



Workers' Compensation Oversight Commission

**AUDIT COMMITTEE**

*Agenda*

Date: May 24, 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 March 29, 2007 meeting minutes .....Denise Farkas

**New business**

1. FY 07 External Audit Update ..... Tracy Valentino

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

3. FY 08 Revised MCO Audit Process ..... Joe Bell

4. Proposed Internal Audit Legislation ..... Joe Bell

**Adjourn**

Adjourn .....Denise Farkas

The next WCOC  
Audit Committee meeting is scheduled for:

Date: June 14, 2007  
Time: 8 a.m.  
Location: William Green Building,  
Second Floor, Room 2

**WORKERS' COMPENSATION OVERSIGHT COMMISSION  
AUDIT COMMITTEE**

**THURSDAY, MARCH 29, 2007, 8:00 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:

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 reported that the Audit Committee had not met since January. Nevertheless, members have had frequent contact with Schneider Downs & Co., Inc., and Tracy Valentino, Chief Financial Officer, and were fully informed of the wrap-up of the external audit.

**OLD BUSINESS: MINUTES OF JANUARY 25, 2007**

Mr. McCausland moved that the minutes of January 25, 2007, be approved. Ms. Farkas seconded and the minutes were approved.

## **NEW BUSINESS:**

### **EXTERNAL AUDIT—FISCAL YEAR 2007 SCOPE**

Jim Kennedy and Cindy Klatt of the Ohio Auditor of State reported on the fiscal year 2007 external audit. The Request for Proposals (RFP) will be issued on March 30. The pre-response conference will be held April 12. The Auditor hopes the audit can start in May in order to observe processes in Information Technology. Ms. Farkas and Mr. McCausland requested reports at the April and May meetings on the selection of the auditor and progress on the audit.

### **EXTERNAL AUDIT UPDATE**

Joseph Patrick, Schneider Downs, reported on the fiscal years 2005 and 2006 external audits. Mr. Patrick praised BWC management and staff for their forthrightness and overall desire to get the financial statements right. He also regretted his choice of words in the Letter to Management about the purging of certain BWC records. “Unavailable” would have been a better word. Records retention programs of private sector entities frequently result in the discarding of documents and Schneider Downs does not suspect impropriety.

Ms. Farkas asked about the restatement of net assets. Mr. Patrick stated that was done in working with Pinnacle Actuarial Resources, Inc., in finding there were no reserves for the Disabled Workers Relief Funds (DWRF) and the Self-Insuring Employers Guaranty Fund. Schneider Downs consulted with the Government Accounting Standards Board and determined that management should report the actuarially projected DWRF reserves as a liability on the balance sheet. BWC first requested that KPMG review prior audits and give its opinion on restatement. KPMG requested time to review, however, that would have unreasonably delayed completion of the audit. So Schneider Downs restated the fiscal year 2004 financial statements with that adjustment.

Mr. McCausland asked if steps were being taken to recover payments from KPMG for the fiscal year 2005 audit which was never completed. Assistant Attorney General John Williams stated he would inquire on the status of the review by the Office of the Attorney General on pursuing recovery of the fee.

### **FISCAL YEAR SECOND QUARTER EXECUTIVE SUMMARY**

Joe Bell, Chief Internal Audit, summarized the fiscal year second quarter report on projects by the Internal Audit Division. Significant completed projects include the audits of manual overrides, claims operations, and the Managed Care Organizations (MCOs).

Mr. McCausland asked if Internal Audit uses the findings from external audit management letters to launch projects. Mr. Bell replied that the division does not; however, the findings may be taken up in subsequent external audits.

Tina Kiehmeyer, Acting Administrator; James Barnes, Chief Legal Officer; and Ms. Valentino provided information on how BWC determines when legislative changes are necessary; which ones are submitted to the General Assembly in budget bills and other legislation; and which ones are deemed incapable of passage. Ms. Carroll requested that BWC keep track of proposed legislation which does not become part of a formal bill and that BWC communicate these items to the General Assembly.

## **ADJOURNMENT**

There was a motion by Ms. Carroll, second by Mr. McCausland, and adjournment by Ms. Farkas.

Prepared by: Larry Rhodebeck, BWC Attorney  
H:\Word\ldr\WCOC Audit 0307.doc  
April 17, 2007

## **Executive Summary**

### **Recommendation of Independent Public Accountant to Provide Audit Services**

On March 30, 2007 a Request for Proposals (RFP) was issued to Independent Public Accountants (IPAs) to secure audit services for five successive years beginning July 1, 2006 and ending June 30, 2011.

A pre-proposal conference was held on April 12, 2007 to provide information to IPAs desiring to respond to the RFP. IPAs represented at the conference were:

- Clark, Schaefer, Hackett
- GBQ Partners
- Deloitte & Touche
- Schneider Downs
- Crowe Chizek
- Balestra, Harr & Scherer
- Hemphill & Associates

The deadline for submission of proposals was May 3, 2007. Responses were received from the following IPAs:

- Schneider Downs
- Deloitte and Touche

The technical proposals were reviewed and scored by a review committee comprised of Barb Ingram, Tracy Valentino, Liz Bravender, and Joe Bell. After the scoring of the technical proposals, the Auditor of State provided BWC with the cost proposals.

The review committee recommended Schneider Downs to provide audit services for the period beginning July 1, 2006 and ending June 30, 2011. This recommendation has been provided to the Auditor of State Mary Taylor and is expected to be accepted. Schneider Downs provided audit services to BWC for fiscal years 2005 and 2006. Their past experience with BWC will allow them a distinct advantage in audit planning. It is expected that Schneider Downs will be poised to review and perform tests of the internal control structure during interim fieldwork in June. This should provide efficiencies during fieldwork to be completed in August and September.



BWC INTERNAL AUDIT DIVISION

FISCAL YEAR 2007

3<sup>RD</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: WCOG Audit Committee Members

FROM: Joe Bell, Chief of Internal Audit

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

DATE: May 24, 2007

RE: FY 07 3<sup>rd</sup> Quarter Executive Summary report

Following you will find the Fiscal Year 2007 3<sup>rd</sup> Quarter Executive Summary report containing:

1. Audit comment status
  - 1a. Comments issued 3<sup>rd</sup> quarter
  - 1b. Managed Care Organization final reports issued
  - 1c. Comments outstanding as of March 30, 2007
2. Audit follow-up procedures
3. Audit comment rating criteria
4. Updated FY 07 Audit Plan

BWC INTERNAL AUDIT DIVISION  
 COMMENTS ISSUED – 3<sup>RD</sup> QUARTER ACTIVITY

**Lump Sum Advancements Audit – March 2007**

**Business area:**      **Operations**

The Lump Sum Advancement (LSA) process was audited primarily due to a policy change effective December 1, 2004. Therefore, LSA payments were reviewed for the period of December 1, 2004 to September 30, 2006.

Activity Reviewed:

- Obtained an understanding of the BWC policy and procedures relating to LSAs;
- Assessed the adequacy of the design of internal controls over the processing of LSAs;
- Determined if controls in place provided reasonable assurance that LSAs were processed accurately and completely;
- Determined if LSAs were being processed in accordance with BWC policy and procedures;
- Determined if overall BWC policies and procedures relating to LSAs complied with the Ohio Revised Code (ORC) and Ohio Administrative Code (OAC) requirements; and
- Determined if applications for LSAs were reasonable and in compliance with the ORC and OAC.

