

BWC Board of Directors
Audit Committee Agenda

William Green Building
Wednesday, June 15, 2011
Level 2, Room 3
2:00 PM- 3:00 PM

Call to Order

Ken Haffey, Committee Chair

Roll Call

Jill Whitworth, Scribe

Approve Minutes of Thursday, May 26, 2011 meeting

Ken Haffey, Committee Chair

Approve Agenda

Ken Haffey, Committee Chair

New Business/ Action Items

1. Motions for Board Consideration
 - A. FY 2012 Internal Audit Plan
Keith Elliott, Interim Chief of Internal Audit

Discussion Items*

1. Open Discussion with Internal Auditor
Keith Elliott, Interim Chief of Internal Audit
2. External Audit Update
Tracy Valentino, Chief of Fiscal and Planning
3. Committee Calendar
Ken Haffey, Committee Chair

Adjourn

Ken Haffey, Committee Chair

Next Meeting: Thursday, July 28, 2011

* Not all agenda items have material. ** Agenda subject to change.



Bureau of Workers'
Compensation

Internal Audit Division

**Fiscal Year 2012
Annual Audit Plan**

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

Keith Elliott, Interim Chief
Karl Zarins, Director



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Mission Statement

Our mission is to provide an independent assessment of programs, processes and internal controls, and provide value added recommendations that result in operational efficiencies, strengthened internal controls and reduced costs.

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.

Introduction

The BWC Internal Audit Division performed an assessment of the organization’s risk environment to develop our audit plan for FY 2012. 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.

Risk Assessment Process

In developing the audit plan, we performed a risk analysis for the organization utilizing eleven 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. Surveyed the Agency’s subject matter experts on each of BWC’s key processes regarding controls and risks;
2. Reviewed trial balance accounts for materiality;
3. Interviewed management and key stakeholders regarding risk and control concerns;
4. Developed audit risk assessment that defines risk factors applied to a numeric rating scale; and
5. Stratified processes by risk ratings and selected the type of audit planned and projected hours.

Audit Universe

The agency heat map is organized by division and key process. Additional consideration is given towards specific risks within those processes which may be financial, operational, or strategic in nature, or a combination thereof.

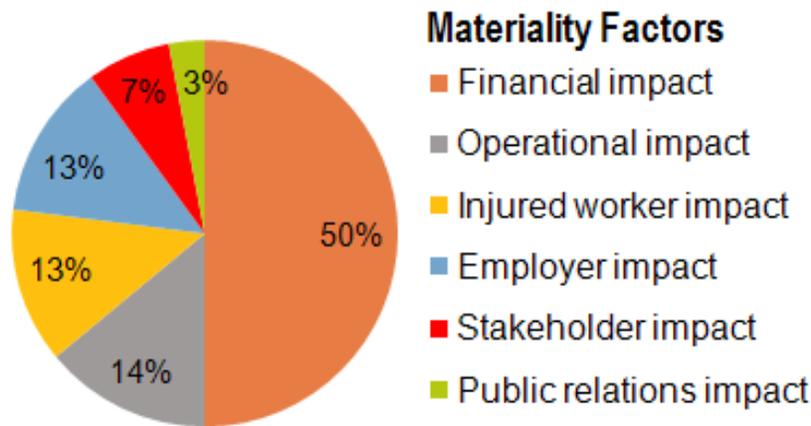
Risk Factors

The eleven 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 the 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 materiality risk factors were determined by high level analytics and consideration of BWC’s risk tolerance as stated in its financial metrics. For the likelihood risk factors, we identified BWC’s key processes, administered a comprehensive survey to each process’s subject matter experts, and conducted stakeholder interviews.

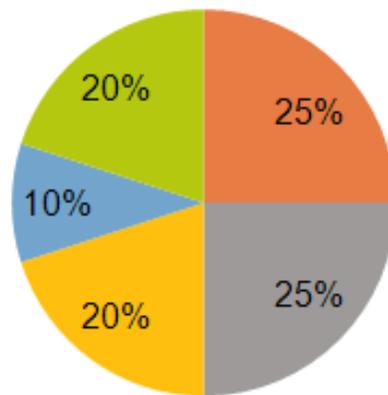
The rated risk factors were weighted to arrive at a composite risk score for each area. The composite score was used to determine priority areas for the FY 2012 audit plan.

