

Audit Committee Agenda

Thursday, May 28, 2009

William Green Building

Level 2, Room 2

4:00 p.m. – 6:00 p.m.

Call to Order

Ken Haffey, Committee Chair

Roll Call

Mike Sourek, Scribe

Approve Minutes of April 29, 2009 meeting

Ken Haffey, Committee Chair

Review and Approve Agenda

Ken Haffey, Committee Chair

New Business/Action Items

1. Information Technology Audit Approach
Raj Subramanian, OBM Chief of Business Process & IT Audit
2. FY 2010 Administrative Budget (2nd reading, possible vote)
Tracy Valentino, Chief Fiscal & Planning Officer
3. Net Assets
Tracy Valentino, Chief Fiscal & Planning Officer
Don Berno, Board Liaison
4. 50 – 50 Program
Tracy Valentino, Chief Fiscal & Planning Officer

Discussion Items*

1. FY 09 3rd Quarter Executive Summary
Caren Murdock, Chief of Internal Audit
2. Committee Calendar
Ken Haffey, Committee Chair
3. Litigation Update, Executive Session, possible.
James Barnes, Chief Legal Officer

Adjourn

Ken Haffey, Committee Chair

Next Meeting: Thursday, June 18, 2009

*Not all discussion items have materials included.

**Agenda subject to change

Information Technology Audit

OBM Office of Internal Audit (OIA)



Information Technology Areas



IT Frameworks / Standards

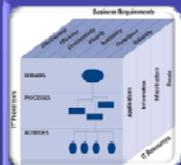


Committee of Sponsoring Organizations of the Treadway Commission (**COSO**)



Department of Administrative Services

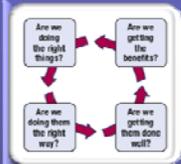
• Office of Information Technology



Control Objectives for Information and Related Technology (**COBIT**)



Agency-specific policies / standards / guidelines / procedures



IT Governance Institute's Val IT Framework



Project Management Institute's (PMI) Project Management Book of Knowledge (PMBOK)



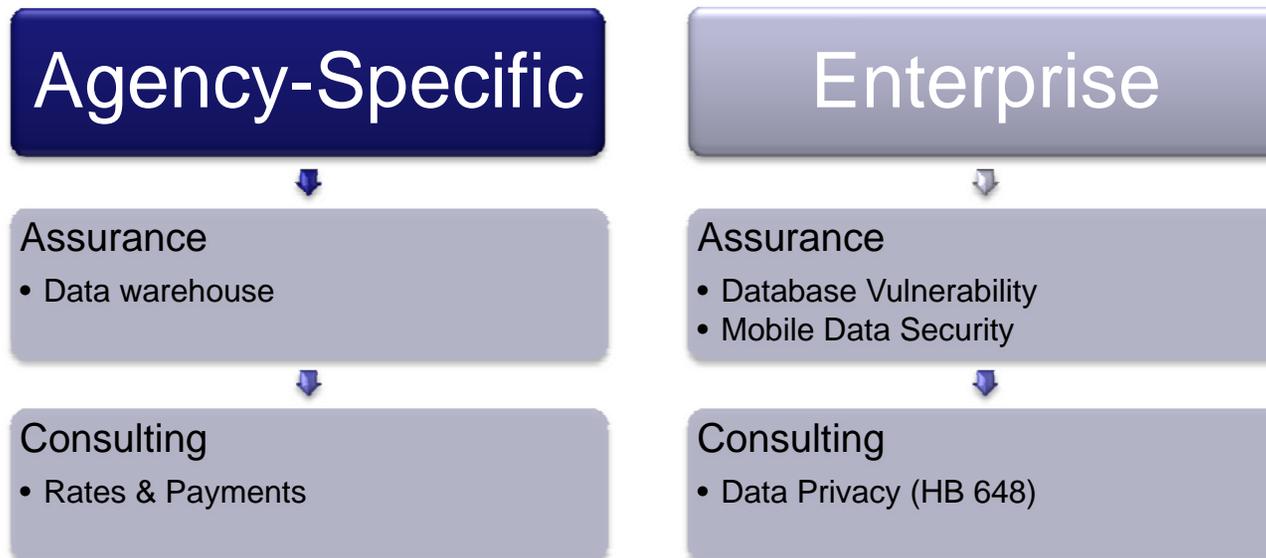
Information Technology Infrastructure Library (**ITIL**)



Gartner Information Technology Research



BWC FY 2010 Audit Areas





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OBM Office of Internal Audit Website: <http://obm.ohio.gov/SectionPages/Internalaudit/>
State Audit Committee Website: <http://obm.ohio.gov/SectionPages/oac/>



**BUREAU OF WORKERS' COMPENSATION
 PROPOSED BUDGET SUMMARY
 FISCAL YEAR 2010
 In Millions**

Funding Sources:

Administrative Cost Fund	278.1
Safety & Hygiene	27.2
Ancillary Funds	0.6
	<u>305.9</u>

Expense Description	Fiscal Year 2008 Actual Spending	Fiscal Year 2009 Estimated Spending	Fiscal Year 2010 Proposed Budget	Percentage Variance FY09 to FY10
Payroll	195.2	190.7	193.7	1.6%
Personal Services	22.7	12.0	13.4	11.7%
William Green Rent	20.2	20.6	19.9	-3.4%
Other Rent and Software License	11.5	11.7	12.6	7.7%
Software and Equipment Maintenance and Repairs	17.7	17.0	18.5	8.8%
Inter Agency Payments	7.6	8.0	10.3	28.8%
Communications	6.8	6.9	6.7	-2.9%
Supplies and Printing	2.5	1.8	1.6	-11.1%
Other Maintenance	3.2	3.3	3.9	18.2%
Equipment	9.4	1.0	3.0	200.0%
Subtotal	296.8	273.0	283.6	3.9%
Safety Grants and Long Term Care Loans	3.7	4.0	6.0	50.0%
Strategic Projects FY10 Examples: Rate Reform HPP Bill Payment Software and Hardware Upgrades		12.0	14.5	20.8%
Capital Improvements FY10 Examples: Cooling System Repairs Roof Repairs		3.6	1.8	-50.0%
Grand Total	300.5	292.6	305.9 22.2	4.5%
			328.1 Appropriation	

**BUREAU OF WORKERS' COMPENSATION
PROPOSED BUDGET SUMMARY
BY APPROPRIATION LINE ITEM
FISCAL YEAR 2010**

<u>Division by Line Item</u>	<u>Proposed Budget</u>	<u>Appropriation</u>	<u>Variance</u>
Board of Directors	968,627		
Customer Service	99,444,702		
Medical Services	30,839,465		
Ombuds	697,006		
855-407 Claims, Risk & Medical Total	131,949,800	138,129,873	6,180,073
855-408 Fraud Prevention Total	11,395,025	12,546,239	1,151,214
BWC Administration	1,302,463		
Fiscal and Planning	7,845,699		
Actuarial	4,156,201		
Investments	1,576,965		
Infrastructure Technology	66,643,137		
Legal	8,470,163		
Communications	3,549,343		
Human Resources	5,950,932		
Internal Audit	1,737,513		
Office of Inspector General	425,000		
Overhead	6,816,512		
Capital Improvements	1,800,000		
855-409 Administrative Services Total	110,273,928	124,030,772	13,756,844
855-401 WGB Lease	19,871,795	19,871,795	-
855-410 Attorney General Payments	4,621,850	4,621,850	-
Fund 023 Total	278,112,398	299,200,529	21,088,131
855-606 Coal Workers' Fund	91,894	91,894	-
855-608 Marine Industry	53,952	53,952	-
855-605 Disabled Workers Relief Fund	426,806	492,500	65,694
855-609 Safety & Hygiene Operating	19,754,343	20,734,750	980,407
855-610 Safety Grants Program	4,000,000	4,000,000	-
855-601 OSHA Enforcement	1,460,607	1,604,140	143,533
855-604 Long Term Care Program	2,000,000	2,000,000	-
Agency Total	305,900,000	328,177,765	22,277,765

Discussion Goals

Policy Purpose

Policy Components

Metrics

Policy Steps

Historical Information

Target Ranges

Peer Comparisons

Strategy Implications

Recommendation

Next Steps

Funding Policy Discussion Outline May 28, 2009

Ohio Bureau of Workers' Compensation

Tracy Valentino, Chief Fiscal & Planning Officer

Don Berno, Board Liaison

Discussion Goals

Policy Purpose

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Metrics

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Historical Information

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Strategy Implications

Recommendation

Next Steps

Discussion Goals

- *Establish a Funding Policy consistent with recommendations outlined by Deloitte*
- *Define target ranges for key metrics*
- *Correlate strategies to achieve target ranges*

Purpose of a Funding Policy

Discussion Goals

Policy Purpose

Policy Components

Metrics

Policy Steps

Historical Information

Target Ranges

Peer Comparisons

Strategy Implications

Recommendation

Next Steps

- 1. Enables the organization to maintain prudent funded net assets to support the financial strength of the State Insurance Fund and maintain stability in premium costs*
- 2. Enables the organization to fulfill the statutory requirements of maintaining a solvent state fund while keeping premiums as low as possible.*
- 3. Provides guidance in decision-making with respect to options such as premium credits or surcharges.*

Policy Components

Funding Policy should:

- 1. Include customized metrics to calculate key results used in measuring funding adequacy*
- 2. Include the concept of acceptable ranges to be responsive to changes and to maintain a degree of stability in operating results over time*
- 3. Include options for premium credits or surcharges, if metrics indicate excessive or inadequate financial reserves*
- 4. Enable BWC to make limited peer comparisons*
- 5. Be tailored to each fund where a material amount of a fund's obligations are funded, as opposed to pay-as-you-go*

Discussion Goals

Policy Purpose

Policy Components

Metrics

Policy Steps

Historical Information

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Strategy Implications

Recommendation

Next Steps

Customized Metrics

Discussion Goals

Policy Purpose

Policy Components

Metrics

Policy Steps

Historical Information

Target Ranges

Peer Comparisons

Strategy Implications

1. Funding Ratio

$$\text{Funding Ratio} = \frac{\text{Funded Assets}}{\text{Funded Liabilities}}$$

Funded Assets = cash, investments and current receivables less deposits and current payables

Funded Liabilities = Reserves for funded unpaid claims and funded claim expenses (HPP on PA/PEC), excluding any risk margin, discounted at a risk free discount rate.

2. Net Leverage Ratio

$$\text{Net Leverage Ratio} = \frac{\text{Premiums} + \text{Reserves}}{\text{Net Assets}}$$

Policy Steps

Discussion Goals

Policy Purpose

Policy Components

Metrics

Policy Steps

Historical Information

Target Ranges

Peer Comparisons

Strategy Implications

Recommendation

Next Steps

- 1. Establish an acceptable range for a Funding Ratio and a Net Leverage Ratio.*
- 2. Monitor metrics as a component of the monthly Enterprise Report (or comparable financial report).*
- 3. Prepare and present recommendations to address variations from the established range.*
- 4. Review and approval by the Board of Directors .*
- 5. Review target ranges of the Funding Ratio and Net Leverage Ratio on an annual basis.*

Historical Information – SIF

Discussion Goals

Policy Purpose

Policy Components

Metrics

Policy Steps

Historical Information

Target Ranges

Peer Comparisons

Strategy Implications

Recommendation

Next Steps

<i>FY Ended June 30</i>	<i>Net Assets (in millions)</i>	<i>Funding Ratio</i>	<i>Net Leverage Ratio</i>
1998	\$4,327,923	1.339	3.4567
1999	\$5,411,808	1.440	2.7226
2000	\$6,644,827	1.552	2.1555
2001	\$4,643,351	1.373	3.1594
2002	\$1,886,585	1.148	8.3538
2003	\$417,937	1.029	39.8767
2004	\$644,444	1.044	26.4196
2005	\$507,491	1.038	34.4908
2006	\$1,278,845	1.091	13.5202
2007	\$2,080,045	1.144	8.2621
2008	\$2,206,923	1.152	7.9323

Establishing Target Ranges

Discussion Goals

Policy Purpose

Policy Components

Metrics

Policy Steps

Historical Information

Target Ranges

Peer Comparisons

Strategy Implications

Recommendation

Next Steps

For consideration:

- 1. Two statutory mandates: maintain a solvent fund and lowest possible premiums.*
- 2. Net Assets can be increased in three ways—expense reduction, investment returns and premiums.*
- 3. A net asset range should be developed with a consideration to all underlying risks.*
- 4. Minimum acceptable funding ratio “target” should be 1.00.*

Peer Comparisons

Discussion Goals

Policy Purpose

Policy Components

Metrics

Policy Steps

Historical Information

Target Ranges

Peer Comparisons

Strategy Implications

Recommendation

Next Steps

Information was presented that compared Ohio with:

- *10 largest private workers' comp carriers, and*

- *3 other state funds,*

in terms of funding ratios and net leverage ratios.

Peer Comparisons

Discussion Goals

Policy Purpose

Policy Components

Metrics

Policy Steps

Historical Information

Target Ranges

Peer Comparisons

Strategy Implications

Recommendation

Next Steps

The following is a summary of those comparisons:

- *The funding ratio for 7 of the 10 private companies is between 1.5 and 2.0;*
- *Three private carriers maintain funding ratios over 2.0 and state funds maintain ratios from 1.0 to 1.5;*
- *Eight of the ten private carriers had a net leverage ratio of 4.0 or less;*
- *State funds maintain net leverage ratios between 4 and 8.6.*

Peer Comparisons – 2007/08 Estimated Funding Ratios

Discussion Goals

Policy Purpose

Policy Components

Metrics

Policy Steps

Historical Information

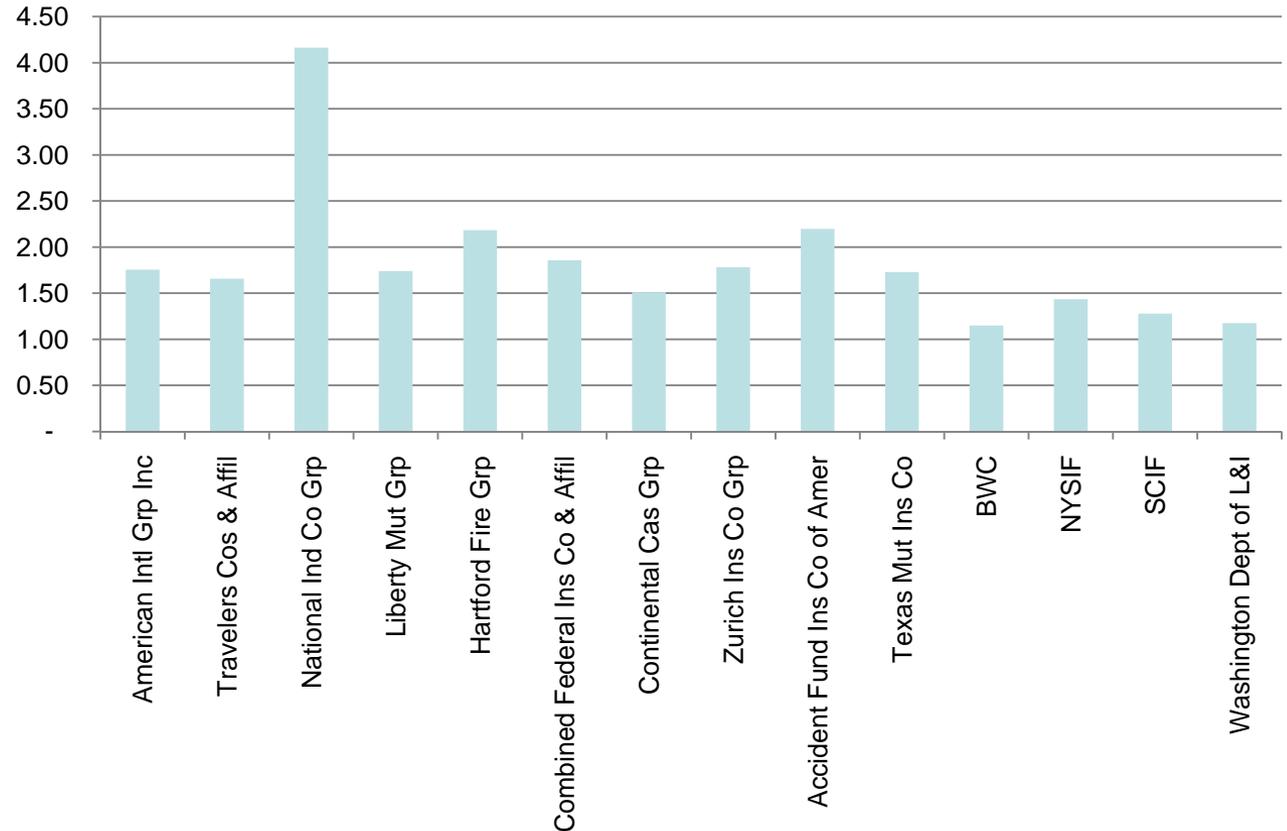
Target Ranges

Peer Comparisons

Strategy Implications

Recommendation

Next Steps



•Source: Private sector: Ward's Results – 2008
•BWC & Wash: FY 2008; SCIF & NYSIF CY 2007

Peer Comparisons – 2007/08 Net Leverage Ratios

Discussion Goals

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Target Ranges

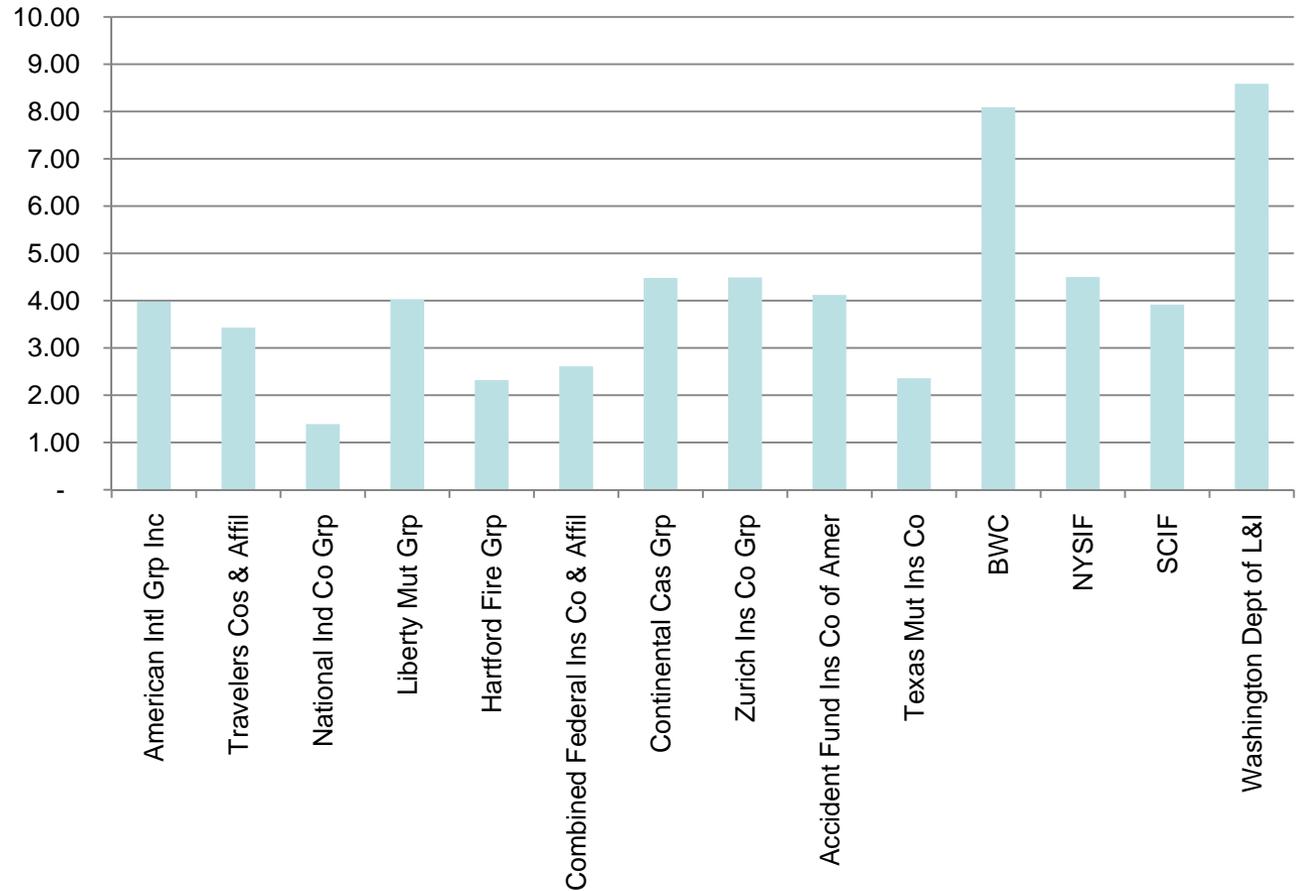
Peer Comparisons

Strategy Implications

Recommendation

Next Steps

2007/2008 Net Leverage Ratios



- Source: Private sector: Ward's Results – 2008
- BWC & Wash: FY 2008; SCIF & NYSIF CY 2007

Strategy Implications – What do the numbers look like?

