



*Workers' Compensation Oversight Commission*

**AUDIT COMMITTEE**

*Agenda*

Date: March 29, 2007  
Time: 8:00 a.m.  
Location: William Green Building, Second Floor, Room 2

*Audit Committee*

**Denise M. Farkas, CFA, Chairman**  
Chief Investment Officer  
Sigma Investments

**Edwin McCausland, CFA**  
President,  
Investment Perspectives, LLC

**Mary Beth Carroll**  
Vice President,  
FirstEnergy

**Opening remarks**

Chairman's comments.....Denise Farkas

**Old business**

Approval of previous meeting minutes .....Denise Farkas

**New business**

1. External audit –FY 07 scope ..... Auditor of State

2. External audit update..... Schneider Downs

3. FY 07 2<sup>nd</sup> Quarter Executive Summary ..... Joe Bell

**Adjourn**

Adjourn .....Denise Farkas

The next WCOC  
Audit Committee meeting is scheduled for:

Date: April 26, 2007  
Time: 8 a.m.  
Location: William Green Building,  
Second Floor, Room 2

**WORKERS' COMPENSATION OVERSIGHT COMMISSION  
AUDIT COMMITTEE**

**THURSDAY, JANUARY 25, 2007, 8:15 A.M.  
WILLIAM GREEN BUILDING  
THE NEIL SCHULTZ CONFERENCE CENTER  
30 WEST SPRING ST., 2<sup>nd</sup> FLOOR (MEZZANINE)  
COLUMBUS, OHIO 43215**

Members Present: Denise Farkas, Chairman  
Mary Beth Carroll  
Edwin McCausland

Other Oversight Commission Members Present:  
Michael Koettters  
Bill Sopko  
Charles Kranstuber

Members Absent: None

**ROLL CALL**

Ms. Farkas called the meeting to order and the roll call was taken.

**OPENING REMARKS**

Ms. Farkas had no opening remarks.

**OLD BUSINESS: MINUTES OF DECEMBER 14, 2006**

Ms. Carroll requested that the minutes be amended to remove a typographical error in the chairman's comments. She moved that the minutes of the meeting of December 14, 2006, be approved as amended. Mr. McCausland seconded and the minutes were approved by unanimous voice vote.

## **NEW BUSINESS:**

### **SUB. H. B. 9—PUBLIC RECORDS/EXTERNAL AUDIT**

James Barnes, Chief Legal Officer, and John Williams, Assistant Attorney General, reported on Sub. House Bill 9, new legislation regarding public records. Governor Taft signed the legislation in December and it will be effective in March. An early version had removed an exception to the public records law regarding external audits of public agencies; the version as signed by the Governor keeps the exception, so there is no change in the law. Mr. Williams reported that the Office of the Attorney General will be preparing a comprehensive review of the legislation for distribution to state agencies. Mr. Barnes added that the Attorney General is responsible for preparing a model public records policy for agencies to use as a guide. The law will require public records training for all boards and commissions appointed by the governor.

### **AUDIT COMMITTEE CHARTER REVIEW**

Ms. Farkas reported that the Audit Committee had been in existence for one year and this constituted an appropriate time to review the Committee Charter.

Mr. McCausland stated that the charter includes no express provision regarding a budget. Ms. Farkas responded that broad authority for a budget is contained in the section on Authority. Tracy Valentino, Chief Financial Officer, reported that there is a spending code for Oversight Commission functions in the Administrative Cost Fund budget for BWC. This information can be added to the monthly financial reports. Ms. Farkas requested a future presentation on the budget for the Audit Committee.

### **AUDIT'S ROLE IN GOVERNANCE**

Joe Bell, Chief Internal Audit, presented a report from the Institute of Internal Auditors on *The Role of Auditing in Public Sector Governance*. The report presents a number of best practices from several sources.

Ms. Farkas asked when does an audit become a public record. Mr. Bell replied that different states have different standards. In Ohio, it becomes a public record when completed by the Ohio Auditor of State. If the audit is internal, it is always a public record. If done by an external private vendor, it can remain confidential. Mr. Williams added that the agencies cannot create a more restrictive standard.

Mr. McCausland asked what happens if an internal audit discovers wrong-doing. Mr. Barnes responded that the audit may then be subject to an exception to the public records disclosure law. For example, audit records in a criminal investigation become a “confidential law enforcement investigatory records.”

Ms. Farkas observed that it appeared to be a legislative oversight to have omitted internal audits from the list of records exempt from public records because all other investigative types are protected. This omission should be presented to the General Assembly for change.

## **REPORTS AND UPDATES**

Mr. Brubaker reported that the Wilshire study will be in draft form in two weeks. The final version is expected by the end of February. Mr. McCausland requested that the draft be circulated to Oversight Commission members when available.

Ms. Valentino reported on the Requests for Proposal (RFPs) for investment accounting software. Three responses were received for the in-house software and have been scored. There were also three responses to the RFP for out-sourced accounting software, but the scoring is not yet complete.

## **AUDIT CONFERENCE**

A motion was made, seconded, and unanimously approved that the Audit Committee enter executive session for an audit conference under Ohio Revised Code §121.22(D)(2) with Schneider Downs & Co. Inc., BWC management, and other members of the Oversight Commission.

## **RECESS**

There was a motion, second, and recess of the executive session.

## **ADJOURNMENT**

There was a motion by Ms. Carroll, second by Mr. McCausland, and adjournment of the public session by Ms. Farkas.

Prepared by: Larry Rhodebeck, BWC Attorney  
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February 20, 2007



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BWC INTERNAL AUDIT DIVISION

FISCAL YEAR 2007

2<sup>ND</sup> QUARTER

EXECUTIVE SUMMARY

JOE BELL, CHIEF OF INTERNAL AUDIT  
FRED BOOKER, DIRECTOR, INTERNAL AUDIT  
KEITH ELLIOTT, MANAGER, INTERNAL AUDIT



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**MEMORANDUM**

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TO: WCO Audit Committee Members

FROM: Joe Bell, Chief of Internal Audit

cc: Fred Booker, Director, Internal Audit  
Keith Elliott, Manager, Internal Audit

DATE: February 22, 2007

RE: FY 07 2<sup>nd</sup> Quarter Executive Summary report

Following you will find the Fiscal Year 2007 2<sup>nd</sup> Quarter Executive Summary report containing:

1. Audit comment status
  - 1a. Comments issued 2<sup>nd</sup> quarter
  - 1b. Managed Care Organization final reports issued
  - 1c. Comments outstanding as of December 31, 2006
2. Audit comment rating criteria
3. Audit follow-up procedures
4. Audits completed in Calendar Year 2006
5. Updated FY 07 Audit Plan

BWC INTERNAL AUDIT DIVISION  
COMMENTS ISSUED – 2<sup>ND</sup> QUARTER ACTIVITY

**Manual Override – October 2006**

**Business area: Operations and Finance**

The BWC Internal Audit Division conducted a special audit of the manual override processes involving employer experience modifiers (EM), claims costs or Micro Insurance Reserve Analysis (MIRA) reserves.

