

**BWC Board of Directors
Audit Committee**
FY 09 4th Quarter Executive Summary Report

September 24, 2009

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To: Audit Committee Members

From: Caren Murdock, Chief of Internal Audit

Date: September 24, 2009

Fiscal Year 09 4th Quarter Executive Summary report

Following you will find the Fiscal Year 2009 4th Quarter Executive Summary (QES) Report containing:

1. Audit Comment Status
 - 1a. Comments Issued 4th Quarter
 - 1b. Comments Outstanding as of June 30, 2009
2. Audit Report Follow-up Procedures
3. Audit Comment Rating Criteria
4. Fiscal Year 2010 Audit Plan
5. QES Acronyms

BWC Internal Audit Division

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BWC Internal Audit Division Comments Issued – 4th Quarter Activity

Investment Division Mellon Daily Automated Compliance Process Audit - May 2009

Business areas: Investments

The BWC Internal Audit Division (IAD) conducted an audit of the Investment Division Mellon daily compliance process. Our specific objectives included:

- Obtaining a thorough understanding of the policies, procedures and controls over the daily Mellon automated Investment Policy Statement (IPS) compliance process;
- Determining if current internal controls are adequately designed;
- Assessing the set-up and implementation of the new Mellon IPS compliance test process;
- Evaluating the completeness and accuracy of the current inventory of daily compliance tests; and
- Providing recommendations to improve the process, applicable controls and reduce risks.

Our review included performing walkthroughs of the design of the process (which began in October 2008) and testing of the current Mellon daily IPS compliance rules applied October 1, 2008 through March 15, 2009.

	Recommendation	Disposition
1	Restrict update capability; perform periodic access review validation; determine if access is necessary based on job duties; promptly disable access when personnel changes occur; and review the responsibility for guardian of system access for appropriateness. Rating: Significant Weakness	Management implemented processes to review user lists semi-annually, revoked access for former employees, updated Policy and Procedures to include a list of users, coordinated the administration of the add/delete function to IT, and perform semi-annual reviews of users and confirm deletions. Responsible: Chief Investment Officer Target Resolution Date: June 2009 Current Status: Implemented and Validated

Auditor Opinion:

Controls over the Investment Division Mellon daily compliance process appear to be reasonably designed to help ensure that compliance tests are processed completely and accurately. The process to set-up new tests and current inventory of compliance tests appear generally appropriate. The audit also identified two minor recommendations for management’s consideration.

Change Management Audit - June 2009

Business areas: Infrastructure and Technology

The BWC IAD conducted an audit of Change Management during the review period of September 2008 through January 2009. The purpose of the audit was to assist management in evaluating controls over the change management processes within IT. Our objectives included:

- Determining if there are appropriate policies and procedures in place;
- Verifying the existence and use of baseline configuration management system(s) as controls for production systems;
- Evaluating the adequacy of control procedures for change requests, approvals, and implementation; and
- Assessing the relationship between production failures and change management.

Recommendation		Disposition
1	Update the policy to include all types of activities that are not required to follow the change management procedures. Enforce the adherence to the change management policy and procedures with all staff. Rating: Significant Weakness	Management will review and document the types of changes that do not require adherence to the change management process. Furthermore, management will enforce the adherence to the change management policy. Responsible: Chief Information Officer Target Resolution Date: September 2009 Current Status: In Process
2	Convene regular meetings to discuss all changes and assess the impact. Require non-emergency changes go through the normal approval process. Rating: Significant Weakness	Management will review the existing policies and processes in relation to the role of change approvers and make the applicable enhancements to improve the process. Responsible: Chief Information Officer Target Resolution Date: November 2009 Current Status: In Process
3	Better communicate or define an emergency change and require service level agreements with the end-user community. Rating: Significant Weakness	The service level agreement will be formalized, and customers will be informed of the requirements. Responsible: Chief Information Officer Target Resolution Date: November 2009 Current Status: In Process
4	Enforce compliance with the prescribed change management processes, either through tool enhancements or management review of the change requests. Rating: Significant Weakness	Management will reiterate the expectation that the existing change management processes be followed. In addition the existing change management transmittal tool will be analyzed for potential enhancements. Responsible: Chief Information Officer Target Resolution Date: November 2009

Recommendation		Disposition
		Current Status: In Process

Auditor Opinion:

In general, policies and procedures for change management are not comprehensive; however, they provide an adequate baseline for guidance in managing and controlling changes to the IT operating environment. Management should take action to refine them to be more robust in scope.

There is no central baseline configuration management system that is used to control the production environment. Most functional areas have individual baseline configurations from which changes are managed.

The change request procedure is not as effective as it could be in determining the overall impact of individual changes, including the potential interaction of coincident changes. A number of the procedures for change approval are not completed in the prescribed timeframe. In particular, a large percentage of changes are implemented before they are approved.

IT Management has not established service level agreements with all their end users. As a result, a large percentage of changes are characterized as “Emergency,” to be completed in the same day, when in fact the nature of many of these changes does not warrant urgency. Also, there is no systematic root cause analysis performed that links production failures to changes that occurred.

By improving the overall change management process, IT will contribute to the improvement of its overall performance, including its ability to prevent and respond to security incidents. Best practices indicate that the organizations that are most successful in preventing and responding to security incidents are those that have mastered change management. The audit also identified four minor recommendations for management’s consideration.

Bankrupt Self Insured (BSI) Securitization Process Audit - June 2009

Business areas: Customer Services, Fiscal and Planning

The BWC IAD conducted an audit of the BSI Securitization Process. The purpose of the audit was to assist management in evaluating controls over “drawing down” surety bonds or letters of credit before charging claims against the Self Insured Employers Guaranty Fund (SIEGF) or the Surplus Fund.

The audit scope consisted of a review of claims payments made for BSI employers between October 1, 2007 and September 30, 2008. The audit objectives included:

- Determining if current internal controls for the BSI securitization process were adequately designed and implemented;
- Evaluating if BSI claims were paid from appropriate funds in accordance with overall BWC policies and procedures and statutory requirements; and
- Assessing if the BSI securitization process is efficiently and effectively administered.

Recommendation		Disposition
1	Develop and implement all-inclusive policies and procedures for the BSI securitization process.	Accounting will work with the Self Insured (SI) department to develop comprehensive beginning to end

Recommendation		Disposition
	Rating: Material Weakness	workflows and request or develop a Universal Document Service (UDS) workflow to forward information to Direct Billing (DB). Responsible: Chief of Customer Services, Chief of Fiscal & Planning Target Resolution Date: December 2009 Current Status: In Process
2	Create a policy and process map that outlines routine collections efforts and certifies amounts past due to the Attorney General's (AG) Office, write-off accounts that are settled or uncollectible, and create a centralized system to track and retain documents pertaining to collections efforts. Rating: Material Weakness	Accounting will establish collection policies and procedures; develop a certification process; review accounts that have been settled; and develop a UDS repository for BSI surety accounts. Responsible: Chief of Fiscal & Planning Target Resolution Date: October 2009 Current Status: In Process
3	Determine and document the effective dates for securitization and SIEGF periods, maintain a complete list of all BSI employers including the effective beginning and ending SIEGF and/or securitization dates, fix any incorrect dates in the Rates and Payments system and make the appropriate reimbursements to the Surplus Fund and the SIEGF. Rating: Material Weakness	Accounting will update the security list to incorporate all needed information, obtain and review documentation related to exceptions, correct the exceptions as appropriate, and develop procedures for establishing effective dates for SIEGF charges. Responsible: Chief of Fiscal & Planning Target Resolution Date: August 2009 Current Status: In Process
4	Implement adequate internal controls to help ensure that all BSI employers are referred to the Self Insured Review Panel (SIRP) and appropriate customer accounts are created. Accurately enter BSI employer information into the Rates and Payments System and the Bond Detail Report (BDR), and bill securities in a timely manner. Rating: Material Weakness	The Accounting department has updated the BSI billing checklist to identify information required to set up accounts and to document supervisory review. The Accounting department will establish accounts to initiate billing and update procedures to incorporate supervisor review. The SIU unit has updated policies to incorporate controls to ensure that all defaulted SI employers are scheduled for SIRP hearings. Responsible: Chief of Customer Services, Chief of Fiscal & Planning Target Resolution Date: December 2009 Previous Target Date(s): June 2009 Current Status: In Process