	<b>Recommendation</b>	<b>Disposition</b>
1	<p>Improve controls to ensure the rate of payment is reset to the original rate once the LSA has been repaid. Furthermore, implement monitoring reports to allow management to identify and review LSAs that have reached their repayment date to ensure the rate is set back to the original rate.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Field Operations and Claims Policy management will implement controls to ensure the CSS adjusts the benefit rate back to the original rate upon repayment of an LSA. Policy will be updated to reflect that the plan will be rebuilt at the time of processing the LSA to ensure the plan will automatically return to the original rate once the LSA is repaid.</p> <p><b>Responsible Chief: Chief Operations Officer</b>  <b>Target Resolution Date: Field Operations (QA; IT Related) – November 2007; Claims Policy – July 2007</b></p>
2	<p>Implement improved quality assurance procedures to provide reasonable assurance that LSAs are being processed in accordance with BWC policy and procedures.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Field Operations will consider a review of all LSAs greater than \$5,000 to be performed via the Compensation Audit Tool. Field Operations will ensure the current LSA policy is updated to reflect this change. In addition, a checklist will be created to guide CSSs through the LSA process in order to reduce the likelihood of errors.</p> <p><b>Responsible Chief: Chief Operations Officer</b>  <b>Target Resolution Date: Field Operations (QA; IT Related) – November 2007; Claims Policy – July 2007</b></p>
3	<p>Implement a preventative systemic control which prohibits the CSS from paying more than two</p>	<p>Field Operations will submit a change request to have a pop-up box appear if there are two concurrent LSA</p>

	Recommendation	Disposition
	<p>concurrent LSAs in a claim. Additionally, update policy to clarify that the type of compensation is not a factor when determining the total number of LSAs running concurrently in a claim.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>plans and the CSS attempts to build an additional plan. Field Operations and Claims Policy will determine the best solution and update the policy.</p> <p><b>Responsible Chief: Chief Operations Officer</b>  <b>Target Resolution Date: Field Operations (QA; IT Related) – November 2007; Claims Policy – July 2007</b></p>

Auditor Opinion:

The overall design and processing appeared favorable and the items tested noted low to moderate compliance exception rates. However, the audit revealed areas needing improvement such as:

- Insufficient controls to ensure payment rates are properly modified upon repayment of the LSA; and
- Insufficient management reporting and quality assurance processes.

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

## Compensation Audit Review – March 2007

**Business area: Operations**

The Compensation Audit process was audited primarily due to a request from the BWC Field Operations management. The purpose of the audit was to assess the adequacy of designed internal controls and the level of compliance with existing policies. The audit scope consisted of reviewing a judgmental sample of claim payments processed during the period of June 1, 2006 to August 31, 2006.

Activity Reviewed:

- Obtained an understanding of the procedures and internal controls over the Compensation Audit process;
- Assessed whether the questions on the Compensation Audit Tool were adequate for each benefit type and in compliance with BWC policy and procedures;
- Determined whether controls in place provided reasonable assurance that the Compensation Audits performed were reasonable, accurate, and complete; and
- Evaluated whether Injury Management Supervisors (IMS) performed Compensation Audits in accordance with BWC policy.

	Recommendation	Disposition
1	<p>Take appropriate steps to provide reasonable assurance that the Service Office Managers (SOMs) are auditing the appropriate number of claim payments made by IMSs as outlined in current BWC policy.</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>Specific instructions and training materials were provided to the SOMs and designees and all IMS payments now require an audit via the Compensation Audit Tool.</p> <p><b>Responsible Chief: Chief Operations Officer</b>  <b>Target Resolution Date: February 2007</b>  <b>Current Resolution Status: Implemented</b></p>
2	<p>Implement controls on Compensation Audits</p>	<p>Management would like to implement an independent</p>

	Recommendation	Disposition
	<p>completed by the IMSs/SOMs to provide reasonable assurance that audits are completed accurately and consistently. Also, take appropriate steps to ensure IMSs are properly utilizing the Compensation Audit Tool and apply a consistent audit methodology to each question.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>quality assurance department to review and/or perform Compensation Audits. In the meantime, on a monthly basis, the SOM or designee will review IMS audits performed for compliance.</p> <p><b>Responsible Chief: Chief Operating Officer</b>  <b>Target Resolution Date: Field Operations – April 2007; Field Operations (QA Related) – December 2007</b></p>
3	<p>Update training materials for the new Compensation Audit Tool. Also, ensure policies and procedures are fully developed prior to any new implementation.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management will develop policy and procedures to be approved and published by the Claims Policy department. In addition, new training materials will be developed with the assistance of the Training Department.</p> <p><b>Responsible Chief: Chief Operating Officer</b>  <b>Target Resolution Date: Field Operations - May 2007; Claims Policy – June 2007</b></p>
4	<p>Update BWC policy and training materials to provide step-by-step guidance to the IMSs/SOMs on how to sufficiently and consistently complete the Compensation Audit review process, including how to provide timely and written feedback on errors noted, appropriate follow-up to ensure corrective action, and management reporting.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>The updated policy and procedures will include a consistent process to be developed by which the IMS is to provide feedback to the CSS on errors noted during the audit and to ensure timely corrective action has been taken.</p> <p><b>Responsible Chief: Chief Operating Officer</b>  <b>Target Resolution Date: Field Operations/Claims Policy – April 2007; Field Operations (QA Related) – December 2007</b></p>
5	<p>Take appropriate steps to provide reasonable assurance the IMSs comply with current policy regarding the appropriate number and type of payments to review each day.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Field Operations Administration will work with IT to develop one report to identify claims that have been bypassed, as well as, claims that have been audited by the IMS. Field Operations management will review this report periodically for compliance.</p> <p><b>Responsible Chief: Chief Operating Officer</b>  <b>Target Resolution Date: Field Operations (IT Related) – July 2007</b></p>
6	<p>Add or update questions for various compensation types to address policy and statutory requirements.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management will consider implementing a process similar to the prior claims management process in which payment relating to one specific policy would be sampled and reviewed on a quarterly basis by the IMS/SOM. This process would be used in conjunction with the Compensation Audits.</p> <p><b>Responsible Chief: Chief Operating Officer</b>  <b>Target Resolution Date: Field Operations – September 2007</b></p>
7	<p>Perform benchmarking to determine how similar organizations are performing quality assurance procedures over claims management activities in order to determine what might be considered best practice.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management will conduct benchmarking with similar organizations on the compensation audit process to evaluate “best practices” regarding quality assurance processes.</p> <p><b>Responsible Chief: Chief Operating Officer</b>  <b>Target Resolution Date: Field Operations – December 2007</b></p>

Auditor Opinion:

In most respects, internal controls for the Compensation Audit Tool process were adequately designed, however, enhancements are needed in order for the tool to be more effective. In addition, testing revealed noncompliance with several policies and procedures relating to the Compensation Audit process. There were three areas identified for improvement:

- Lack of Service Office Manager audits performed on Injury Management Supervisor payments;
- Lack of adequate quality assurance procedures; and
- Compliance with existing Compensation Audit policies and procedures.

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

## Salary Continuation Program – March 2007

**Business area:**      **Operations**

An operational review of the Salary Continuation (SC) program was conducted to determine if the salary continuation program is effective in reducing claims and case management costs.