Activity reviewed:

- Obtained an understanding of the procedures and internal controls over manual overrides of employer claim costs, reserves, and/or experience modifiers in the Rates and Payments (R&P) system;
- Determined whether controls in place provided reasonable assurance that manual overrides were properly authorized, reasonable, accurate, and complete;
- Determined whether BWC policies and procedures relating to manual overrides complied with Ohio Revised Code (ORC) and Ohio Administrative Code (OAC) requirements; and
- Evaluated whether overrides were appropriate in light of law and policy.

Recommendation	Disposition
<p>1 Establish and maintain written policies and procedures to govern the processes for EM, MIRA reserve and claim cost overrides. <b>Significance Rating: Material Weakness</b></p>	<p>In June 2006, management developed and implemented policies over these processes. Management will develop a form to be used when requesting EM overrides. The existing Experience Modifier Override Policy will be modified to reflect process changes. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: January 2007</b> <b>Current resolution status: In-process</b></p>
<p>2 Reassign the function of making adjustments to employers' claim costs, reserves, or EMs to the BWC Actuarial Department. Management should also require signatures of senior management from at least two divisions for approval of overrides. <b>Significance Rating: Material Weakness</b></p>	<p>Rate Adjustment Unit was reassigned to the Actuarial Department in November 2006. Approval of overrides by management will be defined within the new policies. <b>Responsible Chief: Chief Financial Officer</b> <b>Target resolution date: January 2007</b> <b>Current resolution status: Implemented</b></p>
<p>3 Revise security profiles in the Rates and Payments system so management cannot perform override transactions. Management should review all override transactions performed by staff personnel to provide reasonable assurance regarding the appropriateness, validity, and accuracy of the overrides processed. <b>Significance Rating: Material Weakness</b></p>	<p>Management will eliminate the ability of supervisory personnel to perform override transactions and supervisors will review and approve staff override transactions to ensure appropriateness, validity and accuracy of the overrides processed. <b>Responsible Chief: Chief Financial Officer</b> <b>Target resolution date: January 2007</b> <b>Current resolution status: Implemented</b></p>
<p>4 Rates and Payments system should be modified to display all EM override activity and ensure MIRA reserves revert to previously predicted values upon the removal of overrides. <b>Significance Rating: Significant Weakness</b></p>	<p>In November 2006, recommended system changes were implemented. <b>Responsible Chief: Chief Information Officer</b> <b>Target resolution date: November 2006</b> <b>Current resolution status: Implemented</b></p>

Recommendation		Disposition
5	<p>Develop fixed and equitable rules controlling the effect on rating calculations of claim costs arising from factors outside employers' control and other instances in which override transactions are performed.</p> <p><b>Rating: Material Weakness</b></p>	<p>Management will develop rules, policies and procedures for employer rating adjustments.</p> <p><b>Responsible Chief: Chief Financial Officer</b>  <b>Target resolution date: March 2007 (rating calculation adjustments) and July 2007 (benchmarking)</b>  <b>Current resolution status: In-process</b></p>
6	<p>Resolve the current rating inequity between group rated and non-group rated employers. Management should also adopt standard controls to prevent rate manipulation by employer groups. Possible corrective actions could include restoring credibility factors assigned to employer groups to levels consistent with sound actuarial standards and prohibiting groups from utilizing claims experience as an eligibility criterion for group participation.</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>Management engaged an independent actuarial consultant to evaluate the group rating program and recommend changes. This report was received by management in December 2006 and is currently being evaluated. A product development group has been convened to evaluate BWC's group rating approach. Once these recommendations are received and a corrective course of action is developed, management will support implementation of the plan.</p> <p><b>Responsible Chief: Chief Financial Officer</b>  <b>Target resolution date: December 2006 (actuarial study); June 2007 (implementation plan)</b>  <b>Current resolution status: In-process</b></p>

Overall, the review found internal controls for the manual override process to be inadequate. There were three areas identified that could be improved:

- Lack of written policies, procedures and system documentation;
- Inappropriate segregation of duties; and
- Rating inequity between group rated and non-group rated employers.

Management is generally in agreement with the recommendations and has committed to an action plan for implementing the changes.

## Indemnity Claims Overpayment Audit – October 2006

**Business area: Operations, Finance and Legal**

As part of the Fiscal Year 2007 Internal Audit Plan, the BWC Internal Audit Division conducted an audit of the indemnity claims overpayment process. The purpose of the audit was to evaluate the adequacy of internal control design, assess the level of compliance with existing policies and procedures, and determine the accuracy of overpayments.

Activity Reviewed:

- Overpayment and Version 3 (V3) system adjustment processes from the actual identification of an overpayment to the completion of the appeal process;
- The level of compliance with BWC policies and procedures;
- Accuracy of the overpayment amounts in V3 and on the overpayment worksheets;
- Appropriateness of the absorption percentages set up in V3; and
- Assessed the adequacy of quality assurance procedures for overpayments.

Recommendation	Disposition
<p>1 Implement quality assurance reviews to provide assurance that overpayments are properly documented and are adjusted accurately and completely. <b>Significance Rating: Significant Weakness</b></p>	<p>Management will pursue a number of actions to ensure the accuracy of overpayment processing, such as V3 enhancements, Data Warehouse or IT overpayment reports, creation of an overpayment checklist, and modification of the compensation audit tool. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: June 2007 (Field Operations): April 2007 (Special Investigations Department): December 2007 (IT related)</b> <b>Current resolution status: In-process</b></p>
<p>2 Implement processes to provide reasonable assurance that absorption rates temporarily set to 0% or 100% are subsequently changed to the appropriate rates. <b>Significance Rating: Significant Weakness</b></p>	<p>Management plans to initiate procedures to ensure that absorption rates are set correctly. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: January 2007 (Special Investigations Dept.); April 2007 (IT related)</b> <b>Current resolution status: In-process</b></p>
<p>3 In order to ensure the required employer experience adjustments are performed, develop a process to ensure all claims that meet the criteria requiring a referral to the Employer Rate Adjustment (ERA) Unit are identified and forwarded to the ERA Unit. <b>Significance Rating: Significant Weakness</b></p>	<p>A checklist outlining the steps Claim Service Specialists (CSS) must follow when processing overpayments to ensure all employers receive appropriate adjustments will be created. Additionally, a question about the overpayment checklist will be added to the weekly compensation audit review performed by the Injury Management Supervisor (IMS). <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: April 2007</b> <b>Current resolution status: In-process</b></p>
<p>4 Implement a process to proactively identify claims that may contain potential overpayments. <b>Significance Rating: Significant Weakness</b></p>	<p>Management will request IT reports identifying claims containing possible overpayments and incorporate a V3 diary to the IMS when V3 calculates an overpayment. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: June 2007</b> <b>Current resolution status: In-process</b></p>
<p>5 Implement procedures requiring supervisory review and approval of requests for the removal or adjustment of overpayment amounts. <b>Significance Rating: Significant Weakness</b></p>	<p>Management will make certain that CSS's set a diary for the team leader to review accuracy of the overpayments. The long-term solution will include a V3 enhancement that will automatically trigger a diary to the IMS, which will ensure that the IMS reviews overpayments made by the CSSs. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: June 2007 (Operations); April 2007 (SID); December 2007 (IT related)</b> <b>Current resolution status: In-process</b></p>
<p>6 To enable BWC to effectively collect injured worker overpayments, determine best practices for injured worker overpayment collection and request legislative changes allowing the BWC to adopt the best practices identified. <b>Significance Rating: Significant Weakness</b></p>	<p>Management will benchmark with other jurisdictions' policies and procedures for addressing injured worker overpayments and develop a plan for implementing necessary changes. <b>Responsible Chief: Chief Financial Officer</b> <b>Target resolution date: June 2007</b> <b>Current resolution status: In-process</b></p>

