

H.B. 100 / Sections concerning Audit Committee Duties

Audit Committee's duties	Recommend to the Board an accounting firm to perform the annual audit required under the Ohio Revised Code. ¹
	Recommend an auditing firm for the Board to use when conducting audits under the Ohio Revised Code. ²
	Review results of each annual audit & management review; if problems exist, assess appropriate course of action to correct, and develop action plan. ³
	Monitor implementation of any action plans created to correct problems noted in annual audit. ⁴
	Review all internal audit reports on regular basis. ⁵
	At least once every 10 years, have an independent auditor conduct a fiduciary performance audit of BWC's investment program, policies & procedures. Provide a copy of audit to the Auditor of State. ⁶
	By majority vote, appoint 2 members of the Board to the audit committee in addition to the 3rd member who must be a CPA. By majority vote, determine how often the audit committee shall meet & report to the Board. ⁷
	May contract with outside firm to conduct management & financial audits of the workers' comp system. ⁸
	May request & review internal audits conducted by BWC's internal auditor. ⁹

¹ O.R.C. 4121.129(A)(1)

² O. R.C. 4121.129(A)(2)

³ O.R.C. 4121.129(A)(3)

⁴ O. R.C. 4121.129(A)(4)

⁵ O.R.C. 4121.129(A)(5)

⁶ O.R.C. 4121.125(I)

⁷ O.R.C. 4121.129(A)

⁸ O.R.C. 4121.125(B)

⁹ O. R.C. 4121.125(J)

OHIO BUREAU OF WORKERS' COMPENSATION OVERSIGHT COMMISSION

AUDIT COMMITTEE CHARTER

PURPOSE

The Audit Committee has been established to assist the Ohio Bureau of Workers' Compensation Oversight Commission in fulfilling its fiduciary oversight responsibilities through:

1. Oversight of the integrity of financial reporting process.
2. Compliance with legal and regulatory requirements.
3. Monitoring of the design and effectiveness of the system of internal control.
4. Confirm external auditors' qualifications and independence.
5. Review performance of the internal audit function and independent auditors.

AUTHORITY

The Audit Committee has the authority to conduct or authorize investigations into any matters within its scope of responsibility.

1. Consult in the appointment of and oversee the work of the independent certified public accounting firm engaged by Ohio Bureau of Workers' Compensation to audit the financial statements.
2. Retain and oversee consultants, experts, independent counsel, and accountants to advise the Committee on any of its responsibilities or assist in the conduct of an investigation.
3. Seek any information it requires from employees—all of whom are directed to cooperate with the Committee's requests, or the requests of internal or external parties working for the Committee. These parties include the internal auditors, all external auditors, consultants, investigators and any other specialists working for the Committee.
4. Resolve any disagreements between management and the auditor(s) regarding financial reporting or design of internal controls.
5. All Committee actions must be ratified or adopted by the Workers' Compensation Oversight Commission to be effective.

COMPOSITION

The Committee shall be composed of a minimum of three (3) members, appointed by the Chairperson of the Workers' Compensation Oversight Commission.

Each Committee member will be independent from management and, within a year of appointment or one year from the adoption of this charter, whichever is later, will become financially literate. At least one member should be designated as the "audit committee financial expert," as defined by the Securities and Exchange Commission.

MEETINGS

The Committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. The Committee will invite members of management, external auditors, internal auditors and/or others to attend meetings and provide pertinent information, as necessary. Subject to open meeting laws, the Committee will hold executive sessions and private meetings with auditors, when required in the performance of their duties.

RESPONSIBILITIES

The Audit Committee shall have responsibility for the following:

1. Oversight of the integrity of the financial information reporting process:
 - Review with management and the external auditor significant financial reporting issues and judgments made in connection with the preparation of the financial statements.
 - Review with management and the external auditor the results of the audit.
2. Developing an oversight process to assess the adequacy and effectiveness of internal controls and provide the mechanisms for periodic assessment of system of internal controls on an ongoing basis.
3. Overseeing the assessment of internal administrative and accounting controls by both the external independent financial statement auditor and internal auditor
4. Consulting on the appointment of the Director of Internal Audit and have oversight on the work of the Internal Audit Division.
5. Serving as the primary liaison for Bureau of Workers' Compensation Oversight Commission and providing a forum for handling all matters related to audits, examinations, investigations or inquiries of the Ohio State Auditor and other appropriate State or Federal agencies.
6. Ensuring the independence of the external auditor and approve all auditing, other attestations services and pre-approve non-audit services performed by the external auditor.
7. Reporting to the Workers' Compensation Oversight Commission on all activities, findings and recommendations of the Committee.
8. Establishing policies and procedures to function effectively.

**OHIO BUREAU OF WORKERS' COMPENSATION AUDIT COMMITTEE
POLICY AND PROCEDURES**

PURPOSE

The purpose of the Audit Committee (the "Committee") is:

To assist the Commission in fulfilling its oversight responsibilities in the oversight of:

1. The integrity of the Bureau's financial statements and financial reporting process; The Bureau's compliance with legal, risk management and regulatory requirements; the independent auditor's qualifications and independence; the performance of the Bureau's internal audit function and independent auditor; and the Bureau's system of internal control, adherence to Bureau policies and compliance with legal and regulatory requirements.

2. To perform such other duties and responsibilities enumerated in the Charter.

The Committee's function is one of oversight, recognizing that the Bureau's management is responsible for preparing the Company's financial statements, and the independent auditor is responsible for auditing those statements. In adopting the Charter, the Commission acknowledges that the Committee members are not employees of the Bureau and are not providing any expert or special assurance as to the Bureau's financial statements or any professional certification as to the external auditor's work or auditing standards. Each member of the Committee shall be entitled to rely on the integrity of those persons and organizations within and outside the Bureau that provides information to the Committee and the accuracy and completeness of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary.

COMPOSITION OF THE COMMITTEE

The Committee shall be comprised of not fewer than three members of the Commission, as shall be determined from time to time by the Commission. The Commission shall appoint the members of the Committee members and the Chair of the Committee. All of the members or any individual member of the Committee may be removed from the Committee without cause by the affirmative vote of a majority of the Commission. Without the approval of the Commission, no Committee member shall simultaneously serve on the audit committees of more than two other public companies.

Each member shall qualify as independent of management of the Bureau of Worker's compensation and shall be free of any relationship that, in the opinion of the Commissioners, would interfere with their exercise of independent judgment of committee members. The Commission shall appoint at least one member to the Committee who, in the Commission's business judgment, has accounting or related financial management expertise, shall have had prior experience with the audit function or shall have been a member of an audit committee and, at least one member of the audit committee shall be an "Audit Committee Financial Expert" as such term may be defined from time to time by the SEC. Both these requirements may be met by the same committee member.

MEETINGS

The Audit Committee will meet as frequently as required to carry out its responsibilities. At least one meeting will be to agree with the audit scope prior to the audit (Feb/March) and another meeting will be to review the financial statements and the relevant auditor reports following the completion of the annual audit (August/September). The committee will invite members of management, external auditors, internal auditors, and others to attend meetings and provide pertinent information as necessary. Subject to open meeting laws, the Committee will hold

executive session and private meetings with the auditors. A detailed listing of the required areas to be covered in meetings or on an annual basis is provided in the Appendix.

RESPONSIBILITIES AND AUTHORITY

The Audit Committee has the following responsibilities and authority:

1) External Audit:

A. Review of the external auditor's proposed audit scope and approach. The Committee shall be directly involved with the oversight of the work of the public accounting firms (including resolution of disagreements between management and the auditor regarding financial reporting) preparation or issuing an audit report or performing other audit, review or attest services for the Bureau. The independent auditor shall audit the consolidated financial statements for the fiscal year for which it is appointed and report its findings to the Commission.

B. Review the performance of the external auditors and provide input and recommendations to the Commission, for further recommendation to the Auditor of the State of Ohio regarding the appointment, compensation, retention of any registered public accounting firm engaged.

C. Review and confirm the independence of the external auditors. This shall be done by reviewing any audit services provided and the auditor's assertion of their independence in accordance with professional standards. Except as otherwise stated herein, the firm serving as the independent auditor for the Commission may not be retained to provide non-audit related services to the Bureau. In the event that non-audit related services for a project can reasonably be provided only by the independent auditor due to expertise that is exclusive to that firm or for any other reason that the Committee deems necessary, and provided that the engagement for such non-audit related services is in compliance with all applicable legal and regulatory requirements promulgated from time to time by *the State of Ohio* the Committee must specifically approve such arrangements before the auditor may be engaged to provide such service. Notwithstanding the foregoing, the independent auditor for the Bureau is prohibited from providing the following non-audit services to the Bureau or any of its subsidiaries:

- i. Bookkeeping or other services related to the accounting records or
- ii. financial statements of the Bureau or any of its subsidiaries;
- iii. Financial information systems design and implementation;
- iv. Appraisal or valuation services, fairness opinions, or contribution-in-kind
- v. reports;
- vi. Actuarial services;
- vii. Internal audit outsourcing services;
- viii. Management functions or human resources;
- ix. Broker or dealer, investment advisor or investment banking services;
- x. Legal services and expert services unrelated to the audit; and
- xi. Any other services that the Public Accounting Oversight Board determines, by regulation, is impermissible; or any other service that the Audit Committee determines is impermissible, poses a potential conflict, or should be prohibited.

The Committee must pre-approve any audit-related service that is not considered part of the annual audit and, to the extent required by applicable law, any non-audit service, that is not described in any of the foregoing paragraphs.

In connection with the Committee's approval of non-audit services, the Committee shall consider whether the independent auditor's performance of any non-audit services is compatible with the external auditor's independence. The Committee shall establish the Commission's hiring policies for employees or former employees of the Bureau's independent auditors. At least annually, the Committee shall obtain and review a report by the independent auditor describing:

D. Review of the independent auditor's internal quality control procedures; any material issues raised by the most recent internal quality control review or peer review of the independent auditor's firm, or by any publicly disclosed inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditor's firm, and the steps taken to deal with those issues; and all relationships between the independent auditor and the Bureau, in order to assess the auditor's independence.

E. The Committee shall, at least annually, meet with the Bureau's independent auditor, without the presence of any Bureau employees, in order to review the results of each external audit of the Bureau, the report of the audit, any related management letter, management responses to recommendations made by the independent auditor in connection with the audit, all significant reports of the internal auditing department, and management's responses to those reports.

F. The Committee shall discuss with the Auditor of State on a regular basis policies regarding the regular rotation of the lead audit partner, the concurring partner and independent auditor firm.

2) Financial Statements

A.) General:

i) Review significant accounting and reporting issues and policies, including recent accounting pronouncements and understand from management and the independent auditors the impact and ramifications to the financial statements; alternative treatments of financial information within *GASB (Government Accounting Standards Board)* that have been discussed with management officials, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and any other material written communication between the independent auditor's firm and the Bureau's management.

ii) Ask management, the internal auditors and external auditors significant risks and exposures and plans to minimize such risks.

iii) The Committee shall meet separately, periodically, with management, with internal auditors, with independent auditors and with the general *and outside* counsel.