Recommendation		Disposition
5	<p>Segregate the duties of requesting the security, receiving and recording the security, and having access to the security.</p> <p>Rating: Significant Weakness</p>	<p>SI management has segregated duties of requesting a security, receiving a security, recording a security and accessing a security.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: August 2009</p> <p>Previous Target Date(s): December 2009</p> <p>Current Status: In Process</p>
6	<p>Recover securities from the Treasurer of State's Office and store them in a central location; inventory all securities and maintain a complete list; and determine if any securities have been misplaced.</p> <p>Rating: Significant Weakness</p>	<p>SI management will scan and record securities in the safes and develop a database to list all securities held.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: March 2011</p> <p>Current Status: In Process</p>
7	<p>Prepare a formal reconciliation between the balances due on the BDR and the Oracle Accounts Receivable Aged report. Make appropriate adjustments for inappropriate discrepancies.</p> <p>Rating: Significant Weakness</p>	<p>The Accounting department has created the reconciliation format to identify appropriate discrepancies due to unapplied receipts and those requiring research and possibly correction or adjustment.</p> <p>Responsible: Chief of Fiscal & Planning</p> <p>Target Resolution Date: August 2009</p> <p>Previous Target Date(s): June 2009</p> <p>Current Status: In Process</p>
8	<p>Update and/or correct the BDR for any errors or omissions.</p> <p>Rating: Significant Weakness</p>	<p>Management has updated the checklist utilized to document receipt of all information necessary prior to billing claim costs. Procedures will be updated to require supervisor review and approval.</p> <p>Responsible: Chief of Fiscal & Planning</p> <p>Target Resolution Date: September 2009</p> <p>Previous Target Date(s): June 2009</p> <p>Current Status: In Process</p>
9	<p>Develop and implement record retention policies and procedures to provide evidence that decisions are appropriate, reviewed, and follow established procedures. Determine if any of the bond accounts that are not being billed, but have available balances, could be billed.</p> <p>Rating: Significant Weakness</p>	<p>Management will require supporting documentation to evidence decisions are appropriate and all BSI accounts with balances noted as "do not bill" will be researched to identify and document the reason for the notation.</p> <p>Responsible: Chief of Fiscal & Planning</p> <p>Target Resolution Date: September 2009</p> <p>Current Status: In Process</p>

	Recommendation	Disposition
10	<p>Develop procedures with sufficient controls to help ensure that all future Data Warehouse queries for initial manual billings of claims are completed accurately and in a timely manner.</p> <p>Rating: Significant Weakness</p>	<p>The Accounting department has updated the BSI billing checklist to identify information required to set up accounts and to document supervisory review. Policies and procedures will be updated to require supervisor or manager approval prior to posting initial manual charges.</p> <p>Responsible: Chief of Fiscal & Planning Target Resolution Date: September 2009 Previous Target Date(s): June 2009 Current Status: In Process</p>
11	<p>Request reimbursement from the responsible active SI employer for claims payments that were made by BWC and then charged to securities or the SIEGF. Remove BSI employers' customer accounts from the Rates and Payments System, the BDR and the SIEGF database for employers that are not in default of claims payments and update the Version 3 status for those that had defaulted.</p> <p>Rating: Significant Weakness</p>	<p>Management will develop analytical procedures to detect inappropriate SI employer accounts within the Rates and Payments system for periodic review and correction.</p> <p>Responsible: Chief of Customer Services, Chief of Fiscal & Planning Target Resolution Date: December 2009 Current Status: In Process</p>
12	<p>Make adjustments for warrants that were later cancelled or voided but not adjusted in the SIEGF, the Surplus Fund, or securitization accounts.</p> <p>Rating: Significant Weakness</p>	<p>Management will adjust the cancelled and voided warrants noted. Policies and procedures will be updated to require supervisor sign-off prior to posting cancelled or voided warrant updates.</p> <p>Responsible: Chief of Fiscal & Planning Target Resolution Date: August 2009 Current Status: In Process</p>
13	<p>Work with IT to create a new system for tracking securitization balances or implement additional controls specific to the MS Excel format.</p> <p>Rating: Significant Weakness</p>	<p>Management will develop and implement additional mitigating BDR review/approval procedures, such as verification of prior month carry forward information and will continue to work with IT to develop a more secure format for tracking securitization balances.</p> <p>Responsible: Chief of Fiscal & Planning Target Resolution Date: December 2009 Current Status: In Process</p>

Auditor Opinion:

Overall, internal controls for the BSI securitization process are not adequately designed or working as intended. Internal control deficiencies are primarily related to the exchange of data, approval processes, monitoring practices, and the assignment of responsibility

among the SIU unit, the DB unit, and the Legal Division. These control deficiencies contributed to several instances where current practices were not effective in ensuring that each BSI employer claim costs were billed to the correct funding source. The review also noted that collections efforts are not effective in facilitating timely payment from responsible third parties. Implementing practices that support high-level proactive management and monitoring of the securitization process as a whole may detect when processes and controls are not operating as intended. The audit also identified two minor recommendations for management's consideration.

Collections Audit - June 2009

Business areas: Fiscal and Planning

The BWC IAD conducted an audit of the Collections process. The purpose of the audit was to assist management in evaluating the collections process by assessing the adequacy of internal controls and level of compliance with agency policy and applicable regulations.

The audit scope consisted of employer accounts which became greater than 45 days past due between 4/1/2008 and 3/31/2009. Our objectives included:

- Determining the adequacy of the design of internal controls over the collections processes;
- Assessing the operating effectiveness of key controls; and
- Evaluating the effectiveness and efficiency of collections processes.

Recommendation		Disposition
1	Revise payment processing procedures to help ensure that all payments received and processed by Collections are properly safeguarded from misappropriation. Rating: Significant Weakness	Responsibility for processing checks received for collections-related activities has been transferred to the Cash Control Department. Responsible: Chief of Fiscal and Planning Target Resolution Date: N/A Current Status: Implemented
2	Establish controls to help ensure that sensitive employer information is retained in a secure manner. Rating: Significant Weakness	Management has instructed staff to secure documents containing sensitive information and is in the process of updating policies and developing controls to provide assurance that sensitive employer information is maintained in a secure manner. Responsible: Chief of Fiscal and Planning Target Resolution Date: October 2009 Current Status: In Process
3	Establish adequate controls to provide assurance that system access is terminated in a timely manner following separation or transfer. Rating: Significant Weakness	Access for the individuals identified has been removed and a procedure developed to periodically review Workers' Compensation Insurance System (WCIS) access users. Responsible: Chief of Fiscal and Planning

Recommendation		Disposition
		Target Resolution Date: N/A Current Status: Implemented
4	Review and update existing policies and procedures annually for consistency, clarity, and relevance. Rating: Significant Weakness	Management will take steps to update the department policies and procedures manual. Responsible: Chief of Fiscal and Planning Target Resolution Date: June 2010 Current Status: In Process

Auditor Opinion:

Overall, internal controls for the collections process appear to be reasonably designed to help ensure that collections 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 safeguard assets and information, reduce processing costs, increase revenues, clarify policies, and improve documentation. The audit also identified seven minor recommendations for management’s consideration.

Ethics Program Audit - July 2009

Business areas: Medical Services and Compliance, Human Resources

The BWC IAD conducted an audit of the Ethics Program. The purpose of the audit was to evaluate whether the program complies with applicable laws, regulations, and directives; determine if its design of the compliance program is consistent with elements of effective compliance programs as outlined in the Federal Sentencing Guidelines; and assess if the program is administered properly and considered reasonably effective.

Our review included obtaining an overall understanding of BWC policies, procedures, and practices related to ethics communications, and collecting samples of work materials (e.g., policies and procedures, and operational logs).

Auditor Opinion:

In general, BWC’s practices meet the guidelines for an effective compliance and ethics program as set forth by the Federal Sentencing Guidelines, as well as other frameworks for ethics programs suggested by The Institute of Internal Auditors. The audit identified three minor recommendations for management’s consideration. During fieldwork, management took immediate action and addressed several weaknesses as they came to their attention.

**BWC Internal Audit Division
Outstanding Comments as of June 30, 2009**

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

Medical Billing and Adjustments – May 2006	
Recommendation	Disposition
<p>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</p>	<p>IT has completed the program that will run on a quarterly basis to systematically adjust medical cost from the medical experience claim cost categories. This will be tested by actuarial staff in August once all web testing is completed. 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 Resolution Status: In Process</p>
<p>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</p>	<p>Application changes are complete, but further interface changes are necessary. This change was bundled into the June 2009 release into Cambridge. The release was postponed as a result of prioritization and resource constraints. Implementation is pending Demand Management prioritization. Responsible: Chief of Medical Services and Compliance Target Resolution Date: December 2009 Previous Target Date(s): July 2007, September 2008, December 2008, March 2009 Current Resolution Status: In Process</p>
<p>3 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. 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. Responsible: Chief of Medical Services, Chief Information Officer Target Resolution Date: June 2011 Previous Target Date(s): December 2007, June 2008 Current Resolution 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>The final phase of implementation is on track. Information exchange strategies are being developed with AG, Ohio Department of Taxation, and ODJFS to further identify employers who are operating without coverage and have not previously applied for coverage.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: October 2009 Previous Target Date(s): December 2006, December 2007, April 2008, August 2008, March 2009, June 2009 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. This is now a part of the Deloitte recommendations and will be reviewed in fiscal year 2011.</p> <p>Responsible: Chief Actuarial Officer Target Resolution Date: July 2010 Previous Target Date(s): December 2006, June 2007, December 2007, December 2008 Current Status: In Process</p>
3	<p>When payroll reports are received there is no review to determine if estimated Premium Security Deposit (PSD) are correct. The lack of review could result in lost revenue due to under reported estimates for PSDs.</p> <p>Rating: Significant Weakness</p>	<p>BWC is currently performing an analysis to assess the materiality of this in regards to our financial statement. However, preliminary discussions indicate the WCIS program changes necessary to automate this function is not a priority at this time. Management is evaluating potential alternatives to address this recommendation.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: September 2009 Previous Target Date(s): December 2007, June 2008, December 2008, May 2009 Current Status: In Process</p>

Claims Operational Review – September 2006

Recommendation		Disposition
1	<p>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.</p> <p>Rating: Significant Weakness</p>	<p>Given existing resource constraints and other priority projects, management assumes the risk associated with this comment.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: June 2009</p> <p>Previous Target Date(s): March 2007, June 2008</p> <p>Current Resolution Status: Not implemented</p>

