

BWC Board of Directors
Audit Committee Agenda

William Green Building
Thursday, July 28, 2011

Level 2, Room 3
2:00 PM - 3:30 PM

Call to Order

Ken Haffey, Committee Chair

Roll Call

Jill Whitworth, Scribe

Approve Minutes of June 15, 2011 meeting

Ken Haffey, Committee Chair

Approve Agenda

Ken Haffey, Committee Chair

New Business/ Action Items

1. FY 2010 3rd Quarter Executive Summary
Keith Elliott, Interim Chief of Internal Audit

2. Overview of Fraud Investigations
Tom Wersell, Director, Special Investigation

Motions for Board Consideration

1. For First Reading
 - A. FY 2012 Financial Projections
Tracy Valentino, Chief of Fiscal and Planning

Discussion Items*

1. Open Discussion with Internal Auditor
Keith Elliott, Interim Chief of Internal Audit
2. External Audit Update
Tracy Valentino, Chief of Fiscal and Planning
3. Committee Calendar
Ken Haffey, Committee Chair
4. Quarterly Litigation Update (Executive Session)
Jason Rafeld, General Counsel
5. OBM Office of Internal Audit IT Audit Update (Executive Session)
Joe Bell, OBM Chief Audit Executive
Naresh Vadrevu, IT Audit Chief

Adjourn

Ken Haffey, Committee Chair

Next Meeting: Thursday, August 25, 2011

*Not all agenda items have material. ** Agenda subject to change.

**BWC Board of Directors
Audit Committee**

FY 11 3rd Quarter Executive Summary Report

July 28, 2011

Keith Elliott, Interim Chief of Internal Audit
Karl Zarins, Internal Audit Director

To: Audit Committee Members
From: Keith Elliott, Internal Audit Manager
Date: July 28, 2011

Fiscal Year 2011 3rd Quarter Executive Summary Report

Following you will find the Fiscal Year (FY) 2011 3rd Quarter Executive Summary (QES) Report containing:

1. Audit Comment Status
 - 1a. Audit Comments Issued 3rd Quarter
 - 1b. Charts and Summary Statistics
 - 1c. Audit Comments Outstanding as of March 31, 2011
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
Audit Comments Issued – 3rd Quarter Activity

Employer Refunds Audit – March 2011

As part of the FY 2011 Internal Audit Plan, the BWC Internal Audit Division (IAD) conducted an audit of the Employer Refunds process. The scope of the audit included an examination of procedures and controls over the process and detailed testing of refunds posted during FY 2010. The audit results indicate an overall process that is well controlled and accurate. One area of minor significance was identified that management should address in which controls and/or policies/procedures could be improved and strengthened.

FY11 Managed Care Organization (MCO) Audit #2 – March 2011

This audit focused primarily on the evaluation of internal controls and compliance with contractually required policies and procedures established by BWC. The audit scope consisted of payment transactions completed between November 2009 and October 2010. The audit included a review of the following:

- Evaluated internal control design and whether controls were placed in operation
- Assessed compliance with contract requirements and policy established by BWC
 - Areas of focus included:
 - Case management;
 - Provider account controls and accuracy;
 - Bill processing; and
 - Resolution of prior audit recommendations (BWC issues, SAS 70 audit findings, external auditor issues).

Recommendation		Disposition
1	Expand the existing Quality Improvement (QI) program to include an evaluation of the treatment authorization decisions made by Case Managers. Rating: Significant Weakness	To augment existing controls, the MCO is in the process of establishing a Utilization Management Department to ensure consistency, effectiveness, and quality of all treatment request decisions. The MCO also plans to expand the QI program. Target Resolution Date: May 2011 Current Resolution Status: In Process
2	Develop and implement a QI program for Vocational Rehabilitation services. Rating: Significant Weakness	The MCO is expanding the QI program to include Vocational Rehabilitation. In addition, the MCO will begin a quality review on voc rehab files closed for at least 60 days or greater, which will measure estimated costs of plan services against actual costs incurred. Target Resolution Date: July 2011 Current Resolution Status: In Process
3	Modify the MCO billing system to eliminate the necessity of cutting negative checks for providers with	The MCO is in the process of developing a billing system enhancement which will take a significant amount of time and

Recommendation		Disposition
	overpayments. Rating: Significant Weakness	resources. Target Resolution Date: October 2011 Current Resolution Status: In Process
4	Take steps to provide assurance that confidential and private information pertaining to the medical service providers is protected from unauthorized access by performing quality assurance reviews to monitor compliance. Rating: Significant Weakness	The MCO revised the current process due to BWC findings. Current Resolution Status: Implemented
5	Take steps to provide assurance that proposed Vocational Rehabilitation plan services are reviewed for appropriateness and compliance with maximum caps. Rating: Significant Weakness	The MCO will begin a quality review on voc rehab files closed for at least 60 days or greater. The review will measure estimated costs of plan services against actual costs incurred. Target Resolution Date: July 2011 Current Resolution Status: In Process

Auditor Opinion

Overall, internal controls for the MCO audit were effectively designed for the provider account controls and bill payment timeliness. However, the audit did identify areas in which controls should be improved which included case management, C-9 processing, and Vocational Rehabilitation costs.

Compliance and Performance Monitoring (CPM) Department Audit – March 2011

This audit evaluated operations in place from July 2009 through June 2010. IAD evaluated controls, governance processes and practices for a portion of CPM's routine reviews (MCO Onsite Reviews and Retrospective Hospital Reviews) to determine if there is reasonable assurance that the following process objectives are achieved:

- CPM reviews material risks to the Medical Services Division;
- The scope of the MCO audit universe covers material contract provisions;
- Compliance review procedures are adequate to meet review objectives;
- CPM reporting is timely, accurate, and complete; and
- CPM follow-up activities are sufficient to ensure corrective action has been taken.

Recommendation		Disposition
1	Design and implement controls to ensure statements in Compliance Analysis Reports (CARs) are accurate, complete, and supported by working papers that document testing procedures and results. Supervisor reviews should be documented in all working papers and CARs. Rating: Significant Weakness	Policies and procedures for the department will be updated to include the requirements for maintaining work papers that document evidence of testing procedures, testing results, conclusions and supervisory review. Responsible: Chief of Medical Services and Compliance Target Resolution Date: July 2011 Current Resolution Status: In Process

Recommendation		Disposition
2	<p>Perform a comprehensive risk assessment to select types of reviews and a separate risk assessment to select engagement scope and procedures. Document how the comprehensive risk assessment drives review and procedure selection and include the rationale for deviations from the priorities defined by the risk assessment.</p> <p>Rating: Significant Weakness</p>	<p>CPM will consolidate the results of the individual risk assessments into one overall assessment and document the selection process and any deviations.</p> <p>Responsible: Chief of Medical Services and Compliance</p> <p>Target Resolution Date: June 2011</p> <p>Current Resolution Status: In Process</p>
3	<p>Design and implement controls to ensure final CARs are issued timely after receiving responses to draft CARs.</p> <p>Rating: Significant Weakness</p>	<p>CPM will monitor the process of reviewing all MCO responses and supporting documentation before issuing final CARs more closely in an attempt to reduce or eliminate barriers that prevent timely issuance of final reports.</p> <p>Responsible: Chief of Medical Services and Compliance</p> <p>Target Resolution Date: June 2011</p> <p>Current Resolution Status: In Process</p>
4	<p>Develop and implement a policy that defines the compliance issues that require follow-up activities and describes the nature and timing of those activities based on the significance of findings.</p> <p>Rating: Significant Weakness</p>	<p>CPM will create a policy to address follow-up of compliance review findings. This policy will include criteria for CPM staff to determine which findings require follow-up and the timetable for initiating follow-up.</p> <p>Responsible: Chief of Medical Services and Compliance</p> <p>Target Resolution Date: February 2011</p> <p>Current Resolution Status: In Process</p>

Auditor Opinion

Overall, there are opportunities for CPM to improve its processes. Areas for improvement include the following: identifying and documenting risks to the Medical Services Division in order to select review engagements; documenting supervisory reviews of CARs and related working papers; issuing CARs timely; and improving policies that define compliance issues that require follow-up to ensure corrective action takes place. The audit identified five minor recommendations for management's consideration.

New Investment Accounts Funding Process Audit – March 2011

The purpose of this review was to evaluate the design and implementation of controls for transitioning investment assets to new accounts. The audit reviewed activities surrounding new investment accounts opened between January 1, 2009 and December 31, 2010. Our review did not note material incidents of non-compliance with policy or statute. However, this review did note two opportunities of minor significance to improve policies and procedures. These issues did not compromise management's ability to meet process objectives.

FY11 MCO Audit #3 – May 2011

This audit focused primarily on the evaluation of internal controls and compliance with contractually required policies and procedures established by BWC. The audit scope consisted of payment transactions completed between December 2009 and November 2010. The audit included a review of the following:

- Evaluated internal control design and whether controls were placed in operation
- Assessed compliance with contract requirements and policy established by BWC
 - Areas of focus included:
 - Case management;
 - Provider account controls and accuracy;
 - Bill processing; and
 - Resolution of prior audit recommendations (BWC issues, SAS 70 audit findings, external auditor issues).