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



Likelihood Factors

- Complexity
- Level of change
- Potential for fraud
- Staffing adequacy
- Known operational clean up projects



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 FY2012.

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

The OBM Office of Internal Audit plans to rely upon the financial audit work completed by the BWC Internal Audit team. In order for OIA to rely upon this work, OIA will perform the following:

- Consider the independence and objectivity of the BWC audit team.
- Assess the competencies and qualifications of the BWC audit team by verifying the professional experience, qualifications, and professional certifications of the audit team.
- Ensure that the work performed by the BWC audit team is appropriately planned, supervised, documented, and reviewed. Additionally, OIA will consider whether the audit evidence is sufficient to determine the extent of use and reliance on the work.
- Determine that significant audit observations have been communicated to the BWC Board of Director's Audit Committee. Additionally, evaluate the follow-up procedures by the BWC audit team to determine whether management has implemented the recommendations or assumed the risk of not implementing them.

Types of Audits

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

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. These projects frequently include the use of benchmarking to help improve BWC procedures and controls.

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 Engagements

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.

FY 2012 Audit Plan

Internal Control/ Compliance Reviews

- Additional Allowance Process
- Cash Control Procedures
- Court Settlements
- Disability Evaluator Panel Process
- Investment Allocation and Rebalancing
- Investment Continuous Compliance Monitoring
- Investment Manager Monitoring Report Card
- Investment Payments and Receipts
- Medical Benefit Plan Design
- MCO Audits

Financial Audits

- Enterprise Reporting
- Expenditures – EFT/EBT
- Fluctuation Analysis and Investigation Process

Consulting Projects

- Bankruptcy Claim Filings and Collections
- Investment Active Manager Monitoring
- Medicare Mandatory Reporting

Other

- Audit Validation Testing
- External Audit Assistance
- FY 2013 Annual Audit Plan

Audit Scope Descriptions

Additional Allowance Process

BWC frequently receives requests for the allowance of additional conditions in claims. This audit will examine the procedures and controls over this process, as well as compliance testing to assess the appropriateness of additional allowance decisions.

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.

Bankruptcy Claim Filings and Collections

This project will review the processes used to file claims or petitions with bankruptcy courts in order to collect amounts owed to BWC. Specific areas of focus will include an assessment of the controls over the process for filing and monitoring these claims, as well as the processes for collecting amounts awarded to BWC.

Cash Control Procedures

This audit will examine the various processes performed within the BWC Cash Control Unit to verify adequate internal controls are in place and functioning as designed.

Court Settlements

With Attorney General Representation, BWC enters into settlements for cases that are appealed to the court of common pleas. This audit will examine the processes

used to settle such cases. Specific focus areas will include controls implemented to provide assurance that settlements are appropriate and properly authorized.

Disability Evaluator Panel Process

The Disability Evaluation Panel audit will examine the process for referring claims for external extent of disability examinations and file reviews. The project will evaluate controls over the selection of providers, scheduling the reviews, the quality control procedures over the resulting reports, and the procedures implemented by management to monitor DEP physician performance.

Enterprise Reporting

This audit will examine the BWC Enterprise Report. We will examine the processes used to prepare the report and any related controls to provide assurance regarding the accuracy of the information. We will also perform detailed testing to confirm the accuracy of the information reported.

Expenditures EFT/EBT

The vast majority of claims payments are issued to injured workers via either Electronic Funds Transfer (EFT) or Electronic Benefit Transfer (EBT) processes. As part of this audit, we will obtain an understanding of and document the EFT and EBT processes and assess the adequacy of controls. We will also perform data analytics to potentially identify any unusual activity.