Indemnity Claims Overpayment Audit – October 2006

Recommendation		Disposition
1	<p>Determine best practices for overpayment collections and request legislative changes allowing the BWC to adopt the best practices identified.</p> <p>Rating: Significant Weakness</p>	<p>BWC has determined that it will take no further action on this item. Collection of overpayments complies with the law and management is choosing not to pursue legislative changes at this time.</p> <p>Responsible: Chief of Fiscal and Planning</p> <p>Target Resolution Date: April 2009</p> <p>Previous Target Date(s): June 2007, September 2007, January 2008, December 2008</p> <p>Current Resolution Status: Not implemented</p>

Manual Override – December 2006

Recommendation		Disposition
1	<p>Resolve the current rating inequity between group rated and non-group rated employers. Also, adopt standard controls to prevent rate manipulation by employer groups.</p> <p>Rating: Material Weakness</p>	<p>Elements of 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.</p> <p>Responsible: Chief of Actuarial</p> <p>Target Resolution Date: July 2011</p> <p>Previous Target Date(s): December 2006, June 2007, July 2009</p> <p>Current Status: In Process</p>

IT and Application Controls Risk Assessment – January 2007

Recommendation		Disposition
1	<p>Implement security violation monitoring by using trending or advanced analysis for violation enforcement. Rating: Material Weakness</p>	<p>The repository on the Auditing/Logging site was updated to document whether the current logging processes adhere to current policy requirements. An assessment of the remaining items for this comment will be completed by the end of July and an action plan will be developed to address them. Responsible: Chief Information Officer Target Resolution Date: September 2009 Previous Target Date(s): December 2008, March 2008, June 2008, August 2008, March 2009, June 2009 Current Resolution Status: In Process</p>
2	<p>Log, monitor and review the activities of Powerful ID's and utilities. Rating: Material Weakness</p>	<p>The repository on the Auditing/Logging site was updated to document whether the current logging processes adhere to current policy requirements. An assessment of the remaining items for this comment will be completed by the end of July and an action plan will be developed to address them. Responsible: Chief Information Officer Target Resolution Date: September 2009 Previous Target Date(s): December 2008, March 2008, June 2008, August 2008, March 2009, June 2009 Current Resolution Status: In Process</p>

Salary Continuation Program – March 2007

Recommendation		Disposition
1	<p>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. Significance Rating: Material Weakness</p>	<p>Field Operations has reviewed Phase I of these claims (2007 & 2008) and is awaiting Legal clarification on the other group of claims prior to sending the list to the field offices for review. Responsible: Chief of Customer Services Target Resolution Date: August 2009 Previous Target Date(s): April 2008, March 2009, June 2009, Current Resolution Status: In Process</p>

Pharmacy Benefit Manager (PBM) Audit – May 2007

Recommendation		Disposition
1	<p>Develop action plan to strengthen oversight and improve management of the program. Rating: Significant Weakness</p>	<p>The Medical Services Division created a Pharmacy Program Department and a director level position to oversee and develop BWC's pharmacy program. The new Pharmacy Program Director started in May 2009. BWC continues to develop the program for oversight of this function. Responsible: Chief of Medical Services and Compliance Target Resolution Date: December 2009 Previous Target Date(s): September 2007 Current Status: In Process</p>
2	<p>Periodically test transactions to ensure discounts are passed-through to BWC. Rating: Significant Weakness</p>	<p>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 October 2009. BWC removed the requirement for collecting rebates from the PBM RFP to be effective November 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</p>
3	<p>Conduct sufficient review and analysis to identify opportunities. Rating: Significant Weakness</p>	<p>BWC's Pharmacy Director is working with Affiliated Computer Services to develop reports to achieve BWC's goals and to ensure receipt on a regular basis. He is also working to ensure a process is in place to review those reports regularly as they will be used to make operational changes to achieve the Pharmacy Program's goals. 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>

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. Significance Rating: Material Weakness</p>	<p>The Medical Services Division has developed a new process in which outliers are identified and reviewed for appropriateness. Disability Management Coordinators (DMCs) will be trained on the new process by September 2009. Responsible: Chief of Medical Services and Compliance Target Resolution Date: October 2009 Previous Target Date(s): April 2008, June 2008, December 2008, April 2009 Current Resolution Status: In Process</p>
2	<p>Eliminate the potential conflict of interest created by MCOs that refer vocational rehabilitation cases to their related companies. Significance Rating: Material Weakness</p>	<p>The assignment of Vocational Field Case managers by BWC DMCs to eliminate potential conflict of interest is slated for Phase IV of the Rehab Redesign. A subgroup is working on Rehab protocols and development of Rehab Case Management performance expectations. Rule introduction is planned for Fall 2009. Responsible: Chief of Medical Services and Compliance Target Resolution Date: January 2010 Previous Target Date(s): October 2008 Current Resolution Status: In Process</p>
3	<p>Formalize policy regarding the authority of the DMCs to challenge MCO feasibility determinations. Significance Rating: Material Weakness</p>	<p>Policy currently states that the DMC and the MCO are responsible to “staff” (discuss) feasibility issues in each case. DMCs received training in May 2009. A draft rule revision will be presented to the BWC Board in Fall 2009 which will provide authority for DMCs to make feasibility decisions. Responsible: Chief of Medical Services and Compliance Target Resolution Date: November 2009 Previous Target Date(s): October 2008 Current Resolution Status: In Process</p>
4	<p>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. Significance Rating: Material Weakness</p>	<p>The draft agreement is currently being reviewed by Legal. Controls were implemented in the procedures to ensure that only eligible injured workers receive services. New required data elements from RSC are documented in the Cooperative Agreement and will be the basis for determining whether costs are reasonable and appropriate. RSC must</p>

Recommendation		Disposition
		<p>modify their system in order to provide the new data elements to BWC. It is expected that we will have one quarter of data by January 2010 for analysis.</p> <p>Responsible: Chief of Medical Services and Compliance Target Resolution Date: January 2010 Previous Target Date(s): June 2008, October 2008, June 2009 Current Resolution Status: In Process</p>
5	<p>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.</p> <p>Significance Rating: Significant Weakness</p>	<p>Written protocols and procedures were developed to ensure that DMC activities are appropriate, timely and in agreement with policies and statutes. Service delivery expectations are on track for August 2009 training by Voc Rehab Policy. Infrastructure support mechanisms will be in place by January 2010.</p> <p>Responsible: Chief of Medical Services and Compliance Target Resolution Date: January 2010 Previous Target Date(s): June 2008, August 2008, April 2009 Current Resolution Status: In Process</p>

Permanent Total Disability (PTD) 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 (DWRP) or develop compensating controls.</p> <p>Significance 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.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: June 2010 Previous Target Date(s): December 2008 Current Resolution Status: In Process</p>
2	<p>Review other alternatives for processing PTD claims to provide more effective and efficient claim maintenance.</p> <p>Significance Rating: Significant Weakness</p>	<p>Given existing resource constraints and other priority projects, management agrees to assume the risk associated with this comment.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: June 2010 Previous Target Date(s): June 2008, December 2008 Current Resolution Status: Not implemented</p>

Recommendation		Disposition
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.</p> <p>Significance Rating: Significant Weakness</p>	<p>Payments to injured workers (IW)s that were underpaid went out in December and letters to IWs reflecting either a reduction to their weekly benefits or recovery of an overpayment will be sent in August.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: August 2009 Previous Target Date(s): June 2008, December 2008, June 2009 Current Resolution Status: In Process</p>
4	<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 DWRP overpayments.</p> <p>Significance Rating: Significant Weakness</p>	<p>The inappropriate DWRP overpayments have been identified and will be deployed in August 2009.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: August 2009 Previous Target Date(s): February 2009, June 2009 Current Resolution Status: In Process</p>

Medical Bill Payment Process Audit – March 2008

Recommendation		Disposition
1	<p>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.</p> <p>Significance Rating: Significant Weakness</p>	<p>Management evaluated and agrees that the statute should be shortened. Management is proceeding with the steps required to propose this change in statute.</p> <p>Responsible: Chief of Medical Services and Compliance Target Resolution Date: September 2009 Previous Target Date(s): December 2008 Current Resolution Status: In Process</p>
2	<p>Monitor and track the certification application process to verify all providers are routinely reapplying for certification and providing the Bureau with credentialing information.</p> <p>Significance Rating: Significant Weakness</p>	<p>No response from the Ohio Elections Commission to BWC's request from September 2008. Legal will identify risks for management consideration if BWC decides to move forward with credentialing providers without the opinion from the Ohio Elections Commission.</p> <p>Responsible: Chief of Medical Services and Compliance Target Resolution Date: December 2009 Previous Target Date(s): December 2008, June 2009 Current Resolution Status: In Process</p>

Recommendation		Disposition
3	<p>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.</p> <p>Significance Rating: Significant Weakness</p>	<p>An RFP that includes transition to direct provider payment is in development.</p> <p>Responsible: Chief of Medical Services and Compliance</p> <p>Target Resolution Date: January 2010</p> <p>Previous Target Date(s): December 2008</p> <p>Current Resolution Status: In Process</p>

