, explained the ADR process and the involvement of BWC, the MCO and the IC. Mr. Fulton commented that those who represent injured workers encourage changes to the ADR process. Mr. Bell elaborated that further evaluation, including reviewing processes in other states, was needed to determine if a shorter window of time for submitting medical bills would be more efficient.

Mr. Bell proceeded to review the outstanding comments and several statistical charts. Outstanding comments have decreased 23% in the past year, and 76% of the remaining comments will be addressed through implementation in the next six months, including 75% of material comments. IT comments are not included in these calculations, as they involve large systemic changes and

would unfairly skew the figures. It was noted that outstanding comments now reflect both the original and revised target dates.

Mr. Fulton raised an issue as to the outstanding comment on page 5 of the Summary regarding Bankrupt Self-Insured Claims and the issuance of an RFP to study the impact of permitting Social Security Retirement benefits against PTD awards. Mr. Fulton moved for the Committee to ask BWC to withdraw the RFP. The motion was not seconded and was later withdrawn by Mr. Fulton. After an extended discussion, it was clarified by Administrator Ryan and Mr. Bell that the RFP is part of the Deloitte study and is a fact-finding mission. More research is needed before any policy recommendation can be made. In addition, Mr. Bell noted that if management accepts the risk of not taking corrective action recommended by Internal Audit, it will be forwarded to the Administrator for further review.

Mr. Bell advised the June 2008 meeting will include presentation of the FY 09 Audit Plan. He also reviewed changes to the FY 08 Audit Plan and Internal Audit's focus for 4th Quarter FY 08. A planned review of the Adjudication process will be delayed until FY 09 so that newly-developed procedures can be implemented.

2. Office of Budget and Management, Internal Audit Update

Mr. Bell distributed the OBM implementation plan report approved by the Controlling Board on May 19, and reviewed the report summary in detail. BWC is in a unique position because it already has an appropriate internal audit structure. Any proposed transfer of BWC staff to the Office of Internal Audit would not occur until FY 2010.

Mr. Haffey noted field work began on the External Audit on May 19.

3. Inspector General Report Responses

Brian Walton, Labor Relations Director, discussed four recent Inspector General Reports:

1. An anonymous complaint in August 2007 prompted an investigation of the director of office services for alleged misuse of a state vehicle, falsification of time records, and improperly promoting a subordinate. No conclusive evidence of wrongdoing was found, however, the IG did make recommendations. BWC provided a response on May 22 noting the updating of work hour and telecommuting policy, reminding **employees** to use comments to record schedule deviations, and revoking permission for the employee in question to work from home.
2. In December 2007, an investigation of an external auditor was conducted which found 16 falsifications, including forged employer signatures, improperly conducting audits by phone, and receipt of improper mileage reimbursement. The Inspector General reported these findings to the county prosecutor. The employee was fired for unrelated job performance issues. After filing a grievance, the employee was permitted to resign. A review is in progress of the audits conducted by this employee. The immediate supervisor was disciplined with a 10-day suspension.
3. In May 2008, we received two reports where employees were investigated for misuse of resources (computer and e-mail) for personal business. One employee received a 10-day

suspension. Discipline is being reviewed for the other employee, including potential removal.

Mr. Price inquired as to details reported in media coverage of the Inspector General's investigations. Administrator Ryan replied that the reports are available to the public on the Inspector General website.

4. Other Business

Mr. Haffey moved for recess to executive session, seconded by Mr. Lhota. The motion was approved by unanimous roll call vote. The Committee entered executive session at 5:45 for presentation of the Litigation Update by Mr. Barnes.

At 6:05, Mr. Haffey moved to conclude the executive session, seconded by Mr. Lhota. The motion was approved by unanimous roll call vote.

Adjournment

The next Audit Committee meeting is June 26, 2008 at 4:00 PM.

Mr. Haffey moved to adjourn the meeting at 6:06 PM, seconded by Mr. Fulton.

Prepared by Jill Whitworth, BWC Staff Counsel
May 30, 2008

Common Sense Business Regulation (BWC Rules)

(Note: The below criteria apply to existing and newly developed rules)

Rule 4123-6-16

Rule Review

1. The rule is needed to implement an underlying statute.

Citation: O.R.C. 4121.441(A)(1)

2. The rule achieves an Ohio specific public policy goal.

What goal(s): The rule change will allow BWC to issue ADR orders based on adequate information when an IME is indicated, and should reduce confusion and unnecessary appeals to the Industrial Commission.

3. Existing federal regulation alone does not adequately regulate the subject matter.

4. The rule is effective, consistent and efficient.

5. The rule is not duplicative of rules already in existence.

6. The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. The rule has been reviewed for unintended negative consequences.

8. Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

Explain: Ohio Association of Justice; MCO ADR workgroup

9. The rule was reviewed for clarity and for easy comprehension.

10. The rule promotes transparency and predictability of regulatory activity.

11. The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12. The rule is not unnecessarily burdensome or costly to those affected by rule.

