

BWC Board of Directors
Audit Committee Agenda

William Green Building

Thursday, June 17, 2010

Level 2, Room 3

8:00 a.m. – 9:30 a.m.

Call to Order

Ken Haffey, Committee Chair

Roll Call

Jill Whitworth, Scribe

Approve Minutes of May 27, 2010 meeting

Ken Haffey, Committee Chair

Approve Agenda

Ken Haffey, Committee Chair

New Business/ Action Items

1. FY 2011 Proposed Audit Plan

Caren Murdock, Chief of Internal Audit

2. Motion for Board Consideration

A. For Second Reading

1. Access to Confidential Personal Information

James Barnes, General Counsel

Ken Cain, Staff Counsel Motion for Board Consideration

B. For First Reading

2. FY 2011 Financial Projections

Tracy Valentino, Chief of Fiscal and Planning

Discussion Items*

1. External Audit Update

Tracy Valentino, Chief of Fiscal and Planning

2. Open Discussion with Internal Auditor

Caren Murdock, Chief of Internal Audit

3. Committee Calendar

Ken Haffey, Committee Chair

4. Litigation Update, Executive Session

James Barnes, General Counsel

Adjourn

Ken Haffey, Committee Chair

Next Meeting: Wednesday, July 28, 2010

* Not all agenda items have material.

** Agenda subject to change.

BWC Board of Directors
AUDIT COMMITTEE
Thursday, May 27, 2010, 8:00 A.M.
William Green Building
30 West Spring St. 2nd Floor (Mezzanine)
Columbus, Ohio 43215

MEMBERS PRESENT: Kenneth Haffey, Chair
Bob Smith, Vice Chair
William Lhota
James Harris
Jim Matesich

Members Absent: None

Other Directors Present: David Caldwell, Allison Falls, James Hummel, Thomas Pitts, and Larry Price

Counsel present: John Williams, Assistant Attorney General

Scribe: Larry Rhodebeck, Staff Counsel

CALL TO ORDER

Mr. Haffey called the meeting to order at 8:00 a.m. and the roll call was taken.

MINUTES OF APRIL 29, 2010

Mr. Harris moved to approve the minutes of April 29, 2010. Mr. Smith seconded and the minutes were approved by a roll call vote of five ayes and no nays.

AGENDA

There were no changes to the agenda. Mr. Harris moved to adopt the agenda. Mr. Smith seconded and the agenda was adopted by a roll call vote of five ayes and no nays.

NEW BUSINESS/ACTION ITEMS

RESOLUTION FOR SECOND READING, FISCAL YEAR 2011 ADMINISTRATIVE BUDGET

Tracy Valentino, Chief, Fiscal & Planning Division, requested approval of the fiscal year 2011 Administrative Budget. Her presentation included reference to "Fiscal

Year 2011 Annual Budget Executive Summary” of May 14, 2010. The only changes from the April report were removal of some duplicative items. This slightly lowers the 2011 fiscal year budget request from \$284.7 million to \$284 million. The report also now includes appropriation line items. With these changes the budget is now \$22 million less than fiscal year 2010 budget, and 13% (or \$45 million) less than amount appropriated by the General Assembly.

Mr. Matesich moved that the Audit Committee recommend that the BWC Board of Directors approve the Administrator’s recommendation for the fiscal year 2011 Annual Administrative Budget. This motion consents to a fiscal year 2011 budget of \$284 million for the operation of BWC and the BWC Board of Directors as presented at the Audit Committee. Mr. Harris seconded the motion.

Mr. Lhota asked if the transfer of funds from the Coal Workers’ Pneumoconiosis Fund was included in the budget. Ms. Valentino responded that it was not in the budget, but it was a cash item on the balance sheet. Mr. Lhota asked if it was the same type of transfer to the Inspector General and the Workers’ Compensation Council. Ms. Valentino replied that these transfers received the same treatment and were also included in the “Enterprise Report.”

The motion was approved by a roll call vote of five ayes and no nays.

FIRST READING: ACCESS TO CONFIDENTIAL PERSONAL INFORMATION, OHIO ADMINISTRATIVE CODE RULES 4123-10-01 TO 4123-10-05.

