

**Audit Committee  
Agenda  
January 24, 2008  
Level 2, Room 3  
3:00 pm – 5:00 pm**

**Call to Order**

Kenneth Haffey, Chairman

**Roll Call**

Jill Whitworth, Scribe

**Approve Minutes of December 19, 2007 meeting**

Kenneth Haffey

**New Business/Action Items**

1. Charter
2. Possible Rule Review
  - a. Review and make recommendation for five-year rule review for Chapter 4167-3-04.2: Public Employment Risk Reduction Program.
  - b. Review and make recommendation for five-year rule review for Chapter 4123-16: Personal Information Systems
  - c. Review and make recommendation for five-year rule review for Chapter 4123-19-07: Rules controlling renewals of employer coverage

**Discussion Items\***

1. BWC Counsel Quarterly Litigation Update – possible Executive Session  
James Barnes, Chief Legal Officer
2. External Audit Comments – update  
Tracy Valentino, Chief of Fiscal and Planning
3. Top 100 non-compliant employer process  
Tracy Valentino, Chief of Fiscal and Planning
4. Office of Budget and Management, Office of Internal Audit Update  
Joe Bell, Chief of Internal Audit
5. Open Discussion with Internal Auditor

**Adjourn**

Ken Haffey

\* Not all discussion items have materials included.

**Next Meeting: February 28, 2008 4:00 pm – 6:00 pm**

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Agenda  
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Level 2, Room 3  
3:00 pm – 5:00 pm**

**Call to Order**

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**Discussion Items\***

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**Adjourn**

Ken Haffey

\* Not all discussion items have materials included.

**Next Meeting: February 28, 2008 4:00 pm – 6:00 pm**

**OBWC Board of Directors  
Audit Committee Charter  
January 25, 2008**

**Purpose**

The Audit Committee has been established to assist the Board of Directors of the Ohio Bureau of Workers' Compensation in fulfilling its fiduciary oversight responsibilities through:

- oversight of the integrity of financial reporting process;
- compliance with legal and regulatory requirements;
- monitoring the design and effectiveness of the system of internal control;
- confirming external auditor's qualifications and independence; and
- reviewing performance of the internal audit function and independent auditors.

**Membership**

The Committee shall be composed of a minimum of three (3) members. One member shall be the appointed certified public accountant member of the board. The Board, by majority vote, shall appoint two additional members to serve on the Audit Committee and may appoint additional members, who are not Board members, as the Board determines necessary. Members of the Audit Committee serve at the pleasure of the board and the board, by majority vote, may remove any member except the member of the committee who is the certified public accountant member of the board.

Each committee member will be independent from management. The Chair and Vice Chair is designated by the Board, based on the recommendation of the Board Chair. The Board Chair if not a member is an ex-officio member, shall not vote if his/her vote will create a tie vote when serving as ex-officio.

The Committee Chair will be responsible for scheduling all meetings of the Committee and providing the Committee with a written agenda for each meeting. The Committee will have a staff liaison designated to assist it in carrying out its duties.

**Meetings**

The Audit Committee shall meet at least nine (9) times annually, or as frequently as needed and will provide activity reports to the Board of Directors. The Committee will invite members of management, external auditors, internal auditors and/or others to attend meetings and provide pertinent information, as necessary. Subject to open meeting laws, the Committee will hold executive sessions with external auditors, when deemed appropriate in the performance of their duties. A quorum shall consist of a majority of the Committee members. The Committee will have a staff liaison designated to help it carry out its duties.

**Duties and responsibilities**

The Audit Committee shall have responsibility for the following:

1. Oversight of the integrity of the financial information reporting process:
  - a. Review with management and the external auditor significant financial reporting issues and judgments made in connection with the preparation of the financial statements.
  - b. Review with management and the external auditor the results of the audit.
2. Review all internal audit reports on regular basis.
3. Review results of each annual audit and management review; if problems exist, assess appropriate course of action to correct, and develop action plan. Monitor implementation of any action plans created to correct problems noted in annual audit.
4. Serve as the primary liaison for Bureau of Workers' Compensation Board of Directors and providing a forum for handling all matters related to audits, examinations, investigations or inquiries of the Auditor of State and other appropriate State or Federal agencies
5. Develop an oversight process to assess the adequacy and effectiveness of internal controls and provide the mechanisms for periodic assessment of system of internal controls on an ongoing basis.
6. Oversee the assessment of internal administrative and accounting controls by both the external independent financial statement auditor and internal auditor.
7. Consult on the appointment and/or removal of the Chief of Internal Audit and have oversight on the work of the Internal Audit Division.
8. Ensure the independence of the external auditor and approve all auditing, other attestations services and pre-approve non-audit services performed by the external auditor.
9. After every meeting, report to the Board of Directors of the Bureau of Workers' Compensation on all activities, findings and recommendations of the Committee.
10. Establish policies and procedures to function effectively.
11. At least once every 10 years, have an independent auditor conduct a fiduciary performance audit of BWC's investment program, policies and procedures. Provide a copy of audit to the Auditor of State.
12. Recommend to the Board an accounting firm to perform the annual audit required under R.C. 4123.47. Recommend an auditing firm for the Board to use when conducting audits under R.C. 4121.125.
13. Retain and oversee consultants, experts, independent counsel, and accountants to advise the Committee on any of its responsibilities or assist in the conduct of an investigation.
14. Seek any information it requires from employees—all of whom are directed to cooperate with the Committee's requests, or the requests of internal or external parties working for the Committee. These parties include, but are not limited to internal auditors, all external auditors, consultants, investigators and any other specialists working for the Committee.
15. All Committee actions must be ratified or adopted by the Board of Directors of the Bureau of Workers' Compensation to be effective.
16. Coordinate with the other Board Committees on items of common interest.
17. At least annually, this charter must be reviewed by the Audit Committee and any proposed changes submitted to the Governance Committee and to the Board for approval.

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| Audit Committee Charter.doc<br>Draft 092607<br>Review & Approved 112107, Ken Haffey, Chair<br>Revised 012408<br>Revised 012508 |
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**Executive Summary**  
**Public Employment Risk Reduction Program**  
**Rule 4167-3-04.2**

**Background History**

Effective April 20, 1993, H.B. 308 created the Public Employment Risk Reduction Program (PERRP) to ensure that Ohio public employees are provided with a safe and healthful working environment. Prior to PERRP, by executive order only state agencies were responsible for the occupational safety and health of their respective employees. H.B. 308 extended safety and health coverage to all public employers except peace officers, fire fighters, and correctional officers.

The BWC Budget Bill of the 126th General Assembly, Am. H.B. 67, effective June 21, 2005, transferred the operation and administration of PERRP from the Department of Commerce to BWC. The Workers' Compensation Board of Directors is responsible for giving advice and consent for adopting PERRP rules, including rules adopted to set safety standards, and establishing fees for variance applications [see R.C. 4121.12(F)(13)(d)].

**Rule Procedure**

This rule is an exempt rule under the authority of R.C. 4167.07. Therefore, there will not be a public hearing or JCARR review of this rule. Upon the Board's advice and consent to the rule, BWC will final file the rule to be effective no sooner than ten days later.