Subrogation Audit – May 2008

Recommendation		Disposition
1	<p>Develop ongoing reporting and conduct detailed trending and analysis of data to assist in monitoring the subrogation processes.</p> <p>Significance Rating: Significant Weakness</p>	<p>UDS workflow is approved by Finance and IT. Updates to the Access database have been made and reporting capability will be developed.</p> <p>Responsible: Chief Legal Officer</p> <p>Target Resolution Date: December 2009</p> <p>Current Resolution Status: In Process</p>
2	<p>Collaborate with IT to explore potential system enhancements to better support the subrogation process.</p> <p>Significance Rating: Significant Weakness</p>	<p>The Project Governance Board approved funding to study feasibility of a new subrogation database. This study was approved for FY 10. UDS was approved by Finance and IT for FY 09.</p> <p>Responsible: Chief Legal Officer</p> <p>Target Resolution Date: July 2010</p> <p>Previous Target Date(s): December 2009</p> <p>Current Resolution Status: In Process</p>

Lump Sum Settlement Process (LSS) Audit – October 2008

Recommendation		Disposition
1	<p>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.</p> <p>Significance Rating: Material Weakness</p>	<p>Phase I deliverables which includes a mission statement, claim settlement eligibility/ineligibility indicators, and a more robust evaluative process was implemented in April 2009. Statewide training was also completed during April 2009.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: January 2010</p> <p>Previous Target Date(s): February 2009</p> <p>Current Resolution Status: In Process</p>
2	<p>Conduct trending and analysis of settled claims to identify whether goals and objectives are being met; expand management reporting to address analysis of performance with identified</p>	<p>The consultant performed benchmarking and analyses. Ongoing management reporting will be developed during Phase III of the Settlement Enhancement Team.</p>

Recommendation		Disposition
	goals and objectives. Significance Rating: Significant Weakness	Responsible: Chief of Customer Services Target Resolution Date: January 2010 Previous Target Date(s): June 2009 Current Resolution Status: In Process
3	Establish an evaluation assessment program that ensures a quality and timely assessment that supports their recommendations regarding IW employability. Significance Rating: Significant Weakness	Statewide vocational evaluation training previously scheduled for June 2009 has been cancelled due to a change in position. Management is proposing that these evaluations be performed in-house rather than contracting with an outside vendor. Conducting these evaluations in-house will require the acquisition of new software, creation of policy and procedures and training of field staff. Responsible: Chief of Customer Services Target Resolution Date: December 2009 Previous Target Date(s): April 2009, June 2009 Current Resolution Status: In Process
4	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. Significance Rating: Significant Weakness	The Legal Division has evaluated the MSPA and BWC's potential liability and risk exposure. Legal communicated its opinion to management. The CSD is establishing a policy that includes the implications of the MSPA, the potential need of a Medicare Set-aside allocation and the appropriate communication of such with the injured worker (IW) or their representative. Responsible: Chief of Customer Services, Chief Legal Officer Target Resolution Date: December 2009 Previous Target Date(s): June 2009 Current Resolution Status: In Process
5	Develop and implement a process to verify the compensation audits are performed accurately and in accordance with policy. Significance Rating: Significant Weakness	Field Operations will create a standard document for all field offices including SI Bankrupt to track and record that Injury Management Supervisors (IMS) are complying with the daily compensation audit requirements. Responsible: Chief of Customer Services Target Resolution Date: October 2009 Previous Target Date(s): June 2009 Current Resolution Status: In Process

Recommendation		Disposition
6	<p>Establish controls to ensure the LSS payments are reviewed in accordance with policy.</p> <p>Significance Rating: Significant Weakness</p>	<p>The Customer Services Division (CSD) will review the Claims On-line Resources (COR) Claims Management Policy to provide guidance as to the frequency, review criteria, and method of documenting the IMS reviews that policy now states are to be performed.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: September 2009</p> <p>Previous Target Date(s): June 2009</p> <p>Current Resolution Status: In Process</p>

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

Recommendation		Disposition
1	<p>Revise backup procedures to require encryption of all devices prior to delivery to external vendors.</p> <p>Significance Rating: Significant Weakness</p>	<p>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.</p> <p>Target Resolution Date: September 2009</p> <p>Previous Target Date(s): March 2009</p> <p>Current Resolution Status: In Process</p>

Device and Media Control - December 2008

Recommendation		Disposition
1	<p>Create policies and procedures for operational situations regarding device and media controls.</p> <p>Significance Rating: Significant Weakness</p>	<p>A team was established to develop and implement an action plan to address all issues raised in the audit report. The action plan was completed in March 2009. The team meets regularly to review the status and discuss issues.</p> <p>Responsible: Chief Information Officer</p> <p>Target Resolution Date: December 2009</p> <p>Current Resolution Status: In Process</p>
2	<p>Enhance the current Device Loss/Theft Procedure by utilizing the State of Ohio's IT Policy B.7- Security Incident Response for guidance.</p> <p>Significance Rating: Significant Weakness</p>	<p>Two policies have been drafted. The first policy involves lost and/or stolen equipment and the second policy involves breach of sensitive data. The policies, in their current form, have been approved by Legal. They will be sent for review by the entire project team by June 2009. Once the project team completes its review and modification, the policies will be ready for final processing to</p>

Recommendation		Disposition
		become part of our employee handbook. Responsible: Chief of Medical Services and Compliance Target Resolution Date: September 2009 Previous Target Date(s): April 2009 Current Resolution Status: In Process
3	Identify and implement a cost-effective data storage site at a greater distance (at least 10 miles) from BWC's downtown location in Columbus. Significance Rating: Significant Weakness	BWC IT performed a cost comparison between the current vendor and an alternative vendor, determining that the current vendor is more cost effective. Different sites were discussed, and IT has agreed to use the current vendor at a site nine miles away with no cost increase. Responsible: Chief Information Officer Target Resolution Date: August 2009 Previous Target Date(s): June 2009 Current Resolution 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. BWC management continues to review the MCO financial status. Target Resolution Date: July 2009 Current Status: In Process

Fleet Management (FM) Audit - March 2009

Recommendation		Disposition
1	Develop beginning-to-end inter-departmental policies and procedures, and process mapping of the fleet management process. Significance Rating: Significant Weakness	A new Fleet Policy was developed and distributed. Fleet Management (FM) is working with the Advanced Technical Department to complete the process map and will continue to enhance policies and procedures. Responsible: Chief Information Officer Target Resolution Date: December 2009 Previous Target Date(s): June 2009 Current Resolution Status: In Process
2	Conduct a vehicle needs analysis to make sure BWC maintains an optimal size fleet. Significance Rating: Significant Weakness	Finance is researching the feasibility of purchasing vehicles outside of the DAS state term contract so that vehicles can be purchased earlier. Once a determination is made, vehicles will be purchased to replace those vehicles that meet the requirements for salvage.

Recommendation		Disposition
		Responsible: Chief Information Officer Target Resolution Date: December 2009 Previous Target Date(s): July 2009 Current Resolution Status: In Process
3	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. Significance Rating: Significant Weakness	FM is working to develop a process for supervisory review of each monthly vehicle report. Responsible: Chief Information Officer Target Resolution Date: December 2009 Previous Target Date(s): January 2009 Current Resolution Status: In Process
4	Develop and implement a procedure to verify the existence of personal liability insurance coverage required by law for all personal vehicles used for BWC business. Significance Rating: Significant Weakness	BWC Policy was updated to emphasize liability insurance is required when using a personal vehicle for state business. FM determined that the policy change is sufficient to meet the intention of the comment, and does not plan to require physical proof of coverage. Responsible: Chief Information Officer Target Resolution Date: March 2009 Current Resolution Status: Not Implemented
5	Verify employees have completed the Defensive Drivers Course (DDC) prior to issuing or authorizing the use of a vehicle. Significance Rating: Significant Weakness	In May, Safety Administration updated their Sharepoint site to include a list of all assigned drivers and their DDC training dates. FM will verify bi-annually (January & July) that the list of assigned drivers is accurate and all drivers are current with their DDC certification. Responsible: Chief Information Officer Target Resolution Date: August 2009 Previous Target Date(s): May 2009 Current Resolution Status: In Process
6	Expand existing policies for citizen complaints to encapsulate accidents and incidents so that the Administrator is notified of these events. Significance Rating: Significant Weakness	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. FM will now work with DAS to develop guidelines for handling high risk drivers defined to be drivers with 6 or more points. Responsible: Chief Information Officer Target Resolution Date: August 2009 Previous Target Date(s): May 2009 Current Resolution Status: In Process

Employer Policy Application Process Audit - March 2009

Recommendation		Disposition
1	<p>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. Significance Rating: Significant Weakness</p>	<p>PTC applications will be manually processed beyond the WCIS limitation using Audit Form FA5. The interim measure is on target for completion by September 2009. Prior to October 2009, policies and procedures will be updated and staff trained on process for entering and billing payroll for periods greater than two years. Responsible: Chief of Customer Services Target Resolution Date: July 2010 Current Resolution Status: In Process</p>
2	<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. Significance Rating: Significant Weakness</p>	<p>Policy Processing has met with Finance regarding the electronic interface and is assessing resource requirements. Responsible: Chief of Customer Services, Chief of Fiscal & Planning Target Resolution Date: January 2011 Current Resolution Status: In Process</p>
3	<p>Ensure steps are taken to obtain tax identification numbers from applicants and deny coverage when this information is not provided. Significance 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. Responsible: Chief of Customer Services Target Resolution Date: October 2009 Current Resolution Status: In Process</p>
4	<p>Restrict update access to application processing screens in WCIS and UDS Policy Processing Workflow to only those employees requiring such access to perform their job duties. Significance Rating: Significant Weakness</p>	<p>Employees not needing access will be identified and their security profiles changed for removal of access. Policy Processing is currently reviewing lists of employee access relative to job duties. Responsible: Chief of Customer Services Target Resolution Date: July 2009 Current Resolution Status: In Process</p>
5	<p>Ensure adherence to policy requirements and timeframes for contacting applicants to obtain missing information. Significance 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. Staff is currently working to modify a database in order to capture contact attempts. Responsible: Chief of Customer</p>

