

BWC Board of Directors

AUDIT COMMITTEE

Fiscal Year 2011 Annual Budget
Executive Summary

Attached is information regarding BWC's proposed Fiscal Year 2011 annual administrative budget. The information reflects proposed funding levels for the Administrative Cost Fund and the Safety & Hygiene Fund. In addition, the information reflects proposed funding levels associated with the Disabled Workers' Relief Fund, the Marine Industry Fund and the Coal Workers' Pneumoconiosis Fund.

BWC is proposing a total budget of \$284 million for Fiscal Year 2011. This request is approximately \$22 million (7%) less than the amount approved for Fiscal Year 2010 and approximately \$45 million (13%) less than the appropriation level approved by the Ohio General Assembly.

The budget as proposed includes several major initiatives that began in Fiscal Year 2010 and will continue into Fiscal Year 2011. In addition, there is one major initiative and one capital improvement project that were anticipated to be complete in Fiscal Year 2010 but were delayed. As a result, the majority of the expenses related to these projects will be incurred in Fiscal Year 2011.

**BUREAU OF WORKERS' COMPENSATION
 PROPOSED BUDGET SUMMARY
 FISCAL YEAR 2011
 In Millions**

Funding Sources:

Administrative Cost Fund	\$259.3
Safety & Hygiene	24.3
Ancillary Funds	0.4
	<u>\$284.0</u>

Expense Description	Fiscal Year 2009 Actual Spending	Fiscal Year 2010 Estimated Spending	Fiscal Year 2011 Proposed Budget	Percentage Variance FY10 to FY11
Payroll	\$190.3	\$181.6	\$187.4	3.2%
Personal Services	14.0	12.4	12.5	0.8%
William Green Rent	20.5	19.7	19.0	-3.6%
Leases and Term Software Licenses	12.2	11.2	10.1	-9.8%
Software and Equipment Maintenance and Repairs	15.5	14.2	14.7	3.5%
Inter Agency Payments	7.7	9.9	9.6	-3.0%
Communications	3.7	3.2	3.2	0.0%
Supplies and Printing	1.7	1.2	1.3	8.3%
Other Maintenance	3.1	3.3	3.4	3.0%
Equipment	0.1	1.6	1.4	-12.5%
Subtotal	\$268.8	\$258.3	\$262.6	1.7%
Safety Grants and Long Term Care Loans	3.8	2.0	4.0	100.0%
Strategic Projects Examples: Rate Reform HPP Bill Payment Software and Hardware Upgrades	6.6	9.4	14.5	54.3%
Capital Improvements Examples: Elevator Improvement Rooftop Repairs	3.6	0.5	2.9	480.0%
Grand Total	\$282.8	\$270.2 \$35.7	\$284.0 \$44.8	5.1%
		\$305.9	\$328.8	
		Approved by BWC Board of Directors	Appropriation	

**BUREAU OF WORKERS' COMPENSATION
PROPOSED BUDGET SUMMARY
BY APPROPRIATION LINE ITEM
FISCAL YEAR 2011**

<u>Division by Line Item</u>	<u>Proposed Budget</u>	<u>Appropriation</u>	<u>Variance</u>
Board of Directors	1,112,333		
Customer Service	102,683,527		
Medical Services	23,221,034		
Ombuds	534,141		
855-407 Claims, Risk & Medical Total	127,551,035	142,659,528	15,108,493
855-408 Fraud Prevention Total	10,762,213	13,101,761	2,339,548
BWC Administration	1,924,464		
Fiscal and Planning	7,363,262		
Actuarial	3,095,039		
Internal Audit	1,543,167		
Investments	1,532,631		
Infrastructure Technology	54,550,062		
Legal	8,683,744		
Communications	3,617,614		
Human Resources	5,956,737		
Overhead	6,061,590		
Capital Improvements	2,908,221		
855-409 Administrative Services Total	97,236,531	120,192,995	22,956,464
855-401 WGB Lease	19,049,395	19,049,395	-
855-410 Attorney General Payments	4,621,850	4,621,850	-
Fund 023 Total	259,221,024	299,625,529	40,404,505
855-606 Coal Workers' Fund	91,894	91,894	-
855-608 Marine Industry	53,952	53,952	-
855-605 Disabled Workers Relief Fund	296,234	492,500	196,266
855-609 Safety & Hygiene Operating	18,719,204	20,734,750	2,015,546
855-610 Safety Grants Program	3,980,000	4,000,000	20,000
855-601 OSHA Enforcement	1,535,454	1,604,140	68,686
855-604 Long Term Care Program	20,000	2,000,000	1,980,000
Agency Total	283,917,762	328,602,765	44,685,003

Common Sense Business Regulation (BWC Rules)

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

Rules 4123-10-01 and 4123-10-05

Rule Review

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

Citation: R.C. 1347.15

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

What goal(s): The rules outline valid reasons and procedures for accessing Confidential Personal Information (CPI), catalog confidentiality statutes, establish criteria for giving employees access to CPI, and set procedures for logging employee access.

