

BWC Board of Directors
Audit Committee Agenda

William Green Building
Wednesday, July 28, 2010

Level 2, Room 3
1:30 P.M. – 3:30 P.M.

Call to Order

Ken Haffey, Committee Chair

Roll Call

Jill Whitworth, Scribe

Approve Minutes of June 17, 2010 meeting

Ken Haffey, Committee Chair

Approve Agenda

Ken Haffey, Committee Chair

New Business/ Action Items

1. FY 2010 3rd Quarter Executive Summary
Caren Murdock, Chief of Internal Audit
2. OBM Office of Internal Audit FY 2011 IT Audit Update
Joe Bell, OBM Chief Audit Executive
Raj Subramanian, Chief of Business Process & IT Audit
3. Motions for Board Consideration
 - A. For First Reading
 1. FY 2011 Financial Projections
Tracy Valentino, Chief of Fiscal and Planning
 2. FY 2012/2013 Biennial Budget
Tracy Valentino, Chief of Fiscal and Planning

Discussion Items*

1. Open Discussion with Internal Auditor
Caren Murdock, Chief of Internal Audit
2. Committee Calendar
Ken Haffey, Committee Chair

3. Quarterly Litigation Update, Executive Session

James Barnes, General Counsel and Chief Ethics Officer

Adjourn

Ken Haffey, Committee Chair

Next Meeting: Thursday, August 26, 2010

* Not all agenda items have material.

** Agenda subject to change.

**BWC Board of Directors
Audit Committee**
FY 10 3rd Quarter Executive Summary Report

July 28, 2010

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

To: Audit Committee Members
From: Caren Murdock, Chief of Internal Audit
Date: July 28, 2010

Fiscal Year 2010 3rd Quarter Executive Summary report

Following you will find the Fiscal Year (FY) 2010 3rd Quarter Executive Summary (QES) Report containing:

1. Audit Comment Status
 - 1a. Audit Comments Issued 3rd Quarter
 - 1b. Audit Comments Outstanding as of March 31, 2010
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 Consulting Project Activity – 3rd Quarter Activity

Pending available resources, the Internal Audit Division (IAD) performs consulting projects for management when requested. Consulting services do not necessarily seek to attest or provide assurance; rather, they are advisory in nature and the scope is agreed upon with the client. Management assumes the risk for implementing or not implementing the recommendations. Consulting services are intended to add value and improve an organization's governance, risk management and control processes without the internal auditor assuming management responsibility. IAD does not opine on the process controls as a whole.

Coal Mine Safety Program Consulting Engagement - April 2010

Management requested that IAD review the Coal Mine Safety Program for the purpose of evaluating controls at both the Bureau of Workers' Compensation (BWC) and the Ohio Department of Natural Resources (ODNR) in effect for fiscal year 2009. In response, IAD conducted a consulting review of the Coal Mine Safety Program. IAD procedures included:

- Assessing the design of controls at BWC and verifying their implementation;
- Reviewing audit procedures performed by ODNR's internal audit department for the Coal Mine Safety Program and performing limited testing of those procedures; and
- Reviewing ODNR procedures for processing payroll and non-payroll expenditures.

IAD noted no material inappropriate expenditures during its limited review, and provided 4 recommendations to improve internal controls over the process.

Warrant Printing Consulting Project - April 2010

BWC recently transitioned the printing of warrants to the Ohio Department of Administrative Service's State Printing Operation. The BWC Fiscal and Planning Division requested that Internal Audit perform a review of the new procedures to see if there were any control issues with the new process.

Based on our review, most of the controls over the revised warrant printing process appear reasonable. The warrant balancing procedures serve as one of the primary controls over this process and the new process incorporates similar controls to those previously utilized at BWC. In addition, the BWC Benefits Payable and Infrastructure and Technology or Information Technology (IT) areas are very involved in this balancing process, which provides additional assurance that any warrant printing errors will be detected in a timely manner.

IAD provided 2 recommendations to strengthen internal controls of the Warrant Printing process.

Outside Investment Manager (OIM) Background Check Process - May 2010

The BWC IAD reviewed the Investment Division's Fingerprinting and Background Check process to:

- Evaluate if policies are consistent with statutory compliance requirements;
- Verify that Investment Division policies and procedures execute Investment Policy Statement (IPS) requirements;
- Determine if current internal controls are adequately designed and implemented; and
- Evaluate whether the Investment Division Compliance process is efficiently and effectively administered.

We determined that the Investment Division's OIM Background Check policies and procedures are generally consistent with and execute statutory and IPS requirements. The only exception is a requirement in ORC § 4123.444 (B)(1)(a) that requires a list of OIM personnel specifying each individual's residency for the past 5 years. Our review also identified 3 areas in which the design of controls could be strengthened or procedures improved.

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

Death Benefits Audit – April 2010

The BWC IAD conducted an audit of Death Claims. The purpose of the audit was to assist management in evaluating controls over death claims.

The audit scope consisted of death benefits payments processed between 10/01/2008 and 09/30/2009. The audit included a review of the following:

- Determining if current internal controls are adequately designed and implemented to properly safeguard agency assets;
- Verifying that death payments are processed in accordance with overall BWC policy/procedures and statutory requirements;
- Evaluating whether the death benefits process is efficiently and effectively administered:
 - Assessing the timeliness of death benefits processing and the sufficiency of management reporting processes in place to enable effective monitoring of processing timeframes;
 - Evaluating the adequacy of quality assurance review procedures to properly manage the process and ensure accuracy and appropriateness of death payment processing; and
- Providing recommendations to improve controls and reduce risks.

Recommendation		Disposition
1	Take steps to provide additional assurance regarding the accuracy of Average Weekly Wage (AWW) and benefit rate calculations in death claims. Rating: Material Weakness	Management has taken a number of steps to increase assurance regarding the accuracy of AWW and benefit rate calculations. Corrective actions included modifying the claim audit tool to require Injury Management Supervisors (IMS) to verify the accuracy of wage entry/calculation for each new death claim and conducting additional statewide training to all IMSs and Customer Service Specialists. Responsible: Chief of Customer Services Target Resolution Date: September 2010 Current Resolution Status: In Process
2	Modify the social security death cross-match to include death benefit recipients. Rating: Significant Weakness	Field Operations will work with IT to further investigate the possibility of modifying the social security death cross-match to include dependent Social Security Number (SSN) information. Responsible: Chief of Customer Services Target Resolution Date: January 2011

Recommendation		Disposition
		Current Resolution Status: In Process
3	<p>Revise controls to provide additional assurance that lump sum advancements (LSA) are recouped from death claims as required.</p> <p>Rating: Significant Weakness</p>	<p>Field Operations has taken steps to resolve the recoverable LSAs identified in the audit findings. Clarification on the appropriate way to pay the LSA for attorney fees and how to reduce the benefit plan has been sent to field staff. Furthermore, the claim audit tool has been updated to provide additional controls.</p> <p>Responsible: Chief of Customer Services Current Resolution Status: Implemented</p>
4	<p>Evaluate the cost vs. benefits of implementing an affidavit process (or other controls) to help prevent the issuance of lump sum advancements to individuals with terminal conditions. Ensure that advances are issued for purposes defined in the Ohio Revised Code, and that supporting documentation is appropriately submitted.</p> <p>Rating: Significant Weakness</p>	<p>Field Operations will work with Claims Policy to take steps that ensure advances are for needs as defined in the Ohio Revised code and that appropriate supporting documentation is submitted. Per Legal, BWC does not have the legal authority to mandate that a death dependent provide a medical affidavit in order to receive a Lump Sum Advancement.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: September 2010 Current Resolution Status: In Process</p>
5	<p>Revise death benefit policies to ensure benefits are appropriately reapportioned when dependants become ineligible.</p> <p>Rating: Significant Weakness</p>	<p>Management will work with Claims Policy to clarify policy to stipulate the necessary timeframe a dependent has to provide enrollment verification before BWC will reapportion their benefits to the remaining dependents.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: September 2010 Current Resolution Status: In Process</p>
6	<p>Ensure that beneficiaries eligible for funeral expense reimbursement are aware of their eligibility and follow up to ascertain that such expenses are paid.</p> <p>Rating: Significant Weakness</p>	<p>All newly created death benefit plans are now reviewed by the IMS as part of their Pre-Audit. The question "Were funeral expenses granted in the initial order?" was added to the Claim Audit Tool (Death Pre Audit) in March 2010.</p> <p>Responsible: Chief of Customer Services Current Resolution Status: Implemented</p>
7	<p>Revise the claim audit tool to require a Version 3 (V3) documentation evaluation as part of the supervisor review of all new death benefit plans.</p> <p>Rating: Significant Weakness</p>	<p>Changes to the Claim Audit Tool have been implemented to ask specific supporting documentation and imaging questions.</p> <p>Responsible: Chief of Customer Services Current Resolution Status: Implemented</p>

Overall, internal controls for the Death Benefits Audit were reasonably designed. However, the audit identified a material weakness related to the accuracy of AWW calculations for death claims, as well as a number of other weaknesses that management should address to help ensure efficient and effective operations.