Recommendation		Disposition
1	Take steps to ensure that billing errors noted during the zero balancing reconciliations are resolved in a timely fashion. Rating: Significant Weakness	The MCO is in the process of training another Adjustment Coordinator to assist with the increased number of tasks required of MCOs in order to obtain better response time on tasks. Target Resolution Date: August 2011 Current Resolution Status: In Process
2	Improve controls over vocational rehabilitation costs to ensure the reasonableness, appropriateness and cost effectiveness of provider estimates for services to be performed and the reasonableness of actual costs incurred in plans. Rating: Significant Weakness	The MCO is proposing a three-step action plan to improve controls over vocational rehabilitation costs to ensure the reasonableness, appropriateness and cost effectiveness of provider estimates for vocational rehabilitation services. Target Resolution Date: September 2011 Current Resolution Status: In Process
3	Improve controls over vocational rehabilitation services to provide additional assurance that proposed plan services are reviewed for appropriateness of the requested services. Rating: Significant Weakness	The MCO is proposing an establishment of policy and procedures to improve controls over vocational rehabilitation services to provide additional assurance that the proposed plan services are reviewed for appropriateness of the requested services. Target Resolution Date: September 2011 Current Resolution Status: In Process
4	Develop and implement a QA program for vocational rehabilitation services. Rating: Significant Weakness	The MCO is developing comprehensive policy and procedure for a QA program for vocational rehabilitation services. Target Resolution Date: September 2011 Current Resolution Status: In Process
5	Take steps to ensure that the services offered within the vocational rehabilitation plans comply with MCO policy guidelines. Rating: Significant Weakness	The MCO is taking steps to provide additional assurance that services offered within vocational rehabilitation plans comply with the MCO policy guidelines. Actions will include development of a quick access tool for accessing key MCO

Recommendation	Disposition
	policy guidelines, training of staff, and quality assurance audits to monitor compliance. Target Resolution Date: September 2011 Current Resolution Status: In Process

Auditor Opinion

Overall, the internal controls for the MCO were operating effectively. The audit identified one minor recommendation related to the timeliness of resolution of reconciling differences identified as part of the zero balancing reconciliation process, as well as a number of control weaknesses related to vocational rehabilitation plans and billings.

Percentage Permanent Partial Disability (%PP) Benefits Audit – May 2011

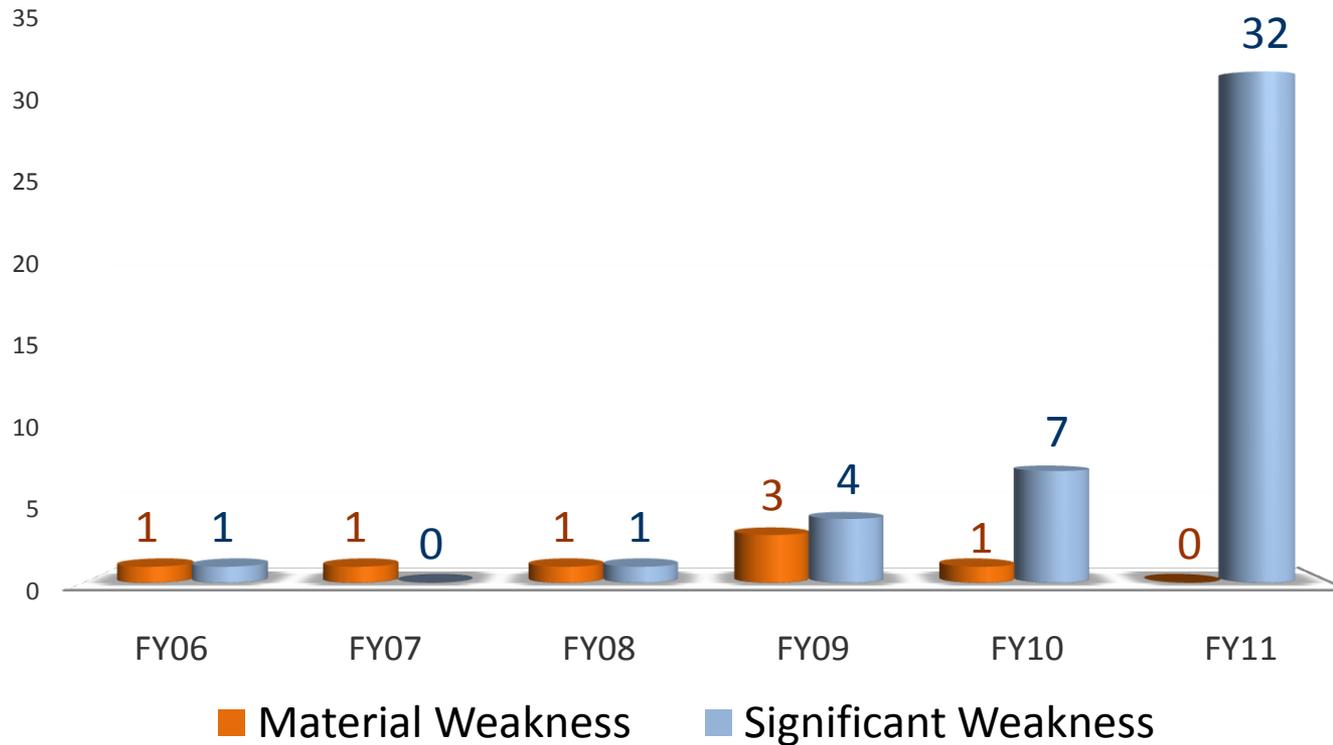
The purpose of this audit was to assist management in examining the disability benefit process for the compensation of injured workers (IW) with residual impairments resulting from allowed conditions or claims caused by work related injuries or occupational diseases. Overall, internal controls for the %PP benefits process are reasonably designed, and as such, do not present a material exposure to the Bureau of Workers' Compensation in achieving its primary objectives. Audit testing procedures did not identify any material instances of non-compliance with statute or policy, but did recognize opportunities to improve the design and implementation of controls and/or the efficiency of operations. The report contains five minor recommendations related to processing of %PP applications for active self-insured employers, monitoring of physicians performing Independent Medical Exams, use of American Medical Association guidelines, and overall processing timeframes.

BWC Internal Audit Division

	FY10 4th Qtr	FY11 1st Qtr	FY11 2nd Qtr	FY11 3rd Qtr
Prior Total: Comments Outstanding	63	73	73	59
Plus: New Comments Issued	24	15	9	14
Minus: Comments Removed	-14	-15	-23	-21
New Total: Comments Outstanding	73	73	59	52
Material Weakness	12	10	9	7
Significant Weakness	61	63	50	45
New Total: Comments Outstanding	73	73	59	52