James Barnes, General Counsel, and Ken Cain, Staff Counsel, recommended approval of Ohio Administrative Code Rules 4123-10-01 to 4123-10-05 on confidential personal information. The presentation included reference to “Executive Summary, ORC 1347.15 Confidential Personal Information” of May 14, 2010. Mr. Barnes provided background that necessitates the rule. Mr. Barnes reported that in 2008 there was controversy involving a state agency—not BWC—accessing personal information of a private citizen. The citizen is commonly known as Joe the Plumber. In response, the Ohio General Assembly enacted HB648 (R.C. 1347.15) to ensure that state employees only access agency records for a legitimate government purpose. One of the requirements of R.C. 1347.15 is that each state agency must enact rules surrounding employee access to confidential personal information. The statute became effective April 2009 and applies only to access by state employees. State agencies are also required to implement policies and procedures regarding such access.

Referring to the Common Sense Business Regulation checklist, Mr. Barnes reported with respect to criterion 8, stakeholder input was not appropriate because the rules are internal process rules. Criterion 12 was not checked because the rules are indeed burdensome and costly. BWC has more than 2,300

employees and the business of BWC is to access claim files, and each examination requires logging. BWC employees will be required to create manual logs.

Mr. Matesich asked if this was included in the BWC administrative budget. Ms. Valentino replied that it is primarily a human resource cost rather than a monetary cost. Mr. Barnes added the logging requirement will result in lost productivity. Also, the statute requires new IT systems to have systematic logging capabilities.

Marsha Ryan, BWC Administrator, reported that the General Assembly did not consider the business costs of the rules. Mr. Barnes added that although mandated in April 2009, the lack of clarity of the statute requirements has caused implementation delays for state agencies.

Mr. Haffey asked about the timeline for completion. Mr. Barnes replied that there will be a second reading at the June meeting of the Audit Committee. June 30 is the deadline for submission to the Joint Commission on Agency Rule Review and completion of policies and procedures.

Mr. Cain reported that the rule defines “confidential personal information” as something that can be researched by name or number. At BWC, these include twenty-nine items including claims status, premiums, and number of employees. Rule 4123-10-01 includes other definitions. Rule 4123-10-02 follows the model rule of the Department of Administrative Services. Rule 4123-10-03 sets forth specific criteria applicable to BWC. Rule 4123-10-04 restates federal and state requirements on confidentiality which BWC already follows. Rule 4123-10-05 sets forth logging requirements. BWC is still developing forms and policies to conform to the statute and rules. Employees are not required to log if asked a question by a customer or if a customer is requesting action, but must notify the customer that accessing confidential information is necessary to respond to their request.

Mr. Harris asked why the number of employees is considered confidential. Mr. Cain replied that the number may be proprietary information and is taken from the BWC Public Records grid. Mr. Barnes added that there is a statutory prohibition and BWC will provide the specific statute citation and language.

Mr. Lhota asked if research by John Pedrick, Chief Actuarial Officer, or his department requires logging. Ken Cain replied that would constitute official agency research and is excluded.

Mr. Pitts asked if this affects access to Dolphin. Mr. Barnes replied that it does not impact access by outside parties. Mr. Pitts asked if Customer Service Specialists were required to log and Mr. Barnes affirmed. He added that such access

constitutes day to day processes, however, that is also research into individual records, so it requires logging.

Mr. Matesich asked what is logged. Mr. Barnes replied it will be the date, claim number, and reason. Logs will be kept in accordance with policies and record retention schedules.

Mr. Haffey stated that logging is part of CPA business practices.

Mr. Pitts noted that this could require logging of a hundred claims per day by Customer Service Specialists.

Mr. Harris asked if the statutory requirement includes auditing provisions. Mr. Barnes replied there were no such provisions.

INTERNAL AUDIT CHARTER

Caren Murdock, Chief of Internal Audit, recommended approval of the “Internal Audit Charter.” A “red-lined” and a “clean” version was provided to the Audit Committee for the presentation. This charter addresses the specific duties of the Internal Audit Division (IAD) and is distinct from the Audit Committee Charter. The charter is required by the Institute of Internal Auditors and must be approved by senior management and the board of directors. The charter was last reviewed by the Audit Committee in January 2007.