Activity Reviewed:

- Provided high level documentation of salary continuation processes;
- Determined if current internal controls are adequately designed; and
- Provided recommendations to improve controls and reduce risks.

	Recommendation	Disposition
1	Develop management reporting to ensure initial contacts and all ongoing contacts are being made in SC claims. Enforce existing policy and implement the necessary incentives and penalties as a control to ensure that participating employers are meeting all reporting requirements. Conduct a data and status cleanup project on the SC claims in an unknown status. Amend the SC policy to clarify expectations, roles, and responsibilities of BWC as well as MCO staff. <b>Significance Rating: Significant Weakness</b>	A monthly program query will be created for each IMS to monitor completion of all initial contacts. In the interim, a quarterly monitoring control will provide ongoing monitoring of salary continuation claims. Management will review and update the Salary Continuation policy and distribute to CSS staff within 90 days. For claims in an unknown status, a clean up project will be undertaken by a management committee and prioritized. <b>Responsible Chief: Chief Operations Officer</b> <b>Target Resolution Date: July 2007; April 2008</b> <b>(“unknown claim” project clean up)</b>
2	Establish controls for monitoring and reporting wage submissions. <b>Significance Rating: Significant Weakness</b>	Wage information will be monitored for completeness by the IMS. <b>Responsible Chief: Chief Operations Officer</b> <b>Target Resolution Date: June 2007</b>
3	Enforce existing policy and implement the necessary incentives and penalties as a control to ensure that participating employers are meeting all reporting requirements. <b>Significance Rating: Material Weakness</b>	The IMS will review the claim for accurate wage documentation. The CSS and IMS will enforce compliance with the salary continuation policy for temporary total benefits via a BWC order. The SC policy will be reviewed with all CSS staff. <b>Responsible Chief: Chief Operations Officer</b> <b>Target Resolution Date: July 2007</b>
4	Ensure that injured workers receive sufficient information to make informed decisions concerning salary continuation.	A further analysis of this automation within V3 is necessary to evaluate this recommendation. If it is deemed appropriate, a system change control will be

	<b>Recommendation</b>	<b>Disposition</b>
	<b>Significance Rating: Significant Weakness</b>	submitted to implement this recommendation. The option letter and C55 serve two separate and distinct purposes in the process and should not be combined. The IMS will ensure proper documentation is sent for the option letter. <b>Responsible Chief: Chief Operations Officer</b> <b>Target Resolution Date: December 2007</b>
5	Regarding lost time changeovers, BWC should ensure return to work dates, salary continuation, and lost time changeovers are re-assigned to the proper service offices. Reserve these claims properly and apply the corrected dollar impacts to the premiums and to the state fund. Develop management reporting to keep future claims from being overlooked, and to eliminate adverse impacts to the state fund. <b>Significance Rating: Material Weakness</b>	Management will run a periodic query to ensure claims with eight or more days missed are properly updated with RTW information or reassigned to the field. This report will be a control until V3 system change controls are implemented. For claims in an unknown status, a clean up project will be undertaken by a management committee and prioritized. <b>Responsible Chief: Chief Operations Officer</b> <b>Target Resolution Date: Staffing - February 2007; Procedure Updates - June 2007; Quality Control-Implement - April 2007; Unknown claim project clean up - April 2008</b>
6	Revise the existing policy to contain clear and concise language for utilization of Independent Medical Exams and other claims management tools to avoid confusion and multiple interpretations. Ensure all IMEs are completed correctly and timely in accordance with BWC Policy. <b>Significance Rating: Significant Weakness</b>	Management will ensure the policy is updated and properly communicated to all Field staff. A data warehouse query will be used to identify claims that are collecting temporary total that have not had an exam. <b>Responsible Chief: Chief Operations Officer</b> <b>Target Resolution Date: December 2007</b>
7	Develop a standard referral system to identify, contact, educate, and track all employers who are not in compliance with the Salary Continuation Policy. Communicate to all of Field Operations that the Policy Department role is defining the policy, not enforcing the policy. Promulgate a formal rule to support program enforcement. <b>Significance Rating: Material Weakness</b>	Management will develop a referral process that will enable Employer Operations to track, monitor and enforce employer compliance with the Salary Continuance policy. The referral and monitoring process will also be documented in a rule. Field Operations staff will be notified and trained on the referral process once this is implemented. Management will develop a Salary Continuance rule to include penalties for non-compliant employers. <b>Responsible Chief: Chief Operations Officer</b> <b>Target Resolution Date: April 2008</b>

Auditor Opinion:

Overall, internal controls were not adequately designed for the salary continuation program and material control deficiencies were noted that require management's immediate attention. Some areas identified for potential improvement include:

- Ensure appropriate documentation is received from injured workers and employers and verified for adequacy and accuracy;
- Establish quality assurance procedures to monitor the accuracy of claim data contained within BWC's systems; and
- Develop legislative guidelines to promote employer compliance.

Our review focused on the existing salary continuation program controls and management should evaluate the future objectives and goals for the program. Options may include: elimination of the program; leave the program unchanged and enhance existing controls; develop a hybrid program that suppresses a portion of the reserves for indemnity costs; or consider time limitations for employers to pay salary continuation benefits.

## **MCO Special Audit – March 2007**

### **Business area: Medical Services**

At the request of BWC management, Internal Audit conducted a quick response audit of the return to work (RTW) dates submitted by a Managed Care Organization (MCO). An expedited response time for BWC's management was imperative due to its need to publish the MCO Report Card in May 2007 and decisions regarding future administrative payments. As such, objectives and scope for this audit were limited and focused.

Management's concern centered on the MCO's abnormally high percentage rate of zero return to work dates.

In determining the reason behind the unexpected increase in the MCO's zero return to work dates, results of our review indicate:

- MCO employees were directed to enact new data entry procedures, which do not agree with supporting data. In addition, these procedures are inconsistent with the MCO's policies and procedure manual and employee training materials. Regardless, the accuracy and integrity of data reported will require the MCO to perform significant revisions to months of data.
- Given the data reviewed and interviews conducted, additional review by the Special Investigations Department may be warranted.
- BWC management should immediately initiate with the MCO the correction of the data and review of its accuracy.
- BWC management should enact proactive monitoring procedures to detect and address any unusual trends in a timely manner.

## **Information Technology General and Application Controls Risk Assessment – January 2007**

### **Business area: Information Technology**

The Internal Audit Division worked together with the IT Division to voluntarily contract with an external auditing firm to perform a baseline review of the internal general and applications controls of BWC's IT Division. This high-level voluntary risk assessment review was conducted from November 2006 through January 2007.

The Bureau depends heavily upon information technology products and services; therefore, IT and Internal Audit sought to assess and confirm that current and planned processes are in alignment with sound IT risk assessment, audit, and governance precepts. BWC management has taken the position that its IT Governance approach should voluntarily embrace the concepts of accountability and responsibility as contained in the Sarbanes-Oxley Act of 2002. This IT Risk Assessment is one of BWC's first steps in a self-mandated compliance initiative related to the Sarbanes-Oxley Act.

The report issued allows BWC management, internal audit management and IT management to identify the gaps in the IT controls within the organization and to assess the risk of those gaps. The report also estimated the resources required to staff an internal IT audit team to continually audit and identify risks.