Discussion Goals	Net Assets	Total Funded Assets	Total Funded Liabilities	Funding Ratio	Net Leverage Ratio
Policy Purpose	\$ 1,273,410	\$ 16,052,944	\$ 14,770,381	1.087	13.86 (current)
Policy Components	\$ 795,891	\$ 16,130,165	\$ 15,472,057	1.043	23.41 (projected 6/30/09)
Metrics	\$ (4,238,520)	\$ 11,604,043	\$ 15,472,057	0.750	NA
Policy Steps	\$ 0	\$ 15,472,057	\$ 15,472,057	1.000	NA
Historical Information	\$ 3,371,411	\$ 18,566,468	\$ 15,472,057	1.200	5.53
Target Ranges	\$ 4,216,959	\$ 19,340,071	\$ 15,472,057	1.250	4.42
Peer Comparisons	\$ 5,062,507	\$ 20,113,674	\$ 15,472,057	1.300	3.68
Strategy Implications	\$ 5,908,055	\$ 20,887,277	\$ 15,472,057	1.350	3.15
Recommendation	\$ 8,444,698	\$ 23,208,086	\$ 15,472,057	1.500	2.21
Next Steps	\$ 16,900,178	\$ 30,944,114	\$ 15,472,057	2.000	1.10

Recommendation

Discussion Goals

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Target Ranges

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Next Steps

- 1. The target funding ratio should have a range of 1.00 and 1.35. This would place Ohio in a comparable position with other state funds (Washington 1.18; California 1.28 and New York 1.44). Seven of the ten private carriers are in the 1.5 to 2.0 range.*
- 2. The target funding ratio range above will produce a net leverage ratio range of 3.15 to 5.53. This would place Ohio in a comparable position with other state funds (Washington 8.59; California 3.92 and New York 4.50). Eight of the ten private carriers are 4.0 or below.*

Next Steps

Discussion Goals

Policy Purpose

Policy Components

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Peer Comparisons

Strategy Implications

Recommendation

Next Steps

1. *Approve Funding Policy at the June, 2009 Board meeting.*
2. *Approve an established target range for a Funding Ratio at the June, 2009 Board meeting.*
3. *Develop short-term and long-term plan for increasing the level of net assets over the next 3 to 5 years.*

Discussion Draft
Funding Policy
Audit Committee Discussion
May 28, 2009

BWC requires a prudent level of net assets (otherwise known as “surplus”) to protect the fund against financial and operational risks that may threaten the ability to meet future obligations. These financial and operational risks include, but are not limited to, the following:

- Uncertainty in the ultimate amount and timing of future payments on known claims;
- Legislative and court actions that may affect future operations;
- Substantial catastrophic events, either through acts of nature or acts of man;
- Significant market fluctuations resulting in material changes in the valuation of the portfolio; and
- Economic factors impacting BWC’s ability to collect premiums.

In an effort to maintain a solvent and stable state fund, BWC needs to maintain a sufficient level of net assets to handle these risks.

Business Rationale

- Adoption of a Funding Policy will enable the organization to maintain prudent funded net assets to support the financial strength of the State Insurance Fund and maintain stability in premium costs.
- Adoption of a Funding Policy will enable the organization to fulfill the statutory requirements of maintaining a solvent state fund while keeping premiums as low as possible.
- Adoption of a Funding Policy that establishes an acceptable range provides flexibility in decision-making with respect to options such as premium credits or surcharges.

Methodology and Guiding Principles

- Should use methodology supported by customized metrics to calculate key results used in measuring funding adequacy.
 - Funding Ratio is defined as funded assets divided by funded liabilities (funded assets = cash, investments, and current receivables less deposits and current payables, funded liabilities = reserves for unpaid claims and funded claim expenses, excluding any risk margin, discounted at a risk free discount rate).

- Net Leverage Ratio is defined as net premiums written plus reserves divided by net assets
- Should incorporate the concept of acceptable ranges to be responsive to changes and to maintain a degree of stability in operating results over time.
- Should incorporate appropriate options for premium credits or surcharges, if metrics indicate excessive or inadequate financial reserves.
- Should enable BWC to make limited peer comparisons.
- Should be tailored to each fund where a material amount of a fund's obligations are funded, as opposed to pay-as-you-go (Pay-as-you-go funds include the DWRF I and II, SIEGF and ACF).
- Should include consideration of risks associated with estimates inherent in financial reporting including, but not limited, to medical inflation, discount rate, and market valuation.
- Sound fiscal principles would dictate the need to maintain sufficient assets to meet current and future obligations. Therefore, the minimum target range should be 1.00.

The following steps should be taken when establishing target ranges for the funding ratio and net leverage ratio:

1. The Administrator, with approval from the BWC Board of Directors, should establish an acceptable range for a Funding Ratio and a Net Leverage Ratio.
2. The acceptable range for a Funding Ratio and a Net Leverage Ratio should be monitored as a component of the monthly Enterprise Report (or comparable financial report).
3. The Administrator, in conjunction with senior executives as appropriate, should prepare a recommendation to address variations from the established range.
4. The Administrator shall present recommendations to the Board of Directors for review and approval.
5. The Board of Directors shall review target ranges of the Funding Ratio and Net Leverage Ratio on an annual basis.

Historical State Insurance Fund Information

FY Ended June 30	Net Assets (in millions)	Funding Ratio	Net Leverage Ratio
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2000	\$6,644,827	1.552	2.1555
2001	\$4,643,351	1.373	3.1594
2002	\$1,886,585	1.148	8.3538
2003	\$417,937	1.029	39.8767
2004	\$644,444	1.044	26.4196
2005	\$507,491	1.038	34.4908
2006	\$1,278,845	1.091	13.5202
2007	\$2,080,045	1.144	8.2621
2008	\$2,206,923	1.152	7.9323

Funding Policy – Historical Information and Peer Comparisons
Audit Committee Discussion
May 28, 2009

In a review of the historical picture of BWC's assets, liabilities, net assets and key ratios from 2000 to today, it is apparent BWC's financial position has fluctuated substantially as a result of numerous factors, including modification of the underlying assumptions used in valuing reserves, market fluctuations and premium credits. In 2000 and 2001, BWC had substantial net assets. The Net Asset levels diminished to approximately \$400 to \$600 million in 2003-2005 years and have rebounded to the \$1.2 to \$2.2 billion range in the 2006-2008 timeframe. During this same period, the funding ratio went from as low as 1.03 to as high as 1.55.

Since 2000, the Reserves for Compensation and Compensation Adjustment Expenses have been steadily increasing. Factors driving this increase include additional claim years, fluctuations in payment trends, and changes in underlying assumptions used in valuing these liabilities. Since 2000, the investment portfolio remained consistent; however, significant fluctuations in the market value of the portfolio have had material impact on BWC's current financial position.

During the April Board meeting, information was presented that compared Ohio with the 10 largest private workers' comp carriers and 3 other state funds, in terms of funding ratios and net leverage ratios.

The following is a summary of those comparisons:

- The funding ratio for 7 of the 10 private companies is between 1.5 and 2.0;
- Three private carriers maintain funding ratios over 2.0 and state funds maintain ratios from 1.0 to 1.5;
- Eight of the ten private carriers had a net leverage ratio of 4.0 or less;
- State funds maintain net leverage ratios between 4 and 8.6.

For consideration and discussion

1. BWC has two statutory mandates: maintain a solvent fund and lowest possible premiums. Adequate Net Assets position BWC to meet the statutory requirements.
2. Net Assets can be increased in three ways– expense reduction, investment returns and premiums.

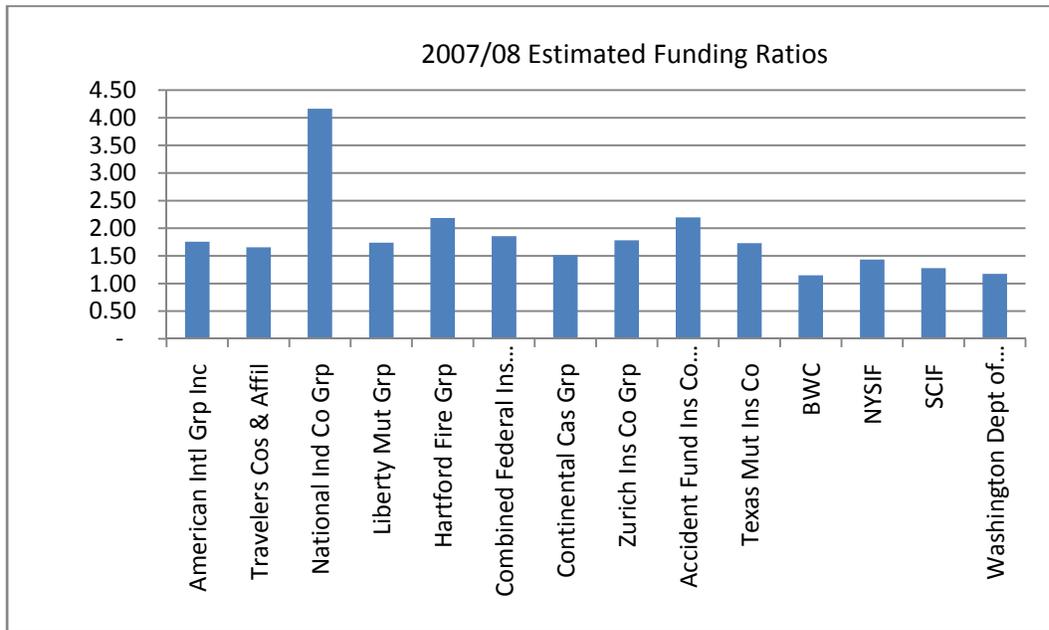
3. A net asset range should be developed with an understanding that financial estimates utilized when projecting future liabilities eliminate margins to accommodate risks.
4. Sound fiscal principles would dictate the need to maintain sufficient assets to meet current and future obligations. Therefore, the minimum target range should be 1.00.
5. Maximum target range should give consideration to future obligations and possible contingencies without being excessive.

Recommendation

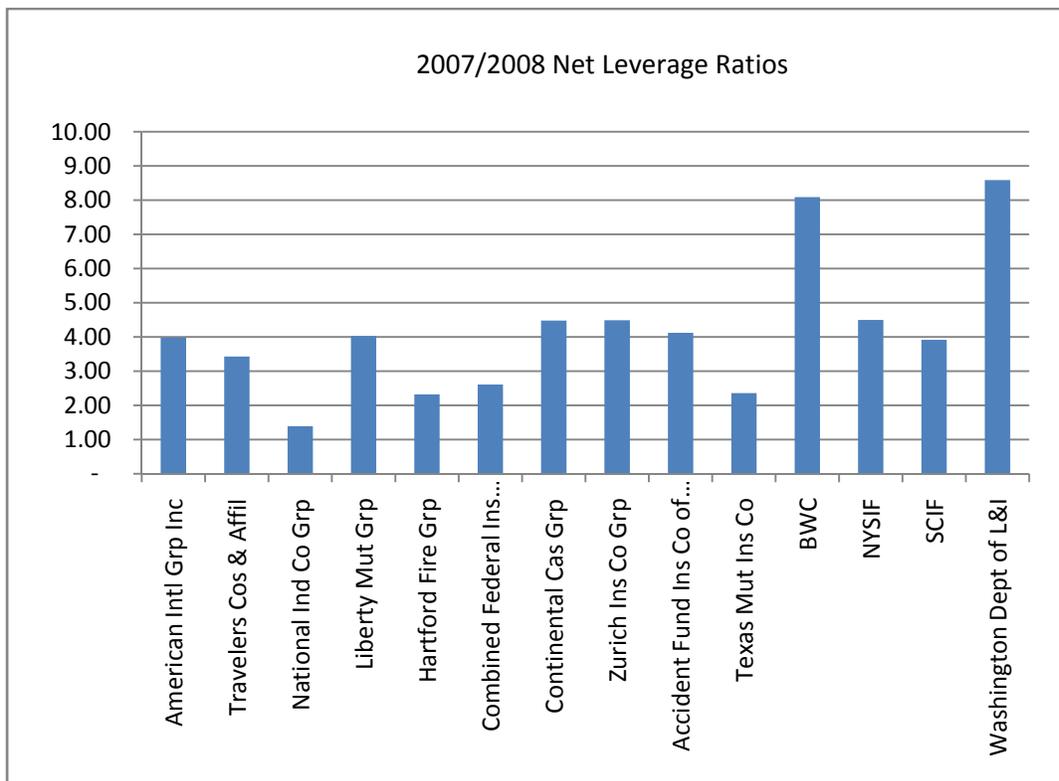
- Through prudent investments, lowest possible premiums and careful expense management, the target funding ratio should have a range of 1.00 and 1.35. This would place Ohio in a comparable position with other state funds (Washington 1.18; California 1.28 and New York 1.44). Seven of the ten private carriers are in the 1.5 to 2.0 range.
- The target funding ratio range above will produce a net leverage ratio range of 3.78 to 5.69. This would place Ohio in a comparable position with other state funds (Washington 8.59; California 3.92 and New York 4.50). Eight of the ten private carriers are 4.0 or below.

Next Steps

Develop plan and timeline for achieving target ranges.



Source: Private sector: Ward's Results – 2008
 BWC & Wash: FY 2008; SCIF & NYSIF CY 2007



Source: Ward's Results – 2008
 BWC & Wash. FY 2008; SCIF and NYSIF CY 2007

**Net Asset Level - Funding Ratio
State Insurance Fund**

(000's omitted)

	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999	FY 1998
Funded Assets											
Cash and Investments:											
Fixed Maturities	\$ 12,618,731	\$ 11,956,476	\$ 14,285,602	\$ 7,032,342	\$ 6,806,514	\$ 7,611,380	\$ 7,905,333	\$ 9,089,127	\$ 9,179,875	\$ 9,305,035	\$ 9,118,222
Equities (Common, Preferred, Intl)	2,917,640	2,632,606	11,985	6,317,771	5,833,084	4,782,182	5,510,857	6,846,723	7,387,084	7,750,109	6,093,792
Private Equities	15,427	456,346	427,339	940,083	999,037	631,556	359,562	247,483	185,690	27,263	25,000
Cash and cash equivalents	260,173	260,954	141,423	1,149,128	1,477,660	1,813,445	2,221,516	1,533,913	1,578,352	1,706,381	2,838,257
Total Cash and Investments	\$ 15,811,971	\$ 15,306,382	\$ 14,866,349	\$ 15,439,324	\$ 15,116,295	\$ 14,838,563	\$ 15,997,268	\$ 17,717,246	\$ 18,331,001	\$ 18,788,788	\$ 18,075,271
Premiums in course of collection	\$ 858,772	\$ 851,099	\$ 754,175	\$ 844,690	\$ 657,778	\$ 804,111	\$ 133,032	\$ 64,807	\$ 858,692	\$ 167,656	\$ 153,022
Accounts receivable, net of allowance for uncollectibles	156,014	142,018	126,679	141,472	134,533	148,768	129,101	127,487	128,974	118,218	77,583
Retrospective premiums receivable	283,720	290,050	271,552	252,463	247,321	266,505	230,592	226,502	304,075	312,192	344,625
Investment trade receivables	72,069	187,946	-	770,914	345,450	381,854	1,013,998	506,651	367,956	132,367	1,002,701
Accrued investment income	184,013	183,202	2,254	60,371	62,460	73,281	85,118	104,526	109,780	88,899	104,438
Less:											
Premium payment security deposits	(88,204)	(87,100)	(87,166)	(86,467)	(85,156)	(82,843)	(81,123)	(79,930)	(78,307)	(104,836)	(108,345)
Warrants payable	(37,164)	(45,539)	(44,390)	(42,701)	(36,033)	(34,448)	(34,301)	(28,748)	(28,104)	(34,038)	(167,949)
Net interfund payables	(121,425)	(88,483)	(90,350)	(112,860)	(98,220)	(45,496)	(20,193)	(13,451)	(39,972)	(44,594)	(44,534)
Investment trade payables	(118,322)	(252,525)	-	(1,933,453)	(1,451,130)	(1,969,739)	(2,433,261)	(1,528,534)	(1,286,871)	(1,410,245)	(2,084,170)
Total Funded Assets	\$17,001,444	\$16,487,050	\$15,799,103	\$15,333,753	\$14,893,298	\$14,380,556	\$15,020,231	\$17,096,556	\$18,667,224	\$18,014,407	\$17,352,642
Unpaid Claim Estimates											
Current liabilities:											
PA - Reserve for compensation	\$ 11,918,000	\$ 11,321,000	\$ 11,236,000	\$ 11,520,000	\$ 11,216,000	\$ 11,036,000	\$ 10,403,000	\$ 10,000,000	\$ 9,682,000	\$ 10,100,000	\$ 10,501,000
PC - Reserve for compensation	2,205,000	2,412,000	2,560,000	2,587,000	2,367,000	2,290,000	2,054,000	1,870,000	1,760,000	1,875,000	1,822,000
PA - Reserve for comp adj expense	539,737	556,488	554,015	549,010	560,150	539,357	526,815	486,182	493,262	455,194	545,070
PC - Reserve for comp adj expense	98,564	118,429	126,208	123,141	118,350	111,981	103,932	94,276	90,257	77,870	93,428
Total Funded Liabilities	\$14,761,301	\$14,407,917	\$14,476,223	\$14,779,151	\$14,261,500	\$13,977,338	\$13,087,747	\$12,450,458	\$12,025,519	\$12,508,064	\$12,961,498
Funding Ratio	1.152	1.144	1.091	1.038	1.044	1.029	1.148	1.373	1.552	1.440	1.339
Total Net Assets											
Total Net Assets	\$ 2,206,923	\$ 2,080,045	\$ 1,278,845	\$ 507,491	\$ 644,444	\$ 417,937	\$ 1,886,585	\$ 4,643,351	\$ 6,644,827	\$ 5,411,808	\$ 4,327,923
Reserve for compensation	\$ 14,986,000	\$ 14,673,000	\$ 14,808,000	\$ 15,056,000	\$ 14,557,000	\$ 14,248,000	\$ 13,213,000	\$ 12,462,968	\$ 12,002,121	\$ 12,537,165	\$ 12,856,193
Reserve for comp adj expense	670,301	711,917	730,100	717,400	727,100	696,400	669,000	610,900	610,600	556,000	670,000
Total Reserves	\$15,656,301	\$15,384,917	\$15,538,100	\$15,773,400	\$15,284,100	\$14,944,400	\$13,882,000	\$13,073,868	\$12,612,721	\$13,093,165	\$13,526,193
Discount Rate	5.00%	5.00%	5.25%	5.25%	5.50%	5.50%	5.80%	6.00%	6.00%	6.00%	6.00%
Total Premium Income	\$1,849,610	\$1,800,637	\$1,752,108	\$1,730,396	\$1,741,880	\$1,721,581	\$1,878,105	\$1,596,385	\$1,710,673	\$1,641,470	\$1,434,468
Total Dividend Expense	\$0	\$0	(\$8,229)	\$232,836	\$415,523	\$640,563	\$1,473,880	\$1,624,921	\$1,328,207	\$757,669	\$3,625,086
Total Reserves to Net Assets	7.0942	7.3964	12.1501	31.0811	23.7167	35.7575	7.3583	2.8156	1.8981	2.4194	3.1253
Total Premiums to Net Assets	0.8381	0.8657	1.3701	3.4097	2.7029	4.1192	0.9955	0.3438	0.2574	0.3033	0.3314
Net Leverage Ratio	7.9323	8.2621	13.5202	34.4908	26.4196	39.8767	8.3538	3.1594	2.1555	2.7226	3.4567
Cash & Investments to Total Reserves											
Cash & Investments to Total Reserves	101.0%	99.5%	95.7%	97.9%	98.9%	99.3%	115.2%	135.5%	145.3%	143.5%	133.6%
Equities to Net Assets											
Equities to Net Assets	1.3220	1.2656	0.0094	12.4490	9.0513	11.4424	2.9211	1.4745	1.1117	1.4321	1.4080
Bonds to Net Assets											
Bonds to Net Assets	5.7178	5.7482	11.1707	13.8571	10.5618	18.2118	4.1903	1.9574	1.3815	1.7194	2.1068

Common Sense Business Regulation (BWC Rules)

(Note: The below criteria apply to existing and newly developed rules)

Rules 4123-17-14.2

Rule Review

1. The rule is needed to implement an underlying statute.

Citation: R.C. 4123.29, 4123.34

2. The rule achieves an Ohio specific public policy goal.

What goal(s): Rule 4123-17-14.2 establishes the rules for the BWC split payment program option. The rule amendment adds an additional month to a deadline for payment.

3. Existing federal regulation alone does not adequately regulate the subject matter.

4. The rule is effective, consistent and efficient.

5. The rule is not duplicative of rules already in existence.

6. The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. The rule has been reviewed for unintended negative consequences.

8. Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

Explain: _____

9. The rule was reviewed for clarity and for easy comprehension.

10. The rule promotes transparency and predictability of regulatory activity.

11. The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12. The rule is not unnecessarily burdensome or costly to those affected by rule.

If so, how does the need for the rule outweigh burden and cost? _____

13. The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor's Executive Order.

**Bureau of Workers' Compensation Board of Directors
Audit Committee
BWC 50/50 Program
Executive Summary**

Purpose:

The 50/50 Payment Program was designed to enable employers in the State of Ohio to submit premium payments in two installments. This program is pursuant to division (A)(3) of section 4123.29 of the Revised Code and paragraph (A)(2) of rule 4123-17-14 of the Administrative Code.

The program was initially offered in 2003 for the 1/1/03 – 6/30/03 reporting period to compensate for the lack of a premium rebate provided during that semi-annual reporting cycle. This program has been offered continuously since the 1/1/05 - 6/30/05 reporting period.

Participation in the program has grown from 10,683 employers representing approximately \$211 million in premium/assessment dollars in for the first half of 2005 to 20,674 employers representing approximately \$353 million in premium/assessment dollars during the most recent reporting cycle.

Criteria for Eligibility:

- Employer must report payroll and pay one half of the premiums by the regular due date applicable to the reporting period (February and August). Employer must report and submit payment via the 50/50 Payment plan service offering on BWC's website, ohiobwc.com.
- Program available only to private state fund employers
- Employer must pay the remaining balance via BWC's website no later than 2 months following the regular due date (June 1st or November 1st).

4123-17-14.2 Bureau 50/50 program.

(A) Pursuant to division (A)(3) of section 4123.29 of the Revised Code and paragraph (A)(2) of rule 4123-17-14 of the Administrative Code, the administrator is authorized to develop and make available to employers who are paying premiums to the state insurance fund alternative premium plans, which may include, as the administrator may determine for any payroll period, that employers shall be permitted to pay the premium in two installments.