If so, how does the need for the rule outweigh burden and cost? _____

-
13. The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor's Executive Order.

BWC Board of Directors
Executive Summary
HPP Alternative Dispute Resolution Rule

Introduction

Chapter 4123-6 of the Ohio Administrative Code contains BWC rules implementing the Health Partnership Program (HPP) for state fund employers. BWC initially enacted the bulk of the Chapter 4123-6 HPP operational rules (Ohio Administrative Code 4123-6-01 to 4123-6-19) rules, including the HPP Alternative Dispute Resolution (ADR) rule (Ohio Administrative Code Rule 4123-6-16), in February 1996.

Background Law

Ohio Revised Code 4121.441(A)(8) provides that the Administrator, with the advice and consent of the BWC Board of Directors, shall adopt rules for implementation of the HPP to provide medical, surgical, nursing, drug, hospital, and rehabilitation services and supplies to injured workers, including but not limited to discounted pricing for medical services.

Pursuant to this statute, BWC adopted Ohio Administrative Code 4123-6-16, "Dispute resolution for HPP medical issues," in February 1996. The HPP ADR rule has been amended numerous times since then as operational needs dictated.

Proposed Change

This proposed rule change alters the ADR rule to provide that that if BWC orders an independent medical examination (IME) at BWC's level of review, it shall toll BWC's time frame for completing the dispute, and further provides that in such cases, BWC shall enter a final BWC order within seven days after receipt of the IME report.

The current ADR rule requires BWC to issue a final order completing a dispute within 14 days of receiving the dispute, whether or not an IME has been ordered. Since an IME usually cannot be scheduled, much less completed, within this time frame, currently if BWC orders an IME it must issue its final order with the IME still pending. This leads to confusion among the parties, and at the Industrial Commission if BWC's order is appealed, and forces BWC to issue orders prematurely without adequate information. The proposed rule change will fix this problem.

4123-6-16 Dispute resolution for HPP medical issues.

(A) This rule shall provide for procedures for the resolution of medical disputes that may arise between any of the following: an employer, an employee, a provider, the bureau, or an MCO. This rule applies to reviews of records, medical disputes arising over issues such as, but not limited, to quality assurance, utilization review, determinations that a service provided to an employee is not covered, is covered or is medically unnecessary; or involving individual health care providers. Within fourteen days of receipt of written notice of an MCO determination giving rise to a medical dispute, an employee, employer, or provider may request, in writing, that the MCO initiate the medical dispute resolution process provided for in paragraph (C) of this rule. Such written request must comply with paragraph (F) of this rule.

(B) An employee or employer must exhaust the dispute resolution procedures of this rule prior to filing an appeal under section 4123.511 of the Revised Code on an issue relating to the delivery of medical services.

(C) Any MCO participating in the bureau's HPP must have a medical dispute resolution process that includes one independent level of review. Except as provided below, if an individual health care provider is involved in the dispute, the independent level of review shall consist of a peer review conducted by an individual or individuals licensed pursuant to the same section of the Revised Code as the health care provider. The MCO must identify the providers performing the peer review. If the MCO receives a dispute where the requested treatment appears to be the same as or similar to a previous treatment request for which the MCO conducted a peer review pursuant to this rule, and the previous treatment request was ultimately denied based on the peer review, the MCO may refer the new dispute to the bureau for a determination as to whether peer review is needed for the independent level of review in the new dispute. If the MCO receives a dispute where the requested treatment appears to be the same as or similar to a previous treatment request for which the MCO conducted a peer review pursuant to this rule, and the previous treatment request is pending before the bureau or industrial commission, the MCO may defer consideration of the new dispute until the previous treatment request is resolved. Once the previous treatment request has been resolved, the MCO shall refer the new dispute to the bureau for a determination as to whether peer review is needed for the independent level of review in the new dispute and shall resume the dispute resolution process under this rule. If, upon consideration of additional evidence or after negotiation with the party requesting dispute resolution, the MCO reverses the determination under dispute or otherwise resolves the dispute to the satisfaction of the party, the MCO may issue a new determination and dismiss the dispute without prejudice. The MCO must complete its internal medical dispute resolution process and must notify the parties to the dispute and their representatives of the decision in writing within twenty-one days of notice of a dispute. The twenty-one days shall be measured from the time the written notice of the medical dispute is received by the MCO. However, if the MCO elects to refer the employee for an independent medical examination as part of the dispute resolution process, the MCO shall have thirty days to complete its internal medical dispute resolution process and notify the parties to the dispute and their representatives of the decision in writing. Upon written notice of the dispute, the MCO shall inform

the bureau local customer service team of the dispute. Notice of the medical dispute received by telephone only does not constitute formal notification as described in this paragraph. Within seven days of receipt of written notice of the MCO's decision, the employer, injured worker or provider may request, in writing, that the dispute be referred to the bureau for an independent review. Such written request must comply with paragraph (F) of this rule. The MCO shall refer the requested dispute to the bureau within seven days of written notice of the request. All disputes shall be referred by the MCO to the bureau within seven days of the expiration of the referral period for tracking purposes.