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: Stakeholder input was not appropriate for drafting these internal process rules. BWC worked with the Governor's Office and the Chief Privacy Officer of the State of Ohio, DAS, to draft rules in compliance with the mandates of H. B. 648 of the 127th General Assembly.

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? The rule will impact BWC resources, costs and processes, but serves the public interest of transparency and accountability in protecting the confidentiality of BWC-managed CPI.

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
ORC 1347.15 Confidential Personal Information
Rules 4123-10-01 through 4123-10-05**

Introduction

In April 2009, Governor Strickland issued a Revised Management Directive setting forth the process that state agencies were to follow to fully implement new Confidential Personal Information (CPI) initiatives. The Governor directed each state agency to adopt a detailed implementation plan that included an evaluation of all personal information systems maintained by the agency, development of information access policies, and drafting and finalization of administrative rules governing the use and access of CPI. The rules to be adopted are based upon model rules provided by a State Interagency Working Group.

Background Law

Substitute House Bill 648 (127th General Assembly) amended the Ohio Revised Code (ORC), including sections 1347.15, 1347.99 and 5703.211, to require agencies, boards and commissions (state agencies) to develop administrative rules, and related policies on CPI access.

Proposed Change

In compliance with ORC 1347.15, BWC will implement Rules 4123-10-01 through 4123-10-05 to outline valid reasons and procedures for accessing CPI, catalog confidentiality statutes, establish criteria for giving employees access to CPI, and set procedures for logging employee access.

4123-10-01 Definitions - Modeled after the Department of Administrative Services' (DAS) Definition Rule. These definitions only apply to BWC-specific Rules 4123-10-01 through 4123-10-05.

4123-10-02 Procedures for Accessing CPI - Covers the criteria for employee access to CPI, an individual's request to access CPI, notification of invalid access, appointment of a data privacy point of contact, and completion of a privacy impact assessment. The rule varies only slightly from the model Rule.

4123-10-03 Valid Reasons for Accessing CPI - While paragraph (A) is nearly identical to the model rule, paragraph (B) lists BWC-specific reasons for accessing CPI.

4123-10-04 Confidentiality Statutes - This rule is BWC-specific and lists applicable statutes that require confidentiality.

4123-10-05 Restricting and Logging Access - Covers logging access to CPI and the use of passwords and authentication. This rule varies only slightly from the model rule.

4123-10-01 Definitions

For the purposes of administrative rules in this chapter promulgated in accordance with section 1347.15 of the Revised Code, the following definitions apply:

(A) "Access" as a noun means an opportunity to copy, view, or otherwise perceive whereas "access" as a verb means to copy, view, or otherwise perceive.

(B) "Acquisition of a new computer system" means the purchase of a "computer system," as defined in this rule, that is not a computer system currently in place nor one for which the acquisition process has been initiated as of the effective date of the bureau rule addressing requirements in section 1347.15 of the Revised Code.

(C) "Computer system" means a "system," as defined by section 1347.01 of the Revised Code, that stores, maintains, or retrieves personal information using electronic data processing equipment.

(D) "Confidential personal information" (CPI) has the meaning as defined by division (A)(1) of section 1347.15 of the Revised Code and identified by rules promulgated by the bureau in accordance with division (B)(3) of section 1347.15 of the Revised Code that reference the federal or state statutes or administrative rules that make personal information maintained by the bureau confidential.

(E) "Employee of the bureau" means each employee of the bureau regardless of whether he/she holds an elected or appointed office or position within the bureau. "Employee of the bureau" is limited to the bureau.

(F) "Incidental contact" means contact with the information that is secondary or tangential to the primary purpose of the activity that resulted in the contact.

(G) "Individual" means natural person or the natural person's authorized representative, legal counsel, legal custodian, or legal guardian.

(H) "Information owner" means the individual appointed in accordance with division (A) of section 1347.05 of the Revised Code to be directly responsible for a system.

(I) "Person" means natural person.

(J) "Personal information" has the same meaning as defined in division (E) of section 1347.01 of the Revised Code.

(K) "Personal information system" means a "system" that "maintains" "personal information" as those terms are defined in section 1347.01 of the Revised Code. "System" includes manual and computer systems.

(L) "Research" means a methodical investigation into a subject.

(M) "Routine" means common place, regular, habitual, or ordinary.

(N) "Routine information that is maintained for the purpose of internal office administration, the use of which would not adversely affect a person" as that phrase is used in division (F) of

section 1347.01 of the Revised Code means personal information relating to the bureau's employees that is maintained by the bureau for administrative and human resource purposes.

(O) "System" has the same meaning as defined by division (F) of section 1347.01 of the Revised Code.