**Reason for Rule Change**

R.C. 4167.07(A)(2)(b) provides that the administrator, with the advice and consent of the bureau of workers' compensation board of directors, shall, by no later than 120 days after the U.S. Department of Labor adopts, modifies, or revokes any federal occupational safety and health standard, by rule adopt the federal standard or amend an existing rule to conform to the standard. OSHA has released a final rule regarding clarifying the employers obligation to pay for employees personal protective equipment. The OSHA rule will become effective February 13, 2008.

**Rule Changes**

**4167-3-04.2 Amending of standards.**

The amendment adds the OSHA personal protective equipment standards. The references in the rule are to the Federal Register:

(B) U.S. Department of Labor [OSHA, 2007] "29 CFR Parts 1910; 1915; 1917; 1918; and 1926 employer payment for personal protective equipment; final rule." Federal Register, vol. 72, no. 220, pages 64341 through and including 64430, November 15, 2007.

**4167-3-04.2 Amending of standards.**

In accordance with division (A)(2)(b) of section 4167.07 of the Revised Code, the administrator of workers' compensation, with the advise and consent of the bureau of workers' compensation board of directors, has amended Ohio employment risk reduction standards as referenced by:

(A) U.S. Department of Labor [OSHA, 2007] 29 CFR 1910 - amended; changes to subpart S Electrical. Federal register, vol. 72, No. 30, pages 7136 through and including 7221, February 14, 2007.

(B) U.S. Department of Labor [OSHA, 2007] "29 CFR Parts 1910; 1915; 1917; 1918; and 1926 employer payment for personal protective equipment; final rule." Federal Register, vol. 72, no. 220, pages 64341 through and including 64430, November 15, 2007.

**Executive Summary**  
**Five Year Rule Review**  
**Chapter 4123-16: Personal Information Systems**

**Introduction**

Chapter 4123-16 of the Administrative Code contains the rules relating to the maintenance by a state agency of a system that contains personal information. The rules are based upon Chapter 1347. of the Revised Code, to provide for personal privacy of information.

**Five-Year Rule Review**

Pursuant to R.C. 119.032, state agencies are required to review all agency rules every five years to determine whether to amend the rules, rescind the rules, or continue the rules without change. The statute requires the agency to assign a rule review date for each of its rules so that approximately one-fifth of the rules are scheduled for review during each calendar year. The Personal Information System rules of Chapter 4123-16 of the Administrative Code are scheduled for review. BWC first enacted these rules over twenty years ago, effective March 15, 1982. BWC conducted a five year rule review of the rules in 2002 and at that time updated eleven rules, rescinded one rule, and kept one rule unchanged.

**Rule Changes**

There are 12 rules in this Chapter, rules 4123-16-01 4123-16-03, and 4123-16-05 to 4123-16-13. BWC rescinded rule 4123-16-04 during the previous five year rule review. At that time, BWC also updated 11 of the remaining rules. Since the prior rule review, there have not been any significant changes to the statutes upon which these rules are based. Therefore, BWC is proposing to retain these 12 rules with no changes.

As an additional note, in H.B. 104 of the 126th General Assembly, the Legislature adopted provisions, including new R.C. 1347.12, to require a state agency to contact individuals residing in Ohio if unencrypted or unredacted personal information about those individuals that is included in computerized data owned or licensed by the agency is accessed and acquired by unauthorized persons and causes or reasonably is believed will create a material risk of the commission of the offense of identity fraud or other fraud to the individual. BWC will prepare a rule on this statute for future presentation to the Board. However, the new statute does not affect the existing BWC rules in Chapter 4123-16.

h:rules/execsum/ExsumChapt16 (2008).doc

## Chapter 4123-16 Personal Information Systems

### **4123-16-01 Definitions.**

(A) "Combination of systems" means a unification of systems that belong to more than one agency, or to an agency and another organization, into a single system in which the records that belong to each agency or organization may or may not be obtainable by the others.

(B) "Computer readable" means in a form capable of being sensed by optical, electronic, or some other mechanical means which is used in connection with electronic data processing equipment. Computer readable includes storage in magnetic cord memories, punched cards, paper tape, magnetic media, and specifically marked forms capable of being decoded by optical scanners or other similar devices.

(C) "Data subject" means the person who is the subject of the record.

(D) "Administrator" means the administrator of the bureau of workers' compensation.

(E) "Bureau" means the bureau of workers' compensation.

(F) "Disclosure of personal information" is any action which reveals personal information in a personal information system to any individual or organization other than employees of the state agency who must use the personal information in the performance of their assigned duties.

(G) "Electronic data processing equipment" means a machine or group of interconnected machines, consisting of input, storage, computing, control and output devices where electronic circuitry is used to perform arithmetic and logical operations, using internally stored or externally controlled programmed instructions. Electronic data processing equipment does not include accounting and bookkeeping machines, office calculators, magnetic card typewriters, and other similar devices. Electronic data processing equipment includes terminals which are linked to computers.

(H) "Interconnection of systems" means a linking of systems that belong to more than one agency or to an agency and other organizations, which linking of systems results in a system that permits each agency or organization involved in the linking to have unrestricted access to the systems of the other agencies and organizations.

(I) "Maintains" means state agency ownership of, control over, responsibility for, or accountability for systems and includes, but is not limited to, state agency depositing of information with a data processing center for storage, processing, or dissemination. An agency maintains all systems of records which are required by law to be kept by the agency.

(J) "Person" includes any individual, corporation, business trust, estate, trust, partnership, or association.

(K) "Personal information" means any information that describes anything about a person, or indicates actions done by or to a person, or indicates that a person possesses certain personal characteristics, and that contains, and can be retrieved from a system by a name, identifying number, symbol, or other identifier assigned to a person.

(L) "System" means any collection or group of related records that are kept in an organized manner and that are maintained by a state agency, and from which personal information is retrieved by the name of

the person or by some identifying number, symbol, or other identifier assigned to the person. System includes both records that are manually stored and records that are stored using electronic data processing equipment. System does not include collected archival records in the custody of or administered under the authority of the Ohio historical society, published directories, reference materials or newsletters, or routine information that is maintained for the purpose of internal office administration, the use of which would not adversely affect a person.

(M) "Use of personal information" is any action which causes personal information in a personal information system to be referenced, processed, or disseminated. The disclosure of personal information is a use of personal information.

HISTORY: Eff 3-15-82; 10-14-02  
Rule promulgated under: RC 119.03  
Rule authorized by: RC 4121.12, 4121.121  
Rule amplifies: RC 1347.05  
R.C. 119.032 review dates: 7/30/2002 and 03/01/2007

#### **4123-16-02 Personal information systems.**

(A) Chapter 4123-16 of the Administrative Code shall apply to all personal information systems maintained by the bureau unless exempted in paragraph (C) or (D) of this rule.

(B) The bureau maintains a personal information system which it deposits or stores in a record center or stores in or has processed by a data center. The bureau does not maintain a personal information system belonging to another state agency, which is stored in or processed by the state data center.