(D) Upon receipt of an unresolved medical dispute from the MCO, if the bureau determines that the MCO has not satisfactorily completed its internal medical dispute resolution process as set forth in paragraph (C) of this rule and the MCO contract, the bureau may return the dispute to the MCO for completion. The return of a dispute to the MCO pursuant to this rule does not toll the MCO's time frame for completing disputes. Within fourteen days after receipt of a completed, unresolved medical dispute from the MCO, the bureau shall conduct an independent review of the unresolved medical dispute received from the MCO and enter a final bureau order pursuant to section 4123.511 of the Revised Code. The bureau order may include a determination that the employee be scheduled for an independent medical examination; ~~however, this. This~~ determination ~~does not shall~~ toll the bureau's time frame for completing ~~disputes the dispute, and in such cases the bureau shall enter a~~ final bureau order within seven days after receipt of the independent medical examination report. This order shall be mailed to all parties and may be appealed to the industrial commission pursuant to section 4123.511 of the Revised Code. Neither the provider nor the MCO is a party entitled to file an appeal under section 4123.511 of the Revised Code.

(E) If an MCO receives a medical treatment reimbursement request relating to the delivery of medical services for a condition or part of the body that is not allowed in the claim, the MCO may deny the request for the reason that the condition or part of the body is not allowed in the claim. The provider may recommend an additional allowance on a recommendation for additional conditions form (Form C-9 or equivalent) with supporting medical evidence, or the claimant may file a motion requesting an additional allowance. The bureau shall review the recommendation or motion and shall consider the additional allowance. If a party has requested medical dispute resolution of the issue under this rule while the motion or issue on the allowance of the additional condition is pending before the bureau, the MCO may defer consideration of the dispute until the issue of the allowance of the additional condition is resolved, notwithstanding the time limits for resolution of the dispute as provided in paragraph (C) of this rule. Once the bureau has made a decision on the additional allowance, the MCO shall resume the dispute resolution process under this rule. If a dispute is filed where the claimant has not filed a motion for allowance of the condition or the bureau has not allowed the condition as recommended by the provider on the treatment plan form, the MCO may refer the matter directly to the bureau for an order under paragraph (D) of this rule.

(F) If the MCO receives a dispute where the requested treatment relates to the delivery of medical services that have been approved by the MCO pursuant to standard treatment guidelines, pathways, or presumptive authorization guidelines, the MCO may refer the matter directly to the bureau for an order under paragraph (D) of this rule.

(G) A written request to initiate the medical dispute resolution process under paragraph (A) of this rule or to refer the dispute to the bureau for an independent review under paragraph (C) of this rule (written appeal request) must contain, at a minimum, the following elements (form C-11 or equivalent):

- (1) Injured worker name.
- (2) Injured worker claim number.
- (3) Date of initial medical treatment reimbursement request (form C-9 or equivalent) in dispute.
- (4) Specific issue(s) in dispute, including description, frequency/duration, beginning/ending dates, and type of treatment/service/body part.
- (5) Name of party making written appeal request.
- (6) Signature of party making written appeal request or their authorized representative.

Only one medical treatment reimbursement request (form C-9 or equivalent) may be addressed in a single written appeal request under paragraph (A) or paragraph (C) of this rule. Written appeal requests that do not contain the minimum elements set forth in this paragraph may be dismissed without prejudice by the MCO or bureau.

Effective: 2-16-96; 6-6-97; 1-1-99; 11-8-99; 1-1-01; 1-1-03; 4-1-07; -- -- --

BWC Board of Directors
Executive Summary
Fiscal Year 2009 Annual Budget Summary

Attached is summary information regarding BWC's proposed Fiscal Year 2009 annual administrative budget. This budget information reflects planned expenditures for the Administrative Cost Fund and the Safety & Hygiene Fund. In addition, the information reflects the planned administrative expenses associated with the Disabled Workers' Relief Fund, the Marine Industry Fund and the Coal Workers' Pneumoconiosis Fund.

BWC is proposing a total budget of \$308.8 million for Fiscal Year 2009. This budget is approximately six percent higher than projected expenses for Fiscal Year 2008 and approximately six percent less than the appropriation approved by the Ohio General Assembly in House Bill 100.