(B) Where the administrator determines for any payroll period that employers shall be permitted to pay the premium in two installments, the only method of reporting payroll and making the initial premium installment payment for this program shall be through the bureau's website, ohiobwc.com, using the payroll reports 50/50 payment plan service offering. All payroll for the reporting period and payment information for the initial installment shall be entered in the service offering in the same online session.

(C) An employer electing to participate in this premium payment option shall report its payroll and pay one-half of the premium due by the regular due date in accordance with paragraph (A) of rule 4123-17-14 of the Administrative Code. The balance of the premium shall be paid through the bureau's website, ohiobwc.com, using the accounts receivable balance service offering. The balance shall be paid by the first day of June for the July first to December thirty-first reporting period, or by the first day of ~~November~~ December for the January first to June thirtieth reporting period.

(D) An employer participating in this payment option shall be considered a complying employer during the installment payments if the employer reports payroll and pays one-half of the premium by the method prescribed in paragraph (B) of this rule by the regular due date, and the balance shall not be subject to penalties or interest under rule 4123-19-07 of the Administrative Code. If, by the regular due date, an employer does not report payroll and pay one-half of the premium by the method prescribed in paragraph (B) of this rule or does not otherwise report payroll and pay the full premium due, the employer's coverage will be lapsed and the employer shall be subject to penalties and interest. If an employer participating in this payment option does not pay the balance of the employer's premium by the prescribed method and by the date such balance is due, the employer's coverage will be lapsed effective the date such balance is due.

(E) Any employer that fails to utilize the bureau's website for this premium payment program as required in paragraphs (B) and (C) of this rule shall not be permitted to participate in the installment premium option provided in this rule.

Promulgated Under: 111.15

Statutory Authority: 4121.12, 4121.121, 4121.30

Rule Amplifies: 4123.29, 4123.34

Prior Effective Dates: 7/1/06, 1/5/09

**BWC Board of Directors
Audit Committee**
FY 09 3rd Quarter Executive Summary Report

May 28, 2009

Caren Murdock, Chief of Internal Audit
Rich Ridewood, IT Audit Director
Karl Zarins, Internal Audit Director
Keith Elliott, Senior Manager

30 W. Spring St.
Columbus OH 43215-2256

To: Audit Committee Members
From: Caren Murdock, Chief of Internal Audit
Date: May 28, 2009

Fiscal Year 09 3rd Quarter Executive Summary report

Following you will find the Fiscal Year 2009 3rd Quarter Executive Summary report containing:

1. Audit comment status
 - 1a. Comments issued 3rd quarter
 - 1b. Comments outstanding as of February 28, 2009
2. Audit follow-up procedures
3. Audit comment rating criteria
4. Fiscal Year 09 Audit Plan

Changes to this quarter's report include a table of contents on pages 2, and table of acronyms used on pages 33 and 34.

BWC Internal Audit Division

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**BWC Internal Audit Division
Comments Issued – 3rd Quarter Activity**

Fleet Management (FM) Audit - March 2009

Business areas: Infrastructure and Technology

The BWC Internal Audit Division conducted an audit of the FM process. The objective of the audit was to assist management in evaluating the Fleet Management process by reviewing various key compliance and internal control related components of the fleet operation. The audit scope consisted of a review of fleet activity from September 1, 2007 through August 31, 2008 unless otherwise noted. The audit included a review of the following:

- Evaluated if key internal controls were adequately designed and implemented for the fleet management process;
- Assessed the adequacy of existing review and monitoring procedures in place; and
- Verified compliance with BWC policy, procedures and statutory requirements.

Recommendation		Disposition
1	Develop beginning-to-end inter-departmental policies and procedures, and process mapping of the fleet management process. Rating: Significant Weakness	Process mapping has been completed and the FM Orientation Guide is currently being updated. Responsible: Chief Information Officer Target Resolution Date: June 2009 Current Status: In Process
2	Consider changes in policies and procedures to better ensure that employees requesting a pool vehicle or using a personal vehicle for state business have valid drivers' licenses. Rating: Significant Weakness	FM will update the pool car request form to allow on-going review of drivers' licenses to ensure all pool car drivers have a valid driver's license. A gratis check will be completed on all assigned drivers semi-annually. Responsible: Chief Information Officer Target Resolution Date: February 2009 Current Status: In Process
3	Conduct a vehicle needs analysis to make sure BWC maintains an optimal size fleet. Rating: Significant Weakness	Employer Management Services is performing a vehicle needs analysis for Employer Service Specialists and Business Consultants. FM reviews assigned usage and personal mileage expense reimbursement semi-annually for inclusion in the 2010 Annual Fleet Plan, but implementation is contingent upon BWC administration approval. Responsible: Chief Information Officer Target Resolution Date: July 2009 Current Status: In Process

Recommendation		Disposition
4	<p>Implement a process to ensure that individuals with mileage reimbursement in excess of the Department of Administrative Services (DAS) mileage break-even point have access to BWC vehicles.</p> <p>Rating: Significant Weakness</p>	<p>FM submitted a request in January 2009 to reassign vehicles based on mileage and frequency of use to better utilize BWC fleet vehicles.</p> <p>Responsible: Chief Information Officer Target Resolution Date: May 2009 Current Status: In Process</p>
5	<p>Develop and implement written policies and procedures with sufficient controls to provide assurance that the monthly vehicle expense reports submitted by assigned drivers and pool vehicle administrators are accurate.</p> <p>Rating: Significant Weakness</p>	<p>FM began reviewing monthly reports for discrepancies/errors in January 2009.</p> <p>Responsible: Chief Information Officer Target Resolution Date: January 2009 Current Status: In Process</p>
6	<p>Consider developing and implementing a procedure to verify the existence of personal liability insurance coverage required by law for all personal vehicles used for BWC business.</p> <p>Rating: Significant Weakness</p>	<p>FM revised the standard personal vehicle use authorization language to require liability insurance and will ensure that employees exempt from these requests have proof of insurance on file. State law requires all drivers to have liability insurance, therefore, requiring employees to provide proof of coverage is not necessary.</p> <p>Responsible: Chief Information Officer Target Resolution Date: March 2009 Current Status: In Process</p>
7	<p>Verify employees have completed the Defensive Drivers Course-Personal Computer (DDC-PC) prior to issuing a vehicle or authorizing the use of a pool vehicle or personal vehicle.</p> <p>Rating: Significant Weakness</p>	<p>Safety & Health Administration is in the process of developing a master spreadsheet of employees completing the DDC-PC to allow FM to verify if a driver has taken the DDC-PC. BWC policy has been revised to remove training requirements for pool vehicle users, as it is more stringent than the DAS guidelines.</p> <p>Responsible: Chief Information Officer Target Resolution Date: May 2009 Current Status: In Process</p>
8	<p>Expand existing policies for citizen complaints to encapsulate accidents and incidents so that the Administrator is notified of these events.</p> <p>Rating: Significant Weakness</p>	<p>FM began sending accident reports to the Administrator in February 2009. BWC policy has been updated to reflect that the Fleet Manager will be responsible for tracking and responding to citizen complaints.</p> <p>Responsible: Chief Information Officer Target Resolution Date: May 2009 Current Status: In Process</p>

Auditor Opinion:

There are opportunities to improve both the design and implementation of FM internal controls to facilitate compliance with all DAS rules and standards. Policies and procedures should be documented, organized, and have an agency-wide focus in a manner to facilitate a comprehensive understanding of the fleet process. Furthermore, proactive management and monitoring may assist in allocating resources efficiently.

Generally, BWC fleet operations comply with most applicable statutes. However, this review noted issues pertaining to capital asset planning and resource allocation, risks associated with high risk employees using vehicles, lack of reporting of accidents or incidents, and limited reviews of vehicle use and expenses.

Employer Policy Application Process Audit - March 2009

Business areas: Customer Services, Fiscal and Planning

The BWC Internal Audit Division conducted an audit of the Employer Policy Application Process. The purpose of the audit was to assist management in evaluating controls. The audit scope consisted of policy applications completed between October 1, 2007 and September 30, 2008. The audit included a review of the following:

- The level of compliance with BWC policies and procedures;
- The adequacy of design and operating effectiveness of current internal controls; and
- The effectiveness of quality assurance procedures.

Recommendation		Disposition
1	Revise procedures to issue prior to coverage (PTC) payroll reports covering the entire period since employers first hired employees and came under obligation to obtain workers' compensation coverage. Rating: Significant Weakness	PTC applications will be manually processed beyond the Workers' Compensation Insurance System (WCIS) limitation using Audit Form FA5. Where appropriate, management will refer such policies for audit. Responsible: Chief of Customer Services Target Resolution Date: July 2010 Current Status: In Process
2	Consider requesting legislative action to revise the minimum Premium Security Deposit (PSD) amount to adjust for the effects of inflation. Rating: Significant Weakness	In theory, management agrees with the recommendation. However, BWC already complies with the law, and management plans no further action on this item. Responsible: Chief of Customer Services, Chief of Fiscal & Planning Target Resolution Date: N/A Current Status: Not implemented

Recommendation		Disposition
3	<p>Develop an electronic interface to eliminate the manual re-keying of data from online applications into the WCIS system and ensure the capture of all supplemental owner information.</p> <p>Rating: Significant Weakness</p>	<p>Management will determine whether the resources necessary to develop and implement the electronic interface are available and the benefits outweigh the costs. Cash Control procedures have been updated to include the additional steps necessary to ensure that all pages of online applications are imaged.</p> <p>Responsible: Chief of Customer Services, Chief of Fiscal & Planning</p> <p>Target Resolution Date: January 2011</p> <p>Current Status: In Process</p>
4	<p>Require service office personnel to periodically verify a sample of payments received at their locations to the WCIS UW400s Billing History Inquiry screen.</p> <p>Rating: Significant Weakness</p>	<p>The Customer Service Division (CSD) will implement a program of agreeing a sample of premium payments received in service offices to WCIS postings on a regular basis.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: December 2009</p> <p>Current Status: In Process</p>
5	<p>Ensure steps are taken to obtain tax identification numbers from applicants and deny coverage when this information is not provided.</p> <p>Rating: Significant Weakness</p>	<p>Quality assurance (QA) reviews of the application process will check for actions taken to secure tax identification numbers and their entry into WCIS. In addition, a program will be run to identify policies without valid tax identification numbers.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: October 2009</p> <p>Current Status: In Process</p>
6	<p>Restrict update access to application processing screens in WCIS and Universal Document Service (UDS) Policy Processing Workflow to only those employees requiring such access to perform their job duties.</p> <p>Rating: Significant Weakness</p>	<p>Employees not needing access will be identified and their security profiles changed for removal of access.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: July 2009</p> <p>Current Status: In Process</p>
7	<p>Take steps to ensure adherence to policy requirements and timeframes for contacting applicants to obtain missing information.</p> <p>Rating: Significant Weakness</p>	<p>QA process checks will be implemented to provide assurance regarding documentation of contact attempts when additional information is needed to finalize applications.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: December</p>

Recommendation		Disposition
		2009 Current Status: In Process
8	Develop controls to provide assurance that applications are processed in the order received. Rating: Significant Weakness	A solution is being considered that will result in the assignment of application work to all staff members performing that function. Responsible: Chief of Customer Services Target Resolution Date: October 2009 Current Status: In Process
9	Revise policies and procedures to clarify which duplicate policy searches (e.g., by owner/officer name) are to be performed and require supporting documentation in UDS and/or WCIS. Rating: Significant Weakness	A duplicate policy check went into production in March that identifies potential duplicate policies according to eight criteria. Procedures for its use and Policy/Procedures updates will be developed. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process
10	Document application reviews in the Reviews and Findings database in accordance with policy. Rating: Significant Weakness	The Reviews and Findings database will be updated with reviews performed. Management sampling of application reviews will ensure they are performed and documented. Responsible: Chief of Customer Services Target Resolution Date: January 2010 Current Status: In Process
11	Design a mechanism for detecting policies finalized outside of the UDS system and subject them to formal quality assurance reviews. Rating: Significant Weakness	A method of detection will be developed in order to identify policies finalized outside of UDS which may have an incorrect coverage status. Once developed, a quality assurance process can be created and implemented. Responsible: Chief of Customer Services Target Resolution Date: April 2010 Current Status: In Process

Auditor Opinion:

Overall, internal controls for the employer policy application process appear to be reasonably designed to help ensure that applications are processed completely and accurately. However, our audit identified a number of areas in which controls could be strengthened or procedures improved in order to reduce processing times, gather information that is more complete, prevent duplicate policies, and increase revenues. The audit also identified five minor recommendations for management's consideration.

Managed Care Organization (MCO) Audit #7 – March 2009

The BWC Internal Audit Division conducted an audit of MCO #7. The audit focused primarily on the evaluation of internal controls and compliance with contractually required policies and procedures established by BWC. The audit scope consisted of payment transactions completed between January 2007 and November 2008. Focus areas included case management; provider account controls and accuracy; bill processing and payments; adjustment processing; and resolution of prior audit recommendations. The audit included a review of the following:

- Assessed compliance with contract requirements and policy established by BWC.
- Evaluated internal control design and whether controls were placed in operation.

Recommendation		Disposition
1	Review the C-9 dates for reasonableness and monitor to ensure the three-day guideline is met. Rating: Significant Weakness	Management has restructured the work flow in the utilization review department to ensure better monitoring and compliance with the processing timeframes. Target Resolution Date: July 2009 Current Status: In Process
2	Establish an effective case management training program and related controls to provide assurance that case management contacts are performed and documented in a timely manner. Rating: Significant Weakness	The MCO implemented a regular reporting mechanism, which tracks compliance trending with 30-day contacts. This process has resulted in positive trends in compliance since the December reviews examined during the audit. Target Resolution Date: March 2009 Current Status: In Process
3	Revise password security and log in controls to prohibit reuse of prior passwords, limit invalid access attempts, and increase password length to eight characters including, numbers and special characters. Rating: Significant Weakness	Management implemented security measures requiring a password change every 90 days preventing users from using the same password over five generations. Management also implemented a content requirement for passwords and the system now monitors access attempts and locks users out after five unsuccessful attempts. Target Resolution Date: July 2009 Current Status: In Process
4	Revise procedures to incorporate proper segregation of duties for issuing provider checks and receiving returned checks from providers. Rating: Significant Weakness	Management will alter the workflow for returned checks to improve segregation of duties. Target Resolution Date: April 2009 Current Status: In Process
5	Remove separated employees from the active directory for local area network access and revoke access to any other systems or applications. Rating: Significant Weakness	System access for the users identified during the audit has been removed. Management now receives a monthly listing of active user names and reviews the listings to ensure that system access is revoked on the designated removal dates.

Recommendation		Disposition
		Target Resolution Date: March 2009 Current Status: In Process
6	Request removal of systems access for separated employees from the BWC Portal. Rating: Significant Weakness	Management will modify their process for removal of portal access to ensure that access is removed in a timely manner. Target Resolution Date: March 2009 Current Status: In Process
7	Begin the encryption of all back-up data. Rating: Significant Weakness	Management is on target for implementing a process for encrypting back-up tapes by the end of May 2009. Target Resolution Date: May 2009 Current Status: In Process
8	Revise MCO procedures to require backup tapes to be transported and stored by a vendor with the capabilities to secure and protect them from physical loss, damage and unauthorized access. Rating: Significant Weakness	Management is accepting bids for an outside vendor to transport and store back-up tapes and is on track to implement this by the end of May 2009. Target Resolution Date: May 2009 Current Status: In Process
9	Process the adjustments from the prior audit in accordance with contract. Rating: Significant Weakness	The prior audit observation regarding three unprocessed adjustments has been completed. Target Resolution Date: March 2009 Current Status: Implemented

Auditor Opinion:

Overall, internal controls for the MCO were generally well designed and functioning effectively. The audit did not identify any material weaknesses in the operation or controls. However, the audit identified various areas in which controls could be improved. These included timeliness of processing C-9's and customer contacts; password, login, and systems access controls; and segregation of duties related to provider check and returned check processes. The audit also identified one minor recommendation for management's consideration.

Auto Adjudication Audit (AA) - April 2009

Business areas: Customer Services

The BWC Internal Audit Division conducted an audit of the AA process. The objective of the audit was to assist management in evaluating the AA process by reviewing key compliance and internal control related components of processing claims through AA and administering the AA process. The audit scope consisted of a review of claims processed through AA from September 1, 2007 through August 31, 2008. The audit included a review of the following:

- Evaluated if key internal controls were adequately designed and implemented for administering the AA process;
- Assessed the adequacy of existing quality assurance procedures in place; and
- Verified that claims allowed and terminated by the AA process were consistent with AA rules and in compliance with BWC policies and procedures.

Recommendation		Disposition
1	<p>Develop policies and procedures for changes to AA rules, allowable International Classification of Diseases (ICD-9) codes, and rule sets that include a review and approval process.</p> <p>Rating: Material Weakness</p>	<p>Procedures will be formalized for enacting programming changes to AA, including an approval process, and production of an annual AA performance report. Management disagrees that this is a material comment.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: December 2009</p> <p>Current Status: In Process</p>
2	<p>Establish a project team to evaluate the costs and benefits of converting to ICD-10 coding conventions, monitor the U.S. Department of Health and Human Services ICD-10 compliance date and guidelines, identify impacted information technology systems, and develop an ICD-10 conversion plan and timeline.</p> <p>Rating: Significant Weakness</p>	<p>Management will prepare for ICD-10 code conversion and Medical Policy and Compliance will lead the project.</p> <p>Responsible: Chief of Med. Services and Compliance, Chief of Customer Services</p> <p>Target Resolution Date: October 2013</p> <p>Current Status: In Process</p>
3	<p>Establish a process and/or decision making body to institute programmatic goals and performance measures that assess the progress toward achieving those goals or identify issues for further investigation. Access and use existing Data Warehouse reports to support ongoing management and monitoring of manual activities performed in support of looping AA claims.</p> <p>Rating: Significant Weakness</p>	<p>Management mostly concurs. While the CSD is currently pleased with the reports generated by V-3 Customer Support, they will consider additional reporting and take under advisement empanelling a formalized review body.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: December 2009</p> <p>Current Status: In Process</p>
4	<p>Develop and implement procedures to evaluate claims with invalid social security numbers (SSNs) to determine the extent of losses, management's tolerance of risks, and strategies to mitigate risks and their associated costs.</p> <p>Rating: Significant Weakness</p>	<p>Management concurs and has cross-matched all SSNs with the Internal Revenue Service and will be deploying a cleanup project in preparation for mandatory Medicare reporting. By January 2010, we will be cross matching all new claims with Social Security Administration</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: January 2010</p> <p>Current Status: In Process</p>

Auditor Opinion:

Systematic internal controls for AA claim determination are adequately designed and functioning as intended. However, this review noted that controls over claim determination as a whole might be improved with additional verification of SSNs.

While internal controls over AA claim determination have been implemented, improvements to the design and implementation of internal controls over administering the AA process are required. There are insufficient internal controls over changes to AA rule sets; additionally, a performance management process has not been fully implemented. AA goals and objectives have not been formally established, linked to performance measurements, or incorporated into a continuous process improvement system. Management reporting and analysis is not used to identify the cause of noted conditions or to identify opportunities for system improvements and enhancements. The audit also identified two minor recommendations for management’s consideration.

RACF Security Audit - April 2009

Business areas: Infrastructure and Technology (IT)

The BWC Internal Audit Division conducted an audit of Resource Access Control Facility (RACF) Security. The purpose of the audit was to assist management in evaluating the controls over RACF Security for BWC’s IBM mainframe. The audit included a review of the following:

- Assessed whether RACF has been effectively implemented;
- Evaluated the adequacy of control procedures for notification of employee terminations, authorization changes, issuance of user-ids and passwords;
- Determined if production libraries, their members, datasets and key resources are protected by RACF;
- Verified that user-ids are given minimum required access and password processing options prevent passwords from being easily compromised;
- Determined whether special attributes are justified and used sparingly; and
- Evaluated the RACF group structure to determine if it eases administrative overhead and maintains security system integrity.

Recommendation		Disposition
1	Perform a cost benefit analysis on whether upgrading to the Data Encryption Standard (DES) algorithm is a viable option for use within BWC’s mainframe environment. Rating: Significant Weakness	The two-step method of checking will ensure that all new passwords use DES encryption and any old password that is reset or expired will also be DES encrypted. Responsible: Chief Information Officer Target Resolution Date: September 2009 Current Status: In Process

Recommendation		Disposition
2	Create a RACF security standard, which documents the rationale for all production settings, even at the individual user level. Rating: Significant Weakness	Procedures will be updated to reflect all duties the RACF administrator performs on a routine basis. Responsible: Chief Information Officer Target Resolution Date: December 2009 Current Status: In Process

Auditor Opinion:

In general, the internal controls over RACF security administration of user-ids and passwords appear to be adequate. Special attributes are restricted to a select group of people and the RACF group structure is set up to ease administrative overhead and maintain security system integrity. Furthermore, production libraries, their members, datasets and key resources are protected by RACF. However, the audit identified a number of policies and procedures that need to be formalized and/or updated. Management agrees with the recommendations and has committed to an action plan for implementing or updating/formalizing their policies and procedures. The audit also identified four minor recommendations for management's consideration.

**BWC Internal Audit Division
Outstanding Comments as of February 28, 2009**

Note: Comments designated as “Implemented” are based on managements’ assertions and have not yet been validated by Internal Audit.

