

BWC Board of Directors  
**Audit Committee Agenda**

**William Green Building**

**Thursday, May 26, 2011**

Level 2, Room 3

3:30 pm – 4:30 p.m.

**Call to Order**

Ken Haffey, Committee Chair

**Roll Call**

Jill Whitworth, Scribe

**Approve Minutes of April 28, 2011 meeting**

Ken Haffey, Committee Chair

**Approve Agenda**

Ken Haffey, Committee Chair

**New Business/ Action Items**

1. Motions for Board Consideration
  - A. For Second Reading
    1. FY 2012 Administrative Budget  
Tracy Valentino, Chief of Fiscal and Planning
  - B. Internal Audit Division Charter  
Keith Elliott, Interim Chief of Internal Audit

**Discussion Items\***

1. Open Discussion with Internal Auditor  
Keith Elliott, Interim Chief of Internal Audit
2. Committee Calendar  
Ken Haffey, Committee Chair

**Adjourn**

Ken Haffey, Committee Chair

**Next Meeting: Wednesday, June 15, 2011**

\* Not all agenda items have material.

\*\* Agenda subject to change.

BWC Board of Directors

**AUDIT COMMITTEE**

Fiscal Year 2012 Annual Budget  
Executive Summary

Attached is information regarding BWC's proposed Fiscal Year 2012 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 \$279.7 million for Fiscal Year 2012. This request is approximately \$5 million (1.5%) less than the amount approved for Fiscal Year 2011 and approximately \$9.3 million (3.2%) less than the appropriation level approved by the Ohio General Assembly.

The budget as proposed reflects the impact of the elimination of cost savings days, reinstatement of step increases, a 32 hour personal leave payout and an extra pay period in FY 2012. Also included are the costs associated with the system modifications expected as a result of the Core System Assessment currently underway. In addition, there is one major capital improvement project to upgrade the fire alarm system within the William Green Building that will begin in Fiscal Year 2012

**BUREAU OF WORKERS' COMPENSATION  
 PROPOSED BUDGET SUMMARY  
 FISCAL YEAR 2012  
 In Millions**

**Funding Sources:**

Administrative Cost Fund	254.4
Safety & Hygiene	24.8
Ancillary Funds	0.5
	<u>279.7</u>

<b>Expense Description</b>	<b>Fiscal Year 2010 Actual Spending</b>	<b>Fiscal Year 2011 Estimated Spending</b>	<b>Fiscal Year 2012 Proposed Budget</b>	<b>Percentage Variance FY11 to FY12</b>
Payroll	180.8	173.3	184.8	6.6%
Personal Services	11.9	11.8	12.7	7.6%
William Green Rent	19.8	19.0	18.3	-3.7%
Leases and Term Software Licenses	9.7	9.6	9.0	-6.3%
Software and Equipment Maintenance and Repairs	15.2	14.6	15.0	2.7%
Inter Agency Payments	9.7	10.1	10.0	-1.0%
Communications	3.0	2.7	3.8	40.7%
Supplies and Printing	1.2	1.2	1.3	8.3%
Other Maintenance	3.0	2.8	2.9	3.6%
Equipment	1.9	1.0	0.4	-60.0%
Subtotal	256.2	246.1	258.2	4.9%
Safety Grants and Long Term Care Loans	2.8	4.0	4.0	0.0%
Strategic Projects Examples: Core System Upgrades ICD-10 Conversion Software and Hardware Upgrades	7.9	5.8	14.8	155.2%
Capital Improvements Examples: Chiller Replacement Fire Alarm Upgrade	0.7	2.8	2.7	-3.6%
Grand Total	267.6	258.7 25.3 284.0	279.7 9.3 289.0	8.1%

Approved by BWC  
Board of Directors

Appropriation

**BUREAU OF WORKERS' COMPENSATION  
 PROPOSED BUDGET SUMMARY  
 BY APPROPRIATION LINE ITEM  
 FISCAL YEAR 2012**

<u>Division by Line Item</u>	<u>Proposed Budget</u>	<u>Requested Appropriation</u>	<u>Variance</u>
Board of Directors	1,125,924		
Customer Service	103,774,483		
Medical Services	15,474,218		
Ombuds	574,737		
<b>855-407 Claims, Risk &amp; Medical Total</b>	<b>120,949,362</b>	<b>125,427,732</b>	<b>4,478,370</b>
<b>855-408 Fraud Prevention Total</b>	<b>10,750,993</b>	<b>11,331,154</b>	<b>580,161</b>
BWC Administration	1,507,311		
Fiscal and Planning	12,212,726		
Actuarial	2,909,591		
Investments	1,480,901		
Infrastructure Technology	54,282,830		
Legal	9,082,958		
Communications	1,748,727		
Human Resources	6,089,652		
Internal Audit	1,511,599		
Overhead	6,277,299		
Capital Improvements	2,649,692		
<b>855-409 Administrative Services Total</b>	<b>99,753,286</b>	<b>101,724,950</b>	<b>1,971,664</b>
<b>855-401 WGB Lease</b>	<b>18,291,365</b>	<b>18,291,365</b>	<b>-</b>
<b>855-410 Attorney General Payments</b>	<b>4,621,850</b>	<b>4,621,850</b>	<b>-</b>
<b>Fund 023 Total</b>	<b>254,366,856</b>	<b>261,397,051</b>	<b>7,030,195</b>
<b>855-606 Coal Workers' Fund</b>	<b>150,586</b>	<b>150,586</b>	<b>-</b>
<b>855-608 Marine Industry</b>	<b>76,532</b>	<b>76,532</b>	<b>-</b>
<b>855-605 Disabled Workers Relief Fund</b>	<b>262,066</b>	<b>322,266</b>	<b>60,200</b>
<b>855-609 Safety &amp; Hygiene Operating</b>	<b>19,141,602</b>	<b>20,382,567</b>	<b>1,240,965</b>
<b>855-610 Safety Grants Program</b>	<b>4,000,000</b>	<b>4,000,000</b>	<b>-</b>
<b>855-601 OSHA Enforcement</b>	<b>1,604,633</b>	<b>1,670,998</b>	<b>66,365</b>
<b>855-604 Long Term Care Program</b>	<b>20,000</b>	<b>1,000,000</b>	<b>980,000</b>
<b>Agency Total</b>	<b>279,622,275</b>	<b>289,000,000</b>	<b>9,377,725</b>

**INTERNAL AUDIT DIVISION CHARTER**

**PURPOSE, MISSION AND SCOPE OF WORK AUTHORITY AND RESPONSIBILITY:**

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 (~~Audit Committee~~), 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.