<u>Division by Line Item</u>	<u>Proposed Budget</u>	<u>Appropriation</u>	<u>Variance</u>
Board of Directors	1,019,060		
Workers' Compensation Council	334,736		
Customer Service	110,119,349		
Information Technology	725,585		
Medical Services	17,956,170		
Human Resources	3,071,786		
Ombuds	530,373		
855-407 Claims, Risk & Medical Total	133,757,059	140,367,719	6,610,660
855-408 Fraud Prevention Total	11,554,183	11,772,551	218,368
BWC Administration	872,921		
Fiscal and Planning	7,202,213		
Actuarial	2,708,336		
Investments	1,647,870		
Information Technology	69,145,277		
Legal	8,416,875		
Communications	3,730,486		
Human Resources	3,528,474		
Internal Audit	1,687,711		
Overhead	7,527,650		
Capital Improvements	3,900,000		
855-409 Administrative Services Total	110,367,813	122,962,388	12,594,575
855-401 WGB Lease	20,686,500	20,686,500	-
855-410 Attorney General Payments	4,444,085	4,444,085	-
Fund 023 Total	280,809,640	300,233,243	19,423,603
855-606 Coal Workers' Fund	91,894	91,894	-
855-608 Marine Industry	53,952	53,952	-
855-605 Disabled Workers Relief Fund	426,806	492,500	65,694
855-609 Safety & Hygiene Operating	19,976,456	20,734,750	758,294
855-610 Safety Grants Program	4,000,000	4,000,000	-
855-601 OSHA Enforcement	1,441,252	1,604,140	162,888
855-604 Long Term Care Program	2,000,000	2,000,000	-
Agency Total	<u>308,800,000</u>	<u>329,210,479</u>	<u>20,410,479</u>

Audit Committee

FY 09 Financial Projections

**Materials will be
distributed at meeting**

Fiscal Year 2009 Annual Audit Plan

Internal Audit Division

Promoting a strong control environment through
open communication, professionalism, expertise and trust.

Joe Bell, Chief

Caren Murdock, Director

Richard Ridewood, IT Audit Director

Keith Elliott, Senior Manager

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FY 09 Annual Audit Plan

Introduction

The BWC Internal Audit Division has performed a risk assessment of the organization's risk environment in order to develop our audit plan for FY2009. Development of the assessment was based on various risk factors to the organization, as well as interviews with various members of management, the BWC Board of Directors, and other stakeholders.

The goal of the risk assessment and audit plan is to facilitate a process of continuous improvement in both processes and internal controls throughout the organization with the ultimate goal of improving services to Ohio's workers and employers.

Purpose

The purpose of internal audit is to provide an independent assessment of the adequacy of internal controls throughout the organization. The Institute of Internal Auditors (IIA) provides the following definition of internal auditing:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

The role of internal auditing includes some of the following activities:

- Evaluating and improving the adequacy and effectiveness of risk management, control, and governance processes;
- Validating employee compliance with policies, standards, procedures and applicable laws and regulations;
- Evaluating the management process to determine whether reasonable assurance exists that management objectives and operational goals are achieved; and
- Providing process and managerial consulting to improve risk management, control and governance processes.

FY 09 Annual Audit Plan – Risk Assessment Process

Risk Assessment Process

In developing the audit plan, we performed a risk analysis for the organization utilizing seven risk factors. The objective of the risk assessment is to ensure we optimize the assignment of audit resources through a comprehensive understanding of the audit universe and the risks associated with each universe item.

The IIA defines risk as:

“The uncertainty of an event occurring that could have an impact on the achievement of objectives.”

The risk assessment process included the following activities:

1. Mapped trial balance accounts to key processes.
2. Interviewed management and key stakeholders regarding risk/control concerns.
3. Developed audit risk assessment/annual audit planning that defines risk factors applied to a numeric rating scale.
4. Stratified processes by risk ratings and selected the type of audit planned and projected hours.

Risk Scoring

The seven risk factors utilized for our assessment were developed utilizing IIA guidance and historical knowledge of BWC, as well as best practices in internal auditing. Each risk factor was scored based on likelihood of the risk and significance of the event. The overall goal of the risk scoring approach is to ensure that we audit high-risk areas each year and then achieve coverage of all auditable units over a four-year cycle.

Once the various risk factors were rated, we weighted the various factors in order to arrive at a composite risk score for each area, which was used to determine areas to prioritize for the FY2009 audit plan.

The specific risk factors are presented in the following table, along with the weighting for each factor.



FY 09 Annual Audit Plan

	Low Risk	Moderate Risk	Neutral Risk	Sensitive Risk	High Risk
Risk Rating	1	2	3	4	5
Audit Frequency	Every 4 years		Every 2.5 years		Annually
Audit Effort	Extra Small	Small	Medium	Large	Extra Large

Risk Rating

A risk rating was assigned to each process across the seven risk categories. The risk rating contemplated both likelihood and consequence.

Audit Frequency

The audit frequency is directly correlated to the process risk rating. Each process should be reviewed at least once every four years.

Audit Effort

The extent of audit effort is typically linked to the level of risk, size and complexity of each process.

Level of Audit Effort

The level of audit effort for projects can vary significantly depending on the complexity of the area of process being examined. The following table summarizes the various levels of audit effort and the associated hours.