(P) "Upgrade" means a substantial redesign of an existing system for the purpose of providing a substantial amount of new application functionality, or application modifications that would involve substantial administrative or fiscal resources to implement, but would not include maintenance, minor updates and patches, or modifications that entail a limited addition of functionality due to changes in business or legal requirements.

4123-10-02 Procedures for accessing confidential personal information.

For personal information systems, whether manual or computer systems, that contain confidential personal information, the bureau shall do the following:

(A) Criteria for accessing confidential personal information. Personal information systems of the bureau are managed on a "need-to-know" basis whereby the information owner determines the level of access required for an employee of the bureau to fulfill his/her job duties. The determination of access to confidential personal information shall be approved by the employee's supervisor and the information owner prior to providing the employee with access to confidential personal information within a personal information system. The bureau shall establish procedures for determining a revision to an employee's access to confidential personal information upon a change to that employee's job duties including, but not limited to, transfer or termination. Whenever an employee's job duties no longer require access to confidential personal information in a personal information system, the employee's access to confidential personal information shall be removed.

(B) Individual's request for a list of confidential personal information. Upon the signed written request of any individual for a list of confidential personal information about the individual maintained by the bureau, the bureau shall do all of the following:

(1) Verify the identity of the individual by a method that provides safeguards commensurate with the risk associated with the confidential personal information;

(2) Provide to the individual the list of confidential personal information that does not relate to an investigation about the individual or is otherwise not excluded from the scope of Chapter 1347. of the Revised Code; and

(3) If all information relates to an investigation about that individual, inform the individual that the bureau has no confidential personal information about the individual that is responsive to the individual's request.

(C) Notice of invalid access.

(1) Upon discovery or notification that confidential personal information of a person has been accessed by an employee for an invalid reason, the bureau shall notify the person whose information was invalidly accessed as soon as practical and to the extent known at the time. However, the bureau shall delay notification for a period of time necessary to

ensure that the notification would not delay or impede an investigation or jeopardize homeland or national security. Additionally, the bureau may delay the notification consistent with any measures necessary to determine the scope of the invalid access, including which individuals' confidential personal information invalidly was accessed, and to restore the reasonable integrity of the system.

"Investigation" as used in this paragraph means the investigation of the circumstances and involvement of an employee surrounding the invalid access of the confidential personal information. Once the bureau determines that notification would not delay or impede an investigation, the bureau shall disclose the access to confidential personal information made for an invalid reason to the person.

(2) Notification provided by the bureau shall inform the person of the type of confidential personal information accessed and the date(s) of the invalid access.

(3) Notification may be made by any method reasonably designed to accurately inform the person of the invalid access, including written, electronic, or telephone notice.

(D) Appointment of a data privacy point of contact. The administrator of the bureau shall designate an employee of the bureau to serve as the data privacy point of contact. The data privacy point of contact shall work with the chief privacy officer within the office of information technology to assist the bureau with both the implementation of privacy protections for the confidential personal information that the bureau maintains and compliance with section 1347.15 of the Revised Code and the rules adopted pursuant to the authority provided by that chapter.

(E) Completion of a privacy impact assessment. The administrator shall designate an employee of the bureau to serve as the data privacy point of contact who shall timely complete the privacy impact assessment form developed by the office of information technology.

4123-10-03 Valid reasons for accessing confidential person information.

Pursuant to the requirements of division (B)(2) of section 1347.15 of the Revised Code, this rule contains a list of valid reasons, directly related to the bureau's exercise of its powers or duties, for which only employees of the bureau may access confidential personal information (CPI) regardless of whether the personal information system is a manual system or computer system:

(A) Performing the following functions constitute valid reasons for authorized employees of the bureau to access confidential personal information:

- (1) Responding to a public records request;
- (2) Responding to a request from an individual for the list of CPI the bureau maintains on that individual;
- (3) Administering a constitutional provision or duty;
- (4) Administering a statutory provision or duty;
- (5) Administering an administrative rule provision or duty;

- (6) Complying with any state or federal program requirements;
- (7) Processing or payment of claims or otherwise administering a program with individual participants or beneficiaries;
- (8) Auditing purposes;
- (9) Licensure [or permit, eligibility, filing, etc.] processes;
- (10) Investigation or law enforcement purposes;
- (11) Administrative hearings;
- (12) Litigation, complying with an order of the court, or subpoena;
- (13) Human resource matters (e.g., hiring, promotion, demotion, discharge, salary/compensation issues, leave requests/issues, time card approvals/issues);
- (14) Complying with an executive order or policy;
- (15) Complying with a bureau policy or a state administrative policy issued by the department of administrative services, the office of budget and management or other similar state agency; or
- (16) Complying with a collective bargaining agreement provision.

