Dave Yost • Auditor of State

The State of Ohio, Auditor of State

Ohio Bureau of Workers' Compensation Performance Audit January 2017

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Dave Yost • Auditor of State

To the Governor's Office, General Assembly, Director and Staff of the Ohio Bureau of Workers' Compensation, Ohio Taxpayers, and Interested Citizens:

It is my pleasure to present to you this performance audit of the Ohio Bureau of Workers' Compensation (OBWC or the Bureau). This service to OBWC and to the taxpayers of the state of Ohio is being provided pursuant to Ohio Revised Code § 117.46 and is outlined in the letter of engagement signed November 23, 2015.

This audit includes an objective review and assessment of selected program areas within OBWC in relation to industry standards and recommended or leading practices. The Ohio Performance Team (OPT) of the Auditor of State's (AOS) office managed the project and conducted the work in accordance with Generally Accepted Government Auditing Standards.

The objectives of this engagement were completed with an eye toward analyzing the Bureau, its programs, and service delivery processes for efficiency, cost-effectiveness, and customer responsiveness. The scope of the engagement was confined to the areas of Collections Resolution, Provider Enrollment and Certification, Facility Utilization, Employer Premium Audit, and Fleet Management.

This report has been provided to OBWC and its contents have been discussed with Bureau leadership, division leadership, program specialists, and other appropriate personnel. The Bureau is reminded of its responsibilities for public comment, implementation, and reporting related to this performance audit per the requirements outlined under ORC § 117.461 and § 117.462. The Bureau is also encouraged to use the results of the performance audit as a resource for improving overall operational efficiency as well as service delivery effectiveness.

Sincerely,

Dave Yost

Dave Yost
Auditor of State

January 10, 2017

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. In addition, this report can be accessed online through the Auditor of State of Ohio website at http://www.ohioauditor.gov by choosing the "Audit Search" option.

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I. Engagement Purpose and Scope

Ohio Revised Code (ORC) § 117.46 provides that the Auditor of State (AOS) shall conduct performance audits of at least four state agencies each budget biennium. In consultation with the Governor and the Speaker and Minority Leader of the House of Representatives and the President and Minority Leader of the Senate, the Auditor of State selected the Ohio Bureau of Workers' Compensation (OBWC or the Bureau) for audit during the fiscal year (FY) 2015-17 Biennium, encompassing FY 2015-16 and FY 2016-17.

Prior to the formal start of the audit, the Ohio Performance Team (OPT) and OBWC engaged in a collaborative planning process which included initial meetings, discussion, and assessments. Based on these planning activities, AOS and OBWC signed a letter of engagement marking the official start of the performance audit, effective November 23, 2015.

The letter of engagement established that the objective of the audit was to review and analyze selected areas of OBWC operations to identify opportunities for improvements to economy, efficiency, and/or effectiveness.

The letter of engagement led to OPT planning and scoping work, in consultation with OBWC, which identified the following scope areas:

- Collections Resolution;
- Provider Enrollment and Certification;
- Facility Utilization;
- Employer Premium Audit; and
- Fleet Management.

Based on the established scope, OPT engaged in supplemental planning activities to develop detailed audit objectives for comprehensive analysis. See **Section VII: Audit Scope and Objectives Overview** for an overview of scope areas and audit objectives.

II. Performance Audit Overview

The United States Government Accountability Office develops and promulgates Government Auditing Standards that provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services. These standards are commonly referred to as generally accepted government auditing standards (GAGAS).

Performance audits are defined as engagements that provide assurance or conclusions based on evaluations of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

OPT conducted this performance audit in accordance with GAGAS. These standards require that OPT plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. OPT believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

III. Methodology

Audit work was conducted between November 2015 and October 2016. To complete this report, OPT staff worked closely with OBWC staff to gather data and conduct interviews to establish current operating conditions. This data and information was reviewed with staff at multiple levels within OBWC to ensure accuracy and reliability. Where identified, weaknesses in the data obtained are noted within the report where germane to specific assessments.

