BWC Board of Directors

Audit Committee Agenda

William Green Building

Wednesday, December 15, 2010

Level 2, Room 3

3:00 p.m. – 4:30 p.m.

Call to Order

Ken Haffey, Committee Chair

Roll Call

Jill Whitworth, Scribe

Approve Minutes of November 18, 2010 meeting

Ken Haffey, Committee Chair

Approve Agenda

Ken Haffey, Committee Chair

New Business/ Action Items

1. Recommend for Board approval

   FY 2010 Comprehensive Annual Report

2. FY 2012 – 2013 Budget Process Education Session

   Tracy Valentino, Chief of Fiscal and Planning

3. Annual Disaster Recovery/Business Continuity Plan

   Tom Croyle, Chief Information Officer

4. FY 2011 1st Quarter Executive Summary

   Caren Murdock, Chief of Internal Audit

Discussion Items*

1. Open Discussion with Internal Auditor

   Caren Murdock, Chief of Internal Audit

2. Committee Calendar

   Ken Haffey, Committee Chair

3. Litigation Update, Executive Session (if needed)

   James Barnes, General Counsel and Chief Ethics Officer

Adjourn

Ken Haffey, Committee Chair

<u>Next Meeting: Thursday, January 20, 2011</u>

*Not all agenda items have material.

**Agenda subject to change.

BWC's Biennial Administrative Budget

Ohio Bureau of Workers' Compensation
Tracy Valentino, Chief Fiscal & Planning Officer
December 15, 2010

Purpose of the Biennial Budget

To establish a sufficient, overall funding level to support BWC's continuing level of service and major recurring costs/projects for the benefit of its customers.

To justify proposed funding levels to the Office of Budget and Management and subsequently, to the Ohio General Assembly.

Goal for FY 2012 - 2013 Biennial Budget Submission

To maintain improved administrative services while establishing an annual level of funding for BWC that is lower than the total fiscal year 2010 appropriation.

To establish a level of funding that maintains or reduces employers' administrative assessments.

Differences from the Annual Process

High level submission

Emphasis on:

- *Performance*
- *Initiatives*
- *Priorities*
- *Narratives (not numbers)*

Program budget versus line item

Submission Requirements

Narrative describing accomplishments during FY 2010-11 biennial budget period for continuing operations and major strategic programs.

Narrative describing anticipated outcomes for the FY 2012-13 biennial budget period for continuing operations and major strategic improvements.

Narratives describing the primary goals and objectives of the agency and how progress towards those goals are measured.

Written justification (using OBM criteria) for all initiatives

Additional Information

Table of Organization

•Changes from previous biennium

•Summary of planned changes

Budget Language Information

- *Temporary Law*
- *Permanent Law*

Next Steps

November 1, 2010: Delivery of documentation to the Office of Budget and Management

January, 2011: Meet with Office of Budget and Management to discuss budget request

March, 2011: Submission of budget bill to the General Assembly

March, 2011 - June, 2011: Committee Hearings

BWC's
Disaster Recovery Plan
(DRP)

BWC's Disaster Recovery Plan

Disaster Recover Plan Procedures

- Plan Activation
- Recovery
- Recovery Coordinator Responsibilities
- Site Restoration
- Administrative
- Preparedness

BWC's Disaster Recovery Plan

<u>Plan Activation Procedures</u>

- First Alert Notification Summary
- Activate Management Team
  - Notification Levels
  - Team Composition Report
- Determine Need to Activate Plan
  - Conduct Damage Assessment
  - Review and Finalize Strategies
- Authorize Team Plan Activation

BWC's Disaster Recovery Plan

Recovery Procedures

- Coordinate Recovery Plan Implementation
- Oversee Recovery Activities
- Coordinate Resource Allocation/Logistics
- Support Strategies
  - Finance
  - Legal
  - Transportation
  - HR
  - Public Relations

BWC's Disaster Recovery Plan

Recovery Coordinator Responsibilities

- Crisis Management Center Establishment
- Initial Assembly Points
- Crisis Management Center Locations
- Offsite Storage Requirements
- Advisor Liaison for Recovery Teams
- Plan Maintenance
- Plan Distribution

BWC's Disaster Recovery Plan

Site Restoration Procedures

- Salvage/Media Reclamation
- Plan Return

Administrative Procedures

- General Administration
- Monitor and Report Recovery Progress
- Maintain Recovery Record Keeping

BWC's Disaster Recovery Plan

Preparedness Procedures (a)

- Maintain a current copy of your Recovery Plan at home and at your office.
- Ensure that all on the TEAM COMPOSITION REPORT maintain a current copy of this Recovery Plan at home.
- Ensure that all recovery team personnel consider recovery prepared-ness a part of their normal duties.
- Ensure that backup and offsite rotation activities for vital records, including PC media, are being performed.
- Maintain your Recovery Plan, including all procedures, checklists and team rosters, in an up-to-date condition. Update this plan for any of the following circumstances:
- Changes to department personnel identified within the TEAM COMPOSITION REPORT.

BWC's Disaster Recovery Plan

Preparedness Procedures (b)

- Significant changes to recovery requirements which reflect changes to either Recovery Windows or the MINIMUM ACCEPTABLE RECOVERY CONFIGURATION REPORT.
- Significant changes to recovery procedures, such as the addition of new business functions, support systems (e.g., new computer applications), new business practices (e.g., receiving orders via new electronic sources) or organization changes.
- Annually, perform the following plan enhancement procedures:
- Review recovery requirements, defined in the APPLICATIONS REPORT.
- Review recovery strategies and supporting procedures to ensure they still adequately address the business requirements.

BWC's Disaster Recovery Plan

Preparedness Procedures (c)

- Conduct a team "notification" test and document results for audit purposes.
- Conduct a team "walk-through" test and document results for audit purposes.
- Conduct an audit of all recovery resources identified as being stored offsite.
- Participate in the overall Recovery Plan Exercise Program, as required.

BWC's Disaster Recovery Plan

2010 DRP Test Results

- Spring Test
  - Mainframe Database fully restored
  - Mainframe files partially restored
  - Unix files partially restored
  - Network System fully restored
  - Open Systems fully restored
  - Unsuccessful State Printing file transfer
  - BWC Applications untested

BWC's Disaster Recovery Plan

2010 DRP Test Results

- Fall Test
  - Mainframe Database fully restored
  - Mainframe files partially restored
  - Unix files partially restored
  - Network System fully restored
  - Open Systems fully restored
  - Successful State Printing file transfer
  - BWC Applications untested

BWC's Disaster Recovery Plan

FY11 DRP Costs	
Travel	$10,000
IBM Contract	$350,000
Print DR Contract	$30,000
Total	$390,000

BWC's Disaster Recovery Plan

Exhibit A: Liebert 30-ton HVAC unit chilled water valve actuator

- failed due to improper eccentric wheel torque split at the top roller bearing
- disabling the actuator's ability to open and close the 3-way chilled water valve
- preventing the HVAC unit from cooling correctly.
- resulting in higher than normal temperature in the cold air aisle for 2 rows of computer racks on L-15

BWC Board of Directors
Audit Committee

FY 11 1st Quarter Executive Summary Report

December 15, 2010

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

Ohio | Bureau of Workers' Compensation

30 W. Spring St.
Columbus OH 43215-2256

To: Audit Committee Members

From: Caren Murdock, Chief of Internal Audit

Date: December 15, 2010

Fiscal Year 2011 1st Quarter Executive Summary Report

Following you will find the Fiscal Year (FY) 2011 1st Quarter Executive Summary (QES) Report containing:

1. Audit Comment Status
   - 1a. Audit Comments Issued 1st Quarter
   - 1b. Charts and Summary Statistics
   - 1c. Audit Comments Outstanding as of September 30, 2010
2. Audit Report Follow-up Procedures
3. Audit Comment Rating Criteria
4. Fiscal Year 2011 Audit Plan
5. QES Acronyms

BWC Internal Audit Division
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BWC Internal Audit Division
Consulting Project Activity – 1st 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.

Administrator's Electronic Signature Consulting Engagement - October 2010

At management's request, IAD evaluated the internal controls over the use of the Administrator's electronic signature on documents used in the Self-Insured (SI) Department. Signature security was evaluated by interviewing Information Technology (IT) and Self-Insured Underwriting (SIU) staff.

Weaknesses were noted during the consultation and IAD provided one recommendation to strengthen internal controls surrounding the use of the Administrator's electronic signature.

BWC Internal Audit Division
Audit Comments Issued – 1st Quarter Activity

Disabled Workers' Relief Fund (DWRF) Benefits Audit – September 2010

IAD conducted an audit of the DWRF benefits processing for Injured Workers (IW). The purpose of the audit was to assist management in evaluating controls over these benefits. The audit scope consisted of DWRF benefits payments processed between 12/01/2008 and 02/28/2010. The audit included a review of the following:

- Determined if current internal controls are adequately designed and implemented to properly safeguard agency assets;
- Verified that DWRF payments are processed in accordance with overall BWC policy/procedures and statutory requirements;
- Evaluated whether the DWRF benefits process is efficiently and effectively administered:
    - Assessed the timeliness of DWRF benefits processing and the sufficiency of management reporting processes in place to enable effective monitoring of processing timeframes;
    - Evaluated the adequacy of quality assurance review procedures to properly manage the process and ensure accuracy and appropriateness of DWRF payment processing;
    - Performed benchmarking with other workers' compensation state insurance funds to potentially identify industry best practices; and
- Provided recommendations to improve controls, operational policies/practices, and reduce risks.

	Recommendation	Disposition
1	Enhance existing controls (and/or policy guidance) to provide additional assurance that final accrued compensation amounts owed to injured workers who expire while receiving benefits are properly paid. **Rating: Significant Weakness**	Management will remind staff to proactively address unpaid accrued compensation, review with Legal and Policy the correct course of action to pay accrued compensation when no dependents are identified, and review the claims with errors to determine if unpaid accrued compensation can be paid. **Responsible**: **Chief of Customer Services** **Target Resolution Date: December 2010** **Current Resolution Status: In Process**

Auditor Opinion

Overall, internal controls for the DWRF benefits processing are reasonably designed. The audit identified three additional areas of minor significance that management should address in which controls and/or policies/procedures could be improved and strengthened.

Temporary Total (TT) Disability Claims Audit – October 2010

IAD conducted an audit of TT disability benefits. The audit evaluated operations in place from January through May 2010.

IAD reviewed TT claims documentation to verify that TT claims were administered according to policies specifying standards for:

- Appropriate and timely TT eligibility determination (excluding general claims allowance issues);
- Appropriate and timely payments (excluding wage setting issues);
- Claims review and monitoring practices to bring TT disability benefits to a reasonable resolution;
- Proper TT disability benefits termination; and
- Acceptable subsequent periods of TT disability benefits after the IW returns to work (RTW) or a physician determines that the IW reached maximum medical improvement (MMI).

	Recommendation	Disposition
1	Implement internal controls or refresher training to ensure diaries are set and exams are scheduled according to policy. **Rating: Significant Weakness**	Management will remind staff of the importance of setting the diary, adding appropriate notes to Version 3 (V3) regarding exams, and copying the Physician of Record with exam results. **Responsible**: **Chief of Customer Services** **Target Resolution Date: December 2010** **Current Resolution Status: In Process**
2	Review and update policies and procedures to ensure due process is completed and all pertinent information is obtained prior to granting a new period of TT. **Rating: Significant Weakness**	Claims Policy will update and enhance the Due Process Policy. In addition, questions were added to the claims audit tool to ensure proper due process. **Responsible**: **Chief of Customer Services** **Target Resolution Date: December 2010** **Current Resolution Status: In Process**
3	Develop standard Notice of Referral (NOR) language for each type of issue referred to the Industrial Commission to ensure all necessary data elements are included. **Rating: Significant Weakness**	Management will conduct a statewide staff workshop on completing NORs and will assess the cost/benefit of tracking NORs for quality assurance purposes. **Responsible**: **Chief of Customer Services** **Target Resolution Date: March 2011** **Current Resolution Status: In Process**

Auditor Opinion:

Our review did not note material incidents of non-compliance with policy pertaining to TT eligibility determinations, payment processing, claims review and monitoring practices, and reinstatement/termination processes. However, there were inconsistencies of practice with policy noted representing opportunities for improvement in:

- Due process procedures for TT claims with interrupted periods of compensation;
- Scheduling and disseminating IME results to monitor the continued need for disability benefits; and

- Referrals to the Industrial Commission for terminating TT benefits when a conflict or dispute exists in the claim.

It should be noted that management has recently reviewed and updated TT policies and provided training to each service office in June 2010. These efforts may have strengthened the process' controls. The audit identified three additional areas of minor significance that management should address in which controls and/or procedures or policies could be improved and strengthened.

Employer Compliance Audit – November 2010

IAD conducted an audit of the Employer Compliance process. Internal Audit's focus was on evaluating the efficiency and effectiveness of the procedures and methodologies used to perform, monitor, and track the Employer Compliance process. The audit included a review of the following:

- Determined if current internal controls are adequately designed and implemented;
- Evaluated whether the process of employer compliance is efficiently and effectively administered:
    - Determined if employer compliance activities are performed timely, accurately and in accordance with applicable statutes and agency policies;
    - Assessed the sufficiency of management reporting processes in place to enable effective monitoring of audit activities and processing timeframes; and
    - Evaluated the adequacy of quality assurance review procedures to properly manage the process; and
- Provided recommendations to improve controls and reduce risks.

	Recommendation	Disposition
1	Evaluate available options to reduce the backlog of outstanding referrals for the Employer Compliance Department (ECD). Implement controls to provide assurance that assigned referrals are completed in a timely manner. **Rating: Significant Weakness**	Management will continue the process of developing tools to aid in monitoring case aging and will include reporting of aging within management reports. **Responsible**: **Chief of Customer Services** **Target Resolution Date: June 2011** **Current Resolution Status: In Process**
2	Revise the premium audit/employer compliance targeting approach to ensure employers considered to be at greatest risk of misreporting payroll are audited each year. **Rating: Significant Weakness**	Management will consider a 2-3 year audit cycle for both PEO and Temporary Agencies in its Premium Audit Plan. **Responsible**: **Chief of Customer Services** **Target Resolution Date: June 2011** **Current Resolution Status: In Process**
3	Develop, document and implement formal quality assurance (QA) review procedures over key processes to provide assurance regarding the accuracy and appropriateness of transactions. **Rating: Significant Weakness**	QA procedures will be formalized and included in policy and procedure guidelines. **Responsible**: **Chief of Customer Services** **Target Resolution Date: June 2011** **Current Resolution Status: In Process**
4	Develop written policies and procedures outlining the recovery tracking process, implement quality assurance review	Management has already begun the process of eliminating the tracking and reporting of recovered dollars and

	Recommendation	Disposition
	procedures and reevaluate the methodology for reporting the return on expenditure statistic for employer compliance activities. **Rating: Significant Weakness**	relating it to an ROE statistic. **Responsible**: **Chief of Customer Services** **Target Resolution Date: June 2011** **Current Resolution Status: In Process**
5	Implement improved procedures to identify and investigate employers that have claims filed against them but have never had coverage. **Rating: Significant Weakness**	Formalized procedures to refer these policies for additional audit review will be included with ongoing policy and procedure review and updates in cases where additional periods of operation are suspected. **Responsible**: **Chief of Customer Services** **Target Resolution Date: June 2011** **Current Resolution Status: In Process**
6	Takes steps to ensure that employer compliance letters are issued in a timely manner. **Rating: Significant Weakness**	Management, in consultation with BWC Legal, AG and SID, has already reduced the response time from 90 to 45 days. This change in procedure will be included with policy and procedure reviews and updates. **Responsible**: **Chief of Customer Services** **Target Resolution Date: June 2011** **Current Resolution Status: In Process**
7	Revise the premium audit and/or employer compliance planning processes to evaluate the need for follow up audits or compliance monitoring for employers with significant prior non-compliance findings. **Rating: Significant Weakness**	Management will coordinate with Premium Audit to establish a policy for identifying high-risk employers with significant audit findings or repeated findings for scheduling follow up audits. **Responsible**: **Chief of Customer Services** **Target Resolution Date: June 2011** **Current Resolution Status: In Process**
8	Update the ECD policies and procedures manual to include detailed instructions for key departmental processes. **Rating: Significant Weakness**	Management will complete the ongoing review and update of existing policy and procedure to insure that the recommended items are included. **Responsible**: **Chief of Customer Services** **Target Resolution Date: June 2011** **Current Resolution Status: In Process**
9	Work with BWC Senior Management and the BWC Legal Division to evaluate the need to pursue legislative change to modify employer fines to include a fine specific to operating without workers compensation coverage. Develop procedures to utilize the rule permitting fines for employers who fail to report payroll accurately. **Rating: Significant Weakness**	BWC is in compliance with current statute regarding fines/penalties. Management also agrees that existing fines/penalty structure does not provide a strong disincentive to deter non-compliance. Management agrees to submit as a legislative wish list item. **Responsible**: **Chief of Customer Services** **Target Resolution Date: June 2011** **Current Resolution Status: In Process**

	Recommendation	Disposition
10	Modify the process for pursuing injunctions where non-compliant employers fail to obtain coverage after being notified of their non-compliance. BWC should work with the Ohio Office of the Attorney General (AG) to streamline the processes to ensure that injunctions are monitored and processed timely. **Rating: Significant Weakness**	This has already been completed. Management has communicated AG requests to appropriate departments and is awaiting coordination from these departments to resolve any outstanding issues surrounding the Injunctive Relief Process. **Responsible**: **Chief of Customer Services** **Current Resolution Status: Implemented**
11	Collaborate with IT to identify a means of flagging employers with policy restrictions in a manner more readily identifiable to employees accessing the related policies. **Rating: Significant Weakness**	Management agrees that the ability to flag difficult accounts in a manner conducive to alert intake personnel to necessary reviews and coordination should be considered. In the interim, a demand management clarity project is being entered for additional evaluation by IT. **Responsible**: **Chief of Customer Services** **Target Resolution Date: June 2011** **Current Resolution Status: In Process**

Auditor Opinion:

Overall, controls were not adequately designed or operating effectively to ensure that department processes are performed accurately, timely and in accordance with policies. While the audit identified opportunities for control improvements, the ECD is a new process and has only been in existence since August 2008. Policies and procedures, controls and other processes are still in development.

Specific areas of potential improvement included:

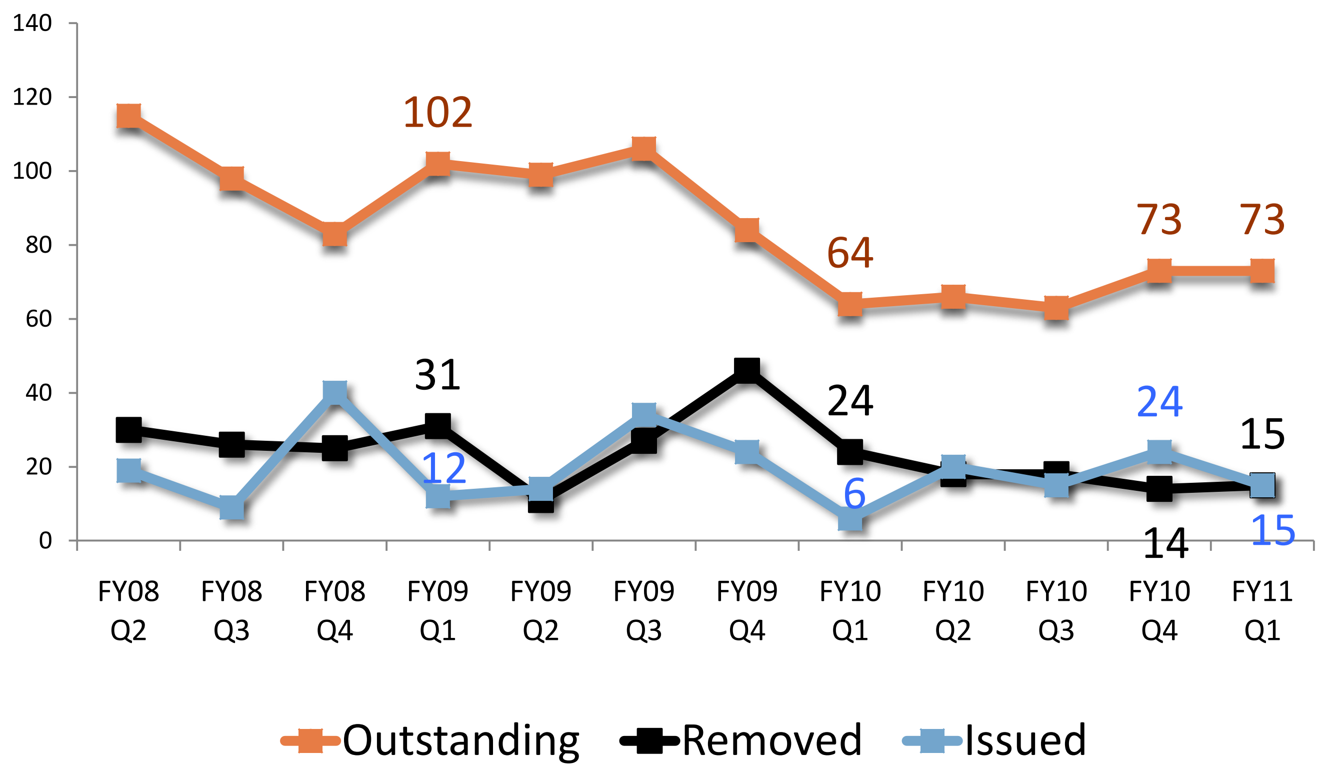
- Enhancement of management reporting and monitoring tools to ensure referrals are processed timely and that departmental performance is appropriately measured and monitored;
- Revisions of employer selection approaches to ensure that high risk employers are audited annually; and
- Development of quality assurance procedures to ensure activities are performed accurately and in accordance with agency policies.

BWC Internal Audit Division

	FY10 2nd Qtr	FY10 3rd Qtr	FY10 4th Qtr	FY11 1st Qtr
Prior Total: Comments Outstanding	64	66	63	73
Plus: New Comments Issued	20	15	24	15
Minus: Comments Removed	-18	-18	-14	-15
New Total: Comments Outstanding	**66**	**63**	**73**	**73**
Material Weakness	14	15	10	10
Significant Weakness	52	48	63	63
New Total: Comments Outstanding	**66**	**63**	**73**	**73**