(C) The following types of personal information systems are exempted from the provisions of Chapter 1347. of the Revised Code, and Chapter 4123-16 of the Administrative Code.

(1) Collected archival records in the custody of or administered under the authority of the Ohio historical society:

(2) Published directories:

(3) Reference materials;

(4) Newsletters; or

(5) Routine information that is maintained for the purpose of internal office administration, the use of which would not adversely affect a person.

(D) Personal information systems that are comprised of investigatory material compiled for law enforcement purposes are exempt from the provisions of Chapter 1347. of the Revised Code, and Chapters 123:3-1 and 4123-16 of the Administrative Code.

HISTORY: Eff 3-15-82; 10-14-02  
Rule promulgated under: RC 119.03  
Rule authorized by: RC 4121.12, 4121.121  
Rule amplifies: RC 1347.04, 1347.071  
R.C. 119.032 review dates: 7/30/2002 and 03/01/2007

**4123-16-03 Privacy officer.**

(A) The administrator shall appoint a privacy officer to be responsible for agency compliance with Chapter 1347. of the Revised Code and Chapter 4123-16 of the Administrative Code.

(B) The privacy officer, or the privacy officer's designee, shall oversee the staff instruction required by rule 4123-16-12 of the Administrative Code. The privacy officer shall also provide interpretation and guidance relative to specific compliance questions.

(C) The privacy officer shall be designated to receive all correspondence or inquiries relative to privacy matters unless otherwise indicated in Chapter 4123-16 of the Administrative Code.

(D) The privacy officer shall be responsible for monitoring policies and procedures established under Chapter 4123-16 of the Administrative Code and modifying such policies and procedures when appropriate.

HISTORY: Eff 3-15-82; 10-14-02

Rule promulgated under: RC 119.03

Rule authorized by: RC 4121.12, 4121.121

Rule amplifies: RC 1347.05

R.C. 119.032 review dates: 7/30/2002 and 03/01/2007

**4123-16-05 Collection, maintenance and use of only personal information which is necessary and relevant.**

The bureau shall collect, maintain and use only personal information which is necessary and relevant to the functions it is required or authorized to perform by statute, ordinance, code or rule and eliminate such information when it is no longer necessary to those functions.

(A) Within three months after any change in the purpose of the personal information system, the privacy officer shall review a random sampling of records to determine if personal information in the system is necessary for and relevant to the performance of lawful functions. Personal information which does not meet these requirements shall no longer be collected.

(B) When an existing personal information system is substantially enlarged or a new personal information system is established, the privacy officer shall examine:

(1) The function for which the personal information system is being enlarged or created to ensure that it is required or authorized by statute, ordinance, code or rule; and

(2) The personal information to be collected and maintained to ensure that it is necessary and relevant to the function to be performed.

(C) Retention periods shall be established to ensure the deletion of personal information which is no longer necessary for or relevant to the performance of lawful functions. The establishment of retention periods shall conform to sections 121.211 and 149.34 of the Revised Code.

HISTORY: Eff 3-15-82; 10-14-02

Rule promulgated under: RC 119.03

Rule authorized by: RC 4121.12, 4121.121

**4123-16-06 Maintenance of personal information which is accurate, relevant, timely and complete.**

(A) Employees who use a personal information system shall monitor the contents of the records and report to the privacy officer the existence of personal information which appears inaccurate, irrelevant, untimely or incomplete.

(B) The privacy officer shall keep a record of the reported incidence of error in each personal information system. If it appears the reported errors are characteristic of the system as a whole, the privacy officer shall establish procedures to correct existing records and record-keeping methods.

(C) In order to maintain personal information which is accurate, relevant, timely and complete, employees of the bureau shall:

(1) Verify the accuracy of personal information which does not appear reasonable or is doubtful, vague, or inconsistent.

(2) Correct inaccurate personal information.

(3) Limit the collection and maintenance of subjective personal information to only that information which is required to accomplish the purpose of the system and, when feasible, verify such information.

(4) When feasible, collect personal information from the data subject rather than a third-party source or verify with the data subject information provided by a third party.

(5) Not include in, or allow to remain in, a personal information system personal information known to be inaccurate, untimely, unnecessary, or irrelevant.

(6) Update personal information systems which provide an historical account or for which an outcome is anticipated.

(7) Make no determination based on personal information in a personal information system if the data is known or suspected to be incomplete.

HISTORY: Eff 3-15-82; 10-14-02  
Rule promulgated under: RC 119.03  
Rule authorized by: RC 4121.12, 4121.121  
Rule amplifies: RC 1347.05  
R.C. 119.032 review dates: 7/30/2002 and 03/01/2007

**4123-16-07 Notice to persons asked to supply personal information.**

(A) Any person asked to supply personal information for a personal information system shall be advised whether he or she is legally required, or may refuse, to supply the information. A statement to this effect shall be provided with any written or verbal request for information and included on all forms.

(B) Any person asked to supply personal information that will be placed in an interconnected or combined system shall be provided with information relevant to the system, including the identity of the other agencies or organizations that have access to the personal information in the system.

(C) If personal information is requested from the same source on a continuous basis, the person may be advised, as required under paragraph (A) or (B) of this rule, one time, in writing, rather than prior to each request.

HISTORY: Eff 3-15-82; 10-14-02  
Rule promulgated under: RC 119.03  
Rule authorized by: RC 4121.12, 4121.121  
Rule amplifies: RC 1347.071  
R.C. 119.032 review dates: 7/30/2002 and 03/01/2007

#### **4123-16-08 Data subject's right to inspect personal information.**

(A) Upon the request and proper identification of any person who is the subject of personal information in a personal information system, the bureau shall:

(1) Inform the person of any personal information in the system of which the person is the subject;

(2) Except as provided in paragraph (C) or (D) of this rule, permit the person, his or her legal guardian, or an attorney with a signed written authorization made by the person, or his or her guardian, to inspect all personal information in the system of which the person is the subject; and

(3) Inform the person about the types of uses made of the personal information, including the identity of any users usually granted access to the system.

(B) Any person who wishes to exercise a right provided by this rule may be accompanied by another individual of the person's choice.

(C) Upon request, medical, psychiatric or psychological information shall be disclosed to the person who is the subject of the information or to the person's legal guardian, unless a physician, psychiatrist, or psychologist determines for the agency that the disclosure of the information is likely to have an adverse effect on the person, in which case the information shall be released to a physician, psychiatrist, or psychologist who is designated by the person or by his or her legal guardian.

(D) Upon the request of an individual who is authorized to inspect personal information, the bureau shall provide, at cost, copies of personal information the data subject is authorized to inspect that is maintained in a personal information system by the bureau.

(E) The bureau of workers' compensation or officer or employee thereof shall not deny to any person or his or her legal guardian the person's rights to inspect and correct personal information pursuant to sections 1347.08 and 1347.09 of the Revised Code.