The scope of division work is to determine if the BWC risk management, control, and governance processes are adequate and functioning in a manner to ensure overall compliance. The IAD staff has the operational independence and authority to initiate, carry out, and report on any action considered necessary. IAD will perform all audit work with due professional care and in accordance with the standards. This includes the specific professional standards of CPAs and internal auditors. The accountability of the Chief of Internal Audit is to submit an annual risk-based audit plan to the Audit Committee. This will be done in June. The Chief of Internal Audit (CIA) will make monthly and quarterly reports to the Committee, including changes in the audit plan. The charter also discusses the independence of the Internal Audit Division -- The CIA reports administratively to the BWC Administrator and in an advisory capacity to the Audit Committee. The CIA and staff have a responsibility to conform to statutes and internal audit standards.

Mr. Haffey asked what were the items changed by the IAD to the charter. Ms. Murdock replied it was mostly clarification of terms and duties, such as requiring definition on internal audit.

Ms. Falls asked if the section on independence was new. Ms. Murdock replied that it is not, but moved from another location in the prior IAD charter.

Mr. Smith asked if the Audit Committee needed a waiver of first reading in order to vote approval today. Don Berno, Board Liaison, stated it would be required. Ms. Falls stated that the Governance Guidelines specified that waiver was needed for rules “and new business matters.”

Mr. Lhota moved to waive the requirement for a second reading. Mr. Smith seconded and the motion was approved by a roll call vote of five ayes and no nays.

Mr. Smith moved that the Audit Committee of the Workers' Compensation Board of Directors approve the Internal Audit Division Charter as presented here today, and refer the document to the Board for review and approval. This approval will fulfill the requirements of the Institute of Internal Auditors International Professional Practices framework and will be documented as such in the meeting minutes. Mr. Harris seconded and the motion was approved by a roll call vote of five ayes and no nays.

DISCUSSION ITEMS

OPEN DISCUSSION WITH INTERNAL AUDIT

Ms. Murdock reported that the Internal Audit Division had recently completed the fiscal year 2011 audit plan and submitted it to Administrator Ryan and senior management. The quarterly audit report is complete and will be presented in July to the audit Committee. Internal Audit has seven projects in process. These include one on the temporary total disability process, one of the largest benefit paid from the State Insurance Fund. There are six reviews, including setting of rates for the Disabled Workers' Relief Fund; manual rate adjustments of employers; the premium audit process; the investment personal trade policy; and the Safety and Hygiene Division review of grants to safety councils, and the public employer risk reduction program.

Mr. Haffey asked when Schneider Downs began testing for the fiscal year 2010 external audit. Ms. Murdock replied it was May 12. BWC has already met with Schneider Downs to allocate tasks. Mr. Haffey commented that the audit is underway and the start is going well.

COMMITTEE CALENDAR

Mr. Haffey reviewed the calendar for next month's meeting.

EXECUTIVE SESSION

Mr. Haffey reported that it was 8:45 a.m. and that the Audit Committee was moving into executive session. Mr. Bryan joined the meeting at this time.

The only other business to be conducted after adjournment from the executive session will be adjournment of the meeting.

Mr. Haffey moved to enter executive session pursuant to Ohio Revised Code §121.22(G) (3) and (D) (2) to discuss litigation and to conduct an audit conference with the Office of Budget and Management Chief Executive Officer. Mr. Smith seconded and the motion was approved by a roll call vote of five ayes and no nays.

ADJOURNMENT

The Audit Committee returned from executive session. Mr. Smith moved to adjourn and Mr. Lhota seconded. Mr. Haffey adjourned the meeting at 9:30 a.m. after the motion was approved by a roll call vote of five ayes and no nays.

H:\Word\ldr\WCB Audit Committee 0510.doc
June 1, 2010



Bureau of Workers'
Compensation

Internal Audit Division

**Fiscal Year 2011
Annual Audit Plan**

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

Caren Murdock, Chief
Karl Zarins, Director
Keith Elliott, Manager

FY 2011 Annual Audit Plan

Table of Contents

Introduction and Purpose	1
Risk Assessment Process.....	2
Heat Map	5
Listing of Audits/Projects	6
Focus Areas by Quarter	7
Audit Scope Descriptions	8
Types of Audits.....	11

FY 2011 Annual Audit Plan - Introduction and Purpose

Introduction

The BWC Internal Audit Division performed an assessment of the organization's risk environment to develop our audit plan for FY 2011. The assessment was based on various risk factors to the organization, as well as interviews with 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 the adequacy and effectiveness of internal controls;
- Validating compliance with policies, standards, procedures and applicable laws and regulations;
- Evaluating business processes 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 2011 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 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 possibility of an event occurring that will have an impact on the achievement of objectives.” Risk is measured in terms of impact and likelihood.