Bankrupt Self-Insured Claims – March 2006

Recommendation		Disposition
1	Consider a legislative change to permit BWC to offset Permanent Total Disability (PTD) compensation for an injured worker receiving Social Security Retirement benefits, potentially saving \$60 million annually; “grandfather-in” current PTD recipients receiving both benefits to avoid financial hardship to those individuals. Rating: Not Rated	BWC has determined that it will take no further action on this item. Our program complies with the law in all respects and requesting the legislature to amend it as recommended is inadvisable at this time. Responsible: Chief of Customer Services Target Resolution Date: March 2009 Previous Target Date(s): June 2007, June 2008, December 2008 Current Status: Not Implemented

Medical Billing and Adjustments – May 2006

Recommendation		Disposition
1	There is a general lack of controls over the identification and processing of medical bill adjustments which result in the need to adjust the employers’ claims experience data. Rating: Significant Weakness	The Actuarial Division is working with the IT division to develop a systemic solution. The program revisions will result in automatic processing of medical bill adjustments that impact employer experience. Responsible: Chief Actuarial Officer Target Resolution Date: December 2010 Previous Target Date(s): March 2007, September 2007, March 2008, September 2008, December 2008, April 2009 Current Status: In Process
2	To ensure the current interest payment methodology operates in accordance with statutory requirements, management should obtain clarification regarding the correct interest payment calculation and ensure Medical Invoice Information System and Cambridge Systems calculations are consistent. Rating: Significant Weakness	Scheduled for June 2009 release into Cambridge. Responsible: Chief of Medical Services and Compliance Target Resolution Date: March 2009 Previous Target Date(s): July 2007, December 2007, September 2008, December 2008 Current Status: In Process

Recommendation		Disposition
3	<p>There are currently two active systems in place for processing medical payments with limited IT and Health Partnership Program technical support. Maintenance of the two systems is inefficient and results in increased systems maintenance costs.</p> <p>Rating: Significant Weakness</p>	<p>The request for proposal (RFP) will address this issue as well as the future vision for medical bill payment processing.</p> <p>Responsible: Chief of Medical Services and Chief Information Officer</p> <p>Target Resolution Date: June 2011</p> <p>Previous Target Date(s): December 2007, June 2008, December 2008</p> <p>Current Status: In Process</p>

Risk/Employer Operational Review – June 2006

Recommendation		Disposition
1	<p>BWC does not ensure that all employers under jurisdiction of Ohio workers' compensation laws have obtained worker's compensation coverage. Systematic cross checks should exist with other state agencies.</p> <p>Rating: Material Weakness</p>	<p>All three phases are on schedule for implementation.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: March 2009</p> <p>Previous Target Date(s): December 2006, December 2007, April 2008, August 2008, June 2009</p> <p>Current Status: In Process</p>
2	<p>Minimum premiums may not be adequate. - The recently revised Ohio Administrative Code Section 4123-17-26, (administrative charge rule) has been increased to cover the administrative expense of maintaining the policies that report no payroll. However, there is still inherent risk with the policies that have greater exposure due to industry type.</p> <p>Rating: Material Weakness</p>	<p>The Deloitte Study recommended examining the feasibility of raising the minimum premium, conducting further analysis of the characteristics of minimum premium employers, and increasing premium audit functions to address potential underreporting or fraud.</p> <p>Responsible: Chief Actuarial Officer</p> <p>Target Resolution Date: July 2010</p> <p>Previous Target Date(s): December 2006, June 2007, December 2007, December 2008</p> <p>Current Status: In Process</p>
3	<p>Current process controls do not adequately identify duplicate employer policies. Employers can avoid higher premiums by acquiring a new policy, while having an existing policy for the same business.</p> <p>Rating: Significant Weakness</p>	<p>A duplicate policy check process/report is in process. Formatting, report frequency and access have been determined.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: March 2009</p> <p>Previous Target Date(s): December 2006, June 2007, September 2007, April 2008, September 2008</p> <p>Current Status: In Process</p>
4	<p>When payroll reports are received there is no review to determine if estimated PSD are correct. The lack of review could result in lost revenue due to under reported estimates</p>	<p>BWC is currently performing an analysis to assess the materiality of this element of employer rate making in regards to our financial statement. Preliminary discussions</p>

Recommendation		Disposition
	for PSDs. Rating: Significant Weakness	indicate the WCIS program changes necessary to automate this function is not a priority at this time. Management is evaluating potential workarounds to address this recommendation. Responsible: Chief of Customer Services Target Resolution Date: May 2009 Previous Target Date(s): December 2007, June 2008, December 2008 Current Status: In Process

Claims Operational Review – September 2006

Recommendation		Disposition
1	Systematically assign new injury claims filed with no return to work date and an ICD-9 code to the lost time service offices. Rating: Significant Weakness	The triage system is currently being developed and is on target for implementation in May. Responsible: Chief of Customer Services Target Resolution Date: May 2009 Previous Target Date(s): January 2007, June 2007, December 2007, June 2008, December 2008 Current Status: In Process
2	Enhance current Version 3 (V3) system to link an injured worker with multiple claims to the same case manager or team. Rating: Significant Weakness	New processes are being established to address inefficiencies highlighted in the study. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): March 2007, May 2007, June 2008 Current Status: In Process
3	Research, benchmark, and devote the resources necessary to create, train, and implement the use of pertinent, financially focused performance and outcome measurements to support the staffing process. Rating: Significant Weakness	New processes are being established to address inefficiencies highlighted in the study. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): March 2007, June 2008 Current Status: In Process

Indemnity Claims Overpayment Audit – October 2006

Recommendation		Disposition
1	To enable BWC to effectively collect injured worker (IW) overpayments, management should determine the best practices for	Accounts Receivable staff will identify best practices for dealing with IW overpayments by April 2009.

Recommendation		Disposition
	overpayment collections and request legislative changes allowing the BWC to adopt the best practices identified. Rating: Significant Weakness	Responsible: Chief of Fiscal and Planning Target Resolution Date: April 2009 Previous Target Date(s): June 2007, September 2007, January 2008, December 2008 Current Status: In Process

Manual Override – December 2006

Recommendation		Disposition
1	Resolve the current rating inequity between group rated and non-group rated employers. Management should also adopt standard controls to prevent rate manipulation by employer groups. Possible corrective actions could include restoring credibility factors assigned to employer groups to levels consistent with sound actuarial standards and prohibiting groups from utilizing claims experience as an eligibility criterion for group participation. Rating: Material Weakness	Additional elements to the plan to reform rate setting methods are in discussion with the Board of Directors. These new strategies are being developed by staff, with analysis by our actuarial consultants, and with input from affected employers, group sponsoring organizations, and third party administrators Responsible: Chief of Fiscal and Planning Target Resolution Date: July 2011 Previous Target Date(s): December 2006, June 2007, July 2009 Current Status: In Process

Information Technology General and Application Controls Risk Assessment – January 2007

Recommendation		Disposition
1	Security violation and monitoring is not in effect. Trending or advanced analysis for security violations is, therefore, not performed. Rating: Material Weakness	The completion of the logging matrix and implementation of the logging processes are expected in June 2009. Responsible: Chief Information Officer Target Resolution Date: June 2009 Previous Target Date(s): March 2008, June 2008, August 2008, December 2008, March 2009 Current Status: In Process
2	Powerful ID's are neither logged nor monitored. Activities performed using a powerful ID or powerful utility are neither captured nor reviewed. Rating: Material Weakness	The completion of the logging matrix and implementation of the logging processes are expected in June 2009. Responsible: Chief Information Officer Target Resolution Date: June 2009 Previous Target Date(s): March 2008, June 2008, August 2008, December 2008, March 2009 Current Status: In Process

Compensation Audit Review – March 2007

Recommendation		Disposition
1	<p>Implement controls on Compensation Audits completed by the Injury Management Supervisors (IMs)/Service Office Managers to provide reasonable assurance that audits are completed accurately and consistently. Also, take appropriate steps to ensure IMs are properly utilizing the Compensation Audit Tool and apply a consistent audit methodology to each question.</p> <p>Rating: Significant Weakness</p>	<p>Enhancements and revisions to the Claim Audit Tool have been given priority and a new product is scheduled to be tested during the month of March 2009, with statewide rollout in April 2009.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): December 2007, February 2008, March 2008, June 2008 Current Status: In Process</p>

Salary Continuation (SC) Program – March 2007

Recommendation		Disposition
1	<p>Develop management reporting to ensure initial contacts and all ongoing contacts are being made in SC claims. Enforce existing policy and implement the necessary incentives and penalties as a control to ensure that participating employers are meeting all reporting requirements. Conduct a data and status cleanup project on the SC claims in an unknown status. Amend the SC policy to clarify expectations, roles, and responsibilities of BWC as well as MCO staff.</p> <p>Rating: Significant Weakness</p>	<p>A new audit for SC awards has been added to the Claims Audit Tool. Testing is scheduled during March 2009 with statewide rollout in April 2009.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): April 2008, May 2008, July 2008, March 2009 Current Status: In Process</p>
2	<p>Establish controls for monitoring and reporting wage submissions.</p> <p>Rating: Significant Weakness</p>	<p>A new audit for SC awards has been added to the Claims Audit Tool. Testing is scheduled during March 2009 with statewide rollout in April 2009.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): June 2007, December 2007, May 2008, July 2008, March 2009 Current Status: In Process</p>
3	<p>Enforce existing policy and implement the necessary incentives and penalties as a control to ensure that participating employers are meeting all reporting requirements.</p> <p>Rating: Material Weakness</p>	<p>A new audit for SC awards has been added to the Claims Audit Tool. Testing is scheduled during March 2009 with statewide rollout in April 2009.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): June 2007,</p>

Recommendation		Disposition
		December 2007, May 2008, July 2008, March 2009 Current Status: In Process
4	Ensure that injured workers receive sufficient information to make informed decisions concerning salary continuation. Rating: Significant Weakness	A new audit for SC awards has been added to the Claims Audit Tool. Testing is scheduled during March 2009 with statewide rollout in April 2009. Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): December 2007, April 2008, July 2008, March 2009 Current Status: In Process
5	BWC should ensure return to work dates, salary continuation, and lost time changeovers are re-assigned to the proper service offices. Reserve these claims properly and apply the corrected dollar impacts to the premiums and to the state fund. Develop management reporting to keep future claims from being overlooked, and to eliminate adverse impacts to the state fund. Rating: Material Weakness	Field Operations is reviewing claims with a date of injury between January 1, 2005 and December 31, 2008 in order to review for potential lost time changeover. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): April 2008, March 2009 Current Status: In Process
6	Revise the existing policy to contain clear and concise language for utilization of Independent Medical Exams (IMEs) and other claims management tools to avoid confusion and multiple interpretations. Ensure all IMEs are completed correctly and timely in accordance with BWC Policy. Rating: Significant Weakness	A new audit for SC awards has been added to the Claims Audit Tool. Testing is scheduled during March 2009 with statewide rollout in April 2009. Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): December 2007, July 2008, March 2009 Current Status: In Process
7	Develop a standard referral system to identify, contact, educate, and track all employers who are not in compliance with the SC Policy. Communicate to all of Field Operations that the Policy Department role is defining the policy, not enforcing the policy. Promulgate a formal rule to support program enforcement. Rating: Material Weakness	As the viability of the SC is under review, management believes that devoting additional resources to address this recommendation would not be an effective use of BWC resources. Management assumes responsibility for the consequences of this position. Responsible: Chief of Customer Services Target Resolution Date: December 2008 Previous Target Date(s): December 2007, April 2008, May 2008 Current Status: Not Implemented

Pharmacy Benefit Manager (PBM) Audit – May 2007

Recommendation		Disposition
1	Develop payment structure that does not reimburse for drugs not dispensed. Rating: Significant Weakness	On-site validation of PBM vendor implementation targeted for 2nd QTR 2009. Responsible: Chief of Medical Services and Compliance Target Resolution Date: April 2009 Previous Target Date(s): August 2007, July 2008 Current Status: In Process
2	Require vendor to resume imaging of bills and increase oversight. Rating: Significant Weakness	On-site validation of PBM vendor implementation targeted for 2nd QTR 2009. Responsible: Chief of Medical Services and Compliance Target Resolution Date: April 2009 Previous Target Date(s): December 2007, April 2008, December 2008 Current Status: In Process
3	Develop action plan to strengthen oversight and improve management of the program. Rating: Significant Weakness	The Medical Services Division created a Pharmacy Program Department and a director level position to oversee and develop BWC's pharmacy program. The Compliance and Performance Monitoring (CPM) Department will monitor program outcomes and contract compliance. Responsible: Chief of Medical Services and Compliance Target Resolution Date: December 2009 Previous Target Date(s): September 2007 Current Status: In Process
4	Periodically test transactions to ensure discounts are passed-through to BWC. Rating: Significant Weakness	BWC has contracted with a vendor to collect rebates on behalf of BWC for the period September 2008 through December 2008. An Invitation to Bid was issued to select a vendor for collecting future rebates through June 2009. An RFP for a 3 year contract will be developed with an effective date of July 2009. BWC removed the requirement for collecting rebates from the PBM RFP to be effective July 2009. Responsible: Chief of Medical Services and Compliance Target Resolution Date: October 2009 Previous Target Date(s): March 2008, April 2008, August 2008 Current Status: In Process

Recommendation		Disposition
5	<p>Conduct sufficient review and analysis to identify opportunities. Rating: Significant Weakness</p>	<p>Requirements addressing the pharmacy consultant report were included in the current RFP. Responsible: Chief of Medical Services and Compliance Target Resolution Date: October 2009 Previous Target Date(s): November 2007, March 2008, April 2008, August 2008 Current Status: In Process</p>

Retrospective Rating Program Audit – June 2007

Recommendation		Disposition
1	<p>Evaluate requirements and objectives of the program to ensure support exists for all goals and outcomes. Consider eliminating the allowance of any employer who is financially unstable, including employers who are in a part pay status from the program. Rating: Material Weakness</p>	<p>Management has evaluated its approach to permitting Tier II employers to stay in the program as is. They believe that changing this as suggested in the audit would unfairly impact those employers. Accordingly, management will not amend Tier II requirements. As suggested by Deloitte, the redesign of the retro program will be addressed as future priorities are developed. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): August 2007, October 2007, December 2008, March 2009 Current Status: Current Status: Not Implemented</p>

Vocational Rehabilitation Audit– October 2007

Recommendation		Disposition
1	<p>Implement processes to review the actual vocational rehabilitation costs billed in claims for reasonableness and appropriateness. Rating: Material Weakness</p>	<p>CPM provided the standard query to Voc Rehab. Training will be rolled into other Disability Management Coordinator (DMC) training. Responsible: Chief of Medical Services and Compliance Target Resolution Date: April 2009 Previous Target Date(s): April 2008, June 2008, December 2008 Current Status: In Process</p>
2	<p>Take steps to eliminate the potential conflict of interest created by MCOs that refer vocational rehabilitation cases to their</p>	<p>The assignment of Vocational Field Case managers by BWC DMCs to eliminate potential conflict of interest is slated for</p>

Recommendation	Disposition
<p>related companies. Rating: Material Weakness</p>	<p>Phase IV of the Rehab Redesign. A subgroup is working on Rehab protocols and development of Rehab Case Management performance expectations. Responsible: Chief of Medical Services and Compliance Target Resolution Date: January 2010 Previous Target Date(s): October 2008 Current Status: In Process</p>
<p>3 Formalize policy regarding the authority of the DMCs to challenge MCO feasibility determinations. Rating: Material Weakness</p>	<p>Preparing project plan for rule revision which is required before DMCs can have control over feasibility determination. Responsible: Chief of Medical Services and Compliance Target Resolution Date: November 2009 Previous Target Date(s): October 2008 Current Status: In Process</p>
<p>4 Implement controls over the coordination agreement with the Rehabilitation Services Commission (RSC) to ensure costs expended under that program are only incurred for eligible injured workers and are reasonable and appropriate. Rating: Material Weakness</p>	<p>BWC is working with RSC to reconcile the eligible injured worker reports. Responsible: Chief of Medical Services and Compliance Target Resolution Date: June 2009 Previous Target Date(s): June 2008, October 2008 Current Status: In Process</p>
<p>5 Establish effective quality assurance review procedures to ensure various controls and activities performed by DMCs are proper, timely, and in accordance with policies and statutes. Rating: Significant Weakness</p>	<p>A draft scope document for the performance expectations training for DMCs has recently been delivered to the Rehab Redesign team for input. Responsible: Chief of Medical Services and Compliance Target Resolution Date: April 2009 Previous Target Date(s): June 2008, August 2008 Current Status: In Process</p>
<p>6 Review credentialing and position requirements for DMC positions and ensure individuals possess the qualifications to manage the vocational rehabilitation process. Establish a process to monitor DMC certifications to ensure the required credentials are maintained. Rating: Significant Weakness</p>	<p>A Memorandum of Understanding will be entered into and placed in the upcoming contract regarding certification requirements. Policy drafted January 2009 to collect, maintain and monitor certifications. Certifications requested by March 2009. Responsible: Chief Human Resource Officer Target Resolution Date: July 2009 Previous Target Date(s): March 2008, October 2008 Current Status: In Process</p>

Permanent Total Disability Claims Audit – January 2008

Recommendation		Disposition
1	<p>Meet with IT management and evaluate the cost benefit of updating the V3 system to better assist in the process of PTD and Disabled Workers' Relief Fund (DWRF) or develop compensating controls. Rating: Significant Weakness</p>	<p>The only outstanding item related to this finding is the regionalization of the PTD process. This initiative has been placed on hold at this time and will be evaluated later in Calendar Year 2009 based on other agency-wide initiatives. Responsible: Chief of Customer Services Target Resolution Date: June 2010 Previous Target Date(s): December 2008 Current Status: In Process</p>
2	<p>Review other alternatives for processing PTD claims to provide more effective and efficient claim maintenance. Rating: Significant Weakness</p>	<p>The only outstanding item related to this finding is the regionalization of the PTD process. This initiative has been placed on hold at this time and will be evaluated later in Calendar Year 2009 based on other agency-wide initiatives. Responsible: Chief of Customer Services Target Resolution Date: June 2010 Previous Target Date(s): June 2008, December 2008 Current Status: In Process</p>
3	<p>Establish the essential resources needed to complete the previous clean up project by identifying and reviewing claims that have never been reviewed and correcting those claims with outstanding errors. Rating: Significant Weakness</p>	<p>Phase III and the amended overpayments policy are in process. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): June 2008, December 2008 Current Status: In Process</p>
4	<p>Implement processes and/or controls to monitor claims in which the injured worker has clearly retired (or is eligible for retirement) to ensure they are calculated and paid appropriately. Rating: Significant Weakness</p>	<p>A PTD Claims audit will be included in the enhanced Audit Tool. Responsible: Chief of Customer Services Target Resolution Date: May 2009 Previous Target Date(s): December 2008 Current Status: In Process</p>
5	<p>Determine the overall impact and best course of action regarding the incorrect overpayments to ensure the accounts receivable balance and BWC financial statements are accurate. Identify and correct the erroneous DWRF overpayments. Rating: Significant Weakness</p>	<p>The inappropriate DWRF overpayments have been identified and are being deployed via the Data Integrity and Reliability Team. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): February 2009 Current Status: In Process</p>

Medical Bill Payment Process Audit – March 2008

Recommendation		Disposition
1	Evaluate a change to the current Ohio Administrative Code to shorten the statute of limitations for medical bill payments to model other state workers' compensation systems. Rating: Significant Weakness	Medical Services Division is developing a project plan for this statute change. Responsible: Chief of Medical Services and Compliance Target Resolution Date: September 2009 Previous Target Date(s): December 2008 Current Status: In Process
2	Finalize and approve the draft overpayment policy and make the final determination on the outstanding MCO and provider overpayments. Rating: Significant Weakness	Management finalized the overpayment policy in April 2009. Policy is currently in the two-week period for MCO comment and will be effective thirty (30) days following final notification to the MCOs. Decisions have been made on all outstanding MCO and provider overpayments. Responsible: Chief of Medical Services and Compliance Target Resolution Date: June 2009 Previous Target Date(s): October 2008, February 2009 Current Status: In Process
3	Monitor and track the certification application process to verify all providers are routinely reapplying for certification and providing the Bureau with credentialing information. Rating: Significant Weakness	The Ohio Elections Commission has not yet responded to BWC's request for an elections opinion relating to this issue. Responsible: Chief of Medical Services and Compliance Target Resolution Date: June 2009 Previous Target Date(s): December 2008 Current Status: In Process
4	Implement a comprehensive bill tracking and reporting process to include MCO timelines to monitor compliance with BWC policies; and consider reimbursing providers directly from BWC. Rating: Significant Weakness	An RFP that includes transition to direct provider payment is in development. Responsible: Chief of Medical Services and Compliance Target Resolution Date: January 2010 Previous Target Date(s): December 2008 Current Status: In Process

Subrogation Audit – May 2008

Recommendation		Disposition
1	Define responsibilities, provide additional training, improve communication between the two departments, and utilize the Service Offices' subrogation coordinators to research incomplete referrals. Rating: Significant Weakness	Field Operations Administration is reviewing the workflows and training material utilized by Central Office in order to implement the recommendations from this finding. The target is to roll out this training in the upcoming quarter.