HISTORY: Eff 3-15-82; 10-14-02  
Rule promulgated under: RC 119.03  
Rule authorized by: RC 4121.12, 4121.121  
Rule amplifies: RC 1347.08  
R.C. 119.032 review dates: 7/30/2002 and 03/01/2007

**4123-16-09 Investigation of data subject's dispute of the accuracy, relevance, timeliness or completeness of personal information.**

(A) If a person who is the subject of personal information in a personal information system maintained by the bureau disputes the accuracy, relevance, timeliness or completeness of the personal information, the person may request the bureau to investigate the current status of the information.

(B) Requests to investigate personal information shall be made to the privacy officer or the director who is responsible for the system.

(C) Within ninety days after receiving the request from the disputant, the bureau shall make a reasonable investigation to determine whether the disputed information is accurate, relevant, timely and complete and shall notify the disputant of the results of the investigation and of the action that the bureau plans to take with respect to the disputed information. The bureau shall delete any information that it cannot verify or that it finds to be inaccurate.

(D) If after the bureau's determination, the disputant is not satisfied, the bureau shall do either of the following:

(1) Permit the disputant to include within the system a brief statement of his or her position on the disputed information, or

(2) Permit the disputant to include within the system a notation that the disputant protests that the information is inaccurate, irrelevant, outdated, or incomplete. The agency shall maintain a copy of the disputant's statement of the dispute.

The department may limit the statement to not more than one hundred words if the bureau assists the disputant to write a clear summary of the dispute.

(E) The bureau shall include the statement or notation in any subsequent transfer, report or dissemination of the disputed information and may include with the statement or notation of the disputant a statement by the bureau that it has reasonable grounds to believe that the dispute is frivolous or irrelevant and of the reasons for its belief.

(F) The presence of contradictory information in the person's file does not alone constitute reasonable grounds to believe that the dispute is frivolous or irrelevant.

(G) Following any deletion of information that is found to be inaccurate or the accuracy of which can no longer be verified, or if a statement of dispute was filed by the disputant, the bureau shall, at the written request of the disputant, furnish notification that the information has been deleted, or furnish a copy of the disputant's statement of the dispute, to any person specifically designated by the disputant. The bureau shall specifically disclose to the disputant that he or she has the right to make such a request.

HISTORY: Eff 3-15-82; 10-14-02  
Rule promulgated under: RC 119.03  
Rule authorized by: RC 4121.12, 4121.121  
Rule amplifies: RC 1347.09  
R.C. 119.032 review dates: 7/30/2002 and 03/01/2007

**4123-16-10 Participation in interconnected or combined systems.**

(A) The bureau shall not place personal information in an interconnected or combined system, or use personal information that is placed in an interconnected or combined system by another state or local agency or another organization, unless the interconnected or combined system will contribute to the efficiency of the involved agencies in implementing programs that are authorized by law.

(B) The bureau shall not use personal information placed in an interconnected or combined system by another state or local agency or another organization unless the personal information is necessary and relevant to the performance of a lawful function of the bureau.

(C) The participation in an interconnected or combined system or the use of personal information in an interconnected or combined system shall be approved by the privacy officer.

History: Eff. 3/15/82

Promulgated Under: 119.03

Statutory Authority: 4121.12, 4121.121

Rule Amplifies: 1347.071

R.C. 119.032 review dates: 7/31/2002 and 03/01/2007

#### **4123-16-11 Security precautions.**

(A) The bureau shall take reasonable precautions to protect personal information in the system from unauthorized modification, destruction, or disclosure of personal information. In determining what is reasonable, consideration shall be given to the following:

(1) The nature and vulnerability of the personal information.

(2) The physical facilities where the personal information is maintained or used.

(3) The need for the feasibility of keeping personal information in a secure place, considering paragraphs (A)(1) and (A)(2) of this rule, the cost of providing a secure place and the need for access to the place where information is kept by personnel of the agency and the general public.

(B) The bureau shall adopt, implement and enforce a security plan for the protection of personal information. This plan shall include the following:

(1) A statement of the security precautions for each personal information system determined appropriate from the analysis conducted in accordance with paragraph (A) of this rule. When electronic data processing equipment is used, the requirements of rule 123:3-1-01 of the Administrative Code shall be included in the statement of security precautions.

(2) A method of informing agency employees concerning appropriate and inappropriate uses, disclosure and access to the personal information as well as penalties and sanctions, civil or criminal, for the unlawful use or disclosure of personal information and the failure to take reasonable precautions to protect the security of personal information.

(3) A method for reporting violations of the security plan to responsible officials or employees of the agency.

(4) A method for monitoring the effectiveness of the security plan.

A copy of the security plan shall be kept in the office of the privacy officer.

(C) The bureau may require a background investigation of any individual who has access to confidential personal information or to computer equipment used to process such information.

(D) The requirements of Chapter 1347. of the Revised Code and of Chapter 4123-16 of the Administrative Code shall apply to personal information stored, processed, or disseminated under contract with the bureau by any contractor. Any such contract shall contain covenants that the contract will:

- (1) Use the information only as specified in the contract;
- (2) Not disclose information except with the express permission of the bureau; and
- (3) Protect the security of the information.

This paragraph shall apply only to contracts entered into after the effective date of Chapter 4123-16 of the Administrative Code.

HISTORY: Eff 3-15-82; 10-14-02  
Rule promulgated under: RC 119.03  
Rule authorized by: RC 4121.12, 4121.121  
Rule amplifies: RC 1347.05  
R.C. 119.032 review dates: 7/30/2002 and 03/01/2007

#### **4123-16-12 Privacy instruction for department employees.**

(A) The bureau shall adopt written policies and procedures which inform employees of the applicable provisions of Chapter 1347. of the Revised Code and of all rules adopted in accordance with the chapter.

(B) The privacy officer shall inform each employee of the bureau who has responsibility for the operation or maintenance of the personal information system of the policies and procedures adopted under Chapter 4123-16 and of the specific application of these policies and procedures to the personal information system.

HISTORY: Eff 3-15-82; 10-14-02  
Rule promulgated under: RC 119.03  
Rule authorized by: RC 4121.12, 4121.121  
Rule amplifies: RC 1347.05  
R.C. 119.032 review dates: 7/30/2002 and 03/01/2007

#### **4123-16-13 Disciplinary measures.**

(A) Any employee who intentionally violates any provision of Chapter 1347. of the Revised Code or any rule adopted in accordance with this chapter shall be subject to disciplinary action.

(B) Any employee who initiates or otherwise contributes to any disciplinary or other punitive action against any individual who brings to the attention of appropriate authorities, the press, or any member of the public evidence of unauthorized use of personal information shall be subject to suspension or possible removal.