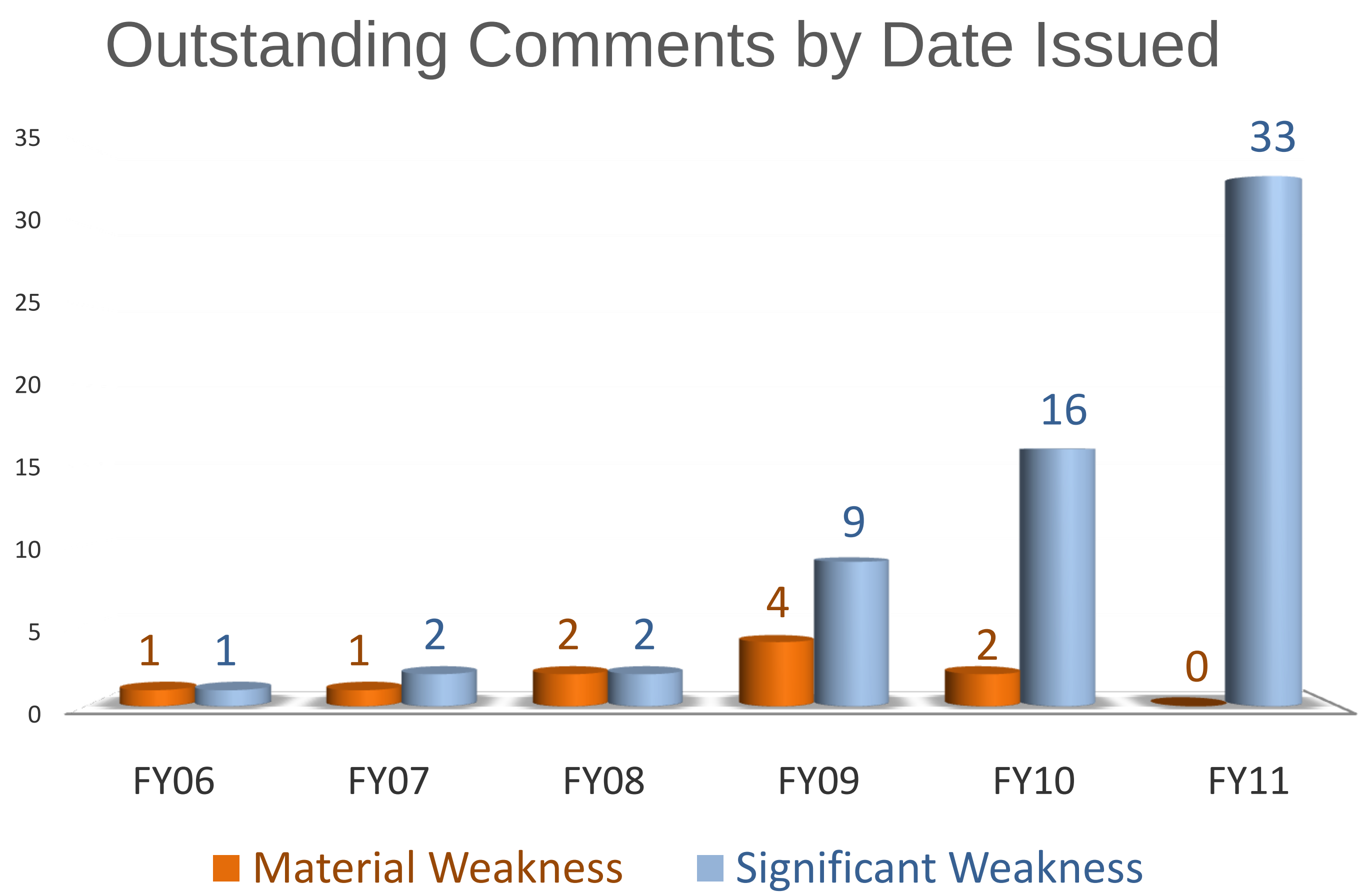
Data as of September 30, 2010

BWC Internal Audit Division



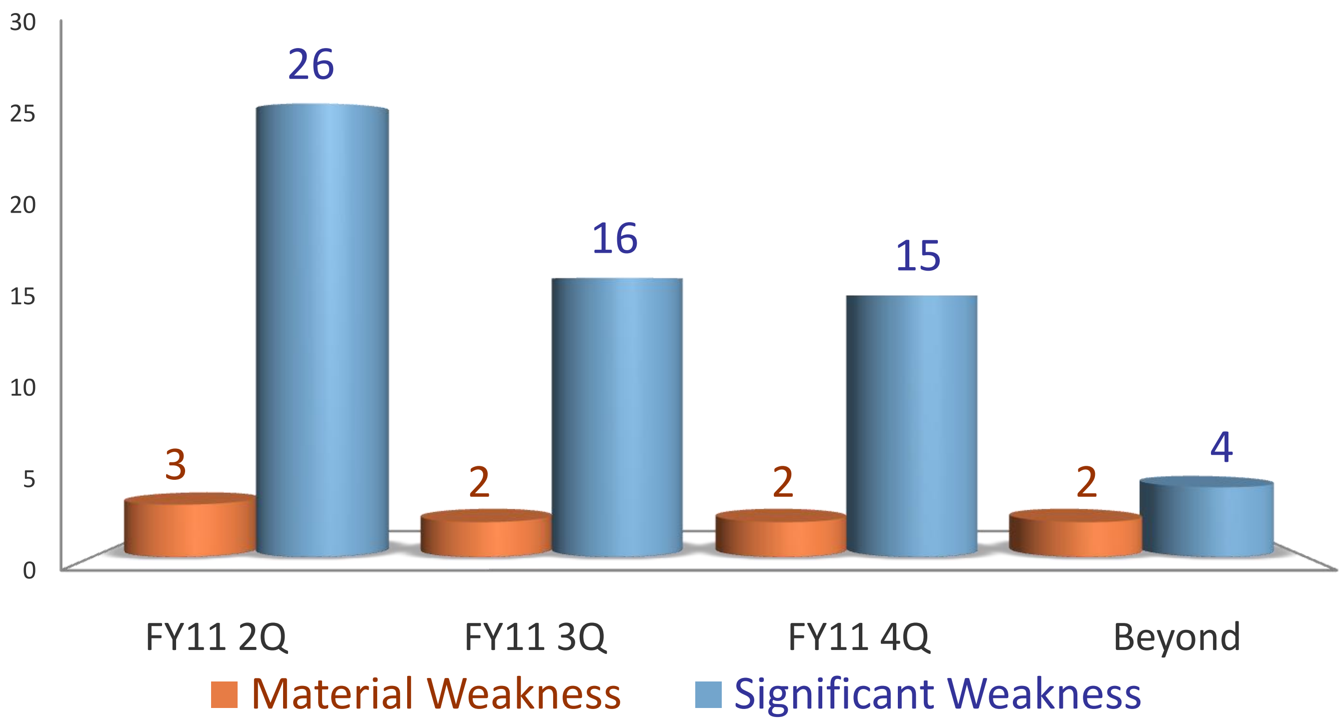
Data as of September 30, 2010

BWC Internal Audit Division



BWC Internal Audit Division

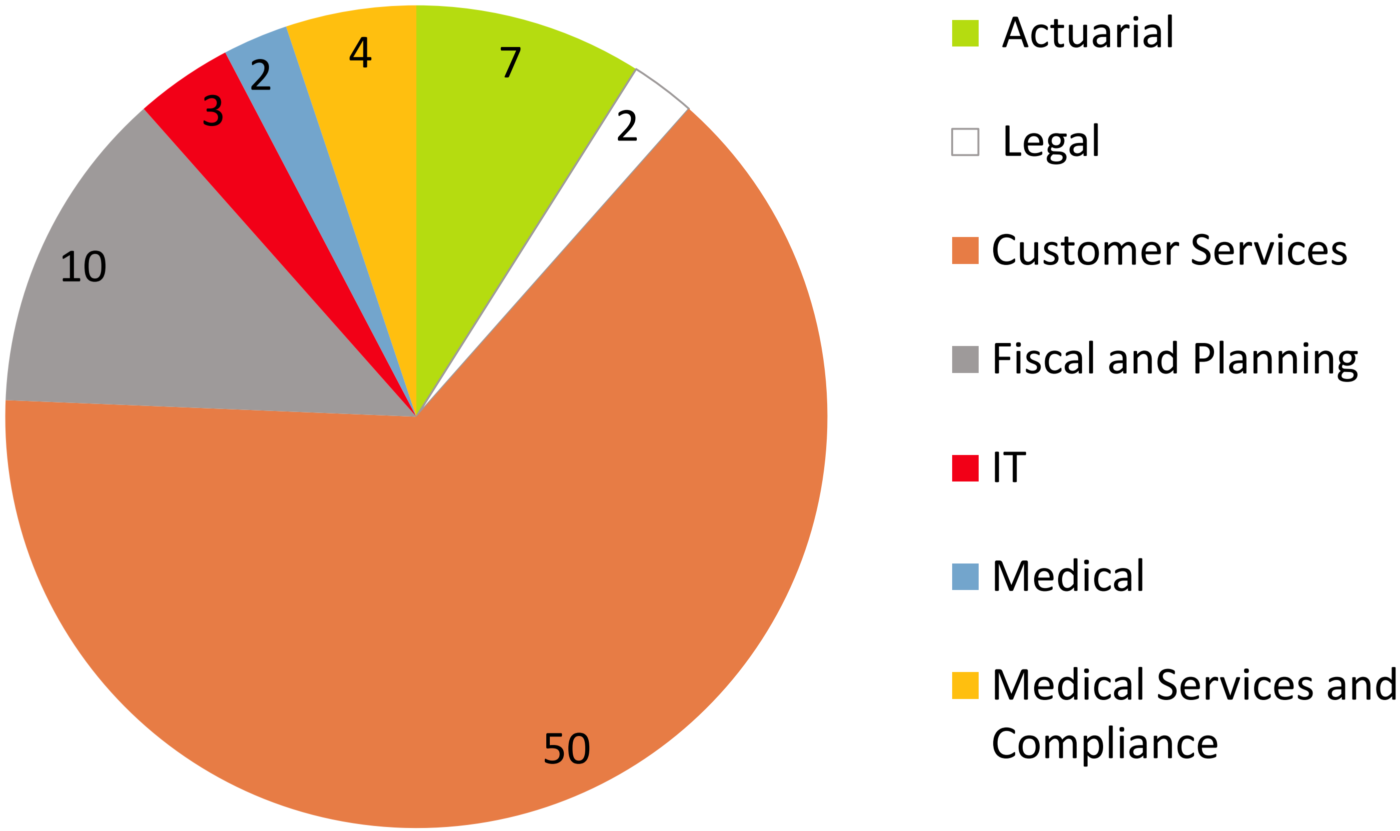
Validation schedule for remaining comments



Note: Excludes three comments for which management accepts risk.

BWC Internal Audit Division

Comments Outstanding by Responsible Division



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

BWC Internal Audit Division
Outstanding Audit Comments as of September 30, 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	Consider converting all medical payments to the Cambridge system and prioritize the elimination of the Medical Invoice Information System. **Rating: Significant Weakness**	IT is conducting a strategic inventory of the IT infrastructure. The analysis will be completed this year to determine the best direction for the multiple BWC systems. **Responsible**: **Chief of Medical Services and Compliance, Chief Information Officer** **Target Resolution Date: June 2011** **Previous Target Date(s): December 2007, June 2008** **Current Resolution Status: In Process**

Risk/Employer Operational Review – June 2006

	Recommendation	Disposition
1	Consider increasing either the Premium Security Deposit or Minimum Premium to compensate for potential losses incurred by BWC. **Rating: Material Weakness**	This item is under review to determine whether management should accept this risk or develop a multi-layered plan to address the various types of minimum premium employers. **Responsible**: **Chief Actuarial Officer** **Target Resolution Date: July 2011** **Previous Target Date(s): December 2006, June 2007, December 2007, December 2008** **Current Resolution Status: In Process**

Manual Override – December 2006

	Recommendation	Disposition
1	Resolve the current rating inequity between group rated and non-group rated employers. Also, adopt standard controls to prevent rate manipulation by employer groups. **Rating: Material Weakness**	Group rating program development is in progress with an anticipated implementation date for the July 2012 policy year. The split experience rating plan is also in progress and on target for implementation of a beta year for the policy year beginning July 2011 and full implementation for policy year beginning July 2012. **Responsible**: **Chief Actuarial Officer** **Target Resolution Date: July 2012** **Previous Target Date(s): January 2007,**

	Recommendation	Disposition
		June 2007, July 2009, July 2011 **Current Resolution Status: In Process**

Pharmacy Benefit Manager (PBM) Audit – May 2007

	Recommendation	Disposition
1	Develop and implement a plan to strengthen oversight and improve management of the program. **Rating: Significant Weakness**	After researching other states' Workers' Compensation drug programs, dispensing patterns and studying BWC's drug provisions, the Pharmacy Department has established benchmarks and recommended policy changes for the pharmacological management of IWs on high doses of narcotics. Utilizing Vendor & Compliance and Performance Monitoring (CPM) data the Pharmacy Department has developed queries, written and implemented procedures aimed at identifying and clinically managing those claims that exceed industry norms. BWC continues to lend guidance and monitor Vendor reports and contract compliance through weekly teleconferences. **Responsible: Chief Medical Officer** **Target Resolution Date: September 2010** **Previous Target Date(s): September 2007, December 2009** **Current Resolution Status: Implemented**
2	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**	BWC transitioned to a new vendor and implementation was completed March 2010. Reports for service level agreements are substantially complete. The pharmacy department is analyzing the reports upon receipt and responding to the PBM accordingly. **Responsible: Chief Medical Officer** **Target Resolution Date: April 2010** **Previous Target Date(s): November 2007, March 2008, April 2008, August 2008, October 2009** **Current Resolution Status: Implemented**

Vocational Rehabilitation Audit – October 2007

	Recommendation	Disposition
1	Implement a monthly process that requires Disability Management Coordinators (DMCs) to review costs	Effective June 2010, DMCs approve nine "BR" codes prior to service delivery, in addition to the Rehabilitation Services

	Recommendation	Disposition
	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. **Rating: Material Weakness**	Commission (RSC) referrals, RTW Incentive services, and other unique plan types that they oversee and authorize. Management is implementing a process by which DMCs will evaluate a sample of claims each month for targeted voc codes for reasonableness. This process will be trained in early December 2010 and the full process will be implemented later that month. DMC evaluations of the service codes will be returned to Rehab Policy for determination of next steps. **Responsible**: **Chief of Medical Services and Compliance, Chief of Customer Services** **Target Resolution Date: December 2010** **Previous Target Date(s): April 2008, June 2008, December 2008, April 2009, October 2009, December 2009, June 2010, September 2010** **Current Resolution Status: In Process**
2	Eliminate the potential conflict of interest created by Managed Care Organizations (MCO)s that refer vocational rehabilitation cases to their related companies. **Rating: Material Weakness**	An objective rehabilitation referral mechanism is currently in development. **Responsible**: **Chief of Medical Services and Compliance** **Target Resolution Date: June 2011** **Previous Target Date(s): October 2008, January 2010, May 2010** **Current Resolution Status: In Process**

Medical Bill Payment Process Audit – March 2008

	Recommendation	Disposition
1	Monitor and track the certification application process to verify all providers are routinely reapplying for certification and providing the Bureau with credentialing information. **Rating: Significant Weakness**	A provider recertification project plan has been developed. There are Provider Enrollment and Certification Housing 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**

Recommendation		Disposition
		2010 **Current Resolution Status: In Process**

Subrogation Audit – May 2008

Recommendation		Disposition
1	Collaborate with IT to explore potential system enhancements to better support the subrogation process. **Rating: Significant Weakness**	The project began in late August and is currently in process. IT indicates that V3 will not be enhanced, as the V3 technology is dated. Instead, IT will create a database based on web technology. **Responsible**: **General Counsel & Chief Ethics Officer** **Target Resolution Date: July 2011** **Previous Target Date(s): December 2009, July 2010** **Current Resolution Status: In Process**

Lump Sum Settlement Process Audit – October 2008

Recommendation		Disposition
1	Define the mission of the settlement process and clearly describe measurable agency-wide goals and objectives for the program. Additionally, develop a process to identify claims that should be settled and evaluate the impact on actuarial reserves and investments. **Rating: Material Weakness**	The only part of this recommendation not yet implemented is to develop a process to proactively identify claims for settlement and pursue them, and then to evaluate the process' impact on Bureau reserves. At this time management will continue its focus on settlement requests initiated by employers and injured workers and will engage in pursuit of settlement. Management accepts the responsibility for the remaining portions of this recommendation. **Responsible**: **Chief of Customer Services** **Target Resolution Date: July 2011** **Previous Target Date(s): February 2009, January 2010, April 2010** **Current Resolution Status: Not Implemented**
2	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. **Rating: Significant Weakness**	With the completion of Phases I and II of the project, management feels that it has adequately addressed deficiencies noted in the audit. Management will not be implementing additional trending and evaluation of the overall efficacy of the new Lump Sum Settlement process at this time. Accordingly, we accept responsibility for not implementing this

Recommendation		Disposition
		last phase. **Responsible**: **Chief of Customer Services** **Target Resolution Date: July 2011** **Previous Target Date(s): June 2009, January 2010, April 2010** **Current Resolution Status: Not Implemented**

Employer Policy Application Process Audit - March 2009

Recommendation		Disposition
1	Revise procedures to issue prior to coverage (PTC) payroll reports covering the entire period since employers first hired employees and came under obligation to obtain workers' compensation coverage. **Rating: Significant Weakness**	For PTC periods up to two years, testing is complete and the program is implemented. Payroll reports are generated and sent from WCIS for all applications dated 2008 to present. Older applications currently still require an audit request, as this was not part of the original IT request. The complexities of manual classifications that changed from rating year to rating year prior to 2008 will require extensive programming. The project request will be submitted by September 2010, and be subject to IT for review and prioritization. **Responsible**: **Chief of Customer Services** **Target Resolution Date: August 2011** **Previous Target Date(s): July 2010** **Current Resolution Status: In Process**
2	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. **Rating: Significant Weakness**	The program to interface employer application information submitted via BWC's web application to WCIS went into production in September 2010. **Responsible**: **Chief of Customer Services, Chief of Fiscal and Planning** **Target Resolution Date: January 2011** **Current Resolution Status: In Process**
3	Design a mechanism for detecting policies finalized outside of the Universal Document Service (UDS) and subject them to formal quality assurance reviews. **Rating: Significant Weakness**	For the interim, a report has been developed to identify policy numbers that are in WCIS but not UDS. Backup documentation for each identified policy is requested from the appropriate individual. This fix will become permanent when Demand Management Reporting puts the report in DocView. **Responsible**: **Chief of Customer Services** **Target Resolution Date: December 2010** **Previous Target Date(s): April 2010, September 2010** **Current Resolution Status: In Process**

Change Management Audit - June 2009

	Recommendation	Disposition
1	Better communicate or define an emergency change and require service level agreements with the end-user community. **Rating: Significant Weakness**	The number of monthly changes documented as emergencies has been reduced by 50% since March due to IT process improvements. A process for developing service level agreements has been documented. However, implementation of the process to establish them will be time consuming and would detract from other priorities at this time. The focus will be on documenting and communicating all existing response goals for service requests. **Responsible**: **Chief Information Officer** **Target Resolution Date: March 2011** **Previous Target Date(s): November 2009, March 2010, August 2010** **Current Resolution 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 in 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. At this time, the plan is to take the package approach pending approval for the expenditure. In the event that approval is not received, 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 Resolution 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**	Draft policies have been created and are being assessed to determine if all risks and concerns have been sufficiently addressed. Pending the results of this evaluation, changes in IT functionality, and preliminary implementation

	Recommendation	Disposition
		feedback, policies and procedures will be finalized. **Responsible**: **Chief of Customer Services, Chief of Fiscal and Planning** **Target Resolution Date: March 2011** **Previous Target Date(s): December 2009, June 2010** **Current Resolution Status: In Process**
2	Create a policy and process map that outlines routine collection and certification efforts, 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 procedures. **Responsible**: **Chief of Fiscal and Planning** **Target Resolution Date: December 2010** **Previous Target Date(s): October 2009, December 2009, March 2010** **Current Resolution Status: In Process**
3	Implement adequate internal controls to help ensure that all BSI employers are referred to the Self Insured Review Panel and appropriate customer accounts are created. Accurately enter BSI employer information into the Rates and Payments System and the Bond Detail Report, and bill securities in a timely manner. **Rating: Material Weakness**	Policies and procedures will be reviewed and revised to include adequate internal controls to ensure all BSI employers are scheduled for SIRP and Direct Billing is provided all needed documentation in a timely manner. **Responsible**: **Chief of Customer Services, Chief of Fiscal and Planning** **Target Resolution Date: June 2011** **Previous Target Date(s): June 2009, December 2009, March 2010, June 2010, August 2010** **Current Resolution Status: In Process**
4	Segregate the duties of requesting the security, receiving and recording the security, and having access to the security. **Rating: Significant Weakness**	The segregation of duties policy for securities will be updated. **Responsible**: **Chief of Customer Services** **Target Resolution Date: December 2010** **Previous Target Date(s): June 2009, August 2009, January 2010, August 2010** **Current Resolution Status: In Process**
5	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 Resolution Status: In Process**
6	Work with IT to create a new system for tracking securitization balances or implement additional controls specific to the Microsoft Excel format.	Management is consulting with IT on project scope and requirements. **Responsible**: **Chief of Fiscal and Planning** **Target Resolution Date: March 2011**

Recommendation		Disposition
	Rating: Significant Weakness	**Previous Target Date(s): December 2009, May 2010** **Current Resolution Status: In Process**

Employer Workers' Compensation Insurance System (WCIS) Credit Transactions Audit – January 2010

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**	The "as is" and "should be" process maps have been completed. Management is currently updating policies and procedures. **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 believes that the new policy (i.e., capturing payroll records for three types of audits) exceeds industry practice and that requiring payroll record capture in a majority of premium audits would be too heavy of a burden. **Responsible**: **Chief of Customer Services** **Target Resolution Date: July 2010** **Current Resolution Status: Not Implemented**
3	Implement control procedures to provide additional assurance that the accounts to be written off are appropriate. **Rating: Significant Weakness**	Dollar volume of activity related to account write-offs has significantly decreased this current fiscal year. We are working with the Attorney General to initiate write-offs of older accounts that need to be deemed uncollectible. The policies and procedures for completing this reconciliation will be in place prior to any increase in the volume of accounts being written off. **Responsible**: **Chief of Fiscal and Planning** **Target Resolution Date: October 2010** **Previous Target Date(s): April 2010** **Current Resolution Status: In Process**
4	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: January 2011** **Previous Target Date(s): January 2010, July 2010** **Current Resolution Status: In Process**

Fixed Asset Audit – February 2010

Recommendation		Disposition
1	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**	Currently we have two outstanding projects pending for automating the Equipment Transfer Authorization form and additional enhancements to the Oracle system. Limited IT resources have delayed these projects. Once these projects have been completed, we will communicate the new Fixed Asset Policy via the BWCWeb and employee handbook. **Responsible**: **Chief of Fiscal and Planning** **Target Resolution Date: December 2010** **Previous Target Date(s): June 2010, September 2010** **Current Resolution Status: In Process**
2	Modify the Oracle asset management system to comply with State policy or acquire another more capable application. **Rating: Significant Weakness**	Management recently added an enhancement to the Oracle database which allows the preparation of the "gap report." Additional enhancements to the Oracle database have been identified and a project request has been submitted to address them. **Responsible**: **Chief of Fiscal and Planning** **Target Resolution Date: June 2011** **Previous Target Date(s): June 2010, September 2010** **Current Resolution Status: In Process**
3	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. **Rating: Significant Weakness**	IT Strategy & Governance and the Service Management Office are working with Finance to secure funding for Facilities to install security upgrades for the furniture cage at MAFIL (BWC's storage facility). **Responsible**: **Chief of Fiscal and Planning** **Target Resolution Date: January 2011** **Previous Target Date(s): June 2010** **Current Resolution Status: In Process**
4	Restructure, or otherwise supplement, the Inventory Control Unit to provide for adequate segregation of duties and compliance with State policy. **Rating: Significant Weakness**	All hiring was postponed until further notice because of a walk-through and repurposing activity that the IT Directors are currently working on. **Responsible**: **Chief of Fiscal and Planning** **Target Resolution Date: December 2010** **Previous Target Date(s): June 2010, August 2010** **Current Resolution Status: In Process**

Death Benefits Audit – April 2010

Recommendation		Disposition
1	Evaluate the cost benefit 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. **Rating: Significant Weakness**	All necessary policies and procedures have been updated and are now in the final review and approval phase. **Responsible**: **Chief of Customer Services** **Target Resolution Date: October 2010** **Previous Target Date(s): September 2010** **Current Resolution Status: In Process**
2	Revise death benefit policies to ensure benefits are appropriately reapportioned when dependants become ineligible. **Rating: Significant Weakness**	All necessary policies and procedures have been updated and are now in the final review and approval phase. **Responsible**: **Chief of Customer Services** **Target Resolution Date: October 2010** **Previous Target Date(s): September 2010** **Current Resolution Status: In Process**

Self Insured Underwriting (SIU) Unit Audit – April 2010

Recommendation		Disposition
1	Establish a process with adequate controls over decisions to grant SI status or require securitization. **Rating: Material Weakness**	Management will update policies to state that a meeting among SI staff will take place whenever there are contradictory decisions between the SI staff and the Director regarding approving/denying SI new and renewal applications and securitization requirements. The meeting outcome will be documented on the UDS workflow notes. The UDS workflow will be updated so that decisions made at the Director's level may be reviewed by SI staff before being finalized so that meetings may first take place to discuss contradictory decisions. **Responsible**: **Chief of Customer Services** **Target Resolution Date: March 2011** **Previous Target Date(s): 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**

	Recommendation	Disposition
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**
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. Controls to reconcile and update SI assessment databases will be evaluated and documented. **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 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 letter of credit (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**

Premium Audit – July 2010

	Recommendation	Disposition
1	Revise the premium audit targeting approach to ensure that PEOs are audited every year. **Rating: Significant Weakness**	Management will audit more PEO's every year. The FY 2011 audit plan calls for 100 PEO premium audits, which will be prioritized based upon premium size, number of clients, past loss and reporting history. **Responsible**: **Chief of Customer Services** **Target Resolution Date: June 2011** **Current Resolution Status: In Process**
2	Revise policies and procedures to provide additional guidance for the specific audit procedures to be performed when reviewing 1099s. Revise the premium audit shell to include a specific tab in which auditors should document their review of employer 1099 forms. **Rating: Significant Weakness**	Management will develop policies and procedures to guide auditors in making independent contractor decisions, and periodically revise the audit shell to support new policies and procedures. **Responsible**: **Chief of Customer Services** **Target Resolution Date: January 2011** **Current Resolution Status: In Process**
3	Develop statewide policies regarding the scheduling and selection of employers for audit. Consider centralization of the scheduling function. **Rating: Significant Weakness**	Management has developed a state-wide policy regarding the scheduling and selection of employers for audit to ensure that policies of all premium levels are subject to selection and audit. Documentation of these procedures will follow. **Responsible**: **Chief of Customer Services** **Target Resolution Date: December 2010** **Previous Target Date(s): July 2010** **Current Resolution Status: In Process**
4	Examine ways to expand the existing Ohio Department of Jobs and Family Services cross-match process to maximize the impact of this tool. **Rating: Significant Weakness**	Management will continue to look for ways to expand utilization of cross matches. **Responsible**: **Chief of Customer Services** **Target Resolution Date: October 2011** **Current Resolution Status: In Process**

Employer Rate Adjustment Audit – August 2010

	Recommendation	Disposition
1	Enhance controls around experience modifier (EM) blocks to provide assurance that such transactions are valid and properly authorized. Restrict access to perform EM blocks to the Rate Adjustment Unit. **Rating: Significant Weakness**	Internal procedures have been modified to address this recommendation. We sent a request to Employer Services to remove access from any underwriter with Block capability. **Responsible**: **Chief of Actuarial Officer** **Target Resolution Date: January 2011** **Previous Target Date(s): August 2010** **Current Resolution Status: In Process**

Recommendation		Disposition
2	Develop management reporting and QA review procedures for changes to key demographic data that may impact reserves. **Rating: Significant Weakness**	Actuarial is preparing an Idea to IT for the development of a monthly report to reflect all changes to MIRA II data that causes a reserve prediction. The report will be a part of the monthly quality assurance process performed by the supervisor regarding claim cost adjustments, EM and MIRA overrides. **Responsible**: **Chief of Actuarial Officer** **Target Resolution Date: March 2011** **Previous Target Date(s): August 2010** **Current Resolution Status: In Process**
3	Develop written procedures for the quality assurance review of adjustments in the Rates and Payments system. **Rating: Significant Weakness**	Written procedures for the QA review of adjustments will be developed, including documentation of the items selected for examination. **Responsible**: **Chief of Actuarial Officer** **Target Resolution Date: December 2010** **Previous Target Date(s): August 2010** **Current Resolution Status: In Process**
4	Implement an independent reconciliation/review of EM overrides and blocks, which employs system reports encompassing the full population of transactions being reconciled. **Rating: Significant Weakness**	Actuarial will be identifying resources outside the unit to review and reconcile the monthly EM override report with the override packets. **Responsible**: **Chief of Actuarial Officer** **Target Resolution Date: December 2010** **Previous Target Date(s): August 2010** **Current Resolution Status: In Process**
5	Review the update access held by members of the Rate Adjustment Unit in all source systems and remove any access that is not required for their current duties. **Rating: Significant Weakness**	Management has sent WCIS and V3 profile update requests to IT Security. **Responsible**: **Chief of Actuarial Officer** **Target Resolution Date: January 2011** **Previous Target Date(s): June 2010** **Current Resolution Status: In Process**

Investment Personal Trading Policy (PTP) Audit – August 2010

Recommendation		Disposition
1	Develop detailed review procedures and provide necessary training to assist Human Resources Division staff in identifying violations of prohibitions against transacting in Initial Public Offerings or securities on the restricted securities list. The Committee should also consider providing additional information to covered persons to assist them in maintaining compliance. **Rating: Significant Weakness**	The Committee is in planning stages for periodic training program for covered persons and a compliance review person. Current review procedures are being studied. The Committee is also considering the appropriate mechanism to generate a system that generally covers securities that derive their value from restricted securities and indices. **Responsible**: **General Counsel and Chief Ethics Officer** **Target Resolution Date: December 2010**

	Recommendation	Disposition
		Current Resolution Status: In Process

Safety and Hygiene Audit – August 2010

	Recommendation	Disposition
1	Investigate possible collaboration between departments providing safety consulting services. Consider pursuing statutory changes to permit the Public Employment Risk Reduction Program (PERRP) to freely conduct enforcement investigations and compel compliance with safety standards. **Rating: Significant Weakness**	PERRP has increased enforcement activities under the authority and conditions of 4121.17 that provide right of entry. In addition, PERRP is developing a plan to communicate the requirement to submit injury and illness summaries to BWC and will be targeting State Agencies, Counties and Cities. **Responsible**: **Chief of Customer Services** **Target Resolution Date: June 2011** **Current Resolution Status: In Process**
2	Develop and implement controls to ensure that PERRP jurisdiction over all complaints, reports of fatalities, multiple hospitalizations and refusals to work are properly determined and referred for appropriate enforcement action. **Rating: Significant Weakness**	All enforcement activities that PERRP does not have jurisdiction over are reviewed by the Director of Technical Services for approval. In addition, PERRP is currently working on developing a database with an approval field that will track appropriate enforcement action. A Clarity project has been created to track extensions granted for complaints that are over 30 days and add new values to track the different types of complaints. **Responsible**: **Chief of Customer Services** **Target Resolution Date: December 2010** **Current Resolution Status: In Process**
3	Educate public employers on death or inpatient hospitalization reporting requirements. Develop and implement policies and procedures to obtain detailed information of work-related incidents that identify incidents not reported by public employers. **Rating: Significant Weakness**	The CAT (catastrophic claim) and Death report is sent to PERRP for review to ensure that all fatalities have been reported to PERRP. The policy tracking all fatalities is continuing to be updated. **Responsible**: **Chief of Customer Services** **Target Resolution Date: March 2011** **Previous Target Date(s): July 2010** **Current Resolution Status: In Process**
4	Develop and maintain an effective program of collection, compilation, and analysis of public employment risk reduction statistics. **Rating: Significant Weakness**	It has been determined that PERRP will continue to collect annual summaries per Ohio Administrative Code 4167-6. A plan is being developed with Communications to communicate the requirements for public employers to submit their annual summaries. In addition, three projects have been entered into Clarity to identify active policy numbers that have not submitted their summary, for an online form to validate reporting, and to identify

	Recommendation	Disposition
		accurate entity types that have or have not submitted. **Responsible**: **Chief of Customer Services** **Target Resolution Date: July 2011** **Current Resolution Status: In Process**
5	Develop and implement policies and procedures to confirm the attendance at safety council meetings. **Rating: Significant Weakness**	The Division of Safety and Hygiene (DSH) will communicate to the BWC staff assigned to safety councils the expectation that each safety council meeting attended requires the submission of an evaluation form. DSH will utilize existing processes for sponsors to ensure 100% staff evaluation submission. **Responsible**: **Chief of Customer Services** **Target Resolution Date: December 2010** **Previous Target Date(s): July 2010** **Current Resolution Status: In Process**
6	Automate the safety council subsidy calculation process or develop and implement review procedures to ensure that the calculation methodology and the data used are appropriate. Implement reconciliation procedures to ensure subsidies paid to safety councils are accurate and agree to the requisitions and contracts. **Rating: Significant Weakness**	Budgetary and reconciliation procedures have been written and implemented. Any IT solution will need to follow the Demand Management Process. **Responsible**: **Chief of Customer Services** **Target Resolution Date: January 2011** **Previous Target Date(s): July 2010** **Current Resolution Status: In Process**
7	Generate management reports according to the schedule required by policy to identify non-complying Safety Intervention Grant (SIG) recipients in a timely manner and develop policies and procedures to resolve incidents of non-compliance. **Rating: Significant Weakness**	Management will update the Policy and Procedure guide to include the additional steps when non-complying employers are identified. These steps include contacting the employer and billing the employer for grant funds if out of compliance or if there is no contact to request an extension. Management will also work to catch up on identifying non-complying employers and sending receipt reminders, which is an on-going process. **Responsible**: **Chief of Customer Services** **Target Resolution Date: December 2010** **Previous Target Date(s): August 2010** **Current Resolution Status: In Process**
8	Track the number of SIGs awarded for each type of intervention so that the Moratorium List may be systematically updated when sufficient research data has been gathered on a particular intervention. **Rating: Significant Weakness**	Management will create a database to easily track the number and types of interventions. Once this database is complete and is running, the SIG Review Board will review approved items during regular weekly meetings to determine if there are any interventions that need to

