



AUDIT COMMITTEE *Agenda*

Date: Nov. 16, 2006
Time: 8:00 a.m. – 9:15 a.m.
Reconvene: Immediately following WCOC meeting
Location: William Green Building, Second Floor, Room 2

Audit Committee

Denise M. Farkas, CFA
Senior Vice President,
Spero Smith Investment Advisers
representing investments

Edwin McCausland, CFA
President,
Investment Perspectives, LLC
representing investments

Mary Beth Carroll
Vice President,
FirstEnergy
representing self-insured employers

Opening remarks

Chairman’s comments.....Denise Farkas

Old business

Approval of previous meeting minutesDenise Farkas

New business

1. External Auditor - *introduction, audit update*
..... Joseph Patrick, Schneider Downs
2. State Street - *update on scheduled review* Joe Bell,
..... Keith Elliott and David Logan
3. RFP on Investment Accounting Tracy Valentino,
..... and Bruce Dunn
4. Manual Override Special Audit - *update* Joe Bell
5. Quarterly Executive Summary..... Joe Bell

Reconvene - Immediately following WCOC meeting

6. Actuarial RFP (scope of work for the actuarial audit)..... Tracy Valentino
.....and Liz Bravender

Adjourn

AdjournDenise Farkas

The next WCOC
Audit Committee meeting is scheduled for:

Date: Dec. 14, 2006
Time: 8 a.m.
Location: William Green Building,
Second Floor, Room 2

**WORKERS' COMPENSATION OVERSIGHT COMMISSION
AUDIT COMMITTEE**

**THURSDAY, SEPTEMBER 28, 2006, 8:00 A.M.
DAYTON CONVENTION CENTER
22 EAST FIFTH STREET, ROOM 305
DAYTON, OHIO 45402**

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

Members Absent: None

ROLL CALL

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

OLD BUSINESS

MINUTES OF AUGUST 24, 2006

Mr. McCausland moved that the minutes of the meeting of August 24, 2006, be approved. Ms. Carroll seconded and the minutes were approved by unanimous voice vote.

NEW BUSINESS

STATE STREET ROLES AND RESPONSIBILITIES: INVESTMENT MANAGER FOR OHIO PASSIVE BOND MARKET INDEX FUND

Mark Brubaker, Wilshire Consulting, reported on the role of State Street Bank and Trust Company as the custodian of BWC assets. In the opinion of Wilshire, investing all of BWC assets in a common trust fund was a prudent and cost-effective decision.

Mr. McCausland and Ms. Farkas reported that they had recently spoken to the office of the Treasurer of State and learned of concerns over commingling of funds at State Street and the role of the Treasurer in the custodianship. Lee Damsel, Director of Investments, reported that the selection and investment with State Street was made in 2005 with full communication and

approval with the Treasurer. Mr. McCausland indicated that the Treasurer wants to be a party to custody contracts going forward.

William Mabe, Administrator, stated BWC would take as an action item the amendment of the State Street contract to incorporate the concerns of the Treasurer.

Bruce Dunn, Chief Investment Officer, reported on risk management and compliance operations in place at State Street to assure separation of duties between portfolio management, accounting, and custody services. His observations were based on many discussions with State Street, and a visit to Boston to meet with managers and the CEO. In his opinion, State Street has the proper controls in place and should remain as custodian.

Joe Bell, Chief Internal Auditor, and Keith Elliott, Internal Audit Manager, reported on their independent review of the State Street SAS 70 Type I audit. A Type I audit examines whether controls are in place and designed well. The State Street SAS 70 Type II audit will be completed in November. A Type II audit validates the effectiveness of the controls. In their opinion, they were satisfied with the design of the controls.

Ms. Farkas stated that the role of the auditor is to trust and verify. Ms. Farkas indicated that State Street has multiple roles as investment manager, has all records on asset transactions, and all accounting records. Ms. Carroll added she was not uncomfortable with State Street, but uncomfortable because BWC has missed a step with State Street in not testing the controls and while this may be an awkward time to make this request, the audit committee requests validation of the transactions.

Ms. Farkas requested as an action item that the Internal Audit Division conduct an internal audit of State Street to validate the transactions.