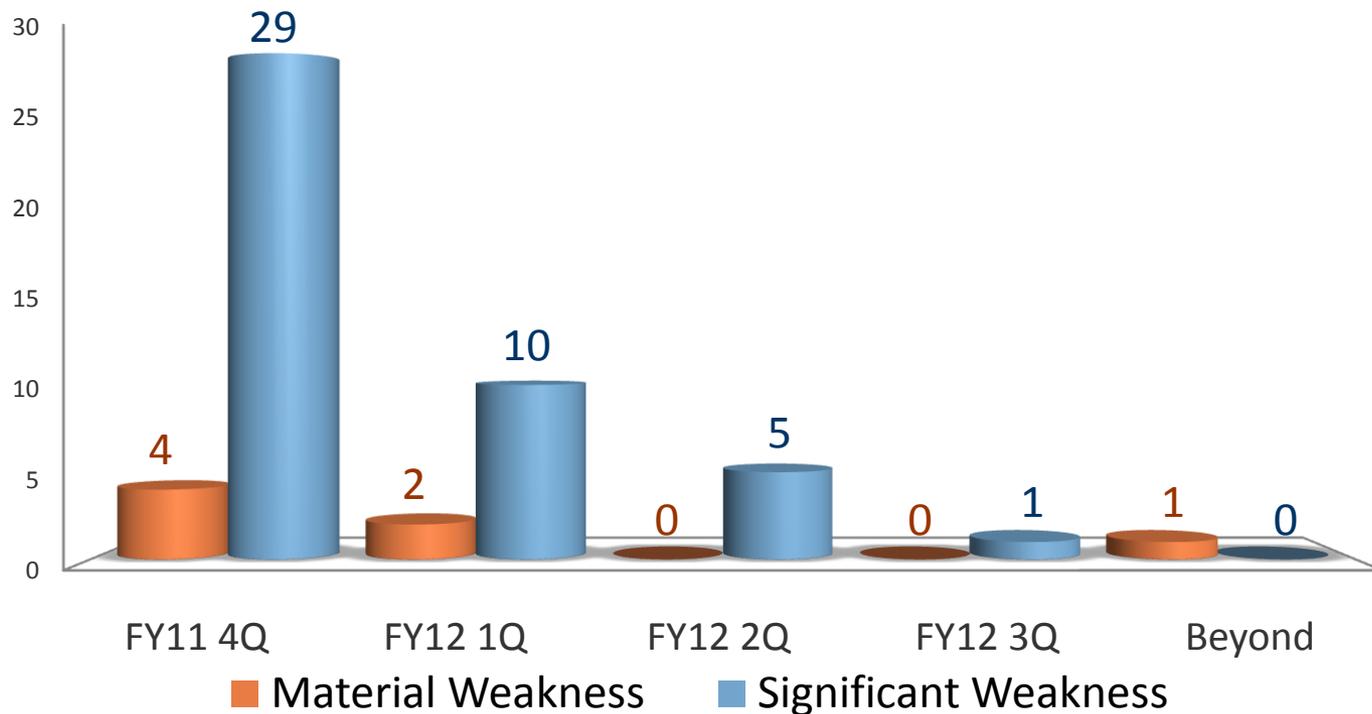
BWC Internal Audit Division

Outstanding Comments by Date Issued



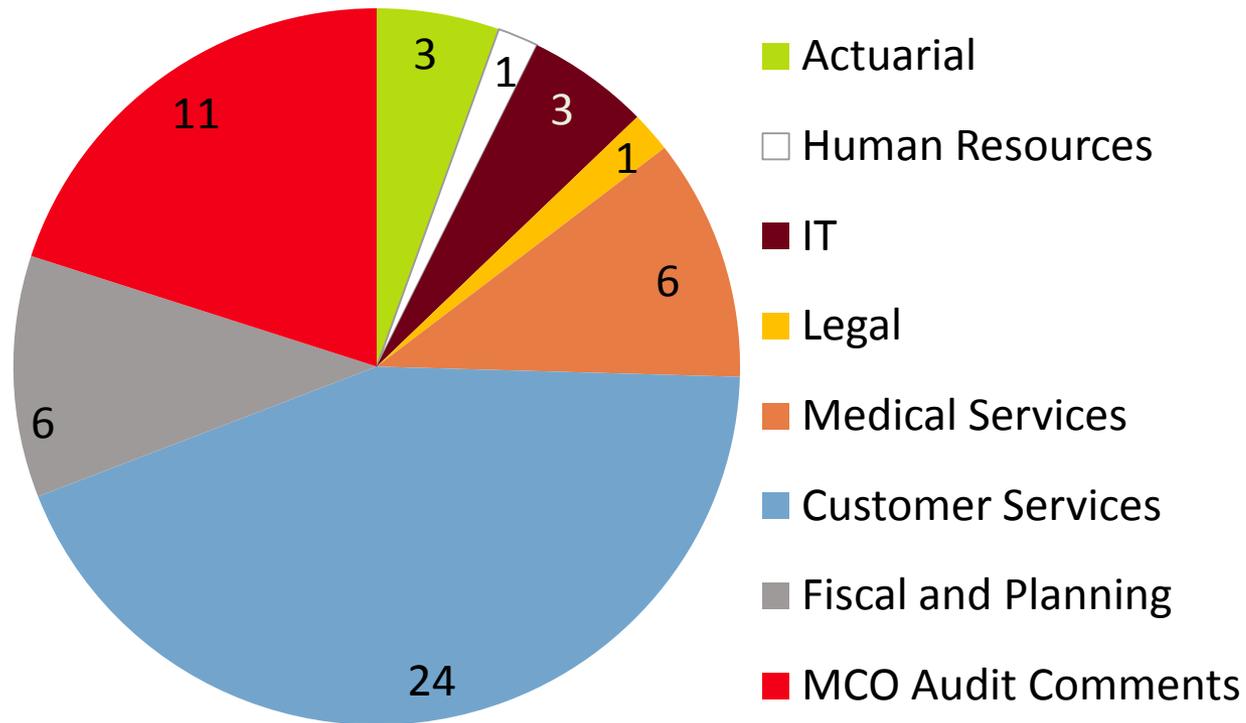
BWC Internal Audit Division

Validation schedule for remaining comments



BWC Internal Audit Division

Comments Outstanding by Responsible Division



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

BWC Internal Audit Division
Outstanding Audit Comments as of March 31, 2011

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	Information Technology (IT) is conducting a strategic inventory of the IT infrastructure. The analysis is anticipated in June 2011 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	Plans to address the group rating program and to implement a split experience rating methodology are in progress. Responsible: Chief Actuarial Officer Target Resolution Date: July 2012 Previous Target Date(s): January 2007, June 2007, July 2009, July 2011 Current Resolution Status: In Process

Vocational Rehabilitation Audit – October 2007

Recommendation		Disposition
1	<p>Eliminate the potential conflict of interest created by MCOs that refer vocational rehabilitation cases to their related companies.</p> <p>Rating: Material Weakness</p>	<p>An objective rehabilitation referral mechanism is currently in development. All parts of the tool will be complete by June 2011. The IT Project Resource Assignment will determine when IT System infrastructure to support the assignment tool will not be complete.</p> <p>Responsible: Chief of Medical Services and Compliance</p> <p>Target Resolution Date: June 2011</p> <p>Previous Target Date(s): October 2008, January 2010, May 2010</p> <p>Current Resolution Status: In Process</p>

Subrogation Audit – May 2008

Recommendation		Disposition
1	<p>Collaborate with IT to explore potential system enhancements to better support the subrogation process.</p> <p>Rating: Significant Weakness</p>	<p>IT has begun work on a web-based database instead of an enhancement to Version 3 (V3). The project will be implemented in several stages. The data conversion and core functionality project is on track for implementation in July 2011 with expected project completion in December 2011.</p> <p>Responsible: Chief Legal Officer</p> <p>Target Resolution Date: December 2011</p> <p>Previous Target Date(s): December 2009, July 2010, July 2011</p> <p>Current Resolution Status: In Process</p>

Employer Policy Application Process Audit - March 2009

Recommendation		Disposition
1	<p>Revise procedures to issue prior-to-coverage (PTC) payroll reports covering the entire period since employers first hired employees and came under obligation to obtain workers' compensation coverage.</p> <p>Rating: Significant Weakness</p>	<p>For applications with PTC periods beyond the two year threshold, Policy Processing Account Examiner 2's either follow up with the employer after application finalization or refer them for premium audit intervention as needed.</p> <p>Responsible: Chief of Customer Services</p> <p>Target Resolution Date: August 2011</p> <p>Previous Target Date(s): July 2010</p> <p>Current Resolution Status: Implemented</p>

Change Management Audit - June 2009

Recommendation		Disposition
1	<p>Better communicate or define an emergency change and require service level agreements with the end-user community. Rating: Significant Weakness</p>	<p>Process improvements have decreased the number of emergency changes. A new process is in place for developing and monitoring formal service level agreements. The focus has been on documenting and communicating all existing service goals and objectives due to time concerns. Documentation of all current IT service level objectives has been presented to Directors and approved. Responsible: Chief Information Officer Target Resolution Date: April 2011 Previous Target Date(s): November 2009, March 2010, August 2010, March 2011 Current Resolution Status: In Process</p>
2	<p>Enforce compliance with the prescribed change management processes, either through tool enhancements or management review of the change requests. Rating: Significant Weakness</p>	<p>We have determined that a Change Management Tool replacement would not be cost effective investment at this time. The majority of risks findings can be mitigated through enhancements to the tool currently being used. A formal project has been approved for these enhancements. Responsible: Chief Information Officer Target Resolution Date: June 2011 Previous Target Date(s): November 2009, March 2010 Current Resolution Status: In Process</p>

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

Recommendation		Disposition
1	<p>Develop and implement all-inclusive policies and procedures for the BSI securitization process. Rating: Material Weakness</p>	<p>Policies have been created and are being assessed to determine if all risks and concerns from the audit have been sufficiently addressed. Pending the results of this evaluation, policies and procedures will be revised in their final form and implemented immediately in the event that a SI employer defaults. Responsible: Chief of Customer Services, Chief of Fiscal and Planning Target Resolution Date: September 2011 Previous Target Date(s): December 2009, June 2010, March 2011 Current Resolution Status: In Process</p>

Recommendation		Disposition
2	<p>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.</p> <p>Rating: Material Weakness</p>	<p>Accounting management has developed policies and procedures with controls that will lay the foundation for collecting the past due receivables related to bankrupt self-insured sureties. We will work hard to review and certify debt to the Attorney General for further collection action, but it is likely that we will still have accounts being worked as of June 2011. Our goal is to demonstrate that our collection policies and procedures are working as designed and contain appropriate controls and monitoring.</p> <p>Responsible: Chief of Fiscal and Planning Target Resolution Date: June 2011 Previous Target Date(s): October 2009, December 2009, March 2010, December 2010 Current Resolution Status: In Process</p>
3	<p>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.</p> <p>Rating: Material Weakness</p>	<p>Policies and procedures will be reviewed and revised to include internal controls ensuring that all BSI employers are scheduled for Self Insured Review Panel, and that Direct Billing is provided all needed documentation in a timely manner.</p> <p>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</p>
4	<p>Recover securities from the Treasurer of State's Office and store them in a central location, inventory all securities and maintain a complete list, and determine if any securities have been misplaced.</p> <p>Rating: Significant Weakness</p>	<p>The securities inventory has been completed. Initial assessment of inventory has identified the need to validate it; however, management finds the inventory sufficient to effectively perform the new financial underwriting process. On-going validation of the securities inventory will take place throughout 2011, upon each policy's renewal.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: December 2011 Current Resolution Status: In Process</p>