Extra Small	Small	Medium	Large	Extra Large
< 100 hours	100 – 300 hours	301 – 500 hours	501 – 800 hours	801 – 1200 hours

Consideration of External Reviews

To minimize the potential for duplication of effort and to maximize the amount of coverage achieved, we considered other audits or related reviews performed by other divisions within BWC, the external financial auditors, or external consultants. In addition, we also considered areas to be audited by the newly created Office of Internal Audit under the Office of Budget and Management.

FY 09 Annual Audit Plan

To minimize overlap, we leveraged the external reviews for the following areas in achieving audit coverage for FY2009.

Auditable Area	External Audit Coverage
Federal Grants	Annual Program Audit by OSHA
General Accounting and Financial Reports	Annual External Financial Statement Audit By Public Accounting Firm
Medical Claims: Pharmacy	Review by an External Consultant in FY 2008
Payroll	Planned Audit by the Office of Internal Audit – Statewide
Rate Making	Actuarial Consulting Project Being Performed by an External Firm
Reserves	Annual Actuarial Consultant Review & Annual External Financial Statement Audit

FY 09 Annual Audit Plan – Listing of Audits/Projects

FY 2009 Audit Plan

Internal Control/ Compliance Reviews

- Adjudicating committee
- Auto adjudication process
- Coal mine safety program
- Safety and hygiene
- Employer compliance and premium audit
- Employer policy application process
- Ethics review
- Fleet management
- Human resources
- MCO audits
- Permanent partial benefits
- Self insured bankrupt securitization process
- Settlements process

Financial Audits

- Accounts payable
- Purchasing
- Investment certification control testing
 - Review of adequacy of controls used to certify:
 - Compliance with investment policy statement
 - External investment manager compliance
 - Accuracy of valuation and performance
 - Accuracy of information reported to the Investment Committee/Board

Information Technology Audits

- Backup procedures
- Change management process
- Mainframe security audit
- Physical and environmental security

Consulting

- Coal mine safety program
- Employer compliance

Other

- Audit validation testing
- External audit assistance
- FY 2010 annual audit plan

FY 09 Annual Audit Plan - Focus Areas by Quarter

Focus Area	1st Qtr.			2nd Qtr.			3rd Qtr.			4th Qtr.			Audit Effort
	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	
Employer Compliance (Consulting)													1
Coal Mine Safety Program (Consulting)													2
Permanent Partial Benefits Settlements Process													4
External Audit Assistance													5
Physical and Environmental Security													3
Mainframe Security													5
Employer Policy Application Process													4
Auto Adjudication													4
Safety and Hygiene													5
Investment Certification Control Testing													5
Self Insured Bankrupt Securitization Process													4
Backup Procedures													3
Accounts Payable													3
Ethics Review													1
Adjudicating Committee													4
Human Resources													4
Change Management Process													5
Purchasing													3
Coal Mine Safety Program													2
Employer Compliance and Premium Audit													5
FY 2010 Audit Plan													3
Fleet Management													3
Audit Validation Testing													5
MCO Audits													5

Audit Effort Explanations

Number	Level of Audit Effort	Hours
1	Extra Small	< 100 hours
2	Small	100 – 300 hours
3	Medium	301 – 500 hours
4	Large	501 – 800 hours
5	Extra Large	801 – 1200 hours

FY 2009 Annual Audit Plan – Audit Scope Descriptions

Accounts Payable Process Audit – A key expenditures process for BWC (outside of the claims and medical payment processes) is the process for paying vendor invoices for BWC operational and administrative expenditures. This audit will examine and document this process and evaluate significant changes resulting from the implementation of the State OAKS system. The review will include an examination of controls over payments to help ensure accuracy, appropriateness and timeliness of payments, as well as sample testing of selected payments.

Adjudicating Committee Audit – This body has the authority to decide or settle employer issues within workers' compensation. This process has recently undergone a process improvement effort. Our procedures will include evaluating the adequacy of the redesign and operational effectiveness of internal controls over the program, including policy and regulatory compliance. In addition, we will perform an internal control and compliance review on this critical function. We may also assist in a consulting role as needed.

Audit Validation Testing – We perform validation testing each quarter to ensure that outstanding audit observations are resolved adequately and in a timely manner. As part of this process, management provides Internal Audit with updates each quarter regarding the resolution status of the outstanding observations. For observations which management indicates are completely implemented, we perform testing to validate that that action taken is adequate to address the issue identified. In addition, if there are outstanding audit observations that are still in process, but are beyond the timeframes established for resolution of the audit comment, we will meet with management to determine factors delaying resolution. As comments are cleared through this process, they are removed from the list of outstanding comments provided to the Audit Committee.

Auto Adjudication Process Audit – BWC utilizes an auto adjudication system to review and allow claims with minor injuries. Utilization of such a system enables claims personnel to focus time and effort on more serious types of claims. This audit will examine the auto adjudication process and related controls to assess the reasonableness of the claims passing through this process, as well as controls implemented to safeguard agency assets.