Self Insured Underwriting (SIU) Unit Audit – April 2010
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The BWC IAD conducted an audit of the SIU unit. The purpose of the audit was to assist management in evaluating the efficiency of the SIU unit's operations. The audit evaluated operations in place from January 2009 through December 2009.

IAD evaluated whether SIU controls are adequately designed to ensure the following:

- Only employers that meet self-insured (SI) eligibility requirements and financial stability standards obtain and maintain the privilege to self-insure;
- Procedures are streamlined in order to process initial and renewal SI applications in a reasonable amount of time;
- The SI-40 (report of paid compensation) is received timely from SI employers;
- New securitization is required of SI employers before the securities on file expire; and
- Assessments are charged and payments are received from SI employers appropriately.

	Recommendation	Disposition
1	Establish a process with adequate controls over decisions to grant SI status or require securitization. Rating: Material Weakness	Management will develop and implement a policy that includes decision criteria for SI application approvals, letter of credit (LOC) requirements, a process for decision escalation, and establish separation of duties. Responsible: Chief of Customer Services Target Resolution Date: December 2010 Current Resolution Status: In Process
2	Develop and implement policies and procedures to ensure that only employers who meet SI eligibility requirements are able to obtain SI status. Rating: Significant Weakness	Management will document all substantive interpretations and applications of eligibility requirements in a policy statement and in process checklists. Responsible: Chief of Customer Services Target Resolution Date: December 2010 Current Resolution Status: In Process
3	Develop policies and procedures, reassign responsibilities, and work with IT to streamline the initial application processing procedures. Rating: Significant Weakness	Management will design an improved application process with a target of completing applications within 45 days of receipt. Responsible: Chief of Customer Services Target Resolution Date: December 2010 Current Resolution Status: In Process

Recommendation		Disposition
4	Develop and implement review procedures for SI renewal applications to assess the financial strength and administrative ability of employers including a process for non-renewal. Rating: Significant Weakness	Management will draft and implement a policy for non-renewal actions and will define consequences for non-compliance and lack of financial strength. Responsible: Chief of Customer Services Target Resolution Date: December 2010 Current Resolution Status: In Process
5	Develop and implement policies and procedures to identify SI employers that fail to submit the SI-40 report as required and estimate assessments for those that do not submit the report. Rating: Significant Weakness	Management will create procedures for SI-40 report monitoring, collection, and enforcement and will establish procedures to estimate paid compensation when not reported. Responsible: Chief of Customer Services Target Resolution Date: February 2011 Current Resolution Status: In Process
6	Explore potential system enhancements to better support the SIU unit's processes and determine if new SI employers without a predecessor policy should be charged the minimum New Employer Guaranty Fund assessment. Rating: Significant Weakness	Management will investigate causes and solutions for granting SI coverage to employers without preceding state fund policies and will evaluate and document controls to reconcile and update SI assessment databases. Responsible: Chief of Customer Services Target Resolution Date: March 2011 Current Resolution Status: In Process
7	Evaluate the appropriate assignment of responsibilities to ensure a proper segregation of duties between billing assessments, assembling and mailing assessment invoices, receiving payments from employers, and voiding late fees. Rating: Significant Weakness	Management will develop and implement a process that assigns the duties of billing via the Workers' Compensation Insurance System (WCIS), mailing invoices, receiving payments, and voiding amounts to appropriate departments within BWC. Responsible: Chief of Customer Services Target Resolution Date: December 2010 Current Resolution Status: In Process
8	Develop and implement policies and procedures to define how to proceed when a LOC issuer notifies BWC of an election not to renew. Rating: Significant Weakness	Management will define and document the process how to proceed when a LOC issuer notifies BWC of an election not to renew, explore the feasibility of creating a centralized mechanism to track the status of LOCs, and evaluate the need to adjust the standard LOC language. Responsible: Chief of Customer Services Target Resolution Date: December 2010 Current Resolution Status: In Process

Overall, internal controls for the SIU unit were not adequately designed to ensure that only eligible employers obtain and maintain SI privileges, comply with mandatory reporting requirements, and that SI assessments are properly billed and received. Our audit identified a number of areas in which controls could be strengthened or procedures improved to help ensure the SIU unit's operations are efficient and effective.

**BWC Internal Audit Division
Outstanding Audit Comments as of March 31, 2010**

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
1	<p>Consider converting all medical payments to the Cambridge system and prioritize the elimination of the MIIS system. Rating: Significant Weakness</p>	<p>The Health Partnership Program Systems Vendor 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>Partner with other agencies to conduct system cross-checks to identify non-complying and non-covered employers. Rating: Material Weakness</p>	<p>Reevaluation of the reduced staffing alternative of 2 permanent assignments from the Toledo and Lima/Mansfield Service Offices is underway, awaiting a final decision after review of Customer Service impacts to the identified service offices. Responsible: Chief of Customer Services Target Resolution Date: September 2010 Previous Target Date(s): December 2006, December 2007, April 2008, August 2008, March 2009, June 2009, October 2009, March 2010 Current Status: In Process</p>
2	<p>Consider increasing either the Premium Security Deposit or Minimum premium to compensate for potential losses incurred by BWC. 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. Management will further analyze this issue and the problems inherent in the minimum premium employer</p>

Recommendation		Disposition
		<p>population.</p> <p>Responsible: Chief Actuarial Officer Target Resolution Date: July 2011 Previous Target Date(s): December 2006, June 2007, December 2007, December 2008 Current Status: In Process</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>Non-group employers now pay at the appropriate level effective July 1, 2009. Transforming the group program to make it self-sustaining is still in progress. SB 213 is still in the legislature and would cause significant turmoil to the overall rate structure.</p> <p>Responsible: Chief Actuarial Officer Target Resolution Date: July 2012 Previous Target Date(s): January 2007, June 2007, July 2009, July 2011 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.</p> <p>Rating: Material Weakness</p>	<p>The planned risk assessment was completed in February, 2010. A gap analysis is in process, though completion has been impacted by high priority projects. Based upon preliminary results, several changes have been implemented. A plan to address the remaining issues identified as a result of the gap analysis will be documented and reviewed with the State auditors by April 2010.</p> <p>Responsible: Chief Information Officer Target Resolution Date: April 2010 Previous Target Date(s): March 2008, June 2008, August 2008, December 2008, March 2009, June 2009, September 2009 Current Resolution Status: In Process</p>

Pharmacy Benefit Manager (PBM) Audit – May 2007

Recommendation		Disposition
1	<p>Develop and implement a plan to strengthen oversight and improve management of the program. Rating: Significant Weakness</p>	<p>BWC is utilizing the expertise of our PBM to assist in the review of our clinical program. A surveillance report on controlled substance utilization was recently submitted that BWC will use to target areas for improvement. BWC will also compare the BWC pharmacy program results with some of the key metrics published in Workers' Compensation pharmacy trends and statistics reports. Reports are being developed for on-going QA and monitoring. Responsible: Chief of Medical Services and Compliance Target Resolution Date: September 2010 Previous Target Date(s): September 2007, December 2009 Current Status: In Process</p>
2	<p>Leverage services available by the vendor to enhance the likelihood that the goals and objectives of the PBM program will be achieved. Rating: Significant Weakness</p>	<p>BWC transitioned to a new PBM vendor, in November 2009. The PBM has submitted daily reports to BWC on the implementation and processing status. Once the transition is stabilized, the PBM will finalize reports for each of the service level agreements (SLA) identified in the contract. Additionally, other operational and clinical reports have been identified and will be developed. BWC has access to data warehouse for generating ad hoc reports. Responsible: Chief of Medical Services and Compliance Target Resolution Date: April 2010 Previous Target Date(s): November 2007, March 2008, April 2008, August 2008, October 2009 Current Status: In Process</p>

Vocational Rehabilitation Audit – October 2007

Recommendation		Disposition
1	<p>Implement a monthly process that requires Disability Management Coordinators (DMCs) to review costs</p>	<p>Voc Rehab Policy will again address with Regional managers the feasibility of having DMCs review costs monthly for a</p>

	Recommendation	Disposition
	<p>associated with a sample of claims to determine reasonableness and appropriateness. DMC responses would be returned to Voc Policy for summarization and determination if further action is warranted (i.e., policy clarification, contact with provider to discuss observations, etc.).</p> <p>Significance Rating: Material Weakness</p>	<p>sample of claims each month. If agreed upon, training would be required to educate the DMCs on the purpose of the review, expectations and documentation requirements.</p> <p>Responsible: Chief of Medical Services and Compliance</p> <p>Target Resolution Date: September 2010</p> <p>Previous Target Date(s): April 2008, June 2008, December 2008, April 2009, October 2009, December 2009, June 2010</p> <p>Current Resolution Status: In Process</p>
2	<p>Eliminate the potential conflict of interest created by Managed Care Organizations (MCO)s that refer vocational rehabilitation cases to their related companies.</p> <p>Significance Rating: Material Weakness</p>	<p>The MCO referral patterns research document was presented to the Board of Directors at the April 2010 meeting.</p> <p>Responsible: Chief of Medical Services and Compliance</p> <p>Target Resolution Date: May 2010</p> <p>Previous Target Date(s): October 2008, January 2010</p> <p>Current Resolution Status: In Process</p>
3	<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.</p> <p>Significance Rating: Material Weakness</p>	<p>RSC committed to providing the required data elements, including the new data elements included in the contract to validate costs, to BWC in April 2010. Once received, BWC will analyze costs for reasonableness and appropriateness.</p> <p>Responsible: Chief of Medical Services and Compliance</p> <p>Target Resolution Date: July 2010</p> <p>Previous Target Date(s): June 2008, October 2008, June 2009, January 2010</p> <p>Current Resolution Status: In Process</p>
4	<p>Establish effective quality assurance review procedures to ensure controls and activities performed by DMCs are proper, timely, and in accordance with policies and statutes.</p> <p>Significance Rating: Significant Weakness</p>	<p>Rehab Policy collaborated with the Customer Services division to finalize policies and procedures for the quality review of DMC performance activities. In February, a 90 day pilot was implemented at three service offices to test this new process. Upon completion of the pilot, feedback will be reviewed and revisions made, if necessary, before statewide roll-out. Thereafter, Rehab Policy will review the outcomes monthly to identify DMC training requirements, potential revision of policy/procedures and to trend significant events.</p> <p>Responsible: Chief of Medical Services</p>