B.) Annual financial statements

The Committee shall review and discuss the annual audited financial statements and quarterly financial statements with management and the independent auditor, including

i) Bureau's disclosures under the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Bureau's reports and determine whether the information is adequate and consistent with the Commission's knowledge of the organization and its operations.

ii) In addition to reviewing the financial statements, the Committee shall review any certification, report, opinion, or review rendered by the external auditor in connection with those financial statements, and any significant disputes between management and the external auditor that arose in connection with the preparation of those financial statements. The Committee shall have full access to the Bureau's books and personnel.

iii) Pay particular attention to items which have been identified as complex or unusual

iv) Focus on judgmental areas such as those involving valuations of assets and liabilities including, for example, litigation reserves, actuarial reserves slow moving receivables, and investments. The committee may rely on valuations and judgments from the Commissions investment committee with regard to investment valuations.

v) The Committee shall review the impact on the financial statements of significant events, transactions or changes in accounting principles or estimates that potentially affect the quality of the financial reporting with management, the internal auditor and the external auditor prior to filing of the Bureau's Reports or as soon as practicable if the communications cannot be made prior to its filing.

vi). In connection with its review of the Company's financial statements, the Committee shall review and discuss with management, the internal auditor and the independent auditor the matters relating to the conduct of the audit required to be discussed by Statement on Accounting Standards Nos. 61 and 90? (Communications with Audit Committees), as they may be modified or supplemented.

vii) The Committee shall review with the independent auditor any audit problems or difficulties and management's response to them.

viii) Although the Committee shall not be required to pre-approve or discuss in advance press releases on financial information the Committee shall review and discuss press releases related to the Bureau's financial information provided to the public. In addition in the absence of releases of appropriate financial information by the Bureau the committee shall reserve the right with the commission and its counsel to release commentary on the financial information to the public.

C. Interim Financial Statements

i) be informed about how management develops and summarizes interim information

ii) gain insights into the fairness of interim statements and disclosures including discussions with management regarding whether

a) actual versus budgeted or projected results varied significantly for the period

b) changes in financial ratios are consistent with changes in the organization's operations and financial practices

c) accounting principals have been consistently applied

d) any actual or proposed changes in accounting or financial reporting practices exist

e) any significant or unusual events occurred during the period

f) the financial and operating controls are operating effectively

3) Internal Audit

- i. At least annually, the Committee shall review and approve the scope and plan of the work to be done by the Bureau's internal audit function.
- ii. Review findings and recommendations of the internal auditing function together with management's responses to them. Any such review shall include discussion of the responsibilities, budget and staffing of the internal audit function.
- iii. The Committee shall oversee, require and review periodic evaluations of the Bureau's internal control and corporate compliance structures, including the charter of the internal audit function to reasonably assure that it is consistent with that recommended by the Institute of Internal Auditors, and the resources provided to the internal audit group to reasonably assure that it has sufficient resources to carry out its charter. At least annually, the Committee shall approve the Internal Auditing Business Practice.
- iv. The Director of Internal Audit reports to the Committee. The Committee will periodically assess this reporting relationship in accordance with the Institute of Internal Auditors Standard 1110 and associated Practice Advisories. At least annually, the Committee and the Commission shall cause the Bureau to evaluate the performance of the Director of Internal Audit and, if necessary, recommend the replacement of the Director of Internal Audit. The Chair of the Committee shall be briefed annually on this evaluation along with the compensation package for the Director of Internal Audit.
- v. The Chair of the Committee shall be consulted (advised) prior to the appointment or removal of the Director of Internal Audit.

4) Internal Control

- A) The Committee shall periodically review with the Director of the Internal Auditing Department the adequacy of the Bureau's internal controls and corporate compliance structures, including
- i) computerized information system controls and security, to reasonably determine, at a minimum, that: (a) components of the Bureau's internal control and corporate compliance structures are regularly evaluated; (b) such evaluations are performed by qualified personnel; and (c) such evaluations have reasonable scope and depth of coverage and are conducted with sufficient frequency.
 - ii) The Committee shall discuss with the independent auditors any significant matters regarding internal controls over financial reporting that have come to their attention during the conduct of the audit, in addition to reviewing with the independent auditor the Bureau's compliance with the requirements of the Sarbanes-Oxley Act of 2002, as may be amended from time to time.
- B. The Committee shall review the policies and procedures in effect for reviewing employee expenses and reimbursements and Commissioner's and management's Bureau funded expenses.
- C. The Committee shall discuss generally the Bureau's policies with respect to organizational risk assessment and risk management including the discussion of guidelines and policies which govern the process by which the bureau assesses and manages its exposure to risk. The Committee will meet periodically with management to review the Bureau's major financial risk exposures and the steps management has taken to identify, monitor, assess and control such exposures.
- D. Evaluate whether management is setting the appropriate tone by communicating the importance of the code of conduct and guidelines for acceptable business practice by periodically meeting with

appropriate members of management to review adherence to corporate policies and review processes relating to training, monitoring and reporting of policy compliance.

i) In particular, the Committee shall review the Bureau's Code of Business Conduct to determine that work rule policies are formalized in writing and are designed to provide adequate protection against violations of applicable laws and regulations. *And that they are acknowledged annually by employees.*

ii) Review the record keeping and reporting systems to measure and monitor regulatory compliance requirements.

iii) In general, the Committee shall also periodically review the Bureau's policies and procedures regarding compliance with the Bureau's Code of Business Conduct and the Bureau's Conflicts-of-Interest Policy, and methods for regularly disseminating information regarding the foregoing policies.

iv) The Committee shall review corrective actions taken by the Bureau when significant internal or corporate compliance problems are reported. If the Committee becomes aware of any significant deficiency from corporate compliance programs or internal control programs, or of material violations of established corporate policies or legal and regulatory requirements, it shall: (a) reasonably determine that all appropriate corrective actions have been taken in response thereto, and that such actions are sufficient under the circumstances; (b) review any management override (which shall include waivers permitted by policies or procedures) of corporate compliance programs and internal control programs, *and take the steps necessary to reasonably determine that such action or override will not occur in the future without Commission approval;* and (c) review the process for reporting deficiencies or violations to reasonably assure that the Director of Internal Audit and the Chief Ethics (*Compliance*) Officer are informed of such deficiencies or violations.

E. The Committee shall establish procedures for:

The receipt, retention and treatment of complaints received by the Bureau regarding accounting, internal accounting controls or auditing matters; and the confidential, anonymous submission by the Bureau's employees of concerns regarding accounting or auditing matters on a monthly basis.

F. In the absence of a rate making committee the Audit Committee in coordination with the investment committee will establish a process for reviewing the polices used in the actuarial tables and combined ratios in the rate making and dividend policy

AUDIT COMMITTEE

A. The Committee shall report monthly to the Workers' Compensation Oversight Commission concerning its activities.

B. The Committee shall communicate to the Commission any issues with respect to the quality or integrity of the Company's financial statements, the Bureau's compliance with legal or regulatory requirements, the performance and independence of the Bureau's independent auditors or the performance of the internal audit function.

C. The Committee may cause on-going educational programs related to appropriate Financial and accounting practices to be made available to Committee and Commission members.

D. The Committee shall serve as a channel of communication between the independent auditor and the Commission, and between the Director of Internal Audit and the Commission.

E. The Committee shall conduct an annual performance evaluation of the Committee and its charter.

F. The Committee shall ensure the minutes of each public meeting be kept and filed with the minutes of the Bureau.

G. Meet with legal counsel as needed

H. AUTHORITY TO RETAIN AND TERMINATE ADVISORS

In the course of its duties, the Committee shall have the authority, at the Bureau's expense, to retain, replace and terminate independent counsel and other advisors, and administrative expenses as it deems necessary to carry out its duties.

I. The Committee shall render an opinion to the auditor of state and to management as to the appropriate funding to be provided by the Bureau for payment of the external auditor

AMENDMENT

This Charter and any provision contained herein may be amended or repealed by the Commission.

Revised: January 2006

INTERNAL AUDIT DIVISION CHARTER

GENERAL

It is the policy of the Ohio Bureau of Workers' Compensation (BWC) to provide and support an Internal Audit Division as an independent appraisal and consultation function to supply management personnel at all levels and the Audit Committee of the Workers' Compensation Oversight Commission (WCOC) with objective evaluations, appraisals, and recommendations concerning the risk management, control and governance activities reviewed. The Division will also provide an independent assessment of the performance of programs activities and functions.

All audit activities will be governed by Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)* and will provide information to improve accountability and facilitate decision-making by parties with the responsibility to oversee or initiate corrective action.

The Internal Audit Division will report to the Administrator and will also have periodic meetings with the Audit Committee of the WCOC.

AUTHORITY

The Internal Audit Division staff will be authorized to review all areas of the Ohio Bureau of Workers' Compensation and to have full, free, and unrestricted access to all Ohio Bureau of Workers' Compensation activities, records, property, and personnel. This also includes records that are placed in trust with parties that contract with the BWC.

RESPONSIBILITIES

1. Conduct reviews of divisions and control systems within the Ohio Bureau of Workers' Compensation, at appropriate intervals, to determine whether they are effectively carrying out their functions of administration, accounting, safeguarding of BWC assets, and control in accordance with management's instructions, policies, and procedures, and in a manner that is in agreement both with Agency objectives and high standards of administrative practice. This also includes reviews of entities that contract with BWC to perform state-mandated functions and activities.
2. Conduct performance reviews of BWC operations. A performance review is an independent assessment of the performance of programs, activities and functions and may consist of the following:
 - a) assess compliance with laws, rules and policies applicable to the program;
 - b) assess whether the objectives of a new, or ongoing program are proper, suitable, or relevant;
 - c) determine the extent to which a program achieves a desired level of program results;
 - d) assess the effectiveness of the program and/or of individual program components;
 - e) identify factors inhibiting satisfactory performance;
 - f) determine whether alternatives have been considered for carrying out the program that might yield desired results more effectively or at a lower cost;
 - g) determine whether the program complements, duplicates, overlaps, or conflicts with other related programs;
 - h) identify ways of making programs work better;
 - i) assess the adequacy of the control system for measuring, reporting, and monitoring a program's effectiveness; and
 - j) determine whether reported measures of program effectiveness are valid and reliable.
3. Provide consulting services and training, and control self assessment facilitated workshops.
 - a) Consulting Services and Training – Internal Audit staff will be available to provide assistance and training to BWC management in designing management accountability systems and re-engineering

operations. Internal Audit staff will be advisory only and management must accept responsibility for implementing any suggestions.

- b) **Control Self-Assessment Facilitated Workshops** – A BWC employee team will meet with Internal Audit staff to hold structured discussions on how to achieve its objectives in the most efficient and effective way. Action plans, rather than a formal audit report, are developed to address any obstacles to the objective(s). BWC employee team members are responsible for implementing action plan steps.
4. Promptly report the results of examinations made by the auditors and their resulting opinions and recommendations to management personnel of sufficient authority to ensure that appropriate action is taken with respect to any deficiency noted.
 5. Evaluate any plans or actions taken to correct reported conditions for satisfactory disposition of audit findings. If the disposition is considered unsatisfactory, see that further discussions are held to achieve satisfactory disposition.
 6. Coordinate audit efforts with those of the BWC's independent public accountants.
 7. Participate in the planning, design, development, and implementation of major computer-based systems to determine whether:
 - a) adequate controls are incorporated in the systems;
 - b) thorough systems checking is performed at appropriate stages; and
 - c) systems documentation is complete and accurate.
 8. Conduct periodic audits of data processing and make post-installation evaluations of major data processing systems to determine whether these systems meet their intended purposes and objectives.
 9. Conduct special examinations at the request of management or the Audit Committee of the Oversight Commission.
 10. Identify opportunities for cost reduction and profit improvement.
 11. Review contracts and other agreements with external parties providing goods and services as appropriate. Review the records and documentation of these external parties when deemed necessary to ascertain compliance with contract terms.
 12. Assist audit staffs of various regulatory agencies.
 13. Submit annual audit plan to the Administrator and the Audit Committee for their review and approval.
 14. Report to the Audit Committee of the Oversight Commission as to whether:
 - a) appropriate action has been taken on significant audit findings;
 - b) audit activities have been directed toward highest exposures to risk and toward increasing efficiency, economy, and effectiveness of operations;
 - c) internal and external audits are coordinated, so as to avoid duplication;
 - d) internal audit plans are adequate; and
 - e) there is any unwarranted restriction on access by internal auditors to all BWC activities, records, property, and personnel.