Overall, internal controls for the indemnity claims overpayment process were inadequately designed. In addition, testing revealed high rates of noncompliance with policies and procedures and/or incomplete documentation. There were three areas identified for improvement:

- Lack of adequate quality assurance procedures;
- Insufficient or inaccurate documentation; and
- Existing collection statutes limit the ability of BWC to collect overpayments.

Management is generally in agreement with the recommendations and has committed to an action plan for implementing the changes.

## Electronic Funds Transfer and Electronic Benefits Transfer Account Processing – October 2006

**Business area: Finance, Operations and Information Technology**

The BWC Internal Audit Division conducted an audit of the processes related to electronic funds transfer (EFT) and electronic benefits transfer (EBT) accounts in place at BWC, consisting of EFT and EBT account activity.

Activity Reviewed:

- Obtained an understanding of the procedures and internal controls over EFT/EBT payments, including those for enrollment, update, and termination processes;
- Determined whether controls in place provided reasonable assurance that EFT/EBT payments were properly authorized, reasonable, accurate and complete;
- Performed testing of a sample of transactions to assess the accuracy and appropriateness of the payments and compliance with BWC policies and procedures; and
- Performed cross-matches of payment activity to identify processing errors or inappropriate payments.

	Recommendation	Disposition
1	Require the EBT card vendor to mail cards directly to recipients residing in foreign countries or develop an alternative process so cards are never in the possession of individuals with EFT Module access. <b>Significance Rating: Significant Weakness</b>	Management has modified the process to ensure that EBT cards are no longer routed to individuals with EFT Module access. In addition, the vendor will modify its processes and route cards directly to individuals residing outside of the United States. <b>Responsible Chief: Chief Financial Officer</b> <b>Target resolution date: March 2007</b> <b>Current resolution status: In-process</b>
2	Terminate EFT system access rights for separated individuals or positions no longer requiring such access. <b>Significance Rating: Significant Weakness</b>	The IT Department has started a new process for the periodic security reviews, which now include detailed information on every individual's system access. The process, although started, has been delayed because a member of the IT Security Department has been on disability since 12/1/2006. <b>Responsible Chief: Chief Information Officer</b> <b>Target resolution date: March 2007</b> <b>Current resolution status: In-process</b>

Recommendation	Disposition
3 Ensure all payments cashed following an injured worker's death are referred to SIU for possible investigation and actively monitor compliance with this policy. <b>Significance Rating: Significant Weakness</b>	Claims Field Technical Specialists communicated this policy expectation with the Service Office Staff. Field Operations will run a monthly query to identify warrants cashed after the date of death and ensure these are forwarded to the SIU. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: February 2007</b> <b>Current resolution status: In-process</b>
4 Limit system access for data entry to the V-3 EFT Module to Benefits Payable staff. <b>Significance Rating: Significant Weakness</b>	Call Center Representatives' access to the EFT Module has been modified to limit it to adding new data in order to receive calls from injured workers for initial set up of EFT accounts only (no access to view or change existing EFT account or routing numbers). <b>Responsible Chief: Chief Financial Officer</b> <b>Target resolution date: November 2006</b> <b>Current resolution status: Implemented</b>
5 Develop and periodically review Data Warehouse queries to assist in identifying company employee claims that should be assigned to the Special Claims Service Office. <b>Comment Rating: Significant Weakness</b>	Field Operations has established a monthly system cross-match of BWC employment data to claim payment data to provide assurance that company employee claims are properly assigned. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: June 2007</b> <b>Current resolution status: Implemented</b>

Overall, the review found internal controls for electronic funds transfer and electronic benefits transfer account processing to be adequate. There were a few areas identified for potential improvement:

- Inconsistent limitation of security access of individuals to specific functions;
- Lack of controls to ensure that improper payment activity is reported to the Special Investigations Unit; and
- Enhance controls to ensure company employee claims are properly referred to the Special Claims Service Office.

Management is generally in agreement with the recommendations and has committed to an action plan for implementing the changes.

## Claims Operational Review – September 2006

### Business area: Operations

The Internal Audit Division conducted an operational process review of BWC's claim services operations. The audit included a high-level end to end process review of Claim Operations from receipt of the First Report of Injury (FROI) to the claims determination stage, including the staffing process since claims staffing occurs frequently before determination is made. End to end reviews are intended to identify internal control points and any control gaps that may exist at the various data exchange points between and within the systems involved.

### Activity Reviewed:

- Provided high level documentation of operational processes and financial data flows.
- Determined if current internal controls are adequately designed.
- Provided recommendations to improve controls and reduce risks.

Recommendation	Disposition
<p>1 Implement a policy to require proof of identity when filing a claim or when making critical demographic updates. <b>Significance Rating: Significant Weakness</b></p>	<p>Management is exploring additional cross matches with other state agencies and is re-evaluating existing policies and quality measures. Management has also requested system enhancements to support this change. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: July 2007</b> <b>Current resolution status: In-process</b></p>
<p>2 Discontinue performing functions that are the primary responsibility of the MCOs. <b>Significance Rating: Significant Weakness</b></p>	<p>Management will re-evaluate the roles and responsibilities for entering and investigating new claims to avoid duplication of efforts. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: April 2007</b> <b>Current resolution status: In-process</b></p>
<p>3 Systematically assign new injury claims filed with no return to work date and an ICD-9 code to the lost time service offices. <b>Significance Rating: Significant Weakness</b></p>	<p>Management will incorporate into Triage Logic a way to identify more severe claims earlier to allow more timely claims management. Management will define the return to work field as a required data element when claims are filed with the MCO. Management will also engage in external communications regarding the importance of the return to work data. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: June 2007 (Triage); January 2007 (Education)</b> <b>Current resolution status: In-process</b></p>
<p>4 Enhance current V3 system to link an injured worker with multiple claims to the same case manager or team. <b>Significance Rating: Significant Weakness</b></p>	<p>Management is currently engaged in a benchmarking program to determine the most efficient customer service delivery model in the insurance industry. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: March 2007</b> <b>Current resolution status: In-process</b></p>
<p>5 Enact policy changes requiring that V3 and insurance searches are performed on all new injury claims filed. <b>Significance Rating: Significant Weakness</b></p>	<p>BWC is researching the possibility of receiving management reports from insurance services to validate that all claims are being entered into the system. Management is also exploring additional cross matches with other state agencies. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: March 2007 (Insurance Services Offices); April 2007 (IT related)</b> <b>Current resolution status: In-process</b></p>
<p>6 Research, benchmark, and devote the resources necessary to create, train, and implement the use of pertinent, financially focused performance and outcome measurements to support the staffing process. <b>Significance Rating: Significant Weakness</b></p>	<p>Management continues evaluating and refining the process for claims collaboration and staffing with multidisciplinary teams of claims, medical (MCO), rehab, Risk and Safety personnel. A cost/benefit analysis is being developed to demonstrate positive outcomes from effective claims management. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: March 2007</b> <b>Current resolution status: In-process</b></p>