Recommendation	Disposition
	and Compliance Target Resolution Date: September 2010 Previous Target Date(s): June 2008, August 2008, April 2009, January 2010 Current Resolution Status: In Process

Medical Bill Payment Process Audit – March 2008
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Recommendation	Disposition
<p>1 Monitor and track the certification application process to verify all providers are routinely reapplying for certification and providing the Bureau with credentialing information. Significance Rating: Significant Weakness</p>	<p>A provider recertification project plan has been developed. There are Provider Enrollment and Certification Housing (PEACH) enhancements required to fully implement this process systematically. This will be presented to the Project Governance Board for approval and prioritization. Provider Relations is addressing those areas of the process that are not dependent upon system resources. The target date has been modified due to IT resource constraints. Responsible: Chief of Medical Services and Compliance Target Resolution Date: January 2011 Previous Target Date(s): December 2008, June 2009, December 2009, September 2010 Current Resolution Status: In Process</p>
<p>2 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. Significance Rating: Significant Weakness</p>	<p>BWC is working with the Department of Administrative Services on an RFP that includes transition to direct provider payment. It is anticipated that the RFP will be issued in May 2010. In the short term, the Medical Services Division has reports which track bill submission and payment timelines. Responsible: Chief of Medical Services and Compliance Target Resolution Date: May 2010 Previous Target Date(s): December 2008, January 2010, February 2010 Current Resolution Status: In Process</p>

Subrogation Audit – May 2008

Recommendation		Disposition
1	<p>Collaborate with IT to explore potential system enhancements to better support the subrogation process.</p> <p>Significance Rating: Significant Weakness</p>	<p>The BWC Project Governance Committee has approved the funds to update the claims management (V3) system. The project is targeted for FY 2011.</p> <p>Responsible: Chief Legal Officer Target Resolution Date: July 2011 Previous Target Date(s): December 2009, July 2010 Current Resolution Status: In Process</p>

Lump Sum Settlement Process 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 has been completed and implemented in April 2009, Phase II which includes creating agency-wide measurable objectives will be trained in April 2010 with an effective date July 2010. However, Phase III which is pursuit of settlement and other settlement tools including Net Present Value, success of the settlement program, etc, will not be implemented until at least July 2011.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: July 2011 Previous Target Date(s): February 2009, January 2010, April 2010 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 goals and objectives.</p> <p>Significance Rating: Significant Weakness</p>	<p>Management reports were created to monitor the goals and objectives associated with Phase II. Training will take place in April 2010 with an implementation date of July 2010. As Phase III is completed, other management reports will be created.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: July 2011 Previous Target Date(s): June 2009, January 2010, April 2010 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. Significance Rating: Significant Weakness</p>	<p>All IT policies and procedures related to this recommendation have been completed and await final review by Human Resources. A schedule for reviewing policies for the Employee Handbook is being developed. Responsible: Chief Human Resource Officer Target Resolution Date: June 2010 Previous Target Date(s): December 2009 Current Resolution Status: In Process</p>

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>A request was presented to the IT Governance Committee in December 2009 for prioritization and resources as part of the new application process (Kaizen). In the interim, all applications with PTC periods are being referred for premium audit. 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>The IT Governance Committee approved the request and IT staff has begun working on the project. Finance has provided information and met with IT to assist with the systems analysis process. Responsible: Chief of Customer Services, Chief of Fiscal and Planning Target Resolution Date: January 2011 Current Resolution Status: In Process</p>
3	<p>Design a mechanism for detecting policies finalized outside of the Universal Document Service (UDS) system and subject them to formal quality assurance reviews. Significance Rating: Significant Weakness</p>	<p>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 will be created and implemented. Responsible: Chief of Customer Services Target Resolution Date: April 2010 Current Resolution Status: In Process</p>

Auto Adjudication Audit (AA) - April 2009

Recommendation		Disposition
1	<p>Establish a process and/or decision making body to institute programmatic goals and performance measures. Assess the progress toward achieving those goals or identify issues for further investigation by utilizing existing Data Warehouse reports to support ongoing management and monitoring of manual activities performed in support of looping AA claims.</p> <p>Significance Rating: Significant Weakness</p>	<p>Procedures have not been finalized for review. Management anticipates this being completed by June. During this process, management will address the back-end reports and how they will be monitored.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: June 2010 Previous Target Date(s): December 2009 Current Resolution Status: In Process</p>
2	<p>Develop and implement procedures to evaluate claims with invalid SSNs to determine the extent of losses, management's tolerance of risks, and strategies to mitigate risks and their associated costs.</p> <p>Significance Rating: Significant Weakness</p>	<p>Management has developed a monthly process that will include two crossmatches: an initial crossmatch with Centers for Medicare and Medicaid Services (CMS); and a secondary crossmatch with the Social Security Administration. CMS experienced a few problems with processing/cross matching the BWC file of more than 900,000 SSNs. BWC received a file from CMS in May 2010 and IT plans to attempt the cross match again to ensure CMS has resolved their issues.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: January 2011 Previous Target Date(s): January 2010 Current Resolution Status: In Process</p>

Change Management Audit - June 2009

Recommendation		Disposition
1	<p>Better communicate or define an emergency change and require SLA with the end-user community.</p> <p>Rating: Significant Weakness</p>	<p>An email documenting the appropriate use of Emergency changes was sent to IT operations supervisors to re-iterate what constitutes an emergency change. Key performance indicators relative to the use of emergency changes are now reviewed at the monthly Change Advisory Board meetings. The resource originally assigned responsibility for documenting a formal SLA process is no longer in the department and the Service Management Office (SMO) manager in IT Strategy &</p>

Recommendation		Disposition
		Governance has assumed this responsibility. Responsible: Chief Information Officer Target Resolution Date: August 2010 Previous Target Date(s): November 2009, March 2010 Current Status: In Process
2	Enforce compliance with the prescribed change management processes, either through tool enhancements or management review of the change requests. Rating: Significant Weakness	A detailed plan to address this recommendation was completed March 2010. Two different approaches have been identified, modifications to the existing change management process or implementation of a purchased comprehensive software package that includes a change management process. Enhancements to the existing system would take until February 2011 to complete. If the requested budget is approved, it is expected that it will take until June 2011 to implement the package and eliminate the current change management process. At this time, the plan is to take the package approach pending approval for the expenditure rather than make changes to the existing system. In the event that approval is not received to purchase the comprehensive software solution, modifications to the existing change management application will be undertaken. Responsible: Chief Information Officer Target Resolution Date: June 2011 Previous Target Date(s): November 2009, March 2010 Current Status: In Process

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

Recommendation		Disposition
1	Develop and implement all-inclusive policies and procedures for the BSI securitization process. Rating: Material Weakness	SIU and Accounts Receivable Direct Billing (ARDB) have completed a joint process mapping project with regard to interactive processes between the two departments. SIU and ARDB have discussed and resolved outstanding issues concerning the transmission of securities from SIU to ARDB. Policies and

Recommendation		Disposition
		procedures should be completed in June. Responsible: Chief of Customer Services, Chief of Fiscal and Planning Target Resolution Date: June 2010 Previous Target Date(s): 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 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	A new collection policy was drafted and sent to Legal for concurrence. Law reviewed the policy and their comments were incorporated into the final procedures. Responsible: Chief of Fiscal and Planning Target Resolution Date: December 2010 Previous Target Date(s): October 2009, December 2009, March 2010 Current Status: In Process
3	Determine and document the effective dates for securitization and Self Insured Employers Guaranty Fund (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 has resolved 21 of the 32 exceptions. SI has agreed to provide information needed to resolve the remaining exceptions in April. Responsible: Chief of Fiscal and Planning Target Resolution Date: April 2010 Previous Target Date(s): August 2009, November 2009, March 2010 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	Accounting has made progress resolving the identified exceptions. Based on current work priorities in SIU they have agreed to provide any information needed to resolve exceptions by June. We have mutually agreed that the target date should be updated to June 2010. Responsible: Chief of Customer Services, Chief of Fiscal and Planning Target Resolution Date: June 2010 Previous Target Date(s): June 2009, December 2009, March 2010 Current Status: In Process
5	Segregate the duties of requesting the security, receiving and recording the security, and having access to the security. Rating: Significant Weakness	Underwriting will finalize a written segregation of duties policy for securities. Any necessary modifications to the UDS workflow will be implemented as well. Responsible: Chief of Customer Services Target Resolution Date: August 2010 Previous Target Date(s): June 2009,