OHIO BUREAU OF WORKERS' COMPENSATION

INTERNAL AUDIT DIVISION

*PROMOTING A CONTROL ENVIRONMENT THROUGH OPEN
COMMUNICATION, PROFESSIONALISM, EXPERTISE AND TRUST.*

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FISCAL YEAR 2008 ANNUAL AUDIT PLAN

JOE BELL, CHIEF

FRED BOOKER, DIRECTOR

KEITH ELLIOTT, SENIOR MANAGER

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FY 08 Annual Audit Plan Focus Areas

Operational Audits (End to End Business Process Flow)

- Medical bill payments process

Internal Control/ Compliance Reviews

- Adjudication committee
- Investment fee payment process
- Investment manager selection and funding process
- Investment manager continuance program
- MCO administrative and incentive payments
- MCO audits
- Permanent Total Disability (PTD) claims
- Safety Grants program
- Settlements process
- Stakeholder relations
- Subrogation process
- Transitional Work Grants

Financial Audits

- Employer compliance and premium audit
- Employer payroll reporting process
- Forthwith/Miscellaneous special payments
- Returned warrants process

Information Technology Audits

- Currently unscheduled; however, the development of IT audit activity is anticipated.

Consulting

- Long-term care program
- Investment accounting system

Other

- External audit assistance
- FY 2009 annual audit plan
- Audit validation testing
- Sarbanes-Oxley (SOX) – Investment certification control testing
 - Review of adequacy of controls used to certify:
 - Compliance with investment policy statement
 - External investment manager compliance
 - Accuracy of valuation and performance
 - Accuracy of information reported to the Investment Committee/Board

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FY 2008 Annual Audit Plan Project Explanations

Employer Payroll Reporting Process – This audit examines the employer payroll reporting and payment process from the point that the payroll report and/or payment is received by BWC through its proper processing in WCIS and deposit to the BWC bank account. The project examines all methods of receipt and payment, including those received via the lock-box process, Dolphin, walk-in payments, and payments received over the telephone to ensure that adequate internal controls are in place.

Long-term Care Program - Program provides interest free loans to reimburse nursing home employers for interest paid on loans received for the employer to purchase, improve, install, or erect equipment that minimizes or eliminates the need for employees to manually lift residents. This is a new BWC initiative and IAD will provide consulting and advisory services to ensure appropriate internal controls are in place.

External Audit Assistance – Each year, the BWC Internal Audit Division provides approximately 1,000 hours of assistance to the external accounting firm during their audit of the BWC financial statements. This assistance assists in reducing audit fees each year by approximately \$75,000-80,000.

Medical Bill Payments Process – IAD will perform an operational review of the entire medical bill payment process from receipt to payment. The objectives of the review will include reviewing internal process controls to ensure efficiency and effectiveness of operations and compliance with law, rules, policy and procedures.

Permanent Total Disability (PTD) Claims Audit - Permanent Total Disability is the injured worker's inability to perform sustained remunerative employment due to the allowed condition(s) in the claim. The purpose of PTD benefits is to compensate the injured worker for impairment of earning capacity. IAD will perform an internal control review as well as a compliance review on this critical benefit delivery function.

Investment Accounting System – During this consulting project, we will continue to work with the Investment and Finance Divisions to assist them in identifying the key roles and responsibilities related to the investments process within the new investment accounting system.

Investment Manager Selection and Funding Process – This audit will encompass the process for selecting and funding investment managers. The scope of the project will include the competitive bidding process used to select the managers, including notification of potential bidders, bid review and evaluation procedures, final selection procedures and the funding of the selected managers. The focus will be on ensuring adequate internal controls are in place to ensure that BWC only selects properly qualified investment managers with a history of strong investment management performance.

Subrogation Process - Subrogation is the right to recover from a third party or person the cost of benefits paid to or on the behalf of an injured worker in a worker's compensation claim. It must be proven that the third party's negligence was a contributory factor in the cause of the accident. IAD will perform an internal control review as well as a compliance review on this process which has the potential to recover significant dollars for the BWC.

Transitional Work Grants - Transitional work is a work-site program that provides an individualized interim step in the recovery of an injured worker with job restrictions resulting from the allowed conditions in the claim. Developed in conjunction with the employer, injured worker, collective bargaining agent (where applicable), physician of record, and rehabilitation professionals. A transitional work program assists the

injured worker in progressively performing the duties of a targeted job. IAD will perform an internal control review as well as a compliance review on this employer program.

Employer Compliance and Premium Audit – This financial and compliance audit will examine the employer compliance and premium audit process and related controls. The focus will be on ensuring that audit processes are adequate to ensure that all employers take out BWC coverage as required by law and report payroll and pay premiums completely and accurately. This review will also assess the adequacy of internal controls within this process.

Investment Fee Payment Process – Internal Audit will examine the various process for paying investment related fees, such as external manager fees, transition manager fees, and any other related expenditures. The project will assess the adequacy of controls over this process, as well as the reasonableness of the fees incurred.

Forthwith/Miscellaneous Special Payments – The Forthwith and Miscellaneous Special Payments processes are used for non-standard or emergency payments. We will perform an audit of the process to determine the adequacy of controls. The project will also include analytical procedures and detailed testing of a sample of expenditures to determine the appropriateness of the payments.

Investment Manager Continuance Program – The manager continuance program is established by the Investment Division to monitor external investment manager performance in relation to their peers to determine the relative performance of the manager. This includes procedures for terminating managers for poor performance.

Adjudication Committee – This body has the authority to decide or settle employer issues with the workers compensation law. IAD will perform an internal control as well as a compliance review on this critical function.

Settlements Process - Utilizing proactive settlement early in active claims creates substantial cost reductions. Through settlement, these same cost reductions turn into financial incentives for the employer, the injured worker and BWC. BWC's position is to act in the best interest of all the parties by establishing a fair and equitable settlement. IAD will perform an internal control review as well as a compliance review on this process to ensure maximum effectiveness and benefit.

Returned Warrants Process – The returned warrants process is used to handle claims or other payments which are issued by the agency, but then returned due to incorrect address or other reasons. Such returned warrants can be an area of potential irregularities. As a result, IAD will perform an audit to ensure the adequacy of internal controls.

Stakeholder Relations – Receipt, tracking, investigation, and resolution of inquiries and/or complaints is a top priority for BWC. IAD will perform an internal control review as well as a compliance review to ensure the integrity of the process.

Safety Grants Program - Safety Intervention Grant Program is available to any Ohio state-fund or public employer who wishes to purchase equipment or other materials to substantially reduce or eliminate injuries and illnesses associated with a particular task or operation. IAD will perform an internal control review as well as a compliance review to ensure program integrity and effectiveness.

MCO Administrative and Incentive Payments – MCOs perform claims management functions for BWC and are reimbursed through administrative and incentive payments. IAD will perform a control and compliance audit to document the current processes and assess the adequacy of control design and operating effectiveness of the controls. The project will also include compliance testing of a sample of payments.

FY 2009 Annual Audit Plan – Activities include meeting with management, Audit Committee, and other parties to obtain suggestions for areas to include in the FY 2009 Internal Audit plan. A Sarbanes-Oxley analysis is performed to map trial balance accounts to key processes to ensure Internal Audit resources are appropriately assigned. In addition, IAD updates the agency risk analysis which assesses the relative risk for

agency processes or departments and assigns a risk score to each of the potential audit areas. Risk scores are then used, along with other factors, to determine the audit projects to be performed in the coming year. Also, processes associated with MCO activities are evaluated using a separate risk-based methodology when planning MCO audits.

Audit Validation Testing – IAD performs validation testing each quarter to ensure that outstanding audit observations are resolved adequately and in a timely manner. As part of this process, management provides IAD with updates each quarter regarding the resolution status of the outstanding observations. For observations which management indicates are completely implemented, IAD performs testing to validate that that action taken is adequate to address the issue identified. In addition, if there are outstanding audit observations which are still in process, but are beyond the timeframes established for resolution of the audit comment, IAD will meet with management to determine factors delaying resolution. As comments are cleared through this process, they are removed from the list of outstanding comments provided to the Audit Committee.

MCO Audits – Throughout the year, the MCO Audit Unit within IAD will perform a number of risk-based audits of MCOs to help ensure that adequate internal controls are in place to safeguard agency assets and to help ensure MCO compliance with the MCO contract. This year marks the first year of a change to the risk-based methodology. Previously, the former MCO Regulatory Unit performed compliance audits of all MCOs each year. During FY 2007, the regulatory unit was divided, with a portion of the unit remaining under the Medical Services Division and a portion remaining under the Internal Audit Division. The portion remaining under Medical Services has been renamed the Compliance and Performance Monitoring Unit and will be charged with monitoring MCO performance and compliance with the contract. The unit remaining under IAD will perform audits of controls within the MCOs.

Sarbanes-Oxley (SOX) Investment Certification Control Testing – The BWC Investment operation will move toward voluntary implementation of a quarterly certification process in which the Chief Investment Officer issues a quarterly certification regarding compliance with the BWC Investment Policy Statement and other requirements. Internal Audit will initially perform consulting services to assist the Investment Division in evaluating the controls to support the certification of compliance. Once controls are developed and implemented, this project will shift to audit work and will involve monthly or quarterly testing to determine if the controls remain adequately designed and are operating effectively. Specific areas to be included in this project include controls over the following areas:

- Compliance with the BWC Investment Policy Statement;
- Investment manager compliance;
- Portfolio valuation and performance; and
- Accuracy of information reported to the BWC Investment Committee and Board.

Information Technology Audits – Internal Audit does not currently possess staff with IT audit expertise; however, we expect to acquire expertise during the fiscal year. In the interim, Internal Audit plans to utilize an outside vendor to validate comments received from a gap analysis review performed on IT's general and application controls. In addition, certain IT areas require unique expertise (e.g. system penetration testing) which are planned as outsource activities within Internal Audit's strategic initiatives.

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FY 2008 Internal Audit Division Risk Assessment Methodology

1. Mapped trial balance accounts to key processes (Sarbanes-Oxley Guidelines).
2. Interviewed management regarding risk/control concerns.
3. Developed audit risk assessment/annual audit planning (IIA Model) that defines risk factors applied to a numeric rating scale.
4. Stratified processes by risk ratings and selected the type of audit planned and projected hours.