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

Recommendation		Disposition
1	<p>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</p>	<p>As an interim solution, already-determined claims now come through the Classification Unit for review prior to changing the employer of record. Management is reviewing this process for compliance. A more permanent solution has evolved that will restrict the ability to change the employer of record in V3, thus ensuring these changes are reviewed centrally. Any changes to V3 are not expected until the summer. Management will run a weekly report to ensure proper procedures are being followed. Responsible: Chief of Customer Services Target Resolution Date: May 2011 Previous Target Date(s): December 2010 Current Resolution Status: In Process</p>

Fixed Asset Audit – February 2010

Recommendation		Disposition
1	<p>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</p>	<p>Projects are under consideration to automate the Equipment Transfer Authorization form or otherwise facilitate the accurate tracking of asset movements. Once these projects have been completed, we will be able to communicate a new equipment transfer policy via the BWCWeb and employee handbook. Responsible: Chief of Fiscal and Planning Target Resolution Date: June 2011 Previous Target Date(s): June 2010, September 2010, December 2010 Current Resolution Status: In Process</p>
2	<p>Modify the Oracle asset management system to comply with State policy or acquire another more capable application. Rating: Significant Weakness</p>	<p>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</p>

Recommendation		Disposition
3	<p>Restrict access to furniture, equipment and supplies to individuals responsible for them. Take steps to ensure that furniture transfers are properly authorized, documented and tracked.</p> <p>Rating: Significant Weakness</p>	<p>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).</p> <p>Responsible: Chief of Fiscal and Planning Target Resolution Date: May 2011 Previous Target Date(s): June 2010, January 2011 Current Resolution Status: In Process</p>

Self Insured Underwriting (SIU) Unit Audit – April 2010

Recommendation		Disposition
1	<p>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.</p> <p>Rating: Significant Weakness</p>	<p>Management will draft and implement a policy for non-renewal actions, and will define consequences for non-compliance and lack of financial strength.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: June 2011 Previous Target Date(s): December 2010 Current Resolution Status: In Process</p>
2	<p>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.</p> <p>Rating: Significant Weakness</p>	<p>Management is finalizing procedures for SI-40 report monitoring, collection and enforcement as well as estimating paid compensation when not reported.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: December 2011 Previous Target Date(s): February 2011 Current Resolution Status: In Process</p>
3	<p>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.</p> <p>Rating: Significant Weakness</p>	<p>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.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: June 2011 Previous Target Date(s): March 2011 Current Resolution Status: In Process</p>
4	<p>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.</p> <p>Rating: Significant Weakness</p>	<p>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.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: June 2011 Previous Target Date(s): December 2010 Current Resolution Status: In Process</p>

Premium Audit – July 2010

Recommendation		Disposition
1	Revise the premium audit targeting approach to ensure that Professional Employment Organizations (PEOs) are audited every year. Rating: Significant Weakness	PEO's with no clients were identified and have been sent to field for audit scheduling. Responsible: Chief of Customer Services Target Resolution Date: June 2011 Current Resolution Status: In Process
2	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	Develop management reporting and Quality Assurance (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, experience modifier and MIRA overrides. Responsible: Chief Actuarial Officer Target Resolution Date: May 2011 Previous Target Date(s): August 2010, March 2011 Current Resolution Status: In Process

Investment Personal Trading Policy 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 training is postponed for a few months until the Administrator has had an opportunity to see how he would like to handle the policy and training. Training for the Human Resources employee assisting with policy implementation was completed in January 2011. Responsible: Chief Human Resource Officer Target Resolution Date: June 2011 Current Resolution Status: In Process

Safety and Hygiene Audit – August 2010

Recommendation		Disposition
1	<p>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.</p> <p>Rating: Significant Weakness</p>	<p>Legal indicated there is no precedence for administering Ohio Revised Code to PERRP enforcement activities; therefore, enhanced enforcement will require code changes. PERRP has improved the process for addressing public employee safety complaints (increased reviews, evaluations, and follow up). Also, PERRP undertook a significant effort to inform public employers (PEs) of the Ohio Administrative Code's (OAC) occupational injury summaries submission requirement.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: June 2011 Current Resolution Status: In Process</p>
2	<p>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.</p> <p>Rating: Significant Weakness</p>	<p>All formal complaints are reviewed by the Superintendent and Director of Technical Services. All complaints are entered into a complaint tracking database for jurisdiction decisions and approved by the Director of Technical Services. Work-related fatalities, multiple hospitalization and refusals to work are reviewed by both the Superintendent and Director of Technical Resources. Reports are reviewed by Legal. Written procedures of complaints should be completed by April 2011.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: April 2011 Previous Target Date(s): December 2010 Current Resolution Status: In Process</p>
3	<p>Develop and maintain an effective program of collection, compilation, and analysis of public employment risk reduction statistics.</p> <p>Rating: Significant Weakness</p>	<p>PERRP is developing recommendations for changes in OAC 4167-6-04. The number of unique policies increased by 163%, primarily due to implementation of the communications plan. The non-submitting PEs were identified by policy number, and staff continues to make 1-1 contacts with them. A Tier 2 project of active policy numbers in PERRP database is scheduled for this fiscal year pending IT resources.</p> <p>Responsible: Chief of Customer Services Target Resolution Date: July 2011 Current Resolution Status: In Process</p>

Employer Compliance Audit – November 2010

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	Case backlogs have been reviewed and analyzed to archive low-risk, aged cases and refine controls ensuring that assignment processes are reviewed, approved and applied consistently. 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	The consultant's recommendations have been received and are under review for planning and process modifications. Responsible: Chief of Customer Services Target Resolution Date: June 2011 Current Resolution Status: In Process
3	Develop, document and implement formal QA review procedures over key processes to provide assurance regarding the accuracy and appropriateness of transactions. Rating: Significant Weakness	Electronic workflows have been developed and are being incorporated into processes to ensure Supervisory QA reviews are performed. Responsible: Chief of Customer Services Target Resolution Date: June 2011 Current Resolution Status: In Process
4	Implement improved procedures to identify and investigate employers that have claims filed against them but have never had coverage. Rating: Significant Weakness	BWC is in compliance with federal and state laws that dictate how far we may pursue collection and recovery. Additional activities would require new or amended laws which are not likely to occur. Responsible: Chief of Customer Services Target Resolution Date: June 2011 Current Resolution Status: Implemented
5	Takes steps to ensure that employer compliance letters are issued in a timely manner. Rating: Significant Weakness	In many cases, employers have already received multiple payroll period statements, system generated compliance letters, and post card notifications. Management does not feel that additional mailed compliance letters would be effective. Responsible: Chief of Customer Services Target Resolution Date: June 2011 Current Resolution Status: In Process
6	Update the ECD policies and procedures manual to include detailed instructions for key departmental processes. Rating: Significant Weakness	Tested and validated aging formulas and Q&A additions are in the process of being incorporated into workflows, policies and procedures. Responsible: Chief of Customer Services Target Resolution Date: June 2011 Current Resolution Status: In Process
7	Work with BWC Senior Management and the BWC Legal Division to evaluate	This is an agency level strategic initiative and will be included in updates to

Recommendation		Disposition
	the need to pursue legislative change to modify employer fines for operating without workers compensation coverage. Develop procedures to utilize the rule permitting fines for employers who fail to report payroll accurately. Rating: Significant Weakness	legislative wish list items. Responsible: Chief of Customer Services Target Resolution Date: June 2011 Current Resolution Status: In Process
8	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	A demand management project has been submitted to IT, reviewed and approved at Tier 2 with a projected completion date of 6-12 months. Responsible: Chief of Customer Services Target Resolution Date: March 2012 Previous Target Date(s): June 2011 Current Resolution Status: In Process

Special Claims Audit – December 2010

Recommendation		Disposition
1	Establish continuous or periodic monitoring procedures to ensure Company Employee for Management and Processing (COEMP) claims and policies are identified, flagged, and reassigned. Rating: Significant Weakness	Management continues to work on the continuous monitoring process. A process is in development to ensure BWC staff is reminded of the COEMP policy annually. Responsible: Chief of Customer Services Target Resolution Date: April 2011 Current Resolution Status: In Process
2	Implement procedures and controls to ensure that the Workers' Compensation Claims Specialist contacts the employer and/or IW to verify the three factors of jurisdiction, inquires about the submission of the Interstate Jurisdiction waiver, and completes the Insurance Services Office (ISO) searches. Rating: Significant Weakness	Management continues to work on a training document and plan to train staff on proper initial claims investigation, specifically IW and employer contacts, interstate jurisdiction, and ISO checks. Responsible: Chief of Customer Services Target Resolution Date: June 2011 Current Resolution Status: In Process

FY2011 MCO Audit #1 – January 2011

Recommendation		Disposition
1	Expand the quality assurance/improvement efforts to include the vocational rehabilitation processes. Rating: Significant Weakness	The Vocational Rehabilitation Coordinator is establishing all necessary controls to ensure vocational rehabilitation costs are contained appropriately. This will be made certain by following relevant MCO Policy Reference Guide requirements and MCO's Policies and Procedures through initiating use of quality assurance monitoring and tracking. Target Resolution Date: May 2011