Backup Procedures Audit – The purpose of this audit is to gain assurance that controls over backup procedures are appropriate and working as intended.

Change Management Process Audit – Based upon the results of an external risk assessment in 2007, IT updated their change management policies and procedures for development and maintenance of the Bureau's applications and systems. This audit will evaluate the effectiveness of these new controls and determine whether the procedures are working as management intended.

Coal Mine Safety Program (Consulting) – During FY 2008, legislation was passed creating the Coal Mine Safety Program, which will involve the transfer of a portion of interest earnings from the Pneumoconiosis Fund (Black Lung Fund) to the Ohio Division of Natural Resources to help fund coal mine safety initiatives. During early FY 2009, we will perform a consulting project to assist management in evaluating internal control related matters as this program is developed and implemented.

FY 2009 Annual Audit Plan – Audit Scope Descriptions

Coal Mine Safety Program Audit – Once the new Coal Mine Safety Program is implemented and in operation for a period of time, we will perform an audit to provide assurance regarding the adequacy of controls over the program, as well as compliance with established policies and procedures.

Employer Compliance (Consulting) – During 2008, a BWC project team was established to enhance the current processes for ensuring employer compliance. During FY 2009, we will perform a consulting project for the new or updated policies and procedures and to offer advice for identifying, monitoring and tracking non-compliant employers.

Employer Compliance and Premium Audit – This operational audit will examine the employer compliance process used to ensure that employers obtain the required workers' compensation coverage. The focus will be on evaluating the efficiency and effectiveness of the procedures and methodologies used to identify, monitor and track non-complying employers. The audit will examine the premium audit process and related controls. The review will include an examination of the premium audit methodology and rationale for audit selection; determining the adequacy of controls to provide assurance that audits are accurate, timely and properly safeguarded and recorded. The project will also assess the level of compliance with policies and procedures and statutory requirements and assess the adequacy of quality assurance procedures over this process.

Employer Policy Application Process – The function of processing and finalizing applications for new employer workers' compensation policies is a core operational process for BWC. This audit will review the design of the process for efficiencies and timeliness of processing and the adequacy and effectiveness of internal controls and monitoring procedures over this key function.

Ethics Review – The Institute of Internal Auditing professional standards require internal audit departments to periodically evaluate the design, implementation, and effectiveness of an organization's ethics-related objectives, programs, and activities. This review will be included in the FY 2009 audit plan to ensure compliance with that requirement.

External Audit Assistance – Internal Audit provides approximately 1,000 hours of assistance to the external accounting firm during their audit of the BWC financial statements. This assistance reduces audit fees each year by approximately \$75,000-80,000.

Fleet Management Audit – BWC has an extensive fleet of state vehicles, which is used by various staff working regularly in the field. This audit will review operational processes and controls over the management of the fleet, including expense capture and monitoring, maintenance expenditures and the related controls, and other monitoring procedures. Procedures will also examine controls over mileage reimbursement requests.

FY 2009 Annual Audit Plan – Audit Scope Descriptions

FY 2010 Annual Audit Plan – Activities include meeting with management, BWC Board of Directors, and other parties to obtain suggestions for areas to include in the FY 2010 Internal Audit plan. An analysis is performed to map trial balance accounts to key processes to ensure Internal Audit resources are appropriately assigned. In addition, we update the agency risk analysis, which assesses the relative risk for agency processes and assigns a risk score to each of the potential audit areas.

Human Resources Audit – Management of human capital and compliance with various employment rules and regulations is critical in any organization. This audit will focus on examining key functions performed within the BWC Human Resources Division to provide assurance regarding the efficiency of these functions and the adequacy of associated internal controls.

Investment Certification Control Testing – Once the Investment Compliance Manager posting is re-filled, Internal Audit will perform monthly or quarterly testing to determine if the controls within the Investment Division are adequately designed and operating effectively. Specific areas to be included in this project include controls over the following areas:

- Compliance with the BWC Investment Policy Statement;
- Investment manager compliance;
- Portfolio valuation and performance; and
- Accuracy of information reported to the Board of Directors' Investment Committee.

Mainframe Security Audit – A number of the Bureau's key applications reside on an IBM mainframe. IBM's software product Resource Access Control Facility (RACF) controls system security for these applications. This audit will review the security settings to gain assurance that access to data is properly controlled.

MCO Audits – Throughout the year, the MCO Audit Unit within Internal Audit will perform a number of risk-based audits of MCOs to help ensure that adequate internal controls are in place to safeguard agency assets and to help ensure MCO compliance with the MCO contract. The activities of this unit work in conjunction with the Medical Services Compliance and Performance Monitoring Unit, which performs various day-to-day monitoring procedures to monitor MCO compliance with contractual requirements.