Ongoing

1. Actively defining each engagement scope and objectives.
2. Scheduling audits for FY 2008.

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Audit Risk Assessment/Annual Audit Planning

The objective of the risk model is to optimize the assignment of audit resources through a comprehensive understanding of the audit universe and the risks associated with each universe item.

An audit risk model will be used to quantify the risk rating of each process. Audits will be scheduled by priority and will guide the use of personnel. The audit universe will first start with the trial balance statements. The trial balance statements are mapped to core business processes and weighted by financial risk (Sarbanes-Oxley Guidelines). Process flows often cross multiple functional lines of the business. The risk assessment process described below will then be applied.

The new risk model is based on eight factors or elements of risk. They are:

1. Financial exposure (Sarbanes-Oxley),
2. Changes in operations/personnel,
3. Confidence in management,
4. Size of department,
5. Complexity of operations,
6. Liquidity of assets,
7. Operational opportunity, and
8. Significance of prior audit findings.

Each item in the audit universe will be rated on these eight factors using a numeric rating of 1 to 4. The ratings are:

1. Low risk (highly unlikely a problem)
2. Moderate risk (probably not a problem)
3. Sensitive risk (possibly a problem)
4. High risk (probably a problem)

Ratings are sorted into 4 strata by risk rating and desired audit coverage is as follows:

High risk	= Top 10% stratum	→	Audit 100%
Sensitive risk	= Next 30% stratum	→	Audit 30%
Moderate risk	= Next 40% stratum	→	Audit 20%
Low risk	= Lowest 20% stratum	→	Audit 10%

The lower risk groups are sampled to see if the rating process is working and confirm that the levels of risk are appropriately stacked. Furthermore, nearly 10% of total budgeted audit hours will be reserved for unplanned activities to allow for real-time feedback to management on sensitive or critical issues.

While the risk model still requires judgment, the individual ratings are documented and subject to critical review and challenge. The model also promotes uniform definition of the Bureau's audit universe.

Defining the audit universe is the first prerequisite to risk ranking. The audit universe to which this risk assessment will be applied will be determined by the Audit Directors and the Chief of Internal Audit. Determination of the audit universe will be based on their knowledge of the BWC strategic plan and operations, discussions with responsible management personnel, and a review of organization charts, functions, and areas of responsibility.

Guidelines for the risk ranking criteria are as follows:

1. **Financial Exposure** – This represents an assessment of the potential financial liability associated with a process being rated. Using Sarbanes-Oxley Guidelines, business process flows are assigned a weighted risk score based on its impact on the trial balance accounts. It is an assessment of the amount of Bureau assets associated with the process. It could be risk connected with loss or impairment of assets, risk connected with undetected error, risk connected with liability not recognized or not accurately quantified, or risk of adverse publicity, legal liability.
2. **Changes in Operations/Personnel** – History indicates changes impact internal controls and financial reporting. Change usually occurs to effect long term improvement, but often has short-term offsets that require increased audit coverage. Changes include reorganizations, business cycle swings, rapid growth, new systems, new regulations or laws and personnel turnover.
3. **Confidence in Management** – This criterion reflects confidence that audit management places in management directly responsible for the audit unit and management’s commitment to internal control. Comfort is characterized by factors such as past audit interaction, experience of management in the work environment, preliminary survey interviews, and the quality and level of staffing.
4. **Size of Department** – The relative size of a department or process was included as a risk factor, as larger departments or processes in many instances comprise critical areas of responsibility. If operations in larger departments or processes are not functioning efficiently, effectively and with appropriate internal controls, significant negative impact to the agency may result.
5. **Complexity of Operations** – This risk factor reflects the potential for errors or misappropriation to go undetected because of a complicated environment. Complexity depends on many factors such as extent of automation, complex calculations, interrelated and interdependent activities, number of products or services, the time spans of estimates, dependency on third parties, customer demands, processing times, applicable laws and regulations and many other factors.
6. **Liquidity of Assets**- This risk factor reviews the inherent risks related to misappropriation of highly liquid assets. Such assets can be in the form of cash, the issuance or processing of checks, or other assets that could easily be misappropriated.
7. **Operational Opportunity** – In creating the risk analysis, we included a factor for the perceived opportunity for operational improvements. The ranks for this factor considered prior experience with the area and the perceived potential to improve department processes or operations.
8. **Significance of Prior Audit Findings** - The final factor considered in the risk analysis is the relative risk presented by prior audit findings. Where significant issues were identified in the past, additional risk is assigned. Subsequent audits can ensure that proper corrective actions were taken to address the issues and that prior control weaknesses or operational issues do not continue.

NOTE: The refinement of the risk rating model will remain an ongoing priority of the Internal Audit Division throughout the year. We expect the Audit Committee’s level of involvement will coincide with their defined roles in the Audit Committee Charter. Our objective will be to assign audit resources in the optimum manner to audits with the greatest risk, savings or recoveries.

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Types of Audits

The Internal Audit Division is responsible for the process by which the Bureau reviews and assesses the economy, effectiveness and efficiency of its management control and practices.

Operational Audits (End to End Business Process Flow)

This category reviews the principal operational functions of the Bureau. Operational audits are undertaken for the purposes of a high-level overview assessment of compliance, efficiency, economy and effectiveness of management practices and controls associated with these operational functions. They have a strategic focus and are primarily concerned with the achievement of the Bureau's strategic objectives and goals.

Internal Control Reviews / Compliance Audits

Examining and evaluating the effectiveness of the Bureau's system of internal control and the quality of performance in carrying out assigned responsibilities. The primary objectives of the internal control systems are to ensure: the reliability and integrity of information; compliance with policies, plans, procedures, laws, and regulations; safeguarding of assets; economical and efficient use of resources; and accomplishment of established objectives and goals for operations and programs. Compliance audits determine the degree of adherence to policies and procedures set out in the Bureau's Policies and Operating Procedures. It is also concerned with compliance with all relevant external legislative requirements.

Financial Audits

Review of all ancillary functions such as budgeting, financial statements, accounting systems, revenue collection procedures, purchasing operations, payroll, and staff development. As the procedures covering most of the activities in this category are regulated by laws, external principles or management directive, the purposes of the audit generally relate to the accuracy and integrity of data or compliance. Audits may also be undertaken for the purpose of assessing the efficiency or effectiveness of these activities or the systems or procedures in use.

Information Technology Audits

Auditing computer systems can be conducted as an integral part of the audit of financial and administrative systems. However, the increasing importance of the computer as a management support tool has seen the need for specialist audits in this field.

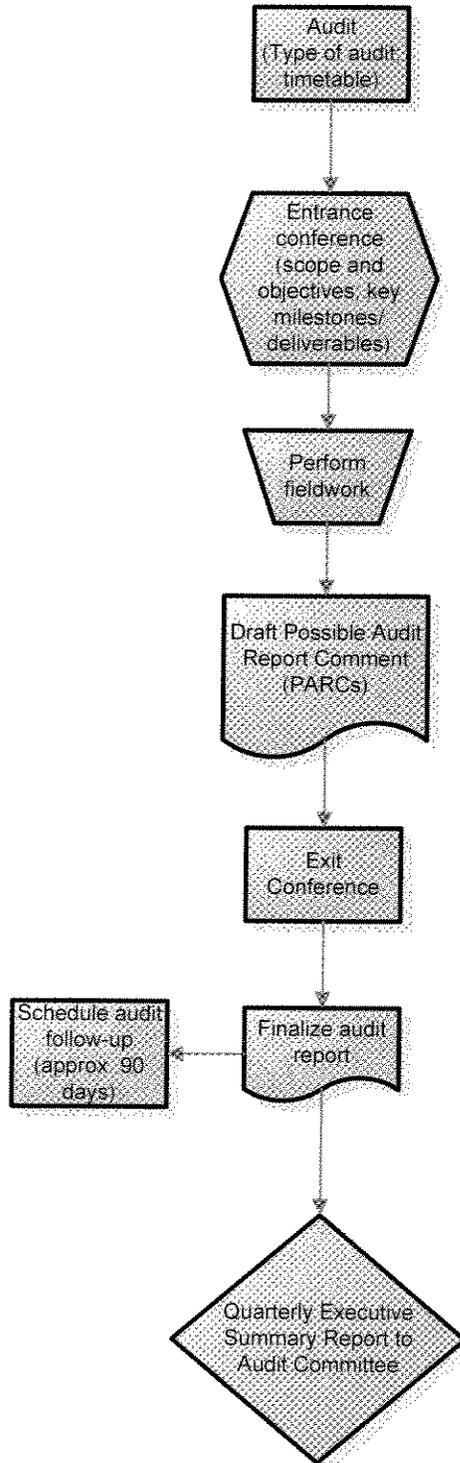
Consulting

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice – the internal auditor, and (2) the person or group seeking and receiving the advice – the engagement client.

Special Investigations

Some internal audit activity takes the form of a special investigation. The object of these investigations is to diagnose specific problem areas, establish whether some further action or investigation is warranted and perhaps prepare the way for subsequent audits or reviews.

Audit Process Workflow





BWC INTERNAL AUDIT DIVISION

FISCAL YEAR 2007
4TH QUARTER
EXECUTIVE SUMMARY

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



MEMORANDUM

TO: BWC Board of Directors Audit Committee Members

FROM: Joe Bell, Chief of Internal Audit

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

DATE: August 23, 2007

RE: FY 07 4th Quarter Executive Summary report

Following you will find the Fiscal Year 2007 4th Quarter Executive Summary report containing:

1. Audit comment status
 - 1a. Comments outstanding as of June 30, 2007
2. Audit follow-up procedures
3. Audit comment rating criteria
4. Completed audits (January 2006 – June 2007)

BWC INTERNAL AUDIT DIVISION
OUTSTANDING COMMENTS AS OF JUNE 30, 2007

Recommendation	Disposition
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Statutory Surplus Fund – December 2002

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>Management submitted a request for legislative change as part of the 2008 budget process, but the requested language was not included in the final legislation. Designated Chief: Chief Financial Officer Current Resolution Status: Not Implemented</p>
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“Death Bed” Settlements – October 2003

1	<p>The current settlement process contains no mechanism to help identify terminal conditions of injured worker (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 Permanent Total Disability (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 Claims Service Specialists (CSS) follow-up to obtain medical documentation regarding their condition and prognosis. This information is then factored into the value of the settlement. The policies surrounding this process will be finalized by the end of September 2007. Responsible Chief: Chief of Customer Services Target Resolution Date: September 2007 Current Resolution Status: In-Process</p>
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New Policy Application Process Audit – November 2003

1	<p>Current premium security deposit methodology (PSD) 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. 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>
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Recommendation	Disposition
	Responsible Chief: Chief of Customer Services Target Resolution Date: July 2007 Current Resolution Status: In-process

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>Biennial budget included this in the legislative changes. Management will pursue necessary system modification. Designated Chief: Chief Financial Officer Targeted resolution date: December 2007 (IT related) Current Resolution Status: In-process</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 - 12/31/2006. The amount was posted to the general ledger effective 2/28/2007. A similar transaction for the period 12/1/2002 - 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 December 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. Designated Chief: Chief Financial Officer Target Resolution Date: September 2007 Current Resolution Status: In-process</p>
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MDL and Capital Coin Fund Control Review – June 2005