PROGRESS ON INITIAL PHASE OF EXTERNAL AUDIT

Tracy Valentino, Chief Financial Officer, reported on the external Audit. On September 11, the Controlling Board approved selection of Schneider Downs & Co., Inc., as the external auditor. BWC met with Schneider this week for pre-audit planning. Schneider has moved into the William Green Building to begin work. On November 30, Schneider will provide its report; the final draft is due December 11; BWC will review the draft report by December 18; and the final is due December 22. If any problems arise, Schneider will report them by November 30.

Ms. Valentino also reported that the actuarial audit is complete. The reports from Pinnacle Actuarial Services on the reserves for 2005 and the group rating program are due September 30.

CONFERENCE ON LEGAL ISSUES

Ms. Carroll moved that the Audit Committee enter executive session in order to discuss legal issues. Mr. McCausland seconded and the motion was approved by unanimous voice vote.

ADJOURNMENT

Mr. McCausland moved that the Audit Committee adjourn from executive session. Ms. Carroll seconded and the motion was approved by unanimous voice vote.

There was a motion by Mr. McCausland for adjournment, second by Ms. Farkas, and the meeting was adjourned.

Prepared by: Larry Rhodebeck, BWC Attorney
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October 25, 2006



BWC INTERNAL AUDIT DIVISION

FISCAL YEAR 2007

1ST QUARTER

EXECUTIVE SUMMARY

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



MEMORANDUM

TO: WCOC Audit Committee Members

FROM: Joe Bell, Chief of Internal Audit

cc: Cathy Moseley, Chief of Staff
Nancy Barber, Director, Internal Audit
Fred Booker, Director, Internal Audit
Keith Elliott, Manager, Internal Audit

DATE: November 16, 2006

RE: FY 07 1st Quarter Executive Summary report

Following you will find the Fiscal Year 2007 1st Quarter Executive Summary report containing:

1. Audit comment status
 - 1a. Comments issued 1st quarter
 - 1b. Comments outstanding as of September 30, 2006
 - 1c. Audit activities in process
2. Audit comment rating criteria
3. Audit follow-up procedures
4. Updated FY 07 Audit Plan

BWC INTERNAL AUDIT DIVISION
COMMENTS ISSUED – 1ST QUARTER ACTIVITY

Recommendation	Disposition	
Time Reporting and Leave Usage – August 2006		
1	<p>Because sample testing of payroll interruption reports showed lack of proper supervisory and timekeeper signatures, we recommend that Payroll and Benefits take steps to ensure that payroll clerks and officers never process reports that do not contain the required signatures. Periodic sample testing by management is recommended to ensure compliance with this policy. Significance Rating: Significant Weakness</p>	<p>Payroll and Benefits will implement a procedure requiring each account clerk to verify that the signatures are present as required. The need for signatures may be eliminated by the implementation of OAKS. Designated Chief: Chief Human Resources Officer Target Resolution Date: August 2006</p>
2	<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. Significance Rating: Significant Weakness</p>	<p>Management will research the discrepancies noted in the audit and will post corrected entries if necessary. In addition, management will follow-up with account clerks and payroll officers to ensure that any payroll adjustments are properly documented. To improve controls, management will request reports of such transactions from the Department of Administrative Services (DAS). Designated Chief: Chief Human Resources Officer Target Resolution Date: September 2006</p>
3	<p>Management should consider requiring payroll clerks and/or payroll officers to validate that required Request for Leave forms and authorized compensatory time/overtime forms are included in payroll packet submissions. Significance Rating: Significant Weakness</p>	<p>Management agrees with the need to ensure that all RFLs and other forms are submitted as required and will develop reconciliation procedures. Designated Chief: Chief Human Resources Officer Target Resolution Date: September 2006</p>
4	<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. Significance Rating: Significant Weakness</p>	<p>Account clerks are responsible for verifying that time entered is checked and re-checked. The Director of Payroll and Benefits selects one check sequence each pay period and checks the accuracy of the information. To provide additional controls regarding the accuracy of input, management will revise the current procedures to require the clerks to verify the input of other account clerks. Current procedures may change due to the implementation of OAKS. Designated Chief: Chief Human Resources Officer Target Resolution Date: September 2006</p>