As part of the project, the report assessed seven IT general and application control sets including:

- A. General IT Organization and Management
- B. Application Systems Development and Maintenance
- C. Computer Operations and Facilities
- D. Operating System and Platform Support
- E. Security Administration
- F. Security Infrastructure
- G. Third-Party Services

The IT general and application control objectives used a subset of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework model for internal controls. The project applied a base set of control objectives from the COSO framework and Sarbanes-Oxley Guidelines. At the request of the BWC IT management additional objectives within the control objective were requested to compare against CobiT and/or other industry standards and best practices.

	Finding	Disposition
1	There is no documentation for personnel assigned access control over powerful utilities that may alter data or programs. <b>Significance Rating: Material Weakness</b>	Management will formally document the approval process including who keeps documentation of approvals and periodic reviews of who has access. Management will determine if other such utilities exist so that they can be addressed. Management will develop a formal policy on Super claim use <b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: December 2007</b>
2	Security violation and monitoring is not in effect. Trending or advanced analysis for security violations is, therefore, not performed. <b>Significance Rating: Material Weakness</b>	Management disagrees that security violation and monitoring is not in effect. We agree that more needs to be done. In some cases, reporting tools to analyze the server logs would need to be acquired and appropriate security logging on the servers would need to be turned on and in all cases the logs need to be retained longer. Steps will be taken to establish a more pro-active approach to monitor powerful system IDs. <b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: March 2008</b>
3	There is no periodic process to evaluate changes in architecture and security impacts to the asset base. There is no consistent process in place to ensure that vulnerabilities are mitigated. <b>Significance Rating: Material Weakness</b>	The application development methodology will be modified to include a security review at the beginning of the lifecycle. Those changes will incorporate security testing prior to implementation. Also, management will assess existing processes and assign ownership to formulate new processes. <b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: March 2008</b>
4	Programmers have access to the production environment. There is clearly a segregation of duty issue with programmer access to the production environment in the Applications Maintenance/Support Applications Technology, and ICC groups. Some applications do not have a version control management system. <b>Significance Rating: Material Weakness</b>	Management will add version control to financial applications. Business customer admin rights will be removed. Version control software will be used for financials if not replace by OAKS. Migration will move to the Application Logistics team as was done with all other applications. <b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: June 2009</b>

	Finding	Disposition
5	<p>Individuals within the IT department are sometimes responsible for performing any end-user data processing activities via items such as SuperClaim and SPUIs.</p> <p>Many individuals in IT have read-only access to production data.</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>Control over production data access will be reviewed to determine if more controls, restrictions and/or policies need to be in place. Test environments using production data will be reviewed for policies or changes that are needed.</p> <p><b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: May 2008</b></p>
6	<p>All requests for end-user access to LAN/WAN/Application/Database resources are not documented or maintained. Revocation of terminated employees does not consistently occur at the application/application role level. It is possible for terminated user accounts to remain in the system.</p> <p>There is no regular review of user/role definitions at the business process level.</p> <p>Passwords syntax controls within the Windows environment is not functioning as initially expected (per Security policies).</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>Management will create a single electronic site and template for storage of access provision procedures. These procedures would be approved through a logged process. An assessment of the separation procedures will be done on a periodic basis to confirm that they are being followed correctly. Assessment of who currently has access, documented justification for continued access, and restriction of access for those without justification will be completed. Changing of service account passwords as server administrator personnel change would require resources and time for coordination, testing, and implementation on an ongoing basis. Evaluation of magnitude and impact of the change and an implementation plan will be completed.</p> <p><b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: July 2008</b></p>
7	<p>There is a lack of IT general controls in and around the QED, Oracle Financials, and IVR applications. QED and Oracle are material to the financials for the organization, thus is a serious issue.</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>QED will be replaced; however the new system will have policies in place for segregation of duties. Within the next fiscal year Oracle Financials should be replaced by the new OAKS system. We will document the current duties and review what segregation is needed. A review will be done on the migration and logistics procedures for Oracle Financials.</p> <p><b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: May 2008</b></p>
8	<p>Powerful ID's are neither logged nor monitored. Activities performed using a powerful ID or powerful utility are neither captured nor reviewed.</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>Procedures have been identified for approval to grant authority to get access to Super Claim. An audit was performed and people no longer needing access have been removed from the group. The process still needs to be formally documented including who keeps documentation of approvals and periodic reviews of who has access. Implement annual re-certification of who has access to these IDs.</p> <p><b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: March 2008</b></p>
9	<p>The documented criteria for approvals required for a change via the CMT process is sparse. It basically indicates that four director approvals are required for production changes, plus anyone the requestor thinks that would need to be "aware" of the change. There is no governance to ensure affected parties are on the approval. Changes are sometimes made without all</p>	<p>Management disagrees with the recommendation that formal signoffs are required for key change management decisions regarding authorization to perform work for projects or maintenance activities and key software development life cycle deliverables. As part of the established development life cycle, IT management and business management agreed to not</p>

	Finding	Disposition
	<p>approvers having approved the change. There is no tracking or escalation of such incidents. Some changes upgrades are done without a CMT. No business process/IT cross reference maps are documented. There is no (or very limited) business process documentation.</p> <p>There are no formal sign offs for the SDLC deliverables except for the CMT process (which allows for electronic signoff).</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>require these signatures and this has worked well in the current environment. Additionally, some form of actual or electronic signature (e-mail) is required for security changes. However, management agrees to take the following action to address the CMT recommendations:</p> <ul style="list-style-type: none"> <li>• Training on the change management process that has been made available to all IT groups will be made mandatory and completed for all IT groups</li> <li>• A monthly report documenting the number of changes implemented without all approvals will be distributed to Directors for review on a monthly basis.</li> <li>• Automated identification of necessary approvals is currently being analyzed. Automated identification of necessary approvers based upon the nature of the request will be expanded as much as possible.</li> <li>• Reports displayed in the weekly change management review meeting will be updated to identify the CMTs still requiring approvals.</li> </ul> <p><b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: September 2007</b></p>
10	<p>There is an inconsistency in approval of hardware modifications. Formal processes do not exist to determine if system software needs to be modified (e.g. patches/upgrades), including required documentation and approvals required. Asset management is not used pervasively across IT to track critical elements of all relevant IT assets.</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>Management will re-communicate the requirement that all OS software and hardware changes must go through the BWC IT change management process for review and approvals. Management will be responsible for self-assessing changes in their area to determine whether changes are being implemented without going through the change management process. Adherence to BWC's IT change management process will be incorporated into the performance review process.</p> <p><b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: May 2007</b></p>
11	<p>The process by which projects tailor the common methodology has no oversight or enforcement for a basic set of required project activities. There are no formal criteria for tailoring based on project size. As such, project activities, deliverables, and levels of formal documentation and/or approvals vary greatly and are not predictable. Data warehousing has limited structure regarding a documented SDLC.</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>There is a formal methodology for large and small projects. We have not formally drawn the line between what is small and large. That is up to the Project Manager. This works quite well. Where the improvements are needed is in the oversight of the process.</p> <p>Disagree with the comment "Data warehousing has limited structure regarding a documented SDLC". The Data Warehouse team uses a derived methodology based largely on the contracted vendor's SDLC methodology. While this methodology is not the same as the Applications' SDLC methodology, it is documented and integrated into BWC's migration procedures. Management acknowledges that small changes between releases will not use the full SDLC</p>