1	<p>Establish processes to monitor activities of investment managers to ensure compliance with agreements.</p>	<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. The Investment Division has completed compliance procedures applicable to passive managers. The selection of active managers has been intentionally extended for several reasons. It is not anticipated that any active managers will be engaged until 1Q 2008. Designated Chief: Chief Investment Officer Target Resolution Date: December 2006 (Passive Managers Policies and Procedure); December 2007 (Active Managers Policy and Procedures) Current Resolution Status: In-process</p>
2	<p>Ensure financial reporting receives fund manager and fund transfer approval documentation.</p>	<p>Management has implemented a fund account set-up form and an authorization process of outgoing transfers which requires dual signatures (one from Investments and one from</p>

Recommendation	Disposition
	<p>Finance/Senior Staff). The procedures also require dual signatures for the funding of capital calls for private equity investments. The Investment and Financial Divisions are modifying initial procedures regarding the authorization process with respect to funding, transferring and opening accounts.</p> <p>Designated Co-Chiefs: Chief Investment Officer and Chief Financial Officer (CFO added as of Aug. 2007) Target Resolution Date: September 2007 Current Resolution Status: In-process</p>
<p>3 Establish controls ensuring that the Oversight Commission is informed of and approves significant changes in investment strategy by approved managers or funds.</p>	<p>The Investment Division is in the process of modifying policies and procedures to require Investment Committee or Board approval of significant changes in investment strategies by approved managers or funds. The Investment Division will discuss with the Investment Committee a possible revision to the Investment Policy Statement to include approval of such changes in the section (III.A currently) outlining the Board's responsibilities. The Investment Division, with the assistance of the BWC Finance and Legal Divisions, will develop control procedures to ensure that such approvals are obtained. One of the controls will involve the use of compliance monitoring procedures and reports to identify investments which are outside of an investment manager's approved mandate or the BWC investment policy statement. Such investment exceptions will be communicated to the Investment Committee at the next scheduled meeting, or earlier if warranted.</p> <p>Designated Chief: Chief Investment Officer Target resolution date: December 2007 (Policies and Procedures); December 2007 (Investment Policy Statement Modification/Control Implementation) Current resolution status: In-process</p>

Disability Evaluators Panel (DEP) Audit – July 2005

<p>1</p>	<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>The training portions of the recommendations were implemented. The recommended audit process for monitoring error rates is currently in pilot form and should be fully implemented in September 2007.</p> <p>Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: September 2007 Current Resolution Status: In-process</p>
<p>2</p>	<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). One administrative agent received 32% of all Admin Agent scheduled exams compared with next highest of 9%.</p>	<p>A Visio workflow was created as well as an e-learning tutorial to refresh staff on scheduling policies. All claims staff have completed this training and management is working on finalizing the performance accountability measurement. An access database was developed mirroring the same design as the comp audit tool. This audit program was built for all Information/Clerical and Injury Management Supervisors to audit all exams scheduled to help identify bottlenecks and delays in the exam scheduling process. This tool will also help to identify quality of exam packets, physician selection and overall consistency across all disciplines. A data warehouse report was designed to assist in monitoring the exam</p>

Recommendation	Disposition
	<p>scheduling process. Final implementation is scheduled for September.</p> <p>Responsible Chief: Medical Services and Compliance Chief</p> <p>Target Resolution Date: September 2007 (Medical Operations); December 2007 (IT related)</p> <p>Current Resolution Status: In-process</p>

Bankrupt Self-Insured Claims – March 2006

<p>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.</p>	<p>This requires legislative change. BWC will evaluate.</p> <p>Responsible Chief: Chief of Customer Services</p> <p>Target Resolution Date: June 2007</p> <p>Current Resolution Status: In-process</p>
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Medical Billing and Adjustments (MB&A) – May 2006

<p>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.</p> <p>Significance Rating: Significant Weakness</p>	<p>MB&A and Employer Services Management will develop controls, policies and procedures to ensure adjustments are reflected in the employer’s experience.</p> <p>Responsible Chief: Medical Services and Compliance Chief</p> <p>Target Resolution Date: September 2007 (IT related)</p> <p>Current Resolution Status: In-process</p>
<p>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 inappropriate or fraudulent payments.</p> <p>Significance Rating: Significant Weakness</p>	<p>IT corrected the incompatible system access capabilities noted during the audit. To address this issue in other application systems, IT Security will be meeting with the security contacts for the other application systems by the end of June 2007 to discuss a formal project to clearly define incompatible duties in all applications. Cambridge has created a process to identify users who have not changed their password in more than 6 months. These users are deemed to be inactive and their profiles are expired. This is not an automated process, but is scheduled to become part of batch processing by the end of the 2007 calendar year.</p> <p>IT Security also modified the system access review process to annual reviews of all system user access capabilities and is in the process of completing the first reviews of all users, which is scheduled to be completed by February 2008.</p> <p>Responsible Chief: Medical Services and Compliance Chief</p> <p>Target Resolution Date: February 2008 (IT related)</p> <p>Current Resolution Status: In-process</p>
<p>3 To ensure the current interest payment methodology operates in accordance with statutory requirements, obtain clarification regarding the correct interest payment calculation and ensure MIIS and Cambridge Systems calculations are consistent.</p> <p>Significance Rating: Significant Weakness</p>	<p>Medical Services is awaiting an opinion from Legal on how interest should be calculated in order to ensure that revised rules comply with legal requirements.</p> <p>Responsible Chief: Medical Services and Compliance Chief</p> <p>Target Resolution Date: July 2007(IT related)</p> <p>Current Resolution Status: In-process</p>
<p>4 There are currently two active systems in place for processing medical payments with limited</p>	<p>The Provider Master project is the first step in shutting down MIIS. Provider Master is not scheduled to be completed until</p>

Recommendation	Disposition
<p>IT and HPP technical support. Maintenance of the two systems is inefficient and results in increased systems maintenance costs. Significance Rating: Significant Weakness</p>	<p>2008. The entire system will not be shut down by the targeted resolution date. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: June 2008 (IT related) Current Resolution Status: In-process</p>

Risk/Employer Operational Review – June 2006

1	<p>Policy and procedures were not written for most functions and activities. Significance Rating: Significant Weakness</p>	<p>Policies and procedures are in development by the Policy Processing and EM Policy departments. The following procedures were finalized and placed on the EM resources Policy Processing page in 1/07: Cancellation of Coverage (Process or Void/Revised), Successorship Liability (new), U-117/U-118 Scenarios-HL Action Steps (new), Policy Primary and Mailing Address Update (new), Internal Control and Quality Assurance Review (new). The following procedures are in draft form: PA new business application (being revised), Business information update-same or similar ownership group(new), UDS employer electronic file room(new). Responsible Chief: Chief of Customer Services Target Resolution Date: December 2007 Current Resolution Status: In-process</p>
2	<p>BWC does not ensure all employers under jurisdiction of Ohio workers' compensation laws have obtained workers' compensation coverage. Systematic cross checks should exist with other state agencies. Significance Rating: Material Weakness</p>	<p>Work group findings were presented to Chief of Customer Services. Key recommendation is to separate the compliance and premium audit functions. Next step is review and prioritization of this and Law initiative LG10- Fraud & Compliance Unit by Sr. Management. However, the pursuit of employers unknown to BWC or other state agencies is a bigger issue for the State of Ohio. We have proposed that a multi-agency committee be formed to formulate an approach to employer compliance to Ohio laws. Responsible Chief: Chief of Customer Services Target Resolution Date: December 2006 and December 2007 (IT related) Current Resolution Status: In-process</p>
3	<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. Significance Rating: Material Weakness</p>	<p>Management engaged an independent actuarial consultant to evaluate the group rating program and recommend changes. The report was received in December 2006. In addition, two other actuarial consultants have reported on the problem and needed changes. Four informational meetings have been conducted with stakeholders and an internal team is developing a comprehensive proposal for the Administrator and the new Board of Directors. Designated Chief: Chief Actuarial Officer Target Resolution Date: December 2006 (actuarial study); June 2007 (implement plan) Current Resolution Status: In-process</p>

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>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 but have been delayed due to other priorities.</p> <p>Responsible Chief: Chief of Customer Services Target Resolution Date: September 2007 (IT related) Current Resolution Status: In-process</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>Significance Rating: Significant Weakness</p>	<p>Obtained confirmation to proceed with updating the amount of PSD on individual policies. A request will be submitted to IT to begin the process of defining the system requirements and developing the program to complete the PSD review and to post any necessary adjustment.</p> <p>Responsible Chief: Chief of Customer Services Target Resolution Date: December 2007 (IT related) Current Resolution Status: In-process</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>Significance Rating: Significant Weakness</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>Designated Chief: Chief Human Resources Officer Target Resolution Date: June 2007 Current Resolution Status: In-Process</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>Significance Rating: Significant Weakness</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>Designated Chief: Chief Human Resources Officer Target Resolution Date: June 2007 Current Resolution Status: In-Process</p>

Recommendation

Disposition

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

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. Significance Rating: Material Weakness</p>	<p>Injury Management Supervisors 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. The System Change Controls will be discussed and prioritized during a V3 audit meeting scheduled for early June 2007 and may be included in the September release. Responsible Chief: Chief of Customer Services Target Resolution Date: December 2007 (IT related) Current Resolution Status: In-process</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. Significance Rating: Significant Weakness</p>	<p>Policy updates were initially completed on 1/8/2007. Service Office Managers are completing claim audits of payments made by the IMS. In addition, Field Operations is creating a data warehouse report to identify an over than average number of manual overrides in an office, on a team or by a CSS. Responsible Chief: Chief of Customer Services Target Resolution Date: August 2007 Current Resolution Status: In-process</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. Significance Rating: Significant Weakness</p>	<p>The Full Weekly Wage is audited and reviewed by the IMS through the Claims Audit Tool prior to the 1st payment being released. If the FWW is set incorrectly the IMS can have that warrant pulled to make any necessary corrections to the payment. A System Change Control has been submitted to have a diary automatically post if the wages are entered 40% greater than any other wage entry. This System Change Control will be discussed and prioritized during a V3 audit meeting scheduled for early June 2007. Responsible Chief: Chief of Customer Services Target Resolution Date: December 2007 Current Resolution Status: In-process</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. Significance Rating: Significant Weakness</p>	<p>Policy updates were completed on 1/8/2007 This System Change Control will be discussed and prioritized during a V3 audit meeting scheduled for early June 2007. Responsible Chief: Chief of Customer Services Target Resolution Date: December 2007 (IT related) Current Resolution Status: In-process</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. Significance Rating: Significant Weakness</p>	<p>Policy updates were completed on 1/8/2007 This System Change Control will be discussed and prioritized during a V3 audit meeting scheduled for early June 2007. Responsible Chief: Chief of Customer Services Target Resolution Date: September 2006 (policy change); December 2007 (IT related) Current Resolution Status: In-process</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>Significance Rating: Significant Weakness</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". This System Change Control will be discussed and prioritized during a V3 audit meeting scheduled for early June 2007.</p> <p>Responsible Chief: Chief of Customer Services Target Resolution Date: December 2007 (IT related) Current Resolution Status: In-process</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 Managed Care Organizations (MCOs) utilize clinical editing software to avoid such payments as a top priority. This is in the MCO 2007 contract which was signed in December 2006. A RFP for clinical editing software was posted and responses were received in June 2007. A vendor has been recommended to the Administrator. Purchase and implementation will require Administration approval due to current state of budget. 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>Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: January 2007 (MCO contract); December 2007 (clinical editing) Current Resolution Status: In-process</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>Significance Rating: Significant Weakness</p>	<p>The Release of Information Policy now contains a section on requesting ID from the Injured Worker. This was in response to SB07. The benchmarking study continues.</p> <p>Responsible Chief: Chief of Customer Services Target resolution date: December 2007 Current resolution status: In-process</p>
2	<p>Discontinue performing functions that are the primary responsibility of the MCOs.</p> <p>Significance Rating: Significant Weakness</p>	<p>Management will re-evaluate the roles and responsibilities for entering and investigating new claims to avoid duplication of efforts.</p> <p>Responsible Chief: Chief of Customer Services Target resolution date: June 2008 Current resolution status: In-process</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>Significance Rating: Significant Weakness</p>	<p>A System Change Control has been submitted to assign more severe claims directly to the Field based on Triage Logic. A team of subject matter experts will be pulled together to define the business requirements and discuss the Triage Logic.</p> <p>Responsible Chief: Chief of Customer Services Target resolution date: December 2007 Current resolution status: In-process</p>