The risk assessment process included the following activities:

1. Mapped trial balance accounts to key processes;
2. Interviewed management and key stakeholders regarding risk and control concerns;
3. Developed audit risk assessment that defines risk factors applied to a numeric rating scale; and
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 impact of the event. The overall goal of the risk scoring approach is to help ensure that we audit high-risk areas each year.

The rated risk factors were weighted to arrive at a composite risk score for each area. The composite score was used to determine priority areas for the FY 2011 audit plan.

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



	Low Risk	Moderate Risk	Neutral Risk	Sensitive Risk	High Risk
Risk Rating A risk rating was assigned to each process across the seven categories. The risk rating contemplated both likelihood and impact.	The audit frequency is directly correlated to the process risk rating.				
Audit Frequency	The extent of audit effort is typically linked to the level of risk, size and complexity of each process.				
Audit Effort					
Risk Rating	1	2	3	4	5
Audit Effort	Extra Small	Small	Medium	Large	Extra Large
Hours	<100	100-300	301-500	501-800	801-1200

The level of audit effort for projects can vary significantly depending on the complexity of the area or process being examined.

Consideration of External Reviews

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

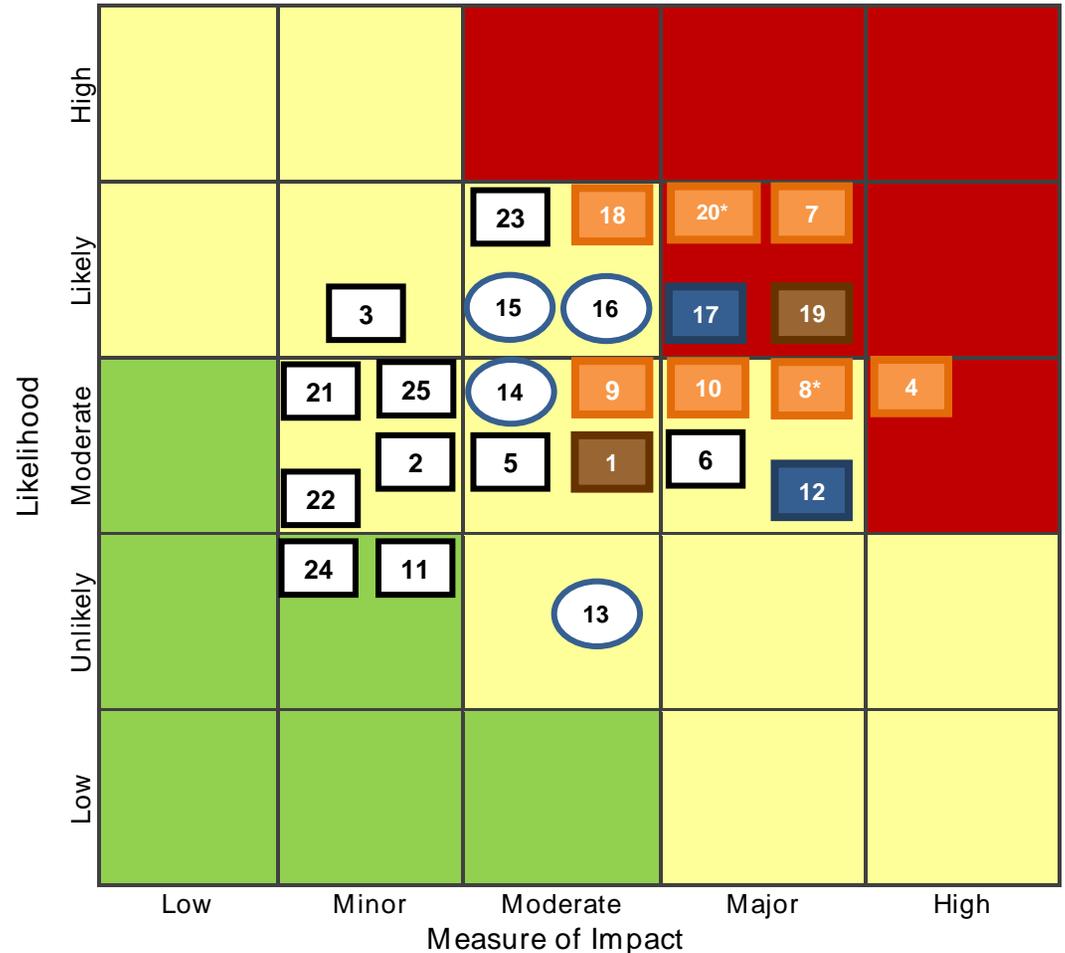
To minimize overlap, we leveraged the external reviews for the following areas in achieving audit coverage for FY2011.