Recommendation		Disposition
		August 2009, January 2010 Current Status: In Process
6	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. Rating: Significant Weakness	The securities inventory has been compiled and is being maintained on an ongoing basis. Management is currently performing Quality Assurance procedures to ensure that the listing is accurate and complete. Responsible: Chief of Customer Services Target Resolution Date: March 2011 Current Status: In Process
7	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 V3 status for those that had defaulted. Rating: Significant Weakness	This comment identified seven policies whose statuses were not bankrupt per WCIS, but were included in the Rates & Payments System as defaulted. Management has updated all policies except one, which is pending. Procedures have been updated to document how BWC will handle pending defaults and to ensure that all the necessary data has been received. Responsible: Chief of Customer Services, Chief of Fiscal and Planning Target Resolution Date: June 2010 Previous Target Date(s): December 2009 Current Status: In Process
8	Work with IT to create a new system for tracking securitization balances or implement additional controls specific to the Microsoft Excel format. Rating: Significant Weakness	An additional review and approval process has been implemented to improve accuracy of current process for tracking security balances. IT has completed a scope and requirements document for this project. Work is performed around higher priority projects. Responsible: Chief of Fiscal and Planning Target Resolution Date: May 2010 Previous Target Date(s): December 2009 Current Status: In Process

Collections Audit - June 2009

Recommendation		Disposition
1	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

Recommendation		Disposition
		Current Status: In Process

Employer Workers' Compensation Insurance System (WCIS) Credit Transactions Audit – January 2010
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Recommendation		Disposition
1	Perform an examination of the existing processes for claim cost transfers and develop controls to provide assurance that such transfers only occur when valid and properly authorized. Rating: Material Weakness	Mapping and value streaming of “as is” processes are complete. New policies and procedures will be in place by the end of 2010. Responsible: Chief of Customer Services Target Resolution Date: December 2010 Current Resolution Status: In Process
2	Revise premium audit procedures to require copies of pertinent employer payroll records be obtained and included in audit workpapers. Rating: Significant Weakness	Management will identify the resource requirements to support records capture in some premium audit workpapers and will develop policies outlining the criteria for which audits will require supporting documentation. Responsible: Chief of Customer Services Target Resolution Date: July 2010 Current Resolution Status: In Process
3	Revise premium audit policies to require review of audit findings of less than \$200 on a sample basis and reconsider the dollar threshold for the posting of such findings to WCIS. Rating: Significant Weakness	Management will revise the audit review process to incorporate a review of a sample of “No Findings Without Classification Changes” and “Insignificant Findings Without Classification Changes” audits. Responsible: Chief of Customer Services Target Resolution Date: April 2010 Current Resolution Status: In Process
4	Revise premium audit policies and procedures to provide guidelines for a consistent estimated audit methodology. Rating: Significant Weakness	Management will develop policies and procedures for the estimated audit process. The procedures will include guidance for the documentation of estimated audits and a review process. Responsible: Chief of Customer Services Target Resolution Date: June 2010 Current Resolution Status: In Process
5	Revise the QA process for the “PA Adjustments” report so that all significant transactions are subject to independent review. Develop a QA review process for the transactions processed by the supervisor performing the weekly review of the report. Rating: Significant Weakness	Management will establish achievable goals for review of transactions appearing on the “PA Adjustments” report and will modify policies to ensure proper review and documentation. Responsible: Chief of Customer Services Target Resolution Date: June 2010 Previous Target Date(s): April 2010

Recommendation		Disposition
		Current Resolution Status: In Process
6	Implement control procedures to provide additional assurance that the accounts to be written off are appropriate. Rating: Significant Weakness	Management will draft policies and procedures for completing a reconciliation of the file for writing off accounts identified as cancel uncollectible to the file of accounts received from the Attorney General and implement reconciliation procedures. Responsible: Chief of Fiscal and Planning Target Resolution Date: April 2010 Current Resolution Status: In Process
7	Improve controls to provide assurance that only properly authorized safety council rebate and performance bonuses are issued. Rating: Significant Weakness	Management will update the safety council resolution process with IT in its 2010 rebate this July. Responsible: Chief of Customer Services Target Resolution Date: July 2010 Previous Target Date(s): January 2010 Current Resolution Status: In Process

Fixed Asset Audit – February 2010

Recommendation		Disposition
1	Develop written procedures for the physical inventory process and ensure that it is performed over a shorter timeframe. Develop formal, cross-functional investigative procedures for items not found during the inventory. Modify the reporting process of inventory results to improve transparency. Rating: Significant Weakness	Management is rewriting the physical inventory procedures that will incorporate reducing physical inventory time and investigative procedures for not-found assets. Responsible: Chief Information Officer Target Resolution Date: June 2010 Current Resolution Status: In Process
2	Improve controls over inventory transfers. Create standard transfer documentation formats, implement a supervisory sign-off requirement for transfers, and formalize asset transfer policies in the BWC employee handbook. Rating: Significant Weakness	Management will work with communications on a marketing program to promote the proper inventory control procedures (BWCWeb). A form for fixed asset management similar to the Infrastructure and Technology Request Form will be placed on BWC Division Pages, and Records & Information Management retention schedules that are needed for the party releasing the assets will be discussed with Legal. Responsible: Chief Information Officer Target Resolution Date: June 2010 Current Resolution Status: In Process

Recommendation		Disposition
3	<p>Modify the Oracle asset management system to comply with State policy or acquire another more capable application.</p> <p>Rating: Significant Weakness</p>	<p>Additional Oracle enhancements will be discussed that will include employee name and location. Management would like to pilot a small group of assets prior to implementing statewide.</p> <p>Responsible: Chief Information Officer Target Resolution Date: June 2010 Current Resolution Status: In Process</p>
4	<p>Improve controls over component parts, including inventory records for all portable components over a given cost threshold, establish written policies and procedures, and improve data integrity controls.</p> <p>Rating: Significant Weakness</p>	<p>The Asset Manager will meet with the Service Center and Network Directors to complete workflow on how to reconcile component parts.</p> <p>Responsible: Chief Information Officer Target Resolution Date: June 2010 Current Resolution Status: In Process</p>
5	<p>Develop written procedures for the QA reviews performed by the Inventory Control Officer that include a requirement to document the items selected for examination and a description of the minimum steps to be performed.</p> <p>Rating: Significant Weakness</p>	<p>Quality initiatives and reporting are currently in place. Management will begin documenting the process. Monthly reports will be forwarded to IT Director and SMO Manager each month.</p> <p>Responsible: Chief Information Officer Target Resolution Date: June 2010 Current Resolution Status: In Process</p>
6	<p>Restrict access to furniture, equipment and supplies to individuals responsible for them. Take steps to ensure that furniture transfers are properly authorized, documented and tracked.</p> <p>Rating: Significant Weakness</p>	<p>The salvage area at the warehouse will be assessed and recommendations will be made to Facilities.</p> <p>Responsible: Chief Information Officer Target Resolution Date: June 2010 Current Resolution Status: In Process</p>
7	<p>Restructure, or otherwise supplement, the Inventory Control Unit to provide for adequate segregation of duties and compliance with State policy.</p> <p>Rating: Significant Weakness</p>	<p>Management is in the process of posting the Inventory Control Supervisor position to improve segregation of duty issues.</p> <p>Responsible: Chief Information Officer Target Resolution Date: June 2010 Current Resolution Status: In Process</p>
8	<p>Design and implement a formal monthly reconciliation process to account for any differences between the assets added to the Oracle system and total purchases reported in the Equipment Payment Reports.</p> <p>Rating: Significant Weakness</p>	<p>Management is working with Accounts Payable to ensure that the payment reports are received and reconciled on a monthly basis. The new process will be documented and a formalized report prepared. The report will be distributed to the IT Director and SMO Manager on a monthly basis.</p> <p>Responsible: Chief Information Officer Target Resolution Date: April 2010 Current Resolution Status: In Process</p>

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, and 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 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 significantly 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	
Coal Workers' Pneumoconiosis/Marine Fund Claims													4
SI Audit Consulting Engagement													4
Drug Utilization Review													5
WCIS Credits/Claims Cost Transfer													4
External Audit Assistance													5
Warrant Printing Process													2
Coal Mine Safety Program													2
Investment Accounting & Reconciliation Processes													4
Death Benefits													4
Fixed Assets													3
Self Insured Underwriting													3
Premium Audit													
Employer Rate Adjustments													
FY 2011 Audit Plan													3
Investment Compliance Monitoring													3
Safety & Hygiene													4
DWRF													4
Employer Compliance													5
Temporary Total Disability Benefits													4
Investment Personal Trading Policy													2
Audit Validation Testing													5
MCO Audits													5