	Recommendation	Disposition
		be added to the Moratorium List. **Responsible**: **Chief of Customer Services** **Target Resolution Date: December 2010** **Previous Target Date(s): July 2010** **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, 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 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	• 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 more than a remote likelihood 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	• 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 remote 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	• 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 less than a remote 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 2011 Annual Audit Plan

Ref #	Focus Area	1st Qtr. JUL	1st Qtr. AUG	1st Qtr. SEP	2nd Qtr. OCT	2nd Qtr. NOV	2nd Qtr. DEC	3rd Qtr. JAN	3rd Qtr. FEB	3rd Qtr. MAR	4th Qtr. APR	4th Qtr. MAY	4th Qtr. JUN	Audit Effort
1	Temporary Total Disability Benefits													4
2	Employer Compliance Unit													4
3	Claims Quality Assurance Consulting Engagement													2
4	Special Claims													4
5	Professional Employment Organizations													5
6	Medical Services Compliance and Performance Monitoring Unit													4
7	Percentage Permanent Partial Disability													3
8	Employer Refunds													3
9	Sysco Reimbursements													2
10	Large Deductible Program													4
11	New Claims Audit													5
12	Pharmacy Benefit Program													5
13	MCO Administrative and Incentive Payments													4
14	FY 2012 Audit Plan													3
15	External Audit Assistance													5
16	MCO Audits													5
17	Investment Continuous Compliance Monitoring Efforts													5
18	Audit Validation Testing													5

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

Audit Effort Explanations

Number	Audit Effort Explanations	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

Audit Plan updated September 2010

Revised Audit Plan

BWC Internal Audit Division
QES Acronyms

Acronym	Description
BSI	Bankrupt Self Insured
BWC	Bureau of Workers' Compensation
DSH	Division of Safety and Hygiene
DMC	Disability Management Coordinator
DWRF	Disabled Workers' Relief Fund
ECD	Employer Compliance Department
EM	Experience Modifier
FY	Fiscal Year
IAD	Internal Audit Division
IT	Information Technology
IW	Injured Worker
LOC	Letter of Credit
MAFIL	Managing Active/Inactive Files by Innovative Logistics (BWC's storage facility)
MCO	Managed Care Organization
MMI	Maximum Medical Improvement
NOR	Notice of Referral
PEO	Professional Employment Organization
PERRP	Public Employer Risk Reduction Program
PBM	Pharmacy Benefit Management
PTC	Prior to Coverage
PTP	Investment Personal Trading Policy
QA	Quality Assurance
QES	Quarterly Executive Summary
RSC	Rehabilitation Services Commission
RTW	Return to Work
SI	Self Insured
SIG	Safety Intervention Grant
SIU	Self Insured Underwriting
UDS	Universal Document Service

Acronym	Description
TT	Temporary Total
V3	Version 3 (BWC's Claims Management System)
WCIS	Workers' Compensation Insurance System

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

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Internal Audit Open Discussion

Audit Plan

Planning Phase:

- Employer Refunds Audit
- Investment New Account Set Up and Asset Transition Review
- Percentage Permanent Partial Disability

Fieldwork Phase:

- Annual Risk Assessment/Enterprise Risk Management Project
- Claims Quality Assurance Engagement
- Compliance and Performance Monitoring Audit
- MCO Audit # 2

Final Phase:

- Investment Request for Proposal Compliance Review
- MCO #1
- Special Claims Audit

Completed Projects for December Quarterly Executive Summary:

- Disabled Workers' Relief Fund Audit
- Employer Compliance Audit
- SI Electronic Signature Consulting Engagement
- Temporary Total Disability Audit

Other

- Audit Validation for March Audit Committee Meeting
- *Office of Budget and Management IT Project:*
    - Cambridge Audit

12-Month Audit Committee Calendar

Date	December 2010
12/15/2010	1. FY 2012 – 2013 Budget Process Education Session
	2. Annual Disaster Recovery/Business Continuity Plan
	3. Internal Audit QES Review
	January 2011
1/20/2011	1. PEO Education Session
	2. Quarterly Litigation Update (Executive Session)
	February 2011
2/23/2011	1. Inspector General Annual Report (Executive Session)
	2. Education Session prior to QES
	March 2011
3/24/2011	1. Internal Audit QES Review
	2. Discount Rate and Financial Metrics (1^{st} Reading)
	April 2011
4/28/2011	1. Discussion of External Audit
	2. Discount Rate and Financial Metrics (2^{nd} Reading)
	3. FY 2012 Administrative Budget (1^{st} Reading)
	4. Quarterly Litigation Update
	May 2011
5/26/2011	1. FY 2012 Administrative Budget (2^{nd} Reading)
	2. Internal Audit Charter
	June 2011
6/15/2011	1. FY 2012 Internal Audit Plan
	2. External Audit Update
	July 2011
7/28/2011	1. Internal Audit QES Review
	2. FY 2012 Financial Projections
	3. Quarterly Litigation Update (Executive Session)
8/25/2011	**August 2011**
	1. BWC Code of Ethics Review
	2. External Audit Update
	September 2011
9/29/2011	1. Internal Audit QES Review
	2. Inspector General Semi-Annual Report (Executive Session)
	October 2011
10/27/11	1. Audit Committee Charter Review (1^{st} Reading)
	2. Internal Audit Annual Accomplishments Report
	3. Quarterly Litigation Update (Executive Session)

12-Month Audit Committee Calendar

Date	November 2011
11/17/2011	1. Audit Committee Charter Review (2nd Reading)
	2. External Audit Update
	3. Finance Education Session

Annual Report

July 1 2009, to June 30, 2010

Ohio | Industrial Commission

Ohio | Bureau of Workers' Compensation

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Ohio Bureau of Workers' Compensation Fiscal Year 2010 Report

Administrator's Letter

Dear Governor Strickland:

I am pleased to present the annual report of the Ohio Bureau of Workers' Compensation for Fiscal Year 2010 (FY10).

As with the two previous fiscal years, BWC continues to focus on aligning the rates employers pay for workers' compensation insurance with the degree of risk they bring to the system. We have been extremely successful in our efforts. In FY10, BWC lowered base rates for the majority of Ohio's private employers by 25.3 percent. These reductions resulted in a nearly $203 million drop in premium for 56 percent of the state's private employers. Public employers also saw a reduction in costs, thanks to a 24.5-percent base rate drop in FY10.

In addition to lowering rates, we introduced insurance industry-based programs to help employers reduce their workers' compensation costs and increase safety in their workplaces. Our expanded deductible program allows employers to accept more financial liability in exchange for lower rates. Employers may opt for a deductible of up to $200,000. We based our new Drug-Free Safety Program (DFSP) on national models and made it available to all employers indefinitely. Employers are eligible for premium discounts based on their level of participation in the DFSP.

Lower rates and safety go hand-in-hand, and BWC continues to discover new ways to reach out to employers and their work force in hopes of reducing the frequency or severity of injuries in the workplace. We have increased our research capabilities, establishing partnerships with the National Institute of Occupational Safety and Health, universities and various trade associations to study the most common workplace injuries and to find solutions to eliminate them in the future.

In FY10, BWC managed 1.2 million open claims, which includes 104,151 new claims; and paid medical and indemnity compensation to injured workers totaling nearly $1.9 billion. To ensure prompt customer response and timely care, we have evaluated and streamlined many of our operational efficiencies. This has resulted in reducing claim-processing time for injured workers. Today, BWC processes the majority of claims within nine and one-half days, nearly three weeks earlier than the legally mandated 28-day requirement.

When accidents happen, BWC is swift in our service to the injured worker. We created a catastrophic response team to assist injured workers and their families immediately in the event of a serious accident. This team has been effective in expediting services, and provides guidance and care for many during difficult circumstances. In addition, we have heightened the level of care for injured workers through more provider outreach, more competitive medical fee schedules and an enhanced pharmacy program.

Finally, critical financial management and a strong State Insurance Fund are paramount to the success of Ohio's workers' compensation system. In FY10, BWC seamlessly transitioned a $17 billion asset allocation, while adopting a new investment strategy. The success of this transition was heralded throughout the nation's investment community.

Recognizing our fiduciary duty as stewards of Ohio's State Insurance Fund, BWC operates thoughtfully and frugally. We continue to operate well within our means. Over the past three years, BWC has spent $33.6 million less than budgeted. In addition to operational cost savings, we are now landlords to three state entities that occupy space within the William Green Building, and we have streamlined our real estate needs in many of our statewide customer service offices. These space-saving initiatives are resulting in real estate cost reductions of more than $450,000 a year, and creating $300,000 in additional revenue.

As BWC moves forward in FY11, Ohioans can continue to count on BWC to provide the best care to injured workers at the lowest possible rates for employers.

Sincerely,

Marsha P. Ryan

Marsha P. Ryan, Administrator
Ohio Bureau of Workers' Compensation

Ohio Bureau of Workers' Compensation Fiscal Year 2010 Report

Ohio's workers' compensation system is the largest state-fund insurance system in the nation, serving 256,000 employers and 1.2 million injured workers. It is the mission of the Ohio Bureau of Workers' Compensation (BWC) to protect injured workers and employers from loss as a result of workplace accidents, and to enhance the general health and well-being of Ohioans and the Ohio economy.

As we approach our 100th anniversary, BWC continues to look toward the future while meeting the needs and challenges of today's employers and Ohio's work force. Always conscious of our responsibility to operate in the best interest of those who support and rely upon the State Insurance Fund, and other specialty funds, we focus on four performance objectives:

- Provide **stable costs** to avoid unexpected financial hardship for employers;
- Develop **better services** to clearly demonstrate BWC's value and enhance Ohio's quality of life;
- Establish **accurate rates** to match rates fairly with risks and to ensure proper distribution of costs among all employers;
- Create **safe workplaces** by promoting safety awareness to prevent claims that cause loss.

FY10 highlights

- 1.2 million open claims
- 96 cents per $1 of employer premium went directly to the care of injured workers
- 35-percent average decrease in private employer base rates since 2007
- 28.5-percent average decrease in public employer base rates since 2007

FY10 by the Numbers

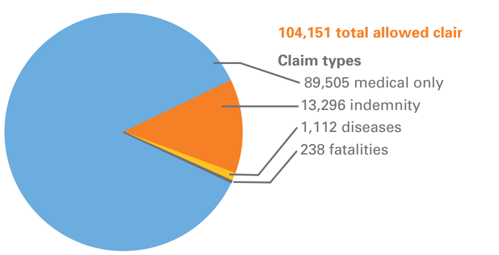
In FY10, BWC actively managed 1.2 million open claims, funded by assets totaling approximately $24 billion. Medical and indemnity compensation paid to injured workers totaled nearly $1.9 billion.

Following the national trend in FY10, Ohio experienced a continued reduction in new claims. While a decrease in payroll accounts for a portion of this decrease, statistics adjusting for payroll changes indicate a continued decline in new claims activity, as well. BWC received 116,042 claims in FY10, a 12.4-percent decrease from FY09. Of those claims, BWC determined 104,151 of those claims were compensable.

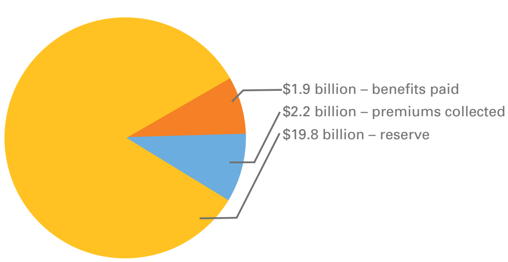
Claims received and claims allowed comparison by year

	FY 2010	FY 2009	FY 2008	FY 2007
Claims received	116,042	132,549	159,611	171,692
Claims allowed	104,151	118,855	143,199	154,677

Claim totals and types



Benefits paid and premiums collected



Nearly 90,000 of the claims allowed in FY10 were medical-only claims, where the injured worker was treated and reported to work as scheduled. Approximately 13,000 claims were lost-time claims, where the injured worker required time away from the job to recover. We received 1,112 occupational disease claims. In addition, workplace accidents resulted in the deaths of 238 workers in FY10.

Complete financial details are available in BWC's FY10 Audited Financial Statements section of this report.

Responsible Stewardship

BWC is in a unique position to offer the lowest possible costs without sacrificing benefits or the quality of services. As a state-run system, we are tax exempt; we can discount our reserves; and our operating costs are low.

Employers paid $2.2 billion in premium in FY10. For every dollar BWC collects in employer premium, we spend 96 cents on the care of injured workers. Nationally, the average amount spent on a claim is 69 cents of every premium dollar.

We are constantly seeking to enhance operational efficiency. Drawing from the recommendations made in the 2008 comprehensive workers' compensation study mandated in House Bill 100 of the 127th General Assembly (the "Comprehensive Study"), BWC continues to make fundamental improvements toward the long-term strength and stability of Ohio's workers' compensation system.

The Comprehensive Study produced 146 recommendations reaching all aspects of our enterprise. In FY10, BWC evaluated and prioritized each of the recommendations. At the close of the fiscal year, staff had implemented 46 recommendations and identified an alternative solution for 10 additional recommendations. Highlights of FY10 implementation activity include:

- BWC enhanced its financial stability by implementing a net asset policy and addressing catastrophic loss insurance recommendations;
- We improved quality care for injured workers by updating medical benefit plans and associated fee schedules;
- Comprehensive rate-reform efforts incorporated several recommendations of the Comprehensive Study, increasing the actuarial soundness of BWC's rate-making process and bringing employers closer to paying the right rate for the right risk.

Our work to incorporate additional recommendations of the Comprehensive Study will extend into FY11 and beyond. We will monitor recommendations already in place for effectiveness of implementation and remain watchful for additional opportunities for improvement.

Spending of each premium dollar collected: U.S. average vs. Ohio

	U.S. average	Ohio
Care of injured workers	69	96
General and other administration	13	4
Profit	7	0
Commissions	5	0
Taxes	4	0
Dividends to policy holders	2	0

Our Performance Objectives: Providing Stable Costs and Accurate Rates

In FY10, we continued our efforts toward comprehensive rate reform, seeing impressive results. Since 2007, base rates for private employers have fallen by an average of 35 percent and are at a 20-year low. Public employer taxing districts have experienced a 28.5-percent rate reduction over the same period.

Comprehensive rate reform

The core mission of BWC's rate-reform effort has been to adopt fair, stable and actuarially sound rates, while ensuring each employer is paying the rate that matches the risk it brings to Ohio's workers' compensation system. Since 2007, we have made significant progress in our comprehensive rate-reform efforts, by making Ohio's rate structure more equitable and accurate, reducing its volatility, and bringing insurance industry best practices to the Ohio system.

Our rate-reform initiative addresses all aspects of how we set rates. To date, comprehensive rate reform has:

- Reduced base rates in 441 of the state's 532 manual classes;
- Identified more effective methods of incorporating an employer's claim experience when setting individual rates that makes better use of the frequency and severity of injuries;
- Instituted a cap to avoid precipitous year-to-year increases in premium due to changes in the employer's claim experience and how it is measured from one year to the next;
- Modified the Group-Rating Program to increase fairness and equity in the system;
- Developed new programs to allow employers additional methods to manage their workers' compensation costs.

Part of our rate-reform strategy includes offering industry-standard programs that help employers reduce costs by enhancing workplace safety efforts. This year we introduced the Group-Retrospective-Rating Program to give employers more options in tailoring a workers' compensation program that meets their individual business needs. In addition, we introduced the Large Deductible Program July 1, 2010.

The Group-Retrospective-Rating Program is a new program for employers that offers groups of employers the opportunity for a premium adjustment after the policy year ends. These reductions are based on the group's performance in managing claims and controlling the frequency of injuries. The Large Deductible Program allows employers to lower their workers' compensation premiums by paying a deductible ranging from $25,000 to $200,000 per claim. We added this deductible program to complement the Small Deductible Program introduced July 1, 2009, which offers deductible levels from $500 to $10,000 per claim.

Three years of rate reform have resulted in significant positive change. In policy year 2009, premium decreased by $139 million overall, with employers in 73 of Ohio's 88 counties experiencing a net reduction in total premium. In addition, the majority of the largest state-fund employers realized a premium decrease.

Rate reform has affected three policy years for private employers and two for public employers, due to the difference in the start of each respective policy year. Across both the private and public sectors, BWC's rate-reform efforts have made an impressive impact.

These changes have also improved Ohio's standing nationally with respect to workers' compensation rates. Once considered among the most expensive states for workers' compensation rates, Ohio now sits in the middle of the national average with an average base rate of under $2 per $100 of payroll as of July 1, 2011.

Through its rate-reform efforts, BWC has achieved a more equitable and fair rate-making system that eliminates significant, unexpected premium swings. This is allowing employers to anticipate what their workers' compensation costs will be from one year to the next. Our efforts have lowered workers' compensation insurance costs for more than half of Ohio's private employers. This allows those companies the opportunity to dedicate more of their financial resources to business and work force development.

Impact of three years of rate reform: Rate changes by segment since 2007

Private employers

Policy year	Overall change	Non-group (base rate) change	Group rate change
2008	-5%	-5%	-5%
2009	-12%	-25.3%	9.6%
2010	-3.9%	-8.4%	5.5%
Cumulative	**-19.7%**	**-35.0%**	**9.8%**

Public employer-taxing districts

Policy year	Overall change	Non-group (base rate) change	Group rate change	Non-group retro change
2009	-5%	-5%	-5%	-5%
2010	-17.0%	-24.6%	-4.7%	-21.3%
Cumulative	**-21.2%**	**-28.4%**	**-9.5%**	**-25.2%**

Sound investments

Sound investments, coupled with a watchful eye toward responsible spending in our administrative operations have contributed to a solid financial position for the agency.

BWC's investment portfolio achieved a total return of 12 percent in FY10. A key to this success was the implementation of a new investment policy, which included transitioning more than $17 billion in State Insurance Fund invested assets from a mix of 80 percent bonds and 20 percent equities, to 70 percent bonds and 30 percent equities, including 10 percent in international equities.

Operational efficiency

Because Ohio employers contribute to the administrative costs of operating the workers' compensation system, BWC has an obligation to ensure we are operationally efficient in conducting the business of workers' compensation in Ohio.

In addition to lowering the cost of workers' compensation insurance for the majority of Ohio employers, we also reduced our own operating costs. In the last three years, we cut spending by $33.6 million (11 percent) without negatively affecting our quality of service. We attribute much of these savings to operating more efficiently with fewer employees and curbing spending on equipment and supplies. We will continue our efforts to be cost conscious going forward: BWC's FY11 budget is 7-percent lower than the amount approved by the BWC Board of Directors for FY10.

Through the renegotiation of leases for four of our customer service offices, we will realize an annual savings of $500,000 for the enterprise. We experienced an additional $250,000 a year in revenue stream by leasing space within the William Green Building, our downtown Columbus location, to three state entities.

Cost recovery efforts

Along with setting accurate rates, sound investment practices and operational efficiency, BWC works to reduce costs for Ohio employers by actively seeking cost-recovery opportunities. We accomplish this through the subrogation of claims when a third party injures a worker and in the identification of fraudulent activity.

Over the past two years, the subrogation unit of BWC's Legal Division has collected a record amount of subrogation funds. In FY10, the unit collected more than $22 million (a 13.5-percent increase) from third parties to cover past and future medical and compensation costs for injured workers.

BWC's special investigations department aggressively pursues cases of claims fraud, medical provider fraud, and premium fraud. In FY10, the department identified more than $66 million in workers' compensation fraud, and pursued prosecution for 240 individuals.

Cost recovery efforts yielded enormous return on investment for Ohio employers in FY10.

In the subrogation unit, every dollar spent returned $22.93 to the State Insurance Fund.

For every dollar spent by the special investigations department, it identified $6.30 in fraud.

Our Performance Objectives: Developing Better Services

BWC's mission is to allay losses suffered by injured workers and employers. We strive to assist injured workers in a safe, swift return to work while alleviating loss of productivity for Ohio employers.

Demonstrating its commitment to better services and quality care, the BWC Board of Directors created the Medical Services and Safety Committee in September 2009. Among the Committee's responsibilities is the development of strategic policy to deliver our customers quality, cost-effective treatment and rehabilitation services.

In FY10, BWC continued its quest to provide the best quality care by:

- Revising benefit plans and corresponding fee schedules to provide the most beneficial medical care for injured workers at competitive prices;
- Developing managed care and provider performance metrics to improve the quality of care provided to injured workers;
- Partnering with other entities in research efforts to determine the best treatment opportunities available for injured workers;
- Streamlining claims and adjudication processes to reduce wait times and administrative costs.

BWC supports a system that enables injured workers to receive treatment from skilled and reliable providers located throughout Ohio. To attain and retain quality medical providers, BWC sets its benefit plan pricing using industry best practices, including Medicare-based prospective payment models. BWC adopted a more competitive fee schedule that offers a 16-percent reimbursement increase to ambulatory surgical centers and a 6-percent increase for vocational rehabilitation providers.

To better understand trends in injured worker prescriptions, BWC collaborated with The Ohio State University's Center for Health Outcomes, Policy and Evaluation Studies (HOPES) to analyze opioid use among injured workers. The results of the first study are now available and provide a blueprint for further research. BWC and the Center for HOPES will continue to study the patterns of narcotics use to determine the best treatment options for injured workers in the future.

Robust outcome measurement is critical to the provision of appropriate, timely, medical treatment for injured workers. BWC worked collaboratively with managed care organizations (MCOs) on the creation of a new MCO metric for medical case management effectiveness. BWC also partnered with the Ohio Department of Administrative Services and labor unions in the development and implementation of provider performance measures for state agency workers' compensation claims. This program will provide BWC and its stakeholders a platform to develop a statewide provider performance measure.

Along with effective provider and managed care performance, efficient claims management and adjudication is critical to provide better services to Ohio. When a worker receives medical treatment after an injury, BWC has a statutory requirement to determine compensability within 28 days. In FY10, the average length of time for BWC to process each claim was 9.5 days. Along with streamlining the initial determination process, we also brought greater efficiency to the process of resolving treatment disputes, eliminating 21 days – a reduction of 67 percent – from that process.

Our Performance Objectives: Maintaining Safe Workplaces

Accident prevention is key to keeping workers safe and workers' compensation costs low. BWC offers many value-added services to our customers to enhance safety in the workplace. Through our Division of Safety and Hygiene (DSH), BWC provides year-round training and consultation to Ohio employers and their employees.

The BWC Ohio Center for Occupational Safety and Health (OCOSH) is a continuing education and training facility specializing in occupational safety and health. Through a variety of courses, workshops and seminars, the center provides employers and workers with the knowledge, tools and skills they need to improve safety and prevent occupational injuries and illnesses in their workplaces. OCOSH houses one of the most specialized occupational safety and health resource centers in the nation. BWC's safety video library is also a tremendous resource with thousands of safety titles, training aids, books and publications.

DSH has safety experts, researchers and consultants on staff and offers on-site visits to provide guidance to employers interested in making their workplaces safer, along with a large number of courses and programs designed to enhance safety in the workplace. In FY10, DSH assisted Ohio employers in the following areas:

- Safety, ergonomics and industrial hygiene consultants conducted 17,480 workplace visits to 5,428 employers;
- Provided safety training and education for 7,048 employers;
- Collected 9,173 air-quality samples from 878 Ohio work sites;
- Educated more than 14,472 students through the training and education department;

- The Public Employee Risk Reduction Program (PEERP) provided safety training to 1,300 public employees at 32 separate locations;
- The OSHA On-Site staff provided training to 1,717 employees at approximately 250 different locations;
- Eighty safety councils held 1,130 safety presentations and seminars throughout Ohio.

In FY10, BWC awarded 110 safety intervention grants totaling $2.84 million to private and public taxing district employers. These two-to-one matching grants (up to $40,000) assist employers in purchasing equipment to substantially reduce or eliminate many injuries and illnesses associated with a particular task or operation. Qualified employers provide BWC with quarterly reports and a year-end case study that documents their experience with the equipment. We use this data to establish best practices in the field of occupational safety and health.

Each year, BWC hosts the largest regional safety and health exhibition in the United States. The Ohio Safety Congress & Expo is a three-day event that provides employers and employees with opportunities to earn continuing education credits, discover real-life safety scenarios, and learn how to decrease workplace injuries and lower their workers' compensation costs. In FY10, a record 6,000 people attended the event.

The expo offered more than 150 one-hour educational sessions and three full day workshops with continuing education credits in the areas of occupational safety and health, loss prevention, risk and claim management, and workers' compensation. Additionally, 209 vendors joined the expo marketplace to show case some of the latest safety gear and industrial equipment.

Workplace safety includes a commitment to the elimination of substance abuse in all Ohio job sites. In July 2010, BWC introduced a new Drug-Free Safety Program (DFSP) that places a greater emphasis on safety and the prevention of workplace injuries often attributed to the use of alcohol or drugs. As with similar programs in other states, the new program provides actuarially sound premium credits ranging between 4 percent and 7 percent. The DFSP is available to more employers than our previous Drug Free Workplace Program and employers may remain in the program for as long as they wish to participate.

DSH not only works to educate Ohio's work force about preventing injuries, but also conducts and encourages research to determine best safety practices to avoid injury.

To enhance BWC's safety programs and services, we formed a strategic alliance with the most prestigious occupational safety and health research agency worldwide, the National Institute of Occupational Safety and Health (NIOSH). NIOSH recognizes the uniqueness of Ohio's single provider work-related injury data compared to the rest of nation. The partnership will build on and expand Ohio's research capabilities, leading to better safety interventions and prevention of workplace injuries and illnesses.

BWC continues to develop collaborative opportunities with employer groups and research entities to expand its safety services and reach. Today, we are engaged in safety research and prevention initiatives with the Ohio Manufacturing Association, Ohio Restaurant Association, Ohio Department of Transportation, National Institute for Occupational Safety and Health, Occupational Safety and Health Administration, and the Ohio Staffing and Search Association.

Looking Ahead

As we approach the centennial anniversary of the workers' compensation system in Ohio, BWC will continue to make the system more operationally efficient and equitable for employers. Rate reform will result in an additional 7.7-percent average base rate decrease for public sector employers. Plans are under way to transition our rate making to the nationally recognized split-experience rating plan, allowing for more accurate workers' compensation insurance pricing. The split plan is used in 38 states and calculates employer premiums with more emphasis on claim frequency over claim severity. BWC expects to implement the split plan method in a beta year in July 2011, with full implementation beginning July 1, 2012.

In FY11, we will continue to build upon our efforts to explore the cause and treatment of many workplace injuries, and to enhance medical care for injured workers. Through newly established relationships with two Ohio universities and national entities such as NIOSH and the U.S. Centers for Disease Control, we anticipate strengthening the safety, quality and cost-effectiveness of medical care for injured workers.

Our commitment to accurate rates, stable costs, better services and safer workplaces remains unwavering. By pursuing these performance objectives, we will continue to protect injured workers and employers from loss because of workplace accidents, and to enhance the general health and well-being of Ohioans and the state's economy.

BWC year-end statistics

	FY 2010	FY 2009	FY 2008
State Fund Claims Filed			
Lost time	13,296	15,428	18,738
Medical only	89,505	101,791	122,540
Occupational disease	1,112	1,439	1,685
Death	238	197	236
Disallowed or dismissed	11,891	13,694	16,412
Total	116,042	132,549	159,611
Net allowed injuries	104,151	118,855	143,199

Note: Every claim is evaluated at 60 days after filing for purposes of claim type, State Fund versus Self-Insured, combine status, and allowance status. Values exclude combined and Self-Insured claims.