(B) To the extent that the general processes described in paragraph (A) of this rule do not cover the following circumstances, for the purpose of carrying out specific duties of the bureau, authorized employees would also have valid reasons for accessing CPI in these following circumstances:

- (1) Authorized bureau employees may review CPI of individuals who have applied for workers' compensation benefits as well as CPI regarding amenable employers.
- (2) Authorized bureau employees may review CPI of bureau employees and contractors in furtherance of auditing, investigational and legal matters.
- (3) Authorized bureau employees may review CPI regarding bureau employee information, investment data and other financial information.
- (4) Authorized bureau employees in the IT division may review CPI in furtherance of their official IT duties as defined by their job description.
- (5) Authorized bureau employees may review CPI of employers, including professional employer organizations, group sponsors, and third party administrators, to investigate the impacts of workers' compensation strategies, policies, and recommendations.
- (6) Authorized bureau employees may review CPI of providers as part of the bureau certification process.

(7) Authorized bureau employees may review CPI of financial and other relevant information concerning MCOs as part of the bureau certification process.

4123-10-04 Confidentiality statutes.

The following federal statutes or regulations or state statutes and administrative rules make personal information maintained by the bureau confidential and identify the confidential personal information within the scope of rules promulgated by the bureau in accordance with section 1347.15 of the Revised Code:

(A) Social security numbers, unless the individual was told that the number would be disclosed. See 5 U.S.C. 552a.

(B) Bureau of criminal investigation and information criminal records check results. See section 4776.04 of the Revised Code.

(C) Any information in respect of any claim. Division (A) of section 4123.88 of the Revised Code provides that no employee of the bureau “shall divulge any information in respect of any claim or appeal which is or may be filed with a district or staff hearing officer, the bureau, or commission to any person other than members of the commission or to the superior of the employee except upon authorization of the administrator of workers' compensation or a member of the commission or upon authorization of the claimant or employer.”

(D) Addresses and telephone numbers cannot be divulged without authorization. See division (B) of section 4123.88 of the Revised Code.

(E) Employer and third party information, annual report, and child support / public assistance information. See section 4123.27 of the Revised Code.

(1) Information submitted by the employer in the annual employer statement (payroll, premium and number of employees) and any other additional required information shall not be open to the public.

(2) No person in the employ of the bureau, except those who are authorized by the administrator of workers' compensation, shall divulge any information secured by the person while in the employ of the bureau in respect to the transactions, property, claim files, records, or papers of the bureau or in respect to the business or mechanical, chemical, or other industrial process of any company, firm, corporation, person, association, partnership, or public utility to any person other than the administrator or to the superior of such employee of the bureau.

(3) The bureau can share information with the Ohio department of job and family services or with the auditor of state but will otherwise protect confidentiality of child support or public assistance recipients.

(F) Complaint review procedure for the bureau's disability evaluators' panel physicians. All “proceedings and records within the scope of a peer review committee of a health care entity.” See division (E)(2)(j) of section 2305.25 of the Revised Code and section 2305.252 of the Revised Code.

(G) Governmental records that are exempt from disclosure under the public records act. See section 149.43 of the Revised Code.

(H) Investment information provided by a bureau approved investment manager. See division (B)(2) of section 4123.444 of the Revised Code.

4123-10-05 Restricting and logging access to confidential personal information in computerized personal information systems.

For personal information systems that are computer systems and contain confidential personal information, the bureau shall do the following:

(A) Access restrictions. Access to confidential personal information that is kept electronically shall require a password or other authentication measure.

(B) Acquisition of a new computer system. When the bureau acquires a new computer system that stores, manages or contains confidential personal information, the bureau shall include a mechanism for recording specific access by employees of the bureau to confidential personal information in the system.

(C) Upgrading existing computer systems. When the bureau modifies an existing computer system that stores, manages or contains confidential personal information, the bureau shall make a determination whether the modification constitutes an upgrade. Any upgrades to a computer system shall include a mechanism for recording specific access by employees of the bureau to confidential personal information in the system.

(D) Logging requirements regarding confidential personal information in existing computer systems.

(1) Each employee of the bureau who accesses confidential personal information within computer systems shall maintain a log that records that access.

(2) Access to confidential information is not required to be entered into the log under the following circumstances:

(a) The employee of the bureau is accessing confidential personal information for official bureau purposes, including research, and the access is not specifically directed toward a specifically named individual or a group of specifically named individuals.

(b) The employee of the bureau is accessing confidential personal information for routine office procedures and the access is not specifically directed toward a specifically named individual or a group of specifically named individuals.

(c) The employee of the bureau comes into incidental contact with confidential personal information and the access of the information is not specifically directed toward a specifically named individual or a group of specifically named individuals.

(d) The employee of the bureau accesses confidential personal information about an individual based upon a request made under either of the following circumstances:

(i) The individual requests confidential personal information about himself/herself.

(ii) The individual makes a request that the bureau takes some action on that individual's behalf and accessing the confidential personal information is required in order to consider or process that request.