Recommendation		Disposition
		Services Target Resolution Date: December 2009 Current Resolution Status: In Process
6	Develop controls to provide assurance that applications are processed in the order received. Significance Rating: Significant Weakness	Policy Processing staff receive application assignments in order received. We are on target for reassignment of Underwriting resources that will also be assigned in order received. Responsible: Chief of Customer Services Target Resolution Date: October 2009 Current Resolution Status: In Process
7	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. Significance Rating: Significant Weakness	Written policies and procedures have been completed for the new WCIS Duplicate Policy Check. Management is evaluating changes to improve the ease of processing/reviewing potential duplicates (to be modified via IT demand management process). Responsible: Chief of Customer Services Target Resolution Date: October 2009 Previous Target Date(s): June 2009 Current Resolution Status: In Process
8	Document application reviews in the Reviews and Findings database in accordance with policy. Significance Rating: Significant Weakness	The Reviews and Findings database will be updated with reviews performed. Account/Examiner 4 Ohio Performance Review System documents will be updated to reflect review responsibility by July 2009. Responsible: Chief of Customer Services Target Resolution Date: January 2010 Current Resolution Status: In Process
9	Design a mechanism for detecting policies finalized outside of the UDS system and subject them to formal quality assurance reviews. Significance 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 Resolution Status: In Process

Auto Adjudication Audit (AA) - April 2009

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. Significance 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. Responsible: Chief of Customer Services Target Resolution Date: December 2009 Current Resolution 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. Significance Rating: Significant Weakness</p>	<p>An agency wide team has been established and led by the Medical Services Division. Responsible: Chief of Medical Services and Compliance Target Resolution Date: October 2013 Current Resolution 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. Significance 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. Responsible: Chief of Customer Services Target Resolution Date: December 2009 Current Resolution 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. Significance Rating: Significant Weakness</p>	<p>Management 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. Responsible: Chief of Customer Services Target Resolution Date: January 2010 Current Resolution Status: In Process</p>

Resource Access Control Facility Security Audit (RACF) - April 2009

Recommendation		Disposition
1	Create a Resource Access Control Facility (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 Resolution Status: In Process

BWC Internal Audit Division Audit Report Follow-Up Procedures

The *International Professional Practices Framework* specifically addresses Resolution of Senior Management's Acceptance of Risks in Standard 2600. 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 likelihood</u> 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 may be elevated to a Material Weakness (pending circumstances).

BWC Internal Audit Division FY 2010 Annual Audit Plan

Focus Area	1 st Qtr.			2 nd Qtr.			3 rd Qtr.			4 th Qtr.			Audit Effort
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
Investment Accounting Process													3
Coal Workers' Pneumoconiosis/Marine Fund Claims													4
SI Audit Consulting Engagement													2
Drug Utilization Review													5
External Audit Assistance													5
Coal Mine Safety Program													2
Premium Audit													5
Fixed Assets													3
Valuation, Performance Calculation and Reconciliations													2
Death Benefits													4
Temporary Total Disability Benefits													5
Disability Evaluator Panel Process													4
Self Insured Bankrupt Claims													4
Investment Compliance Monitoring													3
Employer Rate Adjustments													4
Safety & Hygiene													5
Employer Compliance													5
FY 2011 Audit Plan													2
Investment Personal Trading Policy													2
Percentage Permanent Partial Disability Benefits													4
Audit Validation Testing													5
MCO Audits													5

(Note: The above does not include IT audits to be performed by OIA.)

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
AG	Attorney General
BDR	Bond Detail Report
BSI	Bankrupt Self Insured
BWC	Bureau of Workers' Compensation
COR	Claims On-line Resources
CSD	Customer Service Division
DAS	Department of Administrative Services
DB	Direct Billing
DDC	Defensive Drivers Course (known as Online Drivers Training)
DMC	Disability Management Coordinator
DWRF	Disabled Workers' Relief Fund
FM	Fleet Management
FY	Fiscal Year
IAD	Internal Audit Division
ICD	International Classification of Diseases
IMS	Injury Management Supervisor
IPS	Investment Policy Statement
IT	Infrastructure and Technology or Information Technology
IW	Injured Worker
LSS	Lump Sum Settlement
MCO	Managed Care Organization
MSPA	Medicare Secondary Payer Act
PBM	Pharmacy Benefit Management
PSD	Premium Security Deposit
PTC	Prior to Coverage
PTD	Permanent Total Disability
QA	Quality Assurance
QES	Quarterly Executive Summary
RACF	Resource Access Control Facility
RFP	Request For Proposal
RSC	Rehabilitation Services Commission

Acronym	Description
SI	Self Insured
SIEGF	Self Insured Employers Guaranty Fund
SIRP	Self Insured Review Panel
SIU	Self Insured Underwriting
SSN	Social Security Number
UDS	Universal Document Service
WCIS	Workers' Compensation Insurance System

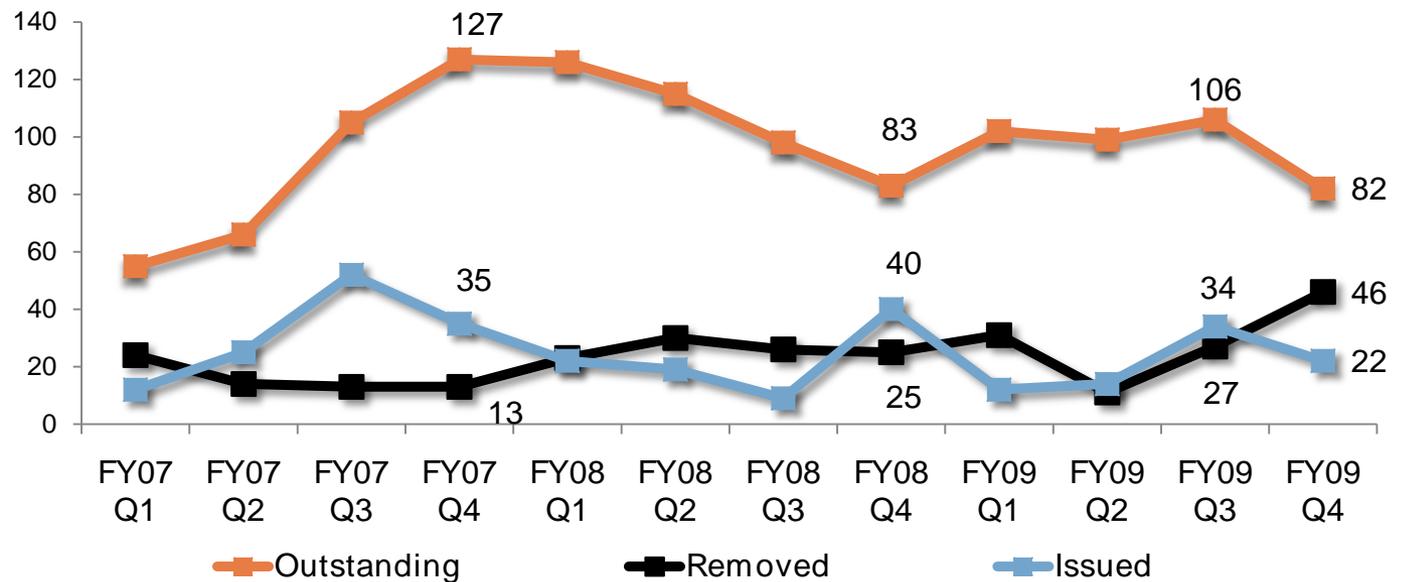


BWC Internal Audit Division

	FY09	FY09	FY09	FY09
	1st	2nd	3rd	4th
	Qtr	Qtr	Qtr	Qtr
Prior Total: Comments Outstanding	83	102	99	106
Plus: New Comments Issued	31	11	34	22
Minus: Comments Removed	-12	-14	-27	-46
New Total: Comments Outstanding	102	99	106	82
Not Rated	2	1	1	0
Material Weakness	22	21	20	17
Significant Weakness	78	77	85	65
New Total: Comments Outstanding	102	99	106	82



