

Audit Committee

Denise M. Farkas, CFA, Chairman
Senior Vice President,
Spero Smith Investment Advisers
representing investments

Thomas H. Bainbridge, Jr.
Partner,
Ward, Kaps, Bainbridge,
Maurer & Melvin
representing injured workers

Mary Beth Carroll
Vice President,
FirstEnergy
representing self-insured employers

Agenda

*May 25, 2006
William Green Building, Second Floor, Room 2
10 a.m.*

Chairman's comments Denise Farkas

Approval of previous meeting minutes Denise Farkas

Old business

RFP process for independent auditor
..... Tracy Valentino and Barb Ingram

New business

Disaster recovery update Leo Genders

Internal audit quarterly report – executive summary Cathy Moseley
..... Joseph Bell
..... Keith Elliott
..... Fred Booker
..... Nancy Barber

Review of internal audit charter Fred Booker
..... Nancy Barber
..... Keith Elliott

Adjourn Denise Farkas

The next WCOA Audit Committee meeting is scheduled for:
*June 16, 2006
William Green Building, Level 2, Room 2
2:00 P.M.*

10:00



INTERNAL AUDIT DIVISION

1. Prior Period Audit Observation Closure Document

- a. Summarized 34 significant issues and routed to Senior Staff, February 15, 2006
- b. Senior Staff established action plans for correction and timeframes
- c. Update for activities in the Quarter Ended March 31, 2006

- i. Minimum Premiums – Increase in \$10 Administrative Fee (Item #4)

Rules drafted to propose increase from \$10 to \$50. Proposal presented to WCOC in March. (In-process)

- ii. Sole Proprietor Minimum Payroll Amounts (Item #7)

Rule changes drafted to propose increase from \$100 (set in 1970's) to \$350 and to tie these figures to the Statewide Average Weekly Wage (SAWW), which is calculated annually. Presented to WCOC in March (In-process)

- iii. Duplicate Policy Processing – Outstanding Financial Obligations (Item #8)

Rules drafted proposing tighter controls presented to WCOC in March. (In-process)

- iv. Accrued Scheduled Loss Payments (Item #13)

Policy change went into effect in March. (Implemented)

- v. Accrued Compensation (Item #17)

New compensation audit tool implemented in March with section covering accrued compensation. (Implemented)

- vi. Non-Complying Employer Audit Process (Item #18)

Change implemented to audit employers where claims filed against employers never having coverage. (Implemented)

- d. Current statistics for the 34 items included in the document (as of March 31, 2006)

* Implemented:	9 or 26%
* In-process:	17 or 50%
* Not Implemented:	8 or 24%



INTERNAL AUDIT DIVISION

2. Audits Completed

a. Bankrupt Self-Insured Claims Unit

i. Significant Findings

1. Offset for Injured Workers getting PTD and Social Security Retirement Benefits
2. PTD Claims - Rates
3. System Security Testing
4. Settlements
5. Compensation Audit Review
6. Fraud Referral/Prosecution

3. Consulting Projects in Process

a. Background/Purpose

b. Projects in process

- i. Coin Fund Liquidation Process
- ii. Settlement Pilot Project
- iii. Inventory/Fixed Asset Process Review
- iv. Auto Adjudication
- v. Electronic Timekeeping System Testing

4. Audits In Process

- a. Medical Billing and Adjustments Unit (Draft Report Date: May 24, 2006)
- b. IT Business Management and Planning (Draft Report Date: June 13, 2006)



INTERNAL AUDIT DIVISION

4. Audits In Process

- c. On-Line RFL Process (Draft Report Date: June 21, 2006)
- d. Wage Calculation Audit (Draft Report Date: June 27, 2006)
- e. Electronic Funds Transfer Process (Draft Report Date: July 5, 2006)

Internal Audit Division

Catherine M. Moseley, Chief of Staff



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EXECUTIVE SUMMARY INTERNAL AUDIT DIVISION

History of MCO Audit Department

✦ Current Process

- Contract signed
- Audit program revised
- Notify MCO's of on-site audit date
- Scoring methodology document issued
- Notification e-mails
- On-site audit (2-5 days)
- Draft audit report issued
- MCO appeal and/or action plan response to draft report
- Review appeals with administrator's designee
- Issue final audit report

✦ Statistics

- 28 MCO's audited in 2005
- 25 of 28 (89.29%) MCO's appealed in 2005
- 20 of 28 (71.43%) passed Compliance audit set-off
- 24 of 28 (85.71%) passed Vocational Rehabilitation set-off

✦ 2006 Audit Update

- 7 of 27 on-sites performed
- 1 closing audit scheduled
- 1st meeting held 5/16/06

✦ MCO Audit Redesign Effort

- 1st meeting held 5/16/06



INTERNAL AUDIT DIVISION

1. End to End Process Reviews

A. Claims Operational Audit

1. Entrance Date: March 8, 2006
2. Scheduled Exit Conference date: by June 16, 2006
3. Report dates: Claims draft will be submitted to management by June 30, 2006 and finalized by July 10, 2006.

B. Employer Risk Operational Audit

1. Entrance date: March 8, 2006
2. Scheduled Exit Conference date: June 7, 2006
3. Report date: ready by June 15, 2006 and finalized by June 25, 2006
(based on a ten day management review period)



INTERNAL AUDIT DIVISION

1. Establish the “Tone at the Top” with respect for the overall Control Environment as set by top management, including, but not limited to, integrity, ethical values, competence, authority, and responsibility.

- * Tone at the Top Terms
- * Speaking engagements—COSO Integrated Framework
- * Ethics Learning Session

2. Establish the mechanism for management to evaluate the overall design of internal control by using Sarbanes-Oxley Act of 2002 as guidelines.

- * Mapping of Trial Balance / to Business Process
- * Employer Risk / End to End process
- * Claims / End to End process

3. Establish the mechanism for management to perform an assessment of the effectiveness of the internal controls.

- * Compliance Audits
- * MCO Audits