Recommendation		Disposition
7	<p>Develop performance measures or goals to improve timeliness of updating the Industrial Commission Strategies Tracker.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Formalized training to educate staff on better notices of referrals and claim file preparation will be deployed by the end of 2006. A system change request was submitted to enhance the current Dispute Tracker functionality. An initiative has begun to measure staff on the timeliness of enacting Industrial Commission Hearing Orders. Performance Level 3 goals are being developed to support the agency mission.</p> <p><b>Responsible Chief: Chief Operations Officer</b>  <b>Target resolution date: January 2007 (education); June 2007 (IT related)</b>  <b>Current resolution status: In-process</b></p>
8	<p>Develop written procedures and work flows that are standardized throughout the operational areas and field offices.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management is continually developing and revisiting existing policies and workflows. Additionally, a newly proposed compliance function in the Operations Division is currently being explored to ensure consistency and compliance statewide.</p> <p><b>Responsible Chief: Chief Operations Officer</b>  <b>Target resolution date: April 2007</b>  <b>Current resolution status: In-process</b></p>

Our review was performed at a high level and focused on the design of internal controls over the claims operational process. Issues identified in this report indicate significant room for improvement of the control environment in the Injury Management area of operations.

Overall, internal controls for the claims operational process were inadequately designed. In addition, testing revealed inconsistency in application of policies and procedures and/or incomplete documentation. There were three areas identified for improvement:

- Lack of adequate policies and procedures;
- Insufficient identification of performance measures; and
- Inadequate system design for monitoring procedures.

Management is generally in agreement with the recommendations and since the review concluded, management has strived to make the recommended changes with most anticipated to be completed in the second quarter of 2007.

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

## Managed Care Organization (MCO) Final Reports Issued

through January 31, 2007

MCO Name	Final Report Issue Date ( A )	Audit Results Score ( B )	Vocational Rehabilitation Score ( C )
Premier Comp of Hometown	08/09/2006	97.45%	94.00%
1-888-OHIOCOMP	08/24/2006	94.75%	91.88%
Vantage Occupational Health Plan	09/13/2006	91.60%	91.75%
Health Management Solutions	09/15/2006	99.10%	97.75%
Medical Administrators	09/15/2006	94.60%	86.00%
CompManagement	10/13/2006	92.50%	89.51%
Genex	1/4/2007	91.58%	98.07%
Mercy Work Solutions	1/12/2007	95.35%	93.00%
CorVel	1/29/2007	80.90%	91.88%
3-Hab	1/30/2007	58.23%	91.76%

Note:

( A ) - The final report is issued after the MCO has appealed or waived their appeal rights. (Draft reports for all MCOs were issued before December 31, 2006.)

( B ) - A financial set-off, equal to 12.50% of the December 2006 monthly administrative payment, occurs if the MCO is below 85.00% on the Audit Results score.

( C ) - A financial set-off, equal to 12.50% of the November 2006 monthly administrative payment, occurs if the MCO is below 85.00% on the Vocational Rehabilitation score.

**BWC INTERNAL AUDIT DIVISION**  
**OUTSTANDING COMMENTS AS OF DECEMBER 31, 2006**

Recommendation	Disposition
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<b>Statutory Surplus Fund – December 2002</b>
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1	<p>The surplus fund portion of the State Insurance Fund is running increasingly large deficits, which totaled \$818 million as of the time of the audit (now in excess of \$1 billion). Pursue legislative change to increase surplus fund allocation.</p>	<p>Legislation is required to address the recommendation and management will consider including a request in the next biennial budget bill to increase the surplus fund allocation. It should be noted that premium dividends do not impact the surplus fund revenue allocation.</p> <p><b>Designated Chief: Chief Financial Officer</b>  <b>Target Resolution Date: July 2007 (legislative effective date)</b>  <b>Current Resolution Status: In-process</b></p>
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<b>“Death Bed” Settlements – October 2003</b>
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1	<p>The current settlement process contains no mechanism to help identify terminal conditions of IW attempting to settle their claims. As a result, we have seen instances in which injured workers die within the 30 day cooling off period or shortly after the settlement as the result of terminal conditions of which we were not aware. As a result, management based the settlements on normal life expectancies and overpaid for the settlements.</p>	<p>BWC will implement a new procedure requiring the injured worker and their representative to complete an affidavit verifying that there are no known conditions that would reduce the injured worker’s life expectancy. This process will be implemented as part of the Agenda ’06 LSS Pilot initiative currently in process. Current policy and law (SB 7) stipulate that if an injured worker dies during the 30 day cooling off period, BWC can withdraw from the settlement with good cause.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: December 2006</b>  <b>Current Resolution Status: Implemented</b></p>
2	<p>There is no formal policy guidance instructing CSSs to review existing medical for signs of terminal or other adverse health conditions when settling claims. Policy also does not instruct them on how to incorporate such findings into the value of the settlement.</p>	<p>Operations is implementing an affidavit that the injured worker and their representative will be required to submit validating that there are no known conditions that would reduce the injured worker’s life expectancy.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: December 2006</b>  <b>Current Resolution Status: Implemented</b></p>