	FY 2010	FY 2009	FY 2008
Open Claims (Per statute)			
Lost time	386,503	407,841	486,942
Medical only	834,799	913,373	928,549
Total	1,221,302	1,321,214	1,415,491
Benefits Paid			
Medical benefits paid	$800,805,344	$833,508,906	$839,466,966
Compensation Paid			
Wage loss	$21,352,353	$19,123,153	$18,351,000
Temporary total	267,470,408	258,845,993	254,370,076
Temporary partial	56,996	48,179	69,398
Permanent partial	20,353,634	23,361,375	23,812,862
% Permanent partial	79,543,300	84,406,059	80,295,738
Lump sum settlement	151,257,527	206,137,108	312,317,176
Lump sum advancement	21,772,977	20,581,269	20,396,760
Permanent total & DWRF	386,973,795	385,463,075	385,273,687
Death	82,894,164	82,396,222	81,991,570
Rehabilitation	47,821,615	43,429,274	40,371,244
Other	6,084,179	6,973,291	7,148,595
Total compensation paid	$1,085,580,948	$1,130,764,997	$1,224,398,106
Total benefits paid	$1,886,386,292	$1,964,273,902	$2,063,865,072

	FY 2010	FY 2009	FY 2008
Fraud Statistics			
Fraud dollars identified	$66,184,460	$65,183,784	$73,528,436
$$$ saved to $$$ spent ratio	6.30 to 1	5.65 to 1	5.99 to 1
Prosecution referrals	240	222	314
Active Employers By Type			
Private	251,009	257,012	264,870
Public (Local)	3,790	3,791	3,810
Public (State)	124	124	125
Self-insured	1,202	1,188	1,174
Black Lung	37	38	39
Marine Fund	106	98	92
Total	256,268	262,251	270,110
BWC Personnel	2,262	2,346	2,407
MCO Fees Paid	$165,187,219	$161,317,154	$168,327,075

BWC combined funds financial data (000s omitted)

	FY 2010	FY 2009	FY 2008
Operating Revenues			
Premium and assessment income, net of provision for uncollectibles and ceded premiums	$2,118,421	$2,360,930	$2,138,402
Other income	15,018	17,197	22,247
Total operating revenues	$2,133,439	$2,378,127	$2,160,649
Non-Operating Revenues			
Net investment earnings	$715,387	$733,284	$862,670
Increase (decrease) in fair value	1,334,234	(928,019)	(143,510)
Net investment income (loss)	$2,049,621	$(194,735)	$719,160
Total BWC Assets	$24,095,908	$22,420,349	$22,381,974
Total Net Assets	$3,825,079	$2,515,342	$2,503,289

Note: Due to improvements in BWC data capture and reporting systems, prior year data may not agree with amounts previously reported.

Board Leadership

William J. Lhota, Chair
Represents self-insured employers
Term expires June 12, 2013

James W. Harris, Vice Chair
Chair of the Medical Services and Safety Committee
Represents employee organizations
Term expires June 12, 2013

Charles A. Bryan
Chair of the Actuarial Committee, actuary
Term expires June 12, 2013

David Lee Caldwell
Represents employee organizations
Term expires June 12, 2012

Alison L. Falls
Chair of the Governance Committee
Investment and securities expert
Term expires June 12, 2013

Kenneth M. Haffey
Chair of the Audit Committee
Certified public accountant
Term expires June 12, 2012

James A. Hummel
Represents state-fund employers
with more than 100 employees
Term expires June 12, 2011

Jim M. Matesich
Represents state-fund employers
with fewer than 100 employees
Term expires June 12, 2012

Thomas R. Pitts
Represents employees
Term expires June 12, 2011

Larry Price
Represents the public
Term expires June 12, 2011

Robert C. Smith
Chair of the Investment Committee
Investment and securities expert
Term expires June 12, 2012

BWC Leadership

Administrator
Marsha P. Ryan

Chief Operating Officer
Raymond Mazzotta

Actuarial
John Pedrick

Chief Medical Officer
Dr. Robert J. Balchick

Communications & Legislative Affairs
Peggy Concilla

Communications
Maria Smith

Customer Services
Tina Kielmeyer

Division of Safety & Hygiene
Ibraheem (Abe) Al-Tarawneh, Ph.D.

Fiscal and Planning
Tracy Valentino

Human Resources
Toni Brokaw

Infrastructure and Technology
Thomas Croyle

Internal Audit
Caren Murdock

Investments
C. Bruce Dunn

Legal
James Barnes

Medical Services and Compliance
Robert Coury

Audited Financial Statements

OHIO BUREAU OF WORKERS' COMPENSATION
AND INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
Columbus, Ohio

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2010 and 2009

And Independent Auditors' Report Thereon

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Ohio Bureau of Workers' Compensation's (BWC's) and the Industrial Commission of Ohio's (IC's) financial performance for fiscal years ended June 30, 2010, 2009, and 2008. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 8.

Financial highlights

- BWC/IC's total assets at June 30, 2010 were $24.1 billion, an increase of $1.7 billion or 7.5 percent compared to June 30, 2009.
- BWC/IC's total liabilities at June 30, 2010 were $20.3 billion, an increase of $366 million or 1.8 percent compared to June 30, 2009.
- BWC/IC's operating revenues for fiscal year 2010 were $2.1 billion, a decrease of $245 million or 10.3 percent compared to fiscal year 2009.
- BWC/IC's operating expenses for fiscal year 2010 were $2.9 billion, an increase of $703 million or 32.4 percent from fiscal year 2009.
- BWC's non-operating revenues for fiscal year 2010 were $2.0 billion, compared to a non-operating loss of $195 million for fiscal year 2009.
- BWC/IC's total net assets increased by $1.3 billion in fiscal year 2010, compared to a $12 million increase in fiscal year 2009.

Financial statement overview

BWC/IC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Management's discussion and analysis is intended to serve as an introduction to BWC/IC's financial statements, which are prepared using the accrual basis of accounting and the economic resources measurement focus.

- Statement of Net Assets - This statement presents information reflecting BWC/IC's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The statement is categorized by current and noncurrent assets and liabilities. For the purpose of the accompanying financial statements, current assets and liabilities are generally defined as those assets and liabilities with immediate liquidity or those that are collectible or will be due within 12 months of the statement date.
- Statement of Revenues, Expenses and Changes in Net Assets - This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses, for the fiscal year. Major sources of operating revenues are premium and assessment income. Major sources of operating expenses are workers' compensation benefits and compensation adjustment expenses. Revenues and expenses related to capital and investing activities are reflected in the non-operating component of this statement.
- Statement of Cash Flows - The statement of cash flows is presented using the direct method of reporting, which reflects cash flows from operating, noncapital financing, capital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.
- Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of BWC/IC's financial position and results of operations presented in the financial statements.
- Supplemental Information - This section includes supplemental schedules presenting the statement of net assets and the statement of revenues, expenses and changes in net assets for the individual accounts administered by BWC/IC. This section also includes required supplemental information that presents 10 years of revenue and reserve development information.

Continued

Financial analysis

Components of BWC/IC's Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets as of June 30, 2010, June 30, 2009, and June 30, 2008, and for the years then ended were as follows (000's omitted):

	2010	2009	2008
Current assets	$ 1,752,331	$ 2,260,793	$ 1,921,520
Noncurrent assets	22,343,577	20,159,556	20,460,454
Total assets	$24,095,908	$22,420,349	$22,381,974
Current liabilities	$ 2,664,100	$ 2,791,337	$ 2,625,578
Noncurrent liabilities	17,606,729	17,113,670	17,253,107
Total liabilities	$20,270,829	$19,905,007	$19,878,685
Net assets invested in capital assets, net of related debt	$ 35,275	$ 24,058	$ 18,368
Unrestricted net assets	3,789,804	2,491,284	2,484,921
Total net assets	$ 3,825,079	$ 2,515,342	$ 2,503,289
Net premium and assessment income, including provision for uncollectibles	$2,118,421	$2,360,930	$ 2,138,402
Other income	15,018	17,197	22,247
Total operating revenues	$2,133,439	$2,378,127	$ 2,160,649
Workers' compensation benefits and compensation adjustment expenses	$2,736,984	$2,073,534	$ 2,587,483
Other expenses	131,634	92,536	94,364
Total operating expenses	$2,868,618	$2,166,070	$ 2,681,847
Operating transfers out	$ (4,527)	$ (5,049)	$ -
Net investment income (loss)	2,049,621	(194,735)	719,160
Loss on disposal of capital assets	(178)	(220)	(219)
Increase in net assets	$ 1,309,737	$ 12,053	$ 197,743

BWC/IC's total net assets increased by $1.3 billion during fiscal year 2010, compared to a $12 million increase during fiscal year 2009.

- In fiscal year 2010, BWC/IC recorded net investment income of $2.1 billion, compared to net investment losses of $0.2 billion in fiscal year 2009. The increase in net investment income was primarily attributable to a $1.3 billion increase in the fair value of the investment portfolio in fiscal year 2010. The investment portfolio earned an unaudited net return of 12 percent, after management fees during fiscal year 2010. These returns follow several actions taken by the Board of Directors over the last two years, which included implementation of a strategy to diversify fixed and equity investments within the State Insurance Fund; a comprehensive update to the investment policy statement; and the selection of investment managers to execute BWC's passive investment strategy.

Continued

- Workers' compensation benefits and compensation adjustment expenses exceeded net premium and assessment income by $619 million in fiscal year 2010. In fiscal year 2009, net premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by $287 million.
- Premium and assessment income for fiscal year 2010 reflects a 12 percent overall premium reduction for the majority of Ohio's private employers. Premium rates have been the subject of a three year rate reform initiative that has reduced private employer base rates by 35 percent since July 1, 2007.
- Effective April 1, 2010, BWC/IC secured reinsurance as a risk management strategy to protect our assets in the event of a catastrophic event. Premium and assessment income has been reduced by $1.1 million for the accrual of the ceded reinsurance premiums.
- Workers' compensation benefits and compensation adjustment expenses were $2.7 billion in fiscal year 2010, compared to $2.1 billion in fiscal year 2009. This increase is primarily attributable to the lowering of the discount rate from 4.5 percent to 4.0 percent. However, the financial effect of lowering the discount rate on the reserves for compensation and compensation adjustment expenses was lessened due to lower estimates for future medical expenses. The decrease in these estimates was primarily attributable to lower claims frequencies and a decrease in the medical inflation rate. In 2009, the medical inflation rate was assumed to be 6.0 percent in the first year of development, increasing by 1.0 percent in each of the next two years, with a long-term inflation assumption of 9.0 percent. In 2010 the long term inflation rates varied from 6.0 to 7.0 percent for all years. If future medical inflation is 1.0 percent higher than historical medical inflation for all future years combined, reserves for compensation would increase by approximately $919 million.
- A study of administrative expenses to determine costs related to claims management resolutions resulted in a reduction of the compensation adjustment expense allocation from 82 percent to 68.8 percent. This change is the primary reason for the $39 million increase in other expenses during fiscal year 2010.

As of June 30, 2010 and June 30, 2009, BWC/IC had debt in special obligation bonds of $64.2 million and $80.7 million, respectively. These bonds were issued in 2003, through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. These bonds were rated Aa3 by Moody's Investors Service, Inc.

Continued

Conditions expected to affect financial position or results of operations

BWC/IC has identified four areas of focus for comprehensive improvements to the workers' compensation system:

- Make Ohio's workers' compensation system more competitive;
- Maintain the highest level of quality care and loss protection for workers;
- Reinforce the BWC brand of excellence thru efficiency, improved customer service and expanded capabilities; and
- Develop and implement strategies to improve financial and operational soundness.

The BWC Board of Directors approved a comprehensive rate reform plan to bring more equity and actuarial soundness to premium rates. The goals of the rate reform plan include:

- Maintaining stable, equitable, and actuarially sound rates;
- Achieving fiscally sound base rates at the lowest levels for all manual classifications;
- Offering rating programs that encourage workplace safety and allow employers to achieve lower workers' compensation costs; and
- Creating an attractive environment for future business investment.

Three years of rate reform efforts have dropped Ohio's workers' compensation average base rates to their lowest levels in 20 years. Private employer base rates decreased an average of 3.9 percent for premiums effective July 1, 2010 preceded by a 12 percent premium rate decrease effective July 1, 2009. BWC/IC decreased public employer taxing district premiums by an average of 17 percent for the January 1, 2010 policy year preceded by a 5 percent premium rate decrease for the January 1, 2009 policy year. Premium rates for state agencies, universities, and university hospitals decreased by 3.75 percent effective July 1, 2009 followed by a 4.33 percent reduction for July 1, 2010. The maximum discount for group rated employers has been reduced from 90 percent in 2007 to 51 percent in 2010. The current maximum discount rate for group rated employers will be in effect for the policy year beginning July 1, 2011.

New insurance industry-standard programs designed to lower out-of-pocket costs for employers and to improve safety for workers have been introduced. The new deductible programs give employers the opportunity to lower their workers' compensation premiums in exchange for paying a deductible. The group retrospective rating plan offers employers the opportunity to have their premium adjusted after the policy year ends based on performance in controlling the frequency of injuries and managing claims for injuries that did occur.

In the coming year, BWC/IC will begin transition to the split-experience rating plan, or split plan. This plan is a standard used in 38 states that places more emphasis on claim frequency than claim severity when calculating an employer's premium rates. The split plan will not affect premium rates until July 1, 2012. However, the plan will be launched as a "beta" version in July 2011 so employers will have information to determine how this plan will affect their workers' compensation costs.

Paid medical costs for workers' compensation claims were almost $78 million, or 9.2 percent, lower than expected medical costs for fiscal year 2010. These reduced costs are a result of declines in claim frequency and the implementation of containment measures designed to curb increasing medical costs. Medical costs now account for approximately 45.5 percent of the total benefits for private employers and almost 50.2 percent for public taxing district employers, compared to approximately 48.7 percent for private employers and 50.6 percent for public taxing district employers for injuries occurring during 1997.

Continued

MANAGEMENT'S DISCUSSION AND ANALYSIS

BWC/IC is committed to ensuring that prompt, quality, cost-effective healthcare is provided to injured workers to facilitate their early, safe return to work and quality of life. Injured worker access to high-quality medical care is accomplished by establishing appropriate benefit plans and terms of service with competitive fee schedules which, in turn, enhances the medical provider network. BWC/IC has begun to improve the medical, vocational rehabilitation and pharmaceutical benefits plans by revising the benefit plan and corresponding fee schedules. A formulary schedule is being developed that will be the basis for a revised outpatient medication benefit plan. Medical resources and research will be expanded through a partnership with The Ohio State University's College of Public Health. Research programs engaging Ohio's colleges and universities in providing comparative effectiveness data for the clinical services provided to injured workers are ongoing. BWC/IC is also partnering with federal safety organizations to share and analyze data and research to improve occupational health and safety in Ohio workplaces.

From time to time, BWC/IC is involved in judicial proceedings arising in the ordinary course of its business. BWC/IC will vigorously defend these suits and expects to prevail; however, there can be no assurance that we will be successful in our defense. During fiscal year 2008, BWC/IC settled a lawsuit with the Ohio Hospital Association disputing fee schedules that were not adopted through the Ohio Revised Code Chapter 119 rules process. A total of $72.4 million has been paid in settlement of this lawsuit with an approximately $828 thousand liability accrued and remaining to be paid as of June 30, 2010.

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INDEPENDENT AUDITORS' REPORT

Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio
(A Department of the State of Ohio)
Columbus, Ohio

We have audited the accompanying statements of net assets of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio (State), as of June 30, 2010 and 2009 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the BWC/IC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of BWC/IC are intended to present the financial position and changes in financial position and cash flows of only that portion of the governmental activities, business-type activities, major funds and remaining fund information of the State that is attributable to the transactions of BWC/IC. They do not purport to, and do not, present fairly the financial position and changes in financial position and cash flows, where applicable, of the State in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the BWC/IC as of June 30, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2010 on our consideration of the BWC/IC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of

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that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis and required supplemental revenue and reserve development information on Pages 1 through 5 and 33 through 34, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise BWC/IC's basic financial statements. The supplemental schedule of net assets and schedule of revenues, expenses, and changes in net assets included in Pages 35 through 37 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Schneider, Downs & Co., Inc.

Columbus, Ohio
September 30, 2010

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)

STATEMENTS OF NET ASSETS

June 30, 2010 and 2009

(000's omitted)

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$435,892	$504,313
Collateral on loaned securities (Note 2)	4,615	6,076
Premiums in course of collection	702,643	812,831
Assessments in course of collection	170,007	186,906
Accounts receivable, net of allowance for uncollectibles of $1,016,902 in 2010; $988,162 in 2009	143,752	211,042
Investment trade receivables	126,696	346,239
Accrued investment income	161,171	186,206
Other current assets	7,555	7,180
Total current assets	1,752,331	2,260,793
Noncurrent assets:		
Fixed maturities, at fair value (Note 2)	13,380,808	13,050,126
Domestic equity securities:		
Common stocks, at fair value (Note 2)	3,636,608	3,512,366
Preferred stocks, at fair value (Note 2)	3,846	3,841
International securities, at fair value (Note 2)	1,509,190	-
Investments in limited partnerships, at fair value (Note 2)	35	161
Unbilled premiums receivable	3,423,147	3,205,975
Retrospective premiums receivable	290,467	282,372
Capital assets (Notes 3 and 5)	99,383	103,737
Restricted cash (Note 2)	93	978
Total noncurrent assets	22,343,577	20,159,556
Total assets	$ 24,095,908	$ 22,420,349

	2010	2009
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 1,966,452	$ 1,823,493
Reserve for compensation adjustment expenses (Note 4)	393,273	479,038
Warrants payable	25,337	32,371
Bonds payable (Notes 5 and 6)	15,865	15,930
Investment trade payables	229,448	401,074
Accounts payable	5,189	3,649
Obligations under securities lending (Note 2)	4,615	6,076
Other current liabilities (Note 6)	23,921	29,706
Total current liabilities	2,664,100	2,791,337
Noncurrent liabilities:		
Reserve for compensation (Note 4)	15,911,948	15,602,880
Reserve for compensation adjustment expenses (Note 4)	1,532,927	1,340,961
Premium payment security deposits (Note 6)	87,974	88,474
Bonds payable (Notes 5 and 6)	48,335	64,727
Other noncurrent liabilities (Note 6)	25,545	16,628
Total noncurrent liabilities	17,606,729	17,113,670
Total liabilities	20,270,829	19,905,007
Commitments and contingencies (Note 10)		
NET ASSETS		
Invested in capital assets, net of related debt	35,275	24,058
Unrestricted net assets	3,789,804	2,491,284
Total net assets (Note 11)	$ 3,825,079	$ 2,515,342

The accompanying notes are an integral part of the financial statements.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2010 and 2009

(000's omitted)

	2010	2009
Operating revenues:		
Premium income net of ceded premium (Note 7)	$1,417,613	$ 1,896,525
Assessment income	730,667	573,025
Provision for uncollectibles	(29,859)	(108,620)
Other income	15,018	17,197
Total operating revenues	2,133,439	2,378,127
Operating expenses:		
Workers' compensation benefits (Note 4)	2,254,613	1,667,092
Compensation adjustment expenses (Note 4)	482,371	406,442
Personal services	75,564	44,284
Other administrative expenses	56,070	48,252
Total operating expenses	2,868,618	2,166,070
Net operating (loss) income	(735,179)	212,057
Non-operating revenues:		
Net investment income (loss) (Note 2)	2,049,621	(194,735)
Loss on disposal of capital assets	(178)	(220)
Total non-operating revenues (loss)	2,049,443	(194,955)
Net transfers out	(4,527)	(5,049)
Increase in net assets	1,309,737	12,053
Net assets, beginning of year	2,515,342	2,503,289
Net assets, end of year	$ 3,825,079	$ 2,515,342

The accompanying notes are an integral part of the financial statements.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2010 and 2009

(000's omitted)

	2010	2009
Cash flows from operating activities:		
Cash receipts from premiums and assessments net of reinsurance	$ 2,198,317	$ 2,510,392
Cash receipts - other	54,107	35,611
Cash disbursements for claims	(2,057,557)	(2,128,360)
Cash disbursements to employees for services	(232,117)	(246,428)
Cash disbursements for other operating expenses	(60,820)	(77,984)
Cash disbursements for employer refunds	(99,747)	(102,196)
Net cash used for operating activities	(197,817)	(8,965)
Cash flows from noncapital financing activities:		
Operating transfers in	150	3,289
Operating transfers out	(4,677)	(8,338)
Net cash used by noncapital financing activities	(4,527)	(5,049)
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(7,207)	(2,013)
Principal and interest payments on bonds	(19,796)	(20,601)
Net cash used in capital and related financing activities	(27,003)	(22,614)
Cash flows from investing activities:		
Investments sold	48,949,035	3,561,024
Investments purchased	(49,530,877)	(4,145,874)
Interest and dividends received	747,565	752,293
Investment expenses	(5,682)	(4,818)
Net cash provided by investing activities	160,041	162,625
Net (decrease) increase in cash, cash equivalents and restricted cash	(69,306)	125,997
Cash, cash equivalents and restricted cash, beginning of year	505,291	379,294
Cash, cash equivalents and restricted cash, end of year	$ 435,985	$ 505,291

The accompanying notes are an integral part of the financial statements.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)

STATEMENTS OF CASH FLOWS, Continued

For the years ended June 30, 2010 and 2009

(000's omitted)

	2010	2009
Reconciliation of net operating (loss) to net cash used for operating activities:		
Net operating (loss) income	$ (735,179)	$ 212,057
Adjustments to reconcile net operating (loss) income to net cash used for operating activities:		
Provision for uncollectible accounts	29,859	108,620
Depreciation	11,383	12,586
Amortization of discount and issuance costs on bonds payable	3,339	3,972
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	127,087	71,774
Unbilled premiums receivable	(217,172)	(48,396)
Accounts receivable	37,431	(135,079)
Retrospective premiums receivable	(8,095)	1,348
Other assets	(375)	(4,494)
Reserves for compensation and compensation adjustment expenses	558,228	(188,967)
Premium payment security deposits	(500)	(444)
Warrants payable	(7,034)	(4,793)
Accounts payable	1,540	(4,038)
Other liabilities	1,671	(33,111)
Net cash used for operating activities	$ (197,817)	$ (8,965)
Noncash investing, capital, and financing activities		
Change in fair values of investments	$ 1,334,234	$ (928,019)

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

1. Background and Summary of Significant Accounting Policies

Organization

The Ohio Bureau of Workers' Compensation (BWC) and the Industrial Commission of Ohio (IC) were created in 1912 and 1925, respectively, and are the exclusive providers of workers' compensation insurance to private and public employers in Ohio that have not been granted the privilege of paying compensation and medical benefits directly (self-insured employers). BWC and IC are collectively referred to herein as BWC/IC. BWC/IC was created and is operated pursuant to Chapters 4121, 4123, 4127, and 4131 of the Ohio Revised Code (the Code).

The Governor of the State of Ohio (the State) appoints the BWC Administrator and the three members of the IC. In June 2007, House Bill 100 created a new 11-member BWC Board of Directors (Board), which replaced the Workers' Compensation Oversight Commission. All members have full voting rights. On July 31, 2007, the Governor named the members to the Board, effectively abolishing the Workers' Compensation Oversight Commission. The BWC Administrator, with the advice and consent of the Board, is responsible for the operations of the workers' compensation system, while the IC is responsible for administering claim appeals.

BWC/IC is a department of the primary government of the State and is a proprietary operation for purposes of financial reporting. The accompanying financial statements include all accounts, activities, and functions of BWC/IC and are not intended to present the financial position, results of operations, or cash flows of the State taken as a whole. The financial information presented herein for BWC/IC will be incorporated within the State's financial statements.

Basis of Presentation

BWC/IC has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. Accordingly, these financial statements were prepared using the accrual basis of accounting and the economic resources measurement focus. For internal reporting purposes, BWC/IC maintains separate internal accounts as required by the Code. For external financial reporting purposes, BWC/IC has elected to report as a single column business-type activity, since the individual accounts do not have external financial reporting accountability requirements. All significant interaccount balances and transactions have been eliminated.

Continued

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," BWC/IC follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. As permitted by Generally Accepted Accounting Standards, BWC/IC has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

BWC/IC administers the following accounts:

- State Insurance Fund (SIF)
- Disabled Workers' Relief Fund (DWRF)
- Coal-Workers Pneumoconiosis Fund (CWPF)
- Public Work-Relief Employees' Fund (PWREF)
- Marine Industry Fund (MIF)
- Self-Insuring Employers' Guaranty Fund (SIEGF)
- Administrative Cost Fund (ACF)

Description of the Accounts

SIF, CWPF, PWREF, and MIF provide workers' compensation benefits to qualifying employees sustaining work-related injuries or diseases.

DWRF provides supplemental cost-of-living benefits to persons who are permanently and totally disabled and are receiving benefits from SIF or PWREF. The maximum benefit levels are changed annually based on the United States Department of Labor National Consumer Price Index.

SIEGF provides for the payment of compensation and medical benefits to employees of self-insured employers that are bankrupt or in default.

ACF provides for the payment of administrative and operating costs of all accounts except DWRF, CWPF, and MIF, which pay such costs directly. ACF also includes the portion of premiums paid by employers earmarked for the safety and loss prevention activities performed by the Safety & Hygiene Division.

Operating revenues and expenses generally result from providing services in connection with ongoing operations. Operating revenues are primarily derived from premiums and assessments. Operating expenses include the costs of claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Continued

The GASB has recently issued the following new accounting pronouncements that will be effective in future years and may be relevant to BWC/IC:

- GASB No. 54, "Fund Balance Reporting"
- GASB No. 59, "Financial Instruments Omnibus"

Management has not yet determined the impact that these new GASB Pronouncements will have on BWC/IC's financial statements.

Cash and Cash Equivalents

Cash and cash equivalents in the accompanying statements of net assets and for the purposes of the statements of cash flows include cash and all highly liquid debt instruments purchased with a maturity of three months or less. Cash equivalents are stated at amortized cost, which approximates fair value.

Investments

BWC/IC's investments consist of fixed maturities, domestic equity securities, commingled international equity securities, collateral on securities lending, investments in limited partnerships, investments in a commingled bond index fund, and investments in a commingled equity index fund.

Investments in fixed maturities, domestic equity securities, commingled international securities, commingled equity funds, and commingled bond index funds are stated at fair value. Fair values of fixed maturities are based on quotations from national security exchanges. Fair values of domestic and international equity securities are based on quotations from national or international exchanges and are valued at the last reported sales price at current exchange rates. The fair value of the commingled bond index funds and commingled equity funds are based on the value of the underlying net assets of the fund. Dividends, interest earnings, the net increase (decrease) in the fair value of investments (which includes both the change in fair value and realized gains and losses), and investment expenses are aggregated and reported as net investment income in the statements of revenues, expenses and changes in net assets. The cost of securities sold is determined using the average cost method. Purchases and sales of investments are recorded as of the trade date.

Restricted Cash

Restricted cash balances are maintained in accordance with the 2003 bond agreement for special obligation bonds issued through the Ohio Building Authority.

Premium Income

SIF, CWPF, PWREF, and MIF premium income is recognized over the coverage period and is collected in subsequent periods for all accounts except MIF, which collects premiums in advance of the coverage period. Premiums earned but not yet invoiced are reflected as premiums in course of collection in the statements of net assets. Premiums are based on

Continued

rates that are approved by the Board and on the employers' payroll, except self-insured employer assessments, which are based on paid compensation. SIF rates for private and public taxing district employers meeting certain size criteria are adjusted automatically based on their own claims experience.

Retrospective rating plans and group rating plans are offered to qualified employers. SIF recognizes estimated ultimate premium income on retrospectively rated businesses during the coverage period. Retrospective rating adjustments related to the coverage period are collected in subsequent periods, as experience develops related to injuries incurred during the coverage period. The estimated future retrospective rating adjustments are reflected in the statements of net assets as retrospective premiums receivable.

The Code permits State employers to pay into SIF on a terminal funding (pay-as-you-go) basis. Additionally, certain benefits are paid from the SIF Surplus Fund (see Note 11) for self-insured employers. Since BWC/IC has the statutory authority to assess premiums against the State and self-insured employers in future periods, an unbilled premiums receivable equal to their share of the discounted reserve for compensation and compensation adjustment expenses, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net assets.

Assessment Income

DWRF I (DWRF benefits awarded for injuries incurred prior to January 1, 1987) and ACF assessment income is recognized over the period for which the assessment applies and is collected in subsequent periods. These amounts are reflected as assessments in course of collection in the statements of net assets. DWRF II (DWRF benefits awarded for injuries incurred on or after January 1, 1987) and SIEGF assessments received or in the course of collection, but not yet recognized, are reflected as a reduction to unbilled premiums receivable.

The Code permits employers to pay into DWRF and SIEGF on a terminal funding (pay-as-you-go) basis. As BWC has the statutory authority to assess employers in future periods, an unbilled premiums receivable equal to the discounted reserve for compensation and compensation adjustment expenses for DWRF and SIEGF, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net assets (see Note 2).