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

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

	Original Audit Plan
	Revised Audit Plan

BWC Internal Audit Division

QES Acronyms

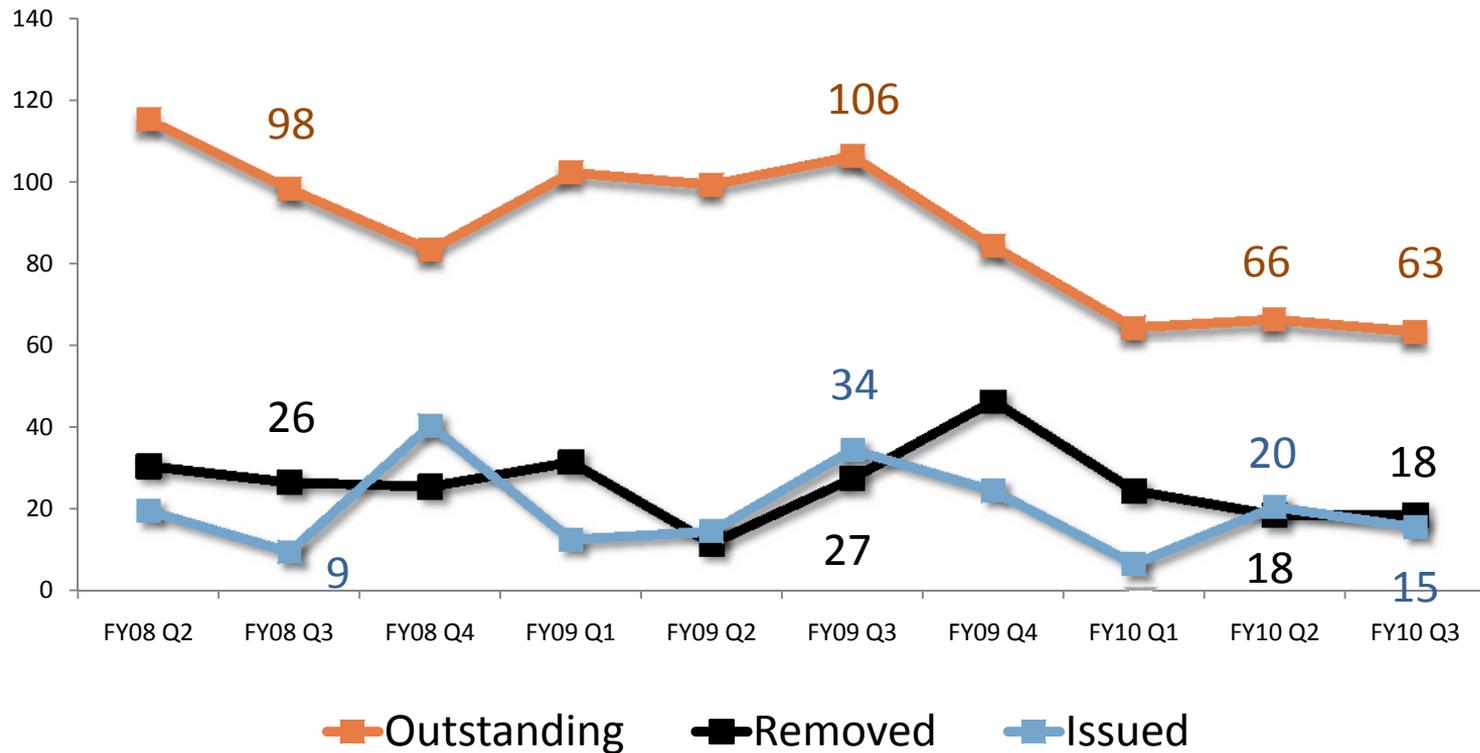
Acronym	Description
AA	Auto Adjudication
ARDB	Accounts Receivable Direct Billing
AWW	Average Weekly Wage
BDR	Bond Detail Report
BSI	Bankrupt Self Insured
BWC	Bureau of Workers' Compensation
CMS	Centers for Medicare and Medicaid Services
DMC	Disability Management Coordinators
FY	Fiscal Year
IAD	Internal Audit Division
IPS	Investment Policy Statement
IMS	Injury Management Supervisor
IT	Infrastructure and Technology or Information Technology
LOC	Letter of Credit
LSA	Lump Sum Advancement
MCO	Managed Care Organization
PEACH	Provider Enrollment and Certification Housing
PBM	Pharmacy Benefit Management
PTC	Prior to Coverage
ODNR	Ohio Department of Natural Resources
OIM	Outside Investment Manager
QA	Quality Assurance
QES	Quarterly Executive Summary
RFP	Request For Proposal
RSC	Rehabilitation Services Commission
SI	Self Insured
SIEGF	Self Insured Employers Guaranty Fund
SIRP	Self Insured Review Panel

Acronym	Description
SIU	Self Insured Underwriting
SLA	Service Level Agreement
SMO	Service Management Office
SSN	Social Security Number
UDS	Universal Document Service
V3	Version 3 (BWC's Claims Management System)
WCIS	Workers' Compensation Insurance System

BWC Internal Audit Division

	FY09 4th Qtr	FY10 1st Qtr	FY10 2nd Qtr	FY10 3rd Qtr
Prior Total: Comments Outstanding	106	82	64	66
Plus: New Comments Issued	22	6	20	15
Minus: Comments Removed	-46	-24	-18	-18
New Total: Comments Outstanding	82	64	66	63
Material Weakness	17	14	14	15
Significant Weakness	65	50	52	48
New Total: Comments Outstanding	82	64	66	63

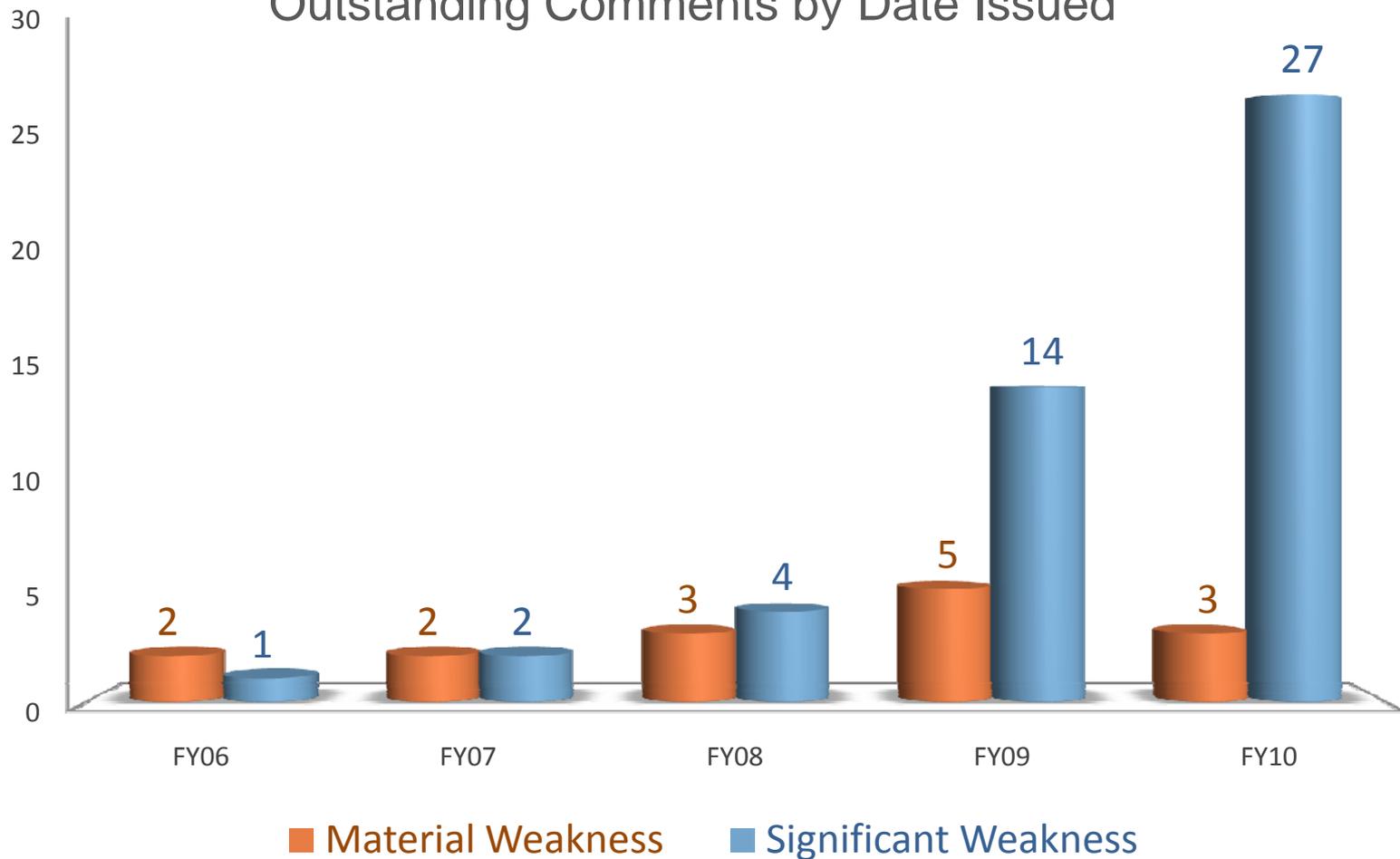
BWC Internal Audit Division



Note: Chart excludes 9 consulting recommendations issued this quarter.