HISTORY: Eff 3-15-82; 10-14-02  
Rule promulgated under: RC 119.03  
Rule authorized by: RC 4121.12, 4121.121  
Rule amplifies: RC 1347.05  
R.C. 119.032 review dates: 7/30/2002 and 03/01/2007

**Executive Summary**  
**Rule 4123-19-07, Rules controlling renewals of employer coverage**

**Background Law**

The BWC Budget bill of the 127th General Assembly, Am. Sub. H.B. 100, effective September 10, 2007, amended R.C. 4123.32 relating to employer. The Act allows the Administrator, under specified conditions, to discontinue an employer's workers' compensation coverage if the employer fails to pay the employer's premium when due. R.C. 4123.32 provides that the Administrator, with the advice and consent of the Bureau of Workers' Compensation Board of Directors, shall adopt rules including:

(G) A rule providing that, in addition to any other remedies permitted in this chapter, the administrator may discontinue an employer's coverage if the employer fails to pay the premium due on or before the premium's due date. ...

(I) As used in divisions (G) and (H) of this section:

(1) "Employer" has the same meaning as in division (B) of section 4123.01 of the Revised Code except that "employer" does not include the state, a state hospital, or a state university or college.

(2) "State university or college" has the same meaning as in section 3345.12 of the Revised Code and also includes the Ohio agricultural research and development center and the Ohio state university cooperative extension service.

(3) "State hospital" means the Ohio state university hospital and its ancillary facilities and the medical university of Ohio at Toledo hospital.

**Overview of Rule and Rule Procedure**

Rule 4123-19-07 is an existing BWC rule controlling the renewal of employer coverage. The rule has been in effect since 1971 and BWC most recently updated the rule effective October 30, 2006, to adopt changes required by S.B. 7 relating to the employer late payment penalties. Under R.C. 119.01, the rule is subject to the public hearing and Joint Committee on Agency Rule Review process.

**Rule Amendments:**

**4123-19-07 Rules controlling renewals and discontinues of employer coverage.**

The amendments to the rule are as follows:

The title of the rule is changed to reflect the rules for the discontinuance of employer coverage for failure to pay premiums on time.

In Paragraphs (A) and (K), the word “mail” is changed to “issue” to accommodate possible future electronic delivery of documents.

New Paragraphs (L)(1) and (L)(2) are added to implement the provisions of R.C. 4123.32 from H.B. 100. For public employer taxing districts, the rule provides:

(1) When an employer as defined by division (I)(1) of section 4123.32 of the Revised Code has paid its adjustments and renewal premium to the bureau, the bureau shall forthwith issue to such an employer a "Certificate of Premium Payment," which certificate shall set forth the renewal, effective and expiration dates of coverage for the employer.

(2) When an employer as defined by division (I)(1) of section 4123.32 of the Revised Code has failed to pay at least forty-five percent of the premium due by May fifteenth or the full premium due by September first, the bureau may discontinue the employer's coverage. In the event of a discontinuance of the employer's coverage, the employer shall be considered a non-complying employer.

**4123-19-07 Rules controlling renewals and discontinues of risks.**

(A) One week prior to the date of expiration of insurance of each private risk the bureau shall ~~mail~~ issue to each such risk a "Payroll Report" form.

(B) The employer shall, within one month from the date of expiration of his last six months' insurance period, complete and return the payroll report to the bureau with premium remittance.

(C) If, within two months immediately after the expiration of the six months' period, an employer fails to file a report of the employer's actual payroll expenditures for the period, the premium found to be due from such employer for the period shall be increased in an amount equal to one per cent of the premium, but the increase shall not be less than three dollars nor more than fifteen dollars.

(D) The premium determined by the bureau to be due from an employer shall be payable on or before the end of the coverage period established by the premium security deposit, or within the time specified by the bureau if the period for which the advance premium has been paid is less than eight months. If an employer fails to pay such premium when due, the administrator may add a late penalty of not more than thirty dollars to the premium, plus an additional penalty as follows:

(1) For a premium from sixty-one to ninety days past due, the prime interest rate, multiplied by the premium due;

(2) For a premium from ninety-one to one hundred twenty days past due, the prime interest rate plus two per cent, multiplied by the premium due;

(3) For a premium from one hundred twenty-one to one hundred fifty days past due, the prime interest rate plus four per cent, multiplied by the premium due;

(4) For a premium from one hundred fifty-one to one hundred eighty days past due, the prime interest rate plus six per cent, multiplied by the premium due;

(5) For a premium from one hundred eighty-one to two hundred ten days past due, the prime interest rate plus eight per cent, multiplied by the premium due;

(6) For each additional thirty-day period or portion thereof that a premium remains past due after it has remained past due for more than two hundred ten days, the prime interest rate plus eight per cent, multiplied by the premium due.

(E) Notwithstanding the interest rates specified in paragraph (D) of this rule, at no time shall the additional penalty amount assessed under paragraph (D) of this rule exceed fifteen per cent of the premium due.

For purposes of paragraph (D) of this rule, "prime interest rate" means the average bank prime rate, which the administrator shall determine in the same manner as a county auditor determines the average bank prime rate under section 929.02 of the Revised Code. The bureau will utilize statistical release H.15, "selected interest rates," a weekly publication of the federal reserve board, to recalculate semiannually the prime interest rate for purposes of a late fee penalty or additional penalty under this rule.

(F) An employer may appeal a late fee penalty or additional penalty to the bureau's adjudicating committee pursuant to section 4123.291 of the Revised Code.

(G) Any deficiencies in amounts of premium security deposit paid by an employer for any period or periods shall be subject to an interest charge of six per cent per annum from the respective dates of the notice by the bureau to the employer of such deficiency in the premium security deposit. In determining the interest due on deficiencies in premium security deposit payments, a charge in each case shall be made against the employer in a sum equal to interest at the rate of six per cent per annum on the premium security deposit due but remaining unpaid sixty days after notice by the bureau.

(H) Any interest charges or penalties provided for in paragraphs (D) and (G) of this rule and paid, shall be credited to the employer's account for rating purposes in the same manner as premium.

(I) The amount of premium due from such employer may be certified to the attorney general for collection.

(J) The question of classification or rating shall not be permitted to operate so as to delay the making of premium payment.

(K) When the employer has paid its adjustments and renewal premium to the bureau, the bureau shall forthwith ~~mail~~ issue to such an employer a "Certificate of Premium Payment," which certificate shall set forth the renewal, effective and expiration dates of coverage for the employer.

(L) For ~~counties and public employer taxing districts~~ an employer defined in division (I)(1) of section 4123.32 of the Revised Code, payment of premium is due in accordance with the schedule established under division (B) of section 4123.41 of the Revised Code. Where such employer fails to pay at least forty-five per cent of the premium due by May fifteenth or the full premium due by September first, the bureau may impose an interest penalty for late payment for any amount due for each month or part of a month past due as scheduled at the interest rate established by the state tax commissioner pursuant to section 5703.47 of the Revised Code.

(1) When an employer as defined by division (I)(1) of section 4123.32 of the Revised Code has paid its adjustments and renewal premium to the bureau, the bureau shall forthwith issue to such an employer a "Certificate of Premium Payment," which certificate shall set forth the renewal, effective and expiration dates of coverage for the

employer.

(2) When an employer as defined by division (D)(1) of section 4123.32 of the Revised Code has failed to pay at least forty-five percent of the premium due by May fifteenth or the full premium due by September first, the bureau may discontinue the employer's coverage. In the event of a discontinuance of the employer's coverage, the employer shall be considered a non-complying employer.