(3) For purposes of this paragraph, the bureau may choose the form or forms of logging, whether in electronic or paper formats.

(E) Log management. The bureau shall issue a policy that specifies the following:

(1) Who shall maintain the log;

(2) What information shall be captured in the log;

(3) How the log is to be stored; and

(4) How long information kept in the log is to be retained.

Nothing in this rule limits the bureau from requiring logging in any circumstance that it deems necessary.

INTERNAL AUDIT DIVISION CHARTER

MISSION AND SCOPE OF WORK: The Ohio Bureau of Workers' Compensation (BWC) Internal Audit Division (IAD) provides management personnel and the Audit Committee of the Workers' Compensation Board of Directors with a systematic, disciplined approach to evaluate bureau information, internal controls and governance processes. The IAD will provide independent, objective assurance and consulting activities designed to add value by improving operations and business processes. Bureau management and the Audit Committee of the Workers' Compensation Board of Directors will be presented with analyses, recommendations, and counsel to enhance transparency and accountability.

Our scope of work is to determine if the bureau's risk management, control and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are utilized in agency control processes.
- Significant legislative or regulatory issues impacting the bureau's fiscal operation are recognized and addressed appropriately.
- Adequate controls are incorporated within new systems and processes.

All audit activities are governed by the Institute of Internal Auditors' *International Professional Practices Framework (Standards)* and will provide information to improve accountability and facilitate decision-making by parties with the responsibility to oversee or initiate corrective action.

In accordance with the provisions of ORC 4121.125 and 4121.129, the Internal Audit Division will report to the Administrator and will also have periodic meetings with the Audit Committee of the Workers' Compensation Board of Directors.

AUTHORITY: The IAD staff has the operational independence in the conduct of their duties and has the authority to initiate, carry out and report on any action considered necessary. The IAD is authorized to:

- Have unrestricted access to all functions, records, systems, and property, including those records placed in trust with parties that contract with BWC.
- Have unrestricted access to personnel, subject to the limitations of collective bargaining agreements.
- Have full and free access to the Workers' Compensation Audit Committee and the Board of Directors.
- Allocate its resources, set frequencies, select audits, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of specialized services from outside the organization to perform audits when needed.

AUDIT PRACTICE PROFESSIONAL STANDARDS AND FRAMEWORKS: The IAD will conduct internal audits in a professional, impartial and unbiased manner. Audit staff will avoid all conflicts of interest and behave in an ethical manner in accordance with the Code of Ethics for Employees of the Bureau of Workers' Compensation. IAD will also comply with BWC's mandatory Ethics training program.

IAD will perform all audit work with due professional care and in accordance with the Standards. Auditors are expected to apply and uphold the IIA's Code of Ethics which is intended to promote an ethical culture in the global profession of internal auditing and include integrity, objectivity, confidentiality, and competency principles.

ACCOUNTABILITY: The Chief of Internal Audit (CIA) will perform the following:

- Submit an annual risk-based audit plan to the Audit Committee of the Workers' Compensation Board of Directors for review and comment prior to the beginning of each fiscal year.
- Issue final reports to bureau management detailing significant issues related to the processes for controlling the activities of the bureau, including potential improvements to processes, and provide summarized information concerning such issues to the Audit Committee of the Workers' Compensation Board of Directors.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of IAD resources to the Administrator and the Audit Committee of the Workers' Compensation Board of Directors.
- Coordinate with other control and monitoring functions (Office of Budget and Management Internal Audit, Inspector General, State Auditor, BWC's independent public accountants and regulatory agencies).
- Report suspected illegal activity or wrongdoing according to BWC Internal Fraud Policy. (Memo 4.29)
- Report on other significant issues that materialize outside of planned audit initiatives.

INDEPENDENCE: In accordance with the provisions of ORC 4121.125 and 4121.129, and to provide for the independence of the IAD, its personnel shall report to the CIA, who reports administratively to the BWC Administrator and in an advisory capacity to the Audit Committee of the Workers' Compensation Board of Directors in a manner outlined in the above section on Accountability.

The Audit Committee of the Workers' Compensation Board of Directors shall review and provide input on the appointment, replacement, reassignment or dismissal of the CIA. Further, the Audit Committee of the Workers' Compensation Board of Directors will review and concur with the annual audit plan and IAD's operational budget as included in the BWC Administrative Budget. This organizational structure is designed to allow IAD to be independent and effectively accomplish its purpose.