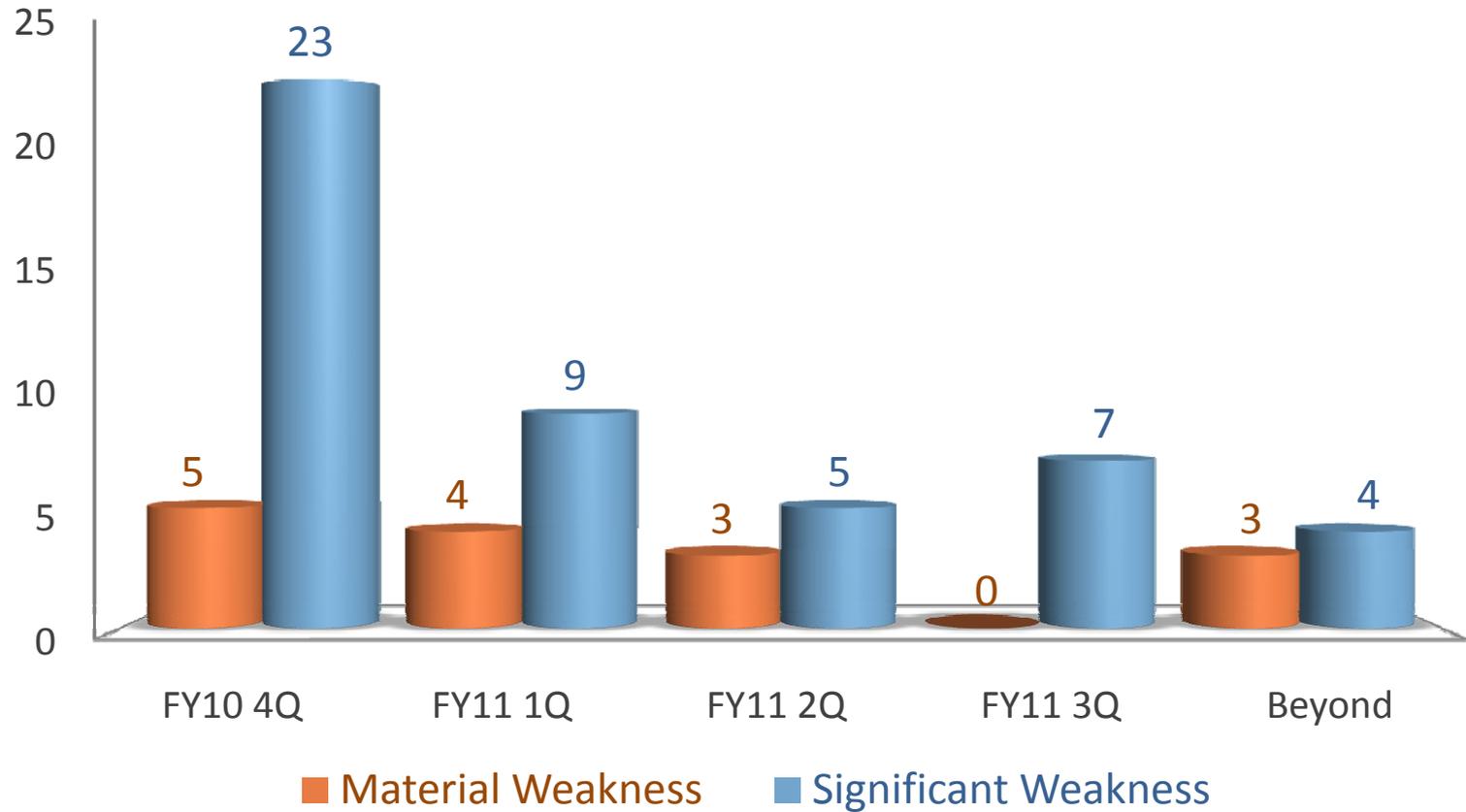
BWC Internal Audit Division

Outstanding Comments by Date Issued



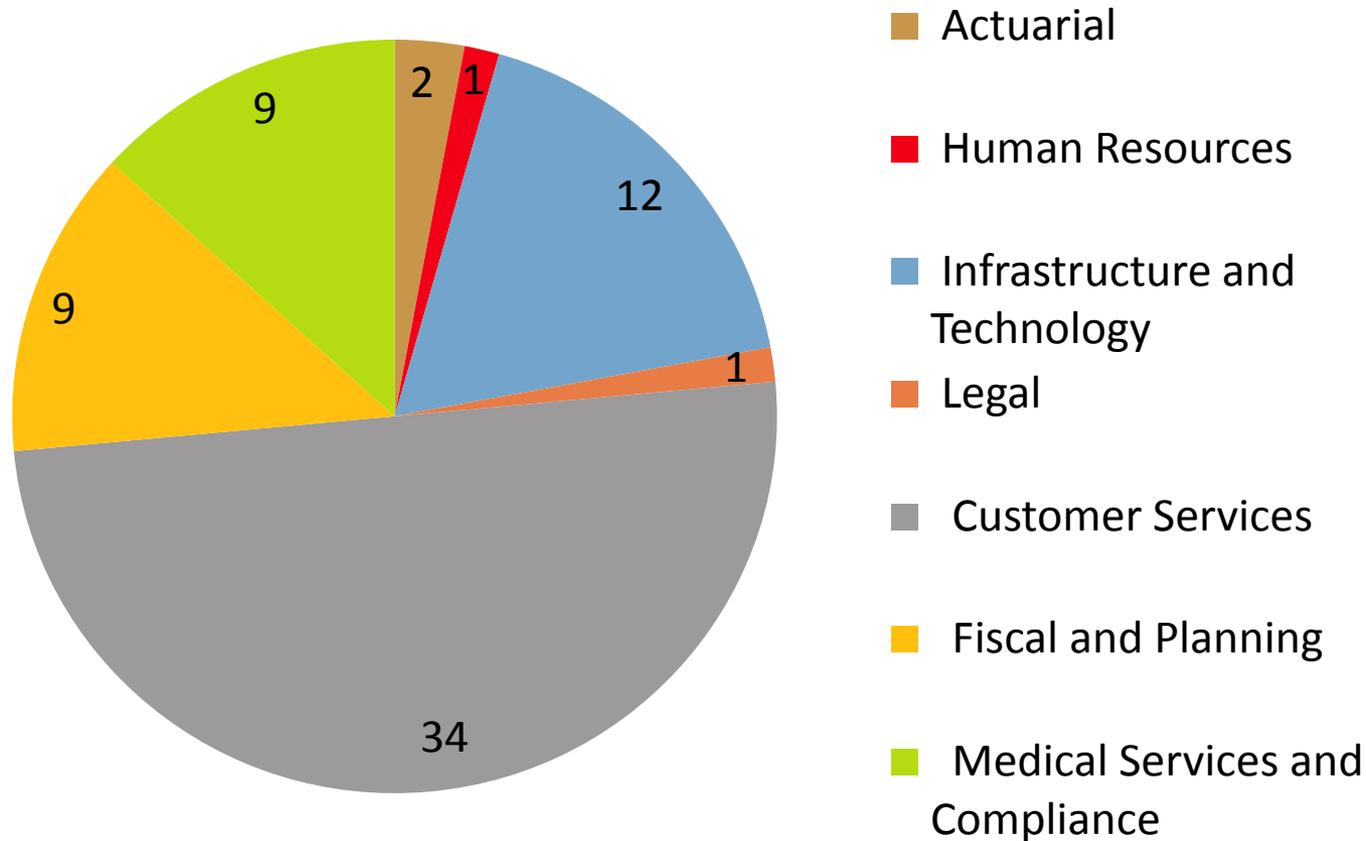
BWC Internal Audit Division

Validation schedule for remaining comments



BWC Internal Audit Division

Comments Outstanding by Responsible Division



Note: Five comments assigned to multiple divisions are reflected in both division counts.

**BWC Board of Directors
Audit Committee
Fiscal Year 2012 - 2013 Biennial Budget
Executive Summary**

Attached is information regarding BWC's proposed Fiscal Years 2012 and 2013 biennial administrative budget. The information reflects proposed funding levels for the Administrative Cost Fund and the Safety & Hygiene Fund. In addition, the information reflects proposed funding levels associated with the Disabled Workers' Relief Fund, the Marine Industry Fund and the Coal Workers' Pneumoconiosis Fund.

The current biennium has brought major changes to BWC. The accomplishments and milestones of the recent past have provided a strong foundation. We are now moving forward to comprehensively improve service for our customers and make fundamental changes to workers' compensation in Ohio. By providing effective, customer-focused services, BWC will enhance the quality of life of Ohio's work force, promote economic success for Ohio's employers, and strengthen the state's economic vitality.

BWC is proposing a total budget of \$300 million for each fiscal year of the biennium. This request is a 5.6 percent increase over the Fiscal Year 2010 annual budget. This is primarily the result of increased payroll costs due to the elimination of payroll related cost savings mandates. It will also enable BWC to be flexible in addressing future budget needs. As BWC moves into the next biennium, there will be a continuation of major program reforms and additional capital projects. As such, BWC is requesting a funding level that will enable the agency to adapt to future needs.