Recommendation	Disposition
	Previous Target Date(s): February 2011 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	<ul style="list-style-type: none"> Overall control environment does not provide reasonable assurance regarding the safeguarding of assets, reliability of financial records, and compliance with Bureau policies and/or laws and regulations. A significant business risk or exposure to the Bureau that requires immediate attention and remediation efforts. A significant deficiency, or combination of significant deficiencies, that results in <u>more than a remote likelihood</u> that a material misstatement of the annual or interim financial statements will not be prevented or detected by employees in the normal course of their work, or that a major operational or compliance objective would not be achieved. 	Audit Committee, Senior Management, Department Management
Significant Weakness	<ul style="list-style-type: none"> Issue represents a control weakness, which could have or is having some adverse affect on the ability to achieve process objectives. The controls in place need improvement and if not improved could lead to an overall unsatisfactory or unacceptable state of control. Requires near-term management attention. A control deficiency, or combination of control deficiencies, that results in a <u>remote</u> likelihood that a misstatement of the Bureau's annual or interim financial statements is more than inconsequential will not be prevented or detected by employees in the normal course of their work, or that a major operational or compliance objective would not be achieved. 	Senior Management, Department Management, Audit Committee (optional)
Minor Weakness	<ul style="list-style-type: none"> Issue represents a process improvement opportunity or a minor control weakness with minimal impact. Observations with this rating should be addressed by line level management. A control deficiency that would result in <u>less than a remote</u> likelihood that the deficiency could reasonably result in a material misstatement of the financial statements or materially affect the ability to achieve key operational or compliance objectives. 	Department Management, Senior Management (optional)

NOTE: When management's action plans for Significant Weakness comments are significantly delayed from the intended implementation date the comment may be elevated to a Material Weakness (pending circumstances).

BWC Internal Audit Division

FY 2011 Annual Audit Plan

Ref #	Focus Area	1 st Qtr.			2 nd Qtr.			3 rd Qtr.			4 th Qtr.			Audit Effort	
		JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		
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	MCO Administrative and Incentive Payments											▨	▨	█	4
13	FY 2012 Audit Plan				█	█	█	█	█			█	█	█	3
14	Additional Allowances													▨	5
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

- 1
- 2
- 3
- 4
- 5

Audit Effort Explanations

- Extra Small
- Small
- Medium
- Large
- Extra Large

Hours

- <100 hours
- 100 - 300 hours
- 301-500 hours
- 501-800 hours
- 801-1200 hours



Audit Plan updated September 2010

Revised Audit Plan

BWC Internal Audit Division
QES Acronyms

Acronym	Description
%PP	Percentage Permanent Partial Disability Benefits
BSI	Bankrupt Self Insured
BWC	Bureau of Workers' Compensation
CAR	Compliance Analysis Report
COEMP	Company Employee for Management and Processing
CPM	Compliance and Performance Monitoring
ECD	Employer Compliance Department
FY	Fiscal Year
ISO	Insurance Services Office
IT	Information Technology
IW	Injured Worker
MAFIL	Managing Active/Inactive Files by Innovative Logistics (BWC's storage facility)
MCO	Managed Care Organization
OAC	Ohio Administrative Code
PEs	Public Employers
PEO	Professional Employment Organization
PERRP	Public Employer Risk Reduction Program
PTD	Prior-to-coverage
QA	Quality Assurance
QES	Quarterly Executive Summary
QI	Quality Improvement
SI	Self Insured
SIU	Self Insured Underwriting
V3	Version 3 (BWC's Claims Management System)
WCIS	Workers' Compensation Insurance System



Special Investigations Department Board of Directors Overview July 2011

Organizational Structure:

The Special Investigations Department (SID) reports to Stephen Buehrer, Administrator/CEO. Tom Wersell serves as the department director with one assistant director, Jennifer Saunders. Together, they oversee the activities of 116 full-time and part-time employees.

The department protects the integrity of the BWC system by aggressively pursuing allegations of fraud committed by medical providers, injured workers, employers, managed care organizations (MCOs), attorneys, third party administrators (TPAs) and durable medical suppliers. As a result of our investigations, the department refers cases for prosecution, seeks convictions, declares overpayments, identifies savings, disallows claims and recovers dollars -- all of which directly impacts BWC cost reduction.

In addition to fraud investigations, the SID is also responsible for investigating alleged employer safety violations resulting in worker injuries, diseases, or deaths. Also within SID's area of responsibility is BWC Security which oversees building security, threat assessment, and internal investigations.

The department is comprised of the following teams:

- Three regional teams of Special Investigations Units (SIUs) located in 11 service offices: Cambridge, Canton, Cincinnati (Governor's Hill), Cleveland (Garfield Heights), Columbus, Lima, Logan, Mansfield, Portsmouth, Toledo, and Youngstown;
- Health Care Provider Team;
- Employer Fraud Team;
- Intelligence Unit;
- Digital Forensics Unit;
- Safety Violations Investigation Unit (SVIU); and
- BWC Security.

Three Regional Teams:

The regional team's primary role is to investigate allegations of fraudulent injuries and/or disabilities. SIU criminal investigations include: false claims; claimants working while receiving disability benefits; false or forged documents submitted to receive benefits which they are otherwise not entitled to by law; claimants engaged in physical activities inconsistent with the extent of injury claimed; and diversion or trafficking drugs.

Health Care Provider Team:

The Health Care Provider Team investigates allegations of fraud committed by health care providers, managed care organizations, durable medical equipment suppliers, home health care and transportation services, attorneys and medical scheduling companies. Health care provider investigations include: billing for services not rendered; manipulating procedure codes to indicate a more expensive service

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Special Investigations Department Board of Directors Overview July 2011

than what was provided; treating for unrelated conditions not allowed in the claim and billing the treatments under the allowed conditions; manipulating drug codes to obtain higher reimbursement rate; and services provided by and billed by unlicensed providers. Many of these investigations resulted in recommendations to the Medical Services Division that have reduced occurrences of fraud and abuse.

Employer Fraud Team:

The Employer Fraud Team investigates allegations of fraud committed by employers. By staying on the offense, it strives to aggressively prevent premium fraud, ultimately assuring that all employers are paying their fair share of workers' compensation costs. Employer fraud investigations include: misrepresentation of payroll; misrepresentation of manual classification codes; altering certificates of coverage; opening multiple policies to avoid paying premiums under penalty rated policies; and employers who knowingly fail to obtain and/or maintain coverage as required by law.

Intelligence Unit:

Intelligence Unit utilizes various technologies and techniques to detect fraudulent activity and identify fraudulent trends. Intelligence Unit contractually exchanges data with other agencies and law enforcement organizations to identify claimants receiving total disability benefits that are gainfully employed, incarcerated, or otherwise not entitled to these benefits. Additionally, this unit focuses on employers operating without coverage or misreporting payroll, claimant drug diversion or doctor shopping, and medical providers billing for services not rendered or overprescribing narcotics. This team also works with other BWC operational areas in providing technical and analytical assistance on special projects, reviews, and/or management reporting.

Digital Forensics Unit:

Created in 2001, Digital Forensics Unit (DFU) is responsible for establishing tactical response plans for investigating Internet fraud and computer intrusion; forensically collecting electronic evidence during search warrants and from BWC internal servers; performing technical analyses; and conducting forensic examinations of all computers and other electronic media and data owned or used by the investigated suspect(s).

The team's responsibilities typically encompass cases involving internal employees and BWC workers' compensation fraud suspects (i.e. providers, employers, and injured workers). DFU also, when requested, assists other state and local agencies with white collar crime cases. Additional DFU duties included: data security; forensic resource for the Ohio Inspector General's Office; Ohio State Highway Patrol; BWC Internal Security; BWC Labor Relations; and all BWC management related requests.

Safety Violations Investigation Unit (SVIU):

The Ohio Constitution mandates BWC to investigate alleged employer safety violations which resulted in employee injuries, diseases or deaths. When the Industrial Commission (IC) deems an investigation is

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Special Investigations Department
Board of Directors Overview
July 2011

necessary, SVIU is tasked with investigating the circumstances surrounding each allegation and provides a comprehensive investigative report to the IC and all parties to the claim. All violations of specific safety requirements (VSSRs) are, then, adjudicated by the IC. Recently, SVIU has also been tasked with investigating work place fatalities. Since VSSR may be filed up to two years after the date of injury, SVIU is now conducting upfront investigations into these work place fatalities to memorialize the facts surrounding the event. These reports are, then, forwarded to Safety & Hygiene in order to determine if any steps could be taken to prevent future injuries. In FY 2011, SVIU investigated 280 VSSR investigations and 17 fatality investigations.

BWC Security:

BWC Security team has three separate functions: building security, threat assessment and internal investigations. Building security team members administer the overall security of 13 buildings with over 2,000 employees, tenants, and guests throughout the state. Threat assessment analyzes threats made against the agency and its employees and work with the Ohio Highway Patrol and local law enforcement to take appropriate action to protect employees and assets. Internal Investigations responds and investigates allegations of misconduct by BWC employees. Internal investigators often work in conjunction with the assigned BWC Inspector General and labor relations.

Performance Summary:

During FY 2011, SID achieved 245 referrals for prosecution, 140 indictments and 130 convictions. Our referrals increased from last year, and the indictments are the 3rd highest realized since FY 2000. Our primary focus continues to be to increase our investigative efforts to develop and enhance prosecutable cases. During fiscal years 2010 and 2011, SID achieved its highest two-consecutive year totals for convictions. Over the past two fiscal years, SID achieved 276 convictions surpassing the previous high of 265 for fiscal years 2002 and 2003.