To complete the assessments, as defined by the audit scope and objectives, OPT identified sources of criteria against which current operating conditions were compared. Though each source of criteria is unique to each individual assessment, there were common sources of criteria included across the audit as a whole. These common sources of criteria include: statutory requirements such as contained in ORC or Ohio Administrative Code (OAC); OBWC internal policies and procedures; other State of Ohio policies and procedures; industry standards; and government and private sector leading practices. Although OPT reviewed all sources of criteria to ensure that their use would result in reasonable and appropriate assessments, OPT staff did not conduct the same degree of data reliability assessments as were performed on data and information obtained from OBWC.

The performance audit process involved information sharing with OBWC staff, including preliminary drafts of findings and proposed recommendations related to the identified audit scope and objectives. Status meetings were held throughout the engagement to inform the

Bureau of key issues, and share proposed recommendations to improve or enhance operations. Input from the Bureau was solicited and considered when assessing the selected areas and framing recommendations. The Bureau provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process. Where warranted, the report was modified based on Bureau comments.

This audit report contains recommendations that are intended to provide the Bureau with options to enhance its operational economy, efficiency, and effectiveness. The reader is encouraged to review the recommendations in their entirety.

IV. OBWC Overview

Responsibilities and Mission

OBWC is a cabinet-level Bureau and, as such, the Administrator/Chief Executive Officer (the Administrator) is appointed by, and serves at the pleasure of, the Governor. As a State agency, OBWC is charged with protecting injured workers and employers from loss due to workplace accidents. This is achieved through a comprehensive program of protection focused in the areas which reflect the values of the Bureau, including:

- Service;
- Simplicity; and
- Savings.

The Bureau's mission is, "To protect Ohio's workers and employers through the prevention, care and management of workplace injuries and illnesses at fair rates."