In addition, this request is approximate \$28 million (8.7 percent) less than the appropriation request submitted in the previous biennium. BWC will continue to perform a detailed, annual budget methodology. This may result in an actual annual budget below the established biennial budget requested.

BUREAU OF WORKERS' COMPENSATION				
PROPOSED BUDGET SUMMARY				
FISCAL YEARS 2012 AND 2013				
In Millions				
	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
Expense Type	Estimated Spending	Approved Budget	Preliminary Budget	Preliminary Budget
Payroll	\$181.6	\$187.4	\$200.6	\$195.6
Personal Services	12.4	12.5	12.3	12.5
William Green Rent	19.7	19.0	18.3	17.5
Leases and Term Software Licenses	11.2	10.1	10.2	10.5
Software and Equipment Maintenance and Repairs	14.2	14.7	15.0	15.3
Inter Agency Payments	9.9	9.6	9.7	9.8
Communications	3.2	3.2	4.2	4.3
Supplies and Printing	1.2	1.3	1.4	1.4
Other Maintenance	3.3	3.4	3.4	3.5
Equipment	1.6	1.4	1.2	1.5
Subtotal	\$258.3	\$262.6	\$276.3	\$271.9
Safety Grants and Long Term Care Loans	2.0	4.0	6.0	6.0
Strategic Projects	9.4	14.5	15.6	20.9
Examples:				
Rate Reform				
Core Computer System Upgrades				
ICD 10 Conversion				
Enhance Electronic Communications Software and Hardware Upgrades				
Capital Improvements	0.5	2.9	2.1	1.2
Examples:				
Recondition Escalators				
Replace Cooling System				
replace Domestic Water Pumps				
Grand Total	\$270.2	\$284.0	\$300.0	\$300.0
Total Agency Appropriation	\$328.8	\$328.6	\$28.6	
Decrease in Appropriation			8.70%	

FY 2011 Annual Audit Plan - Focus Areas by Quarter

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	
OBM Cambridge Audit													3
Temporary Total Disability Benefits													4
Employer Compliance Unit													4
New Claims Audit													5
Professional Employment Organizations													5
Special Claims													4
OBM IT General Controls													5
Large Deductible Program													4
Sysco Reimbursements													2
Percentage Permanent Partial Disability													3
Medical Services Compliance and Performance Monitoring Unit													4
Employer Refunds													3
Pharmacy Benefit Program													5
MCO Administrative and Incentive Payments													4
FY 2012 Audit Plan													3
External Audit Assistance													5
MCO Audits													5
Investment Continuous Compliance Monitoring Efforts													5
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

FY 2011 Annual Audit Plan - Audit Scope Descriptions

Audit Validation Testing – We perform validation testing each quarter to ensure outstanding audit observations are resolved adequately and in a timely manner. As part of this process, management provides Internal Audit with updates each quarter regarding the resolution status of the outstanding observations. For observations which management indicates are completely implemented, we perform testing to validate that action taken is adequate to address the issue identified. In addition, if there are outstanding audit observations that are still in process, but are beyond the timeframes established for resolution of the audit comment, we will meet with management to determine factors delaying corrective action. As comments are cleared through this process, they are removed from the list of outstanding comments provided to the Audit Committee.

Employer Compliance Unit – During this project we will assess the operations of the employer compliance unit. This review will also compare the employer compliance function with the premium audit function to detect any potential duplication of efforts.

Employer Refunds – This audit will examine the process of approving and issuing employer refunds. The audit will evaluate the operating effectiveness of key controls.

External Audit Assistance – Internal Audit provides approximately 1,000 hours of assistance to the external accounting firm during their audit of the BWC financial statements. This assistance reduces audit fees each year by approximately \$75,000 - \$80,000.

FY 2012 Annual Audit Plan – Activities include meeting with management, BWC Board of Directors, and other parties to obtain suggestions for areas to include in the FY 2012 Internal Audit plan. The agency risk analysis is updated to assess the relative risk for agency processes and a risk score is assigned to each of the potential audit areas. In addition, an analysis is performed to map trial balance accounts to key processes to ensure Internal Audit resources are appropriately assigned.

Investment Continuous Compliance Monitoring Efforts – This on-going project will involve regular assessment/monitoring of compliance with the BWC Investment Policy Statement and/or other applicable rules or regulations. Activities will include receipt and review of daily/monthly compliance reports issued via the compliance rules established within the outsourced investment compliance system. In addition, we will perform periodic testing to assess compliance with sections of the investment policy statement and Investment processes such as: Requests for Proposals, transitions and new accounts; daily and monthly controls; asset allocation and rebalancing; and Investment Manager Report Cards.

Information Technology Cambridge Audit Performed by OBM OIA – An assurance audit of the problem/incident reporting process for the Cambridge system. This review may also encompass BWC's coverage of user considerations identified through the SAS 70 audit that BWC receives on behalf of Cambridge.

Information Technology General Controls Performed by OBM OIA – A general controls assurance audit over technology components (e.g., servers (including virtual environments), databases, routers and firewalls) supporting BWC core business processes. This type of audit will include areas such as user access, system configurations, limited change management and monitoring functions. The audit program will be designed to account for agency standards, regulatory requirements and other industry standards (e.g., NIST, PCI).

Large Deductible Program – The purpose of this review is to obtain an understanding of the new deductible program and assess the risks and control procedures implemented.

MCO Administrative & Incentive Payments – BWC pays in excess of \$170 million in administrative and incentive payments to Managed Care Organizations. This audit will examine this process to identify key controls established to assure accurate payments to MCOs. Detail testing will be performed to evaluate operating effectiveness of key control procedures, as well as the accuracy of the payments issued.

MCO Audits – Throughout the year, the MCO Audit Unit within Internal Audit will perform a number of risk-based audits of MCOs to evaluate internal control design, determine whether controls are placed in operation to safeguard agency assets and to verify MCO contract compliance. The activities of this unit work in conjunction with the Medical Services Compliance and Performance Monitoring Unit, which performs various day-to-day monitoring procedures to verify compliance with contractual requirements.

Medical Services Compliance and Performance Monitoring (CPM) Unit – This audit will examine the scope of activities performed by the CPM unit, the reports issued, the nature of the comments/issues identified and the corrective actions taken to address their audit observations.

New claims audit – This project will assess the timeliness and appropriateness of new claims processing. Emphasis will include reasonableness of initial determination, rate setting, accuracy of manual code assignment, accuracy of policy number assignment and compliance with agency policies and procedures.

Percentage Permanent Partial Disability Audit –This Audit will evaluate the adequacy of internal controls over the payment of percentage permanent partial disability payments. In addition, we will assess the accuracy and timeliness of processing and the level of compliance with agency policies and procedures.

Pharmacy Benefit Program – We will perform an audit of the pharmacy benefit processes at BWC to assess adequacy of the design of controls and operating effectiveness.

Professional Employment Organizations (PEO) – This audit will assess the adequacy of controls over PEOs to address the inherent risks associated with this employer type.

Special Claims – This audit will identify the various claims functions performed by Special Claims and assess the adequacy of existing controls, level of adherence to agency policies and procedures, as well as the efficiency and effectiveness of operations.

Sysco Reimbursements – During this consulting engagement, we will examine the Sysco reimbursement process to identify inherent risks and assess the adequacy of controls in place to mitigate those risks.

Temporary Total Disability Benefits Audit - BWC pays temporary total disability benefits for lost wages when an injured worker is expected to recover and return to work. It is one of the largest compensation types paid by the BWC. This audit will examine the related processes for evaluating and issuing determinations on these types of claims, as well as the actual payment of benefits. The focus of the audit will be on compliance with policies and procedures and applicable regulations.

12-Month Audit Committee Calendar

Date	August 2010
8/26/2010	1. BWC Code of Ethics Review
	2. FY 2012/13 Biennial Budget (2nd Reading)
	3. External Audit Update
	September 2010
9/23/2010	1. Internal Audit QES Review
	2. Inspector General Semi-Annual Report (Executive Session)
	October 2010
10/21/2010	1. Audit Committee Charter Review (1st Reading)
	2. Quarterly Litigation Update (Executive Session)
	November 2010
11/18/2010	1. External Audit Update
	2. Audit Committee Charter Review (2nd Reading)
	December 2010
12/15/2010	1. Internal Audit QES Review
	2. Office of Budget and Management Update – BWC Staff Transfer
	January 2011
TBD	1. Annual Disaster Recovery/Business Continuity Plan
	2. External Audit Comments - Update
	3. Quarterly Litigation Update (Executive Session)
	February 2011
TBD	1. Inspector General Annual Report (Executive Session)
	March 2011
TBD	1. Internal Audit QES Review
	2. Discount Rate and Financial Metrics (1st Reading)
	April 2011
TBD	1. Discussion of External Audit
	2. Discount Rate and Financial Metrics (2nd Reading)
	3. FY 2012 Administrative Budget (1st Reading)
	4. Quarterly Litigation Update
	May 2011
TBD	1. FY 2012 Administrative Budget (2nd Reading)
	2. Internal Audit Charter
	June 2011
TBD	1. FY 2012 Internal Audit Plan
	2. External Audit Update
	July 2011
TBD	1. Internal Audit QES Review

12-Month Audit Committee Calendar

	2. FY 2012 Financial Projections (1st Reading)
	3. Quarterly Litigation Update (Executive Session)

The Fiscal Year 2011 financial projections for BWC's Statement of Operations reflect the following information and assumptions:

Premium and Assessment Income:

- Approved rates and collectible premium prepared by BWC's Actuarial Department in conjunction with rate indication information;
- No change in reported payroll for private employers based on reporting trends from the two most recent reporting periods;
- No change in reported payroll of state agencies based upon impact of hiring controls, lack of pay increases, and the impact of Cost Savings Days under the existing union contract;
- Reduction in premium rates for all employer groups; and
- Approved administrative assessments based on the fiscal year 2011 budgets for BWC and the Industrial Commission.