	Finding	Disposition
		<p>methodology. Management will add a clear definition to the methodology on Small/Large Projects.</p> <p><b>Responsible Chief: Chief Information Officer</b>  <b>Target Resolution Date: December 2007</b></p>
12	<p>There is no business continuity in the DRP. The disaster recovery plan (DRP) has only been tested for legacy applications and databases; exposure exists for e-generation, Oracle Financials, QED and some client/server systems. The current DR plan does not appear to be sufficiently robust to ensure effective IT support in the event of a significant system outage. IT governance is weak regarding established KPI's/Metrics. While some formal reporting exists (director status reporting, PMO stoplight reporting), there is little in the way of KPI-based (metric-based) reporting or accountability. There is no internal process (self-audit, internal IT audit, or otherwise) to continually evaluate and/or monitor the adequacy and effectiveness of the IT controls environment. No formal procedures have been established or documented to classify application and underlying data from a privacy perspective. While information privacy is monitored by Legal and IT is informed by Legal of the ramifications, the process is informal and goes unmonitored. Processes and procedures have not been established to ensure adherence to federal, state, and local regulations. Such regulations and regulatory bodies include: Sarbanes-Oxley and include areas such as business resiliency and data retention, etc.</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>Management will address the IT Business Continuity by determining ownership of business continuity plan. Management will emphasize people portion of IT plan during review after next test and establish periodic walk through of logistical &amp; people aspects of plan. Management will address the encryption issue by: implementing encryption of off site Data Recovery (DR) tapes for IBM mainframe, implementing encryption of off site DR tapes for open systems, and implementing encryption of laptop and tablet disks.</p> <p><b>Responsible Chief: Chief Information Officer</b>  <b>Target Resolution Date: December 2007</b></p>
13	<p>For each of the mission critical applications, databases, and operating systems, the functions, transactions, menus, screens, etc. that update mission critical financial data have not been identified/documented. Security design documents are not reviewed, updated, nor approved.</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>We are in the process of installing for application assets. The Flashline/Aqua Logic Enterprise Repository project will be implemented in three phases. First, all SOA services and the enterprise architecture framework (EAF) will be documented. Second, all application components and database components will be documented. Third, all other system components that are of value for impact analysis will be included.</p> <p><b>Responsible Chief: Chief Information Officer</b>  <b>Target Resolution Date: Phase 1 – July 2007; Phase 2&amp;3 – July 2008</b></p>
14	<p>The Network Group has limited IT controls in place in terms of formal change management.</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>Management will create a process (or modification of an existing process) to confirm that production/performance environment changes are tested by the relevant parties outside of the Network area prior to implementation.</p> <p><b>Responsible Chief: Chief Information Officer</b>  <b>Target Resolution Date: August 2007</b></p>

	Finding	Disposition
15	<p>The definition of unscheduled (emergency) changes is widely inconsistent across groups or in some cases not defined or documented. Not all maintenance/development items are recorded because small maintenance items may not be recorded. Reporting/metrics are compromised with the inconsistent and incomplete categorization and tracking. There are no established metrics to track emergency changes (e.g. when it occurs in relation to changes, what modules / application).</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>Management disagrees but will review the potential for formalized signoff process in an effort to address control concerns. Currently, management follows a process in place, but not uniformly across the division. Implementation of the project office and Clarity will assist in the management of this situation. Combine this with the initiation of a true change management, configuration management and release management process will allow for the entire division to be set on a level playing field.</p> <p><b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: September 2007</b></p>
16	<p>The processes used to identify security vulnerabilities for each technology asset are inconsistent. Security design documents are not reviewed, updated, nor approved. There are inadequate mechanisms in place to ensure that security policies are being followed by users.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Drafts of security policies have been completed and submitted for review and approval. Processes to support the policies would need to be developed if they are approved.</p> <p><b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: September 2007</b></p>
17	<p>Business impact analysis for changes is performed inconsistently prior to initiation of development or acquisition. Although some deliverables in the project life cycle allow for business impact analysis, this activity is frequently not performed or, in some cases, is performed without documented results. As a result, many projects or maintenance activities have no business impact analysis, cost benefit analysis, or business benefit assessment upon which to formally base decisions.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>IT will work with the business to document process to include business impacts and will be adopting the ITIL practice which includes business impacts as part of the methodology. The issue of software impact analysis is being addressed with the current efforts to implement the Enterprise Repository.</p> <p><b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: June 2008</b></p>
18	<p>No consistent project post evaluation conducted to determine project performance. Lessons learned are infrequently captured and/or used in future projects. User documentation is typically provided for most applications, however, changes to user documentation as a result of system changes are not always reflected. System documentation is not present for most applications and is not consistent.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management will examine after-action review process for customer satisfaction, lessons learned and harvesting the benefits (benefit realization).</p> <p><b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: June 2008</b></p>
19	<p>No evidence of review or monitoring processes for assurance of SAS-70 or Agreed Upon Procedures reports for any outside service other than Cambridge.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>In December 2006, IT management realized the omission of an internal group to monitor and facilitate controls and reorganized some of its departments. It added the role of IT governance and controls to ATIS (Advanced Technology Integration Services) and this department changed its name to Information Technology, Strategy, and Governance (ITSG). One of the new responsibilities of ITSG is to monitor and advise on risks, changes relating to SAS70 audits.</p> <p><b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: August 2007</b></p>

	Finding	Disposition
20	<p>The DRP is not updated as part of the overall change management process. There are pockets of asset management, but there is no universal or consistent asset management tool or process currently being utilized.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Much of this will be accomplished with the Enterprise Repository (AKA Flashline) efforts currently underway. All software assets and their dependencies will be documented in this repository. BWC currently uses Oracle Financials to track all physical assets over \$300, per OBM requirements. Currently the flow of assets, from receipt to retirement (including any/all movement) is being reviewed for consistency, accuracy, and policy compliance. Long term – the Oracle Fixed Asset (OAKS) tool needs to be reviewed to determine if that is the appropriate tool to be used, as well as owners, users, maintenance, and disaster recovery plans need to be identified.</p> <p><b>Responsible Chief: Chief Information Officer</b>  <b>Target Resolution Date: June 2008</b></p>
21	<p>There is no long range IT plan (i.e. 3-5 year plan) that is commonly understood or commonly used to make key IT decisions. Of the plans that exist (the biennial budget, the IT prospectus, and Agenda 07), none of these are universally recognized as the long range plan and none of these fully meet the scope required of a long range plan.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management has recognized that this shortcoming needed to be acknowledged and remedied, therefore there was a reorganization of ATIS to formally include the role of IT strategic planning, into a new group ITSG, Information Technology, Strategy, and Governance to address this issue. Management is aware that the current IT Strategy planning process and documentation should be improved, and integrated into best practice frameworks (ITIL, COBIT, Balanced Scorecard frameworks, and integration of policies, standards, and procedures with our Enterprise Architecture Framework.).</p> <p><b>Responsible Chief: Chief Information Officer</b>  <b>Target Resolution Date: June 2008</b></p>
22	<p>Security testing is not consistently or always performed.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Emergency change policies will be redefined.</p> <p><b>Responsible Chief: Chief Information Officer</b>  <b>Target Resolution Date: December 2007</b></p>
23	<p>Security testing is not consistently or always performed after system software modifications and/or version upgrade/patch to ensure key security functions have not been adversely impacted at the operating system layer, at the application security layer, and at the application functionality layer.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management will review existing security testing processes for system software and identify necessary improvements.</p> <p><b>Responsible Chief: Chief Information Officer</b>  <b>Target Resolution Date: December 2007</b></p>
24	<p>The architecture of the entire IT environment is not documented from a security perspective such that any changes to the architecture can be properly assessed prior to implementation in production.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management disagrees with this finding. We do have network security documentation; however, it is not generally available for obvious reasons. Over the last 6 months IT has hired a full time architecture engineer to address the complexity and security of our network architecture. The engineer's input has allowed for the simplification of our network design and the strengthening of our security. IT's plan is to continue down this path, implementing a formal change management process that will include even more documentation. Periodic reviews of security</p>