Recommendation	Disposition
Average Weekly Wage/Full Weekly Wage Payment Rates – September 2006	
<p>1 To ensure correct benefit payments to injured workers, management should implement effective quality assurance reviews to be performed on a periodic basis to provide a reasonable assurance that wage documentation submitted is sufficient and valid, and that wages are input accurately and completely in a timely manner. Wages set incorrectly can result in underpayment or overpayment to an injured worker.</p> <p>Significance Rating: Material Weakness</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>Designated Chief: Chief Operations Officer Target Resolution Date: March 2007 (IT related)</p>
<p>2 To avoid inappropriate or fraudulent overrides, management should 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>Significance Rating: Significant Weakness</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.</p> <p>Designated Chief: Chief Operations Officer Target Resolution Date: December 2006</p>
<p>3 To avoid incorrect Full Weekly Wage (FWW) rate calculations, management should remind Claim Service Specialists the significance of accurately and completely populating the "FWW Information Box". Management should also consider implementing quality assurance procedures to ensure information is being populated in accordance with procedures outlined in BWC training material.</p> <p>Significance Rating: Significant Weakness</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>Designated Chief: Chief Operations Officer Target Resolution Date: March 2007</p>
<p>4 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>Significance Rating: Significant Weakness</p>	<p>Management will update policies to ensure they are consistent with the calculations in the V3 system. Management will also submit a system change request.</p> <p>Designated Chief: Chief Operations Officer Target Resolution Date: March 2007 (IT related)</p>
<p>5 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>Significance Rating: Significant Weakness</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>Designated Chief: Chief Operations Officer Target Resolution Date: September 2006 (policy change); March 2007 (IT related)</p>

Recommendation		Disposition
6	<p>Claims reviewed revealed that, in some instances, wage information set in the claim was based on verbal wage information received without obtaining written wage documentation. Because this increases the potential for inappropriate or fraudulent inflation of benefits to injured workers, we recommend implementing policy requirements prohibiting acceptance of verbal wage information. Quality assurance reviews should be established to verify that sufficient written wage information is obtained.</p> <p>Significance Rating: Significant Weakness</p>	<p>Management will revise policy to clarify that wage information must be obtained in hardcopy form. In addition, as of August 2006, the comp audit tool includes verbiage to trigger the Injury Management Supervisor to ensure that supporting wage documentation is imaged into the claim.</p> <p>Designated Chief: Chief Operations Officer Target Resolution Date: March 2007 (IT related)</p>
7	<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>Significance Rating: Significant Weakness</p>	<p>Management has 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". Additionally, the request recommended that an override option for supervisors be considered for the rare instances where an exception is needed.</p> <p>Designated Chief: Chief Operations Officer Target Resolution Date: March 2007 (IT related)</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>Significance Rating: Significant Weakness</p>	<p>Management will require that Managed Care Organizations (MCOs) utilize clinical editing software to avoid such payments as a top priority. 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 that an Explanation of Benefit process is cost effective, since the injured worker (IW) is not responsible for any bill balance.</p> <p>Designated Chief: Chief Medical Officer Target Resolution Date: January 2007 (MCO contract); December 2007 (clinical editing)</p>
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Managed Care Organization (MCO) Final Report Audit Activity
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MCO Name	Final Report Issue Date (A)	Audit Results Score (B)	Vocational Rehabilitation Score (C)
Premier Comp of Hometown	08/09/2006	97.45%	94.00%
1-888-OHIOCOMP	08/24/2006	94.75%	91.88%
Vantage Occupational Health Plan	09/13/2006	91.60%	91.75%
Health Management Solutions	09/15/2006	99.10%	97.75%
Medical Administrators	09/15/2006	94.60%	86.00%

Note:

(A) - The final report is issued after the MCO has appealed or waived their appeal rights.