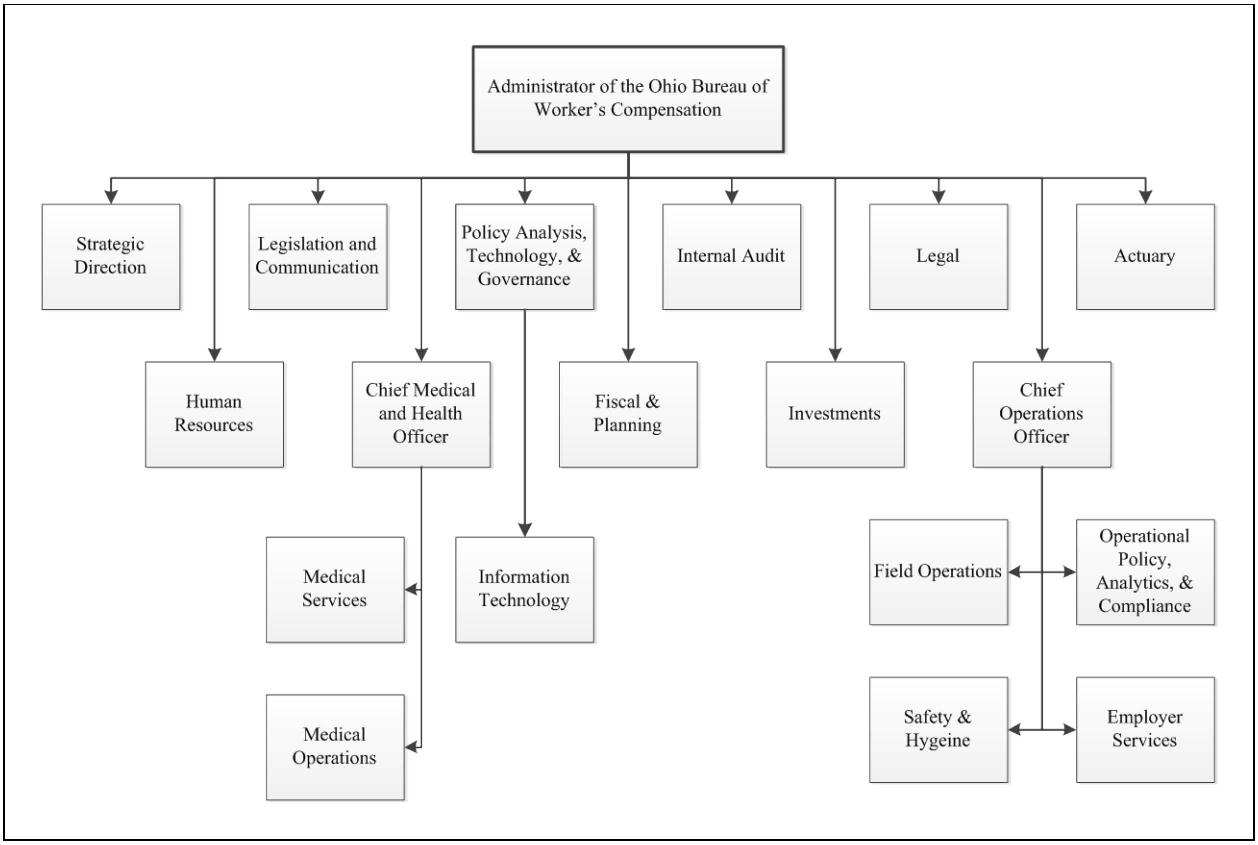
Organizational Structure

With oversight from the Administrator, OBWC carries out its statutory responsibilities and mission through operating 16 divisions, including:

- Strategic Direction;
- Legislation & Communication;
- Policy Analysis, Technology & Governance;
- Internal Audit;
- Legal;
- Actuary;
- Human Resources;
- Investments;
- Fiscal & Planning;
- Medical Services;
- Medical Operations;
- Operational Policy, Analytics, & Compliance;
- Employer Services;
- Information Technology;

- Field Operations; and
- Safety & Hygiene.

The following graphic illustrates both the basic organizational structure and the leadership hierarchy of the Bureau.



Organizational History

Since its formal establishment, OBWC has had a long and varied history and today's Department, both in structure and function, is a product of evolving statutory roles and responsibilities.

In 1912, the Industrial Commission of Ohio was formed in response to the Workers' Compensation Act passed in 1911, which created a voluntary workers' compensation program for employers. At that time, the Industrial Commission of Ohio administered a state insurance fund for the purpose of compensating workers injured on the job. OBWC was created in 1955 with specific responsibilities for collecting insurance premiums from employers, overseeing the insurance program, and paying claims to injured workers. Although numerous changes in ORC and OAC have impacted the Bureau's operations since 1955, the most recent noteworthy change has involved the change from retrospective billing to prospective billing. Starting on January 1, 2015, employers began paying their premiums in advance of their policy period (i.e., prospective billing) rather than after their policy period (i.e., retrospective billing). OBWC implemented this changed to bring the Bureau in line with other insurance providers.

Staffing and Budgetary Resources

OBWC has a total of 1,852 employees that carry out day-to-day operations.[1] This includes 1,788 full-time permanent, two part-time permanent, five full-time project, 29 part-time intermittent, 17 part-time temporary, and 11 part-time fixed-term staff.

OBWC had total expenditures of $250.7 million in FY 2014-15. The Bureau's appropriated budget for the FY 2015-17 biennium was $276.2 million for FY 2015-16 and $276.2 million for FY 2016-17. For FY 2014-15, a combination of the following three fund groups accounted for 99.8 percent of all Bureau expenditures:

- **Claims, Risk, and Medical Management –** This fund group accounted for $130.5 million, or 46.7 percent of the total. Broadly, these expenditures are used to ensure that claims are handled as required in ORC. These expenditures also fund oversight and communications with managed care organizations, or groups of medical practitioners that serve injured workers.
- **Administration –** This fund group accounted for $110.0 million, or 39.3 percent of the total. These expenditures fund administrative services that support both the Bureau's operations and the integrity of the State Insurance Fund and other funds that support injured workers. These expenditures are concentrated in six areas, including: finance, actuarial, investments, human resources, legal, and infrastructure and technology.
- **Safety Program –** This fund group accounted for $38.5 million, or 13.8 percent of the total. Expenditures in this category fund Bureau activities, including training, that ensure employers meet applicable safety standards and laws.

[1] OBWC's employee count is reported by the Ohio Department of Administrative Services (DAS) as of October 31, 2016.

V. Summary of Recommendations and Impact

The following table shows performance audit recommendations and total financial implications for this report.

Table V-1: Summary of Section Recommendations and Impact

Report Section	Recommendations	Annual Impact
Collections Resolution	**R1 & R1.2**	**N/A**
Provider Enrollment and Certification	**R2.1**	**N/A**
Facility Utilization	**R3.1, R3.2, R3.3, & R3.4**	**$2,575,910**
Employer Premium Audit	**R4.1**	**N/A**
Fleet Management	**R5.1**	**N/A**
Total Financial Implication		**$2,575,910**

Note: N/A indicates that no financial implication specific to the implementation of the stated recommendation was calculated as part of the analysis.