Recommendation		Disposition
4	<p>Enhance current V3 system to link an injured worker with multiple claims to the same case manager or team.</p> <p>Significance Rating: Significant Weakness</p>	<p>Claim assignment, team profiles, and workload balancing are all to be addressed in a V3-Inefficiencies project proposed by multiple workgroups. The project is being defined for the Project Office prioritization methodology.</p> <p>Responsible Chief: Chief of Customer Services</p> <p>Target resolution date: June 2008</p> <p>Current resolution status: In-process</p>
5	<p>Enact policy changes requiring that V3 and insurance searches are performed on all new injury claims filed.</p> <p>Significance Rating: Significant Weakness</p>	<p>ISO online management report access was completed 3/7/2007. Additional cross matches with other state agencies continue to be explored.</p> <p>Responsible Chief: Chief of Customer Services</p> <p>Target resolution date: September 2007 (IT related)</p> <p>Current resolution status: In-process</p>
6	<p>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.</p> <p>Significance Rating: Significant Weakness</p>	<p>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.</p> <p>Responsible Chief: Chief of Customer Services</p> <p>Target resolution date: June 2008</p> <p>Current resolution status: In-process</p>
7	<p>Develop performance measures or goals to improve timeliness of updating the Industrial Commission Strategies Tracker.</p> <p>Significance Rating: Significant Weakness</p>	<p>Formalized training to educate staff on better notices of referrals and claim file preparation was deployed in 2006. A system change request was submitted to enhance the current Dispute Tracker functionality. An initiative has begun to measure staff on the timeliness of enacting Industrial Commission Hearing Orders. Performance Level 3 goals are being developed to support the agency mission.</p> <p>Responsible Chief: Chief of Customer Services</p> <p>Target resolution date: January 2007 (education); September 2007 (IT related)</p> <p>Current resolution status: In-process</p>
8	<p>Develop written procedures and work flows that are standardized throughout the operational areas and field offices.</p> <p>Significance Rating: Significant Weakness</p>	<p>Management is continually developing and revisiting existing policies and workflows. Additionally, a newly proposed compliance function in the Operations Division is currently being explored to ensure consistency and compliance statewide.</p> <p>Responsible Chief: Chief of Customer Services</p> <p>Target resolution date: September 2007</p> <p>Current resolution status: In-process</p>

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>Significance Rating: Material Weakness</p>	<p>In June 2006, management developed and implemented policies over these processes and is now in the process of adding additional protocols and policies around this process. 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>Responsible Chief: Chief Actuarial Officer Target resolution date: September 2007 Current resolution status: In-process</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>Rating: Material Weakness</p>	<p>Management has developed and implemented rules surrounding the rate adjustment process and is now in the process of adding additional protocols and policies around this process.</p> <p>Responsible Chief: Chief Actuarial Officer Target resolution date: March 2007 (rating calculation adjustments) and September 2007 (final policy and procedure revisions) Current resolution status: In-process</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>Significance Rating: Material Weakness</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. The product development team proceeding with recommendations due to the administrator and new board of directors upon seating of the new board.</p> <p>Responsible Chief: Chief Actuarial Officer Target resolution date: December 2006 (actuarial study); June 2007 (implementation plan) Current resolution status: In-process</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>Significance Rating: Significant Weakness</p>	<p>Management has implemented an overpayment checklist and modified the compensation audit tool to include questions regarding overpayments. In addition, Field Operations has submitted a System Change Control and enhancements are scheduled to be released in June 2007. General overpayment data has been linked to Data Warehouse and reports are being created to ensure overpayments are being addressed.</p> <p>Responsible Chief: Chief of Customer Services Target resolution date: August 2007 (Field Operations); December 2007 (IT related) Current resolution status: In-process</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>Significance Rating: Significant Weakness</p>	<p>A System Change Control request was submitted to modify V3 to take the user to the Overpayment Allocation Window to review the absorption rate for accuracy if there is an overpayment at the SSN level and a payment plan is being built, once the plan is</p>

Recommendation		Disposition
		<p>saved. In addition, the CSS will receive a diary to adjust the absorption rate in a claim once there has been 12 weeks of compensation paid at the FWW. Also the IMS will receive a diary if the absorption rate is set at 100% for a scheduled payment. These enhancements are scheduled to be released in June 2007.</p> <p>Responsible Chief: Chief of Customer Services Target resolution date: January 2007 (Special Investigations Dept.); June 2007 (IT related) Current resolution status: In-process</p>
3	<p>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.</p> <p>Significance Rating: Significant Weakness</p>	<p>The overpayment checklist can be adjusted to include a check box for notification to Employer Rate Adjustment Unit if appropriate. The checklist is being reviewed for correct verbiage and then will be deployed to all Field Staff. Claims Policy will review this issue during the Over Payment policy review.</p> <p>Responsible Chief: Chief of Customer Services Target resolution date: December 2007 Current resolution status: In-process</p>
4	<p>Implement a process to proactively identify claims that may contain potential overpayments.</p> <p>Significance Rating: Significant Weakness</p>	<p>Management will request IT reports identifying claims containing possible overpayments and incorporate a V3 diary to the IMS when V3 calculates an overpayment.</p> <p>Responsible Chief: Chief of Customer Services Target resolution date: June 2007 Current resolution status: In-process</p>
5	<p>Implement procedures requiring supervisory review and approval of requests for the removal or adjustment of overpayment amounts.</p> <p>Significance Rating: Significant Weakness</p>	<p>Current practice now requires the IMS to review and approve requests to adjust overpayments in V3. In addition, neither the CSSs nor the IMSs have the system capability to perform adjustments to overpayments in V3.</p> <p>Responsible Chief: Chief of Customer Services Current resolution status: Implemented</p>
6	<p>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.</p> <p>Significance Rating: Significant Weakness</p>	<p>Management will benchmark with other jurisdictions' policies and procedures for addressing injured worker overpayments and develop a plan for implementing necessary changes.</p> <p>Responsible Chief: Chief Financial Officer Target resolution date: September 2007 Current resolution status: In-process</p>

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

Recommendation		Disposition
1	<p>Terminate EFT system access rights for separated individuals or positions no longer requiring such access.</p> <p>Significance Rating: Significant Weakness</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. IT is currently working with the Human Resources Division to</p>

Recommendation	Disposition
	enhance controls over security access for employees promoted or transferred within the agency. Responsible Chief: Chief of Customer Services Target resolution date: September 2007 Current resolution status: In-process

Lump Sum Advancements Audit – March 2007

	Recommendation	Disposition
1	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. Significance Rating: Significant Weakness	Policy update is in process. Field Operations will ensure appropriate updates are made that require the CSS to review the LSA payment plan at the conclusion of the paid out award and the rate adjustment has been made to reflect the original rate. A Date Warehouse report will be created to identify claims in which the LSA pay plan ended during the prior week to ensure the rate has been adjusted back to the original rate. A System Change Control has been submitted to have V3 generate a CSS diary 30 days prior to the LSA pay plan end date. This System Change Control will be discussed and prioritized during a V3 audit meeting scheduled for early June 2007. Responsible Chief: Chief of Customer Services Target Resolution Date: Field Operations (QA; IT Related) – December 2007; Claims Policy – July 2007
2	Implement improved quality assurance procedures to provide reasonable assurance that LSAs are being processed in accordance with BWC policy and procedures. Significance Rating: Significant Weakness	Field Operations initially implemented a procedure to require audits of all LSAs greater than \$5,000. However, based on validation results, Field Operations is in the process of modifying these requirements to require audits of all LSAs greater than \$10,000 with a random audit of LSAs under \$10,000. Policies will also be modified. Responsible Chief: Chief of Customer Services Target Resolution Date: September 2007
3	Implement a preventative systemic control which prohibits the CSS from paying more than two 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. Significance Rating: Significant Weakness	Field Operations will submit a change request to have a pop-up box appear if there are two concurrent LSA plans and the CSS attempts to build an additional plan. Field Operations and Claims Policy will determine the best solution and update the policy. Responsible Chief: Chief of Customer Services Target Resolution Date: Field Operations (QA; IT Related) – December 2007; Claims Policy – July 2007

Compensation Audit Review – March 2007

	Recommendation	Disposition
1	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.	Management implemented new policy requirements to ensure that all IMS payments are audited by the Service Office Managers or their designees. However, based on information obtained during validation,

	Recommendation	Disposition
	Significance Rating: Material Weakness	management is in the process of clarifying policy regarding the required audits and taking steps to ensure that Information Supervisor Payments appear on the compensation audit reports and are subject to audit. Field Operations reinforced the refresher course and policy requirements for auditing all IMS payments at the 7/26/2007 Service Office Manager meeting. Responsible Chief: Chief of Customer Services Target Resolution Date: October 2007 Current Resolution Status: In-Process
2	Implement controls on Compensation Audits 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. Significance Rating: Significant Weakness	Management would like to implement an independent 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. Responsible Chief: Chief of Customer Services Target Resolution Date: Field Operations – April 2007; Field Operations (QA Related) – December 2007
3	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. Significance Rating: Significant Weakness	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. Responsible Chief: Chief of Customer Services Target Resolution Date: Field Operations (IT Related) – July 2007
4	Add or update questions for various compensation types to address policy and statutory requirements. Significance Rating: Significant Weakness	Questions have been updated to the applicable compensation types. A workgroup will meet to determine which items/questions should have a more timely review and be reviewed daily to ensure compensation payments are accurate and which items may be reviewed quarterly to ensure the claim is being managed appropriately. Responsible Chief: Chief of Customer Services Target Resolution Date: Field Operations – January 2008
5	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. Significance Rating: Significant Weakness	Management will conduct benchmarking with similar organizations on the compensation audit process to evaluate “best practices” regarding quality assurance processes. Responsible Chief: Chief of Customer Services Target Resolution Date: Field Operations – December 2007

Salary Continuation Program – March 2007

	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	Policy review and updates are in process. Field Operations is working on creating some data warehouse reports to identify Salary Continuation claims. These claims will be provided to the Field Offices for review to ensure all initial contacts and