Auditable Area	External Audit Coverage
Federal Grants	Annual Program Audit performed by OSHA
General Accounting and Financial Reports	Annual External Financial Statement Audit performed by Public Accounting Firm
Information Technology Processes	Annual External Financial Statement Audit performed by Public Accounting Firm and Office of Internal Audit
Rate Making	Actuarial Consulting Project performed by an External Firm
Reserves	Annual Actuarial Consultant Review and Annual External Financial Statement Audit performed by Public Accounting Firm

FY 2011 Annual Audit Plan - Heat Map

	List of Audit Universe	Avg Level of Effort
	FINANCIAL RISKS	
1	Revenue	
2	Inventory	
3	Capital Assets	
4	Cash & Investments (5 Projects)	5
5	Expenditures: Payroll	
6	Expenditures: Other	
7	Expenditures: Claims (5 Projects)	4
8	Financial Reporting (1 Project)	5
	OPERATIONAL RISKS	
9	Managed Care Organizations (Monitoring) (6 Projects)	5
10	Employer Operations (3 Projects)	4
11	Field Operations	
12	IT Application Development (1 Project)	4
13	IT Business Resiliency	
14	IT Enterprise Architecture	
15	IT Governance	
16	IT Project Management	
17	IT Security & Privacy (1 Project)	3
	STRATEGIC RISKS	
18	Self-Insurance (1 Project)	2
19	Reserves/Actuarial Analysis	
20	Rate-Making (1 Project)	4
21	Fraud & Investigative Unit	
22	Human Resources	
23	Legal	
24	Insurance	
25	Governance	

Bureau of Workers' Compensation



Red - high impact/high likelihood Yellow - medium Green - low impact/low likelihood

*= Multiple Coverage: BWC Audits and Other Coverage

BWC Audits
 OIA Audits
 OIA Audits Not Planned
 Other Coverage
 Not Planned

FY 2011 Annual Audit Plan - Listing of Audits/Projects

FY 2011 Audit Plan

Internal Control/ Compliance Reviews

- Employer Compliance Unit
- Employer Refunds
- Investment Continuous Compliance Monitoring Efforts
- MCO Audits
- Medical Services Compliance and Performance Monitoring Unit
- New Claims Audit
- Percentage Permanent Partial Disability Audit
- Pharmacy Benefit Program
- Professional Employment Organizations
- Special Claims
- Temporary Total Disability Benefits Audit

Financial Audits

- Large Deductible Program
- MCO Administrative and Incentive Payments

Consulting Projects

- Sysco Reimbursements

Other

- Audit Validation Testing
- External Audit Assistance
- FY 2012 Annual Audit Plan

FY 2011 Annual Audit Plan - Focus Areas by Quarter

Focus Area	1 st Qtr.			2 nd Qtr.			3 rd Qtr.			4 th Qtr.			Audit Effort
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
Temporary Total Disability Benefits	■	■	■										4
Employer Compliance Unit	■	■	■										4
New Claims Audit		■	■	■	■	■							5
Professional Employment Organizations			■	■	■	■							5
Special Claims						■	■	■					4
Large Deductible Program						■	■	■	■				4
Sysco Reimbursements						■	■	■					2
Percentage Permanent Partial Disability							■	■	■				3
Medical Services Compliance and Performance Monitoring Unit								■	■	■			4
Employer Refunds									■	■	■	■	3
Pharmacy Benefit Program										■	■	■	5
MCO Administrative and Incentive Payments										■	■	■	4
FY 2012 Audit Plan										■	■	■	3
External Audit Assistance											■	■	5
MCO Audits	■	■	■	■	■	■	■	■	■	■	■	■	5
Investment Continuous Compliance Monitoring Efforts	■	■	■	■	■	■	■	■	■	■	■	■	5
Audit Validation Testing	■	■	■	■	■	■	■	■	■	■	■	■	5

(Note: The above does not include IT audits to be performed by OBM.)