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

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

BWC INTERNAL AUDIT DIVISION
OUTSTANDING COMMENTS AS OF SEPTEMBER 30, 2006

Recommendation	Disposition
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Statutory Surplus Fund – December 2002

1	A problem with the V3 programming logic resulted in BWC failing to capture and bill certain VSSR costs to employers totaling \$1.7 million. While the programming logic was changed, BWC chose to not go back and collect the \$1.7 million.	The decision to not pursue these billings was a policy determination made by the prior Administrator. BWC Legal Division has determined that there are no statutory limitations to retrospectively collecting these costs. Present Administration will consider retrospective billing of these charges. Designated Chief: Chief Financial Officer Current Resolution Status: Not Implemented
2	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.	Legislation is required to address the recommendation and management will include 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. Designated Chief: Chief Financial Officer Target Resolution Date: July 2007 (legislative effective date) Current Resolution Status: In-process

“Death Bed” Settlements – October 2003

1	The current settlement process contains no mechanism to help identify terminal conditions of IW attempting to settle their claims. As a result, we have increasingly 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.	BWC will implement a new procedure requiring the injured worker and their representative to complete an affidavit verifying that there are no known conditions that would reduce the injured worker’s life expectancy. This process will be implemented as part of the Agenda ’06 LSS Pilot initiative currently in process. Current policy and law (SB 7) stipulate that if an injured worker dies during the 30 day cooling off period, BWC will withdraw from the settlement. Designated Chief: Chief Operations Officer Target Resolution Date: December 2006 Current Resolution Status: In-process
2	There is no formal policy guidance instructing CSSs to review existing medical for signs of terminal or other adverse health conditions when settling claims. Policy also does not instruct them on how to incorporate such findings into the value of the settlement.	Operations is implementing an affidavit that the injured worker and their representative will be required to submit validating that there are no known conditions that would reduce the injured worker’s life expectancy. Designated Chief: Chief Operations Officer Target Resolution Date: December 2006 Current Resolution Status: In-process

Recommendation		Disposition
3	BWC has a risk that individuals settle PTD claims then go back to work and file another claim. IA recommended the adoption of a legislative change permitting BWC to off-set indemnity benefits for injured workers who settle their PTD claim, return to work and then subsequently file another claim for a similar condition.	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. Designated Chief: Chief Operations Officer Target Resolution: June 2007 Current Resolution Status: In-process
4	BWC is continually forced to pay amounts to IWs who settle their claims and then die in the 30 day cooling off period. In many of these cases, the IW had terminal conditions of which BWC was not aware. To help preserve BWC's ability to withdraw from the settlement where the injured worker dies in the 30 day cooling off period, IA recommends modifying the settlement application to include a stipulation that by signing the agreement, the injured worker agrees that their estate will not receive any payment if they expire prior to payment of the settlement.	Current statute and policy require BWC with withdraw from settlements in the event the IW dies during the 30-day "cooling-off" period. BWC will include adoption of this clause in the new settlement agreement. The evaluation of whether or not to adopt this clause will include discussions of what, if anything, we will do if the IW refuses to sign due to the inclusion of this language. In addition, policy has been updated to require injured workers and their representatives to file an affidavit verifying that there are no known conditions that would reduce the injured workers life expectancy. Designated Chief: Chief Operations Officer Target Resolution Date: March 2007 Current Resolution Status: In-process

New Policy Application Process Audit – November 2003

1	Current premium security deposit methodology inadequately protects against employers that obtain coverage and never report payroll and 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.	Increased focus and improvements with the collection and employer compliance efforts are expected to improve BWC's premium collection. BWC is evaluating how other state funds and/or private workers' compensation insurers collect their premiums. Once this project is completed, BWC will evaluate whether or not to further pursue the recommendation regarding the installment collection method. A work group is currently in the process of drafting a recommendation to address this audit observation. Designated Chief: Chief Operations Officer Target Resolution Date: July 2007 Current Resolution Status: In-process
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Recommendation	Disposition
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Non-Complying Employer Audit – August 2004

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

1	Rehabilitation payments for Bankrupt SI employers that opted out of the reimbursement program have never been recovered from the SIEGF.	Management will implement processes and procedures to ensure rehabilitation payments for Bankrupt SI employers are properly charged to the correct fund. Designated Chief: Chief Financial Officer Target Resolution Date: December 2006 Current Resolution Status: In-process
2	Since November, 2002, approximately \$496,000 of cancelled warrants have not been adjusted for SIEGF and Surety company billings. Failure to adjust for the cancelled warrants effectively results in over-billing to these entities.	Management will implement system enhancements. Designated Chief: Chief Financial Officer Target Resolution Date: March 2007 (IT Related) Current Resolution Status: In-process