External Audit Assistance

Annually, BWC Internal Audit provides approximately 1,000 hours of assistance to the external auditors during the audit of the BWC financial statements. This results in a reduction of audit fees of approximately \$75,000.

FY 2013 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 2013 Internal Audit plan. The agency risk analysis is performed to assess the relative risk for agency processes and a risk score is assigned to each of the potential audit areas.

Fluctuation Analysis and Investigation

The BWC Fiscal and Planning Division performs reviews of fluctuations in key financial data and performs investigation and analysis of any unusual fluctuations

identified. This audit will include obtaining an understanding of this process and evaluation of related controls.

Investment Active Manager Monitoring

The BWC board has approved the use of active investment management strategies for several investment asset classes representing a significant change in investment operations, risks, and opportunities. Current monitoring activities are designed for passive management strategies that represent less operational risk to BWC. As a result, it will be necessary to re-evaluate BWC's approach to outside investment manager monitoring and adjust current practices. This engagement will involve collaborating with the Investment Division to provide guidance in incorporating appropriate controls and procedures into their monitoring program for active investment managers.

Investment Allocation and Rebalancing

The Investment Policy Statement (IPS) specifies allowable ranges of BWC investment allocations approved by the BWC Board of Directors. This audit will determine compliance with provisions of the IPS and evaluate management's monitoring and controls to ensure ongoing compliance with the IPS.

Investment Continuous Compliance Monitoring Efforts –

This on-going project will involve regular assessment and monitoring of compliance with the BWC Investment Policy Statement (IPS) 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. We will perform periodic testing to assess compliance with sections of the IPS and investment processes such as: Requests for Proposals, investment account transitions and new accounts; daily and monthly controls; Investment Performance; and Investment Manager Report Cards.

Investment Manager Monitoring Report Card

The BWC Investment Division (ID) is responsible for monitoring OIMs that manage BWC investments on a passive basis. The investment goal of these OIMs is to achieve the returns of a performance benchmark target. The BWC ID requires certain monthly, quarterly and annual reporting details from the OIMs to meet these monitoring requirements. As all investments are presently passively managed, the effort to manage the OIMs is one of the most significant functions of the ID. Internal Audit will evaluate the design of these monitoring activities and verify that they have been implemented consistently.

Investment Payments and Receipts

The Investment Division must approve payments to various vendors including investment managers, and the custodian. In addition, the Division periodically receives physical checks related to miscellaneous investments, corporate actions or other items of a nonrecurring nature. The audit will evaluate the controls, policies and procedures related to these functions.

Medical Benefit Plan Design

The scope of this project will include an assessment of the internal controls over BWC medical bill payment processes for inpatient and outpatient services and any other relevant bill types. The audit will also include examination of the process for establishing the BWC fee schedule or reimbursement rates and will include benchmarking with other organizations to identify best practices.

Medicare Mandatory Reporting

This consulting engagement will examine the processes for the payment of requests for reimbursement to Medicare as part of the Medicare Mandatory Reporting. The objective of the consulting engagement will be to assess the internal controls established over this new process.

MCO Audits

The MCO Audit team will perform various audits of MCOs during the FY 2012. Audits will assess contractual compliance and evaluate the adequacy of controls over provider payments, the provider bank account, treatment authorizations, prior authorization procedures, and other key functions performed by the MCOs. As part of the MCO audit process, we will include an evaluation of controls over the medical treatment authorization process. If possible, we will attempt to leverage medical resources at BWC to assist in testing for reasonableness and appropriateness of treatment authorizations.