Permanent Partial Benefits Audit – Permanent partial disability benefits are awarded to injured workers who lose the ability to utilize a bodily function as a result of a work-related injury, such as the loss of a limb or loss of eye-sight. This audit will examine the related processes for evaluating and issuing determinations on these types of claims, as well as the actual payment of benefits. The focus of the audit will be on compliance with policies and procedures and applicable regulations.

Physical and Environmental Security Audit – This audit will assess the adequacy of physical security and environmental safeguards for the Bureau's Data Center and those workstations with administrative access capabilities to its systems and servers.

FY 2009 Annual Audit Plan – Audit Scope Descriptions

Purchasing Audit – Changes within the BWC purchasing process are planned to occur during FY 2009. Management has requested that we perform an audit after the changes are completed to ensure adequacy of controls, segregation of duties, and efficiencies of the new process. We may also assist in a consulting role during the transition.

Self Insured Bankrupt Securitization Process Audit – Larger employers in the State of Ohio that meet certain criteria may elect to self-insure for workers' compensation purposes. This audit will examine the processes for "drawing-down" on surety bonds or other letters of credit obtained from self insured employers. The goal will be to ensure that BWC properly recovers available funds and that claims costs are recovered from these funds before being charged against the Self Insured Employers Guarantee Fund.

Settlements Process Audit – The process for settling injured worker claims has undergone significant change over the last several years and has experienced significant increases in the volumes of settlements. We will perform an internal control review as well as a compliance review on this process to provide assurance that proper controls were designed into the new process and are functioning as designed.

Safety and Hygiene Audit – To assist in lowering employer premiums, a portion of premiums paid by employers is set aside for safety services performed by the Division of Safety and Hygiene. The Division of Safety & Hygiene provides a variety of safety services including technical support, consultation, publications, training classes, research and video libraries, local safety councils, safety grants and an annual convention/tradeshaw. This audit will focus on core functions for the division and related controls.

FY 2009 Annual Audit Plan - Types of Audits

The Internal Audit Division is responsible for the process by which the Bureau reviews and assesses the economy, effectiveness and efficiency of its management control and practices. There are generally six types of projects or reviews that we perform. The following is a listing of the types of projects and a brief description of each type of engagement.

Operational Audits (End-to-End Business Process Flow)

This category reviews the principal operational functions of the Bureau. Operational audits are undertaken for the purposes of a high-level overview assessment of compliance, efficiency, economy and effectiveness of management practices and controls associated with these operational functions. They have a strategic focus and are primarily concerned with the achievement of the Bureau's strategic objectives and goals.

Internal Control Reviews / Compliance Audits

Examining and evaluating the effectiveness of the Bureau's system of internal control and the quality of performance in carrying out assigned responsibilities. The primary objectives of the internal control systems are to ensure: the reliability and integrity of information; compliance with policies, plans, procedures, laws, and regulations; safeguarding of assets; economical and efficient use of resources; and accomplishment of established objectives and goals for operations and programs. Compliance audits determine the degree of adherence to policies and procedures. It is also concerned with compliance with all relevant external legislative requirements.

Financial Audits

Review of all ancillary functions such as budgeting, financial statements, accounting systems, revenue collection procedures, purchasing operations, payroll, and staff development. As the procedures covering most of the activities in this category are regulated by laws, external principles or management directive, the purposes of the audit generally relate to the accuracy and integrity of data or compliance. Audits may also be undertaken to assess the efficiency or effectiveness of these activities or the systems or procedures in use.

Information Technology Audits

IT audits examine the controls surrounding an organization's information systems, practices and/or operations to determine if systems are safeguarding agency assets, maintaining data integrity, and operating effectively and efficiently to achieve agency goals and objectives. IT auditing can be conducted as an integral part of the audit of financial and administrative systems.

Consulting

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice – the internal auditor, and (2) the person or group seeking and receiving the advice – the engagement client.

FY 2009 Annual Audit Plan – Types of Audits

Special Investigations

Some internal audit activity takes the form of a special investigation. The object of these investigations is to diagnose specific problem areas, establish whether further action or review.