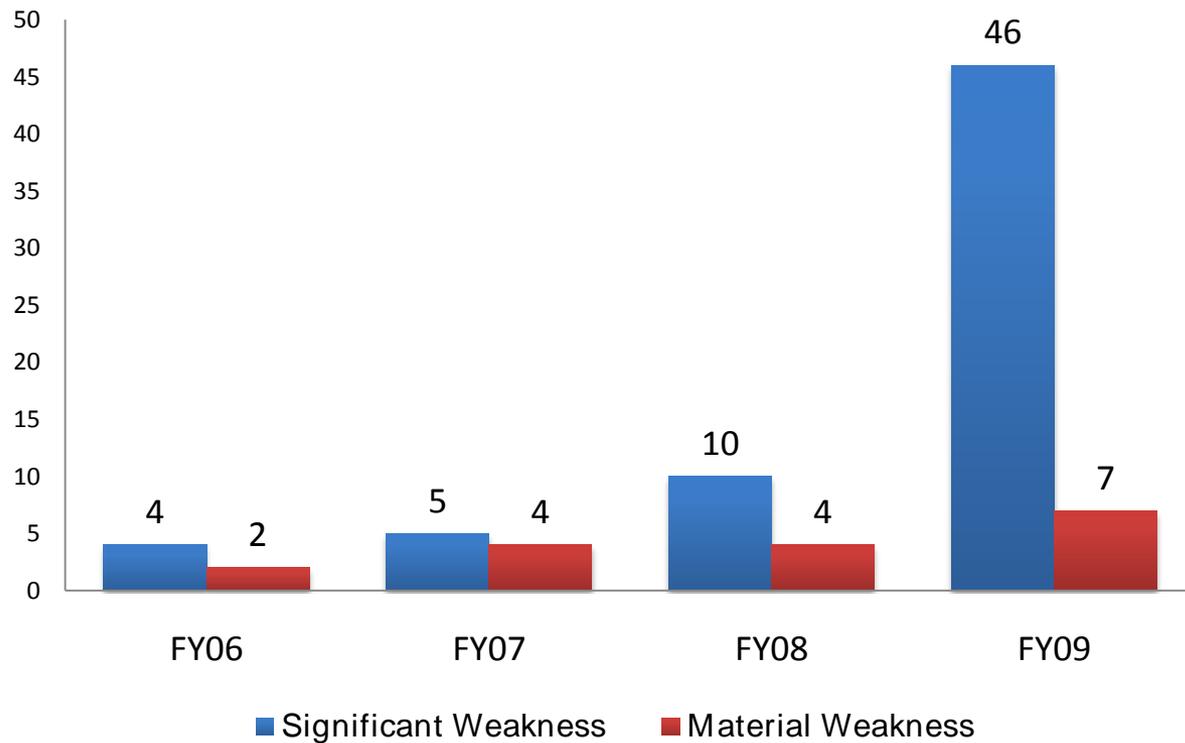
BWC Internal Audit Division





BWC Internal Audit Division

Outstanding Comments by Date Issued

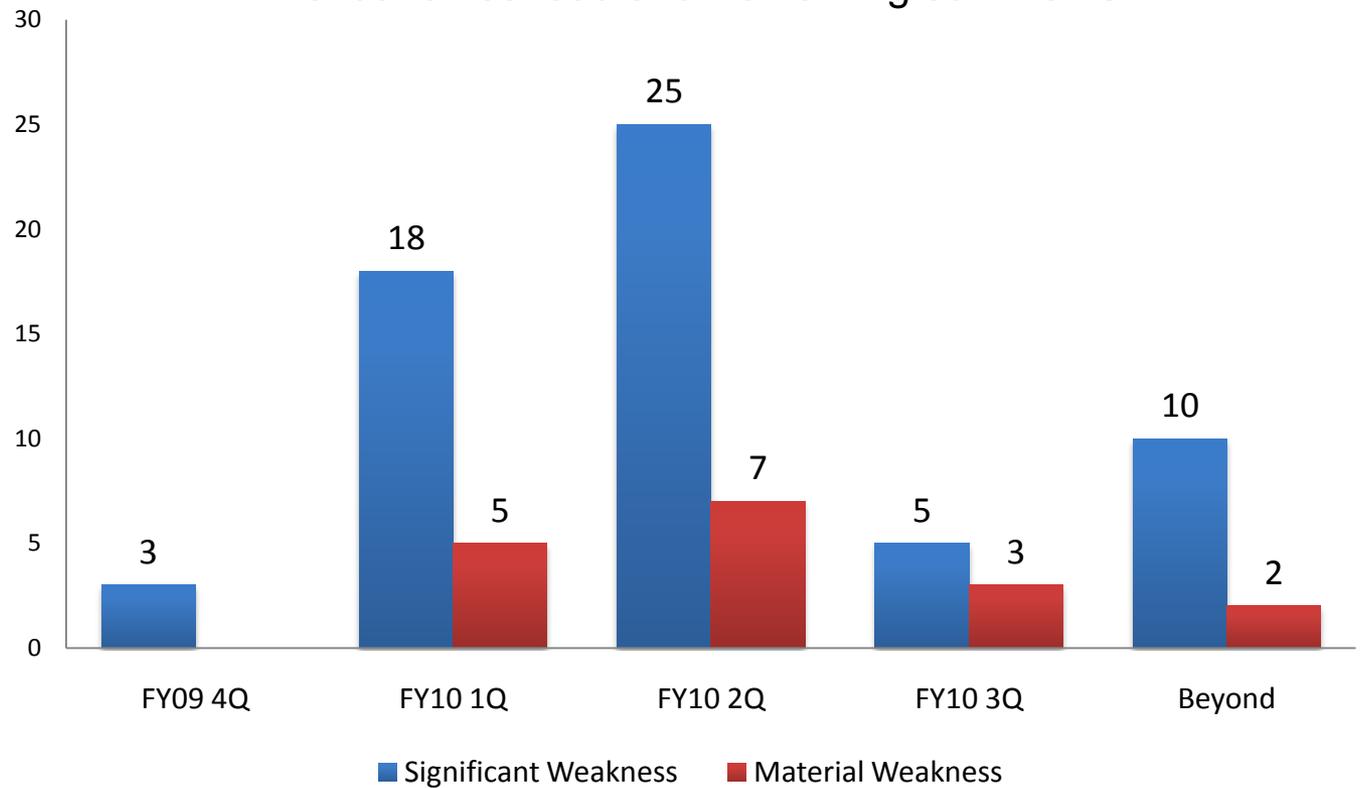


Note: Chart is based on a standard fiscal year.



BWC Internal Audit Division

Validation schedule for remaining comments

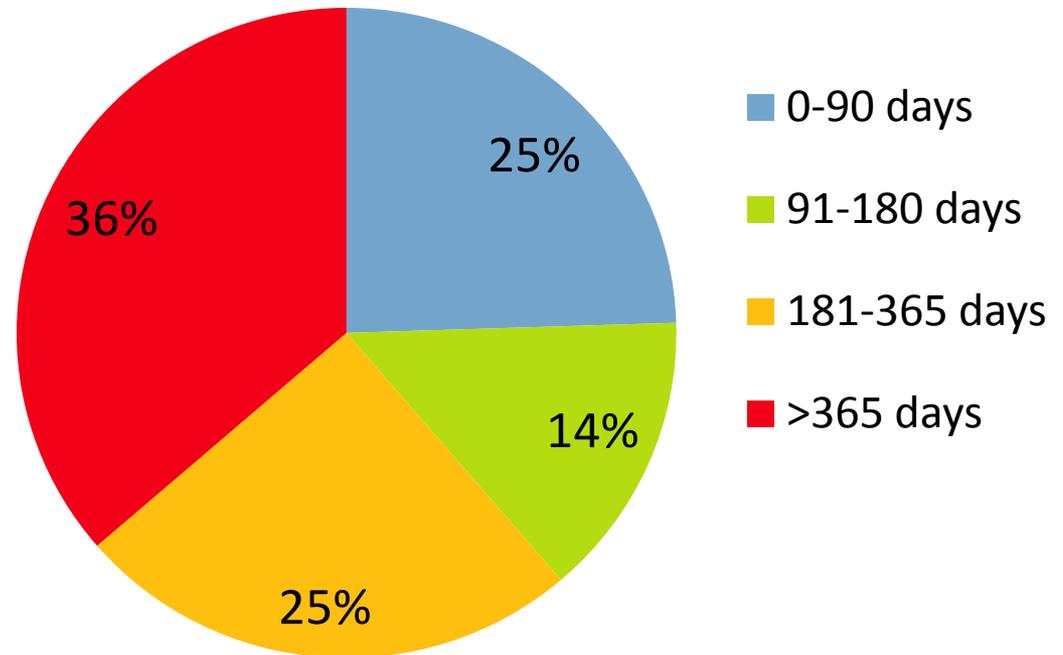


Note: Chart excludes 4 comments for which Management accepts the risk.