Recommendation		Disposition
		Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): September 2008, March 2009 Current Status: In Process
2	Develop ongoing reporting and conduct detailed trending and analysis of data to assist in monitoring the subrogation processes. Rating: Significant Weakness	The Subrogation Unit is working with IT to enhance the existing database or create a new database. The Subrogation Unit has also requested access to UDS workflow. Responsible: Chief Legal Officer Target Resolution Date: December 2009 Current Status: In Process
3	Consider collaborating with IT to explore potential system enhancements to better support the subrogation process. Rating: Significant Weakness	The Subrogation Unit is working with IT to enhance the existing database or create a new database. The Subrogation Unit has also requested access to UDS workflow. Responsible: Chief Legal Officer Target Resolution Date: December 2009 Current Status: In Process

Forthwith/Miscellaneous Special Payments Audit – July 2008

Recommendation		Disposition
1	Modify the Rates & Payments (R&P) system to include basic information on all warrants initiated within it. Rating: Significant Weakness	Phase 1 of the Payment System Improvement program has implemented a mechanism to allow users to locate warrant information. Information will be integrated into R&P during April 2009. Responsible: Chief Information Officer Target Resolution Date: April 2009 Previous Target Date(s): November 2008, January 2009 Current Status: In Process

Lump Sum Settlement Process (LSS) Audit – October 2008

Recommendation		Disposition
1	Define the mission of the settlement process and clearly describe measurable agency-wide goals and objectives for the program. Additionally, develop a process to identify claims that should be settled and evaluate the impact on actuarial reserves and investments. Rating: Material Weakness	Phase I deliverables will include a mission statement, claim settlement eligibility/ineligibility indicators, and a more robust evaluative process. Responsible: Chief of Customer Services Target Resolution Date: January 2010 Previous Target Date(s): February 2009 Current Status: In Process
2	Develop agency-wide policies and procedures, and process mapping of the	Phase I deliverables for the Settlement Enhancement Team includes the

Recommendation	Disposition
<p>settlement process. Rating: Material Weakness</p>	<p>development of end-to-end, agencywide policies and procedures including process mapping the settlement work flows. Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): February 2009 Current Status: In Process</p>
<p>3 Use data warehouse queries to enable settlement claim reviews prior to the expiration of the 30-day waiting period and expand the Comp Audit Tool to verify referral to Industrial Commission. Rating: Material Weakness</p>	<p>Enhancements and revisions to the Claim Audit Tool are in process. Responsible: Chief of Customer Services Target Resolution Date: May 2009 Previous Target Date(s): June 2009 Current Status: In Process</p>
<p>4 Implement a process to ensure the Lead Attorney or Lead Attorney Auditor performs audits, consistent with policy. Rating: Material Weakness</p>	<p>A Settlement Enhancement Team was created to review the LSS audit, the Private Consultant Report and our Settlement Process. As part of this process, CSD will be assuming responsibility for the Lump Sum Settlement program replacing those audits performed by the Lead Attorneys/ Attorney Auditors. Responsible: Chief of Customer Services Target Resolution Date: October 2009 Current Status: In Process</p>
<p>5 Conduct trending and analysis of settled claims to identify whether goals and objectives are being met and expand management reporting to address analysis of performance with identified goals and objectives. Rating: Significant Weakness</p>	<p>The consultant performed benchmarking and analyses. Ongoing management reporting will be developed during Phase III. Responsible: Chief of Customer Services Target Resolution Date: January 2010 Previous Target Date(s): June 2009 Current Status: In Process</p>
<p>6 Provide negotiating and settlement training for the service office Injury Management Supervisor (IMS) and LSS staff in order to promote an effective settlement process. Rating: Significant Weakness</p>	<p>Management will explore options related to receiving negotiating skills training during Phase II. Responsible: Chief of Customer Services Target Resolution Date: July 2009 Previous Target Date(s): June 2009 Current Status: In Process</p>
<p>7 Establish an evaluation assessment program that ensures a quality and timely assessment that supports their recommendations regarding IW employability. Rating: Significant Weakness</p>	<p>A workgroup was formed to evaluate the employability assessment process and recommend improvements in the process to ensure quality and timely IW employability assessments. The group has workflowed the process and is creating a Vocational Expert Panel to conduct these reviews. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): April 2009</p>

Recommendation		Disposition
		Current Status: In Process
8	Evaluate the Medicare Secondary Payer laws for BWC potential liability and risk exposure and develop a Position (White) Paper to document the position of BWC. Rating: Significant Weakness	The Legal Division has conducted its research and is finalizing "White Paper." The Legal Division is meeting with the Attorney General's Office to further discuss BWC's reporting requirements, risk exposure and potential liabilities. Responsible: Chief Legal Officer Target Resolution Date: June 2009 Current Status: In Process
9	Develop and implement a process to verify the compensation audits are performed accurately and in accordance with policy. Rating: Significant Weakness	Enhancements and revisions to the Claim Audit Tool have been given priority and a new product is scheduled to be tested during the month of March 2009 with statewide rollout in April 2009. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process
10	Require the IMS to verify the e-mail authorizing the final settlement amount exists. Rating: Significant Weakness	Enhancements and revisions to the Claim Audit Tool have been given priority and a new product is scheduled to be tested during the month of March 2009 with statewide rollout in April 2009. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process
11	Establish a new timeline to review the LSS/ Customer Service Specialist (CSS) claims and supplement Doc View reports to identify claims in the settlement pending status for testing selection. Rating: Significant Weakness	Enhancements and revisions to the Claim Audit Tool have been given priority and a new product is scheduled to be tested during the month of March 2009 with statewide rollout in April 2009. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process
12	Establish controls to ensure the LSS payments are reviewed in accordance with policy. Rating: Significant Weakness	Enhancements and revisions to the Claim Audit Tool have been given priority and a new product is scheduled to be tested during the month of March 2009 with statewide rollout in April 2009. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process
13	Collaborate with applicable units to determine the best process for terminating/suspending pharmaceutical benefits and update policy to reflect current practice.	Management staff in service offices was notified of the change in policy for processing an Attorney General Settlement and updating V3 appropriately in November 2008.

Recommendation		Disposition
	Rating: Significant Weakness	Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process
14	Consider reviewing other state statutes for compensation of IW attorneys to determine best practices that promote an alignment of incentives with IW interests. Rating: Significant Weakness	The Legal Division has completed its research and analysis of the relevant statutes of all fifty states. The determination of best practices regarding compensation for IWs is beyond the jurisdiction of the BWC. Such jurisdiction lies with the Industrial Commission of Ohio and the Ohio Supreme Court. Responsible: Chief Legal Officer Target Resolution Date: June 2009 Current Status: In Process

Permanent Partial (PP) Awards Audit – October 2008

Recommendation		Disposition
1	Perform data warehouse searches to identify potential PP awards not processed timely; consider updating V3 to provide prompts notifying the CSS when an amputation condition is added to the claim; and correct the errors noted during testing. Rating: Significant Weakness	Management is making minor updates and clarifications to enhance the policy. Training has been delayed until March 2009 in order to complete revisions that will greatly improve the process. Responsible: Chief of Customer Services Target Resolution Date: March 2009 Previous Target Date(s): January 2009 Current Status: In Process
2	Conduct periodic refresher training for CSSs and BWC Nurses on PP Policies & Procedures; revise the claim audit tool to require IMS review medical documentation; and conduct periodic refresher training for the IMS on best practices. Rating: Significant Weakness	Management is making minor updates and clarifications to enhance the policy. Review/training has been delayed until March 2009 in order to complete revisions that will greatly improve the process. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process

Managed Care Organization (MCO) Audit #5 – October 2008

Recommendation		Disposition
1	Take steps to ensure that the required bank account and zero balancing reconciliations of the provider account are performed as required by the contract. Rating: Material Weakness	The MCO and BWC Medical Services Division have developed a plan for addressing this audit observation.. The Compliance and Performance Monitoring Department will monitor progress regarding this plan and help ensure that the issues are resolved satisfactorily. Target Resolution Date: September 2009

Recommendation		Disposition
		Previous Target Date(s): January 2009 Current Status: In Process
2	Revise backup procedures to require encryption of all devices prior to delivery to external vendors. Rating: Significant Weakness	MCO management is working with corporate entities to determine the most appropriate solutions. Several options are being explored including a tapeless backup solution that will allow on-site backups. Target Resolution Date: March 2009 Current Status: In Process

IT Physical and Environmental Security – October 2008

Recommendation		Disposition
1	Develop policies and procedures around key management to help control and account for keys for all locked areas. Rating: Significant Weakness	Management has developed the draft policy and procedures for key management. A higher priority project has delayed the implementation of the control system and review process until the end of May 2009. Responsible: Chief Information Officer Target Resolution Date: May 2009 Previous Target Date(s): December 2008, March 2009 Current Status: In Process

Device and Media Control - December 2008

Recommendation		Disposition
1	Create policies and procedures for operational situations regarding device and media controls. Rating: Significant Weakness	Management will establish a team within IT to address the need for policies and procedures. This team will develop and document an implementation plan with deliverables and estimated completion dates. Responsible: Chief Information Officer Target Resolution Date: December 2009 Current Status: In Process
2	Enhance the current Device Loss/Theft Procedure by utilizing the State of Ohio's IT Policy B.7- Security Incident Response for guidance. Rating: Significant Weakness	The project team held their 1st meeting in February 2009 and identified several changes and additions that could be made to the existing policy and procedures. Work assignments were identified and another meeting will be scheduled. Responsible: Chief of Medical Services and Compliance Target Resolution Date: April 2009 Current Status: In Process

Recommendation		Disposition
3	Identify a cost-effective data storage site at a greater distance from BWC's downtown location in Columbus. Rating: Significant Weakness	Management will evaluate alternative off site storage locations and costs in conjunction with what other State agencies are doing and make recommendations. Responsible: Chief Information Officer Target Resolution Date: June 2009 Current Status: In Process
4	Cross-train employees in the performance of critical functions (especially security functions) to reduce the risk of a single point of failure by having only one individual knowledgeable in how to perform key tasks. Rating: Significant Weakness	Management will identify a backup person for mainframe and Windows tape encryption keyserver administration and configuration architectures; develop training plan for backup resources; and finalize documentation of critical job functions. Responsible: Chief Information Officer Target Resolution Date: April 2009 Current Status: In Process

MCO Audit #6 - December 2008

Recommendation		Disposition
1	Take steps to return the company to profitability. The MCO Business Unit and the Compliance and Performance Monitoring Department should work with the MCO to closely monitor the MCO's financial condition. Rating: Material Weakness	MCO management has provided interim financial statements to the BWC detailing the current operational strength of the company and will continue to provide interim statements until the 2008 audited financial statements are requested by the BWC. Management anticipates this audited financial statement will be issued with a clean opinion reflecting the strength of the operating entity in 2008. Target Resolution Date: July 2009 Current Status: In Process

BWC Internal Audit Division Audit Report Follow-Up Procedures

The *International Standards for the Professional Practice of Internal Auditing* specifically addresses follow-up in Standard 2500. One of our primary responsibilities as professional auditors is determining that the audit customer takes corrective action on recommendations. This 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 the comment will be forwarded to the Administrator for review, the Chief of Internal Audit will report the comment with management’s response to the Audit Committee for consideration.

Being an integral part of the internal audit process, follow-up should be scheduled along with the other steps necessary to perform the audit. However, specific follow-up activity depends on the results of the audit and can be carried out at the time the report draft is reviewed with management personnel or after the issuance of the report. Typically, audit follow up should occur within 90 days of the issuance of the final report.

Follow-up activities may generally be broken down into three areas:

- Casual - This is the most basic form of follow-up and may be satisfied by review of the audit customer’s procedures or an informal phone call. Memo correspondence may also be used. This is usually applicable to the less critical findings.
- Limited - Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, is not accomplished through memos or phone calls with the audit customer.
- Detailed - Detailed follow-up is usually more time-consuming and can include substantial audit customer involvement. Verifying procedures and audit trails, as well as substantiating account balances and computerized records, are examples. The more critical audit findings usually require detailed follow-up.

Follow-up scheduling can begin when corrective action is confirmed by acceptance of an audit recommendation or when management elects to accept the risk of not implementing the recommendation. Based on the risk and exposure involved, as well as the degree of difficulty in achieving the recommended action, follow-up activity should be scheduled to monitor the situation or confirm completion of the changes that were planned. These same factors establish whether a simple phone call would suffice or whether further audit procedures would be required.

At the end of each quarter, a summary follow-up report is prepared. This report reflects all current period findings with appropriate comments to reflect end of quarter status.

Additionally, this report highlights all outstanding findings from prior periods and their status. The intent of this summary report is to track all findings so that they are appropriately resolved.

**BWC Internal Audit Division
Audit Comment Rating Criteria**

Comment Rating	Description of Factors	Reporting Level
Material Weakness	<ul style="list-style-type: none"> Overall control environment does not provide reasonable assurance regarding the safeguarding of assets, reliability of financial records, and compliance with Bureau policies and/or laws and regulations. A significant business risk or exposure to the Bureau that requires immediate attention and remediation efforts. A significant deficiency, or combination of significant deficiencies, that results in <u>more than a remote likelihood</u> that a material misstatement of the annual or interim financial statements will not be prevented or detected by employees in the normal course of their work, or that a major operational or compliance objective would not be achieved. 	Audit Committee, Senior Management, Department Management
Significant Weakness	<ul style="list-style-type: none"> Issue represents a control weakness, which could have or is having some adverse affect on the ability to achieve process objectives. The controls in place need improvement and if not improved could lead to an overall unsatisfactory or unacceptable state of control. Requires near-term management attention. A control deficiency, or combination of control deficiencies, that results in a <u>remote</u> likelihood that a misstatement of the Bureau’s annual or interim financial statements is more than inconsequential will not be prevented or detected by employees in the normal course of their work, or that a major operational or compliance objective would not be achieved. 	Senior Management, Department Management, Audit Committee (optional)
Minor Weakness	<ul style="list-style-type: none"> Issue represents a process improvement opportunity or a minor control weakness with minimal impact. Observations with this rating should be addressed by line level management. A control deficiency that would result in <u>less than a remote</u> likelihood that the deficiency could reasonably result in a material misstatement of the financial statements or materially affect the ability to achieve key operational or compliance objectives. 	Department Management, Senior Management (optional)

NOTE: When management’s action plans for Significant Weakness comments are materially delayed from the intended implementation date the comment will elevate to a Material Weakness (pending circumstances).

BWC Internal Audit Division FY 09 Annual Audit Plan

Focus Area	1st Qtr.			2nd Qtr.			3rd Qtr.			4th Qtr.			Audit Effort
	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	
Employer Compliance (Consulting)													1
Coal Mine Safety Program (Consulting)													2
Permanent Partial Benefits													4
Settlements Process													5
External Audit Assistance													5
Mainframe Security													5
Physical and Environmental Security													3
Investment Certification Control Testing													5
Self Insured Bankrupt Securitization Process													4
Device and Media Controls Audit													3
Employer Policy Application Process													4
Auto Adjudication													4
Fleet Management													3
OBM Transition													5
OBM Enterprise Wide Audit Assistance													4
Collections Process													3
Change Management Process													5
Ethics Review													1
Adjudicating Committee													4
FY 2010 Audit Plan													3
WCIS Refunds Audit													3
Coal Mine Safety Program													2
Audit Validation Testing													5

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

BWC Internal Audit Division QES Acronyms

Acronym	Description
AA	Auto Adjudication
BWC	Bureau of Workers' Compensation
C-9	Physician's Request for Medical Service or Recommendation for Additional Conditions for Industrial Injury or Occupational Disease Form
CPM	Compliance and Performance Monitoring
CSD	Customer Service Division
CSS	Customer Service Specialist
DAS	Department of Administrative Services
DDC-PC	Defensive Drivers Course-Personal Computer, known as Online Drivers Training
DES	Data Encryption Standard
DMC	Disability Management Coordinator
DWRF	Disabled Workers' Relief Fund
FM	Fleet Management
IA	Internal Audit
IBM	International Business Machines Corporation
ICD	International Classification of Diseases
IME	Independent Medical Exams
IMS	Injury Management Supervisor
IT	Infrastructure and Technology or Information Technology
IW	Injured Worker
LSS	Lump Sum Settlement
MCO	Managed Care Organization
PBM	Pharmacy Benefit Management
PP	Permanent Partial
PSD	Premium Security Deposit
PTC	Prior to Coverage
PTD	Permanent Total Disability
QA	Quality Assurance
R&P	Rates & Payments
RACF	Resource Access Control Facility

Acronym	Description
RFP	Request For Proposal
RSC	Rehabilitation Services Commission
SC	Salary Continuation
SSN	Social Security Number
UDS	Universal Document Service
V3	Version 3
WCIS	Workers' Compensation Insurance System

4123-17-14.2 Bureau 50/50 program.

(A) Pursuant to division (A)(3) of section 4123.29 of the Revised Code and paragraph (A)(2) of rule 4123-17-14 of the Administrative Code, the administrator is authorized to develop and make available to employers who are paying premiums to the state insurance fund alternative premium plans, which may include, as the administrator may determine for any payroll period, that employers shall be permitted to pay the premium in two installments.

(B) Where the administrator determines for any payroll period that employers shall be permitted to pay the premium in two installments, the only method of reporting payroll and making the initial premium installment payment for this program shall be through the bureau's website, ohiobwc.com, using the payroll reports 50/50 payment plan service offering. All payroll for the reporting period and payment information for the initial installment shall be entered in the service offering in the same online session.

(C) An employer electing to participate in this premium payment option shall report its payroll and pay one-half of the premium due by the regular due date in accordance with paragraph (A) of rule 4123-17-14 of the Administrative Code. The balance of the premium shall be paid through the bureau's website, ohiobwc.com, using the accounts receivable balance service offering. The balance shall be paid by the first day of June for the July first to December thirty-first reporting period, or by the first day of ~~November~~ December for the January first to June thirtieth reporting period.

(D) An employer participating in this payment option shall be considered a complying employer during the installment payments if the employer reports payroll and pays one-half of the premium by the method prescribed in paragraph (B) of this rule by the regular due date, and the balance shall not be subject to penalties or interest under rule 4123-19-07 of the Administrative Code. If, by the regular due date, an employer does not report payroll and pay one-half of the premium by the method prescribed in paragraph (B) of this rule or does not otherwise report payroll and pay the full premium due, the employer's coverage will be lapsed and the employer shall be subject to penalties and interest. If an employer participating in this payment option does not pay the balance of the employer's premium by the prescribed method and by the date such balance is due, the employer's coverage will be lapsed effective the date such balance is due.

(E) Any employer that fails to utilize the bureau's website for this premium payment program as required in paragraphs (B) and (C) of this rule shall not be permitted to participate in the installment premium option provided in this rule.

Promulgated Under: 111.15

Statutory Authority: 4121.12, 4121.121, 4121.30

Rule Amplifies: 4123.29, 4123.34

Prior Effective Dates: 7/1/06, 1/5/09

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**BWC Board of Directors
Audit Committee**
FY 09 3rd Quarter Executive Summary Report

May 28, 2009

Caren Murdock, Chief of Internal Audit
Rich Ridewood, IT Audit Director
Karl Zarins, Internal Audit Director
Keith Elliott, Senior Manager

30 W. Spring St.
Columbus OH 43215-2256

To: Audit Committee Members
From: Caren Murdock, Chief of Internal Audit
Date: May 28, 2009

Fiscal Year 09 3rd Quarter Executive Summary report

Following you will find the Fiscal Year 2009 3rd Quarter Executive Summary report containing:

1. Audit comment status
 - 1a. Comments issued 3rd quarter
 - 1b. Comments outstanding as of February 28, 2009
2. Audit follow-up procedures
3. Audit comment rating criteria
4. Fiscal Year 09 Audit Plan

Changes to this quarter's report include a table of contents on pages 2, and table of acronyms used on pages 33 and 34.

BWC Internal Audit Division

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**BWC Internal Audit Division
Comments Issued – 3rd Quarter Activity**

Fleet Management (FM) Audit - March 2009

Business areas: Infrastructure and Technology

The BWC Internal Audit Division conducted an audit of the FM process. The objective of the audit was to assist management in evaluating the Fleet Management process by reviewing various key compliance and internal control related components of the fleet operation. The audit scope consisted of a review of fleet activity from September 1, 2007 through August 31, 2008 unless otherwise noted. The audit included a review of the following:

- Evaluated if key internal controls were adequately designed and implemented for the fleet management process;
- Assessed the adequacy of existing review and monitoring procedures in place; and
- Verified compliance with BWC policy, procedures and statutory requirements.

Recommendation		Disposition
1	Develop beginning-to-end inter-departmental policies and procedures, and process mapping of the fleet management process. Rating: Significant Weakness	Process mapping has been completed and the FM Orientation Guide is currently being updated. Responsible: Chief Information Officer Target Resolution Date: June 2009 Current Status: In Process
2	Consider changes in policies and procedures to better ensure that employees requesting a pool vehicle or using a personal vehicle for state business have valid drivers' licenses. Rating: Significant Weakness	FM will update the pool car request form to allow on-going review of drivers' licenses to ensure all pool car drivers have a valid driver's license. A gratis check will be completed on all assigned drivers semi-annually. Responsible: Chief Information Officer Target Resolution Date: February 2009 Current Status: In Process
3	Conduct a vehicle needs analysis to make sure BWC maintains an optimal size fleet. Rating: Significant Weakness	Employer Management Services is performing a vehicle needs analysis for Employer Service Specialists and Business Consultants. FM reviews assigned usage and personal mileage expense reimbursement semi-annually for inclusion in the 2010 Annual Fleet Plan, but implementation is contingent upon BWC administration approval. Responsible: Chief Information Officer Target Resolution Date: July 2009 Current Status: In Process

Recommendation		Disposition
4	<p>Implement a process to ensure that individuals with mileage reimbursement in excess of the Department of Administrative Services (DAS) mileage break-even point have access to BWC vehicles.</p> <p>Rating: Significant Weakness</p>	<p>FM submitted a request in January 2009 to reassign vehicles based on mileage and frequency of use to better utilize BWC fleet vehicles.</p> <p>Responsible: Chief Information Officer Target Resolution Date: May 2009 Current Status: In Process</p>
5	<p>Develop and implement written policies and procedures with sufficient controls to provide assurance that the monthly vehicle expense reports submitted by assigned drivers and pool vehicle administrators are accurate.</p> <p>Rating: Significant Weakness</p>	<p>FM began reviewing monthly reports for discrepancies/errors in January 2009.</p> <p>Responsible: Chief Information Officer Target Resolution Date: January 2009 Current Status: In Process</p>
6	<p>Consider developing and implementing a procedure to verify the existence of personal liability insurance coverage required by law for all personal vehicles used for BWC business.</p> <p>Rating: Significant Weakness</p>	<p>FM revised the standard personal vehicle use authorization language to require liability insurance and will ensure that employees exempt from these requests have proof of insurance on file. State law requires all drivers to have liability insurance, therefore, requiring employees to provide proof of coverage is not necessary.</p> <p>Responsible: Chief Information Officer Target Resolution Date: March 2009 Current Status: In Process</p>
7	<p>Verify employees have completed the Defensive Drivers Course-Personal Computer (DDC-PC) prior to issuing a vehicle or authorizing the use of a pool vehicle or personal vehicle.</p> <p>Rating: Significant Weakness</p>	<p>Safety & Health Administration is in the process of developing a master spreadsheet of employees completing the DDC-PC to allow FM to verify if a driver has taken the DDC-PC. BWC policy has been revised to remove training requirements for pool vehicle users, as it is more stringent than the DAS guidelines.</p> <p>Responsible: Chief Information Officer Target Resolution Date: May 2009 Current Status: In Process</p>
8	<p>Expand existing policies for citizen complaints to encapsulate accidents and incidents so that the Administrator is notified of these events.</p> <p>Rating: Significant Weakness</p>	<p>FM began sending accident reports to the Administrator in February 2009. BWC policy has been updated to reflect that the Fleet Manager will be responsible for tracking and responding to citizen complaints.</p> <p>Responsible: Chief Information Officer Target Resolution Date: May 2009 Current Status: In Process</p>

Auditor Opinion:

There are opportunities to improve both the design and implementation of FM internal controls to facilitate compliance with all DAS rules and standards. Policies and procedures should be documented, organized, and have an agency-wide focus in a manner to facilitate a comprehensive understanding of the fleet process. Furthermore, proactive management and monitoring may assist in allocating resources efficiently.