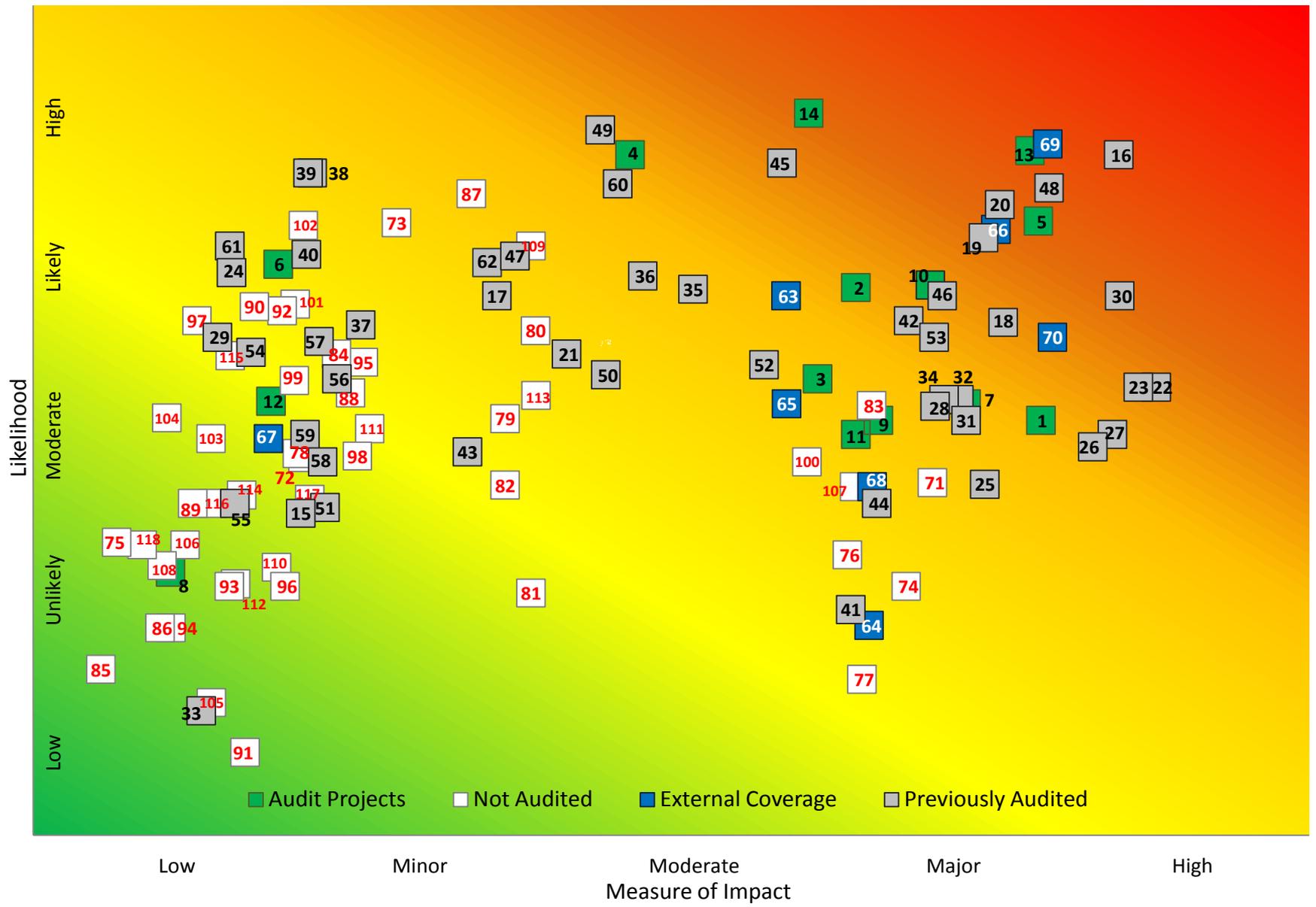
Focus Areas by Quarter

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	
1	Investment Active Manager Monitoring	■	■											3
2	Additional Allowance	■	■	■										4
3	Medicare Mandatory Reporting		■	■	■									4
4	External Audit Assistance		■	■	■							■	■	5
5	Disability Evaluator Panel Process				■	■	■	■						5
6	Investment Manager Monitoring Report Card				■	■	■							4
8	Enterprise Reporting				■	■	■							4
7	Bankruptcy Claim Filings and Collections				■	■	■							3
9	Investment Allocation & Rebalancing							■	■					3
10	Expenditures- EFT/EBT							■	■	■				4
11	FY2013 Annual Audit Plan							■	■	■	■	■		
12	Medical Benefit Plan Design							■	■	■	■			5
13	Fluctuation Analysis and Investigation								■	■				2
14	Investment Payments and Receipts									■	■	■		3
15	Cash Control Procedures										■	■	■	3
16	Court Settlements											■	■	4
17	Audit Validation Testing	■	■	■	■	■	■	■	■	■	■	■	■	5
18	Investment Continuous Compliance Monitoring Efforts	■	■	■	■	■	■	■	■	■	■	■	■	5
19	MCO Audits	■	■	■	■	■	■	■	■	■	■	■	■	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



■ Audit Projects
 ■ Not Audited
 ■ External Coverage
 ■ Previously Audited

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

FY 2012 Audit Universe

ID #	Audit Projects
1	Additional Allowance Processes
2	Bankruptcy Claim Filings and Collections
3	Cash Control Procedures
4	Court Settlements
5	Disability Evaluator Panel Processes
6	Enterprise Reporting
7	Expenditures: EFT/EBT
8	Fluctuation Analysis and Investigation
9	Investment Allocation and Rebalancing
10	Investment Manager Report Card
11	Investment Valuation and Performance Measurement
12	MCO Audit
13	Medical Benefit Plan Design
14	Medicare Mandatory Reporting

ID #	Previously Audited
15	Adjudication Committee
16	Administrative Settlements Process
17	Bankrupt Self Insured Billing & Collections
18	Billing- Medical Bill Adjustment
19	Billing- Medical Bill Payment
20	Billing- Pharmacy Bill Payment
21	Claims Entry & Determination- Auto Adjudication