BWC Internal Audit Division

Time to Complete Comments
(audits since 2006)





Reserve for Compensation Accruals

September 24, 2009

Presented By: Barbara Ingram
Director of Accounting



Accrual Basis of Accounting

- Revenues are recognized when earned
- Expenses are recorded when incurred



Reserve Accruals

- Loss reserves are actuarial estimates of claim liabilities
- At the beginning of the year the annual estimated change in reserves is prorated and recorded on a monthly basis
- Estimated liabilities are updated quarterly with changes recognized in the Statement of Operations during the period in which the estimate is changed

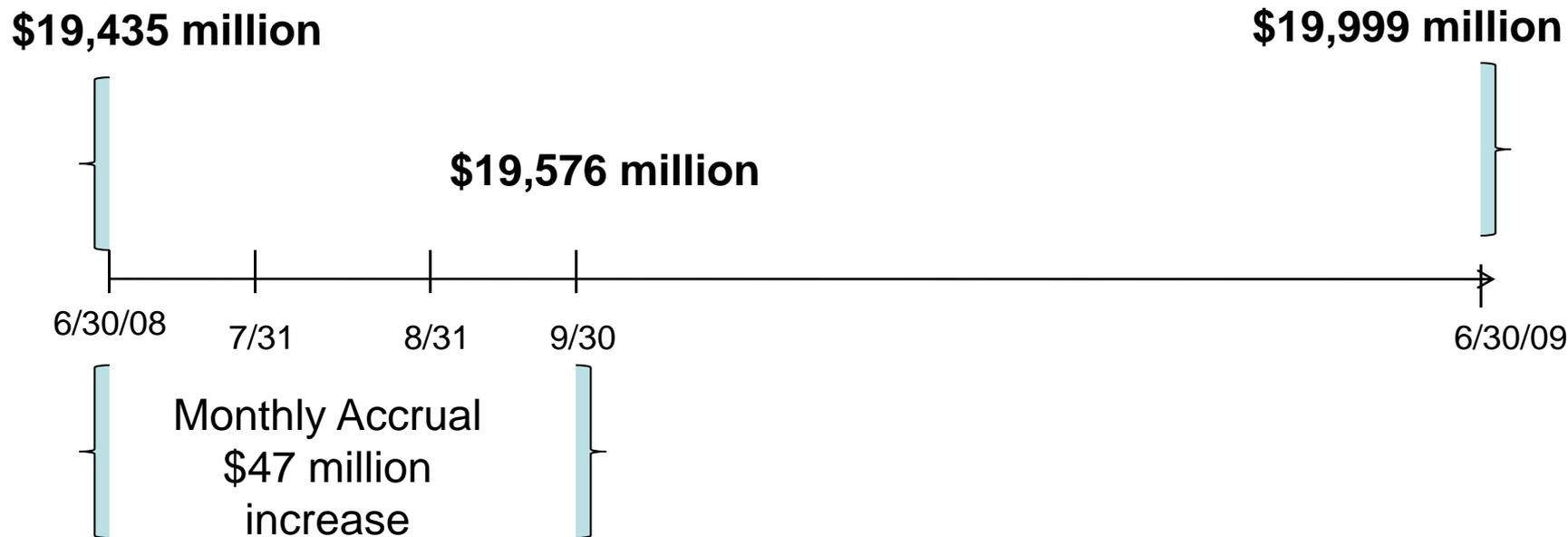


Reserve Accruals

Reserves at 6/30/08	\$19,435 million
6/30/09 Reserves – Initial Forecast	\$19,999 million
Annual Increase in Reserves	\$564 million
Monthly Increase	\$47 million



Initial Reserve Estimate





1st Quarter Reserve Evaluation

Reserves at 6/30/08	\$19,435 million
6/30/09 Reserves at 9/30/08	\$19,361 million
Annual Decrease in Reserves	\$74 million
Monthly Decrease	\$6 million



1st Quarter Reserve True-Up

1st Quarter Accrual	\$141 million increase
Updated Accrual	\$18 million decrease
True-up Adjustment	\$159 million decrease

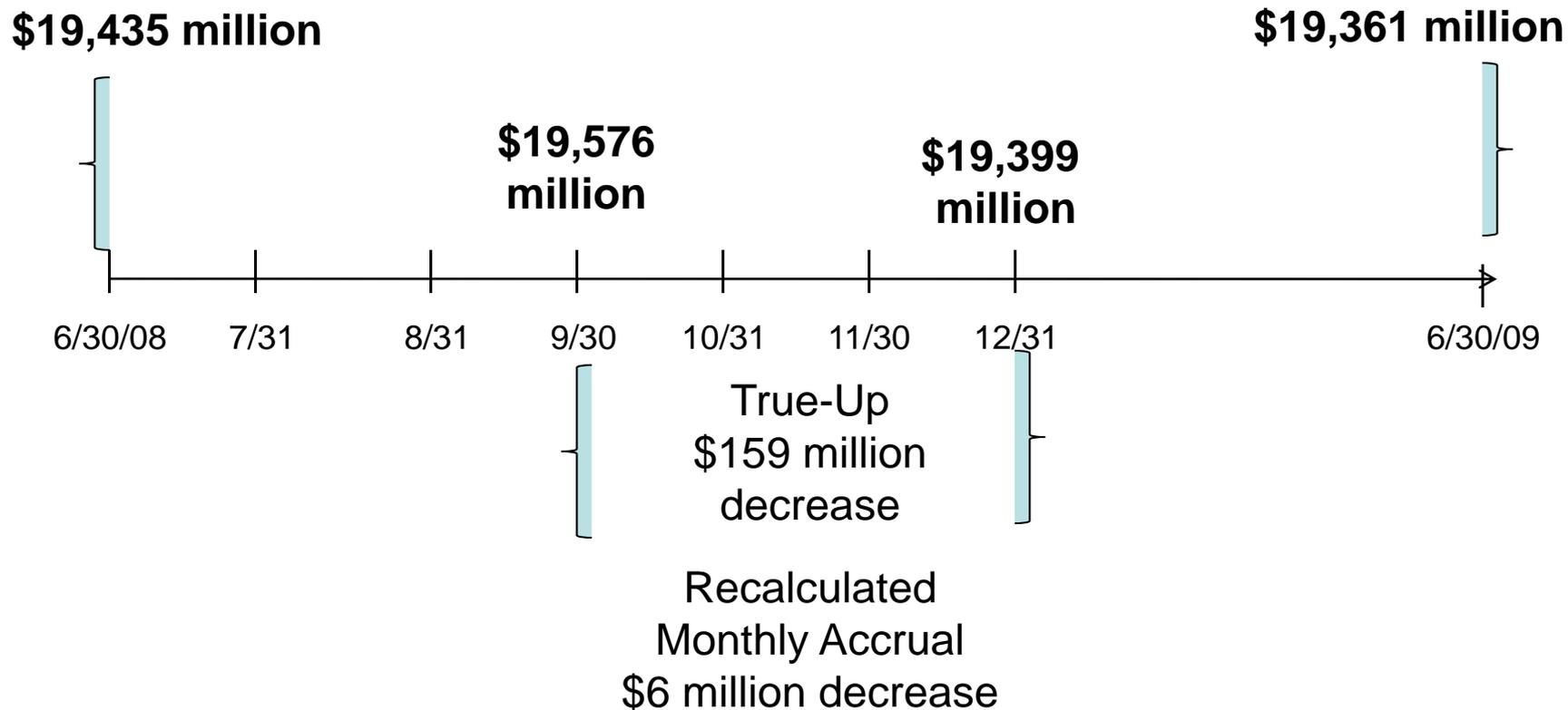


Reserves at June 30, 2009

Initial Forecast	\$19,999 million
At 9/30/08 Evaluation	\$19,361 million



1st Quarter Reserve Evaluation





2nd Quarter Reserve Evaluation

Reserves at 6/30/08	\$19,435 million
6/30/09 Reserves at 12/31/08	\$19,345 million
Annual Decrease in Reserves	\$90 million
Monthly Decrease	\$7.5 million



2nd Quarter Reserve True-Up

Accrual – 1st Half of Fiscal	\$36 million decrease
Updated Accrual	\$45 million decrease
True-up Adjustment	\$9 million decrease

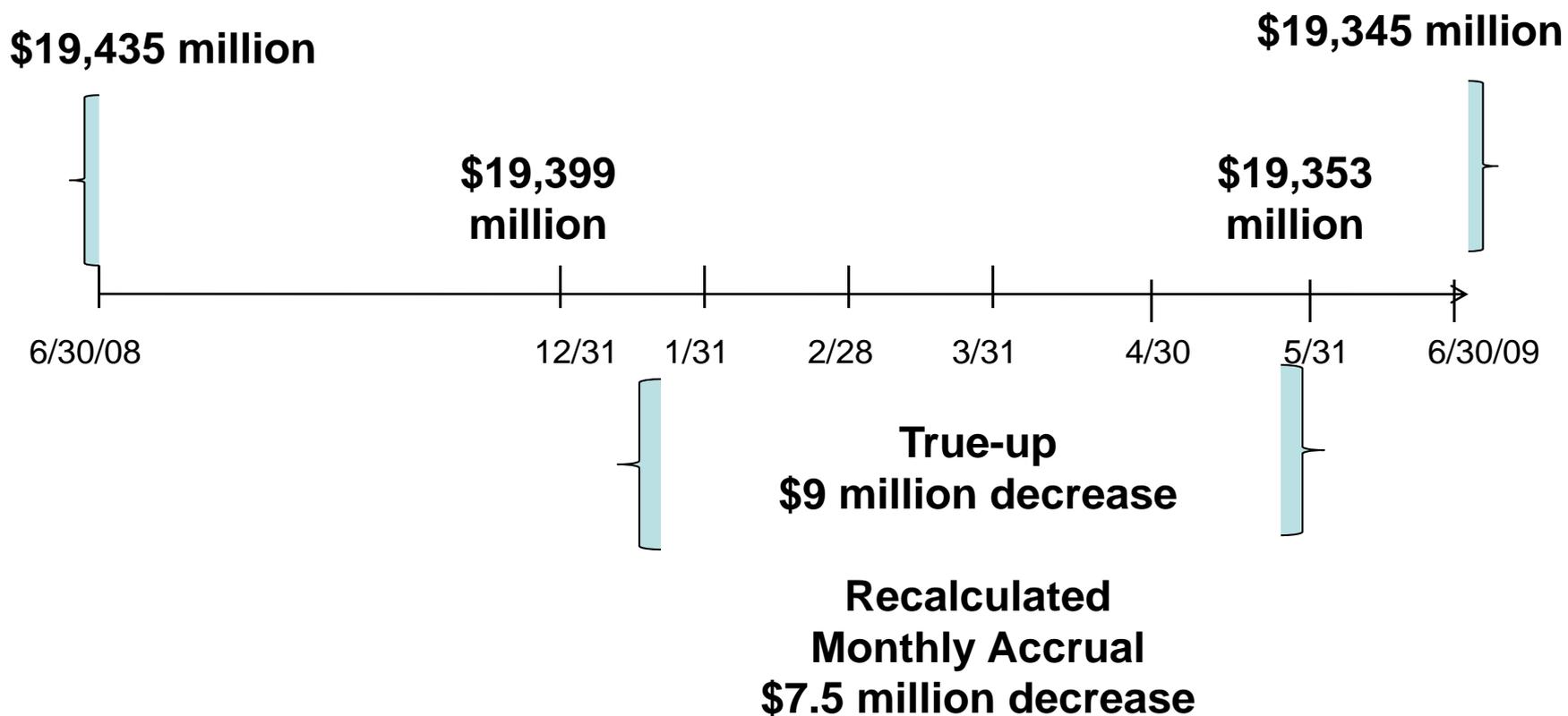


Reserves at June 30, 2009

Initial Forecast	\$19,999 million
At 9/30/08 Evaluation	\$19,361 million
At 12/31/08 Evaluation	\$19,345 million