HISTORY: Eff 7-1-71; 8-19-77; 12-11-78; 11-26-79; 5-9-90; 12-14-92, 10-30-06

Rule promulgated under: RC Chapter 119.

Rule amplifies: R.C. 4123.32, 4123.41

119.032 Review Date: 9-28-01; 3-1-06

**BWC Fiscal & Planning Division**  
**External Audit Report Follow-up Procedures**

One of our primary responsibilities as management is to review all external auditor comments and take corrective action on recommendations as necessary. Corrective action applies in all cases except where "senior management has accepted the risk of not taking action." When senior management accepts the risk of not taking action, management should work with external auditors to ensure complete understanding of the issue.

Being an integral part of the external audit, follow-up on external auditor comments should be documented and prepared for external auditor review. It is the goal of the Fiscal & Planning Division that all prior year, external auditor comments should be addressed prior to commencement of final fieldwork. In addition, periodic reports to the Workers' Compensation Board of Directors Audit Committee is necessary. This is accomplished through a quarterly report summarizing the status of each comment. The intent of this summary report is to track all findings so that they are appropriately resolved.

Follow-up documentation should included detailed information sufficient to assure the external auditors that appropriate resolution of the recommendation has occurred. This may include, but is not limited to, detailed policies and procedures, sample documentation, and appropriate cost/benefit analysis. The supporting documentation of the status should be available for review by the external auditors during fieldwork upon their request.

## Comments Issued in the FY 2007 External Audit Report

### **Manual Override Processes in Rates and Payments**

#### **Significant Deficiency No. 07-1**

**Responsible Executive – Chief Financial Officer**

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|---|
| <b>Condition</b>  |
| Inquiries with management and the BWC Internal Audit Division revealed that internal controls over manual override processes in the Rates and Payments system are inadequate. These control deficiencies principally center around the lack of policies, procedures and system documentation, inadequate segregation of duties, and inadequate oversight.   |
| <b>Management Response</b>  |
| BWC has strengthened internal controls over the manual override process by developing written policies and procedures for these processes. These procedures include standard forms and documentation requirements for the request and approval of manual overrides. To address inadequate segregation of duties, responsibility for processing these transactions has been moved from Employer Operations to the Actuarial Division. The ability to perform override transactions has been limited to three employees in the Actuarial Rate Unit. Management personnel are responsible for reviewing and approving staff transactions to ensure appropriateness, validity, and accuracy of the overrides processed. Further, monthly system generated reports are reviewed to provide quality assurance and oversight for these transactions. |
| <b>Target Resolution Date</b>   |
| Implemented   |
| <b>Current resolution status (implemented, in-process, not implemented)</b>   |
| As noted in the Auditor's report, BWC management implemented prior to the end of Fiscal Year 2007.  |

## Comments Issued in the FY 2007 External Audit Report

### **Issue, Service and Maintain Policies – Policy Refunds**

**Significant Deficiency No. 07-2**

**Responsible Executive – Chief Financial Officer**

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| <b>Condition</b>   |
| When performing testing over the controls associated with review, approval and initiation of policies with over \$5,000 available for refund reporting, it was noted that a single manager reviews, approves and initiates the refund with no secondary review of the transaction. |
| <b>Management Response</b>   |
| Management has strengthened internal controls over the approval process for refunds and has implemented the proper procedures to ensure segregation of duties in this process.   |
| <b>Target Resolution Date</b>  |
| Implemented  |
| <b>Current resolution status (implemented, in-process, not implemented)</b>  |
| As noted in the Auditor's report, BWC management implemented prior to the end of Fiscal Year 2007.   |

Prepared by: Tracy Valentino, Chief Fiscal & Planning Officer

Date: 1/25/2008

## Comments Issued in the FY 2007 External Audit Report

### Monitoring of Managed Care Organizations – SAS70 Reporting

#### Significant Deficiency No. 07-3

Responsible Executive – Chief Financial Officer

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| <b>Condition</b>  |
| <p>During review of the SAS 70 Type II reports received by management, it appears that several MCOs have not designed and/or implemented internal control systems that meet the standards established by the BWC/IC. Specifically, it was noted that 4 of the 25 MCOs received a qualified opinion from their independent auditors. In addition, management's review of the SAS 70 reports seems to indicate that the procedures performed by several of the independent auditors were inadequate, and thus unable to satisfy the overall objectives established by with respect to testing the operating effectiveness of the control environment.</p> |
| <b>Management Response</b>  |
| <p>Management agrees that the control environments in place at the MCOs have a significant impact to BWC's overall control environment. As such, management will be discussing various methods that could be employed to ensure MCOs have the appropriate control environments in place and that adequate testing is performed during the SAS 70 audits. Additionally, MCOs will be required to provide corrective action plans for identified SAS 70 issues.</p>   |
| <b>Target Resolution Date</b>   |
| <p>June 30, 2008</p>  |
| <b>Current resolution status (implemented, in-process, not implemented)</b>   |
| <p>In process – Finance held a SAS70 training session for all MCO finance staff in to clarify the purpose of the report, establish expectations with respect to testing requirements and guidelines on corrective action plans. In addition, staff from other divisions reviewed the SAS70 reports to lend subject matter expertise with respect to user control considerations in place at BWC. Finally, Fiscal &amp; Planning are working with the MCO business units and Law to determine the appropriate contract issues that need to be addressed going forward.</p>   |

Prepared by: Tracy Valentino, Chief Fiscal & Planning Officer

Date: 1/25/2008

## Comments Issued in the FY 2007 External Audit Report

### Premiums and Assessments in Course of Collection Responsible Executive – Chief Financial Officer

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| <b>Condition</b>  |
| During the audit, a look-back analysis of the accruals for premiums and assessments in the course of collection was performed. This look-back noted that the current process of accruing for the estimate for this revenue could be improved.   |
| <b>Management Response</b>  |
| Management recognizes that the accrual for premiums and assessments is an estimate based on information available at the time of the accrual. As such, there is no expectation that the result will be completely accurate. However, management will evaluate the current methods utilized to ensure the accrual is reasonable and appropriate. |
| <b>Target Resolution Date</b>   |
| December 31, 2007   |
| <b>Current resolution status (implemented, in-process, not implemented)</b>   |
| Implemented – BWC management has evaluated the method for calculating the accrual for premiums and assessments in the course of collection. The method has been slightly modified and will continue to be evaluated for appropriateness.  |

## Comments Issued in the FY 2007 External Audit Report

### Security of Information

Responsible Executive – Chief Infrastructure and Technology Officer

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|---|
| <b>Condition</b>  |
| During the audit, information was requested from individual MCOs. While most MCOs secured data via encryption, password protection, or other means, one MCO submitted data via email that was not encrypted or otherwise protected. This could result in a security breach or even a HIPAA violation. |
| <b>Management Response</b>  |
| Management agrees that sensitive data should not be transmitted via email without being secured. All MCOs will be alerted to the importance of securing sensitive data in email transmissions.  |
| <b>Target Resolution Date</b>   |
| October 31, 2007  |
| <b>Current resolution status (implemented, in-process, not implemented)</b>   |
| Implemented – BWC management has communicated to all MCOs the importance of securing sensitive data in email transmissions. Ongoing monitoring of this will occur as necessary.   |