MDL and Capital Coin Fund Control Review – June 2005

1	Establish processes to monitor activities of investment managers to ensure compliance with agreements.	The Investment Division has coordinated with Wilshire Consulting and developed compliance and monitoring procedures for Private Equity Managers. In addition, the Investment Division is developing compliance and monitoring procedures for all other Investment Managers which will include manager mandate compliance as well as BWC's overall compliance to asset allocation per the current Investment Policy. These compliance procedures will build upon the planned investment accounting system which will include the ability to develop various compliance monitoring reports. Designated Chief: Chief Investment Officer Target Resolution Date: December 2006 (Passive Managers Policies and Procedure); February 2007 (Active Managers Policy and Procedures) Current Resolution Status: In-process
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Recommendation		Disposition
2	Ensure financial reporting receives fund manager and fund transfer approval documentation.	Investments will complete an account set-up form and procedures to ensure only properly approved managers and styles are funded or provided additional funds. Designated Chief: Chief Investment Officer Target Resolution Date: November 2006 Current Resolution Status: In-process
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.	The current index manager's mandate will be managed consistent with the Lehmann Aggregate Bond Index which prohibits the utilization of debt generating activity (excluding securities lending). The current Investment Policy Statement prohibits leverage of any kind. In addition, management will have all future contracts reviewed by the Legal Division. All future investment manager contracts will include a specific statement prohibiting the lending of BWC funds. Designated Chief: Chief Investment Officer Target resolution date: November 2006 Current resolution status: In-process
4	Establish controls ensuring that the Oversight Commission is informed of and approves significant changes in investment strategy by approved managers or funds.	New policy and procedures are being established to include performance mandate compliance. Newly selected Investment Managers will be monitored per these new policies by BWC Investment personnel. This monitoring will include manager mandate compliance as well as BWC's overall compliance to asset allocation per the current Investment Policy. These compliance procedures will build upon the planned investment accounting system which will include the ability to develop various compliance monitoring reports. Designated Chief: Chief Investment Officer Target resolution date: December 2006 (Passive Manager Policy/Procedures Active); February 2007 (Manager Policy/Procedures) Current resolution status: In-process

Disability Evaluators Panel (DEP) Audit – July 2005

1	There is currently a lack of communication to all providers of the ability to schedule exams and file reviews via block scheduling. This results in a large number of exams being performed by a relatively small number of providers.	Any provider can perform block scheduling for examinations. Many providers not wish to perform block scheduling since it prevents them from seeing other patients. BWC is sending a letter regarding changes in DEP following the completion of a DEP work group. Designated Chief: Chief of Medical Services Target Resolution Date: December 2006 Current Resolution Status: In-process
2	There are currently no limits on the number of days per week or month that a DEP doctor can perform exams in this manner. As a result, some providers perform exams or file reviews for BWC four days a week, which potentially impairs the perception of	It is very difficult to know the number of days a physician may be performing DEP services. Physicians are managed by limiting the amount a customer service office may reimburse them for DEP services to \$55,000 per year and a statewide maximum of \$165,000

Recommendation		Disposition
	independence.	per year. Once this limit is reached, the physician and service offices are notified that the cap has been reached. Designated Chief: Chief of Medical Services Current Resolution Status: Not Implemented/ Management assumes risk
3	We noted 40% error rates for the entry of notes in V3 for DEP exams/file reviews; 32% of claims had no exam worksheets imaged in V3; also noted a 67% error rate in updating the report receipt status in V3.	Field Office Training has taken place in October 2006. QA is being developed to ensure error rates are mitigated. Designated Chief: Chief of Medical Services Target Resolution Date: March 2007 Current Resolution Status: In-process
4	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%.	This issue is one of the prime issues to be addressed by the DEP Work Group. In some areas, there are not sufficient specialists available to provide treatment and perform evaluations. In these locations, administrative agents perform a necessary service for physicians willing to go to these areas. This will be further addressed following the recommendations of the DEP Work Group. Training has been conducted and management is in the process of developing the QA processes to ensure compliance with policies. Designated Chief: Chief of Medical Services Target Resolution Date: October 2006 Current Resolution Status: In-process
5	Only 18 of 300 individuals eligible to schedule exams received the training for this process, according to available documentation.	This issue has been addressed with the training in October 2006 that included recommendations from the DEP Work Group. Designated Chief: Chief of Medical Services Target Resolution Date: October 2006 Current Resolution Status: Implemented