VI. Audit Results

The performance audit identified recommendations within the scope areas of:

- Collections Resolutions;
- Provider Enrollment Certification;
- Facility Utilization;
- Employer Premium Audit; and
- Fleet Management.

Each scope area and report section includes recommendations that focus on performance measurement and management. This thematic focus evolved over time as progressively detailed work was performed to assess OBWC operations within each of the scope areas. Commonly, analysis identified that Bureau leadership did not have ready access to critical management information. However, the data necessary to inform and support management decisions was often already captured, but not at a level of detail necessary for data-driven decision making. In other instances, data was being captured, but not aggregated in a way that provides internal and external visibility into operations at a meaningful level. Lastly, some data points were not being captured at all due to current system limitations or no systems at all. In all cases where these deficiencies were identified, this report includes practical, implementable recommendations not only to address the identified deficiencies, but also to begin using the resulting data and information to improve management decision-making and Bureau performance.

See **Section IX: Abbreviated Terms and Acronyms** for a list of acronyms used throughout this report.

1. Collections Resolution

Section Overview

This section focuses on the Ohio Bureau of Workers' Compensation's (OBWC or the Bureau) Collections Department, Employer Compliance Unit, and Special Investigations Department's Employer Fraud Teams' ability to collect premiums and other amounts due from employers. Together, these sections make up the Bureau's collection resources. Information was collected and analysis was performed to develop an understanding of the role each resource has in the collections process. Analysis identified opportunities to improve the effectiveness of collections and the management of critical operational data related to collections.

The **Collection Resolution** section is divided into two sub-sections of analysis, each analyzing a distinct element of collections resolution and related practices, including:

- **Debt Collection Tracking**: The first sub-section analyzes OBWC's gathering and use of important operational and workload data as a management resource.
- **Proactive Collection Process**: The second sub-section analyzes the use of policies and procedures to standardize the accounts receivable debt collection process.

Recommendations Overview

Recommendation 1.1: OBWC should gather, analyze, and communicate key collections data to ensure that the debt collections process is conducted in an effective and timely manner.

Financial Implication of 1.1: N/A

Recommendation 1.2: OBWC should implement formal policies and procedures for the collection of past due accounts receivable. In doing so, the Bureau should implement practices that increase the overall efficiency of the collections function, such as standardized time frames and the use of varied mediums for account outreach.

Financial Implication of 1.2: N/A

Background

OBWC collects premiums from employers as a management function of the Ohio Workers' Compensation Fund. These premiums are collected by the Bureau based on various criteria including, but not limited to, payroll size and the manual classifications of the business. When employer premiums are not paid, the Bureau attempts to collect premiums owed to it as prescribed by Ohio Revised Code (ORC) § 131.02.

In addition to premium collections, OBWC collects other amounts due from employers, such as any non-complying claim amounts. Non-complying claims are Bureau payments received as a result of an injured worker whose employer has not paid its premiums. In these circumstances, the Bureau fulfills its duties in assisting the injured worker; however, as a result of the employer's unpaid premium, these costs are charged to the employer at the full cost of the claim.

OBWC tracks a running total of gross accounts receivable (A/R), or the entire amount of debt owed for all operations. However, based on the historical amount of gross A/R that have yet to be collected, as applied to an aging schedule, the Bureau estimates a total allowance for uncollectible accounts. This is essentially the total amount of gross A/R that the Bureau expects to go uncollected. The difference between the total gross A/R and the allowance for uncollectible accounts, or the net A/R, represents the total amount of debt that the Bureau expects it will successfully collect. In addition to the amount of A/R that the Bureau expects to collect, it also determines a total amount of uncollectible debt. When deemed uncollectible, the debt is removed from the Bureau's total A/R and allowance for uncollectible accounts as a write-off. In short, write-offs represent the amount of debt that the Bureau will no longer pursue.

Table 1-1 shows OBWC's A/R, allowance for uncollectible accounts, and uncollectible account write-offs from fiscal year (FY) 2010-11 through FY 2014-15. This is important in demonstrating the magnitude of the Bureau's uncollectible accounts.