DWRF I assessments are based on employers' payroll and a statutorily determined rate. DWRF II and ACF assessments are based on rates that are approved by the Board and on employers' payroll, except for ACF assessments of self-insured employers, which are based on paid workers' compensation benefits. SIEGF assessments are based on the financial strength of self-insured employers and paid workers' compensation benefits with the exception of new self-insured employers, which are based on a percentage of base-rated premium.

Premium Payment Security Deposits

Premium payment security deposits are collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods. A deposit is submitted upon

Continued

application for coverage and generally represents 30% of an estimated eight-month premium, with a maximum deposit of $1 thousand. The deposit is applied to outstanding premiums or refunded to the employer upon cancellation of coverage.

Allowance for Uncollectible Accounts

BWC/IC provides an allowance for uncollectible accounts by charging operations for estimated receivables that will not be collected. The adequacy of the allowance is determined by management based on a review of aged receivable balances and historical loss experience.

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Description	Estimated Useful Lives (Years)
Buildings	30
Furniture and fixtures	10
Vehicles and equipment	5

When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statements of revenues, expenses, and changes in net assets. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

Reserves for Compensation and Compensation Adjustment Expenses

The reserve for compensation includes actuarial estimates for both reported claims and claims incurred but not reported (IBNR). The reserve for compensation adjustment expenses is determined by estimating future expenses to be incurred in settlement of the claims. The reserve for compensation is based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors and projections as to future events, including claims frequency, severity, persistency, and inflationary trends for medical claim reserves. The reserve for compensation adjustment expenses is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, and the reserve for compensation. The methods of making such estimates and for establishing the resulting liabilities are reviewed quarterly and updated based on current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period. The reserves for compensation and compensation adjustment expenses are discounted at 4.0% at June 30, 2010 and 4.5% at June 30, 2009 to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with a duration similar to the expected claims underlying BWC/IC's reserves.

Continued

Management believes that the recorded reserves for compensation and compensation adjustment expenses make for a reasonable and appropriate provision for expected future losses. While management uses available information to estimate the reserves for compensation and compensation adjustment expenses, future changes to the reserves for compensation and compensation adjustment expenses may be necessary based on claims experience and changing claims frequency and severity conditions.

Reinsurance

Effective April 1, 2010, BWC/IC purchased workers' compensation catastrophic excess of loss reinsurance coverage for terrorist events, including those stemming from nuclear, chemical, radiological and biological origin. Ceded reinsurance transactions are accounted for based on estimates of their ultimate cost. Reserves for compensation and compensation adjustment expenses are reported gross of reinsured amounts. Reinsurance premiums are reflected as a reduction of premium income (see note 7).

Income Taxes

As a department of the State, the income of BWC/IC is not subject to federal or state income tax.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

Reclassification

Certain 2009 financial statement amounts have been reclassified in order to conform to their 2010 presentation.

Continued

2. Cash and Investments

BWC/IC is authorized by Section 4123.44 of the Code to invest using an investment policy established by the Board, which uses the prudent person standard. The prudent person standard requires investments be made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and by diversifying the investments of the assets so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, BWC/IC's deposits might not be recovered. Banks must provide security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. At June 30, 2010 and 2009, the carrying amount of BWC/IC's cash deposits were $6.922 million and $15.133 million, respectively, and the bank balances were $12.760 million and $12.213 million, respectively. At June 31, 2010, bank balances of $250 thousand were insured by the FDIC. The remaining cash balance on deposit with the bank was collateralized by a pool of government securities held by the pledging financial institution's trust department and was not exposed to custodial credit risk for these bank deposits. At June 30, 2009, the entire bank balance was insured since BWC/IC's financial institution participated in the FDIC Temporary Liquidity Guarantee Program.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of a counter party to a transaction, BWC/IC will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2010, BWC/IC has $1.848 billion held by the investments' counterparties and thus exposed to custodial credit risk. The Board approved the use of commingled passively managed equity, international equity, and bond index funds for portions of State Insurance Fund and the ancillary account investment portfolios. These commingled funds are held in BWC's name at the respective counterparties. At June 30, 2009, BWC/IC's had $304 million held by the investments' counterparty and thus exposed to custodial credit risk.

Continued

The composition of investments held at June 30, 2010 and 2009 is presented below (000's omitted):

	2010 Fair Value	2009 Fair Value
Fixed maturities:		
Corporate bonds	$4,464,964	$4,136,273
U.S. government agency obligations	1,037,443	545,146
Asset-backed securities	8,143	-
Corporate mortgage-backed securities	79,107	-
U.S. government obligations	2,523,888	3,968,766
U.S. state and local government agency	544,384	283,375
Treasury inflationary index notes	3,338,935	3,455,575
Yankee bonds	773,920	238,765
Sovereign bonds	499,459	347,744
Supranational issues	67,106	34,288
Commingled bond index	43,459	40,194
Total fixed maturities	13,380,808	13,050,126
Domestic equity securities:		
Common stocks	3,636,608	3,512,366
Preferred stocks	3,846	3,841
International securities:	1,509,190	-
Securities lending short-term collateral	4,615	6,076
Investments in limited partnerships	35	161
Cash and cash equivalents:		
Cash	6,922	15,133
Short-term money market fund	428,970	489,180
Total cash and cash equivalents	435,892	504,313
	$18,970,994	$17,076,883

Net investment (loss) income for the years ended June 30, 2010 and 2009 is summarized as follows (000's omitted):

	2010	2009
Fixed maturities	$637,614	$648,265
Commingled bond index fund	1,288	382
Equity securities	82,453	84,060
Cash equivalents	1,175	5,378
Total interest and dividends	722,530	738,085
Increase (decrease) in fair value of investments	1,334,234	(928,019)
Investment expenses	(7,143)	(4,801)
	$2,049,621	$(194,735)

Short-Term Money Market Fund

The underlying securities in the short-term money market fund are high-quality; short-term debt securities issued or guaranteed by the U.S. government or by U.S. government agencies or instrumentalities and repurchase agreements fully collateralized by U.S. Treasury and U.S. government securities. This U.S. Government Money Market Fund carries a AAA credit rating. Although the Fund is generally less sensitive to interest rate changes than are funds that invest in longer-term securities, changes in short-term interest rates will cause changes to the Fund's yield resulting in some interest rate risk.

Interest Rate Risk – Fixed-Income Securities

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. BWC/IC manages the exposure to fair value loss arising from increasing interest rates by requiring that each fixed-income portfolio be invested with duration characteristics that are within a range from a maximum of the OBWC Custom Benchmark to a minimum duration equal to the Lehman Brothers Government and Corporate Intermediate Index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flow, weighted for those cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments such as callable bonds, prepayments, and variable-rate debt. The effective duration measures the sensitivity of the market price to parallel shifts in the yield curve.

At June 30, 2010 and 2009, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

	June 30, 2010		June 30, 2009	
Investment Type	Fair Value	Effective Duration	Fair Value	Effective Duration
Corporate bonds	$4,464,964	11.22	$4,136,273	11.22
Yankee bonds	773,920	11.16	238,765	11.04
U.S. government agency obligations	1,037,443	3.86	545,146	8.77
Asset-backed securities	8,143	3.60	-	-
Corporate mortgage-backed securities	79,107	3.70	-	-
U.S. government obligations	2,523,888	9.82	3,968,766	11.32
Sovereign bonds	499,459	9.42	347,744	7.75
Supranational issues	67,106	7.62	34,288	11.51
Commingled bond index	43,459	3.92	40,194	3.86
U.S. state and local government agencies	544,384	12.24	283,375	11.57
Treasury inflationary index notes	3,338,935	5.28	3,455,575	4.00
Total Fixed Maturities	$13,380,808		$13,050,126	

Continued

Credit Risk – Fixed-Income Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. BWC/IC manages the exposure to investment credit risk by requiring an average credit quality no lower than an A rating. Government agency obligations have an implied AAA rating. Obligations of the U.S. government are explicitly guaranteed by the U.S. government and are not considered to have credit risk.

BWC/IC's fixed-income securities were rated by Standard and Poor's (S&P) and/or an equivalent national rating organization and the ratings are presented below using the S&P rating scale (000's omitted). At June 30, 2010 and 2009, fixed maturities held in a commingled bond index fund in the custody of State Street were $43 million and $40 million, respectively. The remaining balance presented as of June 30, 2010 was held by the custodian on behalf of BWC/IC.

Quality Rating	2010 Fair Value	2009 Fair Value
AAA	$ 336,407	$ 193,956
AA	898,162	619,068
A	2,671,463	2,188,753
BBB	2,485,194	2,001,417
BB	86,695	74,812
B	682	-
Not rated	1,939	2,633
Total credit risk debt securities	6,480,542	5,080,639
Government agency obligations	1,037,443	545,146
U.S. government obligations	2,523,888	3,968,766
Treasury inflationary index notes	3,338,935	3,455,575
Total fixed maturities	$13,380,808	$13,050,126

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. In 2010 and 2009, there is no single issuer that comprises 5% or more of the overall portfolio.

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. In fiscal year 2009 BWC had no exposure to foreign currency risk. BWC's exposure to foreign currency risk as of June 30, 2010 is as follows (000's omitted):

Currency	2010 Fair Value
Australian Dollar	$83,677
Brazilian Real	53,619
Canadian Dollar	117,809
Chilean Peso	5,396
Chinese Renminbi	852
Colombian Peso	2,811
Czech Koruna	1,399
Danish Krone	10,378
Egyptian Pound	1,780
European Euro	305,298
Hong Kong Dollar	92,102
Hungarian Forint	1,416
Indian Rupee	25,273
Indonesian Rupiah	8,502
Israeli New Sheqel	9,261
Japanese Yen	239,980
Malaysian Ringgit	10,271
Mexican Peso	15,281
Moroccan Dirham	694
New Zealand Dollar	1,055
Norwegian Krone	7,342
Philippine Peso	1,691
Polish Zloty	4,601
Russian Ruble	18,492
Singapore Dollar	17,651
South African Rand	25,086
South Korean Won	47,406
Swedish Krona	30,265
Swiss Franc	82,919
New Taiwan Dollar	37,890
Thai Baht	5,339
Turkish New Lira	5,721
British Pound	219,474
United States Dollar	18,459
Total International Securities	$1,509,190

Continued

Securities Lending

At June 30, 2010 and 2009, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of $5 million in 2010 and $6 million in 2009 from the securities lending program administered through the Treasurer of State's Office based on the amount of cash equity in the State's common cash and investment account.

3. Capital Assets

Capital asset activity and balances as of and for the years ended June 30, 2010 and 2009 are summarized as follows (000's omitted):

	Balance at 6/30/2008	Increases	Decreases	Balance at 6/30/2009	Increases	Decreases	Balance at 6/30/2010
Capital assets not being depreciated							
Land	$ 11,994	$ -	$ -	$ 11,994	$ -	$ -	$11,994
Capital assets being depreciated							
Buildings	205,562	209	-	205,771	-	-	205,771
Building Improvements	-	-	-	-	2,185	-	2,185
Furniture and equipment	45,154	1,829	(12,258)	34,725	5,072	(4,715)	35,082
Land improvements	66	-	-	66	-	-	66
Subtotal	250,782	2,038	(12,258)	240,562	7,257	(4,715)	243,104
Accumulated depreciation							
Buildings	(118,237)	(6,787)	-	(125,024)	(6,787)	-	(131,811)
Furniture and equipment	(29,956)	(5,798)	12,013	(23,741)	(4,595)	4,487	(23,849)
Land improvements	(53)	(1)	-	(54)	(1)	-	(55)
Subtotal	(148,246)	(12,586)	12,013	(148,819)	(11,383)	4,487	(155,715)
Net capital assets	$114,530	$(10,548)	$ (245)	$103,737	$(4,126)	$(228)	$99,383

4. Reserves for Compensation and Compensation Adjustment Expenses

The reserve for compensation consists of reserves for indemnity and medical claims resulting from work-related injuries or illnesses. The recorded liability for compensation and compensation adjustment expenses is based on an estimate by BWC/IC's independent consulting actuary. Management believes that the recorded liability makes for a reasonable and appropriate provision for expected future losses; however, the ultimate liability may vary from the amounts provided.

All reserves have been discounted at 4.0% at June 30, 2010 and 4.5% at June 30, 2009. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $21.9 billion at June 30, 2010, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to $18.0 billion. A decrease in the discount rate to 3.5% would result in the reserves for compensation and compensation adjustment expenses increasing to $21.2 billion at June 30, 2009, while an increase in the rate to 5.5% would result in the reserves for compensation and compensation adjustment expenses decreasing to $17.6 billion. The undiscounted reserves for compensation and compensation adjustment expenses were $32.2 billion at June 30, 2010 and $33.7 billion at June 30, 2009.

Continued

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2010 and 2009 are summarized as follows (in millions):

	2010	2009
Reserves for compensation and compensation adjustment expenses, beginning of period	$19,246	$19,435
Incurred:		
Provision for insured events of current period	1,802	2,064
Net (decrease) increase in provision for insured events of prior periods net of discount accretion of $770 in 2010 and $875 in 2009	1	(790)
Decrease in discount rate	934	859
Total incurred	2,737	2,133
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	384	458
Compensation and compensation adjustment expenses attributable to insured events of prior periods	1,795	1,864
Total payments	2,179	2,322
Reserves for compensation and compensation adjustment expenses, end of period	$19,804	$19,246

Continued

5. Bonds Payable

On April 22, 2003, BWC/IC issued special obligation bonds through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. The 2003 bonds bear predetermined interest rates ranging from 1.61% to 3.95%, compared to interest rates ranging from 3.25% to 5.125% on the 1993 bonds. The reacquisition price exceeded the net carrying amount of the old debt by $5.1 million. This amount is netted against the new debt and amortized over the life of the new debt. As a result of the refunding, BWC/IC reduced its total debt service requirements by $9.8 million, which resulted in an economic gain of $8.9 million.

The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. The lease period coincides with the State's biennial budget and is renewable for successive two-year periods until the bonds are retired. Lease payments are based on the estimated debt service of the bonds, but are limited to an amount appropriated by the Ohio General Assembly in BWC/IC's biennial budget. Lease rental payments totaled $19.8 million and $20.6 million for the years ended June 30, 2010 and 2009, respectively. These payments included interest of $3.9 million and $4.6 million for the years ended June 30, 2010 and 2009, respectively.

The building continues to be reflected in capital assets and the related obligation has been reflected as bonds payable in the statements of net assets. Future principal and interest payments are as follows (000's omitted):

Fiscal Year	Principal	Interest	Total
2011	$15,865	$3,109	$18,974
2012	15,890	2,326	18,216
2013	15,915	1,543	17,458
2014	15,200	751	15,951
Deferred loss on refunding	(543)	-	(543)
Unamortized bond premium and issuance costs	1,873	-	1,873
Total	$64,200	$7,729	$71,929

Continued

6. Long-Term Obligations

Activity for long-term obligations (excluding the reserves for compensation and compensation adjustment expenses – see Note 4) for the years ended June 30, 2010 and 2009, is summarized as follows (000's omitted):

	Balance at 6/30/2008	Increases	Decreases	Balance at 6/30/2009	Due Within One Year
Premium payment security deposits	$ 88,918	$ 1,826	$ (2,270)	$ 88,474	$ -
Bonds payable	97,286	4,994	(21,623)	80,657	15,930
Other liabilities	79,462	44,571	(77,699)	46,334	29,706
	$265,666	$51,391	$(101,592)	$215,465	$45,636

	Balance at 6/30/2009	Increases	Decreases	Balance at 6/30/2010	Due Within One Year
Premium payment security deposits	$ 88,474	$ 1,919	$ (2,419)	$87,974	$ -
Bonds payable	80,657	4,126	(20,583)	64,200	15,865
Other liabilities	46,334	59,893	(56,761)	49,466	23,921
	$215,465	$65,938	$(79,763)	$201,640	$39,786

7. Reinsurance

BWC/IC purchases catastrophic reinsurance for risks in excess of its retention limits on workers' compensation insurance policies written. Management is not aware of any catastrophes during the coverage periods listed below. Coverage for policies is provided under the following terms:

Period: April 1, 2010 to March 31, 2011

Reinsurance Coverage:

- Section One – Other than Acts of Terrorism 100% of $250,000,000 multiplied times $250,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person
- Section Two – Only for Acts of Terrorism 15% of $560,000,000 multiplied times $440,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person

Continued

The following reinsurance activity has been recorded in the accompanying basic financial statements for the year ended June 30, 2010 (in thousands):

	2010
Premium Income	$1,418,669
Ceded Premiums	(1,056)
Total Premium Income net of Ceded Premiums	$1,417,613

Should the reinsurers be unable to meet their obligations under the reinsurance contracts, BWC/IC would remain liable for amounts ceded to its reinsurers. Reinsurance contracts do not relieve BWC/IC of its obligations, and a failure of the reinsurer to honor its obligations could result in losses to BWC/IC. BWC/IC evaluates and monitors the financial condition of its reinsurers to minimize its exposure to loss from reinsurer insolvency. BWC/IC management believes its reinsurers are financially sound and will continue to meet their contractual obligations.

BWC's reinsurers had the following AM Best ratings at June 30, 2010:

Reinsurer	AM Best Rating
Allied World Assurance Company	A
Aspen Insurance UK LTD	A
Axis Specialty LTD	A
Hannover Re (Bermuda) LTD	A
Odyssey America Reinsurance Corporation	A
Max Demark APS	A
The Underwriters at Lloyds	A

8. Benefit Plans

Pension Plans

BWC/IC contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans:

- The Traditional Plan - a cost-sharing, multiple-employer defined benefit pension plan.
- The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under this plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings thereon.
- The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the

Continued

Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Benefits are established and may be amended by State statute. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642. As of June 30, 2010, the most recent report issued by OPERS is as of December 31, 2009.

Chapter 145 of the Ohio Revised Code provides OPERS statutory authority for employee and employer contributions. For the year ended December 31, 2009 and 2008, the employee contribution rate was 10% and the employer contribution rate was 14% of covered payroll. BWC/IC's contributions, representing 100% of the dollar amount billed, are as follows (000's omitted):

Twelve months ended June 30, 2010	\$22,784
Twelve months ended June 30, 2009	\$24,113
Twelve months ended June 30, 2008	\$23,179

Post-Retirement Health Care

OPERS provides retirement, disability, survivor, and post-retirement health care benefits, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. To qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disabled recipients and primary survivor recipients is available. The Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to OPERS.

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pension." The Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to OPERS.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of the employer's contribution to OPERS set aside for the funding of OPEB was 7.0% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009 compared to 7.0% for calendar year 2008.

Active members do not make contributions to the OPEB Plan. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Based upon the portion of each employer's contribution to OPERS set aside for funding OPEB as described above, BWC/IC's contribution for the 12 months ended June 30, 2010 allocated to OPEB was approximately $11.4 million and $12.1 million for the 12 months ended June 30, 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, 2007, and 2008, which allowed additional funds to be allocated to the health care plan.

9. Risk Management

BWC/IC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, BWC/IC maintains commercial insurance and property insurance. There were no reductions in coverage in either fiscal year 2010 or 2009. Claims experience over the past three years indicates there were no instances of losses exceeding insurance coverage. Additionally, BWC/IC provides medical benefits for its employees on a fully insured basis with independent insurance companies or the State's self-insured benefit plan.

10. Contingent Liabilities

BWC/IC is a party in various legal proceedings, which normally occur as part of BWC/IC's operations.

A class action complaint pending in the 8th District Court of Appeals contends that subrogation allowed under Ohio Revised Code 4123.931 is unconstitutional. The Ohio Supreme Court in Holeton v. Crouse Cartage declared the subrogation statute unconstitutional. The trial court certified the class, granted summary judgment to the plaintiffs, and awarded attorney fees. A liability of $50 million was accrued as of June 30, 2005. This case was settled in July 2006, with payments of $46.9 million being made during fiscal year 2007, $1.9 million during fiscal year 2008, $1.1 million during fiscal year 2009, and $296 thousand in fiscal year 2010. Claimants have until July 2011 to file notice of repayment with BWC/IC. Management does not expect the ultimate payments to be materially different than the amount accrued.

A class action case was filed alleging that BWC/IC identifies permanent total disability (PTD) recipients not represented by counsel and encourages them to settle their PTD claims for substantially less than their actuarial present value. The plaintiffs contend that BWC/IC refuses to conduct good-faith settlement negotiations with PTD recipients represented by counsel. The trial court denied BWC/IC's motion to dismiss and/or change of venue, and granted class certification. The 8th District Court of Appeals issued a ruling affirming the trial court's rulings. BWC/IC appealed to the Ohio Supreme Court. In May 2008, the Ohio

Continued

Supreme Court reversed the Court of Appeals' decision and held that, because this matter is a claim against the state for money due under a contract, and not a claim of equitable restitution, it must be brought before the Ohio Court of Claims. Plaintiffs filed action in the Court of Claims in November 2008. On July 7, 2009, the court granted a partial dismissal of this case. The court dismissed the claims of breach of duty, fraud, unjust enrichment, and violation of constitutional and statutory rights. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

BWC/IC was also involved in litigation in which the plaintiff argued that BWC/IC can only change reimbursement rates by promulgating a rule under ORC Chapter 119. The trial court issued a declaration that BWC/IC improperly reduced reimbursement fees to the hospitals. BWC appealed to the 10th District Court of Appeals. A decision was issued in March 2007 affirming the decision of the trial court. BWC/IC did not appeal the decision to the Ohio Supreme Court. BWC/IC has offered to settle with hospitals that may be impacted by this case. In February 2008, BWC/IC sent settlement release agreements to 274 affected hospitals. An estimated liability of $73.7 million was accrued with payments of $33.1 million made during fiscal year 2008, $30.3 million during fiscal year 2009, and $9.4 million during fiscal year 2010.

BWC/IC is involved in litigation challenging policies related to lump-sum advancements made to PTD recipients. This action alleges that BWC/IC has improperly recouped monies from PTD recipients by continuing to deduct monies from the plaintiff's benefits in an amount greater than the advance plus interest. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

A class action case was filed against BWC/IC alleging that non-group-rated employers subsidize group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs have asked the court to declare the group rating plan unconstitutional and require BWC/IC to repay to the class members all excessive premiums collected by BWC/IC, with interest and attorney fees. In April 2008, plaintiffs filed a motion for a preliminary injunction enjoining BWC/IC from enforcing the group rating statutes during pendency of the action (beginning July 1, 2008). A hearing was held on the injunction request in August 2008. In December 2008 the Cuyahoga County Common Pleas Court issued the requested preliminary injunction restraining BWC from continuing its current group rating plan for the policy year beginning July 1, 2009. At the same time, the common pleas court ordered that BWC enact a group retrospective rating plan for the policy year beginning July 1, 2009. BWC filed an appeal and a motion for stay with the common pleas court. On December 17, 2008, the General Assembly passed House Bill 79 clarifying that Ohio's group rating program was not intended to be retrospective only. On January 6, 2009 the Governor signed the bill making it effective immediately. On January 7, 2009 BWC filed a motion to dissolve the preliminary injunction and in March 2009 the common pleas court issued an order vacating the preliminary injunction. Plaintiff has filed a motion for class certification and BWC filed a response in opposition. In January 2010, the common pleas court granted class certification and BWC has appealed. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

Continued

Although the outcome of these cases is not quantifiable or determinable at this time, an unfavorable outcome in any one of them could have a material effect of the financial position of BWC/IC.

BWC/IC is also involved in other claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with the Attorney General, the ultimate disposition of these matters is not likely to have a material adverse effect on BWC/IC's financial position.

11. Net Assets

Individual fund net asset (deficit) balances at June 30, 2010 and 2009 were as follows (000's omitted):

	2010	2009
SIF	$3,151,349	$3,986,476
SIF Surplus Fund Account	23,795	(1,918,671)
SIF Premium Payment Security Fund	130,402	124,083
Total SIF Net Assets	3,305,546	2,191,888
DWRF	1,044,635	835,859
CWPF	193,297	166,383
PWREF	22,568	19,406
MIF	16,398	15,570
SIEGF	7,025	6,935
ACF	(764,390)	(720,699)
Total Net Assets (Deficit)	$ 3,825,079	$ 2,515,342

As mandated by the Code, SIF net assets are separated into three separate funds; the main fund, the Surplus Fund Account (Surplus Fund), and the Premium Payment Security Fund (PPSF).

The SIF Surplus Fund is established by the Code and is financed by a portion of all SIF premiums paid by private, self-insured, and public employers (excluding State employers). The Surplus Fund has been appropriated for specific charges, including compensation related to claims of handicapped persons or employees of noncomplying employers, and the expense of providing rehabilitation services, counseling, training, living maintenance payments, and other related charges to injured workers. The Surplus Fund may also be charged on a discretionary basis as ordered by BWC/IC, as permitted by the Code. Prior to the passage of House Bill 15 in 2009, contributions to the Surplus Fund were limited to 5% of premiums. The BWC administrator now has the authority to transfer money from SIF necessary to meet the needs of the Surplus Fund.

Continued

The SIF PPSF is established by the Code and is financed by a percentage of all premiums paid by private employers. Amounts are charged to the PPSF when the employer's premium due for a payroll period is determined to be uncollectible by the Attorney General of Ohio and the employer's premium payment security deposit is not sufficient to cover the premiums due for the payroll period.

The ACF fund deficit is a result of recognizing the actuarially estimated liabilities in accordance with accounting principles generally accepted in the United States of America, even though the funding for ACF is on a terminal funding basis in accordance with the Code. Consequently, the incurred expenses are not fully funded.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION, UNAUDITED

(See Accompanying Independent Auditors' Report)

June 30, 2010 and 2009

GASB Statement No. 30, "Risk Financing Omnibus," requires the presentation of ten years of supplemental revenue and reserve development information, if available.

The table on the following page illustrates how BWC/IC's gross premium revenues and investment income compare to related costs of workers' compensation benefits (compensation) and other expenses incurred by BWC/IC as of the end of each of the last ten and one-half reporting periods. The rows of the table are defined as follows: (1) This line shows the total of each period's gross premium revenues and investment income. (2) This line shows each period's operating expenses, including overhead and compensation adjustment expenses not allocable to individual claims. (3) This line shows incurred compensation and allocated compensation adjustment expenses (both paid and accrued) as originally reported at the end of the first period in which the injury occurred. (4) This section of ten rows shows the cumulative amounts paid as of the end of successive periods for each period. (5) This section of ten rows shows how each period's incurred compensation increased or decreased as of the end of successive periods. (6) This line compares the latest re-estimated incurred compensation amount to the amount originally established (line 3) and shows whether this latest estimate of compensation cost is greater or less than originally estimated. As data for individual periods mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred compensation currently recognized in less mature periods. The columns of the table show data for successive periods on an undiscounted basis for the fiscal years ended June 30, 2000 through 2010.