Bankrupt Self-Insured Claims – March 2006

1	Consider a legislative change to permit BWC to offset PTD compensation for an injured worker receiving Social Security Retirement benefits, potentially saving \$60 million annually; “grandfather-in” current PTD recipients receiving both benefits to avoid financial hardship to those individuals.	This requires legislative change. BWC will evaluate. Designated Chief: Chief Operations Officer Target Resolution Date: June 2007 Current Resolution Status: In-process
2	The Bankrupt SI Claims Unit should implement quality assurance review procedures to ensure that rates are calculated properly.	PTD quality assurance procedures and Death Claim review procedures are in place. Designated Chief: Chief Operations Officer Target Resolution Date: December 2006-March 2007 Current Resolution Status: Implemented
3	Take steps to restrict the system capabilities for claims payments and related activities to only those individuals responsible for such functions.	Changes have been implemented in V3 Security. CSS access changes have been updated. Designated Chief: Chief Operations Officer Target Resolution Date: December 2006 Current Resolution Status: Implemented

Recommendation		Disposition
4	The Bankrupt SI Claims Unit should develop a quality assurance process to ensure appropriate adjustments are performed for injured workers receiving TT and Social Security benefits.	SI will utilize Hyperion reports for claims on TT and with date of birth that identifies individuals age 65 and older for QA reviews. Designated Chief: Chief Operations Officer Target Resolution Date: December 2006 Current Resolution Status: In-process
5	Establish controls to ensure settlements are processed timely and signatures obtained prior to issuing a settlement; CSSs properly update settled claims to prevent inappropriate payments; and Lump Sum Settlement evaluation packets prepared for all settlements and imaged timely.	SI implemented a two team reporting structure; team identified a lump sum settlement specialist for the processing of all lump sum settlements; Team is also utilizing Hyperion application tracked report for identification of outstanding settlement application and resolution strategies to meet processing timelines. Designated Chief: Chief Operations Officer Target Resolution Date: December 2006 Current Resolution Status: Implemented
6	Consider refresher training to Bankrupt Self Insured CSSs regarding the method of calculation for Permanent Partial disability awards.	SI will proceed with training being scheduled for late 2006. The department has met with Performance, Training and Support outlining the training needs. Designated Chief: Chief Operations Officer Target Resolution Date: March 2007 Current Resolution Status: In-process
7	The compensation audit policy should be amended to require Team Leaders to review the accuracy of the account coding on miscellaneous payments.	SI expanded staff to include 2 Injury Management Supervisors who are responsible for reviewing comp audits. Designated Chief: Chief Operations Officer Target Resolution Date: September 2006 Current Resolution Status: Implemented
8	CSSs should obtain and input unique identifier information for all injured workers and dependants when possible.	SI will audit new bankrupt claims for accuracy; emphasis will be placed on verifying information to assure accurate information was input by SI employer; SI will develop a Hyperion report. Designated Chief: Chief Operations Officer Target Resolution Date: October 2006 Current Resolution Status: Implemented

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

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

Recommendation		Disposition
	inappropriate or fraudulent payments. Significance Rating: Significant Weakness	currently working with IT to confirm that the recommendations have been implemented. Designated Chief: Chief of Medical Services Target Resolution Date: June 2006 and March 2007 (IT related) Current Resolution Status: In-process
3	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. Significance Rating: Significant Weakness	MB&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. Designated Chief: Chief of Medical Services Target Resolution Date: June 2006 and November 2007 (IT related; Provider Master Agenda 07 Project) Current Resolution Status: In-process
4	Adjustment requests received over the telephone are not documented or reviewed prior to processing and there is no segregation of duties on adjustment requests received via the telephone. Recommended that MB&A consider development of processes to permit the electronic submission of adjustments. Significance Rating: Significant Weakness	Adjustment requests received over the telephone are reviewed by a supervisor, approved and imaged into the claim. Management has requested funding in the next biennium budget to pursue automated adjustments. Designated Chief: Chief of Medical Services Target Resolution Date: June 2006 and November 2007 (IT related; Provider Master Agenda 07 Project) Current Resolution Status: In-process
5	Management should adjust approximately \$847,000 of injured worker travel expenses inaccurately coded to miscellaneous medical expenses. Management should evaluate all payment and adjustment coding logic/reporting within the claims systems. Significance Rating: Significant Weakness	Travel reimbursements are coded as miscellaneous payments because there is no provider (or provider type) to code the payment under. Payments are being charged to the correct provider groups and IW travel can be tracked by HCFA III codes. Designated Chief: Chief of Medical Services Current Implementation Status: Not Implemented/Management assumes risk
6	MB&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. Significance Rating: Significant Weakness	All medical invoices received through the mailroom are now date stamped upon receipt. MB&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. Designated Chief: Chief of Medical Services Target Resolution Date: June 2006 and November 2007 (IT related; Provider Master Agenda 07 Project) Current Resolution Status: In-process
7	To ensure the current interest payment methodology operates in accordance with statutory requirements,	BWC will evaluate interest calculation methodology of all medical payments processed through MIIS and