	Finding	Disposition
		documentation will continue and strengthen via formal change management processes. Since this finding, an external vulnerability assessment was completed by OIT with positive results and a good rating in April 2007. <b>Responsible Chief: Chief Information Officer</b>
25	There is inconsistency in testing standards for hardware. There is inconsistency in security procedures for the testing of new hardware. <b>Significance Rating: Significant Weakness</b>	Management will review existing security testing processes for system hardware and identify necessary improvements. <b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: December 2007</b>
26	The organization does not have consistent, documented policies and procedures concerning data transmission to external sources. <b>Significance Rating: Significant Weakness</b>	A draft of a policy regarding data transmission has been completed. Once the policy regarding transmission of data is complete, it will be reviewed again with appropriate business functions and finalized. After it is completed, the policy will be communicated to appropriate employees. <b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: August 2007</b>
27	The assignment and communication of initial/reset passwords for powerful accounts is not rigorous from that of regular accounts. <b>Significance Rating: Significant Weakness</b>	An announcement has been added to the back of the envelope informing the recipient to notify IT Security in the event that it appears that the envelope has been tampered with when they receive it. The internal letter will be modified with similar instructions to notify IT security if the envelope has been tampered with or if the envelope does not include the announcement. <b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: June 2007</b>
28	No capacity planning regarding data center power. Data centers do not have dual power sources for critical equipment. <b>Significance Rating: Significant Weakness</b>	Management disagrees. A power distribution data base is maintained by BWC Facilities Management staff and is reviewed periodically. Additionally, it is used to assess the impact of new hardware installations. However, there does appear to be adequate backup among the generators for the computer facility. Additionally, scheduled testing of generators is being confirmed. <b>Responsible Chief: Chief Information Officer</b>
29	The Integration Competency Center has changed code directly in the production environment without appropriate compensating controls. <b>Significance Rating: Significant Weakness</b>	Management disagrees. Application Changes are not made directly in Production. They are made in test regions then migrated to production when ready. The ICC interview references two occasions when the ICC Team performed migrations outside of normal procedures. These two occasions were during times when the production environment was under duress. Management from both EDM and Application witnessed the testing and implementation of the changes. The changes were urgent, were broadcast to the affected parties and were approved by Applications and EDM management. These two occasions are in no way the normal course of procedure. But they were

	Finding	Disposition
		necessary to deal with an urgent issue. Adequate controls were used. <b>Responsible Chief: Chief Information Officer</b>
30	Background checks are performed only on unclassified resources. Resources with access to production data, production systems, the data center, and production source code (both employees and contractors) have no background checks. There is inconsistency with training. There are pockets within IT that perform some training planning, but cases are isolated and not uniform. There is no assurance that proficiency is being maintained within respective groups. <b>Significance Rating: Significant Weakness</b>	Management will contact other state agencies to determine if background checks are required for their positions. Management will also review existing positions to determine positions of risk and will work with Law and labor to determine future action. Training policies and procedures will be developed and reviewed quarterly. <b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: July 2007</b>
31	Background checks are not conducted for contract employees. <b>Significance Rating: Significant Weakness</b>	Management disagrees. Before a contractor is hired at BWC the request includes the necessary skill sets and qualifications needed to be considered for the particular job. The individual contractor is then interviewed by the requesting manager who determines if the contractor meets the qualifications. Then, when a contractor is selected the SOW and/or contract includes the required qualifications and the necessary deliverables for the service. Once the contractor begins work at BWC if he/she does not have the necessary knowledge or skill to perform they are terminated. <b>Responsible Chief: Chief Information Officer</b>
32	There is an inconsistent adherence to corporate policies and standards for contract employees within the Network Group. <b>Significance Rating: Significant Weakness</b>	Management disagrees. Beginning November 2006 all contractors, existing and new, have to sign a contractor agreement. This agreement states that they will abide by all BWC policies, specifically citing internet usage and ethics, among others. The document is retained with the vendor file located in the IT Business Management and Planning department. Any contractors who refuse to sign or abide by BWC policies are terminated. Also, all SOW's include the scope of work and deliverables. The contractors are well aware of who they are reporting to and their responsibilities and requirements. <b>Responsible Chief: Chief Information Officer</b>
33	No monitoring or periodic review of outsourced services to ensure that contractual expectations/obligations are met.  Contract service agreements for the Network Group are inconsistent compared to other groups regarding scope, reporting responsibilities, restrictions, and compliance to corporate policies and standards. <b>Significance Rating: Significant Weakness</b>	Management disagrees. We do hold them accountable and can terminate them for any reason that we so desire, including not meeting expectations, whatever they are. The SOW states exactly what is expected. The only thing that I could suggest would be that more communication is given to the supervisors of their responsibility for directly monitoring the contractor's performance and remind them that they are accountable for their staff. Perhaps an agreement for the supervisor's to abide to – those who have

	Finding	Disposition
		contractors or are requesting contractors. <b>Responsible Chief: Chief Information Officer</b>
34	There is no independent QA group. Retention of test results is inconsistent. Evidence does not consistently exist across application areas to support the claim that end-user testing results matched expected results. <b>Significance Rating: Significant Weakness</b>	Since this review was done a QA team was formed in applications that are responsible for all Applications. Testing scripts and plans are maintained for critical systems. Processes are being developed to be consistent across all applications. Management will examine the placement of this function to ensure that there are proper segregation of roles and responsibilities. <b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: August 2007</b>
35	There is a concern over existing data retention requirements and how this impacts the data backup policies. <b>Significance Rating: Significant Weakness</b>	Management will define what constitutes critical data, and determine where the data is located. Analysts will get with Law and Business unit staffs to document backup retention requirements for critical data. Backups will be developed to support retention of critical data. <b>Responsible Chief: Chief Information Officer</b> <b>Target Resolution Date: December 2007</b>

**Conclusion:**

A total of 57 control objectives were assessed across the seven control objectives. Of the 57 general and application control objectives, 35 of the controls identified deficiencies whereby the control objective was not being met within the current IT environment. The remaining controls appeared to be free from major control design issues and available for audit assessment. The vendor indicated this appeared reasonable for first time voluntary adoption of COSO and Sarbanes-Oxley Guidelines within IT environments.

Management is actively working to address the risk assessment gaps identified and has committed to an action plan for implementing the changes. Many of the findings identified are long-term and involve systemic changes and interim controls are being developed.

