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Date: November 10, 2008

AGENDA ITEM 13B
TO: Board of Directors

OPEN SESSION

- I. **SUBJECT: 2009 Audit Services Plan**
- II. **PROGRAM: INTERNAL AUDIT**
- III. **RECOMMENDATION: Program requests approval by the Board of Directors of the 2009 Audit Services plan as proposed in Attachment A.**

IV. ANALYSIS:

Annually, as required by the Internal Audit Activity charter and International Standards for the Professional Practice of Internal Auditing Performance Standard 2010 and 2010.A1, the Internal Audit department presents its proposed Audit Services Plan (Plan). The proposed Audit Services Plan for 2009 is appended to this agenda item as Attachment A for the Committee's consideration.

The Annual Audit Services Plan provides the overall service coverage goals for the upcoming calendar year. The objective of the audit planning design process is to consider the audit universe, internal and external exposures and their potential affect on the organization, and address other mandates. Survey of the Board, Executive, and managers, assessment of risk, review of applicable laws and regulations, and Corporate Guidelines were utilized in the construction and prioritization of the Plan's components.

Internal Audit employs a risk assessment methodology aligned with the National Association of Insurance Commissioners' Branded Risk Classifications to allocate audit resources to the areas of State Fund with the greatest residual risk. Audit resources are also assigned to conduct audits or investigations mandated by policy, statute, or external regulatory entities.

Other value-added services, such as coordination of external auditor activities, consulting engagements, facilitation and oversight of management control assessments, internal quality projects, and investigations included in each year's Plan are not part of the risk assessment process. The department also reserves time to respond to ad hoc project requests from the Board and management. The resources assigned to these services are deducted from available service hours.

The Audit Services Plan is considered a dynamic document which can be adjusted to respond to the organization's environment and business needs, assure critical needs are addressed and ensure adequate resources are available to support the service plan. Significant changes to the Plan will be communicated to the Audit Committee for review and approval.

V. RESULTS/COSTS:

Development, review, and approval of the Audit Services Plan fulfill a prime responsibility of Internal Audit and the Board.

LISA MIDDLETON, Senior Vice President Internal Affairs
BARBARA SIMMONS, Internal Audit Manager

Attachment

BOARD OF DIRECTORS MEETING

AGENDA ITEM 13B

ATTACHMENT

AUDIT COMMITTEE UPDATE: PROPOSED 2009 AUDIT SERVICES PLAN

PRESENTED BY: Frank Quinlan

NOVEMBER 21, 2008

PROPOSED 2009 AUDIT
SERVICES PLAN

STATE
COMPENSATION
INSURANCE
FUND

Board of Directors
ATTACHMENT A
NOVEMBER 10, 2008

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1. AUDIT TOPICS

Item	AUDIT TOPIC	RESOURCE ALLOCATION (HOURS)
1.1	Privacy and Data Security	2200
1.2	Smart Advisor™ Bill Review Application	2000
1.3	Accounts Payable General Ledger	1200
1.4	Server Security	2200
1.5	Claims Operations	4000
1.6	Medical Provider Network	1200
1.7	Ethics	1500
1.8	Real Estate Management – Office Space	2000
1.9	Business Continuity/Disaster Preparedness	1940
1.10	Collection Agencies/Premium Charge Off	1500
1.11	Employee vs. Vendor File	800
1.12	Fleet Management	2000
1.13	Reinsurance Recovery	1200
1.14	Employee Pay Warrants	300
1.15	Follow-up: Implementation Status of Audit Recommendations	1000
	Total	25,040

2. CONTROL ASSESSMENTS & MONITORING

Item	SERVICE TOPIC	RESOURCE ALLOCATION (HOURS)
2.1	Control Self-Assessment: Claims Estimating & Indemnity	400
2.2	Control Self-Assessment: Policy Maintenance	2000
2.3	Control Self-Assessment: Information Security	1920
2.4	Management Assessment Monitoring: Group Contracts	400
2.5	Management Assessment Monitoring: Underwriting Operational Review	400
2.6	Management Assessment Monitoring: Loss Control Operational Review	1200
2.7	Control Self-Assessment: Fiscal Security	1000
	Total	7,320

3. FACILITATION, INVESTIGATIONS, & CONSULTING

Item	SERVICE TOPIC	RESOURCE ALLOCATION (HOURS)
3.1	Facilitation: External Entity Reviews	1000
3.2	Facilitation: External Independent Auditor	1500
3.3	Investigations	8000
3.4	Consulting: Electronic Claims File Cash Receipts	200
3.5	Consulting: Office of Foreign Asset Commission	100
3.6	Consulting: Records Retention/Records Management	200
	Total	11,000

4. SPECIAL PROJECTS

Item	TOPIC	RESOURCE ALLOCATION (HOURS)
4.1	Special Project: Computer Assisted Audit Techniques	100
4.2	Special Project: Electronic Audit Application Deployment	700
4.3	Special Project: External Communication Plan	500
4.4	Special Project: Internal Audit Department Manual Update	50
4.5	Special Project: Internal Quality Assessment	500
4.6	Special Project:: NAIC Model Audit Rule Assistance	2500
4.7	Special Project: Periodic Activity Reports	400
4.8	Special Project: Semi-Annual Risk Assessment	1170
4.9	Special Project: Internal Anti-Fraud Program	600
4.10	Available Resource Hours: Management Special Assignments 2009	8400
	Total	14,920

5. AUDIT, CONTROL ASSESSMENT & MONITOR ALLOCATION SUMMARY

DIVISION	AUDIT OR CONTROL ASSESSMENT TOPIC	HOURS
CLAIMS	OPERATIONS	4000
	MEDICAL PROVIDER NETWORK	1200
	SMART ADVANTAGE	2000
	CSA – ESTIMATING/INDEMNITY	400
INFORMATION TECHNOLOGY	PRIVACY/DATA SECURITY	2200
	SERVER SECURITY	2200
	CSA – INFORMATION SECURITY	1920
RISK	ETHICS	1500
	BUSINESS CONTINUITY	1940
	MONITOR – GROUP CONTRACTS	400
	MONITOR – UNDERWRITING	400
	OPERATIONAL REVIEW	400
	MONITOR – LOSS CONTROL OPERATIONAL REVIEW	1200
FINANCE	ACCOUNTS PAYABLE	1200
	REINURANCE RECOVERY	1200
	CSA – FISCAL SECURITY	1000
OPERATIONS	REAL ESTATE OFFICE SPACE	2000
	COLLECTION AGENCY/PREMIUM CHARGE OFF	1500
	FLEET MANAGEMENT	2000
HUMAN RESOURCES	EMPLOYEE v VENDOR	800
	EMPLOYEE PAY WARRANTS	300
POLICY	CSA – POLICY MAINTENANCE	2000

6. RESOURCE ALLOCATION SUMMARY

SERVICE CATEGORY	STAFF RESOURCE ALLOCATION (HOURS)	SHARE OF NET HOURS
<i>NET AVAILABLE HOURS</i>	<i>58,280</i>	<i>100%</i>
AUDIT TOPICS	25,040	43%
CONTROL ASSESSMENTS & MONITORING	7,320	13%
FACILITATION, INVESTIGATIONS, & CONSULTING	11,000	19%
SPECIAL PROJECTS	6,520	11%
RESERVED	8,400	14%

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