Recommendation		Disposition
3	BWC has a risk that individuals settle PTD claims then go back to work and file another claim. IA recommended the adoption of a legislative change permitting BWC to off-set indemnity benefits for injured workers who settle their PTD claim, return to work and then subsequently file another claim for a similar condition.	<p>BWC is currently tracking and trending the filing of subsequent post-settlement claims to determine the need for statutory change. However, BWC's new claims investigation procedures are believed to be a compensating control. An investigation checklist is utilized, along with social security number or ISO cross-matches, to find out if an injured worker has any prior claims. While management agrees with and supports the recommendation, at this time legislative consideration has not been initiated.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution: June 2007</b>  <b>Current Resolution Status: Not implemented</b></p>
4	BWC is continually forced to pay amounts to IWs who settle their claims and then die in the 30 day cooling off period. In many of these cases, the IW had terminal conditions of which BWC was not aware. To help preserve BWC's ability to withdraw from the settlement where the injured worker dies in the 30 day cooling off period, IA recommends modifying the settlement application to include a stipulation that by signing the agreement, the injured worker agrees that their estate will not receive any payment if they expire prior to payment of the settlement.	<p>Current statute and policy provide that BWC can withdraw from settlements, with good cause, in the event the IW dies during the 30-day "cooling-off" period. BWC will include adoption of this clause in the new settlement agreement. The evaluation of whether or not to adopt this clause will include discussions of what, if anything, we will do if the IW refuses to sign due to the inclusion of this language. In addition, policy has been updated to require injured workers and their representatives to file an affidavit verifying that there are no known conditions that would reduce the injured workers life expectancy. Policy has been updated as well as Infostation and communication has been sent to field staff. The PTD Death Claim Settlement Affidavit indicating that the injured worker is not aware of any illness, condition or disease that would shorten their life expectancy was sent to field staff. The form must be signed and notarized.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: March 2007</b>  <b>Current Resolution Status: Implemented</b></p>

### New Policy Application Process Audit – November 2003

1	Current premium security deposit methodology inadequately protects against employers that obtain coverage and never report payroll or pay their premiums. The maximum PSD was set at \$1,000 in 1978 and never adjusted, providing inadequate coverage for larger state fund employers with hundreds of thousands of annual premiums. Also, BWC does not lapse employers not paying their full PSD.	<p>Increased focus and improvements with the collection and employer compliance efforts are expected to improve BWC's premium collection. BWC is evaluating how other state funds and/or private workers' compensation insurers collect their premiums. Once this project is completed, BWC will evaluate whether or not to further pursue the recommendation regarding the installment collection method. A work group is currently in the process of drafting a recommendation to address this audit observation. Concerns with the sufficiency of the Premium Security Deposit were addressed with the creation of the Premium Payment Security Fund. BWC Finance Division has performed an analysis of the sufficiency of the Premium Security Deposit and Premium Payment Security Fund.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: January 2007</b>  <b>Current Resolution Status: In-process</b></p>
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Recommendation	Disposition
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### Non-Complying Employer Audit – August 2004

1	BWC currently does not lapse employers that do not pay all premium amounts owed within a designated time period. While the remaining balances are certified to the Attorney General for collection, the employer continues to have active coverage. This is contrary to industry standard practice.	BWC will implement procedures to lapse all employers who do not pay their full premium. Language has been submitted for inclusion in the BWC budget bill. <b>Designated Chief: Chief Financial Officer</b> <b>Targeted resolution date: July 2007 (IT related)</b> <b>Current Resolution Status: In-process</b>
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### Direct Billing – January 2005

1	Rehabilitation payments for Bankrupt SI employers that opted out of the reimbursement program have never been recovered from the SIEGF.	Management will implement processes and procedures to ensure rehabilitation payments for Bankrupt SI employers are properly charged to the correct fund. <b>Designated Chief: Chief Financial Officer</b> <b>Target Resolution Date: March 2007</b> <b>Current Resolution Status: In-process</b>
2	Since November 2002, approximately \$496,000 of cancelled warrants have not been adjusted for SIEGF and Surety company billings. Failure to adjust for the cancelled warrants effectively results in over-billing to these entities.	Management will implement system enhancements. <b>Designated Chief: Chief Financial Officer</b> <b>Target Resolution Date: March 2007 (IT Related)</b> <b>Current Resolution Status: In-process</b>

### MDL and Capital Coin Fund Control Review – June 2005

1	Establish processes to monitor activities of investment managers to ensure compliance with agreements.	The Investment Division has coordinated with Wilshire Consulting and developed compliance and monitoring procedures for Private Equity Managers. In addition, the Investment Division is developing compliance and monitoring procedures for all other Investment Managers which will include manager mandate compliance as well as BWC's overall compliance to asset allocation per the current Investment Policy. These compliance procedures will build upon the planned investment accounting system which will include the ability to develop various compliance monitoring reports. <b>Designated Chief: Chief Investment Officer</b> <b>Target Resolution Date: December 2006 (Passive Managers Policies and Procedure); April 2007 (Active Managers Policy and Procedures)</b> <b>Current Resolution Status: In-process</b>
2	Ensure financial reporting receives fund manager and fund transfer approval documentation.	Management has implemented a fund account set-up form and an authorization process for authorization of outgoing transfers which requires dual signatures (one from Investments and one from Finance/Senior Staff). The procedures also require dual signatures for the funding of capital calls for private equity investments. Through discussion with Internal Audit, Management has identified some additional changes that will be made for these

Recommendation		Disposition
		<p>procedures. Investments and Finance are currently re-drafting the procedures for funding, transferring and opening accounts, which is targeted for completion in March.</p> <p><b>Designated Chief: Chief Investment Officer</b>  <b>Target Resolution Date: March 2007</b>  <b>Current Resolution Status: In-process</b></p>
3	The Capital Coin Fund contract permitted the manager to invest in anything deemed in the funds best interest. As a result, the manager invested in unintended areas, loaned money to others without appropriate securitization and formed sub-joint ventures with other parties.	<p>Management has implemented some changes to address this recommendation, which have included an Investment Policy Statement (IPS) that prohibits leverage of any kind. In addition, Investments is in the process of revising the IPS to include a specific statement prohibiting managers from lending BWC assets (with the exception of applicable private equity investments). This provision is scheduled for submission to the Investment Committee/Oversight Commission for vote at February's meeting. In addition, existing manager contracts will be amended to include this specific restriction. Once the Investment Policy Statement is modified, this specific restriction will no longer be required as the contracts will require compliance with the Investment Policy Statement, which once modified will include the specific restriction against lending BWC funds.</p> <p><b>Designated Chief: Chief Investment Officer</b>  <b>Target resolution date: March 2007</b>  <b>Current resolution status: In-process</b></p>
4	Establish controls ensuring that the Oversight Commission is informed of and approves significant changes in investment strategy by approved managers or funds.	<p>New policy and procedures have been established to review passively managed fund compliance on a daily, weekly, monthly and annual basis. The Investments department is in the process of developing similar controls for active portfolio managers. Newly selected Investment Managers will be monitored per these new policies by BWC Investment personnel. This monitoring will include manager mandate compliance as well as BWC's overall compliance to asset allocation per the current Investment Policy. These compliance procedures will build upon the planned investment accounting system which will include the ability to develop various compliance monitoring reports.</p> <p><b>Designated Chief: Chief Investment Officer</b>  <b>Target resolution date: December 2006 (Passive Manager Policy/Procedures Active); April 2007 (Manager Policy/Procedures)</b>  <b>Current resolution status: In-process</b></p>