**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 April 30, 2007

MCO Name	Final Report Issue Date	Audit Results Score	Vocational Rehabilitation Score
	( A )	( B )	( C )
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%
Crawford & Company	2/05/2007	95.05%	84.48%
AVATAR	2/12/2007	77.95%	99.00%
Premier Managed Care	2/12/2007	83.63%	95.88%
ALPS	2/16/2007	75.85%	95.66%
AultComp	2/16/2007	94.30%	96.50%
Sheakley	2/16/2007	88.90%	99.00%
Klais & Company	2/26/2007	94.60%	97.60%
AdvoCare	2/27/2007	89.20%	94.38%
University CompCare	3/01/2007	72.40%	89.64%
Managed Medical Assurance	3/02/2007	53.78%	86.67%
CareWorks	3/08/2007	95.47%	93.75%
CompOne	3/08/2007	89.90%	96.13%
Gates McDonald	3/08/2007	73.75%	85.50%
Paramount Preferred	3/22/2007	71.15%	92.32%
The Health Plan	3/22/2007	80.35%	80.13%
OEHP	4/06/2007	74.20%	95.26%

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.

NOTE: The MCO audit process has changed in FY 07 and scoring results will not be issued. Rather, a risk-based audit approach will be employed – similar to existing non-MCO audit reports.

**BWC INTERNAL AUDIT DIVISION**  
**OUTSTANDING COMMENTS AS OF MARCH 31, 2007**

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 implemented an affidavit process in which IWs settling PTD or death claims must sign an affidavit indicating that they have no known health conditions that may result in a reduced life expectancy. If the IW cannot sign the form, the BWC CSSs follow-up to obtain medical documentation regarding their condition and prognosis. This information is then factored into the value of the settlement. The final policy changes for this process should be completed in June 2007. 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: June 2007</b>  <b>Current Resolution Status: In-Process</b></p>
2	<p>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>	<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>

Recommendation	Disposition
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### New Policy Application Process Audit – November 2003

1	<p>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>	<p>Finance has reviewed the recommendation to increase the PSD maximum. However, in light of the current funding in the Premium Payment Security Fund and the premium security deposits, management believes these funds provide adequate protections for the agency against employers that fail to pay the amounts owed to the agency. As a result, this portion of the audit recommendation will not be implemented.</p> <p>With regard to the audit recommendations that BWC modify the premium collection methodology to either an installment approach, or a quarterly approach, management submitted a request to the legislature requesting the ability to implement prospective billing. However, the recommended language was not included in the budget bill approved by the legislature. Finance is considering the recommendation to change to a quarterly reporting process for employers. A formal decision on this matter is anticipated by July 2007.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: July 2007</b>  <b>Current Resolution Status: In-process</b></p>
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### Non-Complying Employer Audit – August 2004

1	<p>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.</p>	<p>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.</p> <p><b>Designated Chief: Chief Financial Officer</b>  <b>Targeted resolution date: July 2007 (IT related)</b>  <b>Current Resolution Status: In-process</b></p>
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### Direct Billing – January 2005

1	<p>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.</p>	<p>A report was generated for cancelled/voided warrants that had been charged to the SIEGF during the period of 7/1/2006 through 12/31/2006. This amount was posted to the general ledger effective 2/28/2007. A similar transaction for the period 12/1/2002 through 6/30/2006 is to be posted sometime in the next two months, with quarterly adjustments following. Cancelled/voided warrants that were charged to surety companies since 12/1/2002 have also been reviewed and an adjusting entry for this period is to be made sometime in the next two months, with quarterly adjustments following.</p> <p><b>Designated Chief: Chief Financial Officer</b>  <b>Target Resolution Date: June 2007</b>  <b>Current Resolution Status: In-process</b></p>
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Recommendation	Disposition
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<b>MDL and Capital Coin Fund Control Review – June 2005</b>
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1	Establish processes to monitor activities of investment managers to ensure compliance with agreements.	<p>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.</p> <p><b>Designated Chief: Chief Investment Officer</b>  <b>Target Resolution Date: December 2006 (Passive Managers Policies and Procedure); September 2007 (Active Managers Policy and Procedures)</b>  <b>Current Resolution Status: In-process</b></p>
2	Ensure financial reporting receives fund manager and fund transfer approval documentation.	<p>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 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, the Investments Division is including the recommended language as append ices to the Investment Manager Agreements.</p> <p><b>Designated Chief: Chief Investment Officer</b>  <b>Target resolution date: March 2007</b>  <b>Current resolution status: Implemented</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</p>

Recommendation		Disposition
		<p>various compliance monitoring reports.</p> <p><b>Designated Chief: Chief Investment Officer</b>  <b>Target resolution date: December 2006 (Passive Manager Policy/Procedures Active); September 2007 (Manager Policy/Procedures)</b>  <b>Current resolution status: In-process</b></p>

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

1	<p>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.</p>	<p>Field Office training is complete. QA is being developed to ensure error rates are mitigated.</p> <p><b>Designated Chief: Chief of Medical Services</b>  <b>Target Resolution Date: March 2007</b>  <b>Current Resolution Status: In-process</b></p>
2	<p>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%.</p>	<p>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.</p> <p><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></p>

### Bankrupt Self-Insured Claims – March 2006

1	<p>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.</p>	<p>This requires legislative change. BWC will evaluate.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: June 2007</b>  <b>Current Resolution Status: In-process</b></p>
2	<p>Consider refresher training to Bankrupt Self Insured CSSs regarding the method of calculation for Permanent Partial disability awards.</p>	<p>SI will proceed with training being scheduled for late 2006. The department has met with Performance, Training and Support outlining the training needs and training has been completed.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: March 2007</b>  <b>Current Resolution Status: Implemented</b></p>

Recommendation	Disposition
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<b>Medical Billing and Adjustments (MB&amp;A) – May 2006</b>
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1	<p>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.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>MB&amp;A and Employer Services Management will develop controls, policies and procedures to ensure adjustments are reflected in the employer's experience.</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>
2	<p>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 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>IT Security has modified the system access review process to include annual reviews of all system user access capabilities and is in the process of completing the first reviews of all users across the agency, which is expected to be completed in February 2008. Completion of this process was delayed due to staffing shortage within IT Security. IT corrected the incompatible access capabilities noted during the audit. In order to address this issue in other applications systems, IT security will be meeting with the security contacts for the various applications systems by the end of June, 2007 to discuss a formal project to clearly define incompatible duties in all applications systems. In addition to implementing the report recommendations, IT transitioned all 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: February 2008 (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>

Recommendation		Disposition
5	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. <b>Significance Rating: Significant Weakness</b>	BWC will evaluate interest calculation methodology of all medical payments processed through MIIS and Cambridge. System changes will be considered. <b>Designated Chief: Chief of Medical Services</b> <b>Target Resolution Date: July 2007(IT related)</b> <b>Current Resolution Status: In-process</b>
6	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. <b>Significance Rating: Significant Weakness</b>	MB&A Management is in agreement with this recommendation and will work towards its completion when IT resources are available. <b>Designated Chief: Chief of Medical Services</b> <b>Target Resolution Date: December 2007 (IT related)</b> <b>Current Resolution Status: In-process</b>