Generally, BWC fleet operations comply with most applicable statutes. However, this review noted issues pertaining to capital asset planning and resource allocation, risks associated with high risk employees using vehicles, lack of reporting of accidents or incidents, and limited reviews of vehicle use and expenses.

Employer Policy Application Process Audit - March 2009

Business areas: Customer Services, Fiscal and Planning

The BWC Internal Audit Division conducted an audit of the Employer Policy Application Process. The purpose of the audit was to assist management in evaluating controls. The audit scope consisted of policy applications completed between October 1, 2007 and September 30, 2008. The audit included a review of the following:

- The level of compliance with BWC policies and procedures;
- The adequacy of design and operating effectiveness of current internal controls; and
- The effectiveness of quality assurance procedures.

Recommendation		Disposition
1	Revise procedures to issue prior to coverage (PTC) payroll reports covering the entire period since employers first hired employees and came under obligation to obtain workers' compensation coverage. Rating: Significant Weakness	PTC applications will be manually processed beyond the Workers' Compensation Insurance System (WCIS) limitation using Audit Form FA5. Where appropriate, management will refer such policies for audit. Responsible: Chief of Customer Services Target Resolution Date: July 2010 Current Status: In Process
2	Consider requesting legislative action to revise the minimum Premium Security Deposit (PSD) amount to adjust for the effects of inflation. Rating: Significant Weakness	In theory, management agrees with the recommendation. However, BWC already complies with the law, and management plans no further action on this item. Responsible: Chief of Customer Services, Chief of Fiscal & Planning Target Resolution Date: N/A Current Status: Not implemented

Recommendation		Disposition
3	<p>Develop an electronic interface to eliminate the manual re-keying of data from online applications into the WCIS system and ensure the capture of all supplemental owner information.</p> <p>Rating: Significant Weakness</p>	<p>Management will determine whether the resources necessary to develop and implement the electronic interface are available and the benefits outweigh the costs. Cash Control procedures have been updated to include the additional steps necessary to ensure that all pages of online applications are imaged.</p> <p>Responsible: Chief of Customer Services, Chief of Fiscal & Planning</p> <p>Target Resolution Date: January 2011</p> <p>Current Status: In Process</p>
4	<p>Require service office personnel to periodically verify a sample of payments received at their locations to the WCIS UW400s Billing History Inquiry screen.</p> <p>Rating: Significant Weakness</p>	<p>The Customer Service Division (CSD) will implement a program of agreeing a sample of premium payments received in service offices to WCIS postings on a regular basis.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: December 2009</p> <p>Current Status: In Process</p>
5	<p>Ensure steps are taken to obtain tax identification numbers from applicants and deny coverage when this information is not provided.</p> <p>Rating: Significant Weakness</p>	<p>Quality assurance (QA) reviews of the application process will check for actions taken to secure tax identification numbers and their entry into WCIS. In addition, a program will be run to identify policies without valid tax identification numbers.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: October 2009</p> <p>Current Status: In Process</p>
6	<p>Restrict update access to application processing screens in WCIS and Universal Document Service (UDS) Policy Processing Workflow to only those employees requiring such access to perform their job duties.</p> <p>Rating: Significant Weakness</p>	<p>Employees not needing access will be identified and their security profiles changed for removal of access.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: July 2009</p> <p>Current Status: In Process</p>
7	<p>Take steps to ensure adherence to policy requirements and timeframes for contacting applicants to obtain missing information.</p> <p>Rating: Significant Weakness</p>	<p>QA process checks will be implemented to provide assurance regarding documentation of contact attempts when additional information is needed to finalize applications.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: December</p>

Recommendation		Disposition
		2009 Current Status: In Process
8	Develop controls to provide assurance that applications are processed in the order received. Rating: Significant Weakness	A solution is being considered that will result in the assignment of application work to all staff members performing that function. Responsible: Chief of Customer Services Target Resolution Date: October 2009 Current Status: In Process
9	Revise policies and procedures to clarify which duplicate policy searches (e.g., by owner/officer name) are to be performed and require supporting documentation in UDS and/or WCIS. Rating: Significant Weakness	A duplicate policy check went into production in March that identifies potential duplicate policies according to eight criteria. Procedures for its use and Policy/Procedures updates will be developed. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process
10	Document application reviews in the Reviews and Findings database in accordance with policy. Rating: Significant Weakness	The Reviews and Findings database will be updated with reviews performed. Management sampling of application reviews will ensure they are performed and documented. Responsible: Chief of Customer Services Target Resolution Date: January 2010 Current Status: In Process
11	Design a mechanism for detecting policies finalized outside of the UDS system and subject them to formal quality assurance reviews. Rating: Significant Weakness	A method of detection will be developed in order to identify policies finalized outside of UDS which may have an incorrect coverage status. Once developed, a quality assurance process can be created and implemented. Responsible: Chief of Customer Services Target Resolution Date: April 2010 Current Status: In Process

Auditor Opinion:

Overall, internal controls for the employer policy application process appear to be reasonably designed to help ensure that applications are processed completely and accurately. However, our audit identified a number of areas in which controls could be strengthened or procedures improved in order to reduce processing times, gather information that is more complete, prevent duplicate policies, and increase revenues. The audit also identified five minor recommendations for management's consideration.

Managed Care Organization (MCO) Audit #7 – March 2009

The BWC Internal Audit Division conducted an audit of MCO #7. The audit focused primarily on the evaluation of internal controls and compliance with contractually required policies and procedures established by BWC. The audit scope consisted of payment transactions completed between January 2007 and November 2008. Focus areas included case management; provider account controls and accuracy; bill processing and payments; adjustment processing; and resolution of prior audit recommendations. The audit included a review of the following:

- Assessed compliance with contract requirements and policy established by BWC.
- Evaluated internal control design and whether controls were placed in operation.

Recommendation		Disposition
1	Review the C-9 dates for reasonableness and monitor to ensure the three-day guideline is met. Rating: Significant Weakness	Management has restructured the work flow in the utilization review department to ensure better monitoring and compliance with the processing timeframes. Target Resolution Date: July 2009 Current Status: In Process
2	Establish an effective case management training program and related controls to provide assurance that case management contacts are performed and documented in a timely manner. Rating: Significant Weakness	The MCO implemented a regular reporting mechanism, which tracks compliance trending with 30-day contacts. This process has resulted in positive trends in compliance since the December reviews examined during the audit. Target Resolution Date: March 2009 Current Status: In Process
3	Revise password security and log in controls to prohibit reuse of prior passwords, limit invalid access attempts, and increase password length to eight characters including, numbers and special characters. Rating: Significant Weakness	Management implemented security measures requiring a password change every 90 days preventing users from using the same password over five generations. Management also implemented a content requirement for passwords and the system now monitors access attempts and locks users out after five unsuccessful attempts. Target Resolution Date: July 2009 Current Status: In Process
4	Revise procedures to incorporate proper segregation of duties for issuing provider checks and receiving returned checks from providers. Rating: Significant Weakness	Management will alter the workflow for returned checks to improve segregation of duties. Target Resolution Date: April 2009 Current Status: In Process
5	Remove separated employees from the active directory for local area network access and revoke access to any other systems or applications. Rating: Significant Weakness	System access for the users identified during the audit has been removed. Management now receives a monthly listing of active user names and reviews the listings to ensure that system access is revoked on the designated removal dates.

Recommendation		Disposition
		Target Resolution Date: March 2009 Current Status: In Process
6	Request removal of systems access for separated employees from the BWC Portal. Rating: Significant Weakness	Management will modify their process for removal of portal access to ensure that access is removed in a timely manner. Target Resolution Date: March 2009 Current Status: In Process
7	Begin the encryption of all back-up data. Rating: Significant Weakness	Management is on target for implementing a process for encrypting back-up tapes by the end of May 2009. Target Resolution Date: May 2009 Current Status: In Process
8	Revise MCO procedures to require backup tapes to be transported and stored by a vendor with the capabilities to secure and protect them from physical loss, damage and unauthorized access. Rating: Significant Weakness	Management is accepting bids for an outside vendor to transport and store back-up tapes and is on track to implement this by the end of May 2009. Target Resolution Date: May 2009 Current Status: In Process
9	Process the adjustments from the prior audit in accordance with contract. Rating: Significant Weakness	The prior audit observation regarding three unprocessed adjustments has been completed. Target Resolution Date: March 2009 Current Status: Implemented

Auditor Opinion:

Overall, internal controls for the MCO were generally well designed and functioning effectively. The audit did not identify any material weaknesses in the operation or controls. However, the audit identified various areas in which controls could be improved. These included timeliness of processing C-9's and customer contacts; password, login, and systems access controls; and segregation of duties related to provider check and returned check processes. The audit also identified one minor recommendation for management's consideration.

Auto Adjudication Audit (AA) - April 2009

Business areas: Customer Services

The BWC Internal Audit Division conducted an audit of the AA process. The objective of the audit was to assist management in evaluating the AA process by reviewing key compliance and internal control related components of processing claims through AA and administering the AA process. The audit scope consisted of a review of claims processed through AA from September 1, 2007 through August 31, 2008. The audit included a review of the following:

- Evaluated if key internal controls were adequately designed and implemented for administering the AA process;
- Assessed the adequacy of existing quality assurance procedures in place; and
- Verified that claims allowed and terminated by the AA process were consistent with AA rules and in compliance with BWC policies and procedures.

Recommendation		Disposition
1	<p>Develop policies and procedures for changes to AA rules, allowable International Classification of Diseases (ICD-9) codes, and rule sets that include a review and approval process.</p> <p>Rating: Material Weakness</p>	<p>Procedures will be formalized for enacting programming changes to AA, including an approval process, and production of an annual AA performance report. Management disagrees that this is a material comment.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: December 2009</p> <p>Current Status: In Process</p>
2	<p>Establish a project team to evaluate the costs and benefits of converting to ICD-10 coding conventions, monitor the U.S. Department of Health and Human Services ICD-10 compliance date and guidelines, identify impacted information technology systems, and develop an ICD-10 conversion plan and timeline.</p> <p>Rating: Significant Weakness</p>	<p>Management will prepare for ICD-10 code conversion and Medical Policy and Compliance will lead the project.</p> <p>Responsible: Chief of Med. Services and Compliance, Chief of Customer Services</p> <p>Target Resolution Date: October 2013</p> <p>Current Status: In Process</p>
3	<p>Establish a process and/or decision making body to institute programmatic goals and performance measures that assess the progress toward achieving those goals or identify issues for further investigation. Access and use existing Data Warehouse reports to support ongoing management and monitoring of manual activities performed in support of looping AA claims.</p> <p>Rating: Significant Weakness</p>	<p>Management mostly concurs. While the CSD is currently pleased with the reports generated by V-3 Customer Support, they will consider additional reporting and take under advisement empanelling a formalized review body.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: December 2009</p> <p>Current Status: In Process</p>
4	<p>Develop and implement procedures to evaluate claims with invalid social security numbers (SSNs) to determine the extent of losses, management's tolerance of risks, and strategies to mitigate risks and their associated costs.</p> <p>Rating: Significant Weakness</p>	<p>Management concurs and has cross-matched all SSNs with the Internal Revenue Service and will be deploying a cleanup project in preparation for mandatory Medicare reporting. By January 2010, we will be cross matching all new claims with Social Security Administration</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: January 2010</p> <p>Current Status: In Process</p>

Auditor Opinion:

Systematic internal controls for AA claim determination are adequately designed and functioning as intended. However, this review noted that controls over claim determination as a whole might be improved with additional verification of SSNs.

While internal controls over AA claim determination have been implemented, improvements to the design and implementation of internal controls over administering the AA process are required. There are insufficient internal controls over changes to AA rule sets; additionally, a performance management process has not been fully implemented. AA goals and objectives have not been formally established, linked to performance measurements, or incorporated into a continuous process improvement system. Management reporting and analysis is not used to identify the cause of noted conditions or to identify opportunities for system improvements and enhancements. The audit also identified two minor recommendations for management’s consideration.

RACF Security Audit - April 2009

Business areas: Infrastructure and Technology (IT)

The BWC Internal Audit Division conducted an audit of Resource Access Control Facility (RACF) Security. The purpose of the audit was to assist management in evaluating the controls over RACF Security for BWC’s IBM mainframe. The audit included a review of the following:

- Assessed whether RACF has been effectively implemented;
- Evaluated the adequacy of control procedures for notification of employee terminations, authorization changes, issuance of user-ids and passwords;
- Determined if production libraries, their members, datasets and key resources are protected by RACF;
- Verified that user-ids are given minimum required access and password processing options prevent passwords from being easily compromised;
- Determined whether special attributes are justified and used sparingly; and
- Evaluated the RACF group structure to determine if it eases administrative overhead and maintains security system integrity.

Recommendation		Disposition
1	Perform a cost benefit analysis on whether upgrading to the Data Encryption Standard (DES) algorithm is a viable option for use within BWC’s mainframe environment. Rating: Significant Weakness	The two-step method of checking will ensure that all new passwords use DES encryption and any old password that is reset or expired will also be DES encrypted. Responsible: Chief Information Officer Target Resolution Date: September 2009 Current Status: In Process

Recommendation		Disposition
2	Create a RACF security standard, which documents the rationale for all production settings, even at the individual user level. Rating: Significant Weakness	Procedures will be updated to reflect all duties the RACF administrator performs on a routine basis. Responsible: Chief Information Officer Target Resolution Date: December 2009 Current Status: In Process

Auditor Opinion:

In general, the internal controls over RACF security administration of user-ids and passwords appear to be adequate. Special attributes are restricted to a select group of people and the RACF group structure is set up to ease administrative overhead and maintain security system integrity. Furthermore, production libraries, their members, datasets and key resources are protected by RACF. However, the audit identified a number of policies and procedures that need to be formalized and/or updated. Management agrees with the recommendations and has committed to an action plan for implementing or updating/formalizing their policies and procedures. The audit also identified four minor recommendations for management's consideration.

**BWC Internal Audit Division
Outstanding Comments as of February 28, 2009**

Note: Comments designated as “Implemented” are based on managements’ assertions and have not yet been validated by Internal Audit.

Bankrupt Self-Insured Claims – March 2006

Recommendation		Disposition
1	<p>Consider a legislative change to permit BWC to offset Permanent Total Disability (PTD) compensation for an injured worker receiving Social Security Retirement benefits, potentially saving \$60 million annually; “grandfather-in” current PTD recipients receiving both benefits to avoid financial hardship to those individuals. Rating: Not Rated</p>	<p>BWC has determined that it will take no further action on this item. Our program complies with the law in all respects and requesting the legislature to amend it as recommended is inadvisable at this time. Responsible: Chief of Customer Services Target Resolution Date: March 2009 Previous Target Date(s): June 2007, June 2008, December 2008 Current Status: Not Implemented</p>

Medical Billing and Adjustments – May 2006

Recommendation		Disposition
1	<p>There is a general lack of controls over the identification and processing of medical bill adjustments which result in the need to adjust the employers’ claims experience data. Rating: Significant Weakness</p>	<p>The Actuarial Division is working with the IT division to develop a systemic solution. The program revisions will result in automatic processing of medical bill adjustments that impact employer experience. Responsible: Chief Actuarial Officer Target Resolution Date: December 2010 Previous Target Date(s): March 2007, September 2007, March 2008, September 2008, December 2008, April 2009 Current Status: In Process</p>
2	<p>To ensure the current interest payment methodology operates in accordance with statutory requirements, management should obtain clarification regarding the correct interest payment calculation and ensure Medical Invoice Information System and Cambridge Systems calculations are consistent. Rating: Significant Weakness</p>	<p>Scheduled for June 2009 release into Cambridge. Responsible: Chief of Medical Services and Compliance Target Resolution Date: March 2009 Previous Target Date(s): July 2007, December 2007, September 2008, December 2008 Current Status: In Process</p>

Recommendation		Disposition
3	<p>There are currently two active systems in place for processing medical payments with limited IT and Health Partnership Program technical support. Maintenance of the two systems is inefficient and results in increased systems maintenance costs.</p> <p>Rating: Significant Weakness</p>	<p>The request for proposal (RFP) will address this issue as well as the future vision for medical bill payment processing.</p> <p>Responsible: Chief of Medical Services and Chief Information Officer</p> <p>Target Resolution Date: June 2011</p> <p>Previous Target Date(s): December 2007, June 2008, December 2008</p> <p>Current Status: In Process</p>

Risk/Employer Operational Review – June 2006

Recommendation		Disposition
1	<p>BWC does not ensure that all employers under jurisdiction of Ohio workers' compensation laws have obtained worker's compensation coverage. Systematic cross checks should exist with other state agencies.</p> <p>Rating: Material Weakness</p>	<p>All three phases are on schedule for implementation.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: March 2009</p> <p>Previous Target Date(s): December 2006, December 2007, April 2008, August 2008, June 2009</p> <p>Current Status: In Process</p>
2	<p>Minimum premiums may not be adequate. - The recently revised Ohio Administrative Code Section 4123-17-26, (administrative charge rule) has been increased to cover the administrative expense of maintaining the policies that report no payroll. However, there is still inherent risk with the policies that have greater exposure due to industry type.</p> <p>Rating: Material Weakness</p>	<p>The Deloitte Study recommended examining the feasibility of raising the minimum premium, conducting further analysis of the characteristics of minimum premium employers, and increasing premium audit functions to address potential underreporting or fraud.</p> <p>Responsible: Chief Actuarial Officer</p> <p>Target Resolution Date: July 2010</p> <p>Previous Target Date(s): December 2006, June 2007, December 2007, December 2008</p> <p>Current Status: In Process</p>
3	<p>Current process controls do not adequately identify duplicate employer policies. Employers can avoid higher premiums by acquiring a new policy, while having an existing policy for the same business.</p> <p>Rating: Significant Weakness</p>	<p>A duplicate policy check process/report is in process. Formatting, report frequency and access have been determined.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: March 2009</p> <p>Previous Target Date(s): December 2006, June 2007, September 2007, April 2008, September 2008</p> <p>Current Status: In Process</p>
4	<p>When payroll reports are received there is no review to determine if estimated PSD are correct. The lack of review could result in lost revenue due to under reported estimates</p>	<p>BWC is currently performing an analysis to assess the materiality of this element of employer rate making in regards to our financial statement. Preliminary discussions</p>

Recommendation		Disposition
	for PSDs. Rating: Significant Weakness	indicate the WCIS program changes necessary to automate this function is not a priority at this time. Management is evaluating potential workarounds to address this recommendation. Responsible: Chief of Customer Services Target Resolution Date: May 2009 Previous Target Date(s): December 2007, June 2008, December 2008 Current Status: In Process

Claims Operational Review – September 2006

Recommendation		Disposition
1	Systematically assign new injury claims filed with no return to work date and an ICD-9 code to the lost time service offices. Rating: Significant Weakness	The triage system is currently being developed and is on target for implementation in May. Responsible: Chief of Customer Services Target Resolution Date: May 2009 Previous Target Date(s): January 2007, June 2007, December 2007, June 2008, December 2008 Current Status: In Process
2	Enhance current Version 3 (V3) system to link an injured worker with multiple claims to the same case manager or team. Rating: Significant Weakness	New processes are being established to address inefficiencies highlighted in the study. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): March 2007, May 2007, June 2008 Current Status: In Process
3	Research, benchmark, and devote the resources necessary to create, train, and implement the use of pertinent, financially focused performance and outcome measurements to support the staffing process. Rating: Significant Weakness	New processes are being established to address inefficiencies highlighted in the study. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): March 2007, June 2008 Current Status: In Process

Indemnity Claims Overpayment Audit – October 2006

Recommendation		Disposition
1	To enable BWC to effectively collect injured worker (IW) overpayments, management should determine the best practices for	Accounts Receivable staff will identify best practices for dealing with IW overpayments by April 2009.