RESPONSIBILITY: The CIA and staff have responsibility to:

- Develop a flexible annual audit plan using appropriate risk-based methodology, including: the risk for fraud, waste, or abuse of public money within an agency or division; the length of time since a process was last subject to an internal audit; the size of a process, and the amount of time and resources necessary to audit it; and any risks or control concerns identified by management.
- Submit the annual audit plan to the Audit Committee of the Workers' Compensation Board of Directors for review and comment as well as provide periodic updates.
- Implement the annual audit plan, including as appropriate any special tasks or projects requested by management or the Audit Committee of the Workers' Compensation Board of Directors.
- Conduct reviews of divisions within the BWC, at appropriate intervals, to determine whether they are effectively carrying out their functions of administration, accounting, safeguarding of BWC assets, and control in accordance with management's instructions, policies, and procedures, and in a manner that is in agreement both with Agency objectives and high standards of administrative practice. This also includes reviews of entities that contract with BWC to perform state-mandated functions and activities. Types of reviews:
 - Assurance – an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organizations. Examples include financial, performance, and compliance engagements.
 - Consulting – advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications, or contract for similar resources, to meet the requirements of the annual audit plan submitted to the Audit Committee of the Workers' Compensation Board of Directors.
- Issue periodic updates to the Audit Committee of the Workers' Compensation Board of Directors and management summarizing results of audit activities. Ensure that appropriate quality controls are in place and that reviews are conducted in accordance with accepted internal auditing standards.
- Establish and maintain follow-up systems to determine whether effective action has been taken within a reasonable time, and periodically report on situations where adequate, timely corrective action has not been implemented.

Draft: 04/07/10

Review & Approved: "Date", Ken Haffey, Chair

INTERNAL AUDIT DIVISION CHARTER

GENERAL MISSION AND SCOPE OF WORK:

~~It is the policy of the~~ The Ohio Bureau of Workers' Compensation (BWC) Internal Audit Division (IAD) ~~to provide and support an Internal Audit Division as an independent appraisal and consultation function to supply management personnel at all levels and the Audit Committee of the Workers' Compensation Board of Directors with~~ a systematic, disciplined approach to evaluate bureau information, internal controls and governance processes. The IAD will objective evaluations, appraisals, and recommendations concerning the risk management, control and governance activities reviewed. The Division will also provide an independent, objective assurance and consulting activities designed to add value by improving operations and business processes. Bureau management and the Audit Committee of the Workers' Compensation Board of Directors will be presented with analyses, recommendations, and counsel to enhance transparency and accountability. assessment of the performance of programs activities and functions.

Comment [CRM1]: IIA Standard 1010 - Definition of Internal Auditing.

~~All audit activities will be governed by Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)* and will provide information to improve accountability and facilitate decision making by parties with the responsibility to oversee or initiate corrective action.~~

~~The Internal Audit Division will report to the Administrator and will also have periodic meetings with the Audit Committee of the Board of Directors.~~

Our scope of work is to determine if the bureau's risk management, control and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are utilized in agency control processes.
- Significant legislative or regulatory issues impacting the bureau's fiscal operation are recognized and addressed appropriately.
- Adequate controls are incorporated within new systems and processes.

All audit activities are governed by the Institute of Internal Auditors' *International Professional Practices Framework (Standards)* and will provide information to improve accountability and facilitate decision-making by parties with the responsibility to oversee or initiate corrective action.

Comment [CRM2]: IIA Standard 1010 - Recognition of Standards.

In accordance with the provisions of ORC 4121.125 and 4121.129, the Internal Audit Division will report to the Administrator and will also have periodic meetings with the Audit Committee of the Workers' Compensation Board of Directors.

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AUTHORITY:-
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The Internal Audit Division staff IAD staff has the operational independence in the conduct of their duties and has the authority to initiate, carry out and report on any action considered necessary. The IAD is authorized to:

- Have unrestricted access to all functions, records, systems, and property, including those records placed in trust with parties that contract with BWC.
- Have unrestricted access to personnel, subject to the limitations of collective bargaining agreements.
- Have full and free access to the Workers' Compensation Audit Committee and the Board of Directors.
- Allocate its resources, set frequencies, select audits, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of specialized services from outside the organization to perform audits when needed.
- ~~will be authorized to review all areas of the Ohio Bureau of Workers' Compensation and to have full, free, and unrestricted access to all Ohio Bureau of Workers' Compensation activities, records, property, and personnel. This also includes records that are placed in trust with parties that contract with the BWC.~~

AUDIT PRACTICE PROFESSIONAL STANDARDS AND FRAMEWORKS: The IAD will conduct internal audits in a professional, impartial and unbiased manner. Audit staff will avoid all conflicts of interest and behave in an ethical manner in accordance with the Code of Ethics for Employees of the Bureau of Workers' Compensation. IAD will also comply with BWC's mandatory Ethics training program.

IAD will perform all audit work with due professional care and in accordance with the Standards. Auditors are expected to apply and uphold the IIA's Code of Ethics which is intended to promote an ethical culture in the global profession of internal auditing and include integrity, objectivity, confidentiality, and competency principles.

Comment [CRM3]: IIA Standard 1010 – Recognition of Standards.