**Comment [MO1]:** Added consistent with IIA standard 1000

**Comment [MO2]:** Added for consistent reference to BWC AC

~~The Our scope of the IAD encompasses work is to determine if the examination and evaluation of the adequacy and effectiveness of the bureau's governance, risk management, control and governance processes, system of internal controls, and the quality of performance in carrying out BWC's stated goals and objectives as designed and represented by management, is adequate and functioning in a manner to ensure by seeking assurance that:~~

**Comment [MO3]:** Language changed to be consistent with IIA example charter

- 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 ~~(J) and 4121.129, the administrator, with the advice and consent of the Board of Directors, shall employ an Internal Auditor Division will report to the Administrator who shall report findings to the Board of Directors, the Audit Committee and the Administrator and will also have periodic meetings with the Audit Committee of the Workers' Compensation Board of Directors.~~

**Comment [RKE4]:** Deleted as section doesn't relate to the employment of the internal auditor.

**Comment [MO5]:** Language consistent with the ORC noted

**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.

In accordance with ORC 126.45 (A), the OBM Office of Internal Audit (OIA) is charged with internal audit responsibilities for 21 state agencies, including the BWC. OIA leverages the work of IAD to discharge its responsibilities.

**Comment [RKE6]:** Inserted to reflect OBM OIA responsibilities and reliance on BWC IA work.

#### 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~~BWC. 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 Office of 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. ([BWC Employee Handbook 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 ~~(J) 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.

**Comment [RKE7]:** Deleted as the section does not reference independence or reporting relationship of Internal Audit.

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.

**Comment [RKE8]:** Deleted per reference to the code section. Input on dismissal of CIA retained due to best practice.

**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~~.
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- Conduct assurance 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 performance. This also includes reviews of entities that contract with BWC to perform state-mandated functions and activities.

• Conduct 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 Engagements, including— 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 ~~approved by~~ 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.

**Comment [RKE9]:** Modified for clarity

**Comment [MO10]:** Change was made to be consistent with OBM OIA

**Comment [RKE11]:** Modified to reflect Audit Committee's approval of the annual plan

Draft: 034/2207/110

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



## May Internal Audit Open Discussion

### Audit Plan

#### Fieldwork Phase:

- Investment Performance Reporting
- Large Deductible Program
- New Claims Audit
- Sysco Reimbursements

#### Final Phase:

- Claims Quality Assurance Engagement
- MCO Audit #4

#### Completed Projects for June Quarterly Executive Summary (QES):

- Compliance and Performance Monitoring Audit
- Employer Refunds Audit
- Investment New Account Set Up and Asset Transition Review
- MCO Audit # 2
- MCO Audit #3
- Percentage Permanent Partial Disability

### Other

- Audit Validation for June QES

# 12-Month Audit Committee Calendar

<b>Date</b>	<b>May 2011</b>
5/26/2011	1. FY 2012 Administrative Budget (2 <sup>nd</sup> Reading)
	2. Internal Audit Division Charter
	<b>June 2011</b>
6/15/2011	1. FY 2012 Internal Audit Plan
	2. External Audit Update
	<b>July 2011</b>
7/28/2011	1. Internal Audit QES Review
	2. FY 2012 Financial Projections and Metrics
	3. Quarterly Litigation Update (Executive Session)
8/25/2011	<b>August 2011</b>
	1. BWC Code of Ethics Review
	2. External Audit Update
	<b>September 2011</b>
9/29/2011	1. Internal Audit QES Review
	2. Inspector General Semi-Annual Report (Executive Session)
	<b>October 2011</b>
10/27/11	1. Audit Committee Charter Review (1 <sup>st</sup> Reading)
	2. Internal Audit Annual Accomplishments Report
	3. Quarterly Litigation Update (Executive Session)
	4. Semi-annual meeting with Inspector General
	<b>November 2011</b>
11/17/2011	1. Audit Committee Charter Review (2 <sup>nd</sup> Reading)
	2. External Audit Update
	3. Finance Education Session
	<b>December 2011</b>
12/14/2011	1. FY 2013 – 2014 Budget Process Education Session
	2. Annual Disaster Recovery/Business Continuity Plan
	3. Internal Audit QES Review
	4. FY 2010 Comprehensive Annual Report
	<b>January 2012</b>
Date TBD	1. Overview of the Annual Internal Audit Risk Assessment Process
	2. Quarterly Litigation Update (Executive Session)
	<b>February 2012</b>
Date TBD	1. Inspector General Annual Report (Executive Session)
	2. Education Session prior to QES (if necessary)

# 12-Month Audit Committee Calendar

Date	March 2012
Date TBD	1. Internal Audit QES Review
	2. Discount Rate and Financial Metrics (1st Reading)
	April 2012
Date TBD	1. Discussion of External Audit
	2. FY 2013 Administrative Budget (1 <sup>st</sup> Reading)
	3. Financial Metrics
	4. Quarterly Litigation Update