Table 1-1: Allowance for Uncollectible Accounts

Account	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
Gross A/R [1]	$1,177,750,000	$1,222,060,000	$1,264,160,000	$1,243,706,000	$1,264,384,000
Allowance for Uncollectible Accounts	$1,047,878,000	$1,091,672,000	$1,129,328,000	$1,132,826,000	$1,158,399,000
Net A/R	**$129,872,000**	**$130,388,000**	**$134,832,000**	**$110,880,000**	**105,985,000**
Net A/R % of Gross A/R	**11.0%**	**10.7%**	**10.7%**	**8.9%**	**8.4%**
Total Write-Offs	**$17,105,351**	**$3,746,281**	**$3,118,784**	**$53,138,145**	**$13,967,685**

Source: OBWC

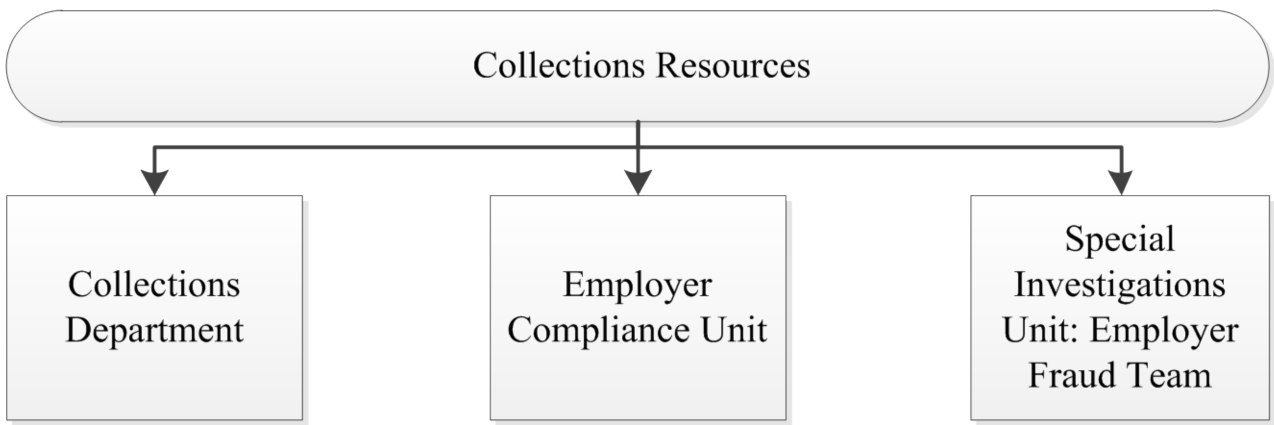
Note: A/R amounts are presented as rounded to the nearest thousand. The allowance for uncollectible accounts and gross A/R include amounts due from non-complying employers for the full amount of claims costs paid by OBWC during the time an employer did not have coverage. These accounts represent between 28.0 and 29.0 percent of the gross A/R shown.

[1] Gross A/R represents all lifetime amounts due to OBWC that have not been previously written off as uncollectible.

As shown in **Table 1-1**, OBWC write-offs ranged from approximately $3.1 million in FY 2012-13 to as high as $53.1 million in FY 2013-14. This fluctuation is due to varying reviews in the debt write-off process. For example, for FY 2013-14, the Bureau identified that it took measures to write off aged bankruptcy accounts, some of which dated back to the 1980s, and this contributed to the increase in write-offs for that year. **Table 1-1** also shows that actual expected A/R was between 8.4 percent and 11.0 percent of the gross A/R during the time frame examined. This highlights the financial impact of uncollectible debts on the Bureau, and the significance of its debt collection resources.

In order to collect debts before they are written off, multiple OBWC departments and units are involved in collecting receivables from employers. These sections work collaboratively to meet the needs of the Bureau. **Chart 1-1** shows the departments or units responsible for collections resolution within the Bureau.