Another goal for fiscal year 2011 was to increase our efficiency in case investigations by reducing our open to close lag time by 5%. SID achieved a 10.6% improvement by reducing this lag time from 272.1 in fiscal year 2010 to 243.3 in fiscal year 2011. The department also has 134 cases that have been referred to the Ohio Attorney General's Office and are pending review for prosecution. Information regarding the open investigations and those pending prosecution is considered privileged and confidential and can only be released to those authorized to receive privileged and confidential case information.

During FY 2011 SID achieved a return on expenditure of \$5.41. Furthermore, BWC recovered from fraud subjects more than \$8 million in savings associated with founded cases, highest year ever.

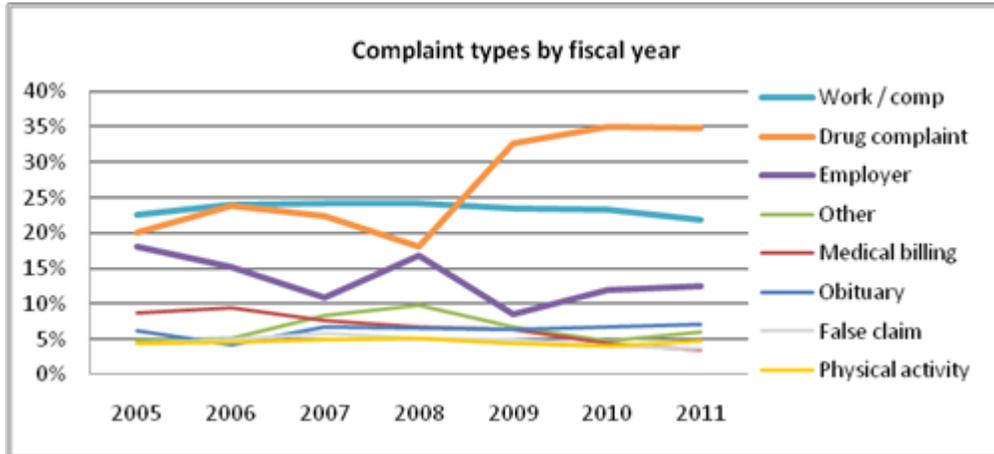
At the beginning of FY 2012, SID went live with a Facebook page that is promoting fraud awareness through social media. The SID Facebook page will highlight recent convictions, surveillance video, fraud red flags, case summaries and wanted persons. You can find the SID Facebook page by searching on Facebook for BWC Special Investigations.





Special Investigations Department Board of Directors Overview July 2011

SID Case Trends:



Significant Prosecutions during FY 2011:

HEALTH CARE FRAUD

Dr. Jean Zannoni

Pill Mill

The Special Investigations Department (Special Investigations) received an allegation that a Cuyahoga County doctor, Dr. Jean Zannoni (Zannoni), was prescribing large amounts of narcotic drugs. The Health Care Provider team investigation included an undercover operation and a search warrant.

Undercover agents were provided narcotic medications without proper medical examinations and BWC was billed improperly for the office visit. Information obtained during the search warrant identified a copy of orders Zannoni provided to her staff that instructed them to bill all injured workers under the same code and charge BWC \$75 no matter the circumstances of their visit. The investigation found Zannoni's records falsely indicated she delivered services that she never provided, and that she elevated pain levels and fabricated tests to justify her continual prescribing of pain medication.

The investigation also found that Zannoni continued to prescribe narcotics to patients who were known doctor shoppers even after receiving warnings from pharmacies, parents, spouses, social service agencies and police departments.

On June 8, 2011, Zannoni pled guilty in Cuyahoga County Court of Common Pleas to 1 count each for Attempted Theft, Attempted Workers' Compensation Fraud and Telecommunications Fraud, all felonies of the fifth degree. Zannoni was sentenced to two years probation, ordered to pay restitution to BWC in the amount of \$5,067.34 and a fine of \$2,500.





Special Investigations Department Board of Directors Overview July 2011

Gary Berner, D.C./Advantage Chiropractic

Falsification

In August 2002, Bruce Holaday, D.C., hired Gary T. Berner, D.C., to practice at his clinic a few days a week. Berner continued to practice at his own clinic, Village Chiropractic, on those days he was not present at Holaday's Clinic. Holaday used Berner's name and BWC provider number to circumvent his decertification from BWC as a provider. Berner not only had knowledge of Holaday's scheme to defraud BWC, but also knowingly and willfully aided in its execution.

The HCPT SIU investigation found through interviews, undercover operations, search warrants, and record analyses, that Holaday surreptitiously used the name and provider number of other BWC-certified providers to bill and receive payment for services he personally rendered or directed for injured workers. This scheme entailed the creation and uttering of false records, including bills, treatment notes and claim forms. Much of these forged and tampered records were submitted to BWC or its managed care organizations via a telecommunications device (i.e. facsimile). By using the personal identifiers of the chiropractors with whom he worked, Holaday effectively circumvented his decertification from the Ohio workers' compensation system and was able to receive payment from BWC for which he was not entitled.

Furthermore, the investigation found Berner and other providers had knowledge Holaday was using their personal identifiers, and admittedly assisted or enabled Holaday in this scheme to defraud BWC. The others also benefited monetarily from the ill-gotten gains obtained from this scheme.

On February 24, 2011, Gary T. Berner pled guilty in Franklin County Court of Common Pleas to 1 count of Workers' Compensation Fraud, a felony of the third degree. As part of his plea, Berner agreed to pay \$104,350.53 in court ordered restitution and \$5,000 for investigative costs. Berner was sentenced to 4 years imprisonment suspended and 5 years community control. As a condition of his community control, Berner was sentenced to 180 days in Franklin County jail.

EMPLOYER FRAUD

James Slones, DBA Buckeye Valley Service

Falsify Certificate of Coverage

The Special Investigations Department received an allegation that a Fairfield County man, James Slones, provided an altered BWC certificate of coverage to a home owner to complete remodeling work. The BWC certificate was necessary in order for the home owner to obtain a FHA 403 (k) loan.

The Employer Fraud team investigation found the confirmation number listed on the altered BWC certificate belonged to Brian Martin, owner of Cabinet Trends. Martin advised he faxed his BWC certificate to Slones. Slones denied altering the BWC certificate when interviewed by investigators.





Special Investigations Department Board of Directors Overview July 2011

On April 21, 2011, Slones pled guilty in Franklin County Clerk of Courts to 1 count of Attempted Forgery, a misdemeanor of the first degree. Slones was ordered to pay court costs and 45 days jail suspended.

Charles Thoerner, DBA Montgomery Flooring **Lapsed Coverage**

The Special Investigations received an allegation from the BWC Finance Department that Charles Thoerner of Cincinnati, Ohio, DBA Montgomery Flooring, had been operating without coverage since September 2005. The employer was audited in 1999 and subsequently agreed to a payment plan and defaulted on the payment plan in 2005. The employer had accumulated nearly \$20,000 in non-compliance claims since lapsing. The Employer Fraud Team (EFT) met with Thoerner at his place of business and advised him that the policy was lapsed and served a 30 Day SIU Compliance letter.

Thoerner subsequently failed to submit the missing payroll reports and was served with a grand jury subpoena for the information. In October 2009, Thoerner submitted the payroll records but failed to remit payment or request a payment plan.

On April 27, 2011, Thoerner pled guilty in Hamilton County Court of Common Pleas to 1 count of Attempted Workers' Compensation Fraud, a felony of the fifth degree. Thoerner was sentenced to 5 years community control, pay court costs, fees waived, restitution to BWC in amount of \$55,468.15 at \$5,000.00 per year. Violation of court order will result in 12 months incarceration.

CLAIMANT FRAUD

Donald Farmer Jr. **Working While Receiving**

An anonymous source indicated Donald Farmer Jr. was working while receiving BWC lost time benefits. The Region 1 SIU found that Farmer Jr. worked for McCowien Drilling of Andover, Ohio, as a general laborer, while he was concurrently receiving TT benefits from November 2007 through October 2009. While employed with McCowien Drilling, Farmer Jr. attempted to conceal his employment by having his payroll checks issued to his wife and by using his son's name on certified payroll reports. Surveillance video, witness statements, and financial records were obtained and used to prove Farmer Jr.'s employment with McCowien Drilling.

On January 11, 2011, Donald Farmer Jr. pled guilty in Franklin County Common Pleas Court to Workers' Compensation Fraud, a felony of the fifth degree. Farmer Jr. was sentenced to 8 months of incarceration, which was suspended, and placed Farmer on probation for 5 years. Farmer Jr. was also ordered to pay restitution of \$14,383.96 and investigative costs of \$4,000.





Special Investigations Department Board of Directors Overview July 2011

Mark Hamburg

Working While Receiving

A CSS referred Hamburg to the SIU after becoming suspicious of check stubs submitted in support of LMWL benefits. The Region 1 SIU found Hamburg continued sustained remunerative employment as a vehicle transport driver with I.C.U. Inc. while in receipt of TT and LMWL benefits between January 2006 and August 2009. Hamburg also submitted false payroll checks to obtain LMWL benefits, when in fact he was not an employee of the business. On November 12, 2010, the Ohio Industrial Commission issued an order which found an overpayment of \$91,018.54.