## Comments Issued in the FY 2007 External Audit Report

### Security of Information

Responsible Executive – Chief Customer Service Officer

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| <b>Condition</b>   |
| During review of controls in the customer service area, several control issues surrounding the security of cash were noted.  |
| <b>Management Response</b>   |
| Management will work with the appropriate staff to create a more secure environment for cash handling in the customer service area. In addition, management will evaluate procedures performed in this area to ensure appropriate controls are in place. |
| <b>Target Resolution Date</b>  |
| June 30, 2008  |
| <b>Current resolution status (implemented, in-process, not implemented)</b>  |
| In process – Management from different divisions have begun working to identify potential methods for resolving the control concerns. Initial steps have been taken to limit exposure; however, further analysis on some issues remains.                 |

## Comments Issued in the FY 2007 External Audit Report

### Premiums Payment Security Deposits

Responsible Executive – Chief of Customer Service

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| <b>Condition</b>  |
| During testing, it was noted that a review process to determine if an employer's deposits are considered sufficient does not occur in the State Insurance Fund.   |
| <b>Management Response</b>  |
| A systemic approach was developed in 1999 to review and adjust security deposits for SIF employers. The program was removed from production after the initial run at the request of executive level Employer Management staff employed at the time. As a result of internal audit recommendations on this subject, IT staff reviewed the existing program and noted several modifications necessary to update the program. Management is proceeding with updating the program and this project will be prioritized accordingly. |
| <b>Target Resolution Date</b>   |
| June 30, 2008   |
| <b>Current resolution status (implemented, in-process, not implemented)</b>   |
| In process – Management has provided the go ahead on this project and prioritization with other IT resources and business staff availability is in process.   |

## Comments Issued in the FY 2007 External Audit Report

### Claim Payments

Responsible Executive – Chief Customer Service Officer

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| <b>Condition</b>  |
| During testing to ensure that compensation reviews of claims entered into V3 by claims service specialists were reviewed by the appropriate team leader, that the review was made timely and that any exceptions found were resolved. Twelve out of 60 compensation reviews were not reviewed timely. |
| <b>Management Response</b>  |
| Current policies and procedures require compensation reviews be performed within one business day. Management will review the compensation policy with all Team Leaders responsible for completing compensation audits to ensure the policy is being followed.  |
| <b>Target Resolution Date</b>   |
| October 31, 2007  |
| <b>Current resolution status (implemented, in-process, not implemented)</b>   |
| Implemented – Management has reviewed the policy with all Team Leaders.   |

## Comments Issued in the FY 2007 External Audit Report

### Claim Payments

Responsible Executive – Chief Legal Officer

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| <b>Condition</b>   |
| While testing authorization over lump sum settlements, instances were noted in which either the attorney or the team leader did not sign the lump sum settlement verification worksheet to evidence the settlement was authorized based upon the established authority limits. |
| <b>Management Response</b>   |
| To fully document lump sum settlement authorizations, management will amend its Settlement Policy to require that an imaged copy of the email containing settlement authorization be included in the LSS/Pac as part of the claim file.  |
| <b>Target Resolution Date</b>  |
| October 31, 2007   |
| <b>Current resolution status (implemented, in-process, not implemented)</b>  |
| Implemented – Management has adjusted the policy as necessary.   |

## Comments Issued in the FY 2007 External Audit Report

### Reserve for Compensation Adjustment Expenses Responsible Executive – Chief Financial Officer

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| <b>Condition</b>  |
| <p>During the review of the Oliver Wyman report which is used by management to adjust the reserves for compensation and the reserve for compensation adjustment expenses, it was noted that Oliver Wyman makes some assumptions with regards to when the administrative costs associated with the claims are paid. Oliver Wyman notes that these assumptions should be tested through a time study to measure how costs accrue over the life of a claim. Since there is no study, the assumptions used were similar to those commonly applied to estimated property-casualty insurance company loss adjustment expense reserves.</p>                |
| <b>Management Response</b>  |
| <p>During fiscal year 2007, management has been in discussion with our external actuarial consultant to determine how best to improve the allocation of administrative expenses among the various expense classifications. Management is currently evaluating the various options and will determine the most appropriate course of action to ensure reasonable and accurate allocation of administrative costs. As part of House Bill 100 requirements, BWC will be issuing a Request for Proposal to review various actuarial and rate setting issues. Management anticipates leveraging the results of this study to assist in this process.</p> |
| <b>Target Resolution Date</b>   |
| <p>December 31, 2008</p>  |
| <b>Current resolution status (implemented, in-process, not implemented)</b>   |
| <p>In-process – Management is developing a plan to complete a detailed analysis of the allocation of administrative expenses. This analysis will be implemented with the cooperation of internal and external actuarial support.</p>  |

## Comments Issued in the FY 2007 External Audit Report

**Financial Reporting Department**  
**Responsible Executive – Chief Financial Officer**

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| <b>Condition</b>  |
| It was noted that the Financial Reporting department had difficulties in determining the reason for various fluctuations within the Statement of Changes in Net Assets. Management did provide a very high level response to the variance fluctuations but it is believed that this level of analysis would not catch a material error in the financial statements. |
| <b>Management Response</b>  |
| Management will evaluate the current review methodologies in order to identify potential improvements in the process of performing monthly analytics.   |
| <b>Target Resolution Date</b>   |
| June 30, 2008   |
| <b>Current resolution status (implemented, in-process, not implemented)</b>   |
| In-process – Management has begun reviewing the current methodologies and, utilizing the assistance of an external resource, begun revising current processes for performing monthly analytics.   |

## Comments Issued in the FY 2007 External Audit Report

### Financial Reporting

Responsible Executive – Chief Financial Officer

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| <b>Condition</b>  |
| The Ohio Revised Code (ORC) provides that BWC may charge interest on certain delinquent receivables and deposits. During the audit, it was noted that BWC is not accruing interest timely for these items.  |
| <b>Management Response</b>  |
| Management will identify the cost to develop and maintain programs on which to bill interest and an infrastructure to manage the process versus the expected return (paid interest billings) and make a determination whether this recommendation should be implemented.                    |
| <b>Target Resolution Date</b>   |
| March 31, 2008  |
| <b>Current resolution status (implemented, in-process, not implemented)</b>   |
| In-process – Management continues to evaluate options associated with this issue. However, initial evaluation appears to indicate the costs associated with developing the technological programs and the infrastructure to maintain and manage the process outweigh the attained benefits. |