Recommendation		Disposition
	overpayment collections and request legislative changes allowing the BWC to adopt the best practices identified. Rating: Significant Weakness	Responsible: Chief of Fiscal and Planning Target Resolution Date: April 2009 Previous Target Date(s): June 2007, September 2007, January 2008, December 2008 Current Status: In Process

Manual Override – December 2006

Recommendation		Disposition
1	Resolve the current rating inequity between group rated and non-group rated employers. Management should also adopt standard controls to prevent rate manipulation by employer groups. Possible corrective actions could include restoring credibility factors assigned to employer groups to levels consistent with sound actuarial standards and prohibiting groups from utilizing claims experience as an eligibility criterion for group participation. Rating: Material Weakness	Additional elements to the plan to reform rate setting methods are in discussion with the Board of Directors. These new strategies are being developed by staff, with analysis by our actuarial consultants, and with input from affected employers, group sponsoring organizations, and third party administrators Responsible: Chief of Fiscal and Planning Target Resolution Date: July 2011 Previous Target Date(s): December 2006, June 2007, July 2009 Current Status: In Process

Information Technology General and Application Controls Risk Assessment – January 2007

Recommendation		Disposition
1	Security violation and monitoring is not in effect. Trending or advanced analysis for security violations is, therefore, not performed. Rating: Material Weakness	The completion of the logging matrix and implementation of the logging processes are expected in June 2009. Responsible: Chief Information Officer Target Resolution Date: June 2009 Previous Target Date(s): March 2008, June 2008, August 2008, December 2008, March 2009 Current Status: In Process
2	Powerful ID's are neither logged nor monitored. Activities performed using a powerful ID or powerful utility are neither captured nor reviewed. Rating: Material Weakness	The completion of the logging matrix and implementation of the logging processes are expected in June 2009. Responsible: Chief Information Officer Target Resolution Date: June 2009 Previous Target Date(s): March 2008, June 2008, August 2008, December 2008, March 2009 Current Status: In Process

Compensation Audit Review – March 2007

Recommendation		Disposition
1	<p>Implement controls on Compensation Audits completed by the Injury Management Supervisors (IMs)/Service Office Managers to provide reasonable assurance that audits are completed accurately and consistently. Also, take appropriate steps to ensure IMs are properly utilizing the Compensation Audit Tool and apply a consistent audit methodology to each question.</p> <p>Rating: Significant Weakness</p>	<p>Enhancements and revisions to the Claim Audit Tool have been given priority and a new product is scheduled to be tested during the month of March 2009, with statewide rollout in April 2009.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): December 2007, February 2008, March 2008, June 2008 Current Status: In Process</p>

Salary Continuation (SC) Program – March 2007

Recommendation		Disposition
1	<p>Develop management reporting to ensure initial contacts and all ongoing contacts are being made in SC claims. Enforce existing policy and implement the necessary incentives and penalties as a control to ensure that participating employers are meeting all reporting requirements. Conduct a data and status cleanup project on the SC claims in an unknown status. Amend the SC policy to clarify expectations, roles, and responsibilities of BWC as well as MCO staff.</p> <p>Rating: Significant Weakness</p>	<p>A new audit for SC awards has been added to the Claims Audit Tool. Testing is scheduled during March 2009 with statewide rollout in April 2009.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): April 2008, May 2008, July 2008, March 2009 Current Status: In Process</p>
2	<p>Establish controls for monitoring and reporting wage submissions.</p> <p>Rating: Significant Weakness</p>	<p>A new audit for SC awards has been added to the Claims Audit Tool. Testing is scheduled during March 2009 with statewide rollout in April 2009.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): June 2007, December 2007, May 2008, July 2008, March 2009 Current Status: In Process</p>
3	<p>Enforce existing policy and implement the necessary incentives and penalties as a control to ensure that participating employers are meeting all reporting requirements.</p> <p>Rating: Material Weakness</p>	<p>A new audit for SC awards has been added to the Claims Audit Tool. Testing is scheduled during March 2009 with statewide rollout in April 2009.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): June 2007,</p>

Recommendation		Disposition
		December 2007, May 2008, July 2008, March 2009 Current Status: In Process
4	Ensure that injured workers receive sufficient information to make informed decisions concerning salary continuation. Rating: Significant Weakness	A new audit for SC awards has been added to the Claims Audit Tool. Testing is scheduled during March 2009 with statewide rollout in April 2009. Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): December 2007, April 2008, July 2008, March 2009 Current Status: In Process
5	BWC should ensure return to work dates, salary continuation, and lost time changeovers are re-assigned to the proper service offices. Reserve these claims properly and apply the corrected dollar impacts to the premiums and to the state fund. Develop management reporting to keep future claims from being overlooked, and to eliminate adverse impacts to the state fund. Rating: Material Weakness	Field Operations is reviewing claims with a date of injury between January 1, 2005 and December 31, 2008 in order to review for potential lost time changeover. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): April 2008, March 2009 Current Status: In Process
6	Revise the existing policy to contain clear and concise language for utilization of Independent Medical Exams (IMEs) and other claims management tools to avoid confusion and multiple interpretations. Ensure all IMEs are completed correctly and timely in accordance with BWC Policy. Rating: Significant Weakness	A new audit for SC awards has been added to the Claims Audit Tool. Testing is scheduled during March 2009 with statewide rollout in April 2009. Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): December 2007, July 2008, March 2009 Current Status: In Process
7	Develop a standard referral system to identify, contact, educate, and track all employers who are not in compliance with the SC Policy. Communicate to all of Field Operations that the Policy Department role is defining the policy, not enforcing the policy. Promulgate a formal rule to support program enforcement. Rating: Material Weakness	As the viability of the SC is under review, management believes that devoting additional resources to address this recommendation would not be an effective use of BWC resources. Management assumes responsibility for the consequences of this position. Responsible: Chief of Customer Services Target Resolution Date: December 2008 Previous Target Date(s): December 2007, April 2008, May 2008 Current Status: Not Implemented

Pharmacy Benefit Manager (PBM) Audit – May 2007

Recommendation		Disposition
1	Develop payment structure that does not reimburse for drugs not dispensed. Rating: Significant Weakness	On-site validation of PBM vendor implementation targeted for 2nd QTR 2009. Responsible: Chief of Medical Services and Compliance Target Resolution Date: April 2009 Previous Target Date(s): August 2007, July 2008 Current Status: In Process
2	Require vendor to resume imaging of bills and increase oversight. Rating: Significant Weakness	On-site validation of PBM vendor implementation targeted for 2nd QTR 2009. Responsible: Chief of Medical Services and Compliance Target Resolution Date: April 2009 Previous Target Date(s): December 2007, April 2008, December 2008 Current Status: In Process
3	Develop action plan to strengthen oversight and improve management of the program. Rating: Significant Weakness	The Medical Services Division created a Pharmacy Program Department and a director level position to oversee and develop BWC's pharmacy program. The Compliance and Performance Monitoring (CPM) Department will monitor program outcomes and contract compliance. Responsible: Chief of Medical Services and Compliance Target Resolution Date: December 2009 Previous Target Date(s): September 2007 Current Status: In Process
4	Periodically test transactions to ensure discounts are passed-through to BWC. Rating: Significant Weakness	BWC has contracted with a vendor to collect rebates on behalf of BWC for the period September 2008 through December 2008. An Invitation to Bid was issued to select a vendor for collecting future rebates through June 2009. An RFP for a 3 year contract will be developed with an effective date of July 2009. BWC removed the requirement for collecting rebates from the PBM RFP to be effective July 2009. Responsible: Chief of Medical Services and Compliance Target Resolution Date: October 2009 Previous Target Date(s): March 2008, April 2008, August 2008 Current Status: In Process

Recommendation		Disposition
5	<p>Conduct sufficient review and analysis to identify opportunities. Rating: Significant Weakness</p>	<p>Requirements addressing the pharmacy consultant report were included in the current RFP. Responsible: Chief of Medical Services and Compliance Target Resolution Date: October 2009 Previous Target Date(s): November 2007, March 2008, April 2008, August 2008 Current Status: In Process</p>

Retrospective Rating Program Audit – June 2007

Recommendation		Disposition
1	<p>Evaluate requirements and objectives of the program to ensure support exists for all goals and outcomes. Consider eliminating the allowance of any employer who is financially unstable, including employers who are in a part pay status from the program. Rating: Material Weakness</p>	<p>Management has evaluated its approach to permitting Tier II employers to stay in the program as is. They believe that changing this as suggested in the audit would unfairly impact those employers. Accordingly, management will not amend Tier II requirements. As suggested by Deloitte, the redesign of the retro program will be addressed as future priorities are developed. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): August 2007, October 2007, December 2008, March 2009 Current Status: Current Status: Not Implemented</p>

Vocational Rehabilitation Audit– October 2007

Recommendation		Disposition
1	<p>Implement processes to review the actual vocational rehabilitation costs billed in claims for reasonableness and appropriateness. Rating: Material Weakness</p>	<p>CPM provided the standard query to Voc Rehab. Training will be rolled into other Disability Management Coordinator (DMC) training. Responsible: Chief of Medical Services and Compliance Target Resolution Date: April 2009 Previous Target Date(s): April 2008, June 2008, December 2008 Current Status: In Process</p>
2	<p>Take steps to eliminate the potential conflict of interest created by MCOs that refer vocational rehabilitation cases to their</p>	<p>The assignment of Vocational Field Case managers by BWC DMCs to eliminate potential conflict of interest is slated for</p>

Recommendation	Disposition
<p>related companies. Rating: Material Weakness</p>	<p>Phase IV of the Rehab Redesign. A subgroup is working on Rehab protocols and development of Rehab Case Management performance expectations. Responsible: Chief of Medical Services and Compliance Target Resolution Date: January 2010 Previous Target Date(s): October 2008 Current Status: In Process</p>
<p>3 Formalize policy regarding the authority of the DMCs to challenge MCO feasibility determinations. Rating: Material Weakness</p>	<p>Preparing project plan for rule revision which is required before DMCs can have control over feasibility determination. Responsible: Chief of Medical Services and Compliance Target Resolution Date: November 2009 Previous Target Date(s): October 2008 Current Status: In Process</p>
<p>4 Implement controls over the coordination agreement with the Rehabilitation Services Commission (RSC) to ensure costs expended under that program are only incurred for eligible injured workers and are reasonable and appropriate. Rating: Material Weakness</p>	<p>BWC is working with RSC to reconcile the eligible injured worker reports. Responsible: Chief of Medical Services and Compliance Target Resolution Date: June 2009 Previous Target Date(s): June 2008, October 2008 Current Status: In Process</p>
<p>5 Establish effective quality assurance review procedures to ensure various controls and activities performed by DMCs are proper, timely, and in accordance with policies and statutes. Rating: Significant Weakness</p>	<p>A draft scope document for the performance expectations training for DMCs has recently been delivered to the Rehab Redesign team for input. Responsible: Chief of Medical Services and Compliance Target Resolution Date: April 2009 Previous Target Date(s): June 2008, August 2008 Current Status: In Process</p>
<p>6 Review credentialing and position requirements for DMC positions and ensure individuals possess the qualifications to manage the vocational rehabilitation process. Establish a process to monitor DMC certifications to ensure the required credentials are maintained. Rating: Significant Weakness</p>	<p>A Memorandum of Understanding will be entered into and placed in the upcoming contract regarding certification requirements. Policy drafted January 2009 to collect, maintain and monitor certifications. Certifications requested by March 2009. Responsible: Chief Human Resource Officer Target Resolution Date: July 2009 Previous Target Date(s): March 2008, October 2008 Current Status: In Process</p>

Permanent Total Disability Claims Audit – January 2008

Recommendation		Disposition
1	<p>Meet with IT management and evaluate the cost benefit of updating the V3 system to better assist in the process of PTD and Disabled Workers' Relief Fund (DWRF) or develop compensating controls. Rating: Significant Weakness</p>	<p>The only outstanding item related to this finding is the regionalization of the PTD process. This initiative has been placed on hold at this time and will be evaluated later in Calendar Year 2009 based on other agency-wide initiatives. Responsible: Chief of Customer Services Target Resolution Date: June 2010 Previous Target Date(s): December 2008 Current Status: In Process</p>
2	<p>Review other alternatives for processing PTD claims to provide more effective and efficient claim maintenance. Rating: Significant Weakness</p>	<p>The only outstanding item related to this finding is the regionalization of the PTD process. This initiative has been placed on hold at this time and will be evaluated later in Calendar Year 2009 based on other agency-wide initiatives. Responsible: Chief of Customer Services Target Resolution Date: June 2010 Previous Target Date(s): June 2008, December 2008 Current Status: In Process</p>
3	<p>Establish the essential resources needed to complete the previous clean up project by identifying and reviewing claims that have never been reviewed and correcting those claims with outstanding errors. Rating: Significant Weakness</p>	<p>Phase III and the amended overpayments policy are in process. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): June 2008, December 2008 Current Status: In Process</p>
4	<p>Implement processes and/or controls to monitor claims in which the injured worker has clearly retired (or is eligible for retirement) to ensure they are calculated and paid appropriately. Rating: Significant Weakness</p>	<p>A PTD Claims audit will be included in the enhanced Audit Tool. Responsible: Chief of Customer Services Target Resolution Date: May 2009 Previous Target Date(s): December 2008 Current Status: In Process</p>
5	<p>Determine the overall impact and best course of action regarding the incorrect overpayments to ensure the accounts receivable balance and BWC financial statements are accurate. Identify and correct the erroneous DWRF overpayments. Rating: Significant Weakness</p>	<p>The inappropriate DWRF overpayments have been identified and are being deployed via the Data Integrity and Reliability Team. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): February 2009 Current Status: In Process</p>

Medical Bill Payment Process Audit – March 2008

Recommendation		Disposition
1	Evaluate a change to the current Ohio Administrative Code to shorten the statute of limitations for medical bill payments to model other state workers' compensation systems. Rating: Significant Weakness	Medical Services Division is developing a project plan for this statute change. Responsible: Chief of Medical Services and Compliance Target Resolution Date: September 2009 Previous Target Date(s): December 2008 Current Status: In Process
2	Finalize and approve the draft overpayment policy and make the final determination on the outstanding MCO and provider overpayments. Rating: Significant Weakness	Management finalized the overpayment policy in April 2009. Policy is currently in the two-week period for MCO comment and will be effective thirty (30) days following final notification to the MCOs. Decisions have been made on all outstanding MCO and provider overpayments. Responsible: Chief of Medical Services and Compliance Target Resolution Date: June 2009 Previous Target Date(s): October 2008, February 2009 Current Status: In Process
3	Monitor and track the certification application process to verify all providers are routinely reapplying for certification and providing the Bureau with credentialing information. Rating: Significant Weakness	The Ohio Elections Commission has not yet responded to BWC's request for an elections opinion relating to this issue. Responsible: Chief of Medical Services and Compliance Target Resolution Date: June 2009 Previous Target Date(s): December 2008 Current Status: In Process
4	Implement a comprehensive bill tracking and reporting process to include MCO timelines to monitor compliance with BWC policies; and consider reimbursing providers directly from BWC. Rating: Significant Weakness	An RFP that includes transition to direct provider payment is in development. Responsible: Chief of Medical Services and Compliance Target Resolution Date: January 2010 Previous Target Date(s): December 2008 Current Status: In Process

Subrogation Audit – May 2008

Recommendation		Disposition
1	Define responsibilities, provide additional training, improve communication between the two departments, and utilize the Service Offices' subrogation coordinators to research incomplete referrals. Rating: Significant Weakness	Field Operations Administration is reviewing the workflows and training material utilized by Central Office in order to implement the recommendations from this finding. The target is to roll out this training in the upcoming quarter.

Recommendation		Disposition
		Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): September 2008, March 2009 Current Status: In Process
2	Develop ongoing reporting and conduct detailed trending and analysis of data to assist in monitoring the subrogation processes. Rating: Significant Weakness	The Subrogation Unit is working with IT to enhance the existing database or create a new database. The Subrogation Unit has also requested access to UDS workflow. Responsible: Chief Legal Officer Target Resolution Date: December 2009 Current Status: In Process
3	Consider collaborating with IT to explore potential system enhancements to better support the subrogation process. Rating: Significant Weakness	The Subrogation Unit is working with IT to enhance the existing database or create a new database. The Subrogation Unit has also requested access to UDS workflow. Responsible: Chief Legal Officer Target Resolution Date: December 2009 Current Status: In Process

Forthwith/Miscellaneous Special Payments Audit – July 2008

Recommendation		Disposition
1	Modify the Rates & Payments (R&P) system to include basic information on all warrants initiated within it. Rating: Significant Weakness	Phase 1 of the Payment System Improvement program has implemented a mechanism to allow users to locate warrant information. Information will be integrated into R&P during April 2009. Responsible: Chief Information Officer Target Resolution Date: April 2009 Previous Target Date(s): November 2008, January 2009 Current Status: In Process

Lump Sum Settlement Process (LSS) Audit – October 2008

Recommendation		Disposition
1	Define the mission of the settlement process and clearly describe measurable agency-wide goals and objectives for the program. Additionally, develop a process to identify claims that should be settled and evaluate the impact on actuarial reserves and investments. Rating: Material Weakness	Phase I deliverables will include a mission statement, claim settlement eligibility/ineligibility indicators, and a more robust evaluative process. Responsible: Chief of Customer Services Target Resolution Date: January 2010 Previous Target Date(s): February 2009 Current Status: In Process
2	Develop agency-wide policies and procedures, and process mapping of the	Phase I deliverables for the Settlement Enhancement Team includes the

Recommendation	Disposition
settlement process. Rating: Material Weakness	development of end-to-end, agencywide policies and procedures including process mapping the settlement work flows. Responsible: Chief of Customer Services Target Resolution Date: April 2009 Previous Target Date(s): February 2009 Current Status: In Process
3 Use data warehouse queries to enable settlement claim reviews prior to the expiration of the 30-day waiting period and expand the Comp Audit Tool to verify referral to Industrial Commission. Rating: Material Weakness	Enhancements and revisions to the Claim Audit Tool are in process. Responsible: Chief of Customer Services Target Resolution Date: May 2009 Previous Target Date(s): June 2009 Current Status: In Process
4 Implement a process to ensure the Lead Attorney or Lead Attorney Auditor performs audits, consistent with policy. Rating: Material Weakness	A Settlement Enhancement Team was created to review the LSS audit, the Private Consultant Report and our Settlement Process. As part of this process, CSD will be assuming responsibility for the Lump Sum Settlement program replacing those audits performed by the Lead Attorneys/ Attorney Auditors. Responsible: Chief of Customer Services Target Resolution Date: October 2009 Current Status: In Process
5 Conduct trending and analysis of settled claims to identify whether goals and objectives are being met and expand management reporting to address analysis of performance with identified goals and objectives. Rating: Significant Weakness	The consultant performed benchmarking and analyses. Ongoing management reporting will be developed during Phase III. Responsible: Chief of Customer Services Target Resolution Date: January 2010 Previous Target Date(s): June 2009 Current Status: In Process
6 Provide negotiating and settlement training for the service office Injury Management Supervisor (IMS) and LSS staff in order to promote an effective settlement process. Rating: Significant Weakness	Management will explore options related to receiving negotiating skills training during Phase II. Responsible: Chief of Customer Services Target Resolution Date: July 2009 Previous Target Date(s): June 2009 Current Status: In Process
7 Establish an evaluation assessment program that ensures a quality and timely assessment that supports their recommendations regarding IW employability. Rating: Significant Weakness	A workgroup was formed to evaluate the employability assessment process and recommend improvements in the process to ensure quality and timely IW employability assessments. The group has workflowed the process and is creating a Vocational Expert Panel to conduct these reviews. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Previous Target Date(s): April 2009

Recommendation		Disposition
		Current Status: In Process
8	Evaluate the Medicare Secondary Payer laws for BWC potential liability and risk exposure and develop a Position (White) Paper to document the position of BWC. Rating: Significant Weakness	The Legal Division has conducted its research and is finalizing "White Paper." The Legal Division is meeting with the Attorney General's Office to further discuss BWC's reporting requirements, risk exposure and potential liabilities. Responsible: Chief Legal Officer Target Resolution Date: June 2009 Current Status: In Process
9	Develop and implement a process to verify the compensation audits are performed accurately and in accordance with policy. Rating: Significant Weakness	Enhancements and revisions to the Claim Audit Tool have been given priority and a new product is scheduled to be tested during the month of March 2009 with statewide rollout in April 2009. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process
10	Require the IMS to verify the e-mail authorizing the final settlement amount exists. Rating: Significant Weakness	Enhancements and revisions to the Claim Audit Tool have been given priority and a new product is scheduled to be tested during the month of March 2009 with statewide rollout in April 2009. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process
11	Establish a new timeline to review the LSS/ Customer Service Specialist (CSS) claims and supplement Doc View reports to identify claims in the settlement pending status for testing selection. Rating: Significant Weakness	Enhancements and revisions to the Claim Audit Tool have been given priority and a new product is scheduled to be tested during the month of March 2009 with statewide rollout in April 2009. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process
12	Establish controls to ensure the LSS payments are reviewed in accordance with policy. Rating: Significant Weakness	Enhancements and revisions to the Claim Audit Tool have been given priority and a new product is scheduled to be tested during the month of March 2009 with statewide rollout in April 2009. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process
13	Collaborate with applicable units to determine the best process for terminating/suspending pharmaceutical benefits and update policy to reflect current practice.	Management staff in service offices was notified of the change in policy for processing an Attorney General Settlement and updating V3 appropriately in November 2008.