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 2011 Annual Audit Plan - Audit Scope Descriptions

Audit Validation Testing – We perform validation testing each quarter to ensure 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 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 corrective action. As comments are cleared through this process, they are removed from the list of outstanding comments provided to the Audit Committee.

Employer Compliance Unit – During this project we will assess the operations of the employer compliance unit. This review will also compare the employer compliance function with the premium audit function to detect any potential duplication of efforts.

Employer Refunds – This audit will examine the process of approving and issuing employer refunds. The audit will evaluate the operating effectiveness of key controls.

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.

FY 2012 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 2012 Internal Audit plan. The agency risk analysis is updated to assess the relative risk for agency processes and a risk score is assigned to each of the potential audit areas. In addition, an analysis is performed to map trial balance accounts to key processes to ensure Internal Audit resources are appropriately assigned.

Investment Continuous Compliance Monitoring Efforts – This on-going project will involve regular assessment/monitoring of compliance with the BWC Investment Policy Statement and/or other applicable rules or regulations. Activities will include receipt and review of daily/monthly compliance reports issued via the compliance rules established within the outsourced investment compliance system. In addition, we will perform periodic testing to assess compliance with sections of the investment policy

statement and Investment processes such as: Requests for Proposals, transitions and new accounts; daily and monthly controls; asset allocation and rebalancing; and Investment Manager Report Cards.

Large Deductible Program – The purpose of this review is to obtain an understanding of the new deductible program and assess the risks and control procedures implemented.

MCO Administrative & Incentive Payments – BWC pays in excess of \$170 million in administrative and incentive payments to Managed Care Organizations. This audit will examine this process to identify key controls established to assure accurate payments to MCOs. Detail testing will be performed to evaluate operating effectiveness of key control procedures, as well as the accuracy of the payments issued.

MCO Audits – Throughout the year, the MCO Audit Unit within Internal Audit will perform a number of risk-based audits of MCOs to evaluate internal control design, determine whether controls are placed in operation to safeguard agency assets and to verify MCO contract compliance. 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 verify compliance with contractual requirements.

Medical Services Compliance and Performance Monitoring (CPM) Unit – This audit will examine the scope of activities performed by the CPM unit, the reports issued, the nature of the comments/issues identified and the corrective actions taken to address their audit observations.

New claims audit – This project will assess the timeliness and appropriateness of new claims processing. Emphasis will include reasonableness of initial determination, rate setting, accuracy of manual code assignment, accuracy of policy number assignment and compliance with agency policies and procedures.

Percentage Permanent Partial Disability Audit – This Audit will evaluate the adequacy of internal controls over the payment of percentage permanent partial disability payments. In addition, we will assess the accuracy and timeliness of processing and the level of compliance with agency policies and procedures.

Pharmacy Benefit Program – We will perform an audit of the pharmacy benefit processes at BWC to assess adequacy of the design of controls and operating effectiveness.

Professional Employment Organizations (PEO) – This audit will assess the adequacy of controls over PEOs to address the inherent risks associated with this employer type.

Special Claims – This audit will identify the various claims functions performed by Special Claims and assess the adequacy of existing controls, level of adherence to agency policies and procedures, as well as the efficiency and effectiveness of operations.

Sysco Reimbursements – During this consulting engagement, we will examine the Sysco reimbursement process to identify inherent risks and assess the adequacy of controls in place to mitigate those risks.

Temporary Total Disability Benefits Audit - BWC pays temporary total disability benefits for lost wages when an injured worker is expected to recover and return to work. It is one of the largest compensation types paid by the BWC. 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.

FY 2011 Annual Audit Plan - Types of Audits

The Internal Audit Division is responsible for the process by which the Bureau reviews and assesses the effectiveness and efficiency of its management control and practices. There are generally five 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 (Beginning-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 and payroll. 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 with policy. Audits may also be undertaken to assess the efficiency or effectiveness of these activities or the systems or procedures in use.

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.

Special Investigations

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

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.

Audit Committee

FY 2011 Financial Projections

Taken off agenda.

12-Month Audit Committee Calendar

Date	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)
	5. Quarterly Litigation Update (Executive Session)
	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
	2. Audit Committee Charter Review (2 nd Reading)
	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)
	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)

12-Month Audit Committee Calendar

	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
	May 2011
TBD	1. FY 2011 Administrative Budget (2 nd Reading)
	2. Quarterly Litigation Update (Executive Session)