### Disability Evaluators Panel (DEP) Audit – July 2005

1	There is currently a lack of communication to all providers of the ability to schedule exams and file reviews via block scheduling. This results in a large number of exams being performed by a relatively small number of providers.	<p>Any provider can perform block scheduling for examinations. Many providers not wish to perform block scheduling since it prevents them from seeing other patients. BWC is sending a letter regarding changes in DEP following the completion of a DEP work group. This letter will be sent once management has finalized the substantial aggravation document.</p> <p><b>Designated Chief: Chief of Medical Services</b>  <b>Target Resolution Date: February 2007</b></p>
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Recommendation		Disposition
		<b>Current Resolution Status: In-process</b>
2	We noted 40% error rates for the entry of notes in V3 for DEP exams/file reviews; 32% of claims had no exam worksheets imaged in V3; also noted a 67% error rate in updating the report receipt status in V3.	Field Office training is complete. QA is being developed to ensure error rates are mitigated. <b>Designated Chief: Chief of Medical Services</b> <b>Target Resolution Date: March 2007</b> <b>Current Resolution Status: In-process</b>
3	During the review, we identified unusual trends in scheduling exams or file reviews with certain administrative agents and/or providers (i.e., high % of exams all scheduled with one provider/Admin Agent). MRG received 32% of all Admin Agent scheduled exams compared with next highest of 9%.	Field Operations currently runs on a monthly basis a data warehouse query to review and trend the medical exams that are being scheduled. We are currently using this report to trend the data based on the data elements in this report. The data elements we can trend are by exam scheduler, administrative agent and provider. Additional data warehouse queries will be built once the PEACH (Provider Enrollment and Certification Housing) system is in place. Implementation of the PEACH system is slated for December 31, 2007. <b>Designated Chief: Chief of Medical Services</b> <b>Target Resolution Date: July 2007 (Medical Operations); December 2007 (IT related)</b> <b>Current Resolution Status: In-process</b>

### Bankrupt Self-Insured Claims – March 2006

1	Consider a legislative change to permit BWC to offset PTD compensation for an injured worker receiving Social Security Retirement benefits, potentially saving \$60 million annually; “grandfather-in” current PTD recipients receiving both benefits to avoid financial hardship to those individuals.	This requires legislative change. BWC will evaluate. <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: June 2007</b> <b>Current Resolution Status: In-process</b>
2	Consider refresher training to Bankrupt Self Insured CSSs regarding the method of calculation for Permanent Partial disability awards.	SI will proceed with training being scheduled for late 2006. The department has met with Performance, Training and Support outlining the training needs. <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: March 2007</b> <b>Current Resolution Status: Implemented</b>

### Medical Billing and Adjustments (MB&A) – May 2006

1	There is a general lack of controls over the identification and processing of medical bill adjustments which result in the need to adjust the employers’ claims experience data. <b>Significance Rating: Significant Weakness</b>	MB&A and Employer Services Management will develop controls, policies and procedures to ensure adjustments are reflected in the employer’s experience. <b>Designated Chief: Chief of Medical Services</b> <b>Target Resolution Date: March 2007 (IT related)</b> <b>Current Resolution Status: In-process</b>
2	Application system security issues were identified involving inadequate system security profiles to ensure proper segregation of duties was maintained and individuals possessing access to process medical bills and adjustments that no longer required such access. Segregation of duties issues related to individuals with both the ability to update the	IT Security will modify the system access review process to include annual reviews of all system user access capabilities; will also work with the various business units to define incompatible access capabilities and establish procedures to ensure that the undesired combination of access capabilities are not granted. Access capabilities for those possessing them inappropriately have been updated. In addition to implementing the report recommendations, IT transitioned all

Recommendation		Disposition
	<p>provider master file and process payments, which increases the potential for inappropriate or fraudulent payments.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>MIIS users from “EINs” to “A” numbers and established procedures for Medical Approving Authorities.</p> <p><b>Designated Chief: Chief of Medical Services</b>  <b>Target Resolution Date: March 2007 (IT related)</b>  <b>Current Resolution Status: In-process</b></p>
3	<p>For the adjustments requested with Explanation of Benefit (EOB) codes requiring preauthorization for payment, there was a lack of documentation to ensure appropriate authorization was performed in accordance with policy.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>MB&amp;A has requested changes in the system edits to suspend certain codes to ensure the proper authorization is obtained. Adjustments for out of state non-certified providers requesting more than twice the BWC fee schedule must meet the requirements per the revised edit and be approved by Medical Policy prior to processing. Management will evaluate the feasibility of implementation of automated edits. Currently, management is awaiting budget bill approval to move forward on addressing automated edits.</p> <p><b>Designated Chief: Chief of Medical Services</b>  <b>Target Resolution Date: June 2006 and November 2007 (IT related; Provider Master Agenda 07 Project)</b>  <b>Current Resolution Status: In-process</b></p>
4	<p>MB&amp;A procedures for payments processed in the medical payment systems permit the utilization of inaccurate receipt dates for the invoices, thereby resulting in inaccurate interest payments.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>All medical invoices received through the mailroom are now date stamped upon receipt. MB&amp;A worked with IT on MIIS bills received with legible date stamps to ensure accurate keying of bill receipt dates. Dates affecting interest payments are captured when the bills are entered. Management has requested funds in the biennium budget to pursue automated adjustments. Currently, management is awaiting budget bill approval to move forward on addressing automated edits.</p> <p><b>Designated Chief: Chief of Medical Services</b>  <b>Target Resolution Date: June 2006 and November 2007 (IT related; Provider Master Agenda 07 Project)</b>  <b>Current Resolution Status: In-process</b></p>
5	<p>To ensure the current interest payment methodology operates in accordance with statutory requirements, obtain clarification regarding the correct interest payment calculation and ensure MIIS and Cambridge Systems calculations are consistent.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>BWC will evaluate interest calculation methodology of all medical payments processed through MIIS and Cambridge. System changes will be considered.</p> <p><b>Designated Chief: Chief of Medical Services</b>  <b>Target Resolution Date: July 2007(IT related)</b>  <b>Current Resolution Status: In-process</b></p>
6	<p>MB&amp;A management should ensure department policy and procedure manuals are updated and personnel receive training for processing bills and adjustments on the two medical systems.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>The manual has been composed and is the final steps of being reviewed.</p> <p><b>Designated Chief: Chief of Medical Services</b>  <b>Target Resolution Date: December 2006</b>  <b>Current Resolution Status: Implemented</b></p>
7	<p>There are currently two active systems in place for processing medical payments with limited IT and HPP technical support. Maintenance of the two systems is inefficient and results in increased systems maintenance costs.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>MB&amp;A Management is in agreement with this recommendation and will work towards its completion when IT resources are available.</p> <p><b>Designated Chief: Chief of Medical Services</b>  <b>Target Resolution Date: December 2007 (IT related)</b>  <b>Current Resolution Status: In-process</b></p>