Ceded Premiums:

- Reinsurance contract rates for ceded premium applied to projected premium and assessment income for fiscal year 2011.

Provision for Uncollectibles:

- Receivable aging trends for the past year; and
- Provisions related to specific high dollar accounts.

Other Income:

- Historical trends for penalties and interest associated with employer accounts; and
- Expected income derived from rent received from tenants of the William Green Building.

Workers' Compensation Benefits

- Projected payments for medical and indemnity benefits based upon data and assumptions from the recently completed actuarial study using March 31, 2010 data as prepared by BWC's external actuarial consultant; and
- Projected reserve development patterns using data and assumptions from the recently completed actuarial study as prepared by BWC's external actuarial consultant. A discount rate of 4.0% is used in the projections.

Compensation Adjustment Expenses:

- Projected reserve development patterns using data and assumptions from the recently completed actuarial study as prepared by BWC's external actuarial consultant. A discount rate of 4.0% is used in the projections.
- Administrative expenses based on the fiscal year 2011 budget as approved by the Board of Directors and the fiscal year 2011 budget for the Industrial Commission;
- Most recent fiscal year payment trends for MCO expenses; and

- Allocation of administrative expenses related to claims management resolution based upon results of most recent cost allocation study. The results of this study reduced the allocation from 82% of administrative expenses to 68.8%.

Other Expenses

- Administrative expenses based on the fiscal year 2011 budget as approved by the Board of Directors and the fiscal year 2011 budget for the Industrial Commission; and
- Allocation of administrative expenses not related to claims management resolution based upon results of most recent cost allocation study. The results of this study increased the allocation from 18% of administrative expenses to 31.2%.

Operating Transfer:

- Transfer of funding to the Ohio Department of Natural Resources for Mine Safety Program and the Ohio Inspector General as required by the Ohio Revised Code.

Investment Income:

- Dividend and interest income based on Board approved asset allocations as prepared by the BWC Investment Division;
- Projected price appreciation of 3.25% for domestic equities and 2.9% for international equities with no price appreciation/depreciation for fixed income securities as prepared by the BWC Investment Division; and
- Expected fees paid to outside investment managers and custodial fees based upon Board approved asset allocations as prepared by the BWC Investment Division.

The Fiscal Year 2011 projections for BWC's Statement of Cash Flows reflect the following information and assumptions:

Cash Receipts from Premiums and Other:

- The most recent fiscal year payment trends for employer premium payments;
- Impact of most recent premium rate decreases for private employers reflected in the second half of the fiscal year resulting from the collection of premiums in arrears;
- Expected fees to be paid for reinsurance are netted against collections for premiums and assessments;
- Historical trends for collection of penalties and interest associated with employer accounts; and
- Recent trends for the collection of subrogation proceeds, pharmacy benefit rebates, and collections against securities for bankrupt self-insured employers.

Cash Disbursement for Claims and Other:

- Projected payments for medical and indemnity benefits based upon data and assumptions from the recently completed actuarial study using March 31, 2010 data as prepared by BWC's external actuarial consultant;
- Recent fiscal year payment trends for payments to managed care organizations; and
- Recent payment trends for administrative expenses, BWC's approved budget, and the budget for the Industrial Commission.

Net Cash Flows from Capital and Related Financing Activities:

- Amount of the bond payments for the William Green Building as outlined in the bond document repayment schedule.

Operating Transfers Out:

- Transfer of funding to the Ohio Department of Natural Resources and the Ohio Inspector General as required by the Ohio Revised Code.

Net Cash Provided (Used) By Investing Activities:

- Receipts of dividend and interest income based on projections prepared by BWC Investment Division are expected to be reinvested; and
- Purchases and sales occurring within BWC's investment portfolio are expected to offset one another.

Cash Redemptions From Investment Managers:

- Recent fiscal year trends, timing, and projections for fiscal year 2011 premiums and other receipts; and
- Recent fiscal year trends, timing, and projections for fiscal year 2011 disbursements for claims and administrative expenses.

The Fiscal Year 2011 projections for BWC's Insurance Ratios are computed based upon the information noted above.

Projected Statement of Operations
Fiscal year ending June 30, 2011

(in millions)

	Fiscal Year Projected June 30, 2011	Fiscal Year Actual June 30, 2010	FY 11 to FY 10 Increase (Decrease)	Fiscal Year Audited June 30, 2009	FY 11 to FY 09 Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	\$ 1,920	\$ 2,152	\$ (232)	\$ 2,470	\$ (550)
Ceded Premium	(6)	(1)	(5)	-	(6)
Provision for Uncollectibles	(49)	(30)	(19)	(109)	60
Other Income	13	15	(2)	17	(4)
Total Operating Revenues	1,878	2,136	(258)	2,378	(500)
Operating Expenses					
Workers' Compensation Benefits	2,013	2,332	(319)	1,667	346
Compensation Adjustment Expenses	408	440	(32)	406	2
Other Expenses	134	128	6	93	41
Total Operating Expenses	2,555	2,900	(345)	2,166	389
Net Operating Gain (Loss)	(677)	(764)	87	212	(889)
Operating Transfer	(4)	(5)	1	(5)	1
Investment Income					
Interest and Dividend Income	800	723	77	738	62
Change in Fair Value of Investment Portfolio	182	1,334	(1,152)	(928)	1,110
Investment Expenses	(8)	(7)	(1)	(5)	(3)
Net Investment Income	974	2,050	(1,076)	(195)	1,169
Increase (Decrease) in Net Assets	293	1,281	(988)	12	281
Net Assets Beginning of Period	3,796	2,515	1,281	2,503	1,293
Net Assets End of Period	\$ 4,089	\$ 3,796	\$ 293	\$ 2,515	\$ 1,574

Projected Statement of Cash Flows
Fiscal Year Ending June 30, 2011

(in millions)

	Fiscal Year Projected June 30, 2011	Fiscal Year Actual June 30, 2010	Increase (Decrease)	Fiscal Year Audited June 30, 2009	Increase (Decrease)
Cash Flows from Operating Activities:					
Cash receipts from premiums, net of ceded premiums	\$ 2,020	\$ 2,198	\$ (178)	\$ 2,510	\$ (490)
Cash receipts - other	37	54	(17)	36	1
Cash disbursements for claims	(2,097)	(2,057)	(40)	(2,128)	31
Cash disbursements for other	(397)	(393)	(4)	(427)	30
Net cash used by operating activities	<u>(437)</u>	<u>(198)</u>	<u>(239)</u>	<u>(9)</u>	<u>(428)</u>
Cash Flows Used by Capital & Financing Activities	(19)	(27)	8	(23)	4
Operating Transfer Out	(4)	(5)	1	(5)	1
Net Cash Provided (Used) by Investing Activities	-	89	(89)	(22)	22
Cash Redemptions from Investment Managers	<u>170</u>	<u>71</u>	<u>99</u>	<u>185</u>	<u>(15)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(290)	(70)	(220)	126	(416)
Cash and Cash Equivalents, Beginning of Period	<u>434</u>	<u>504</u>	<u>(70)</u>	<u>378</u>	<u>56</u>
Cash and Cash Equivalents, End of Period	<u>\$ 144</u>	<u>\$ 434</u>	<u>\$ (290)</u>	<u>\$ 504</u>	<u>\$ (360)</u>

Projected Insurance Ratios
Fiscal Year Ending June 30, 2011

	Fiscal Year Projected June 30, 2011	Fiscal Year Actual June 30, 2010	Fiscal Year Audited June 30, 2009	Guidelines
Loss Ratio	105.2%	108.3%	67.5%	
LAE Ratio - MCO	9.2%	11.4%	6.5%	
LAE Ratio - BWC	12.1%	9.0%	10.0%	
Net Loss Ratio	126.5%	128.7%	84.0%	102.5%
Expense Ratio	7.0%	6.0%	3.7%	7.5%
Combined Ratio	133.5%	134.7%	87.7%	110.0%
Net Investment Income Ratio	41.4%	33.2%	29.7%	
Operating Ratio	92.1%	101.5%	58.0%	90.0%
SIF Funding Ratio	1.27	1.22	1.15	1.15 to 1.35
SIF Net Leverage Ratio	4.33	5.24	7.89	3.0 to 7.0