	Recommendation	Disposition
	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. Significance Rating: Significant Weakness	ongoing communication is completed timely. In addition, the Salary Continuation Policy is being review and any updates or changes will be communicated to the Field. The request to clean up the Salary Continuation claims has been submitted to a review team for prioritization. Responsible Chief: Chief of Customer Services Target Resolution Date: December 2007; April 2008 (“unknown claim” project clean up)
2	Establish controls for monitoring and reporting wage submissions. Significance Rating: Significant Weakness	Wage information will be monitored for completeness by the IMS. Responsible Chief: Chief of Customer Services Target Resolution Date: June 2007
3	Enforce existing policy and implement the necessary incentives and penalties as a control to ensure that participating employers are meeting all reporting requirements. Significance Rating: Material Weakness	Policy review and updates are on target for December. Field Operations is working on creating some data warehouse reports to identify Salary Continuation claims. These claims will be provided to the Field Offices for review to ensure all necessary wage documentation is obtained. Responsible Chief: Chief of Customer Services Target Resolution Date: December 2007
4	Ensure that injured workers receive sufficient information to make informed decisions concerning salary continuation. Significance Rating: Significant Weakness	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 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. Responsible Chief: Chief of Customer Services Target Resolution Date: December 2007
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. Significance Rating: Material Weakness	Field Operations is working on creating some data warehouse reports to identify claims with 8 or more days missed and Salary Continuation claims. Once these reports are created, we will work with Medical Claims and the Field to ensure V3 is updated properly. This is also a recommended report for the quality assurance department. Responsible Chief: Chief of Customer Services Target Resolution Date: Staffing - February 2007; Procedure Updates - September 2007; Quality Control-Implement - September 2007; Unknown claim project clean up - April 2008
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. Significance Rating: Significant Weakness	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. Responsible Chief: Chief of Customer Services Target Resolution Date: December 2007
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	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

	Recommendation	Disposition
	<p>the policy. Promulgate a formal rule to support program enforcement. Significance Rating: Material Weakness</p>	<p>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. Responsible Chief: Chief of Customer Services Target Resolution Date: April 2008</p>

Information Technology General and Application Controls Risk Assessment – January 2007

NOTE: 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. Validation will only occur after Internal Audit acquires the appropriate internal and/or external IT audit expertise.

	Finding	Disposition
1	<p>There is no documentation for personnel assigned access control over powerful utilities that may alter data or programs. Significance Rating: Material Weakness</p>	<p>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 Responsible Chief: Chief Information Officer Target Resolution Date: December 2007</p>
2	<p>Security violation and monitoring is not in effect. Trending or advanced analysis for security violations is, therefore, not performed. Significance Rating: Material Weakness</p>	<p>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. Responsible Chief: Chief Information Officer Target Resolution Date: March 2008</p>
3	<p>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. Significance Rating: Material Weakness</p>	<p>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. Responsible Chief: Chief Information Officer Target Resolution Date: March 2008</p>
4	<p>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. Significance Rating: Material Weakness</p>	<p>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. Responsible Chief: Chief Information Officer Target Resolution Date: June 2009</p>
5	<p>Individuals within the IT department are sometimes responsible for performing any end-user data processing activities via items such as SuperClaim and</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</p>

	Finding	Disposition
	<p>SPUFIs. Many individuals in IT have read-only access to production data. Significance Rating: Material Weakness</p>	<p>production data will be reviewed for policies or changes that are needed. Responsible Chief: Chief Information Officer Target Resolution Date: May 2008</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. There is no regular review of user/role definitions at the business process level. Passwords syntax controls within the Windows environment is not functioning as initially expected (per Security policies). Significance Rating: Material Weakness</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. Responsible Chief: Chief Information Officer Target Resolution Date: July 2008</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. Significance Rating: Material Weakness</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. Responsible Chief: Chief Information Officer Target Resolution Date: May 2008</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. Significance Rating: Material Weakness</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. 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. Responsible Chief: Chief Information Officer Target Resolution Date: March 2008</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 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. There are no formal sign offs for the SDLC</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 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"> • Training on the change management process that has been made available to all IT groups

	Finding	Disposition
	<p>deliverables except for the CMT process (which allows for electronic signoff). Significance Rating: Material Weakness</p>	<p>will be made mandatory and completed for all IT groups</p> <ul style="list-style-type: none"> • A monthly report documenting the number of changes implemented without all approvals will be distributed to Directors for review on a monthly basis. • 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. • Reports displayed in the weekly change management review meeting have been completed and now identifies the CMT's still requiring approvals. <p>Responsible Chief: Chief Information Officer Target Resolution Date: September 2007</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. Significance Rating: Material Weakness</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. Responsible Chief: Chief Information Officer Target Resolution Date: September 2007</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. Significance Rating: Material Weakness</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. 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 methodology. Management will add a clear definition to the methodology on Small/Large Projects. Responsible Chief: Chief Information Officer Target Resolution Date: December 2007</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</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 & people aspects of plan. Management will address the encryption issue by: implementing encryption of off site Data Recovery</p>

	Finding	Disposition
	<p>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>Significance Rating: Material Weakness</p>	<p>(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>Responsible Chief: Chief Information Officer Target Resolution Date: December 2007</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>Significance Rating: Material Weakness</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>Responsible Chief: Chief Information Officer Target Resolution Date: Phase 1 – July 2007; Phase 2&3 – July 2008</p>
14	<p>The Network Group has limited IT controls in place in terms of formal change management.</p> <p>Significance Rating: Material Weakness</p>	<p>Currently reviewing process changes to accommodate the recommended changes. At this time, IT has tightened up the CMT process and improved accountability for documenting changes. Next steps will be to document the assets and complete a workflow document for testing and upgrade application.</p> <p>Responsible Chief: Chief Information Officer Target Resolution Date: August 2007</p>
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>Significance Rating: Material Weakness</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>Responsible Chief: Chief Information Officer Target Resolution Date: September 2007</p>
16	<p>The processes used to identify security vulnerabilities for each technology asset are inconsistent. Security design documents are not reviewed, updated, nor</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</p>

	Finding	Disposition
	<p>approved. There are inadequate mechanisms in place to ensure that security policies are being followed by users.</p> <p>Significance Rating: Significant Weakness</p>	<p>they are approved.</p> <p>Responsible Chief: Chief Information Officer Target Resolution Date: September 2007</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>Significance Rating: Significant Weakness</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>Responsible Chief: Chief Information Officer Target Resolution Date: June 2008</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>Significance Rating: Significant Weakness</p>	<p>Management will examine after-action review process for customer satisfaction, lessons learned and harvesting the benefits (benefit realization).</p> <p>Responsible Chief: Chief Information Officer Target Resolution Date: June 2008</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>Significance Rating: Significant Weakness</p>	<p>IT is working with the Finance Division to handle MCO SAS70s relating to IT. IT is currently reviewing the latest round of MCO SAS70 audits.</p> <p>Responsible Chief: Chief Information Officer Target Resolution Date: August 2007</p>
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>Significance Rating: Significant Weakness</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>Responsible Chief: Chief Information Officer Target Resolution Date: June 2008</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>Significance Rating: Significant Weakness</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</p>

	Finding	Disposition
		<p>our Enterprise Architecture Framework.). Clarity Risk Compliance module has been selected as a prime vehicle for long-range IT plans integrated with governance frameworks.</p> <p>Responsible Chief: Chief Information Officer Target Resolution Date: June 2008</p>
22	<p>Security testing is not consistently or always performed.</p> <p>Significance Rating: Significant Weakness</p>	<p>Emergency change policies will be redefined.</p> <p>Responsible Chief: Chief Information Officer Target Resolution Date: December 2007</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>Significance Rating: Significant Weakness</p>	<p>Management will review existing security testing processes for system software and identify necessary improvements.</p> <p>Responsible Chief: Chief Information Officer Target Resolution Date: December 2007</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>Significance Rating: Significant Weakness</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 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.</p> <p>Responsible Chief: Chief Information Officer</p>
25	<p>There is inconsistency in testing standards for hardware. There is inconsistency in security procedures for the testing of new hardware.</p> <p>Significance Rating: Significant Weakness</p>	<p>Management will review existing security testing processes for system hardware and identify necessary improvements.</p> <p>Responsible Chief: Chief Information Officer Target Resolution Date: December 2007</p>
26	<p>The organization does not have consistent, documented policies and procedures concerning data transmission to external sources.</p> <p>Significance Rating: Significant Weakness</p>	<p>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.</p> <p>Responsible Chief: Chief Information Officer Target Resolution Date: Implemented</p>
27	<p>The assignment and communication of initial/reset passwords for powerful accounts is not rigorous from that of regular accounts.</p> <p>Significance Rating: Significant Weakness</p>	<p>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.</p> <p>Responsible Chief: Chief Information Officer Current Resolution Status: Implemented</p>

	Finding	Disposition
28	No capacity planning regarding data center power. Data centers do not have dual power sources for critical equipment. Significance Rating: Significant Weakness	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. Responsible Chief: Chief Information Officer
29	The Integration Competency Center has changed code directly in the production environment without appropriate compensating controls. Significance Rating: Significant Weakness	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 necessary to deal with an urgent issue. Adequate controls were used. Responsible Chief: Chief Information Officer
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. Significance Rating: Significant Weakness	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. Responsible Chief: Chief Information Officer Target Resolution Date: July 2007
31	Background checks are not conducted for contract employees. Significance Rating: Significant Weakness	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. Responsible Chief: Chief Information Officer
32	There is an inconsistent adherence to corporate policies and standards for contract employees within the Network Group. Significance Rating: Significant Weakness	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

	Finding	Disposition
		<p>contractors who refuse to sign or abide by BWC policies are terminated.</p> <p>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.</p> <p>Responsible Chief: Chief Information Officer</p>
33	<p>No monitoring or periodic review of outsourced services to ensure that contractual expectations/obligations are met.</p> <p>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.</p> <p>Significance Rating: Significant Weakness</p>	<p>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 contractors or are requesting contractors.</p> <p>Responsible Chief: Chief Information Officer</p>
34	<p>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.</p> <p>Significance Rating: Significant Weakness</p>	<p>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.</p> <p>Responsible Chief: Chief Information Officer Target Resolution Date: August 2007</p>
35	<p>There is a concern over existing data retention requirements and how this impacts the data backup policies.</p> <p>Significance Rating: Significant Weakness</p>	<p>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.</p> <p>Responsible Chief: Chief Information Officer Target Resolution Date: December 2007</p>

Pharmacy Benefit Manager Audit – May 2007

	Recommendation	Disposition
1	<p>Require vendor to maintain a separate bank account for BWC funds.</p> <p>Significance Rating: Significant Weakness</p>	<p>The vendor, ACS has established a separate account for BWC effective 4/30/07.</p> <p>Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: Implemented</p>
2	<p>Reconcile the bank balance to the financial records monthly and submit to BWC.</p> <p>Significance Rating: Material Weakness</p>	<p>BWC will monitor that ACS reconciles transactions pertaining to BWC funds. ACS management is working to reconcile BWC transactions going back to July 2002 and is also submitting a reconciliation of new accounts. ACS will submit weekly funding reconciliations.</p> <p>Responsible Chief: Medical Services and Compliance Chief</p>