22	Claims Entry & Determination- Lost Time
23	Claims Entry & Determination- Medical Only
24	Claims Management- Black Lung Fund Claims Processing & Payment
25	Claims Management- Indemnity Qualification- DWRF
26	Claims Management- Indemnity Qualification- PTD
27	Claims Management- Indemnity Qualification- Temporary Total
28	Claims Management- Indemnity Qualification-Permanent Partial
29	Claims Management- Marine Fund Claims Processing & Payment

ID #	Previously Audited
30	Claims Management- Wage Setting
31	Collections Processes
32	Compensation Audit Process
33	Disability/Workers Compensation Claims Management (BWC Employees)
34	Drug Utilization Review Process
35	Drug Utilization Review Process
36	Employer Compliance- Identify non-filers
37	Employer Programs- Group Rating
38	Employer Programs- Large Deductible
39	Employer Programs- Small Deductible
40	Expenditures: Forthwith and Miscellaneous Special Payments
41	Financial Reporting - Investment Data Entry and Reconciliations
42	Investment Manager Selection
43	Lump Sum Advancements
44	Manager Funding Account Set-Up
45	Manual Override Processes
46	MCO Payments (Administrative and Incentive)
47	MCO Monitoring
48	PBM Oversight and Management
49	PEO
50	Policy Application Processing- Private
51	Policy Application Processing- Public
52	Premium Audit
53	Premium Payment Processing
54	Public Employer Risk Reduction Program
55	Safety Grant Programs
56	Self Insured Application processing
57	Self Insured Audit
58	Self Insured Renewal processing
59	Special Claims (COEMP, IJ, etc)
60	Subrogation Processes
61	SYSCO payment processing
62	Vocational Rehabilitation Processes

FY 2012 Audit Universe

ID #	External Coverage
63	Employer Program Development & Assessment Process
64	Expenditures & Payables Function - Processing Payment of Vendor Invoices
65	Financial Reporting - Non-Standard Journal Entry Processes
66	Liability Estimation (Reserves)
67	OSHA On-site
68	Procurement
69	Rate Making: Group Rating Programs
70	Rate Setting Process (Includes Re-Rate for FY 2012)