2nd Quarter Reserve Evaluation





Annual Actuarial Reserve Analysis

Reserves at 6/30/08	\$19,435 million
6/30/09 Reserves at 3/31/09	\$19,289 million
Annual Decrease in Reserves	\$146 million
Monthly Decrease	\$12.2 million



Annual Reserve Analysis True-Up

Accrual – July through May	\$82.5 million decrease
Updated Accrual	\$134 million decrease
True-up Adjustment	\$52 million decrease



Reserves at June 30, 2009

Initial Forecast	\$19,999 million
At 9/30/08 Evaluation	\$19,361 million
At 12/31/08 Evaluation	\$19,345 million
At 3/31/09 Analysis	\$19,289 million



Annual Actuarial Reserve Analysis



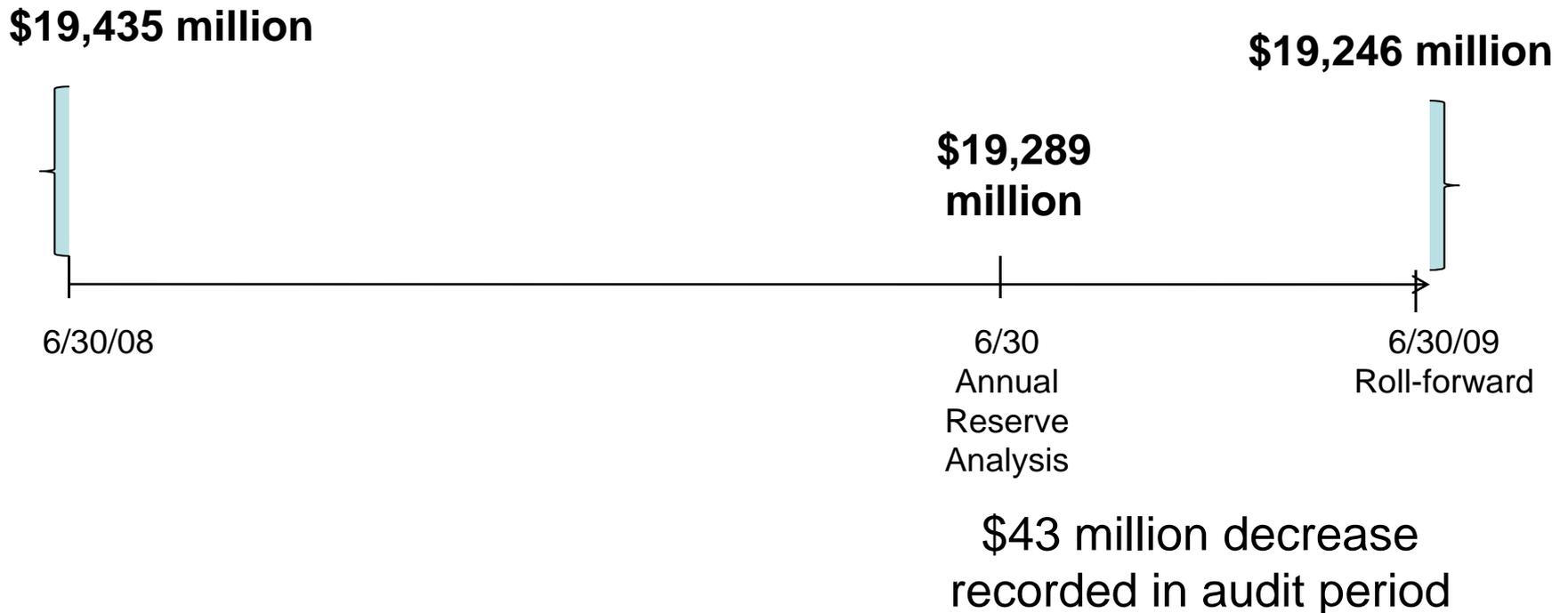


Annual Reserve Analysis Roll-Forward True-Up

Preliminary 6/30/09 Reserves	\$19,289 million
Roll-forward 6/30/09 Reserves	\$19,246 million
True-up Adjustment	\$43 million decrease



Actuarial Reserve Analysis Roll-Forward





Reserves at June 30, 2009

Initial Forecast	\$19,999 million
At 9/30/08 Evaluation	\$19,361 million
At 12/31/08 Evaluation	\$19,345 million
At 3/31/09 Analysis	\$19,289 million
At 6/30/09 Roll-forward	\$19,246 million

Statement of Operations

Fiscal year 2010

(in millions)

	Month Ended July 31, 2010	Month Ended Aug. 31, 2010
Operating Revenues	\$ 168	\$ 198
Operating Expenses	(205)	(180)
Operating Transfers to ODNR & WCC	-	-
Net Operating Gain (Loss)	<u>(37)</u>	<u>18</u>
Net Investment Income (Loss)	532	365
Increase (Decrease) in Net Assets	<u>495</u>	<u>383</u>
Net Assets, Beginning of the Period	2,615	3,110
Net Assets, End of Period	<u><u>\$ 3,110</u></u>	<u><u>\$ 3,493</u></u>

Statement of Operations
Fiscal year ending June 30, 2009
(in millions)

	Preliminary Fiscal Year June 30, 2009	Adjustments	Adjusted Fiscal Year June 30, 2009
	<u> </u>	<u> </u>	<u> </u>
Operating Revenues			
Premium & Assessment Income	\$ 2,454	\$ 114	\$ 2,568
Provision for Uncollectibles	(108)	-	(108)
Other Income	17	-	17
Total Operating Revenues	<u>2,363</u>	<u>114</u>	<u>2,477</u>
Operating Expenses			
Workers' Compensation Benefits	1,696	(29)	1,667
Compensation Adjustment Expenses	423	(17)	406
Other Expenses	94	(1)	93
Total Operating Expenses	<u>2,213</u>	<u>(47)</u>	<u>2,166</u>
Net Operating Gain (Loss)	150	161	311
Operating Transfer	(5)	-	(5)
Investment Income			
Interest and Dividend Income	738	-	738
Change in Fair Value of Investment Portfolio	(925)	(3)	(928)
Investment Expenses	(5)	-	(5)
Net Investment Income	<u>(192)</u>	<u>(3)</u>	<u>(195)</u>
Increase (Decrease) in Net Assets	(47)	158	111
Net Assets Beginning of Period	<u>2,503</u>	<u>-</u>	<u>2,503</u>
Net Assets End of Period (may not total due to rounding)	<u><u>\$ 2,456</u></u>	<u><u>\$ 159</u></u>	<u><u>\$ 2,615</u></u>
Increase (Decrease) in Net Assets - July			495
Increase (Decrease) in Net Assets - August			383
Net Assets at August 31, 2009			<u><u>\$3,493</u></u>

12-Month Audit Committee Calendar

Date	September 2009	Notes
9/24/2009	1. External Audit Update - Management Letter Comments, Other	
	2. Internal Audit QES Review	
	3. Enterprise Report Review	
Date	October 2009	
10/29/2009	1. Operation Review Report	
	2. Charter Review	
	3. Quarterly Litigation Update	
	4. IG Semi-Annual 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	
Date	December 2009	
12/16/2009	1. Internal Audit QES Review	
	2. Annual Disaster Recovery/Business Continuity Plan	
Date	January 2010	
1/21/2010	1. Enterprise Report Review	
	2. Quarterly Litigation Update	
Date	February 2010	
2/25/2010	1. To Be Determined	
Date	March 2010	
3/25/2010	1. Inspector General Annual Report	
	2. Internal Audit QES Review	
Date	April 2010	
4/29/2010	1. Discussion of External Audit	
	2. Quarterly Litigation Update	
Date	May 2010	
5/27/2010	1. FY 2011 Administrative Budget (1 st Reading)	
Date	June 2010	
6/17/2010	1. FY 2011 Financial Projections (1 st Reading)	
	2. FY 2011 Administrative Budget (2 nd Reading)	
	3. FY 2011 Audit Plan	
	4. Internal Audit QES Review	
	5. External Audit Update	
Date	July 2010	
7/29/2010	1. External Audit Update	
	2. Quarterly Litigation Update	
Date	August 2010	
8/26/2010	1. To Be Determined	