FY 2009 Annual Audit Plan – Heat Map

Number	Auditable Area	Audit Effort	Process Complexity /Size	Stakeholders' Concerns	Change: systems , process, people	Financial / Operational Reporting	Control Environment	Prior Audits	Potential for Fraud, Waste & Abuse	Composite Rating
1	Investment compliance	Extra Large	15%	20%	10%	20%	15%	10%	10%	
2	Investment monitoring	Extra Large								
3	Claims: Indemnity	Extra Large								
4	Employer Operations	Extra Large								
5	Claims: Medical (MCOs)	Extra Large								
6	Claims: Pharmacy	Extra Large								
7	General Accounting & Financial Reports	Extra Large								
8	IT: Applications Development and Maintenance	Large								
9	IT: Operating System and Platform Support	Large								
10	Rate-Making	Extra Large								
11	Self-Insurance	Large								
12	Expenditures & Accounts Payable	Large								
13	Payroll	Large								
14	IT: Security Administration and Infrastructure	Extra Large								
15	Procurement & Vendor Review	Large								
16	Revenue: Fees, & Assessments	Extra Large								
17	IT: Applications	Extra Large								
18	IT: DRP & Business Continuity Planning	Large								
19	Safety Services	Medium								
20	Third Party Administrators / Contractors	Medium								
21	Management Requested Special Projects	Extra Large								
22	IT: Computer Operations and Facilities	Large								
23	IT: Organization and Management	Medium								
24	Customer Service / Complaints	Large								
25	Human Resources	Large								
26	Reserves/Actuarial reviews	Large								
27	Fraud & Investigative Services	Large								
28	Budgeting & Forecast	Small								
29	Cash	Large								
30	Regional Offices	Large								
31	Legal Operations	Small								
32	Insurance	Medium								
33	Record Retention Policy Compliance	Medium								
34	Federal Grants	Small								
35	State Grants	Small								
36	Travel & Business Expense Policy Compliance	Small								
37	Entity Level Controls / Governance	Medium								
38	Utilities / Energy Consumption	Small								
39	Inventory / Assets: Fleet	Small								
40	Inventory / Assets: Telecom & Hardware	Medium								
41	Inventory / Assets: Other	Medium								
42	Capital Assets	Medium								
43	Revenue: Federal & State (Special)	Small								
44	Debt & Bonds	Small								

Privacy and The Protection of Sensitive Data



Who wants our data?

MCOs

Providers

TPAs

Employers

Public Records Request

Lawyers

Media

Federal Agencies

State Agencies



What have we done?

- ◆ Backup Tape Encryption
 - Mainframe tapes (V3, Rates and Payments, Employer databases)
 - Open System Tapes (Network drives, e-mail, etc.)
 - Sun System Tapes (HR and Financial data)



What have we done?

- ◆ Portable Storage Device Policy
 - Covers All Portable Storage Devices Such as: Laptops, Smart Phones, USBs, CDs.
 - List Do's and Don'ts
 - ◆ Never Leave Unattended
 - ◆ Never Download Sensitive Data To A USB Device
 - ◆ Never Maintain Sensitive Data Longer Than Required
 - ◆ Maintain A List Of Sensitive Data That Is On The Device

What have we done?

- ◆ Sensitive Paper Record Handling Policy
 - Store In A Secure Environment
 - Always Keep Sensitive Information Under Visual Control
 - Never Throw Sensitive Information in the trash
 - Must Shred Or Dispose In Lockable Trash Bin



What have we done?

- ◆ Disposal Of Sensitive Material Procedures
 - Paper Records (Shred Or Place In Lockable Trash Bins)
 - CDs (Shred Or Bend Back and Forth Until Unusable)
 - Diskettes (Remove Outer Tab, Open Case and Cut Up Floppy Disk)

What have we done?

◆ Encryption For Customers

- When Customers Have To Input Data Or Review Sensitive Data On BWC Web, The Data Is Encrypted Using Secure Socket Layer (SSL).
- Utilize Virtual Private Networks (VPNs) For Partners
- Use Pretty Good Privacy (PGP) Encryption For File Transfers

What are we doing?

- ◆ Device Encryption (State Sponsored)
 - Laptop Full Disk Encryption
 - Desktop Data Encryption
 - Removable Device Content Encryption (CDs, USBs, etc.)
 - PDA, Smart Phone Encryption



What are we doing?

◆ Sensitive Data Transmission Policy

- SB7 Requirements
- Never Transmit Sensitive Data Via E-mail unless protected
- Never Send The Password To A Protected Document Via E-mail
- Never Transmit Sensitive Data Via Right Fax IF It Is Going To An E-mail Address
- Include Disclosure Statement On All Faxes
- If Someone Sends Sensitive Data Without Protecting The Data, We Must Contact Them
- Outlines BWC Sensitive Data

It's Not A Perfect World!!

- ◆ Risks and Vulnerabilities
 - SB7 Media Exemption
 - Identity Fraud
 - Public Records Request Abuse
 - Misuse of Information

Questions??



6-month Audit Committee Calendar

Date	July	Notes
7/24/08	<ol style="list-style-type: none"> 1. External audit update 2. Audit Committee Charter 	
	August	
8/28/08	<ol style="list-style-type: none"> 1. Internal Audit Quarterly Report - Executive Summary 	
	September	
9/25/08	<ol style="list-style-type: none"> 1. External Audit update 	
	October	
10/30/08	<ol style="list-style-type: none"> 1. Annual Meeting with External Auditor Regarding the Audit Report 	
	November	
11/20/08	<ol style="list-style-type: none"> 1. External Auditor Retention Letter 2. Internal Audit Quarterly Report - Executive Summary 	
	December	
12/18/08	<ol style="list-style-type: none"> 1. Annual Review of BWC Ethics Policy 2. Managements MD&A Review - Annual Financials 3. Annual Disaster Recovery/Business Continuity Plan Discussion 	