Continued

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE
DEVELOPMENT INFORMATION, UNAUDITED, Continued
(See Accompanying Independent Auditors' Report)
(In Millions of Dollars)

	Fiscal Years Ended June 30										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
1. Gross premiums, assessments, and investment income	$ 4,206	$ 2,296	$ 2,968	$ 5,251	$ 3,015	$ 3,272	$ 3,558	$ 2,886	$ 2,032	$ 2,535	$ 4,344
2. Unallocated expenses	139	97	108	109	170	179	188	169	194	292	258
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,870	2,139	2,219	2,327	2,270	2,392	2,335	2,405	2,233	2,109	2,052
Discount	985	1,472	1,892	2,099	2,147	2,227	2,447	2,544	2,374	2,443	2,274
Gross liability as originally estimated	2,855	3,611	4,111	4,426	4,417	4,619	4,782	4,949	4,607	4,552	4,326
4. Paid (cumulative) as of :											
End of period	384	458	415	423	417	449	449	485	456	434	404
One year later		711	755	747	743	795	843	872	853	821	757
Two years later			920	926	927	979	1,037	1,096	1,063	1,038	967
Three years later				1,048	1,066	1,121	1,181	1,248	1,230	1,194	1,122
Four years later					1,172	1,238	1,302	1,371	1,351	1,325	1,245
Five years later						1,336	1,408	1,485	1,459	1,423	1,355
Six years later							1,498	1,570	1,559	1,518	1,439
Seven years later								1,653	1,645	1,605	1,519
Eight years later									1,714	1,680	1,597
Nine years later										1,742	1,665
Ten years later											1,725
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		2,865	3,607	3,946	4,087	4,456	4,604	4,653	4,469	4,443	4,344
Two years later			2,948	3,460	3,879	4,085	4,369	4,497	4,384	4,428	4,209
Three years later				2,909	3,410	3,929	4,138	4,297	4,228	4,277	4,271
Four years later					2,899	3,502	3,842	4,108	4,080	4,038	4,071
Five years later						2,977	3,489	3,772	3,817	3,862	3,839
Six years later							3,042	3,479	3,565	3,540	3,613
Seven years later								3,106	3,340	3,403	3,327
Eight years later									3,055	3,202	3,245
Nine years later										2,995	3,050
Ten years later											2,861
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(746)	(1,163)	(1,517)	(1,518)	(1,642)	(1,740)	(1,843)	(1,552)	(1,557)	(1,465)

Note
Ultimate incurred loss and LAE excludes liability associated with active working miners within the CWPF since they are not yet assignable to fiscal accident year.
The June 30, 2010 active miners discounted liability is approximately $31.1 million.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS
(See Accompanying Independent Auditors' Report)
June 30, 2010
(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
ASSETS									
Current assets:									
Cash and cash equivalents	$ 365,620	$ 8,598	$ 1,878	$ 91	$ 503	$ 47,332	$ 11,870	$ -	$ 435,892
Collateral on loaned securities	-	-	-	-	-	-	4,615	-	4,615
Premiums in course of collection	702,470	-	-	173	-	-	-	-	702,643
Assessments in course of collection	-	40,557	-	-	-	-	129,450	-	170,007
Accounts receivable, net of allowance for uncollectibles	120,851	16,967	171	69	2	(396)	6,088	-	143,752
Interfund receivables	12,807	51,371	-	275	24	(373)	135,440	(199,544)	-
Investment trade receivables	122,184	2,844	1,668	-	-	-	-	-	126,696
Accrued investment income	145,847	12,595	2,725	-	-	4	-	-	161,171
Other current assets	3,277	-	-	-	-	-	4,278	-	7,555
Total current assets	1,473,056	132,932	6,442	608	529	46,567	291,741	(199,544)	1,752,331
Non-current assets:									
Fixed maturities	12,138,528	987,878	210,943	24,874	18,585	-	-	-	13,380,808
Domestic equity securities:									
Common stocks	3,340,919	243,925	51,764	-	-	-	-	-	3,636,608
Preferred stocks	3,846	-	-	-	-	-	-	-	3,846
International securities	1,509,190	-	-	-	-	-	-	-	1,509,190
Investments in limited partnerships	35	-	-	-	-	-	-	-	35
Unbilled premiums receivable	724,761	1,742,966	-	-	-	859,074	96,346	-	3,423,147
Retrospective premiums receivable	290,467	-	-	-	-	-	-	-	290,467
Capital assets	21,926	22	-	-	-	-	77,435	-	99,383
Restricted cash	-	-	-	-	-	-	93	-	93
Total noncurrent assets	18,029,672	2,974,791	262,707	24,874	18,585	859,074	173,874	-	22,343,577
Total assets	$ 19,502,728	$ 3,107,723	$ 269,149	$ 25,482	$ 19,114	$ 905,641	$ 465,615	$ (199,544)	$ 24,095,908

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2010
(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
LIABILITIES									
Current liabilities:									
Reserve for compensation	$ 1,811,745	$130,901	$ 1,116	$ 315	$ 255	$22,120	$ -	$ -	$ 1,966,452
Reserve for compensation adjustment expenses	163,828	339	63	-	37	1,115	227,891	-	393,273
Warrants payable	25,337	-	-	-	-	-	-	-	25,337
Bonds payable	-	-	-	-	-	-	15,865	-	15,865
Investment trade payables	218,920	7,951	2,577	-	-	-	-	-	229,448
Accounts payable	973	-	-	-	-	-	4,216	-	5,189
Interfund payables	184,848	10,248	136	12	184	4,116	-	(199,544)	-
Obligations under securities lending	-	-	-	-	-	-	4,615	-	4,615
Other current liabilities	3,025	89	44	2	132	-	20,629	-	23,921
Total current liabilities	2,408,676	149,528	3,936	329	608	27,351	273,216	(199,544)	2,664,100
Noncurrent liabilities:									
Reserve for compensation	13,079,455	1,903,699	66,284	2,585	1,945	857,980	-	-	15,911,948
Reserve for compensation adjustment expenses	621,772	9,861	4,937	-	163	13,285	882,909	-	1,532,927
Premium payment security deposits	87,279	-	695	-	-	-	-	-	87,974
Bonds payable	-	-	-	-	-	-	48,335	-	48,335
Other noncurrent liabilities	-	-	-	-	-	-	25,545	-	25,545
Total noncurrent liabilities	13,788,506	1,913,560	71,916	2,585	2,108	871,265	956,789	-	17,606,729
Total liabilities	16,197,182	2,063,088	75,852	2,914	2,716	898,616	1,230,005	(199,544)	20,270,829
NET ASSETS (DEFICIT)									
Invested in capital assets, net of related debt	21,926	22	-	-	-	-	13,327	-	35,275
Restricted for Surplus Fund	23,795		-	-	-	-	-	-	23,795
Restricted for Premium Payment Security Fund	130,402	-	-	-	-	-	-	-	130,402
Unrestricted net assets (deficit)	3,129,423	1,044,613	193,297	22,568	16,398	7,025	(777,717)	-	3,635,607
Total net assets (deficit)	$ 3,305,546	$ 1,044,635	$ 193,297	$ 22,568	$ 16,398	$ 7,025	$ (764,390)	$ -	$ 3,825,079

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(See Accompanying Independent Auditors' Report)
For the year ended June 30, 2010
(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Operating revenues:									
Premium income net of ceded premium	$1,414,639	$ -	$1,977	$476	$521	$ -	$ -	$ -	$1,417,613
Assessment income	-	281,778	-	-	-	155,462	293,427	-	730,667
Provision for uncollectibles	(41,942)	13,784	(57)	-	(3)	(205)	(1,436)	-	(29,859)
Other income	8,917	-	-	-	-	-	6,101	-	15,018
Total operating revenues	1,381,614	295,562	1,920	476	518	155,257	298,092	-	2,133,439
Operating expenses:									
Workers' compensation benefits	1,809,615	289,022	4,117	(818)	916	151,761	-	-	2,254,613
Compensation adjustment expenses	283,548	(45,810)	554	-	114	3,459	240,506	-	482,371
Personal services	-	69	25	-	15	-	75,455	-	75,564
Other administrative expenses	24,966	18	4	1	41	1	31,039	-	56,070
Total operating expenses	2,118,129	243,299	4,700	(817)	1,086	155,221	347,000	-	2,868,618
Net operating (loss) income	(736,515)	52,263	(2,780)	1,293	(568)	36	(48,908)	-	(735,179)
Non-operating revenues:									
Net investment income	1,850,323	156,513	33,471	1,869	1,396	54	5,995	-	2,049,621
Loss on disposal of capital assets	-	-	-	-	-	-	(178)	-	(178)
Total non-operating revenues	1,850,323	156,513	33,471	1,869	1,396	54	5,817	-	2,049,443
Net transfers out	(150)	-	(3,777)	-	-	-	(600)	-	(4,527)
Increase (decrease) in net assets (deficit)	1,113,658	208,776	26,914	3,162	828	90	(43,691)	-	1,309,737
Net assets (deficit), beginning of year	2,191,888	835,859	166,383	19,406	15,570	6,935	(720,699)	-	2,515,342
Net assets (deficit), end of year	$3,305,546	$1,044,635	$193,297	$22,568	$16,398	$7,025	$(764,390)	$ -	$3,825,079

OHIO BUREAU OF WORKERS' COMPENSATION
AND INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
Columbus, Ohio

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards
For the years ended June 30, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio
(A Department of the State of Ohio)
Columbus, Ohio

We have audited the financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated September 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the BWC/IC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BWC/IC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the BWC/IC's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting, which is identified as Significant Deficiency Number 10-1. A *significant*

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deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the BWC/IC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the BWC/IC in a separate letter dated September 30, 2010.

BWC/IC's response to the finding identified in our audit is described in the accompanying schedule of finding and response. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, the Ohio Bureau of Workers' Compensation Board of Directors, and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Schneider, Downs & Co., Inc.

Columbus, Ohio
September 30, 2010

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

Schedule of Findings and Responses

June 30, 2010

Significant Deficiency No. 10-1, Managed Care Organization (MCO) Departures

Criteria: A significant portion of the BWC/IC control environment related to payments resides within the managed care organizations (MCO) that process certain health care claims for BWC/IC. MCO's are required to have Type II SAS 70 reviews performed annually as a contractual condition for performing this function for the BWC/IC.

Condition: We noted that one of the MCO's merged with another MCO approximately eight months into the fiscal year. This MCO did not obtain a Type II SAS 70 covering the time period prior to the merger. A review was performed by BWC/IC prior to the merger, but it did not cover the entire control environment of the MCO for the eight months where they initiated transactions with BWC/IC.

Effect: Inadequate review of the transactions and the control environment for an MCO increases the potential that inappropriate and unauthorized transactions will not be detected.

Management Response:

Management acknowledges that the condition noted above is accurate. However, management does not believe that the noted condition presents a significant risk of financial misstatement. The user control considerations in place at BWC provide mitigating controls that would help to detect inappropriate and unauthorized transactions.

Gates McDonald Health Plus, a Nationwide Company, was the MCO giving rise to this condition. During BWC's review of the 2009 SAS 70 reports received from all MCOs, BWC identified several areas where additional documentation was required to ensure that adequate testing had been performed and controls were functioning as expected. A reissued SAS 70 report for 2009 was received from Gates McDonald Health Plus in response to this review.

In the regular course of business and as a part of BWC's control environment, all MCO activities are monitored to ensure MCO's are operating in compliance with the contract. Significant attention and resources are devoted to ensuring that all transactions are for approved claims and paid in accordance with established fee schedules. BWC worked closely with and closely monitored this MCO three months post its final day of business. Any significant control issues would have been identified and immediate corrective action required.

Any issues identified in a 2010 SAS 70 report for an MCO that is no longer in operation would be moot. Of importance is the control environment of the surviving MCO. This is one reason that all MCO mergers are subject to BWC review and approval. As a part of the approval process, the surviving MCO submitted a transition plan to BWC on July 20, 2009 documenting how the services provided by the MCO ceasing operations would be assumed by the surviving MCO. A multi-disciplinary team at BWC reviewed the plan before submitting the proposed merger to BWC executive staff for final approval on January 26, 2010. This merger received final BWC executive approval on January 28, 2010. Additionally, if the surviving MCO had identified issues with the departing MCO that would impact its ability to meet BWC contractual requirements, the surviving MCO would likely bring these issues to BWC's attention. No such issues arose in this transition.

The current BWC/MCO contract does not provide that the MCO's SAS 70 review requirement outlives the contract. BWC is preparing to negotiate the 2011-2012 contract with the MCOs. As part of that contract, BWC will consider establishing minimum criteria (size, length of time in business, date of proposed mergers) under which a SAS 70 report may be required in the event an MCO is contemplating a merger.

BWC'S Division of Safety & Hygiene Annual 2010 Report

Table of Contents

BWC's Occupational Safety and Health Services

DSH provides a wide variety of occupational safety and health services to Ohio employers and employees. DSH's services include safety education and training, safety councils, safety congress, safety grants and loan programs, on-site and field consulting safety services, and library services. Table A provides general statistics about the number of employers who benefited from these services.

Table A: FY10 occupational safety and health services statistics by policy type.

Service type	Private employers	Public employers	State agencies	Self-insured	Marine Fund	Unknown	Federal Government	Total
Training and education^	6,534	265	34	207	1	7	0	7,048
Safety congress	1,647	195	38	299	0	0	15	2,194
Safety council	7,043	861	13	423	1	0	0	8,341
Safety intervention*	75	32	0	0	0	0	0	107
Video library	1,162	172	20	129	0	6	0	1489
Specialized field consulting - Visit only	3,871	430	38	312	0	90	0	4,741
OSHA On-site	486	-	-	-	0	0	0	486
PERRP	-	198	3	-	-	-	0	201

^ = 14,472 employees completed safety training through this service.

* = A total number of 110 Safety Intervention Grants were awarded to 107 employers.

Training and education services

BWC's safety education and training services include classroom and Web-based safety courses in industrial and construction safety, industrial hygiene, ergonomics and risk management. BWC offered 73 courses through 339 classes at 12 locations. Eighty-six additional classes were held at employers' businesses. BWC's learning management system offered six online courses, which 4,856 students completed. There were 3,691 new employers who participated in training and education classes last year. A total of 14,472 students successfully completed a training class, and 64 percent of these individuals were first-time students.

The DSH customer contact center provides technical support to address questions related to occupational safety and health, refers customers to other BWC business units and helps students register for safety training courses.

The center responded to 13,151 calls from Ohio employers and employees. These included:

- 8,478 calls from private employers;
- 4,34 calls from public employer taxing districts;
- 1,129 calls from state agency public employers;
- 4,13 calls from self-insured employers;
- 2,697 calls were received through transfer, interagency or other parties.

Safety Council Program

The Ohio Safety Council Program provides a forum for promoting occupational safety and health, loss prevention, workers' compensation cost control and management, and networking to Ohio employers through monthly meetings. BWC co-sponsors 80 safety councils throughout the state; organized through chambers of commerce, trade and manufacturing associations, American Red Cross Chapters and other local community organizations.

BWC provided $1,060,500 in subsidies toward the direct costs of these councils and paid $27.3 million in premium rebates to employers who met the safety councils' enrollment, active participation and performance requirements during FY10. Beyond subsidies and rebates, 6,062 employers were recognized through a structured awards program for demonstrating their efforts in injury and accident prevention. Safety councils held 1,130 meetings during FY10.

Ohio Safety Congress & Exposition

The annual Ohio Safety Congress & Expo originated in 1927 and is the largest state conference of its kind. This year's event hosted representatives from 2,340 businesses over three days. Approximately 5,900 employer representatives participated in the free event, which displayed the latest advances in safety and health education and training, equipment and technology.

While continuing to maintain a superb level of customer service to the participants, expenditures were the lowest in 10 years, and the revenue collected from 209 vendors exceeded operational costs by nearly $10,000. The event also provided BWC employees a platform for professional development and training, reducing the funding needed to provide for such purposes through external sources.

Nearly 93 percent of participants indicated they benefited from a new track of workers' compensation programs, which complemented the existing offerings of occupational safety and health programs. Approximately 38 percent of participants attended the event for the first time, and 74 percent of them represented employers with fewer than 100 employees. This emphasizes that safety congress is a valuable resource for Ohio's smaller employers.

Grant and loan programs[1]

The primary focus of BWC's safety grant and loan programs is to assist employers in managing the financial costs associated with implementing safety measures to prevent accidents and injuries in the workplace. Another major goal is to establish safety best practices in the field of occupational safety and health. The grant and loan programs include safety intervention grants (SIG), drug-free workplace program (DFWP) grants and the Long Term Care Loan (LTCL) program. BWC awarded $2,828,989 in 698 SIG and DFWP grants to 673 employers.

[1] A certain number of grants were awarded toward the end of one fiscal year and were paid during the beginning of the next fiscal year.

Safety intervention grants

The Safety Intervention Grants Program, now in its 11th year, provides financial assistance to employers to purchase safety equipment. The program provides 2-to-1 matching funds, up to a maximum of $40,000. The use of the funds can only be directed toward the purchase or improvement of equipment to significantly reduce or eliminate the risk of injury. BWC awarded 110 SIG grants totaling $2,495,145 to 107 employers. More than 76 percent of the awards went to employers with 200 or less employees.

To establish industry best practices in occupational safety and health, employers receiving grant funds through the SIG program are required to provide two, year-end case studies and provide quarterly reports to document their experience with the equipment purchased through the grant funds. The collected data is used to establish baseline best practices in safety, advance knowledge in the area of occupational safety and health, and benefit other employers with similar hazards at their workplaces.

Last year, 68 employers fulfilled their participation requirements in the grant program. Showing a reduction in claims from the baseline total of 291 to 63 in the follow-up period, the return-on-investment for this group of qualified participants is estimated at 1.3 years.

Drug-free workplace training grants

These grants help Ohio employers initiate training needed to maintain drug free workplaces. In FY10, there were a total of 588 grants amounting to $333,844 awarded to 566 employers. Construction and manufacturing accounted for 45 percent of the participating employers. Twenty public taxing districts and schools benefited from these grants as well.

Long Term Care Loan Program

The Long Term Care Loan Program provides Ohio's nursing homes and hospitals interest reimbursement for loans. Recipients use the loans to purchase lifting equipment to reduce the frequency and severity of workplace injuries to employees who manually handle residents or patients. Participating employers may purchase sit-to-stand floor lifts, ceiling lifts, other lifts and fast electric beds. BWC provided $13,569 in interest reimbursements to five employers.

BWC's on-site and field consulting services

BWC's on-site and field consulting safety services includes the OSHA On-Site Consultation Program, Public Employment Risk Reduction Program (PERRP), and specialized field consulting safety services. BWC's on-site and field safety specialists work directly with employers on hazard and risk assessment and mitigation as well as the introduction of safety interventions in the workplace.

OSHA On-Site Consultation Program

The OSHA On-Site Consultation Program is 90-percent funded by a Federal OSHA grant of $1,572,000. BWC funds the remaining 10 percent. The program is directed toward providing highly specialized services to relatively small employers (less than 250 employees) in high hazard/risk industries.

Program field consultants conducted 962 visits to workplaces throughout Ohio and improved workplace safety for 486 employers with 77,997 employees. Also, the program provided safety on-site training for 1,717 employees.

Public Employment Risk Reduction Program (PERRP)

Legislation created in 1994 requires the adoption and application of federal occupational safety and health rules for general industry and construction to public employers and employees. PERRP is tasked with enforcing these adopted OSHA rules, as well as assisting the public sector work force in creating safe and healthy workplaces. In addition to enforcement activities, PERRP staff provides free safety and health inspections, consultations, site-specific evaluations, written program reviews, safety training and hazard recognition.

PERRP safety and health consultants identified 12,515 serious hazards at 1,375 public employer workplaces that affected 29,993 employees. On average, written reports of findings were processed within 18 days. Expeditious reporting allows employers to begin the abatement process to address these serious hazards. Additionally, PERRP consultants provided on-site safety training to approximately 1,300 employees at 32 employer locations.

Specialized field consulting safety services

Specialized consulting services provided through BWC's customer service offices help employers implement safety programs, identify hazards and apply remediation techniques. These field activities include thousands of noise measurements, air quality sampling, ergonomic surveys and safety audits in workplaces throughout Ohio. Field consultants made 17,840 visits to 7,412 Ohio workplaces belonging to 4,741 employers, to provide consulting services in industrial hygiene, industrial and construction safety, and ergonomics.

BWC's library and resource center

The BWC library and resource center offers access to information, training materials and experienced staff members to help employers with their workplace safety and health activities. BWC's library is the only library of its kind in Ohio and among a few in the nation with such specialized services. The library provides free information services on state-of-the-art developments in occupational safety and health, workers' compensation and rehabilitation. The library is part of the statewide OHIOLINK library network.

The library and resource center houses a video collection, which includes more than 800 workplace safety and health videotapes, DVDs and training aids. It is a convenient and popular source for Ohio employers to obtain quality workplace safety and health training aids for their employees. This year, the video library served 1,489 Ohio employers and circulated 9,873 videotapes and DVDs to these employers.

BWC's technical advisors unit

The technical advisors unit provides statewide-specialized technical support to BWC on-site and field consulting specialists in ergonomics and industrial hygiene, as well as industrial and construction safety.

The unit maintains and updates the Ohio Administrative Code Specific Safety Requirements (OAC SSRs) and monitors new advancements in safety literature, standards and technology. The advisors provide technical support for the training courses and modules, as well as teaching several occupational safety and industrial hygiene courses. This unit is also tasked with the technical pre-approval evaluation and post-approval monitoring of the safety intervention grants.

BWC's industrial hygiene laboratory

BWC's industrial hygiene laboratory provides a wide variety of support services to BWC consultants. The laboratory handles the inventory, repairs, maintenance and calibration of more than 2,000 measurement devices and tools used by DSH staff. Last year, the laboratory performed certified calibration of 888 devices, with estimated savings of approximately $155,000.

Furthermore, by working with an external specialized laboratory, BWC's laboratory coordinated elaborate testing of 9,730 air quality samples to measure workers' exposure to a wide variety of chemicals at 878 Ohio workplaces.

Research Activities and Initiatives

BWC continues to improve its services by capitalizing on several research projects and initiatives. Recently, DSH succeeded in forming strategic research partnership with the nation's leading safety and health research agency, the National Institute of Occupational Safety and Health (NIOSH). Also, this year, we continued to track and report on two FY09 projects: The Ohio Occupational Fatalities Report and the Preferred Customer Market Initiative. Additionally, DSH completed the design of a Drug-Free Safety Program (DFSP), which replaced the Drug-Free Workplace Program. Furthermore, in collaboration with the Ohio Manufacturing Association, DSH completed a thorough review and analysis of injuries and claims associated with the metal stamping industry. Finally, BWC continued its collaboration with OSHA on the BWC-OSHA Initiative.

BWC-NIOSH strategic partnership

The goal of forming this partnership is to establish a vehicle for BWC and NIOSH to collaborate and use the agencies' respective strengths and resources on projects that will improve public policy by using workers' compensation injury data. The research projects are intended to improve the scientific knowledge in the areas of occupational safety and health risks and workers' compensation systems. In addition to capitalizing on NIOSH's expanded knowledge in the areas of occupational safety and health and illnesses, BWC will apply the research results in the introduction of new BWC safety services, programs and products, as well as improving the performance of ongoing programs.

The first BWC-NIOSH collaboration research project began in October 2010 and will examine the effectiveness of occupational safety and health programs in the wholesale and retail trade sector. The goal of this four-year project is to reduce injuries and illnesses, particularly musculoskeletal disorders and traumatic slip/trip/fall injuries, in part by assessing the effectiveness and cost-benefit of the various elements of occupational safety and health programs.

Ohio occupational fatalities for calendar years 2007 to 2009

This effort involves thorough analysis of work-related fatalities in Ohio during calendar years 2007 through 2009, with emphasis on calendar year 2009 data. Claims where no relationship could be established between the injury and death were not included in this analysis. A total of 129 work-related fatalities were reported in BWC's claims data system for calendar year 2009. This number is, respectively, 27 and 52 fatalities less than those reported in calendar years 2008 and 2007. Calendar year 2007 and 2008 reported 181 and 156 fatalities, respectively.[2] Immediate fatalities and non-immediate fatalities have declined each year. However, the data analysis completed for the 2009 report was performed much earlier in the year than the previous two calendar years and does not reflect claims that might be filed later in 2010. Of the 129 fatalities in calendar year 2009, 64 workers were injured and died on the same day of injury, nine workers were injured and died on different dates during 2009, 14 workers were injured in previous years and died in 2009, and 42 workers had approved occupational disease claims and died in 2009. Based on causation, there were 24 transportation related fatalities and 22 slip and/or fall fatalities.

[2] Fatality claims data for calendar year 2007 is based on data analysis performed in October 2008; fatality claims data for calendar year 2008 is based on data analysis performed in September 2009; and fatality claims data for calendar year 2009 is based on data analysis performed in March 2010.

The analysis of the 2009 calendar year fatalities includes comparisons, where applicable, to calendar years 2008 and 2007 fatalities according to injury causation, industry sector, occupation, age and gender of injured worker, injury time of day, day of week and month of year, regional BWC customer service office and employer type.

Figure 1 provides a general overview of work-related fatalities in Ohio for calendar years 2007 through 2009. The majority of the fatalities were instantaneous with injury date and death date being the same. Although the total number of fatalities has decreased over the years, the number of occupational disease fatalities appears to have been, relatively, holding steady over the three years included in this analysis.

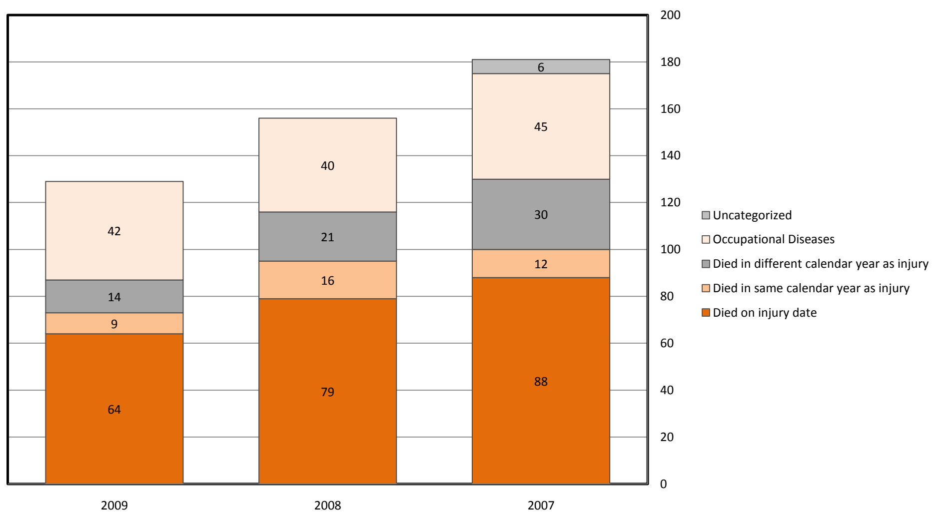

Figure 1 – Ohio occupational fatalities, 2007, 2008 and 2009

Fatalities according to source of injury/illness (causation)

Occupational diseases were the most prevalent cause of fatalities and accounted for 42 deaths in 2009. Twenty-four of the 42 occupational disease claims were related to inhalation, including 13 asbestosis/mesothelioma, six silicosis, one coal workers' pneumoconiosis, one lung cancer (firefighting), one hydrogen sulfide poisoning, one renal cancer due to long term exposure to cadmium, and one meat-wrapper asthma. Seventeen fatalities were classified/coded as occupational disease "other." Those fatalities included 14 heart attacks (six associated with heavy lifting, six associated with fire/police work, two associated with "other" type of work), one associated with chronic obstructive pulmonary disease, one associated with intercerebral hemorrhage and one associated with multiple sclerosis. One fatality was classified/coded as an occupational disease "general" and involved a worker who died because of radiation poisoning.

Transportation-related accidents were the second leading cause of fatal injuries in 2009, with 24 deaths. Eighteen workers died in a motor vehicle accident as a driver or passenger. Five workers were pedestrians struck by a moving vehicle, with two workers struck by vehicular traffic and three workers struck by construction equipment. One fatality resulted from a vehicle being struck by a steel coil that fell off a truck.

Slips and falls caused 22 fatalities. Of those, 17 fatalities involved slip or falls to a different level from roof, trucks, platforms, scaffolds or ladders. Five fatalities involved a fall or slip on the same level.

The remaining coded causations for calendar year 2009 fatalities include:

- 13 workers were struck by falling or flying objects;
- Nine workers were involved in incidents related to violence in the workplace;
- Five workers were caught in, on or between objects involving machine or machine parts;
- Five workers came in contact with electrical current;
- Two workers were caught in, on or between objects other than machine or machine parts;
- Two workers with complications following a strain/sprain accident (one with sepsis; one with heart attack);
- One worker struck against object (fell on a pitch fork);
- One worker came in contact with temperature extremes (ruptured steam pipe);
- One worker was injured in a trench collapse;
- One worker was injured as a result of allergic reaction to a bee sting;
- One worker was injured because of an explosion.

Fatalities according to industry sector

The fatality counts for calendar years 2007 through 2009, according to the industry sector, are represented in Figure 2. The majority of the fatalities were associated with the construction, service and commercial sectors. The construction industry sector had 29 fatalities in 2009, compared to 23 fatalities in 2008 and 34 fatalities in 2007. The service sector had 15 fatalities in 2009 compared to nine fatalities in 2007 and 14 fatalities in 2008. The commercial sector had 13 fatalities in 2009 compared to 15 fatalities in 2008 and 14 fatalities in 2007.