Recommendation	Disposition
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<b>Risk/Employer Operational Review – June 2006</b>
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1	<p>Policy and procedures were not written for most functions and activities. <b>Significance Rating: Significant Weakness</b></p>	<p>Policies and procedures are in development by the Policy Processing and EM Policy departments. The following procedures were finalized and placed on the EM resources Policy Processing page in 1/07: Cancellation of Coverage (Process or Void/Revised), Successorship Liability(new), U-117/U-118 Scenarios-HL Action Steps(new), Policy Primary and Mailing Address Update(new), Internal Control and Quality Assurance Review(new). The following procedures are in draft form: PA new business application (being revised), Business information update-same or similar ownership group(new), UDS employer electronic file room(new). <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: March 2007</b> <b>Current Resolution Status: In-process</b></p>
2	<p>BWC does not ensure all employers under jurisdiction of Ohio workers' compensation laws have obtained workers' compensation coverage. Systematic cross checks should exist with other state agencies. <b>Significance Rating: Material Weakness</b></p>	<p>Management is implementing cross-matches with other state agencies. According to IT, cross-matches with Taxation will not be available for approximately one year. The Special Investigations Unit is the lead on obtaining a memorandum of understanding permitting this cross-match. The Employer Compliance Department is also working with ODJFS to develop an information sharing agreement. Information sharing and referrals with ODJFS has begun resulting in approximately 100 referrals. As part of an information sharing agreement with ODJFS, the BWC Special Investigations Unit (SIU) receives an electronic file for cross matching purposes to detect potential fraudulent activity on the part of employers. The current agreement does not permit the information to be shared with BWC Employer Compliance Department. As a result of the SIU cross match, they referred approximately 50 candidates to employer compliance for review in the last year. Most of the irregularities detected were explainable following initial review and did not require an audit. <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: December 2006 and December 2007 (IT related)</b> <b>Current Resolution Status: In-process</b></p>
3	<p>Premium Security Deposits (PSDs) should be reviewed to ensure adequate controls are in place to limit BWC's loss exposures. The maximum PSD amount of \$1,000 was established in 1978 and never changed. Current PSD levels may not adequately cover expenses associated with employer's found to have high payroll/premiums, or pose an increased risk exposure based on their industry type. <b>Significance Rating: Material Weakness</b></p>	<p>Concerns with the sufficiency of the Premium Security Deposit were addressed with the creation of the Premium Payment Security Fund. BWC Finance Division has performed an analysis of the sufficiency of the Premium Security Deposit and Premium Payment Security Fund. <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: January 2007</b> <b>Current Resolution Status: In-process</b></p>
4	<p>Minimum premiums may not be adequate. The recently revised Ohio Administrative Code Section 4123-17-26, (administrative charge</p>	<p>BWC will evaluate the PSD, administrative charge, minimum premium and estimated payroll assessment. Upon executive approval, the modification to the PSD methodology, as well as</p>

Recommendation		Disposition
	rule) has been increased to cover the administrative expense of maintaining the policies that report no payroll. However, there is still inherent risk with the policies that have greater exposure due to industry type. <b>Significance Rating: Material Weakness</b>	administrative fee and minimum premium, could be implemented by 12/31/2007. In addition, management will analyze employers with a payroll premium of less than \$10. A work group is in the process of developing a recommendation on this observation. <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: July 2007 and December 2007 (actuary study and IT related)</b> <b>Current Resolution Status: In-process</b>
5	Current process controls do not adequately identify duplicate employer policies. Employers can avoid higher premiums by acquiring a new policy, while having an existing policy for the same business. <b>Significance Rating: Significant Weakness</b>	An Account Examiner was hired in June 2006 to complete quality reviews in the Policy Processing department. Various components of the WCIS enhancements to improve duplicate verification process are in system design and development phase and is scheduled to be completed by 6/30/07. <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: June 2007 (IT related)</b> <b>Current Resolution Status: In-process</b>
6	When payroll reports are received there is no review to determine if estimated PSDs are correct. The lack of review could result in lost revenue due to under reported estimates for premium security deposits. <b>Significance Rating: Significant Weakness</b>	BWC will annually run a report to analyze and recalculate PSDs. If it is agreed that the PSD calculation remain as it is, then a system change request will be submitted to evaluate the PSD amount and bill or refund based on current payroll information. <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: December 2007 (IT related)</b> <b>Current Resolution Status: In-process</b>
7	When an employer does not file their actual payroll report by the deadline, they receive an invoice estimating their payroll. Once payment is received, BWC does not pursue the employer to obtain the actual payroll record. Consider a penalty enactment. <b>Significance Rating: Significant Weakness</b>	Currently, a 10% cushion is “assessed” for the payment of estimated payroll vs. actual. Employer Compliance is targeting employers who have paid two or more consecutive periods of estimated payroll. Management will also begin sending letters to employers who have not submitted actual payroll to gather additional information. Employer Compliance audits of these employers are yielding results, with \$534,012 through 1/23/07. Audits have begun for employers who have paid estimated premium billings for the 1st half of 2006. A WCIS request was submitted to develop a systematic method to obtain actual payroll from employers that receive or pay an estimated payroll billing. Based on the audit strategy to target employers who paid two or more consecutive periods of estimated payroll and the planned system enhancement, it is not necessary at this time to pursue assessing an additional penalty. We will evaluate the effectiveness of our results and reconsider the penalty enactment if necessary. <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: January 2007</b> <b>Current Resolution Status: In-process</b>

### Time Reporting and Leave Usage – August 2006

1	Management should conduct research to determine the reason for modifications to ending leave balances. Policies and procedures for these modifications should be reviewed to	Management will research the discrepancies noted in the audit and will post corrected entries if necessary. In addition, management will follow-up with account clerks and payroll officers to ensure that any payroll adjustments are properly
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Recommendation		Disposition
	ensure that only properly authorized and valid adjustment entries are posted. <b>Significance Rating: Significant Weakness</b>	documented. To improve controls, management will request reports of such transactions from the Department of Administrative Services (DAS). <b>Designated Chief: Chief Human Resources Officer</b> <b>Target Resolution Date: September 2006</b> <b>Current Resolution Status: Implemented</b>
2	Develop controls to validate that payroll report information is entered accurately and completely into the database system and that the amounts in the payroll disbursement journals agree with the information on the payroll reports. <b>Significance Rating: Significant Weakness</b>	Account clerks are responsible for verifying that time entered is checked and re-checked. The Director of Payroll and Benefits selects one check sequence each pay period and checks the accuracy of the information. To provide additional controls regarding the accuracy of input, management will revise the current procedures to require the clerks to verify the input of other account clerks. Current procedures may change due to the implementation of OAKS. <b>Designated Chief: Chief Human Resources Officer</b> <b>Target Resolution Date: September 2006</b> <b>Current Resolution Status: Implemented</b>