### Risk/Employer Operational Review – June 2006

1	Policy and procedures were not written for most functions and activities. <b>Significance Rating: Significant Weakness</b>	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: December 2007</b> <b>Current Resolution Status: In-process</b>
2	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>	Employer Operations recently submitted and received approval to convene a work group to review premium audit and compliance operations. The recommendation was in response to the Ombudsman's recommendation that coverage compliance be a permanent priority for BWC. Management is also implementing cross-matches with other state agencies. <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>
3	Minimum premiums may not be adequate. The recently revised Ohio Administrative Code Section 4123-17-26, (administrative charge rule) has been increased to cover the administrative expense of maintaining the policies that report no payroll. However, there is still inherent risk with the policies that have greater exposure due to industry type. <b>Significance Rating: Material Weakness</b>	BWC recently increased the minimum premium charge for employers from \$10 per six month payroll period to \$50. At this point, there are no plans to further increase the amount. BWC will continue to evaluate the processes associated with PSD, administrative charges, minimum premium and estimated payroll going forward as part of the studies mandated in HB 100. <b>Designated Chief: Chief Operations Officer</b> <b>Target Resolution Date: December 2007</b> <b>Current Resolution Status: In-process</b>

Recommendation		Disposition
4	<p>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.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>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.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: June 2007 (IT related)</b>  <b>Current Resolution Status: In-process</b></p>
5	<p>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.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>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.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: December 2007 (IT related)</b>  <b>Current Resolution Status: In-process</b></p>

### Time Reporting and Leave Usage – August 2006

1	<p>Management should conduct research to determine the reason for modifications to ending leave balances. Policies and procedures for these modifications should be reviewed to ensure that only properly authorized and valid adjustment entries are posted.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management is researching 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 documented. To improve controls, management will request reports of such transactions from the Department of Administrative Services (DAS).</p> <p><b>Designated Chief: Chief Human Resources Officer</b>  <b>Target Resolution Date: June 2007</b>  <b>Current Resolution Status: In-Process</b></p>
2	<p>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.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>The implementation of OAKs has addressed the issue of key entry errors, as employee time information is now entered electronically and approved by department managers. Once approved the information is downloaded into the payroll system. Management is researching the errors noted in the report and will perform adjustments to correct these errors, if necessary.</p> <p><b>Designated Chief: Chief Human Resources Officer</b>  <b>Target Resolution Date: June 2007</b>  <b>Current Resolution Status: In-Process</b></p>

Recommendation	Disposition
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<h2 style="margin: 0;">Average Weekly Wage/Full Weekly Wage Payment Rates – September 2006</h2>
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1	<p>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.</p> <p><b>Significance Rating: Material Weakness</b></p>	<p>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.</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>
2	<p>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.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>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. In addition, Management will request data warehouse reports identifying claims with manual overrides of wage rates. Service office managers will be required to review this report for usually high activity levels.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: August 2007</b>  <b>Current Resolution Status: In-process</b></p>
3	<p>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.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>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.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: March 2007</b>  <b>Current Resolution Status: In-process</b></p>
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 has submitted the system change request. To implement this recommendation.</p> <p><b>Designated Chief: Chief Operations Officer</b>  <b>Target Resolution Date: December 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>

Recommendation		Disposition
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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### Claims Operational Review – September 2006

Recommendation		Disposition
1	<p>Implement a policy to require proof of identity when filing a claim or when making critical demographic updates.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>BWC is in the process of conducting a benchmarking study dealing with this recommendation. 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.</p> <p><b>Responsible Chief: Chief Operations Officer</b>  <b>Target resolution date: July 2007</b>  <b>Current resolution status: In-process</b></p>
2	<p>Discontinue performing functions that are the primary responsibility of the MCOs.</p> <p><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.</p> <p><b>Responsible Chief: Chief Operations Officer</b>  <b>Target resolution date: April 2007</b>  <b>Current resolution status: In-process</b></p>
3	<p>Systematically assign new injury claims filed with no return to work date and an ICD-9 code to the lost time service offices.</p> <p><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</p>

Recommendation		Disposition
		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>
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>	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: May 2007</b> <b>Current resolution status: In-process</b>
5	Enact policy changes requiring that V3 and insurance searches are performed on all new injury claims filed. <b>Significance Rating: Significant Weakness</b>	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>
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>	Management has revised the staffing policy to require only the necessary disciplines to be present, rather than all team members. This change has reduced the payroll dollars allocated to these meetings. In addition, has established a committee which is developing changes to the current staffing criteria. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: June 2008</b> <b>Current resolution status: In-process</b>
7	Develop performance measures or goals to improve timeliness of updating the Industrial Commission Strategies Tracker. <b>Significance Rating: Significant Weakness</b>	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. <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>
8	Develop written procedures and work flows that are standardized throughout the operational areas and field offices. <b>Significance Rating: Significant Weakness</b>	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. <b>Responsible Chief: Chief Operations Officer</b> <b>Target resolution date: April 2007</b> <b>Current resolution status: In-process</b>

## Manual Override – October 2006

Recommendation		Disposition
1	<p>Establish and maintain written policies and procedures to govern the processes for EM, MIRA reserve and claim cost overrides.</p> <p><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.</p> <p><b>Responsible Chief: Chief Operations Officer</b>  <b>Target resolution date: July 2007</b>  <b>Current resolution status: In-process</b></p>
2	<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>
3	<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>

## Indemnity Claims Overpayment Audit – October 2006

Recommendation		Disposition
1	<p>Implement quality assurance reviews to provide assurance that overpayments are properly documented and are adjusted accurately and completely.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>Management implemented an overpayment checklist and modified the Compensation Audit Tool to include questions related to overpayments. Management is also pursuing a number of actions to ensure the accuracy of overpayment processing, such as V3 enhancements, Data Warehouse or IT overpayment reports.</p> <p><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>
2	<p>Implement processes to provide reasonable assurance that absorption rates temporarily set to 0% or 100% are subsequently changed to the appropriate rates.</p> <p><b>Significance Rating: Significant Weakness</b></p>	<p>The overpayment checklist includes questions regarding the accuracy of absorption rates. Management submitted a change request to automate absorption rates and in continuing to develop data warehouse queries to ensure overpayments are identified and acted</p>

Recommendation		Disposition
		on properly. <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>
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>	A checklist outlining the steps Claim Service Specialists (CSS) must follow when processing overpayments to ensure all employers receive appropriate adjustments is currently being finalized. 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>
4	Implement a process to proactively identify claims that may contain potential overpayments. <b>Significance Rating: Significant Weakness</b>	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>
5	Implement procedures requiring supervisory review and approval of requests for the removal or adjustment of overpayment amounts. <b>Significance Rating: Significant Weakness</b>	A system change control request has been submitted requesting an IMS diary be populated when a CSS creates an overpayment. In the meantime the overpayment checklist directs the CSS to create this diary manually. <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>
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>	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>

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

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>

Recommendation	Disposition
<p>2 Terminate EFT system access rights for separated individuals or positions no longer requiring such access.  <b>Significance Rating: Significant Weakness</b></p>	<p>The IT Department has started a new process for the periodic security reviews, which now include detailed information on every individual's system access. IT Security has modified the system access review process to include annual reviews of all system user access capabilities and is in the process of completing the first reviews of all users across the agency, which is expected to be completed in February 2008.  <b>Responsible Chief: Chief Information Officer</b>  <b>Target resolution date: March 2007</b>  <b>Current resolution status: In-process</b></p>

**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).**

# 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								

= Consulting project