## Comments Issued in the FY 2007 External Audit Report

### Claim Payments – Compensation Calculation Responsible Executive – Chief Operations Officer

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| <b>Condition</b>  |
| BWC or IC Orders should be issued in support of all compensation to ensure injured workers and employers are properly notified. Additionally, overrides of average weekly wages should be reviewed by Team Leaders and Supervisors to ensure information in V-3 is accurate, complete and properly authorized.  |
| <b>Management Response</b>  |
| Management agrees with the recommendation. As part of a September 2006 Internal Audit department recommendation, the Wages policy was updated to include specific procedures and required documentation for manual override of wages. Management also agreed to conduct compensation audit reviews to be performed by the Service Office Managers for Team Leader manual wage rate overrides. A policy has also been implemented in the claim audit process to assure Orders are issued when setting wages. Management will review the wages policy with all Service Office Managers and Team Leaders to ensure the policy is being followed. |
| <b>Target Resolution Date</b>   |
| October 31, 2007  |
| <b>Current resolution status (implemented, in-process, not implemented)</b>   |
| Implemented   |

## Comments Issued in the FY 2007 External Audit Report

### Internal Audit – Table of Organization

Responsible Executive – Chief Internal Audit Officer

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| <b>Condition</b>   |
| Recommend the Internal Audit Department be separated from the other operating departments as soon as possible to allow this critically important function to take effect within the organization.  |
| <b>Management Response</b>   |
| Management agrees that the Internal Audit Division should have sufficient independence from those it is required to audit in order to conduct its work without interference and be seen as able to do so. Reporting to the Administrator provides the highest reporting level of authority and the Administrator does not have functional responsibility and direct oversight of operating departments. This recommendation will be discussed with the external auditors, audit committee, the Administrator/CEO, Chief Legal Officer, Chief of Human Resources and the Chief of Internal Audit to determine how best to structure an independent reporting relationship of the internal audit function. |
| <b>Target Resolution Date</b>  |
| June 30, 2008  |
| <b>Current resolution status (implemented, in-process, not implemented)</b>  |
| In-process – Consultation between the Administrator and the Board of Directors will take place with respect to the proper reporting relationship of BWC's Internal Audit division. In addition, new legislation enacted subsequent to the completion of the audit mandates a statewide, centralized internal audit function within the Office of Budget and Management (OBM). BWC management will work with OBM to implement the proper reporting relationship.  |

## Comments Issued in the FY 2007 External Audit Report

### Internal Audit – Information Technology Professional Responsible Executive – Chief Internal Audit Officer

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| <b>Condition</b>   |
| During the period under audit, there was not an information technology professional in the Internal Audit Division. As technology is such a vital part of operations, it would be beneficial to include an employee with extensive information technology experience in the Internal Audit Division. |
| <b>Management Response</b>   |
| Management concurs and in September 2007, a Director of IT Audit was hired. The Director of IT Audit has over 14 years of audit and IT audit related experience and is a Certified Public Accountant, Certified Information Systems Auditor and Certified Information Systems Security Professional  |
| <b>Target Resolution Date</b>  |
| September, 2007  |
| <b>Current resolution status (implemented, in-process, not implemented)</b>  |
| Implemented  |

## Comments Issued in the FY 2007 External Audit Report

### Financial Reporting – Net Assets

Responsible Executive – Chief Financial Officer

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| <b>Condition</b>  |
| During the audit, we noted that there is no longer \$100,000 in the surplus fund. We encourage management to investigate the accounting for the surplus fund to ensure compliance with the Ohio Revised Code.   |
| <b>Management Response</b>  |
| There have been a number of discussions in the past several years regarding the intent and interpretation of this statute. Management will work with BWC Legal staff and, if necessary, the Office of the Attorney General to obtain a legal opinion of the referenced statute. |
| <b>Target Resolution Date</b>   |
|   |
| <b>Current resolution status (implemented, in-process, not implemented)</b>   |
| Not implemented – BWC management proposed legislative changes during the recent biennial budget process. These proposed changes were not included in the final legislation. Management has requested a legal opinion regarding the interpretation of the related statute.       |



Sept. 17, 2007

<<< Employer Name>>>  
<<< Street Address, PO Box>>>  
<<< City, State, Zip>>>

<<<Policy No. 1234567>>>

Dear Employer:

We have learned your company does not have workers' compensation insurance, which Ohio law requires of all employers. Since you do not have coverage, you are in violation of Ohio law.

You can resolve this issue immediately by reporting your payroll for the Jan.1 to June 30, 2007, payroll period and paying your premium online. Simply log on to **ohiobwc.com**, and click on:

- Ohio Employers;\*
- Payroll reports;
- Then enter either your BWC policy number, federal tax identification number or Social Security number, if applicable, to access the report;
- After completing the payroll report, the system will automatically prompt you to pay your premium;
- Simply enter your checking or savings account information, or credit card authorization. BWC accepts VISA, MasterCard and American Express.

**\*Note:** If you have never accessed your BWC account online and do not have a User ID and Password, you must first click on Create E-account under the E-account Log On screen of **ohiobwc.com**'s homepage; then follow the prompts for creating an E-account.

You may also reinstate coverage by filing your report and paying your premium at your local Ohio Bureau of Workers' Compensation (BWC) customer service office. For the location nearest you, visit **ohiobwc.com**, and click on Contact Us, then Automatic office locator.

If you do not pay your full premium or contact BWC to arrange payment, we will take the necessary steps to ensure your compliance with Ohio laws. These steps may include assessing late fees, referring your account to the Office of the Attorney General of Ohio, obtaining an injunction to enjoin your business from further operation, and/or referring the matter to a local prosecutor.

If you have any questions regarding this matter or wish to speak with a BWC representative about your policy, please call **1-800-OHIOBWC**, and listen to the options for assistance. Please disregard this notice if you already submitted your payroll report and paid your premium.

Sincerely,

BWC Collections

Ohio Bureau of Workers' Compensation  
30 W. Spring St.  
Columbus, OH 43215-2256



Ted Strickland  
Governor  
ohiobwc.com

Marsha P. Ryan  
Administrator  
1-800-OHIOBWC

Dec. 7, 2007

<<< Employer Name>>>  
<<< Street Address, PO Box>>>  
<<< City, State, Zip>>>>

<<<Policy No. 1234567>>>

Dear Employer:

As of Dec 7, 2007, your company has not paid its workers' compensation premium, which was due on Aug. 31, 2007. You are violating Ohio law by allowing your coverage to lapse.

We have attempted to reach you to resolve this matter. However, you have made no attempt to make arrangements to pay your premium. Therefore, on **Monday, Dec. 21, we will release your company's name and address to all media outlets in your area listing you as a non-complying employer.**

In addition, we will post your company's name and address on the Ohio Bureau of Workers' Compensation's (BWC's) Web site along with other non-complying Ohio employers who have the highest outstanding premium balances.

We want to work with you to resolve this matter. I strongly encourage you to call the bureau at **1-800-OHIOBWC**, or visit your local BWC customer service office to make payment arrangements. Once you meet your outstanding financial obligations, we will promptly remove your name from the Web site.

As an Ohio employer, you are responsible for paying your workers' compensation premium when it's due. I am hopeful this notice will encourage your company to pay both past and future obligations in a timely manner.

Sincerely,

Tracy Valentino  
Chief Financial Officer