ID #	Not Audited
71	Administrative Cost Fund Rate Calculation Process
72	Agency Rules: JCARR and Register of Ohio
73	Alternative Dispute Resolution Process
74	Annual Budget
75	Business Correspondence
76	BWC Payroll
77	Cash Management Money Market Execution
78	Claims Management- Claim Reactivation
79	Claims Management- Indemnity Qualification-% Permanent Partial
80	Claims Management- Indemnity Qualification-Wage Loss
81	Claims Management- IC appeals & referrals
82	Claims Management- Overpayment Collection
83	Contracts (draft and review)
84	Coverage at IC Hearings
85	Disciplinary and Grievance Processes
86	EEO
87	Employer Programs- Drug Free Workplace
88	Employer Programs- Safety Council Rebates
89	Employer Consultation Process
90	Employer Programs- Group Retro

ID #	Not Audited
91	Employer Programs- Individual Incurred Loss Retro
92	Employer Programs- Individual Paid Loss Retro
93	Employer Programs- One Claim Program
94	Executive Communications
95	Expenditures: Warrant Balancing, Stop Payment, and Returned Warrant Procedures
96	Fraud Savings Reported
97	Fraud: Adequacy of Security over BWC Facilities
98	Fraud: Investigation of VSSR Claims
99	Fraud: Fraud referrals
100	Handicap Reimbursement
101	Health Partnership Program (HPP)- Enrollment, Certification/ Recertification
102	Health Partnership Program (HPP)- Enrollment/Certification/ Deactivation/ Decertification
103	Hiring
104	Investment Monitoring: Custodial Services
105	Legislative & Constituent Inquiries and Complaints
106	Marketing
107	MIRA II Claim Cost Reserving
108	Personnel - Initial Classification and Pay Rates
109	Premium Caps
110	Provider Decertification Hearings
111	Provider Overpayment Recoveries
112	Public/Media Relations
113	Rate Making: Retrospective Rating Programs
114	Receipt/tracking/investigation and resolution of inquiries or complaints
115	Records & Information Management (RIM)
116	Safety & Hygiene Employer Training &
117	Self- Insured Review Panel
118	Training



June Internal Audit Open Discussion

Audit Plan

Fieldwork Phase:

- Additional Allowance Consulting Engagement
- Investment Performance Reporting
- Large Deductible Program

Final Phase:

- Sysco Reimbursements
- New Claims Audit
- Claims Quality Assurance Engagement

Completed Projects for September Quarterly Executive Summary (QES)

- MCO Audit #4

Completed Projects for June QES (to be presented in July):

- 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

- Personnel
 - Posting for Chief of Internal Audit

12-Month Audit Committee Calendar

Date	June 2011
6/15/2011	1. FY 2012 Internal Audit Plan
	2. External Audit Update
	July 2011
7/28/2011	1. Internal Audit QES Review
	2. FY 2012 Financial Projections and Metrics
	3. Quarterly Litigation Update (Executive Session)
8/25/2011	August 2011
	1. BWC Code of Ethics Review
	2. External Audit Update
	September 2011
9/29/2011	1. Internal Audit QES Review
	2. Inspector General Semi-Annual Report (Executive Session)
	October 2011
10/27/11	1. Audit Committee Charter Review (1 st Reading)
	2. Internal Audit Annual Accomplishments Report
	3. Quarterly Litigation Update (Executive Session)
	4. Semi-annual meeting with Inspector General
	November 2011
11/17/2011	1. Audit Committee Charter Review (2 nd Reading)
	2. External Audit Update
	3. Finance Education Session
	December 2011
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
	January 2012
Date TBD	1. Overview of the Annual Internal Audit Risk Assessment Process
	2. Quarterly Litigation Update (Executive Session)
	February 2012
Date TBD	1. Inspector General Annual Report (Executive Session)
	2. Education Session prior to QES (if necessary)
	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

12-Month Audit Committee Calendar

	2. FY 2013 Administrative Budget (1 st Reading)
	3. Financial Metrics
	4. Quarterly Litigation Update
	May 2012
Date TBD	1. FY 2012 Administrative Budget (2nd Reading)
	2. Internal Audit Division Charter