Comment [CRM4]: IIA Standard 1010 – Recognition of Code of Ethics.

RESPONSIBILITIES-ACCOUNTABILITY: The Chief of Internal Audit (CIA) will perform the following:

- Submit an annual risk-based audit plan to the Audit Committee of the Workers' Compensation Board of Directors for review and comment prior to the beginning of each fiscal year.
- Issue final reports to bureau management detailing significant issues related to the processes for controlling the activities of the bureau, including potential improvements to processes, and provide summarized information concerning such issues to the Audit Committee of the Workers' Compensation Board of Directors.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of IAD resources to the Administrator and the Audit Committee of the Workers' Compensation Board of Directors.

- Coordinate with other control and monitoring functions (Office of Budget and Management Internal Audit, Inspector General, State Auditor, BWC's independent public accountants and regulatory agencies).
- Report suspected illegal activity or wrongdoing according to BWC Internal Fraud Policy. (Memo 4.29)
- Report on other significant issues that materialize outside of planned audit initiatives.

INDEPENDENCE:

-In accordance with the provisions of ORC 4121.125 and 4121.129, and to provide for the independence of the IAD, its personnel shall report to the CIA, who reports administratively to the BWC Administrator and in an advisory capacity to the Audit Committee of the Workers' Compensation Board of Directors in a manner outlined in the above section on Accountability.

The Audit Committee of the Workers' Compensation Board of Directors shall review and provide input on the appointment, replacement, reassignment or dismissal of the CIA. Further, the Audit Committee of the Workers' Compensation Board of Directors will review and concur with the annual audit plan and the IAD's operational budget as included in the BWC Administrative Budget. This organizational structure is designed to allow IAD to be independent and effectively accomplish its purpose.

RESPONSIBILITY: The CIA and staff have responsibility to:

- Develop a flexible annual audit plan using appropriate risk-based methodology, including: the risk for fraud, waste, or abuse of public money within an agency or division; the length of time since a process was last subject to an internal audit; the size of a process, and the amount of time and resources necessary to audit it; and any risks or control concerns identified by management.
- Submit the annual audit plan to the Audit Committee of the Workers' Compensation Board of Directors for review and comment as well as provide periodic updates.
- Implement the annual audit plan, including as appropriate any special tasks or projects requested by management or the Audit Committee of the Workers' Compensation Board of Directors.
- Conduct reviews of divisions within the Ohio Bureau of Workers' Compensation (BWC), at appropriate intervals, to determine whether they are effectively carrying out their functions of administration, accounting, safeguarding of BWC assets, and control in accordance with management's instructions, policies, and procedures, and in a manner that is in agreement both with Agency objectives and high standards of administrative practice. This also includes reviews of entities that contract with BWC to perform state-mandated functions and activities. Types of reviews:
 - Assurance – an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organizations. Examples include financial, performance, and compliance engagements.
 - Consulting – advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications, or contract for similar resources, to meet the requirements of the annual audit plan submitted to the Audit Committee of the Workers' Compensation Board of Directors.
- Issue periodic updates to the Audit Committee of the Workers' Compensation Board of Directors and management summarizing results of audit activities.
- Ensure that appropriate quality controls are in place and that reviews are conducted in accordance with accepted internal auditing standards.
- Establish and maintain follow-up systems to determine whether effective action has been taken within a reasonable time, and periodically report on situations where adequate, timely corrective action has not been implemented.
- 1. Conduct reviews of divisions and control systems within the Ohio Bureau of Workers' Compensation, at appropriate intervals, to determine whether they are effectively carrying out their functions of administration, accounting, safeguarding of BWC assets, and control in accordance with management's instructions, policies, and procedures, and in a manner that is in agreement both with Agency objectives and high standards of administrative practice. This also includes reviews of entities that contract with BWC to perform state-mandated functions and activities.

Comment [CRM5]: IIA standard 1000.A1 – assurance services provided must be defined.

Comment [CRM6]: IIA Standard 1000.C1 – the nature of consulting services must be defined.