On January 14, 2011, Hamburg pled guilty via a Bill of Information to 1 count of Workers' Compensation Fraud, a felony of the fifth degree. At the plea hearing, Hamburg paid \$30,000.00 towards the total overpayment of \$91,018.54. Hamburg was sentenced to 11 months incarceration suspended, and was placed on community control for 5 years. The court ordered Hamburg to pay restitution of \$60,904.25, investigative costs of \$3,183.40 and court costs.

Robert Harnage

Working While Receiving

In February 2007, an allegation was received through the BWC web page indicating Harnage was receiving Ohio BWC benefits while owning and operating a business in Arizona. The Region 3 SIU found Harnage owned and operated his own business, Classic Home Restoration in Sierra Vista, Arizona while receiving temporary total disability benefits from the Ohio BWC.

The SID Fraud Analyst worked with an Investigator with the Arizona Registrar of Contractors (AROC) who provided copies of completed reports where Harnage was found guilty in Arizona on three occasions in November 2007 of operating without a contractor's license. This information conflicted with Harnage's receipt of TT benefits from the Ohio BWC. During the investigation, the SID identified 149 checks written from customers to Harnage beginning from June 2006 to November 2008 and identified \$419,357.38 in cash and checks for his work as a contractor. Interviews of Harnage's customers confirmed that he actively participated in the day to day operations of the business including, but not limited to, providing the estimates for all the jobs, assisting with the physical labor of the jobs and supervised his crew. Harnage was administratively found overpaid \$78,740.75 and his compensation was terminated based on the BWC investigation.

The BWC SID Fugitive Task Force coordinated with the Cochise Sheriff's Department in Arizona and Harnage was arrested at work on September 29, 2010, and turned him over to the US Marshall's Office to be extradited back to the State of Ohio. Harnage has 30 days jail credit since he was arrested in Arizona and fought extradition.

On February 28, 2011, Robert Harnage, pled guilty to one count of Workers' Compensation Fraud, a felony of the fifth degree. Harnage was ordered to pay restitution to the BWC in the amount of



Special Investigations Department Board of Directors Overview July 2011

\$67,000, \$64,273 restitution and \$2,727 investigative costs. Harnage was sentenced to 12 months incarceration suspended, and he was placed on probation for 5 years.

Luiz Paneto Sr.

Working While Receiving

In August 2009, Special Investigations received an anonymous complaint stating that a Cleveland man, Paneto, was working for a home remodeling company. The Region 1 SIU conducted an undercover and captured surveillance video of Paneto remodeling homes while he was receiving PTD benefits. Paneto was interviewed at the job site and admitted to working and that he knew he was not allowed to work and collect PTD benefits. Surveillance showed Paneto was able to use his left leg.

At the same time Paneto was granted PTD in 2007, Paneto's attorney filed a loss of use claim with the Industrial Commission (IC) for his left leg. Paneto walked into the IC hearing for his Loss of Use of left leg award. The Industrial Commission denied the award. The case was appealed and is currently pending at the Supreme Court. BWC is still actively involved with this issue.

As a result of the investigation, PTD benefits were terminated and the IC found Paneto overpaid \$31,840.51.

On March 16, 2011, Luiz Paneto pled guilty in Franklin County Common Pleas Court to Workers' Compensation Fraud, a felony of the fourth degree. On April 29, 2011, Paneto was sentenced to 5 years of community control and ordered to pay restitution of \$24,122.47 and investigative costs of \$19,517.67.

Joseph Archer

Falsifying Eligibility for Death Benefits

In September 2009, a BWC claims service specialist made an allegation to the Special Investigations Department after becoming suspicious of enrollment documentation Archer had submitted for his eligibility for death benefits. Archer, from Coshocton County, had been receiving death benefits from his father's death claim as a result of an industrial injury in 1988. In general, dependent children are eligible for death benefits until they are 18 years old, or until 25 years old if they are attending an accredited educational institution full time.

The Region 3 SIU found that Archer forged multiple enrollment verification forms as part of a fraud scheme in order to continue receiving death benefits past the age of 18. The investigation determined Archer had been enrolled at Toledo Public Schools' Adult and Continuing Education program in September 2003 and stopped attending in November 2003, and was not enrolled during periods he applied for and received death benefits. Additionally, Archer submitted documentation to the BWC indicating that he was enrolled at Life Skills of Toledo from March 2005 and was scheduled to graduate in June 2006. The SIU found that Archer withdrew in June 2005 because he failed to attend class.





Special Investigations Department Board of Directors Overview July 2011

Finally, Archer indicated to the BWC that he was enrolled in classes at Penta Career Center in Toledo, Ohio from 2006 to 2009. The SIU found that Archer never attended any classes at Penta Career Center.

On March 29, 2011, Joseph Archer pled guilty in Franklin County Commons Pleas Court to 1 count of Workers' Compensation Fraud and 1 count of Forgery, both felonies of the fifth degree. The court ordered Archer to pay restitution in the amount of \$62,499.98 to BWC (\$60,499.98 in restitution and \$2,000 investigative costs) and to make monthly payments to the BWC. Archer was sentenced to 5 years community control. As a condition of community control, Archer must perform 40 hours of community service. The court informed Archer that if he violates his community control, he will serve 12 months incarceration on each count, to run concurrently.

Tiffany Belohlavek **Fictitious Employment**

The Special Investigations Department received an allegation from a claims service specialist after contacting Tiffany Belohlavek's wage loss employer, Physician's Edge, to obtain information pertaining to her employment. The owner of the business advised Belohlavek, of Cuyahoga County, had no longer worked there.

Through investigation, the Region 1 SIU found Belohlavek had not worked with Physician's Edge medical billing company since January 2008. However, between January 2008 and March 2010 Belohlavek faxed 43 Wage Statements and 111 time cards to the BWC with fictitious employment information on them, which resulted in her receiving Living Maintenance Wage Loss benefits in the amount of \$53,223.57. The continuation of Wage Statement submissions with the fictitious employment information appeared as if Belohlavek had never stopped working with Physician's Edge.

On May 9, 2011, Tiffany Belohlavek pled guilty to Workers' Compensation Fraud, a felony of the fourth degree. On June 14, 2011, Belohlavek was sentenced to one year of probation which requires her to repay \$53,223.57 in overpayment and \$7,109.60 in investigative costs, attend alcohol/narcotics anonymous meetings, maintain verifiable employment, submit to random drug testing, and undergo mental health treatment and follow treatment recommendations.

Brian Jones **False Prescriptions**

The Special Investigations Department received an allegation that Brian Jones, of Lorain County, attempted to submit false prescriptions to obtain narcotics. The Region 1 SIU found Jones used deception to obtain 11 narcotic prescriptions through false and/or altered prescriptions. His physician of record confirmed the 11 prescriptions were not written or altered by the office.

On May 6, 2011, Jones pled guilty to 2 counts of Deception to Obtain a Dangerous Drug, a felony of the fourth degree. On June 1, 2011, Jones was sentenced to community control for 3 years, ISP sanctions: community service and employment as determined by probation officer; drug and alcohol treatment as





Special Investigations Department Board of Directors Overview July 2011

recommended; random urinalysis; pay costs of prosecution and court appointed counsel costs; and driver's license suspended for 6 months. Violation of any of this sentence shall lead to a sentence of 12 months incarceration on counts 1 and 2.

Bradford Pirigy

Deception to Obtain Dangerous Drugs

On August 7, 2009, Special Investigations received an allegation from a BWC Medical Claims Specialist (MCS) indicating Bradford Pirigy (Pirigy) filed a claim against an employer the MCS was not able to locate. Furthermore, the MCS had received a call from a doctor requesting approval for an MRI for a broken foot for Pirigy in a claim allowed for a loose tooth filling. The doctor's office stated that Pirigy advised them that his claim was for a foot injury that he sustained while employed with J & J Construction.

The Region 1 SIU found Pirigy sought treatment at several different hospitals at which he attempted to file workers' compensation claims against businesses that did not exist, in order to obtain prescription narcotics. Pirigy was also found to have sought treatment at several different podiatrists and requested the treatment be billed to a workers' compensation claim Pirigy previously filed for a hand injury. Pirigy asked for narcotic pain medication at each podiatrist visit. Each claim and the bills related to those claims were denied by the BWC prior to payment.

On June 21, 2011, Pirigy pled guilty in Trumbull County Common Pleas Court to 4 counts of Deception to Obtain Dangerous Drugs, all felonies of the fifth degree. No sentencing date has been set.



The Fiscal Year 2012 financial projections for BWC's Statement of Operations reflect the following information and assumptions:

Premium and Assessment Income:

- Approved rates and collectible premium prepared by BWC's Actuarial Department in conjunction with rate indication information;
 - Private employer premium rates decreased average of 4%,
 - Public Taxing District employer premium rates decreased average of 5.5%,
 - Public State employer premium rates increased 15.12%
- Anticipated 1.79% increase in reported payroll for private employers based on reporting trends from the two most recent reporting periods;
- Changes in the Unbilled Receivable balance using data and assumptions from the recently completed actuarial study as prepared by BWC's external actuarial consultant; and
- Approved administrative assessments based on the fiscal year 2012 budgets for BWC and the Industrial Commission.