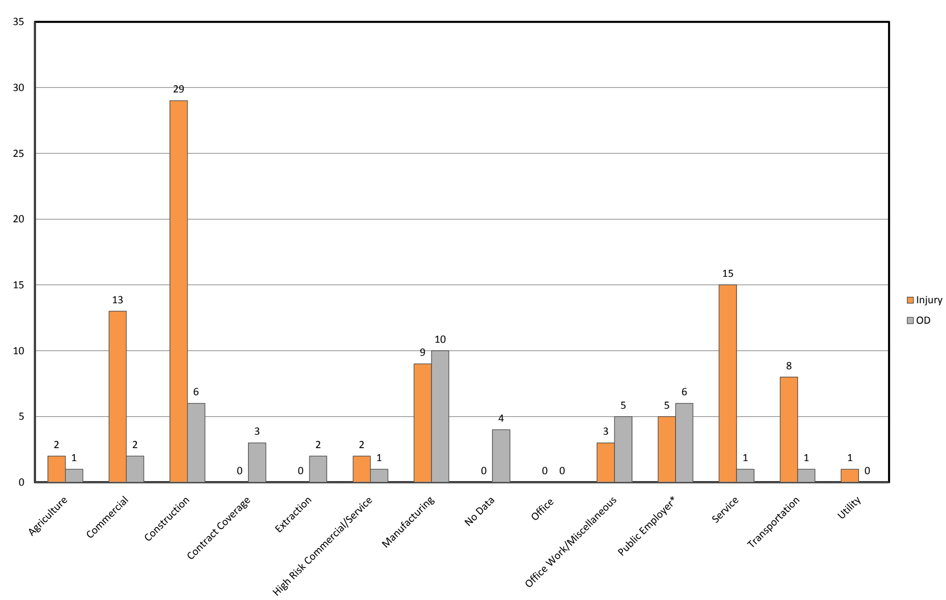

Figure 2 – Fatalities by employer industry sector.
* Public Employers include cities, counties, schools, townships and villages

Preferred Customer Market (PCM)

BWC selected 1,661 employers from four industry groups with a large number of claims and high claims costs. The goal was to assist these employers in improving safety at their workplaces and consequently reduce injuries and workers' compensation costs. The selected employers included 75 public employer commissions (PECs; limited to cities, counties and schools); 864 construction companies; 85 temporary staffing agencies (with 15 or more manual classifications); and 637 nursing homes.

The primary objective was to decrease frequency and severity of claims and costs by 5 percent in each of the four customer groups by providing a full range of safety services. This was considered an attainable goal based on similar effort by DSH in the years 2002 through 2004.

A summary of the services provided to these employers is shown in Table B. Many of the selected customers participated in one or more DSH service. Field consulting services devoted about 6.62 percent of their time to these customers in fiscal years 2009 and 2010.

Table B: Percent of PCM employers participating in BWC's occupational safety and health services.

DSH services*	Construction	Nursing homes	Public employer taxing district	Temporary agencies
Safety training	40.05	41.92	74.67	41.18
Safety congress	16.2	12.4	54.67	11.76
Safety councils	45.95	55.26	93.33	77.65
Drug free program	62.73	48.51	17.33	32.94
Premium discount program	45.95	43.64	30.67	58.82
Retrospective rated	2.89	1.88	77.33	3.53
Safety grants	61.48	29.2	44	14.12
Library training aids	13.19	9.26	60	15.29
Workers compensation university	10.1	13	48	15.3
Field consulting* (% of staff time)	2.57	1.14	2.85	0.06

Table C provides a summary of the results relative to reductions in claim frequency and severity during FY09 and FY10. Overall, for all PCM employers who benefited from BWC's safety services, the number of claims filed decreased by 16.9 percent and the number of days away decreased by 17.5 percent. No cost analysis was performed, due to the system update from MIRA I to MIRA II during the study period.

Table C – Summary of PCM employer claims frequency and severity results for FY09 and FY10

Employer type	Number of employers	Number of employers touched	Claims frequency payroll adjusted (%)	Days away payroll adjusted (%)
Construction	864	584	-33.82	-29.48
Nursing homes	637	393	-6.13	-13.94
Public employer taxing district	75	71	-14.33	-13.05
Temporary agency	85	51	-13.87	-37.99

Design of the Drug-Free Safety Program (DFSP)

DSH, along with the BWC Actuarial Division, completed the design of a new DFSP to replace the Drug-Free Workplace Program (DFWP). The DFSP was designed to promote the health of Ohio's work force and to prevent workplace injuries attributed to use/abuse of drugs and/or alcohol. The re-design was called for in the recent comprehensive study of Ohio's workers' compensation system. The DFSP design process incorporated a thorough review of the scientific literature in this area, benchmarking of similar programs at the national level, consulting with experts, including the NIOSH, Ohio Department of Alcohol and Drug Addiction Services and Ohio State University, as well as structured meetings for soliciting input from interested parties including employers, employer and employee representative organizations, third-party administrators and vendors. The DFSP was designed to have improved application and participation process, provide measurable results and be actuarially sound.

The DFSP simplified the process for employers to join and implement a drug-free safety program with measurable results leading to better understanding of the nature and extent of substance abuse related accidents and injuries. The DFSP offers two levels of participation, Basic and Advanced, and offers benefits in the form of premium discounts in the range of 4 percent to-7 percent. The new program began July 1, 2010.

Analysis of injuries in the metal stamping industry

In a collaborative effort with the Ohio Manufacturing Association, DSH completed a comprehensive review and analysis of injuries and claims associated with the metal stamping industry. The objective of the study was to evaluate the type of injuries and claims associated with the metal stamping industry and introduce simplified and practical safety interventions to prevent those injuries. The analysis included thorough review of a representative sample of more than 2,000 injuries between 2004 and 2008. The analysis revealed that the majority of claims associated with this industry are open wounds, fractures, contusions and sprains. Specific, simplified safety interventions were developed to help the industry prevent these types of injuries.

BWC - OSHA alliance

BWC worked with OSHA, CBS Personnel Holdings Inc. and the Ohio Staffing and Search Association to create a training video for temporary staff workers to use before they are sent out to a job. The video can be viewed on BWC's Web site. Additionally, four half-day safety classes were designed and taught to staffing companies, and the training materials and DVD were produced in Spanish.

Division of Safety & Hygiene Financials

BWC's Division of Safety and Hygiene (DSH) budget appropriation for FY10 was approximately $18.25 million, which excludes safety grants, the Long Term Care Loan Program, and Occupational Safety and Health Administration (OSHA) On-Site's Federal Grant. Additionally, $4 million were appropriated for grants (safety intervention and drug-free workplace training) and the loan programs. The total premium assessment for FY10 was about $19 million (Table D). A Federal OSHA On-Site Grant provided an additional source of funding of approximately $1.5 million.

Table D – Fiscal Year 2010 DSH premium assessments.

Employer type	Assessments ($)
Private	13,878,634
Public taxing districts	2,905,466
Public state	695,649
Self insured	1,531,588
Total assessments	19,011,337

As of June 30, 2010, DSH disbursements for safety services amounted to about $18.25 million. Grants and loan disbursements amounted to approximately $2.8 million. Table E provides general description of the DSH disbursements.

Table E: Division of Safety & Hygiene disbursements (Disbursements in $).

	Safety Admin	Field consultations	Meetings and conventions safety council and congress	Education services	Customer contact center	Resource center	Technical advisors	Business development	OSHA state fund match	PERRP	Training overhead	Totals	Safety grants	Long Term Care Loan
Payroll	204,224	10,825,157	272,300	339,550	168,014	300,999	522,889	429,644	183,363	948,994	0	14,730,256	0	
Overtime	0	0	0	415	0	5	0	0	3	0	0	427	0	
Purchased services		0	16,300	381,638	0	0	0	0	4,762	0	0	402,700	0	
Other Pers Service	4,657	14,485	0	25,467	0	74,898	250	50	1,182	439	2,632	114,186	0	
Total	208,881	10,839,642	288,600	747,070	168,014	375,902	523,139	429,694	189,310	949,433	2,632	15,247,569	0	
Edible products	0	0	0	0	0	0	0	0	0	0	0	0	0	
Supplies	26,394	14,887	1,566	10,627	0	102,335	207,017	80	1,048	930	0	374,006	0	
Vehicle maintenance	4,194	140,566	2,357	869	0	0	6,732	0	1,786	15,529	0	205,062	0	
Travel	488	62,595	12,364	4,739	0	55	2,024	52	2,070	4,704	0	92,606	0	
Communications	31,066	73,350	1,149	1,007	0	1,002	7,415	198	902	6,643	0	154,921	0	
Fuel/Utilities	0	0	0	0	0	0	0	0		0	0	0	0	
Maintenance/Repairs	28,447	9,510	0	5,503	0	5,627	19,073	0	1,113	0	0	72,598	0	
Rentals	498,841	145	166,287	57,634	0	0	0	0	38	0	0	723,050	0	
Printing/Advertising	3,107	0	4,189	0	0	30,388	0	0	0	0	0	37,684	0	
General/Other/ Subsidies	80,151	23,491	1,063,698	57,865	0	4,318	1,022	1,068	1,184	3,201	0	1,251,375	2,821,294	12,050
Total	672,688	324,542	1,251,610	138,244	0	143,725	243,283	1,398	8,141	31,007	0	2,911,302	2,821,294	12,050
Office Equipment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Motor Vehicles	705,469	0	0	0	0	0	0	0	2,729	0	0	708,198	0	0
Communication	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equipment Med/Lab/Therpeutical	0	0	0	0	0	0	0	0	2,631	0	0	2,631	0	0
Data Proc Equipment	0	0	0	2,796	0	0	0	0	0	0	0	2,796	0	0
Copy/Print Equipment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	705,469	0	0	2,796	0	0	0	0	5,360	0	0	713,625	0	0
Grand Total *	1,587,038	11,164,185	1,540,210	888,109	168,014	519,627	766,422	431,092	202,811	980,440	2,632	18,250,579	2,821,294	12,050

Market Value of BWC Safety Services

In an effort to measure and evaluate the value and performance of BWC's safety services, DSH continues to compile data relative to personnel time, cost and value of each of its services. In part, this data includes the personnel time spent in the field in providing consulting services to employers and the value of courses attended by employees through education and training. The data is ultimately used to estimate the market value of BWC's occupational safety and health services based on number of service hours and type of services provided according to private-market fee schedules. The results of this analysis is provided in Table F.

Table F – Estimated market value of BWC's occupational safety and health services.

DSH Services (in $)									
Employer type	Field consulting	Video library	Training	Safety congress	Safety grants	Library other	PERRP	OSHA On-Site	Total
Private (PA)	8,836,223	1,244,880	1,892,310	1,362,900	2,061,076	-	-	1,947,750	17,345,139
Public taxing district	1,458,621	259,380	248,475	297,150	767,013	-	839,293	-	3,869,932
Public state	564,727	108,900	145,395	414,750	-	-	-	-	1,233,772
Self-insured	1,625,021	141,480	233,290	643,650	-	-	-	-	2,643,441
Not defined	437,118	22,500	35,850	106,575	900	678,552	-	-	1,281,495
Marine Fund	4,774	-	300	-	-	-	-	-	5,074
Total	12,926,484	1,777,140	2,555,620	2,825,025	2,828,989	678,552	839,293	1,947,750	26,378,853

Fiscal Year 2010 Investment Class Annual Report

Fiscal Year 2010 Investment Class Annual Report Comments

Background

After the U.S. and global financial markets experienced an extreme level of volatility and asset class performance in fiscal year 2009 ended June 30, 2009, with Gross Domestic Product declining in the U.S., Europe and Japan over this period, the U.S. and global economies strengthened in fiscal year 2010 ended June 30, 2010. The start of the recovery of the U.S. economy occurring in fiscal 2010 was attributable in part to an extremely accommodative U.S. Federal Reserve monetary policy providing tremendous liquidity to the U.S. financial system. Short-term interest rates as well as core inflation were very low throughout this period. Credit markets recovered to function at near normal conditions as liquidity of non-Treasury bonds improved significantly. Many large and important financial institutions measurably strengthened their capital position by issuing new stock and paying back all TARP received funds. Job growth remained modest and disappointing, however, for the first year of recovery from a deep recession. Consumer confidence remained fragile due to the unemployment rate nationally hovering slightly below 10%.

The investment portfolio of the Bureau rebounded strongly in fiscal year 2010 with a total return of 12.0% (net of investment management fees) after providing a total return of negative 1.1% for fiscal year 2009, which was nevertheless an excellent relative return compared to the double-digit negative returns posted by most public fund institutional portfolios in fiscal year 2009. Although monthly BWC total bond returns and particularly total stock returns fluctuated widely over the course of fiscal year 2010 with monthly returns of portfolio stocks versus portfolio bonds of the Bureau actually moving in opposite directions (one positive and the other negative) for seven of the 12 months, their respective portfolio returns for the year converged over the last two months of the fiscal year. The BWC bond portfolio provided a net return of 13.0% and its stock portfolio had a net return of 12.3% for fiscal year 2010.

The Board of Directors of the Bureau in April 2009 approved a change in asset allocation targets for the State Insurance Fund to 70% fixed income and 30% equities from 80% fixed income and 20% equities, with the 10% increase in equities allocated to international equities (formerly 0% allocation) and the 10% reduction in fixed income reducing long duration bond exposure. In addition to this portfolio asset allocation change, there were several asset allocation target changes made within the portfolio fixed income classes also approved by the Board to reduce average duration of the bond portfolio. These decisions were made by the Board after several careful reviews of a rigorous asset liability modeling study requested of the Bureau's investment consulting firm Mercer. The new asset allocation mix for the State Insurance Fund, representing approximately 91.5% or $17.358 billion of total Bureau invested assets ($18.971 billion) on June 30, 2010, is expected to increase its portfolio return and lower its variance or dispersion of expected annual portfolio return over the long term.

The BWC investment staff carefully planned and supervised the implementation and execution of three major transition strategies for the State Insurance Fund during fiscal year 2010. Each of these respective transition strategies, endorsed by Mercer as BWC investment consultant, were performed by BWC transition managers that were selected by the BWC transition manager evaluation committee. The Bureau has a pool of three transition managers under respective optional use contracts. Each of these transition managers had previously been recommended for potential use by BWC staff and were approved by the Board under a recent RFP bid process.

These transition activities for the State Insurance Fund portfolio occurred over the first six months of fiscal year 2010 ending December 2009. As a result, the State Insurance Fund achieved its targeted asset allocation exposure in all approved fixed income and equity asset classes consistent with its new investment policy statement by December 2009. These three respective transition portfolios, as well as in-kind transfers of assets from legacy investment managers, were subsequently delivered to new Board-approved investment managers in stages over the period December 2009 through May 2010. These transfers of assets were also carefully planned and supervised by the BWC investment staff in part to minimize overall transaction costs.

In addition to the investment policy and asset allocation changes for the State Insurance Fund (SIF) portfolio described herein, investment strategy and asset allocation investment policy changes occurred for both the Disabled Workers' Relief Fund (DWRF) and Coal Workers' Pneumoconiosis Fund (CWPF) in fiscal year 2010. These investment strategy changes also resulted from respective strategic asset allocation analyses performed and presented by investment consultant Mercer to the Investment Committee of the Board in December 2009 for CWPF and January 2010 for DWRF. Asset allocation investment policy changes for CWPF and DWRF were approved by the Investment Committee and the Board at their respective meetings in those months.

Similar to the asset allocation changes approved for SIF in April 2009, changes in asset allocation targets for DWRF (invested assets $1.24 billion on June 30, 2010) resulted in the equity weighting being increased to 30% from 20% with a similar 10% reduction made to fixed income investments (including cash) from 80% to 70%. The entire 10% equity allocation increase for DWRF will be from adding a new 10% allocation to non-U.S. equities, with U.S. equities remaining at a 20% allocation. The DWRF fixed income portfolio change will result in intentionally shortening its weighted average duration by eliminating the previous 59% portfolio allocation to long duration bonds and spreading the new 70% allocation between U.S. TIPS (new target 35% versus former 20% target) and adding the intermediate duration U.S. Aggregate benchmark index (new target 34%), with cash remaining at 1%.

The 80/20% fixed income/equity asset allocation targets remained unchanged in the new investment strategy approved for CWPF (invested assets $265 million on June 30, 2010), but the asset sectors within both major asset classes are identical to that approved for DWRF, and the respective target weightings are proportionally similar to DWRF. The new asset allocation strategy approved for CWPF is 40% U.S. TIPS; 39% U.S. Aggregate bonds; 1% cash for its 80% fixed income allocation, and 13% U.S. equity; 7% non-U.S. equity for its 20% equity allocation. The new approved asset allocation targets for both DWRF and CWPF were subsequently achieved in August 2010 when respective transition strategies were implemented by the BWC investment staff and executed by an approved transition manager chosen by the BWC investment staff.

Mercer presented a strategic asset allocation analysis on the Public Work-Relief Employees' Fund (invested assets $25 million on June 30, 2010) and the Marine Industry Fund (invested assets $19 million on June 30, 2010) at the March 2010 Investment Committee meeting for consideration. The Investment Committee and Board of Directors approved the targeted asset allocation recommendations of Mercer and the CIO for both of these specialty funds at their respective meetings. The asset allocations recommended and approved for these two specialty funds resulted in the confirmations of the existing asset allocation targets for both of these specialty funds (99% intermediate bonds, 1% cash) and resulted in no change in investment strategy.

Valuation and performance

Total investment assets at fair value held by the Bureau were $18,971 million on June 30, 2010, an increase of $1,894 million when compared to $17,077 million on June 30, 2009. As stated earlier, the total rate of return on invested assets of the Bureau for the fiscal year 2010 ended June 30, 2010, was 12.0% net of investment management fees. Net investment income reported for fiscal year 2010 was $2,050 million, comprised of $723 million in interest and dividend income ($641 million interest income; $82 million dividend income) plus $1,334 million appreciation in fair value of investments less $7 million in investment expenses, including $5 million in investment manager fees. These investment manager fees represented an average annual fee of less than 3 basis points (3/100 of 1%) of total average month-end value of bond and stock assets managed by outside passive indexed managers for fiscal 2010.

The asset allocation mix of the Bureau investment portfolio at fair value on June 30, 2010, was 70.5% bonds, 27.2% stocks and 2.3% cash and cash equivalents. This asset mix compares to 76.4% bonds, 20.6% stocks and 3% cash and cash equivalents on June 30, 2009. The asset allocation increase in stocks and decrease in bonds at the end of fiscal 2010 compared to fiscal 2009 was largely attributable to the 10% State Insurance Fund asset allocation strategy shift from bonds to non-U.S. stocks implemented during fiscal 2010.

Unlike fiscal year 2009 when both the stock and bond markets were extremely volatile, there were no quarterly portfolio rebalancing events required in fiscal year 2010 prompted by one or more specific bond or stock asset classes falling outside their specific defined asset allocation ownership target range per the investment policy statement. However, there were significant transition-related movements between asset classes during fiscal 2010 that were required to implement and complete the new State Insurance Fund investment strategy. In addition, there was some minor asset class portfolio rebalancing at month-end July 2009 totaling $55 million involving the transfer to the U.S. equity portfolio of cash interest income received from bond portfolios. This activity was directed by the BWC investment staff in support of the increase in the SIF stock portfolio allocation to 30% from 20%.

Portfolio asset redemptions for cash required to fund Bureau operations totaled $71 million in fiscal 2010, involving $50 million for SIF, $19 million for DWRF and $2 million for CWPF. A total of $58 million involved U.S. equity portfolio redemptions with the remaining $13 million obtained from bond portfolio redemptions. Columns D, E, and F of the table provided at the end of this Annual Report summarize the asset class transfer activity occurring over fiscal 2010. These activities are important to highlight because they had a material impact on the respective fair value levels of both bond and equity portfolios over the course of fiscal 2010.

As column D of the referenced table reflects, the major portfolio transition activity involving Bureau asset classes in fiscal 2010 involved obtaining a targeted 10% exposure to non-U.S. equities for SIF that started the fiscal year at 0%. The build up of the SIF Non-U.S. Equity portfolio by the Bureau transition manager occurred over four monthly stages between late-August 2009 and mid-December 2009. The strategy of staging the timing of SIF investments in this new asset class was suggested by the BWC Investment Committee. A total of $1,644 million was directed to the purchase of Non-U.S. Equities and each of the four purchase stages in transition were between $375-435 million in market value at cost. The first two stages were funded largely by the sale of long duration U.S. government bonds and the third stage was funded from the sale of U.S. Treasury inflation protected securities (TIPS). Due to significant appreciation in fair value of the SIF U.S. equity portfolio between the beginning of fiscal 2010 and December 2009 (+18.5% net return fiscal year-to-date through November 2009) whereby U.S. equities were driven near the upper end of their 17%-23% target allocation range, the BWC investment staff utilized the SIF U.S. equity portfolio to fund the last purchase transition stage for non-U.S. equities totaling $425 million in market value at cost.

To summarize these SIF portfolio transition activities, modest portfolio rebalancing asset transfers and operation redemptions, the bond portfolio for fiscal 2010 had net investment outflows of $1,287 million consisting of $873 million from long duration bonds (mostly U.S. government bonds) and $414 million from U.S. TIPS. These bond net outflows were largely redirected toward the purchase of non-U.S. equities, which totaled $1,644 million, with net outflows from the U.S. equity portfolio of $428 million contributing towards an additional $425 million of non-U.S. equity purchases. This asset class flow of funds activities are reflected in the table of this report.

The total fair value of the bond portfolio of the Bureau was $13,381 million on June 30, 2010 compared to $13,050 on June 30, 2009, representing an increase of $331 million. As explained herein, the bond portfolio had net outflows totaling $1,287 million during the 2010 fiscal year period initiated primarily for SIF transition activity. Excluding these significant net redemptions, the bond portfolio had an increase in fair value of $1,618 million for fiscal year 2010. The total rate of return of bonds owned by the Bureau was 13.0% for fiscal year 2010. All bonds owned during fiscal year 2010 were passively managed by two index managers under contract and by Bureau transition management firms during the periods of SIF transitions. These bonds were managed to defined target benchmark indexes by these Bureau investment managers throughout the fiscal year.

The total fair value of $13,381 for the bond portfolio of the Bureau on June 30, 2010, included $3,339 million of U.S. TIPS, with the remaining $10,042 million of bonds owned consisting of a combination of U.S. government Treasuries and agencies, mortgage-backed securities (largely government agency single-family residential loan pools but also some commercial mortgage loan pools as well) and credit bonds (mostly corporates with some taxable municipals, sovereigns and supranationals). The U.S. TIPS portfolio declined in fair value by $117 million in fiscal 2010 from $3,456 million on June 30, 2009. Adjusted for transition activity and modest rebalancings that created net outflows of $414 million from the U.S. TIPS portfolio, the adjusted fair value change of the U.S. TIPS portfolio was a positive $297 million and represented a total rate of return of 9.6% for fiscal 2010.

The remaining bond portfolio, excluding U.S. TIPS, increased in fair value by $448 million in fiscal 2010 from $9,594 million on June 30, 2009, to $10,042 million on June 30, 2010. Adjusted for significant transition net outflows of $860 million and $13 million of net rebalancing outflows, the adjusted fair value change of the non-TIPS bond portfolio of the Bureau was an increase in fair value of $1,321 million for fiscal 2010, which represented a total rate of return of 14.1% for fiscal 2010.

The bond portfolio of the Bureau maintained a high average credit quality of "AA" over the fiscal year 2010 with over 50% of the fair value of bonds held on June 30, 2010 being of "AAA" quality. The weighted average effective duration of the bond portfolio of the Bureau on June 30, 2010 was 8.8 years, based on duration calculations of the Bureau investment accounting vendor as represented in the fiscal 2010-audited financial statement of the Bureau.

The total fair value of the equities portfolio of the Bureau was $5,149 million on June 30, 2010, compared to $3,516 million on June 30, 2009, representing an increase of $1,633 million. As mentioned earlier, the equities portfolio had purchases of $1,644 million for non-U.S. equities, a new asset class for the SIF portfolio targeted at a 10% allocation. Of this $1,644 million of non-U.S. equity purchases, $1,274 million was funded from bond sales and $370 million was funded from U.S. equity sales, as reflected in the table of this report.

The fair value of the U.S. equities portfolio was $3,640 million on June 30, 2010, an increase of $124 million in fair value compared to $3,516 million on June 30, 2009. Since there were total outflows of $428 million from the U.S. equities portfolio for transitions/rebalancings ($370 million) and to fund operations ($58 million), the adjusted fair value increase in the U.S. equities portfolio was $552 million. The U.S. equities portfolio of the Bureau had a total rate of return of 15.0% for fiscal 2010.

As previously mentioned, the non-U.S. equities portfolio was created in fiscal 2010 as a targeted new asset class for the SIF portfolio. A total of $1,644 million at cost was invested in this new asset class over four transition stages between late August and mid-December of 2009. The non-U.S. equities portfolio ended fiscal year 2010 with a fair value of $1,509 million. The total rate of return of the new non-U.S. equity portfolio from the first stage inception date of late August 2009 to fiscal year-end 2010 was a negative 3.4%.

Combining the U.S. equities portfolio and the newly created non-U.S. equities portfolio, the total return of the equities portfolio of the Bureau was 12.3% for fiscal 2010. The adjusted fair value change of the equities portfolio was a positive $417 million for fiscal 2010 after reflecting inflows and outflows from transition activities, rebalancings and operations fundings.

There remained one private equity investment owned by the Bureau during fiscal year 2010 that is being liquidated via its own portfolio sales. A cash distribution of $0.1 million was received by the Bureau from this investment in fiscal year 2010, reducing its carrying value to less than $0.1 million on June 30, 2010. It is doubtful any additional funds will be received from this investment in the future and this investment may be written down to zero value in fiscal 2011.

Total cash and cash equivalents of the Bureau had a fair value of $436 million on June 30, 2010, compared to $504 million on June 30, 2009. The Bureau utilized an institutional U.S. government money market fund offered by its custodian bank throughout fiscal year 2010 to earn interest income on its short-term invested assets. Short-term yields on money market investments remained very low throughout the fiscal year as the Federal Reserve Bank kept the targeted federal funds rate between 0% and 0.25% and had a very accommodative monetary policy with low interest rates to help the U.S. economy to emerge from a severe recession. The total rate of return earned by the Bureau on its cash and cash-equivalent assets was a very low 0.1% for fiscal year 2010.

As referenced throughout this Annual Report, the following table provides a summary of asset class valuations, relevant funds transfer activity largely driven by SIF asset class transitions, and performance returns as stated herein.

Asset Class Fair Value/Performance Summary

Fiscal year ending June 30, 2010

($millions)	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
Asset Class	Fair Value 6/30/10	Fair Value 6/30/09	Actual Fair Value Change	Net From Portfolio Rebalancing/ Transitions	Net For Operations Fundings	Total Inflow/ (Outflow)	Adjusted Fair Value Change	FY 2010 Annual Return
Bonds ex U.S. TIPS	$ 10,042	$ 9,594	$ 448	$ (860)	$ (13)	$ (873)	$ 1,321	+ 14.1%
U.S. TIPS	3,339	3,456	(117)	(414)		(414)	297	9.6%
Total Bonds	13,381	13,050	331	(1,274)	(13)	(1,287)	1,618	13.0%
U.S. Equities	3,640	3,516	124	(370)	(58)	(428)	552	15.0%
Non-U.S. Equities	1,509		1,509	1,644		1,644	(135)	(3.4%)*
Total Public Equities	5,149	3,516	1,633	1,274	(58)	1,216	417	12.3%
Miscellaneous	5	6	(1)				(1)	
Cash & Equivalents	436	504	(68)	0	71	71	(139)	0.1%
Net Change				0	0	0	1,895	12.0%
Total Invested Assets	$18,971	$17,076	$ 1,895					

Column Definitions

C = A minus B

F = D plus E

G = C minus F

Asset Class fair values shown exclude accrued investment income and trade payables/receivables
Amounts rounded to nearest $1 million as reflective in several summations in table

* Return since investment inception of $376 million made in late August 2009

Outcomes and Savings of the Health Partnership Program

Semiannual report

Table of Contents

The Health Partnership Program

The Health Partnership Program (HPP) has been BWC's system for providing managed care services since its implementation in March 1997. BWC publishes this HPP outcomes and savings report every six months. Per law, BWC also presents this report to the Governor, the Speaker of the Ohio House of Representatives and the Ohio Senate President.

BWC's chief of medical services and compliance directs the program. The Medical Services Division coordinates BWC's health-care services through a network of providers and managed care organizations (MCOs).

How HPP works

BWC determines compensability and pays indemnity benefits. It contracts with MCOs to manage the medical component of workers' compensation claims. MCOs educate employers and injured workers on HPP and process *First Report of an Injury, Occupational Disease or Death* (FROI) reports. They also help employers establish transitional/early return-to-work programs. In addition, MCOs process medical bills and make provider payments.