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- 2. Conduct performance reviews of BWC operations. A performance review is an independent assessment of the performance of programs, activities and functions and may consist of the following:
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 - a) assess compliance with laws, rules and policies applicable to the program;
 - b) assess whether the objectives of a new, or ongoing program are proper, suitable, or relevant;
 - c) determine the extent to which a program achieves a desired level of program results;
 - d) assess the effectiveness of the program and/or of individual program components;
 - e) identify factors inhibiting satisfactory performance;
 - f) determine whether alternatives have been considered for carrying out the program that might yield desired results more effectively or at a lower cost;
 - g) determine whether the program complements, duplicates, overlaps, or conflicts with other related programs;
 - h) identify ways of making programs work better;
 - i) assess the adequacy of the control system for measuring, reporting, and monitoring a program's effectiveness; and
 - j) determine whether reported measures of program effectiveness are valid and reliable.
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- 3. Provide consulting services and training, and control self assessment facilitated workshops:
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 - a) Consulting Services and Training—Internal Audit staff will be available to provide assistance and training to BWC management in designing management accountability systems and re-engineering operations. Internal Audit staff will be advisory only and management must accept responsibility for implementing any suggestions.
 - b) Control Self Assessment Facilitated Workshops—A BWC employee team will meet with Internal Audit staff to hold structured discussions on how to achieve its objectives in the most efficient and effective way. Action plans, rather than a formal audit report, are developed to address any obstacles to the objective(s). BWC employee team members are responsible for implementing action plan steps.
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- 4. Promptly report the results of examinations made by the auditors and their resulting opinions and recommendations to management personnel of sufficient authority to ensure that appropriate action is taken with respect to any deficiency noted.
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- 5. Evaluate any plans or actions taken to correct reported conditions for satisfactory disposition of audit findings. If the disposition is considered unsatisfactory, see that further discussions are held to achieve satisfactory disposition.
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- 6. Coordinate audit efforts with those of the BWC's independent public accountants.
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- 7. Participate in the planning, design, development, and implementation of major computer based systems to determine whether:
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 - a) adequate controls are incorporated in the systems;

- ~~b) thorough systems checking is performed at appropriate stages; and~~
- ~~c) systems documentation is complete and accurate.~~
- ~~-~~
- ~~8. Conduct periodic audits of data processing and make post installation evaluations of major data processing systems to determine whether these systems meet their intended purposes and objectives.~~
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- ~~9. Conduct special examinations at the request of management or the Audit Committee of the Board of Directors.~~
- ~~-~~
- ~~10. Identify opportunities for cost reduction and profit improvement.~~
- ~~-~~
- ~~11. Review contracts and other agreements with external parties providing goods and services as appropriate. Review the records and documentation of these external parties when deemed necessary to ascertain compliance with contract terms.~~
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- ~~12. Assist audit staffs of various regulatory agencies.~~
- ~~-~~
- ~~13. Submit annual audit plan to the Administrator and the Audit Committee for their review and approval.~~
- ~~-~~
- ~~14. Report to the Audit Committee of the Board of Directors as to whether:-~~
- ~~-~~
- ~~a) appropriate action has been taken on significant audit findings;~~
- ~~b) audit activities have been directed toward highest exposures to risk and toward increasing efficiency, economy, and effectiveness of operations;~~
- ~~c) internal and external audits are coordinated, so as to avoid duplication;~~
- ~~d) internal audit plans are adequate; and~~
- ~~e) there is any unwarranted restriction on access by internal auditors to all BWG activities, records, property, and personnel.~~

12-Month Audit Committee Calendar

Date	May 2010
5/27/2010	1. FY 2011 Administrative Budget (2 nd Reading)
	2. Internal Audit Charter
	3. Access to Confidential Personal Information Rule 4123-10-01 to 4123-10-05 (1 st Reading)
	4. OBM IT Audit Update (Executive Session)
	5. Quarterly Litigation Update (Executive Session)
	June 2010
6/17/2010	1. FY 2011 Audit Plan
	2. FY 2011 Financial Projections (1 st Reading)
	3. External Audit Update
	4. Access to Confidential Personal Information Rule 4123-10-01 to 4123-10-05 (2 nd Reading)
	July 2010
7/28/2010	1. Internal Audit QES Review
	2. FY 2011 Financial Projections (2 nd Reading)
	3. FY 2012/13 Biennial Budget (1 st Reading)
	4. Quarterly Litigation Update (Executive Session)
	August 2010
8/26/2010	1. BWC Code of Ethics Review
	2. FY 2012/13 Biennial Budget (2 nd Reading)
	3. External Audit Update
	September 2010
9/23/2010	1. Internal Audit QES Review
	2. Inspector General Semi-Annual Report (Executive Session)
	October 2010
10/21/2010	1. Audit Committee Charter Review (1 st Reading)
	2. Quarterly Litigation Update (Executive Session)
	November 2010
11/18/2010	1. External Audit Update
	December 2010
12/15/2010	1. Internal Audit QES Review
	2. Office of Budget and Management Update – BWC Staff Transfer
	January 2011
TBD	1. Annual Disaster Recovery/Business Continuity Plan
	2. External Audit Comments - Update
	3. Quarterly Litigation Update (Executive Session)

12-Month Audit Committee Calendar

	February 2011
TBD	1. Inspector General Annual Report (Executive Session)
	March 2011
TBD	1. Internal Audit QES Review
	2. Discount Rate and Financial Metrics (1 st Reading)
	April 2011
TBD	1. Discussion of External Audit
	2. Discount Rate and Financial Metrics (2 nd Reading)
	3. FY 2011 Administrative Budget (1 st Reading)
	4. Quarterly Litigation Update