Recommendation		Disposition
	management should obtain clarification regarding the correct interest payment calculation and ensure MIIS and Cambridge Systems calculations are consistent. Significance Rating: Significant Weakness	Cambridge. System changes will be considered. Designated Chief: Chief of Medical Services Target Resolution Date: July 2007(IT related) Current Resolution Status: In-process
8	MB&A management should ensure the department policy and procedure manuals are updated and MB&A personnel receive formal training for processing bills and adjustments on the two medical systems. Significance Rating: Significant Weakness	The unit is currently in the final phase of updating the new policies and procedures manuals. Designated Chief: Chief of Medical Services Target Resolution Date: December 2006 Current Resolution Status: In-process
9	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. Significance Rating: Significant Weakness	MB&A Management is in agreement with this recommendation and will work towards its completion when IT resources are available. Designated Chief: Chief Operating Officer Target Resolution Date: December 2007 (IT related) Current Resolution Status: In-process

Risk/Employer Operations End-To-End Review – June 2006

1	Policy and procedures were not written for most functions and activities. Significance Rating: Significant Weakness	Management recognizes the need for documented policies and procedures. Policies and procedures are in development by the Policy Processing Department. Currently, management is working on four new procedures dealing with successorship liability, Private Employer new business application procedures, same or similar ownership groups, and policy primary mailing addresses. Designated Chief: Chief Operating Officer Target Resolution Date: March 2007 Current Resolution Status: In-process
2	BWC does not ensure all employers under jurisdiction of Ohio workers' compensation laws have obtained worker's compensation coverage. Systematic cross checks should exist with other state agencies. Significance Rating: Material Weakness	Management is implementing cross-matches with other state agencies. According to IT, cross-matches with Taxation will not be available for approximately one year. The Special Investigations Unit is the lead on obtaining a memorandum of understanding permitting this cross-match. The Employer Compliance Department is also working with ODJFS to develop an information sharing agreement. Designated Chief: Chief Operating Officer Target Resolution Date: December 2006 and December 2007 (IT related) Current Resolution Status: In-process
3	Premium Security Deposits (PSDs) should be reviewed to ensure adequate controls are in place to limit BWC's loss exposures. The maximum PSD amount of \$1,000 was established in 1978 and never changed. Current PSD levels may not adequately cover expenses associated with employer's found to have high payroll/premiums, or pose an increased risk exposure based on their industry type. Significance Rating: Material Weakness	Management has requested legislative change to increase the PSD. Designated Chief: Chief Operating Officer Target Resolution Date: July 2007 (legislative effective date) Current Resolution Status: In-process