BWC monitors MCO managed care performance. For example, it measures the effectiveness of the MCOs' return-to-work efforts using the Degree of Disability Management (DoDM) measure. BWC also measures MCO FROI timing, FROI data accuracy, bill timing and bill data accuracy. In addition, it publishes most of these measures in an annual *MCO Report Card*, which is available on ohiobwc.com. BWC encourages employers to view this report before selecting an MCO.

There are 18 certified MCOs statewide, which remains unchanged since BWC's last report (July 2010). Recertification of the MCOs pursuant to Ohio Revised Code 4121.44 (B) (2) is under way for the two-year period of 2011 to 2012. Negotiations for the BWC/MCO Agreements to be effective Jan. 1, 2011 are also under way.

Medical Services Division objectives

BWC's goal is to ensure prompt, quality, cost-effective health care for injured workers to facilitate their early, safe and sustained return to work and quality of life. The Medical Services Division coordinates health-care delivery through provider networks and MCOs. It does this by using management, pricing and payment strategies that benefit injured workers and employers, while making sure these benefits are related to the workers' compensation injury(ies).

The Medical Services Division's specific responsibilities are to:

- Develop, maintain and execute quality and cost-effective medical, vocational rehabilitation and pharmaceutical benefits plans and associated fee schedules;
- Develop and support the appropriate managed-care processes, including contract management and training;
- Establish and maintain a quality pool of medical and vocational service providers to

make certain injured workers have access to quality, cost-effective and timely care;
- Evaluate and process medical bills, guaranteeing proper and timely payment consistent with benefits plan criteria.

In March 2009, Deloitte Consulting LLP completed its comprehensive review of BWC's workers' compensation program. As part of that review, Deloitte studied:

- MCO effectiveness (Report 2.6);
- BWC's current medical bill-payment processes (Report 2.3);
- The vocational rehabilitation program (Report 4.1).

The Medical Services Division has evaluated the Deloitte comprehensive analysis and its recommendations for implementation. The division will ensure alignment of these recommendations with existing divisional and BWC enterprise goals. The division has made progress on many of the recommendations. Included in this report are updates on the status of the following recommendations from Report 2.6 (MCO effectiveness):

- Update BWC's fee schedule every one to two years;
- Develop provider compliance measures;
- Replacement of the MCO outcome measure DoDM;
- BWC's initiative to analyze claims cost drivers and improve management to address these issues;
- Initiatives implemented to reduce processing delays identified by Deloitte.

The division continues to review the following recommendations from Deloitte Report 2.3 (medical bill-payment processes) as BWC evaluates its current information systems. The Deloitte recommendations include the following:

- Address duplication of medical payment processes;
- Standardize bill review edits;
- Explore elimination of MCO medical bill review;
- Develop an electronic method for the submission of treatment authorization requests.

BWC will address these recommendations through system changes and/or a request for proposal for vendor services.

Benefits plan design

For injured workers to have access to high-quality medical care, BWC must have appropriate benefits plans and terms of service in place, and offer competitive fee schedules to enhance the medical provider network. BWC has markedly improved its medical, vocational rehabilitation and pharmaceutical services offerings by revising benefits plans and their corresponding fee schedules. The Medical Services Division has instituted annual reviews for updates as appropriate. A summary of the fee schedule updates in place or planned for fiscal year 2011 is on the next page.

Fee schedule updates in place or planned for fiscal year 2011

Fee schedule	Effective date	Update summary
Medical providers and services: Covers all medical providers and medical services not covered by any of the other schedules	Oct. 25, 2010	Update to Medicare's 2010 RVUs, adding new benefit service codes, and other refinements as needed to the Nov. 1, 2009, fee schedule
Hospital outpatient: Covers facilities for outpatient services	Proposed: Jan. 1, 2011	Begin the three-year implementation of the OPPS/ APC prospective reimbursement methodology
Medical providers and services: Emergency rule to incorporate new service codes	Proposed: Jan. 1, 2011	Update to add new CPT and HCPCS codes that are effective nationally as of Jan. 1, 2011
Hospital inpatient: Covers facilities for inpatient services	Proposed: Feb. 1, 2011	Update the Medicare Severity — Diagnosis Related Grouping to the 2011 federal fiscal-year values and update the payment for Medicare exempt providers to the 2009 cost-to-charge ratios
Hospital outpatient: Covers facilities for outpatient services	Proposed: April 1, 2011	Update to implement the 2011 Medicare annual OPPS updates
Ambulatory surgical centers (ASC): Covers surgical procedures not requiring inpatient hospitalization	Proposed: April 1, 2011	Update ASC payment rates to the 2011 ASC PPS Medicare rates and the payment adjustment factors used in calculating Ohio rates
Vocational rehabilitation services: Covers all vocational rehabilitation services	Proposed: May 2011	Update rates and add new custom service codes as needed

The Oct. 25, 2010, medical providers and services fee schedule update included changes to align units of service maxima with industry standards. For services where no industry standards exist, units of service maxima have been set based on Medical Policy analysis of 1) coding guidelines and 2) historical utilization levels. The Oct. 25 fee schedule also included changes to coverage indicators. This change established a new category for services that workers' compensation never covers. The above efforts are part of BWC initiatives to standardize pricing and billing in response to Deloitte's findings in report 2.6. They serve to enhance automated controls and to ensure pricing and payment accuracy.

The Medical Services Division is completing its implementation of the Ambulatory Procedure Classification (APC) reimbursement methodology for outpatient hospital services. The new methodology will move BWC from the current retrospective reimbursement methodology to a prospective methodology. A prospective methodology establishes rates and policies in advance of the effective period. Rates will remain constant during the effective period. There are several impacts or benefits from a prospective system, including the following:

- Promotes predictability of payments;
- Promotes equity and consistency of payments;
- Better controls rate increases from year to year, which better enables projections of financial impacts of changes;
- Encourages facilities to improve efficiency in providing care.

The rule supporting implementation of this methodology has been filed with an effective date of Jan. 1, 2011.

The Medical Services Division is preparing to implement additional clinical edits to ensure compliance with benefits plan structure and reimbursement limits. The division estimates that clinical edits implemented in October 2008 helped BWC avoid nearly $2.9 million in incorrect reimbursements.

BWC has also implemented a contract with a recovery vendor who will retrospectively review inpatient bills identified by BWC and recover any identified overpayments. This vendor also recovers overpayments identified by hospitals.

The division has also participated in the implementation of changes to support compliance with Medicare's secondary payer requirements. This effort includes changes in the data collected with each claim, especially ICD-9-CM E-codes that describe the cause of a claim. Additionally, BWC has begun to plan for increased subrogation by Medicare. The division has requested that CMS consider an electronic subrogation process so that BWC can avoid cumbersome and costly manual entry of information about subrogation cases.

The pharmacy unit continues to work with BWC's Pharmacy and Therapeutics (P&T) Committee to develop a formulary to be the basis for a revised outpatient medication benefits plan. The pharmacy unit will base the initial list of drugs included in the formulary on BWC's historic usage from the past three years. It expects the formulary to include 299 drug classes and approximately 3,000 individual pharmaceuticals.

As part of the development of this formulary, the pharmacy unit is looking at coverage changes for three drug classes: muscle relaxants, proton pump inhibitors and narcotics used to treat addiction. It plans to implement these changes via the rule-making process, with targeted implementation in the first half of 2011.

The pharmacy unit is working with a consultant to determine how to structure the pharmacy fee schedule as other pricing components replace the average wholesale price, the industry-wide basis for brand-name drug pricing.

Additionally, BWC partnered with The Ohio State University (OSU) to conduct a study on opioid use by Ohio's injured workers during fiscal years 2008 and 2009. Titled "A Retrospective Analysis of Narcotics Utilization Patterns by Injured Workers in Ohio," the study identified the following:

- The overall opioid use by injured workers, proportion of high-dose usage;
- The impact of opioid use during the study period.

The initial phase of the study found that approximately 13.6 percent of the claims examined (or 78,550) showed opioid use. Of those injured workers using opiods, 5,498 had a daily methadone equivalent dose (MED) of 120 milligrams or more. This level warrants caution when there are no function or pain-relief improvements.

The second phase of the study will continue to analyze the data to determine the most effective treatment options.

Managed care processes

Consistent with a Deloitte recommendation relating to MCO effectiveness (Report 2.6), the division continues to work collaboratively with the MCOs on the creation of a new MCO outcome measure to replace the current DoDM measure.

Also consistent with the comprehensive study's recommendation (Report 2.6), BWC has implemented a number of processes designed to reduce bottlenecks in the treatment authorization process. These include:

- More effective proactive allowance process intended to expedite effective medical treatment and reduce the adversarial nature of the allowance process;
- Extension of the period that claims remain in active status to reduce unnecessary delays to appropriate treatment;
- Institution of a health services quality improvement unit to do quality reviews of MCO treatment authorization decisions and other managed care processes.

BWC and the MCOs continue to participate in the integrated account service delivery model (IASDM) workgroup. The workgroup intends to reduce frequency of long-term disability claims by ensuring availability of key resources at appropriate points in the claim life cycle. The workgroup has identified variables relative to specific claim, injured worker, employer and service provider characteristics, which can drive long-term disability. A statistican is validating the group's analysis.

Medical providers

The Medical Services Division is replacing the agency's provider enrollment system. The system maintains provider demographic information, certification, credentialing and billing-support services (a shared goal with BWC s Infrastructure & Technology Division). The divisions will complete full system installation and refinement in 2011.

The division continues to work on a provider penetration analysis to determine access-to-care levels. This will offer direction in BWC s provider recruitment and retention efforts. Further, it will continue provider outreach and educational programs intended to eliminate unnecessary barriers for participating providers. Finally, the division will continue its efforts to create provider performance measures that will improve the quality of care for our injured workers.

In the area of provider recruitment and outreach, the division has:

- Worked closely with the Ohio Dental Association to increase the availability of dental providers;
- Organized a public forum for vocational rehabilitation providers to present issues and recommendations to the BWC Board of Directors;
- Worked with the Ohio Hospital Association in the implementation of the new outpatient pricing methodology. This work has included both discussions on reimbursement levels and sharing results of testing with OHA member hospitals.

In the area of performance measure development, BWC continues to work with the Ohio Department of Administrative Services and labor unions on provider performance measures for selected claims. The division has calculated initial measurements and will share them with providers and stakeholders. These measures will not impact provider participation in the program before February 2011.

The section on the next page presents selected measurements of the HPP's impact during the last six fiscal years.

Selected HPP measurements

All dollar amounts are shown in 1,000s.
The figures below are limited to the HPP.
Please note that previous reports showed measures for six-month periods.

Measurement	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Active employers (1)	252,604	252,437	248,282	238,482	233,105	229,765
Active claims (2)	379,361	355,451	326,039	301,128	275,579	245,634
FROI timing (3)	19.24	17.47	16.50	16.55	17.28	17.40
% of FROIs filed within seven days of date of injury (4)	68.05%	72.48%	73.50%	74.33%	73.83%	74.47%
% of claims determined within 14 days of date of injury (5)	64.04%	67.82%	69.36%	69.72%	73.10%	73.41%
Bill timing (6)	88.61	82.67	81.26	84.01	82.88	79.21
LDOS–MCO	73.25	67.07	65.86	68.17	68.03	64.31
MCO–BWC	6.23	6.52	6.29	6.60	5.60	5.76
BWC–MCO	7.19	7.13	7.16	7.29	7.30	7.20
MCO–Provider	1.95	1.95	1.95	1.95	1.95	1.95
Total regular medical payments (7)	870,344	818,350	762,190	812,730	805,856	774,939
Payments for file reviews and IMEs (8)	20,666	22,861	23,372	23,102	23,285	22,275
MCO fees (9)	170,989	172,822	173,139	168,327	161,317	165,187
Total medical payments plus MCO fees	1,061,998	1,014,034	958,700	1,004,159	990,458	962,401
Total indemnity payments (10)	1,070,958	1,073,394	1,142,542	1,208,793	1,115,083	1,071,508
Grand total (11) Benefits paid (Total medical payments plus MCO fees plus total indemnity payments)	2,112,291	2,064,566	2,077,871	2,189,850	2,082,256	2,011,634

(1) Average number of employers in an active, reinstated or debtor in possession status assigned to an MCO during the time frames noted

(2) Average number of active claims (claims with a payment or application submitted to us within the last 13 months) assigned to an MCO during the periods noted

(3) Average time, in calendar days, from date of injury to date BWC received a FROI for all FROIs received during the periods noted for claims assigned to an MCO

(4) Percent of claims assigned to an MCO where BWC receipt of the FROI is within seven calendar days from the date of injury where FROI was received during the time frames noted

(5) Percent of claims assigned to an MCO determined within 14 days of the date of injury where the determination was during the periods indicated regardless of date of injury or filing date. BWC considers a claim determined when we place it in Allow/Appeal or Disallow/Appeal status.

(6) Average time, in calendar days, between the last date of service being billed (LDOS) to a check being issued to the provider for bills processed by the MCOs. This does not include bills for prescription drugs processed through BWC's pharmacy benefits manager. It is further broken down into the component steps of the process:

- LDOS–MCO: LDOS to MCO receipt;
- MCO-BWC: MCO receipt (for review and payment determination) to BWC receipt;
- BWC-MCO: BWC receipt (for review and final payment determination) to date monies are deposited into the MCO's provider account;
- MCO-Provider: MCO receipt of the final payment information and monies to the MCO issuing the check to the provider.

The MCO-Provider information is based on a desk audit of the MCOs' check issuance timing finalized in late 2009.

(7) Payments for medical services made on claims assigned to an MCO during the time frames noted. Amounts include payments on claims associated with bankrupt self-insured claims assigned to the MCOs and payments for prescription drugs processed through BWC's pharmacy benefits manager. Regular denotes that this category includes payments for physicians, hospitals, therapies, diagnostic testing, etc. It excludes payments made for file reviews and independent medical examinations (IMEs) requested to facilitate administrative decisions in the claim.

(8) Payments made for file reviews and IMEs during the periods noted that are requested to facilitate administrative decisions in the claim. We have expanded the procedure codes included in this category. The numbers for all fiscal years reported reflect the updated list of codes.

(9) Payments issued to the MCOs during the time frames noted, per the MCO Agreement for their services. BWC bases MCO contracts on calendar years. Fluctuations in the amounts paid to the MCOs between fiscal years are attributable to several factors, including:

Changes in the overall amount available to the MCOs from year to year;

Timing of different types of payments (administrative payments are monthly, outcome payments are quarterly, and in the past, we made exceptional performance payments annually);

Change in 2008 where BWC pre-paid MCOs a portion of their outcome payment throughout the quarter;

BWC made some payments after the end of the contract. For example, the agency made the 2005 exceptional performance payment in February 2006.

(10) Payments for salary compensation made on claims assigned to an MCO during the periods noted. This includes payments for temporary total, living maintenance, wage loss, lump sum settlements, etc. Amounts include payments on claims associated with bankrupt self-insured claims assigned to the MCOs.

(11) Excludes payments for file reviews and IMEs as these are not benefits paid to or on behalf of an injured worker but are conducted to facilitate administrative decisions in the claim

Industrial Commission of Ohio Annual 2010 Report

Letter from the Chairman

A Year of Efficiency and Expenditure Evaluation

During fiscal year 2010, the Industrial Commission of Ohio (IC) closely examined all aspects of Agency operations to identify ways to cut costs while improving customer service and intra-agency efficiency. During the past decade, we have implemented cutting edge technologies that have progressively enabled us do more with less. As a result, there has been more than a 25% reduction in IC personnel accomplished through attrition. Yet, injured workers and employers are receiving faster service using less money and less labor.

I am proud to report that the IC excelled in the following areas during fiscal year 2010:

- Consolidated district offices resulting in a savings of more than $14.6 million over the next 10 years;
- Launched video hearings, which will save more than $1.57 million over the next 10 years;
- Implemented telephone interpreting services, which will save more than $81,000 annually;
- Consolidated office space in our Dayton office, which will save $78,800 annually;
- Distributed the first paperless *Adjudicator* (our external newsletter), which will save thousands of dollars in printing and mailing costs each year;
- Maintained a high success and compliance rate in adjudicating claims well within the statutorily imposed time frames;
- Created three employee work pools that distribute work production across the state for more efficient customer service;
- Conducted a Kaizen event with outside parties to develop procedural changes designed to improve our continuance and docketing process.

During this fiscal year, the IC also welcomed a new Commissioner and instituted a marketing plan aimed at elevating the Agency's image and brand. Next fiscal year, we will ensure all parties receive prompt and fair hearings on disputed workers' compensation claims as we continue to maximize efficiency while minimizing expenditures. For the IC, constant analysis and bold action are two critical keys to world-class customer service.

Sincerely,

Gary M. DiCeglio
Chairman of the Ohio Industrial Commission

Timely, Impartial Resolution of Workers' Compensation Appeals

This brand new slogan summarizes our mission: to serve injured workers and Ohio employers by expeditiously and impartially resolving issues arising from workers' compensation claims and through establishment of adjudication policy.

Since 1912, the IC has been resolving issues between parties who have a dispute in a workers' compensation claim. The fact that most IC hearings take place within 45 days of the original claim appeal demonstrates our timeliness. We rule impartially because the IC and BWC are separate agencies. We provide a forum for appealing BWC and self-insured employer decisions. In fiscal year 2010, we conducted 163,574 hearings.

Throughout the appeals process, we offer information and resources to assist parties, including a customer service phone line, interpretive services and assorted Web services.

The IC conducts hearings on disputed claims at three levels: the district level, the staff level and the Commission level. The Governor appoints the three-member Commission and the Ohio Senate confirms these appointments. By previous vocation, employment or affiliation, one member must represent employees, one must represent employers and one must represent the public. This fiscal year, Chairperson Gary M. DiCeglio represented the interests of injured workers; Kevin R. Abrams represented the public; and Jodie M. Taylor represented employers.

A homecoming for our newest commissioner

The IC welcomed Jodie M. Taylor back to the Agency as its newest Commissioner at the beginning of the fiscal year. It was a homecoming for Commissioner Taylor since she had formerly worked at the IC as an assistant to a former Commissioner. Governor Ted Strickland appointed Taylor to replace Commissioner Bill Thompson as the employer member of the Commission. Her term ends in June 2015.

Taylor brings an abundance of legal knowledge from both the private and public sector to the Agency. She began her legal career as an attorney with an Akron law firm, where she represented injured workers before the IC. She then worked at the IC from 1997 to 2000. Her next career stop was as an attorney for two Columbus law firms, where she represented state-fund and self-insured employers at all levels of IC hearings throughout Ohio.

Fiscal Year Highlights

In addition to the Commissioners, there are 96 hearing officers — all attorneys — in five regional and seven district offices throughout the state. Deputies and Commissioners also hold hearings.

This year, we consistently achieved a high success rate in adjudicating claims well within the periods mandated by law. From filing date to hearing date, district level (first level) hearings averaged 31 days. Staff level (second level) hearing appeals averaged 28 days. Both averages are well below the 45 days mandated by law.

The statistics of filing date to mailing date were just as favorable. For the district level, filing date to mailing date was 34 days on average. For the staff level, it averaged 31 days.

We attribute our continued success, in part, to technological advances that have made it easier than ever to file appeals on the Web via the IC's Online Network (ICON). There were 65,919 first-level motions and appeals filed and 68,875 second-level or above appeals filed on ICON during the fiscal year. That marks a decrease of 1 percent from last year's online filings at both levels.

Ask IC is another technological tool that has helped speed up our response to customer inquiries. Ask IC is an e-mail feature of our Web site, www.ohioic.com. The feature gives injured workers, employers and their representatives the opportunity to submit questions to our customer service department.

This fiscal year, customer service received and responded to 671 Ask IC submissions. The department also scheduled 889 interpreters for injured worker hearings. In addition, our toll-free customer service line received 5,437 calls this fiscal year. In person, staff assisted 4,364 people at our Columbus office.

As a whole, the volume of phone and in-person customer service inquiries decreased by more than 20 percent from last fiscal year. We believe the decline is in part due to the launch of the new www.ohioic.com last fiscal year. Our new user-friendly site provides customers with more information about the Agency than ever before.

Key Customer Service Initiatives

This fiscal year, the IC reached out to our customers like never before. From a Kaizen event to in-person surveys, the Agency is aggressively striving for excellence in customer service, cost containment and efficiency.

Kaizen cultivates process improvements

A panel of IC employees, BWC and outside representatives worked together in January 2010 to devise solutions to improve the IC's continuance and docketing processes. After a week of intense discussion, the group provided numerous suggestions that we are now implementing.

The group's solutions include:

- Developing a process to provide a waiver prior to docketing for complex cases;
- Revising the IC Block Policy;
- Making changes to the automated docketing system schedule to generate a larger pool of claims to pull from;
- Providing further clarification and standardization of the IC continuance guidelines.

We later held training sessions to communicate the modifications to customers and outlined a timeline for how we will pursue the changes.

Now that the Kaizen – which is Japanese for "to break for the better" – event is complete, the solutions derived by the Kaizen team may be viewed at www.ohioic.com.

Small change is a big timesaver

Another procedural change — issuing a letter instead of an Interlocutory Order — that began May 13, 2010, will shave up to 14 days off the Commission level appeal process.
Parties that have filed third level appeals to the IC now receive a "Notice of Acceptance of Appeal for Hearing" letter instead of an Interlocutory Order in claims where the Commission has accepted an appeal for hearing. Because of this process change, parties receive earlier notification since they no longer have to wait to receive an Interlocutory Order. It also reduces the time needed to schedule a Commission level hearing.

The notification states whether the Commissioners or a deputy of the Commission will hear the appeal. Parties receive the same information in the Notice of Acceptance of Appeal for Hearing as they did in the Interlocutory Order. We will continue to properly notify parties to the claim of the time and place of hearing.

Work pools make a splash

Continuing our quest for the most efficient operational methods, the IC developed various employee pools to improve our service. In fiscal year 2010, we introduced a customer service pool, word processing pool and claims examiner pool. We initiated all of these pools in 2009 to distribute work production across the state, allowing more efficient

In the past, word processing staff in one IC office would type the orders of hearing officers in the same IC office. Now, through use of the IC's computer network, hearing officers can dictate an order into their computer and word processing staff anywhere in the state may type up that order. This initiative will allow the IC to save money by not having to fill vacant word processor positions.

The customer service pool came into being when a vacancy arose in our customer service department. Instead of hiring a new customer service associate (CSA), staff members arranged the transfer of calls from Columbus to the Dayton office. CSAs in Dayton assumed the extra workload to make up for the vacancy in the Columbus office. In this case, the pool created a more efficient way of doing business and prevented layoffs.

The customer service and word processing pools were so successful that the Agency decided to go a step further and develop a claims examining pool.

IC hearing officers can attest to how differently a claim is prepared for hearing, dependent upon location. These differences impact the quality and consistency of the product delivered to our hearing officers, injured workers, employers and their representatives.

The goal of the claims examiner pool was very complex: standardize the claims examining procedures for the IC to provide a better and more consistent process for their use. The group developed numerous recommendations that the Agency later implemented.

IC an image elevated

In an effort to educate customers about the function, fairness, efficiency and accomplishments of the IC, the communications department implemented the IC's first marketing plan in 2010.

Using this aggressive plan, communications staff members sought out more customer input than ever before and actively generated and disseminated positive articles about the IC to the public. In addition, one of the plan's main objectives is to provide a clear, favorable definition of the Agency to those who are not familiar with our services.

Best of all, we are funding this image elevation and rebranding initiative through our established communications department budget, using staff already in place. In fiscal year 2010, we have reached out using the following tools:

- In-person and electronic surveys;
- Satellite office visits for in-person feedback;
- Customer comment cards;
- An informative, paperless *Adjudicator* (our external newsletter);
- Educational call center hold messages;
- A new Agency comprehensive guidebook;
- Up-to-date, frequent and timely Internet articles;
- Single-page, easily printable and updateable fact sheets replaced printed, folded brochures to eliminate waste and save thousands of dollars annually.

Cost Saving Initiatives

On the move to better serve you

After several office consolidations in fiscal year 2009, we continued this cost saving trend in FY 2010. We consolidated our Bridgeport and Zanesville offices into a new location in Cambridge, Ohio. The consolidation resulted in the closure of the IC's Bridgeport and Zanesville offices in August 2009. During the next 10 years, the total cost savings for the consolidation of the Bridgeport and Zanesville offices to Cambridge will be $3.3 million. Moving to Cambridge also allowed us to reduce our total office space by more than 3,000 square feet, saving more than $800,000 in rent alone over the next 10 years.

Four months after consolidating the Zanesville and Bridgeport IC offices, we consolidated our Hamilton and Cincinnati offices. The consolidation resulted in the closure of the IC's Hamilton office in November 2009. During the next 10 years, the total cost savings for the consolidation of the Hamilton and Cincinnati offices will be $3.2 million.

These consolidations eliminated current service and operational redundancies and reduced office lease expenses, payroll costs, travel expenses and costs for security.

As part of the IC's dedication to cost reduction and improving customer service, the Dayton regional office moved to a new location in March 2010. It's now located at 1242 E. Dayton Yellow Springs Road, Dayton, Ohio, 45324-6326.

This relocation reduced the amount of space occupied by the Agency by 1,955 square feet. In FY 2010 alone, the change of address resulted in a savings of $70,400. During the next 10 years, the total cost savings for the Dayton relocation will equal $704,000.

Tele-interpreters translate into improved efficiency

In July 2010, the IC implemented telephone- interpreting services as part of a groundbreaking initiative that will save the Agency tens of thousands of dollars annually.

Using telephone-interpreting services for most IC hearings will save the Agency an estimated $81,667 per year. We will now schedule tele-interpreters for all IC hearings, except in deaf services cases, depositions, and Commission level hearings.

The IC began a pilot tele-interpreting program one year ago. We realized such significant savings and efficiencies that we decided to make the program permanent.

There is a major cost difference between the unit cost per minute of service for on-site versus telephone interpreting services. On-site interpreters cost an estimated $3.08 per minute, while the Language Line telephone-interpreting service charges $1.49 per minute. On-site interpreters also charge for travel time to and from our offices, and may charge for canceled or continued hearings. Language Line does not charge these fees.

Language Line has offices nationwide and interpreters available 24/7. Benefits of telephone interpreting services include:

- Hearing cancellations due to bad weather decreased since interpreters will no longer have to travel to other offices;
- Hearing cancellations due to the interpreter not showing up decreased because Language Line can tell the caller right away if they do not have an interpreter who speaks a specific language. This allows us to make other arrangements. Previously, the IC would have to wait two to three days to find out if a specific on-site interpreter will be available;
- The cost is in real time for Language Line services — we only pay for the time the interpreter is on the phone. We paid on-site interpreters for their wait time, mileage and interpreting time.

For each hearing, the hearing officer simply dials up Language Line and tells a staff member the language needed. He or she then enters a password and claim number. Once the interpreter is on the line, the hearing begins. Billing occurs via the claim number and the number of minutes used.

Savings brought to you by video hearings

One month before we implemented telephone interpreting services, we launched video hearings. This cost saving initiative will save $157,000 annually in Ohio workers' compensation premiums.

A video hearing is the same as a regular IC hearing with one exception: instead of the hearing officer being in the room, there is a video monitor. The hearing officer can still see and hear everything that takes place in the hearing room.

We conducted the first video hearings between the Portsmouth and Columbus IC offices on June 24, 2010.

During the next 10 years, the use of video hearings in place of hearing officer travel will save the IC more than $1.57 million in travel expenses.

Besides the substantial cost savings, there are many other benefits of video hearings:

- Reduced state car use, allowing the IC to move state cars to areas with a greater need;
- Allows hearings officers in one IC office to handle hearings for another office. This will spread the workload evenly and allow for quick docket re-assignments due to hearing officer illnesses or emergencies;
- A docket could list hearings for one location per day, or hearings could be conducted for multiple locations in a workday;
- Productivity will increase because hearings may be held during the time that hearing officers would have spent traveling;
- Hearing cancellations due to bad weather will decrease since hearing officers will no longer have to travel to other offices.

Paperless *Adjudicator* is priceless

Thousands of subscribers received the first paperless *Adjudicator* newsletter in their e-mail inboxes in January 2010 in a launch that was both convenient for customers and cost-effective for the IC.

In fiscal year 2010, the IC decided to start delivering the annual publication exclusively via e-mail to save the state thousands of dollars in printing and mailing costs each year. We asked customers to submit their e-mail address to our database through our Web site and hundreds immediately responded.

The *Adjudicator* provides news about the IC, Supreme Court case updates and information about new and amended *Hearing Officer Manual* policies. The IC's communications department produces it and releases the publication each January.