Recommendation		Disposition
	Rating: Significant Weakness	Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process
14	Consider reviewing other state statutes for compensation of IW attorneys to determine best practices that promote an alignment of incentives with IW interests. Rating: Significant Weakness	The Legal Division has completed its research and analysis of the relevant statutes of all fifty states. The determination of best practices regarding compensation for IWs is beyond the jurisdiction of the BWC. Such jurisdiction lies with the Industrial Commission of Ohio and the Ohio Supreme Court. Responsible: Chief Legal Officer Target Resolution Date: June 2009 Current Status: In Process

Permanent Partial (PP) Awards Audit – October 2008

Recommendation		Disposition
1	Perform data warehouse searches to identify potential PP awards not processed timely; consider updating V3 to provide prompts notifying the CSS when an amputation condition is added to the claim; and correct the errors noted during testing. Rating: Significant Weakness	Management is making minor updates and clarifications to enhance the policy. Training has been delayed until March 2009 in order to complete revisions that will greatly improve the process. Responsible: Chief of Customer Services Target Resolution Date: March 2009 Previous Target Date(s): January 2009 Current Status: In Process
2	Conduct periodic refresher training for CSSs and BWC Nurses on PP Policies & Procedures; revise the claim audit tool to require IMS review medical documentation; and conduct periodic refresher training for the IMS on best practices. Rating: Significant Weakness	Management is making minor updates and clarifications to enhance the policy. Review/training has been delayed until March 2009 in order to complete revisions that will greatly improve the process. Responsible: Chief of Customer Services Target Resolution Date: June 2009 Current Status: In Process

Managed Care Organization (MCO) Audit #5 – October 2008

Recommendation		Disposition
1	Take steps to ensure that the required bank account and zero balancing reconciliations of the provider account are performed as required by the contract. Rating: Material Weakness	The MCO and BWC Medical Services Division have developed a plan for addressing this audit observation.. The Compliance and Performance Monitoring Department will monitor progress regarding this plan and help ensure that the issues are resolved satisfactorily. Target Resolution Date: September 2009

Recommendation		Disposition
		Previous Target Date(s): January 2009 Current Status: In Process
2	Revise backup procedures to require encryption of all devices prior to delivery to external vendors. Rating: Significant Weakness	MCO management is working with corporate entities to determine the most appropriate solutions. Several options are being explored including a tapeless backup solution that will allow on-site backups. Target Resolution Date: March 2009 Current Status: In Process

IT Physical and Environmental Security – October 2008

Recommendation		Disposition
1	Develop policies and procedures around key management to help control and account for keys for all locked areas. Rating: Significant Weakness	Management has developed the draft policy and procedures for key management. A higher priority project has delayed the implementation of the control system and review process until the end of May 2009. Responsible: Chief Information Officer Target Resolution Date: May 2009 Previous Target Date(s): December 2008, March 2009 Current Status: In Process

Device and Media Control - December 2008

Recommendation		Disposition
1	Create policies and procedures for operational situations regarding device and media controls. Rating: Significant Weakness	Management will establish a team within IT to address the need for policies and procedures. This team will develop and document an implementation plan with deliverables and estimated completion dates. Responsible: Chief Information Officer Target Resolution Date: December 2009 Current Status: In Process
2	Enhance the current Device Loss/Theft Procedure by utilizing the State of Ohio's IT Policy B.7- Security Incident Response for guidance. Rating: Significant Weakness	The project team held their 1st meeting in February 2009 and identified several changes and additions that could be made to the existing policy and procedures. Work assignments were identified and another meeting will be scheduled. Responsible: Chief of Medical Services and Compliance Target Resolution Date: April 2009 Current Status: In Process

Recommendation		Disposition
3	Identify a cost-effective data storage site at a greater distance from BWC's downtown location in Columbus. Rating: Significant Weakness	Management will evaluate alternative off site storage locations and costs in conjunction with what other State agencies are doing and make recommendations. Responsible: Chief Information Officer Target Resolution Date: June 2009 Current Status: In Process
4	Cross-train employees in the performance of critical functions (especially security functions) to reduce the risk of a single point of failure by having only one individual knowledgeable in how to perform key tasks. Rating: Significant Weakness	Management will identify a backup person for mainframe and Windows tape encryption keyserver administration and configuration architectures; develop training plan for backup resources; and finalize documentation of critical job functions. Responsible: Chief Information Officer Target Resolution Date: April 2009 Current Status: In Process

MCO Audit #6 - December 2008

Recommendation		Disposition
1	Take steps to return the company to profitability. The MCO Business Unit and the Compliance and Performance Monitoring Department should work with the MCO to closely monitor the MCO's financial condition. Rating: Material Weakness	MCO management has provided interim financial statements to the BWC detailing the current operational strength of the company and will continue to provide interim statements until the 2008 audited financial statements are requested by the BWC. Management anticipates this audited financial statement will be issued with a clean opinion reflecting the strength of the operating entity in 2008. Target Resolution Date: July 2009 Current Status: In Process

BWC Internal Audit Division Audit Report Follow-Up Procedures

The *International Standards for the Professional Practice of Internal Auditing* specifically addresses follow-up in Standard 2500. One of our primary responsibilities as professional auditors is determining that the audit customer takes corrective action on recommendations. This 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 the comment will be forwarded to the Administrator for review, the Chief of Internal Audit will report the comment with management’s response to the Audit Committee for consideration.

Being an integral part of the internal audit process, follow-up should be scheduled along with the other steps necessary to perform the audit. However, specific follow-up activity depends on the results of the audit and can be carried out at the time the report draft is reviewed with management personnel or after the issuance of the report. Typically, audit follow up should occur within 90 days of the issuance of the final report.

Follow-up activities may generally be broken down into three areas:

- Casual - This is the most basic form of follow-up and may be satisfied by review of the audit customer’s procedures or an informal phone call. Memo correspondence may also be used. This is usually applicable to the less critical findings.
- Limited - Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, is not accomplished through memos or phone calls with the audit customer.
- Detailed - Detailed follow-up is usually more time-consuming and can include substantial audit customer involvement. Verifying procedures and audit trails, as well as substantiating account balances and computerized records, are examples. The more critical audit findings usually require detailed follow-up.

Follow-up scheduling can begin when corrective action is confirmed by acceptance of an audit recommendation or when management elects to accept the risk of not implementing the recommendation. Based on the risk and exposure involved, as well as the degree of difficulty in achieving the recommended action, follow-up activity should be scheduled to monitor the situation or confirm completion of the changes that were planned. These same factors establish whether a simple phone call would suffice or whether further audit procedures would be required.

At the end of each quarter, a summary follow-up report is prepared. This report reflects all current period findings with appropriate comments to reflect end of quarter status.

Additionally, this report highlights all outstanding findings from prior periods and their status. The intent of this summary report is to track all findings so that they are appropriately resolved.

**BWC Internal Audit Division
Audit Comment Rating Criteria**

Comment Rating	Description of Factors	Reporting Level
Material Weakness	<ul style="list-style-type: none"> Overall control environment does not provide reasonable assurance regarding the safeguarding of assets, reliability of financial records, and compliance with Bureau policies and/or laws and regulations. A significant business risk or exposure to the Bureau that requires immediate attention and remediation efforts. A significant deficiency, or combination of significant deficiencies, that results in <u>more than a remote likelihood</u> that a material misstatement of the annual or interim financial statements will not be prevented or detected by employees in the normal course of their work, or that a major operational or compliance objective would not be achieved. 	Audit Committee, Senior Management, Department Management
Significant Weakness	<ul style="list-style-type: none"> Issue represents a control weakness, which could have or is having some adverse affect on the ability to achieve process objectives. The controls in place need improvement and if not improved could lead to an overall unsatisfactory or unacceptable state of control. Requires near-term management attention. A control deficiency, or combination of control deficiencies, that results in a <u>remote</u> likelihood that a misstatement of the Bureau’s annual or interim financial statements is more than inconsequential will not be prevented or detected by employees in the normal course of their work, or that a major operational or compliance objective would not be achieved. 	Senior Management, Department Management, Audit Committee (optional)
Minor Weakness	<ul style="list-style-type: none"> Issue represents a process improvement opportunity or a minor control weakness with minimal impact. Observations with this rating should be addressed by line level management. A control deficiency that would result in <u>less than a remote</u> likelihood that the deficiency could reasonably result in a material misstatement of the financial statements or materially affect the ability to achieve key operational or compliance objectives. 	Department Management, Senior Management (optional)

NOTE: When management’s action plans for Significant Weakness comments are materially delayed from the intended implementation date the comment will elevate to a Material Weakness (pending circumstances).

BWC Internal Audit Division FY 09 Annual Audit Plan

Focus Area	1st Qtr.			2nd Qtr.			3rd Qtr.			4th Qtr.			Audit Effort
	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	
Employer Compliance (Consulting)													1
Coal Mine Safety Program (Consulting)													2
Permanent Partial Benefits													4
Settlements Process													5
External Audit Assistance													5
Mainframe Security													5
Physical and Environmental Security													3
Investment Certification Control Testing													5
Self Insured Bankrupt Securitization Process													4
Device and Media Controls Audit													3
Employer Policy Application Process													4
Auto Adjudication													4
Fleet Management													3
OBM Transition													5
OBM Enterprise Wide Audit Assistance													4
Collections Process													3
Change Management Process													5
Ethics Review													1
Adjudicating Committee													4
FY 2010 Audit Plan													3
WCIS Refunds Audit													3
Coal Mine Safety Program													2
Audit Validation Testing													5

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

BWC Internal Audit Division QES Acronyms

Acronym	Description
AA	Auto Adjudication
BWC	Bureau of Workers' Compensation
C-9	Physician's Request for Medical Service or Recommendation for Additional Conditions for Industrial Injury or Occupational Disease Form
CPM	Compliance and Performance Monitoring
CSD	Customer Service Division
CSS	Customer Service Specialist
DAS	Department of Administrative Services
DDC-PC	Defensive Drivers Course-Personal Computer, known as Online Drivers Training
DES	Data Encryption Standard
DMC	Disability Management Coordinator
DWRF	Disabled Workers' Relief Fund
FM	Fleet Management
IA	Internal Audit
IBM	International Business Machines Corporation
ICD	International Classification of Diseases
IME	Independent Medical Exams
IMS	Injury Management Supervisor
IT	Infrastructure and Technology or Information Technology
IW	Injured Worker
LSS	Lump Sum Settlement
MCO	Managed Care Organization
PBM	Pharmacy Benefit Management
PP	Permanent Partial
PSD	Premium Security Deposit
PTC	Prior to Coverage
PTD	Permanent Total Disability
QA	Quality Assurance
R&P	Rates & Payments
RACF	Resource Access Control Facility

Acronym	Description
RFP	Request For Proposal
RSC	Rehabilitation Services Commission
SC	Salary Continuation
SSN	Social Security Number
UDS	Universal Document Service
V3	Version 3
WCIS	Workers' Compensation Insurance System

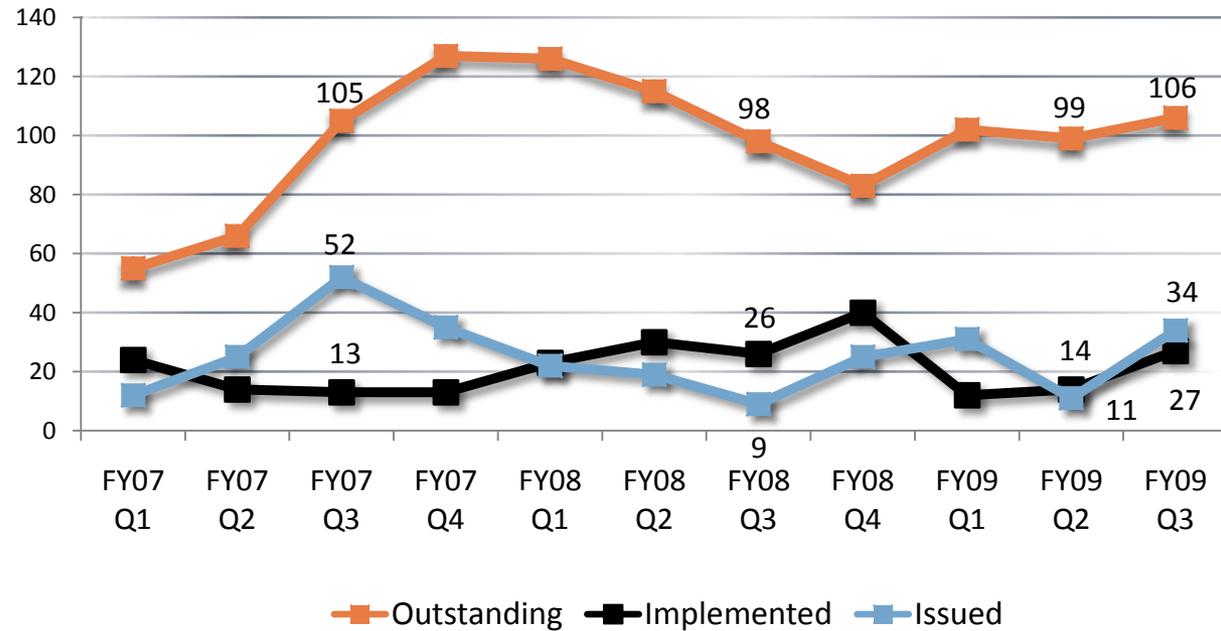


BWC Internal Audit Division

	FY08	FY09	FY09	FY09
	4th	1st	2nd	3rd
	Qtr	Qtr	Qtr	Qtr
Prior Total: Comments Outstanding	98	83	102	99
Plus: New Comments Issued	25	31	11	34
Minus: Comments Removed	-40	-12	-14	-27
New Total: Comments Outstanding	83	102	99	106
Not Rated	3	2	1	1
Material Weakness	20	22	21	20
Significant Weakness	60	78	77	85
New Total: Comments Outstanding	83	102	99	106



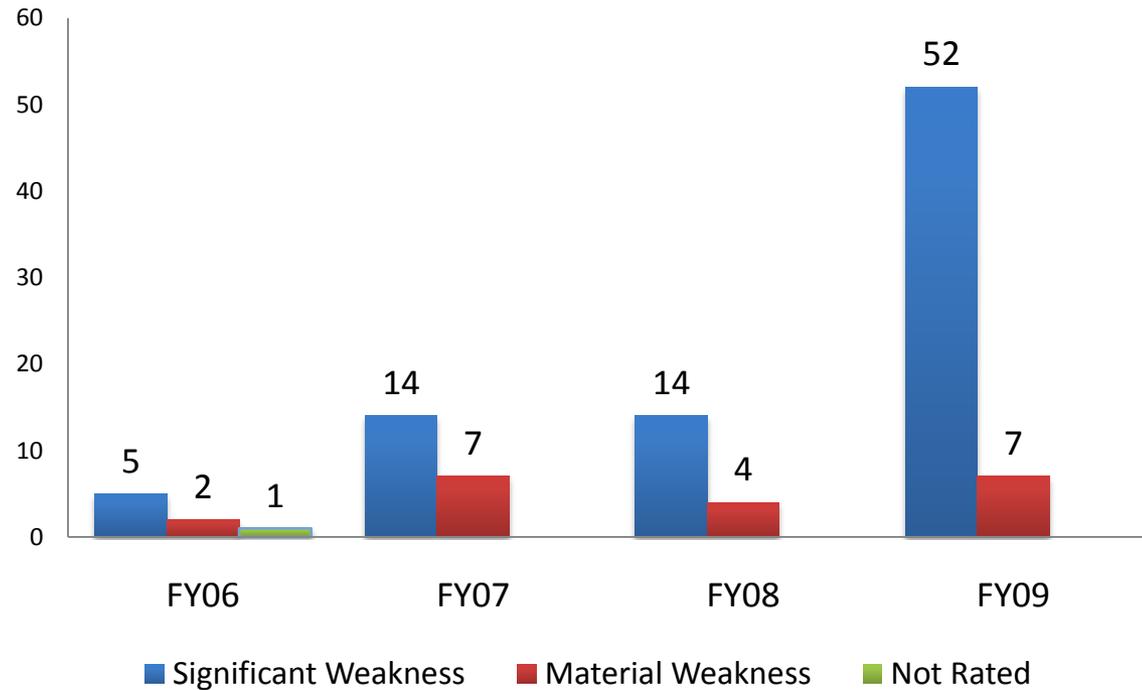
BWC Internal Audit Division





BWC Internal Audit Division

Outstanding Comments by Date Issued

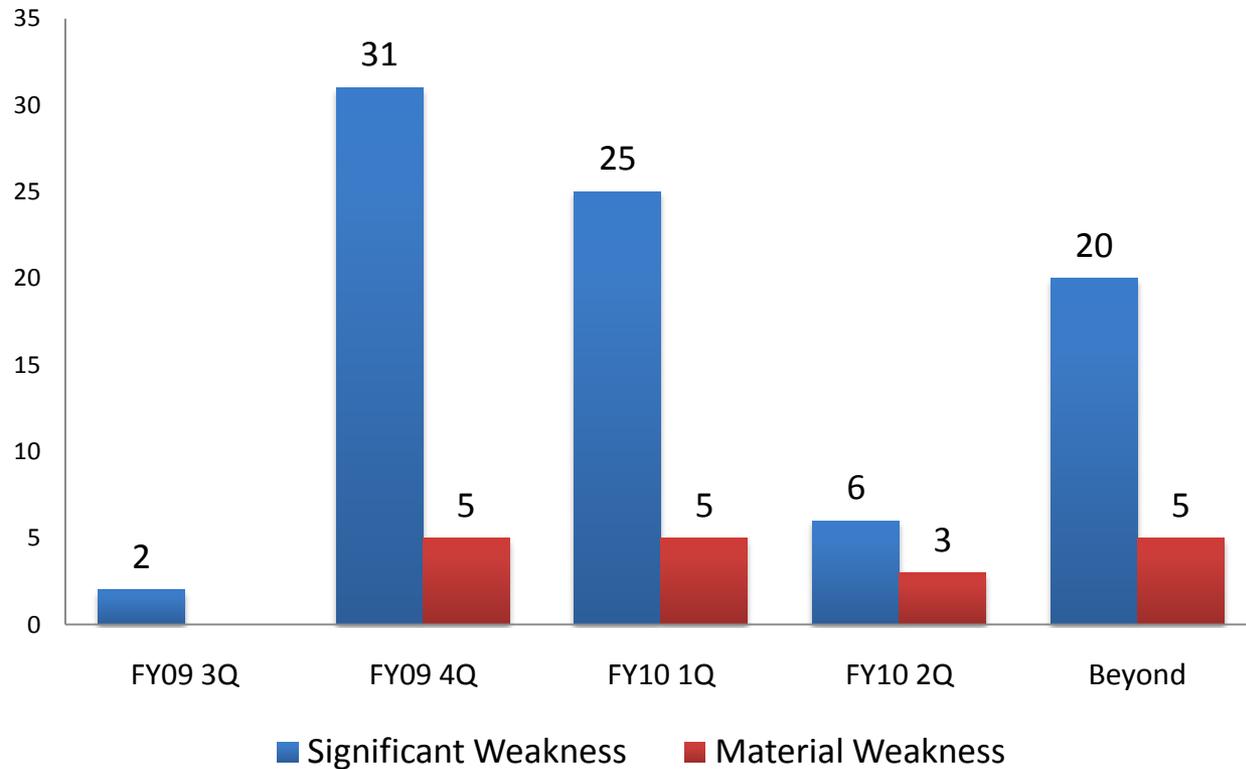


Note: Chart is based on a standard fiscal year.



BWC Internal Audit Division

Validation schedule for remaining comments

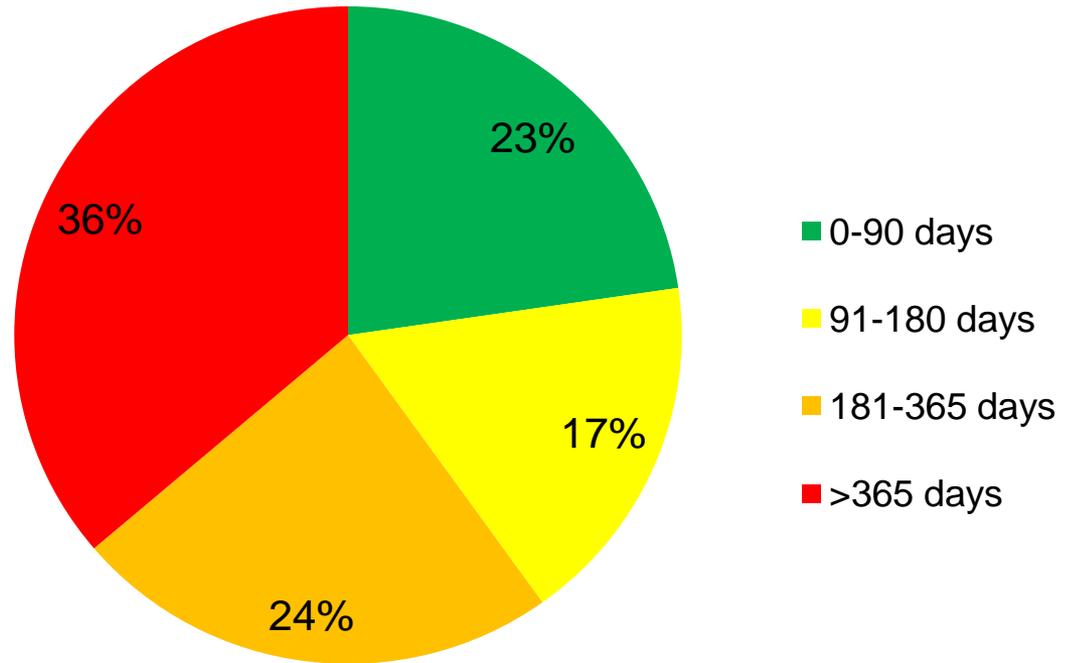


Note: Chart excludes 4 comments for which Management accepts the risk.



BWC Internal Audit Division

Time to Complete Comments
(audits since 2006)



12-Month Audit Committee Calendar

Date	May 2009	Notes
5/28/2009	1. Internal Audit QES Review	
	2. FY2010 Admin Budget - (1st reading)	
	3. IT Audit Approach	
	4. 50/50 program rule	
	5. Net Asset Discussion	
Date	June 2009	
6/18/2009	1. FY2010 Audit Plan	
	2. FY2010 Financial Projections - (1st reading)	
	3. FY2010 Admin Budget (2 nd reading)	
	4. Enterprise Report Review	
	5. Office of Internal Audit Update	
Date	July 2009	
7/30/2009	1. External Audit Update	
	2. FY2010 Financial Projections (2nd reading)	
	3. Enterprise Report Review	
	4. Quarterly Litigation Update	
Date	August 2009	
8/27/2009	1. Enterprise Report Review	
Date	September 2009	
9/24/2009	1. External Audit Update	
	2. Internal Audit QES Review	
	2. IG Semi-Annual Update	
	3. Enterprise Report Review	
Date	October 2009	
10/29/2009	1. Operation Review Report	
	2. Charter Review	
	3. Enterprise Report Review	
	4. Quarterly Litigation Update	
Date	November 2009	
11/19/2009	1. External Auditor Retention Letter	
	2. Annual Financials MD&A Review	
	3. Comprehensive Report	
	4. Approve Committee Charter Changes	
	5. Enterprise Report Review	

12-Month Audit Committee Calendar

Date	December 2009	Notes
	1. Enterprise Report Review	
	2. Internal Audit QES Review	
Date	January 2010	
	1. Enterprise Report Review	
Date	February 2010	
	1. Internal Audit QES Review	
Date	March 2010	
Date	April 2010	