Recommendation		Disposition
4	<p>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.</p> <p>Significance Rating: Material Weakness</p>	<p>BWC will evaluate the PSD, administrative charge, minimum premium and estimated payroll assessment. Upon executive approval, the modification to the PSD methodology, as well as administrative fee and minimum premium, could be implemented by 12/31/2007. In addition, management will analyze employers with a payroll premium of less than \$10. A work group is in the process of developing a recommendation on this observation.</p> <p>Designated Chief: Chief Operating Officer Target Resolution Date: July 2007 and December 2007 (actuary study and IT related) Current Resolution Status: In-process</p>
5	<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>Significance Rating: Significant Weakness</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.</p> <p>Designated Chief: Chief Operating Officer Target Resolution Date: December 2006 (IT related) Current Resolution Status: In-process</p>
6	<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>Significance Rating: Significant Weakness</p>	<p>BWC will annually run a report to analyze and recalculate PSDs.</p> <p>Designated Chief: Chief Operating Officer Target Resolution Date: December 2007 (IT related) Current Resolution Status: In-process</p>
7	<p>When an employer does not file their actual payroll report by the deadline, they receive an invoice estimating their payroll. Once payment is received, BWC does not pursue the employer to obtain the actual payroll record. Consider a penalty enactment.</p> <p>Significance Rating: Significant Weakness</p>	<p>Currently, a 10% cushion is “assessed” for the payment of estimated payroll vs. actual. Employer Compliance is targeting employers who have paid two or more consecutive periods of estimated payroll. Management will also begin sending letters to employers who have not submitted actual payroll to gather additional information. Employer Compliance audits of these employers are yielding results, with \$569,000 in findings through 10/16/2006.</p> <p>Designated Chief: Chief Operating Officer Target Resolution Date: December 2006 (IT related) Current Resolution Status: In-process</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 ACTIVITIES IN PROCESS

MCO Unit

Audits in Process	Draft Report Date	Status
CompManagement Health Systems	8/31/2006	Final report issued 10/13/2006.
AdvoCare	9/7/2006	Draft report issued.
Mercy Work solution	9/8/2006	Draft report issued.
Genex Care of Ohio	9/22/2006	Draft report issued.
Crawford & Company	9/25/2006	Draft report issued.
CareWorks	10/6/2006	Draft report issued.
AVATAR Comp	10/13/2006	Draft report issued.
University Hospitals Comp Care	11/6/2006	Draft report issue date.
Ohio Employee Health Partnership	11/10/2006	Draft report issue date.
CorVel	11/17/2006	Draft report issue date.
Klais & Company	11/20/2006	Draft report issue date.
ALPS CompCare	11/22/2006	Draft report issue date.
Premier Managed Care Services	11/30/2006	Draft report issue date.
Ault Comp	12/6/2006	Draft report issue date.
Managed Medical Assurance Co., LLC	12/8/2006	Draft report issue date.
3 Hab	12/15/2006	Draft report issue date.
Paramount Preferred Network	12/19/2006	Draft report issue date.

Internal Audit

Audit Reports	Draft Report Date	Status
Electronic Funds Transfer and Electronic Benefits Transfer Account Processing Audit	10/13/2006	Draft report prepared.
IT Business Management and Planning Unit	10/17/2006	Draft report issued.
Indemnity Claims Overpayments Audit	10/17/2006	Draft report prepared.
Manual Override Special Audit	10/31/2006	Draft report issued.
Claims End-to-End Review	11/7/2006	Draft report prepared.

BWC Internal Audit Division Audit Report Follow-up Procedures

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

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

**BWC Internal Audit Division
Updated FY 07 Audit Plan**

Focus Area	1st Qtr.			2nd Qtr.			3rd Qtr.			4th Qtr.			Total Hours	
	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June		
Settlements process													150	
Indemnity claims overpayments													400	
Manager selection and funding													160	
Salary continuation process													400	
Alternative investments - Private Equity Assets													200	
Fixed asset/inventory tagging and inventory procedures													303	
Purchasing process													600	
Retrospective rating process													600	
Compensation audit review													400	
Investment process													690	
Computer operations (general and key application controls; outsource)													400	
External audit assistance													1000	
State Street Controls Review													400	
Lump sum advancements													650	
Payroll reporting and premium collection process													1100	
Special claims unit													600	
Investment compliance monitoring													130	
Indemnity claims processing and payments													1400	
Personnel hiring process													550	
Investment month end procedures													120	
Black Lung and Marine Fund Claims													850	
Pharmacy payment process													522	
Safety grant process													409	
Employer refunds													550	
Medical payment process													500	
Vocational rehabilitation process													500	
Employer safety consultations, training and publications													600	
Investment value reconciliation													280	
Payables function													500	
PTD claims review													800	
Funded manager contracts													120	
Auto adjudication process													338	
MCO Audits													15790	
Alternative investments - Rare Coin LLP													750	
													Total Hours	32762

■ Extended
■ Interrupted
■ Unscheduled
■ Other