**Average Weekly Wage/Full Weekly Wage Payment Rates –  
September 2006**

1	To ensure correct benefit payments to injured workers, management should implement effective quality assurance reviews to be performed on a periodic basis to provide a reasonable assurance that wage documentation submitted is sufficient and valid, and that wages are input accurately and completely in a timely manner. Wages set incorrectly can result in underpayment or overpayment to an injured worker. <b>Significance Rating: Material Weakness</b>	Injury Management Supervisors will facilitate a review of claims to ensure that wages are set accurately, notes entered regarding the request of wage information and that wage documentation is imaged into the claim. Management has requested a system change to trigger a diary if a wage entry is more than 40% higher than all other entries. <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: March 2007 (IT related)</b> <b>Current Resolution Status: In-process</b>
2	To avoid inappropriate overrides, implement additional controls, such as quality assurance reviews, to ensure that manual overrides of wage rates are valid and processed accurately. Policy should be updated to require sufficient documentation to be evidenced in the claim file to support the reasons for manual overrides. <b>Significance Rating: Significant Weakness</b>	Management will develop policies requiring compensation audit reviews to be performed by the service office managers for team leader manual wage rate overrides. This new policy will also clarify the documentation requirements for overrides. <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: January 2007</b> <b>Current Resolution Status: In-process</b>
3	To avoid incorrect Full Weekly Wage (FWW) rate calculations, management should remind Claim Service Specialists the significance of accurately and completely populating the "FWW Information Box". Consider implementing quality assurance procedures to ensure information is being populated in accordance with procedures outlined in BWC training material. <b>Significance Rating: Significant Weakness</b>	Management will create a data warehouse report outlining all claims with new compensation payments made in the prior week and the Injury Management Supervisors will be held accountable for ensuring the Full Weekly Wages are set accurately. <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: March 2007</b> <b>Current Resolution Status: In-process</b>

Recommendation		Disposition
4	<p>Take steps to resolve the inconsistencies noted between BWC policy and V3 system calculations of AWW/FWW payment rates. These inconsistencies may result in overpayments or underpayments to injured workers.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management will update policies to ensure they are consistent with the calculations in the V3 system. Management will also submit a system change request.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: March 2007 (IT related)</b>  <b>Current Resolution Status: In-process</b></p>
5	<p>To avoid inaccurate payments to injured workers, management should consider reprogramming the V3 system wage calculations for yearly wage frequencies. The system should divide by the actual number of years input into the wages screen rather than only using the date of injury as a basis for the number of years to divide by.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management has requested a system change to require V3 to divide by the actual number of years of wages input. Management will also update the wages policy for the yearly AWW calculations to be consistent.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: September 2006 (policy change); March 2007 (IT related)</b>  <b>Current Resolution Status: In-process</b></p>
6	<p>Currently, Claims Service Specialists can bypass a system warning when entering more than 52 weeks of wage information. This poses a risk that the AWW rate is not calculated in accordance with regulatory requirements and/or BWC policy. Management should consider implementing a systemic change to the current V3 system to prevent more than 52 weeks being input.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management requested a systemic change to the V3 system to prevent more than 52 weeks or 365 calendar days to be entered into the wages screen on all frequency types with the exception of "yearly". Also, the request recommended that an override option for supervisors be considered for the rare instances where an exception is needed.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: March 2007 (IT related)</b>  <b>Current Resolution Status: In-process</b></p>

### Medical Bill Payment Controls – September 2006

1	<p>The current BWC medical bill payment process includes various system edit checks to guard against inappropriate or fraudulent provider billings, yet inappropriate or fraudulent provider billings still occur within the system. We recommend that the Medical Services division consider the feasibility of implementing/developing clinical editing software and/or an Explanation of Benefits process as additional control measures in guarding against inappropriate or fraudulent provider billing.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management will require Managed Care Organizations (MCOs) utilize clinical editing software to avoid such payments as a top priority. This is in the MCVO 2007 contract which was signed in December 2006. Medical Services has included in the 2008 biennial budget a request for funds to support BWC licensing software to perform more comprehensive clinical editing. Management does not feel an Explanation of Benefit process is cost effective, since the injured worker is not responsible for any bill balance.</p> <p><b>Designated Chief: Chief Medical Officer</b>  <b>Target Resolution Date: January 2007 (MCO contract); December 2007 (clinical editing)</b>  <b>Current Resolution Status: In-process</b></p>
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**Note:** Comments designated as “Implemented” are based on managements’ assertions and have not yet been validated by Internal Audit.

## **BWC Internal Audit Division Audit Report Follow-up Procedures**

The *International Standards for the Professional Practice of Internal Auditing* specifically addresses follow-up in Standard 2500. One of our primary responsibilities as professional auditors is determining that the audit customer takes corrective action on recommendations. This applies in all cases except where "senior management has accepted the risk of not taking action." When senior management accepts the risk of not taking action, the 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"> <li>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.</li> <li>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.</li> </ul>	Audit Committee, Senior Management, Department Management
Significant Weakness	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>	Senior Management, Department Management, Audit Committee (optional)
Minor Weakness	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>	Department Management, Senior Management (optional)

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

## Audits Completed in Calendar Year 2006

Audits completed in Calendar Year 2006	Issue Date
Alternative investments - Private Equity Assets	November 2006
Manual Override Special Audit	October 2006
Indemnity Claims Overpayments	October 2006
Electronic Funds Transfer/Electronic Benefits Transfer Account Processing	October 2006
IT Business Management and Planning Unit Audit	October 2006
Manager Selection and Funding	October 2006
Claims Operation Review	September 2006
Settlement Process	September 2006
Medical Bill Payments Control Review	September 2006
Average Weekly Wage/Full Weekly Wage Payment Rates Audit	September 2006
Time Reporting and Leave Usage Audit	August 2006
Risk/Employer Operations Review	June 2006
Medical Billing and Adjustments Audit	May 2006
Bankrupt Self-Insured Claims Audit	March 2006

= Consulting project

# Internal Audit Division

## FY 07 Audit Plan – 3<sup>rd</sup> and 4<sup>th</sup> Quarter

Focus Area	Business area	3rd Quarter			4th Quarter						
		Jan	Feb	Mar	Apr	May	June				
External Audit Assistance	Finance										
Computer operations (general and key application controls; outsource)	Information Technology										
Coin Fund Liquidation Assistance	Investments										
Compensation Audit Review	Operations										
Salary Continuation Process	Operations										
Lump Sum Advancement Audit	Operations										
Retrospective Rating	Operations										
Pharmacy Benefits Manager Audit	Medical										
Investment Accounting System	Investments and Finance										
Investment Reconciliation Process Audit	Investments and Finance										
Purchasing Process	Finance										
Vocational Rehabilitation Process	Medical										
MCO Special Audit	Medical										
Custodial Services Audit	Investments										
Trade Processing Audit	Investments										
Permanent Total Disability Claims Audit	Operations										
Employer Payroll Reporting Process	Operations										
Medical Claims Payments Process	Medical										
Percentage Permanent Partial Disability Benefits Audit	Operations										
Returned Warrants Process Audit	Finance										
Investment Compliance Monitoring	Investments										
MCO Audits	Medical										
Electronic First Report of Injury Consulting Project	Medical and Operations										

= Consulting project

\* External audit assistance is typically required at the end of the fiscal year.