Ceded Premiums:

- Reinsurance contract rates for ceded premium applied to projected premium and assessment income for fiscal year 2012.

Provision for Uncollectibles:

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

Other Income:

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

Workers' Compensation Benefits

- Projected payments for medical and indemnity benefits based upon data and assumptions from the recently completed actuarial study using March 31, 2011 data as prepared by BWC's external actuarial consultant; and
- Projected reserve development patterns using data and assumptions from the recently completed actuarial study as prepared by BWC's external actuarial consultant. A discount rate of 4.0% is used in the projections.

Compensation Adjustment Expenses:

- Projected reserve development patterns using data and assumptions from the recently completed actuarial study as prepared by BWC's external actuarial consultant. A discount rate of 4.0% is used in the projections.
- Administrative expenses based on the fiscal year 2012 budget as approved by the Board of Directors and the fiscal year 2012 budget for the Industrial Commission;
- Most recent fiscal year payment trends for MCO expenses; and

- Allocation of administrative expenses related to claims management resolution based upon results of most recent cost allocation study. The results of this study resulted in maintaining the allocation percentage of administrative expenses at 68.8%.

Other Expenses

- Administrative expenses based on the fiscal year 2012 budget as approved by the Board of Directors and the fiscal year 2012 budget for the Industrial Commission; and
- Allocation of administrative expenses not related to claims management resolution based upon results of most recent cost allocation study. The results of this study resulted in maintaining the same percentage of administrative expenses at 31.2%.

Operating Transfer:

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

Investment Income:

- Dividend and interest income based on Board approved asset allocations as prepared by the BWC Investment Division;
- Projected price appreciation of 3.16% for domestic equities and 2.95% for international equities with no price appreciation/depreciation for fixed income securities as prepared by the BWC Investment Division; and
- Expected fees paid to outside investment managers and custodial fees based upon Board approved asset allocations as prepared by the BWC Investment Division.

The Fiscal Year 2012 projections for BWC's Statement of Cash Flows reflect the following information and assumptions:

Cash Receipts from Premiums and Other:

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

Cash Disbursement for Claims and Other:

- Projected payments for medical and indemnity benefits based upon data and assumptions from the recently completed actuarial study using March 31, 2011 data as prepared by BWC's external actuarial consultant;
- Recent fiscal year payment trends for payments to managed care organizations; and
- Recent payment trends for administrative expenses, BWC's approved budget, and the budget for the Industrial Commission.

Net Cash Flows from Capital and Related Financing Activities:

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

Operating Transfers Out:

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

Net Cash Provided (Used) By Investing Activities:

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

Cash Redemptions From Investment Managers:

- Recent fiscal year trends, timing, and projections for fiscal year 2012 premiums and other receipts; and
- Recent fiscal year trends, timing, and projections for fiscal year 2012 disbursements for claims and administrative expenses.

The Fiscal Year 2012 projections for BWC's Insurance Ratios are computed based upon the information noted above.

Ohio Bureau of Workers' Compensation
Projected Statement of Operations
Fiscal year ending June 30, 2012

(in millions)

	Fiscal Year Projected June 30, 2012	Fiscal Year Actual June 30, 2011	FY 12 to FY 11 Increase (Decrease)	Fiscal Year Audited June 30, 2010	FY 12 to FY 10 Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	\$ 1,905	\$ 1,911	\$ (6)	\$ 2,149	\$ (244)
Ceded Premium	(6)	(6)	-	(1)	(5)
Provision for Uncollectibles	(61)	(48)	(13)	(30)	(31)
Other Income	13	15	(2)	15	(2)
Total Operating Revenues	1,851	1,872	(21)	2,133	(282)
Operating Expenses					
Workers' Compensation Benefits	2,061	1,895	166	2,255	(194)
Compensation Adjustment Expenses	411	378	33	482	(71)
Other Expenses	118	120	(2)	131	(13)
Total Operating Expenses	2,590	2,393	197	2,868	(278)
Net Operating Gain (Loss)	(739)	(521)	(218)	(735)	(4)
Operating Transfer	(5)	(6)	1	(5)	-
Investment Income					
Interest and Dividend Income	799	772	27	723	76
Change in Fair Value of Investment Portfolio	259	1,600	(1,341)	1,334	(1,075)
Investment Expenses	(10)	(8)	(2)	(7)	(3)
Net Investment Income	1,048	2,364	(1,316)	2,050	(1,002)
Increase (Decrease) in Net Assets	304	1,837	(1,533)	1,310	(1,006)
Net Assets Beginning of Period	5,662	3,825	1,837	2,515	3,147
Net Assets End of Period	\$ 5,966	\$ 5,662	\$ 304	\$ 3,825	\$ 2,141

**Ohio Bureau of Workers' Compensation
Projected Insurance Ratios**

	Fiscal Year Projected June 30, 2012	Fiscal Year Actual June 30, 2011	Fiscal Year Audited June 30, 2010	Guidelines
Loss Ratio	108.6%	99.2%	104.9%	
LAE Ratio - MCO	9.6%	9.3%	13.4%	
LAE Ratio - BWC	12.0%	10.5%	9.1%	
Net Loss Ratio	130.2%	119.0%	127.4%	
Expense Ratio	6.2%	6.3%	6.1%	
Combined Ratio	136.4%	125.3%	133.5%	
Net Investment Income Ratio	41.5%	40.0%	33.3%	
Operating Ratio	94.9%	85.3%	100.2%	
SIF Funding Ratio	1.34	1.33	1.24	1.15 to 1.35
SIF Net Leverage Ratio	3.38	3.50	5.17	3.0 to 7.0

Ohio Bureau of Workers' Compensation
Projected Statement of Cash Flows
Fiscal Year Ending June 30, 2012

in millions

	Fiscal Year Projected June 30, 2012	Fiscal Year Actual June 30, 2011	Increase (Decrease)	Fiscal Year Audited June 30, 2010	Increase (Decrease)
Cash Flows from Operating Activities:					
Cash receipts from premiums, net of ceded premiums	\$ 1,946	\$ 2,084	\$ (138)	\$ 2,198	\$ (252)
Cash receipts - other	34	41	(7)	54	(20)
Cash disbursements for claims	(2,050)	(2,001)	(49)	(2,057)	7
Cash disbursements for other	(378)	(365)	(13)	(391)	13
Net cash used by operating activities	<u>(448)</u>	<u>(241)</u>	<u>(207)</u>	<u>(196)</u>	<u>(252)</u>
Cash Flows Used by Capital & Financing Activities	(18)	(24)	6	(27)	9
Operating Transfer Out	(5)	(6)	1	(5)	-
Net Cash Provided (Used) by Investing Activities	(10)	(29)	19	89	(99)
Cash Redemptions from Investment Managers	<u>272</u>	<u>208</u>	<u>64</u>	<u>71</u>	<u>201</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(209)	(92)	(117)	(68)	(141)
Cash and Cash Equivalents, Beginning of Period	<u>344</u>	<u>436</u>	<u>(92)</u>	<u>504</u>	<u>(160)</u>
Cash and Cash Equivalents, End of Period	<u>\$ 135</u>	<u>\$ 344</u>	<u>\$ (209)</u>	<u>\$ 436</u>	<u>\$ (301)</u>



Bureau of Workers'
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July Internal Audit Open Discussion

Audit Plan

Planning Phase:

- Medicare Mandatory Reporting

Fieldwork Phase:

- Additional Allowance Consulting Engagement
- External Audit Assistance

Final Phase:

- Investment Performance Reporting
- Large Deductible Program
- Sysco Reimbursements
- Claims Quality Assurance Engagement

Completed Projects for September Quarterly Executive Summary (QES)

- MCO Audit #4
- New Claims Audit

Other

- Personnel
 - Posting for Chief of Internal Audit

12-Month Audit Committee Calendar

DATE	July 2011
7/28/2011	1. Internal Audit QES Review
	2. Overview of Fraud Investigations
	3. FY 2012 Financial Projections and Metrics
	4. 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)
	4. Semi-annual meeting with Inspector General
	November 2011
11/17/2011	1. Audit Committee Charter Review (2 nd Reading)
	2. External Audit Update
	3. Finance Education Session
	December 2011
12/14/2011	1. FY 2013 – 2014 Budget Process Education Session
	2. Annual Disaster Recovery/Business Continuity Plan
	3. Internal Audit QES Review
	4. FY 2010 Comprehensive Annual Report
	January 2012
Date TBD	1. Overview of the Annual Internal Audit Risk Assessment Process
	2. Quarterly Litigation Update (Executive Session)
	February 2012
Date TBD	1. Inspector General Annual Report (Executive Session)
	2. Education Session prior to QES (if necessary)
	March 2012
Date TBD	1. Internal Audit QES Review
	2. Discount Rate and Financial Metrics (1st Reading)
	April 2012
Date TBD	1. Discussion of External Audit
	2. FY 2013 Administrative Budget (1 st Reading)
	3. Financial Metrics

12-Month Audit Committee Calendar

	4. Quarterly Litigation Update
	May 2012
Date TBD	1. FY 2012 Administrative Budget (2nd Reading)
	2. Internal Audit Division Charter
	June 2011
Date TBD	1. FY 2012 Internal Audit Plan
	2. External Audit Update