	Recommendation	Disposition
		Target Resolution Date: August 2007
3	Develop policy to ensure outstanding checks are resolved timely. Significance Rating: Significant Weakness	BWC included in the ACS contract renewal a policy for the resolution process for checks. Management will verify that ACS credits all amounts corresponding to uncashed checks and will monitor ACS's compliance with these guidelines. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: Implemented
4	Develop tracking system to ensure all refunds are adjusted back to BWC. Significance Rating: Significant Weakness	ACS Finance has developed the system. Verification will be performed by the BWC Compliance and Performance Monitoring unit. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: August 2007
5	Ensure the responsibility for resolving overpayments is specified and oversight is improved. Significance Rating: Significant Weakness	ACS is working to resolve the credit balance issue and is monitoring the credit balance report to ensure that balances are resolved. The vendor is sending letters to impacted pharmacies and injured workers in order to resolve the issue. BWC will monitor the issue as well. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: October 2007
6	Require the vendor to maintain adequate accounting records for BWC funds that are separate from other clients. Significance Rating: Significant Weakness	ACS has implemented a new account and reconciliation process. Responsible Chief: Medical Services and Compliance Chief Current Resolution Status: Implemented
7	Implement standard internal controls over cash receipts. Significance Rating: Significant Weakness	BWC has approved cash control procedures provided by ACS. The controls will be tested during the on-site visit. Responsible Chief: Medical Services and Compliance Chief Current Resolution Status: Implemented
8	Strengthen internal controls to ensure payments are mailed timely. Significance Rating: Significant Weakness	ACS is contractually required to implement internal controls to safeguard BWC assets including timely mailing of payments. BWC and ACS are analyzing the requirements for issuing and mailing payments timely. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: September 2007
9	Ensure segregation of duties over payments is adequate. Significance Rating: Significant Weakness	ACS has provided updated documentation describing appropriate segregation of duties and a new organizational structure for this process. Responsible Chief: Medical Services and Compliance Chief Current Resolution Status: Implemented
10	BWC management should immediately obtain complete bank statements and confirm account activity. Significance Rating: Significant Weakness	BWC will monitor that ACS reconciles transactions pertaining to BWC funds. ACS management is working to reconcile BWC transactions going back to July 2002 and is also submitting a reconciliation of new accounts. ACS will submit weekly funding reconciliations. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: August 2007

	Recommendation	Disposition
11	Develop payment structure that does not reimburse for drugs not dispensed. Significance Rating: Significant Weakness	BWC has approved an ACS proposal to change the way bills for new and pending claims are processed. This change requires that the pharmacy confirm that the injured worker has paid for and received the prescription. Implementation of this change was part of the contract renewal. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: August 2007
12	Enhance current system to adequately reflect reasons for denials. Significance Rating: Significant Weakness	ACS has changed their reporting system to capture the required codes for denials. Responsible Chief: Chief of Medical Policies and Compliance Current Resolution Status: Implemented
13	Require vendor to resume imaging of bills and increase oversight. Significance Rating: Significant Weakness	ACS has resumed imaging. BWC will develop and implement a strategy for verifying that ACS is complying with imaging requirements. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: December 2007
14	Improve review and oversight to ensure bills are processed timely. Significance Rating: Significant Weakness	Management disagrees. However, ACS has educated staff on correct processes for documentation. Responsible Chief: Medical Services and Compliance Chief Current Resolution Status: Implemented
15	Finalize audit materials to expedite the requirement for desktop audits of pharmacies. Significance Rating: Significant Weakness	Audit materials are finalized and desk audits are in process. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: August 2007
16	Finalize audit materials to expedite the requirement for on-site audits of pharmacies. Significance Rating: Significant Weakness	Audit materials are final and audits are in process. A BWC Compliance and Performance Monitoring staff member attended some of these audits. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: October 2007
17	Develop retrospective DUR criteria to enhance utilization of the services of the vendor. Significance Rating: Significant Weakness	BWC will work with ACS to use the results of existing reports to attempt to change prescribing patterns and/or to make prescribers aware of potential issues caused by medications being used by their injured worker patients. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: January 2008
18	Evaluate program resources, review contract, and require the vendor to submit an attestation letter stating that rebates and discounts have not been received. Significance Rating: Significant Weakness	An attestation letter was received on May 16, 2007. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: September 2007
19	Consider utilizing vendor's technology. Significance Rating: Significant Weakness	BWC management strongly disagrees with the analysis and, for this reason, cannot address the recommendations. However, recommendations have been made to enhance existing edits and add two new edits. Responsible Chief: Medical Services and

	Recommendation	Disposition
		Compliance Chief Target Resolution Date: October 2007
20	Develop action plan to strengthen oversight and improve management of the program. Significance Rating: Significant Weakness	BWC Compliance and Performance Monitoring has drafted a monitoring plan and is working with HPP Systems Support and the BWC Pharmacist to finalize the plan. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: September 2007
21	Periodically test transactions to ensure discounts are passed-through to BWC. Significance Rating: Significant Weakness	BWC is developing a Request For Proposal (RFP) in conjunction with the Department of Administrative Services (DAS) General Services to hire a consultant to assist in determining a plan for discount testing. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: March 2008
22	Conduct sufficient review and analysis to identify opportunities. Significance Rating: Significant Weakness	BWC management has met with DAS and Attorney General staff to discuss potential opportunities for program improvement. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: March 2008

Retrospective Rating Program Audit – June 2007

	Recommendation	Disposition
1	Update policies and procedures for more efficient and effective processing. Significance Rating: Significant Weakness	Management will update or develop all necessary policies and procedures, as well as, establish an annual review process to ensure that all policies and procedures remain current. Responsible Chief: Chief of Customer Services Current Resolution Status: Implemented
2	Evaluate additional alternatives to augment, compliment, or replace financial statement audit requirements. Significance Rating: Significant Weakness	The Retrospective Rating Unit will meet with appropriate BWC departments to identify alternatives for employers desiring to participate in the Retrospective Rating who choose not to have certified audited financial statements. Responsible Chief: Chief of Customer Services Target Resolution Date: December 2007 (Recommendations to senior staff); July 2008 (implementation for private employers) and January 2009 (public entities)
3	Enforce provisions set forth in Ohio Administrative Code Section 4123-17-42 by establishing and implementing an effective procedure for the management review process. Significance Rating: Material Weakness	The Retrospective Rating Unit will draft a summary report with recommendations submitted to executive staff. The report will identify options to ensure a consistent approach be used for the management review process. Responsible Chief: Chief of Customer Services Target Resolution Date: August 2007
4	Evaluate requirements and objectives of the program to ensure support exists for all goals and outcomes. Consider eliminating the allowance of any employer	Management concurs that alternatives such as a one-tiered program should be reviewed and considered, as well as limited liability levels for certain employers.

	Recommendation	Disposition
	who is financially unstable, including employers who are in a part pay status from the program. Significance Rating: Material Weakness	Management does not agree all employers currently in a part pay plan be restricted from participation, but instead feels part pay plans be reviewed very closely to determine financial adequacy. Responsible Chief: Chief of Customer Services Target Resolution Date: August 2007
5	Enforce Ohio Administrative Code Section 4123-17-42(D) (2) concerning compliance with the 10-step business plan and communicate results to the Retrospective Rating Unit. Significance Rating: Significant Weakness	Management has implemented a new procedure that requires Tier 2 participants to complete and submit a 10-step self-assessment progress report to their assigned BWC representative. This report will be reviewed at the end of the retro period and a recommendation will be submitted. Responsible Chief: Chief of Customer Services Current Resolution Status: Implemented
6	Consider drafting a rule to eliminate employers from participating in the program that are unable to manage retrospectively rated claims for their ten-year enrollment period. Significance Rating: Significant Weakness	The recommendation to restrict a PEO from participating in the retro program will be discussed with Employer Operations' management to determine the most appropriate direction for BWC to take that is consistent with agency goals. Responsible Chief: Chief of Customer Services Target Resolution Date: September 2007
7	Develop ongoing reporting and conduct detailed trending and analysis of pertinent program management data. Significance Rating: Significant Weakness	Management will create queries of premium data provided by the BWC actuarial vendor. This data will be analyzed to identify trends and ensure that appropriate premiums are collected from employers in the Retrospective Rating Program. Responsible Chief: Chief of Customer Services Target Resolution Date: October 2007

Medical Bill Payment Controls Memorandum – June 2007

	Recommendation	Disposition
1	The BWC Medical Services Division should implement preventive and detective controls to include caps or limits on the amounts reimbursable for hospital bill charges. Preventive controls, coupled with monitoring by management, will help guard against intentional or unintentional keying errors of billed amounts by either the hospitals or Managed Care Organizations (MCO). Significance Rating: Significant Weakness	A RFP for clinical editing software was posted and responses were received in June 2007. A vendor has been recommended to the Administrator. In the interim, the Medical Division's management implemented an edit in Cambridge to identify large dollar line items for review. After ensuring the threshold levels are acceptable, the edits will be set to deny those lines. Additionally, the Compliance and Performance Monitoring department is creating a quarterly report to test the data accuracy of large line items exceeding thresholds. Responsible Chief: Medical Services and Compliance Chief Target Resolution Date: August 2007 (Cambridge solutions, RFP results, budget decision); January 2008 (implement and train on clinical editing software)

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"> • 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).

Internal Audit Division Completed Audits (Jan. 2006 – June 2007)

Audit	Issue Date
Medical Bill Payment Controls Memorandum	June 2007
Retrospective Rating Program Audit	June 2007
Pharmacy Benefit Manager Audit	May 2007
Salary Continuation Program Audit	March 2007
Compensation Audit Review	March 2007
MCO Special Audit	March 2007
Lump Sum Advancements Audit	March 2007
Information Technology General and Application Controls Risk Assessment	January 2007
Alternative investments - Private Equity Assets	November 2006
Manual Override Special Audit	October 2006
Indemnity Claims Overpayments	October 2006
Electronic Funds Transfer/Electronic Benefits Transfer Account Processing	October 2006
IT Business Management and Planning Unit Audit	October 2006
Manager Selection and Funding	October 2006
Claims Operation Review	September 2006
Settlement Process	September 2006
Medical Bill Payments Control Review	September 2006
Average Weekly Wage/Full Weekly Wage Payment Rates Audit	September 2006
Time Reporting and Leave Usage Audit	August 2006
Risk/Employer Operations Review	June 2006
Medical Billing and Adjustments Audit	May 2006
Bankrupt Self-Insured Claims Audit	March 2006

Ohio Bureau of Workers' Compensation
Independent Public Accountant Annual Financial Statement Audit
Fiscal Year Ended June 30, 2007
Key Dates

<u>Action</u>	<u>Date</u>
Delivery of Actuarial Audit Report from Oliver Wyman to BWC Management and Schneider Downs	Aug. 31, 2007
BWC Management to provide complete draft of financial statements and footnote disclosures to Schneider Downs	Sept. 10, 2007
Schneider Downs to complete review of financial statement drafts and provide drafts of audit reports and recommendations to BWC Management	Sept. 17, 2007
Schneider Downs to complete all fieldwork	Sept. 21, 2007
BWC Management to provide written final responses to draft audit reports and recommendations to Schneider Downs	Sept. 24, 2007
Exit conference with BWC Management and Schneider Downs	Sept. 24, 2007
Schneider Downs to deliver final audit reports to Auditor of State's Quality Assurance Group	Sept. 27, 2007
BWC Management to deliver final audit reports to the Office of Budget and Management for inclusion in the State of Ohio Comprehensive Annual Financial Report (CAFR)	Sept. 30, 2007