Chart 1-1: Collections Resources



Source: OBWC

As shown in **Chart 1-1**, there are three departments or units involved in collections resolution for the Bureau. Each of these resources has a distinct role in the collection of premiums, as follows:

- **Collections Department**: The Collections Department is responsible for collecting amounts due from employers, setting up payment plans, acting as the liaison to the Ohio Attorney General's Office (AGO) on collection matters, and making collections calls.
- **Employer Compliance Unit (ECU)**: The ECU provides assistance to employers who are not in compliance with Workers' Compensation rules and regulations, including past due premiums or a lack of coverage.
- **Employer Fraud Team (EFT)**: The EFT focuses on the identification and prosecution of fraud cases stemming from employers. The identification of fraud includes finding amounts due to OBWC that otherwise may have gone unnoticed.

Table 1-2 shows the staffing levels in terms of full-time equivalents (FTEs) for each of OBWC's collections resources from FY 2010-11 to FY 2014-15. This table demonstrates how the Bureau has adjusted staffing levels in recent years to assist in collections resolution.

Table 1-2: Collections Resources Staffing FTEs

Resource	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	% Change
Collections Department	14.4	13.5	14.6	15.0	13.6	(5.6%)
ECU	18.0	15.8	16.1	15.1	13.9	(22.8%)
EFT	11.9	12.5	14.6	14.3	15.6	31.1%
Total	**44.3**	**41.8**	**45.3**	**44.4**	**43.1**	**(2.7%)**

Source: OBWC and DAS

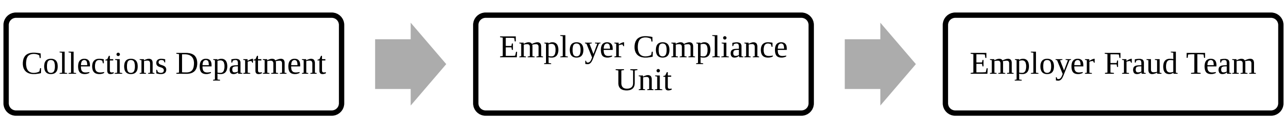
Note: During the course of the audit, Department Leadership reported current year staffing changes. There are now 8.0 FTEs in the Collections Department, 12.0 FTEs in the ECU, and 16.0 FTEs in the EFT.

As shown in **Table 1-2**, total collection resource staffing declined by 2.7 percent from FY 2010-11 to FY 2014-15. The largest decrease in staffing was within the ECU, which experienced a staffing reduction of 22.8 percent. According to the Bureau, the staffing decrease was primarily due to attrition and positions remaining unfilled. Collections Department staffing remained relatively consistent throughout the historical period, with a 5.6 percent decline in total staffing. In contrast, EFT staffing increased 31.1 percent during the same time period.

Process Workflow

Chart 1-2 shows the escalation progression for collections resolution. The escalation progression also represents the typical workflow for collections within the Bureau if payment is not obtained. However, it should be noted that referrals come from various internal and external sources and could enter the escalation progression at any point before being channeled to the correct section.

Chart 1-2: Collections Escalation Flow Chart



Source: OBWC

As shown in **Chart 1-2**, the Collections Department is generally the first to receive referrals for unpaid premiums or non-compliant claim amounts. An employer that is unreachable or unwilling to make payment arrangements is referred from Collections to the ECU. ECU provides assistance to the employer, and if unable to collect, the case is referred to the EFT, if appropriate.

Collections by the Attorney General

Ohio Revised Code (ORC) § 131.02 governs the collection of debts owed to the State, including amounts owed to OBWC. This statute requires that if any amount is not paid after 45 days, the amount shall be certified to the Ohio Attorney General (AGO). The AGO either collects the claim or secures a judgment and obtains a write of execution for its collection. Interest is charged to the account from the date the claim became due, and the AGO collects fees for these services. The collection of debts by the AGO is set out in statute, including the timeline for the Bureau to certify debts to the AGO. In practice, this means that internal collection efforts often overlap certification to the AGO and result in concurrent collection efforts. The Collections Department serves as a liaison to the AGO for the Bureau. If the AGO and the Bureau fail to collect what is owed, the receivable can be determined to be uncollectible.

R1.1 Collections Measurement and Management

Section Background

The various records associated with the Bureau's collections process are retained by the Collections Department, ECU, and EFT depending on the nature and extent of each delinquent account. Although these departments and units work collaboratively to engage with and resolve delinquent accounts there if no formal, data-driven method to monitor, measure, and evaluate the effectiveness of this collaborative effort. Nor is there a systemic method in place to ensure that efforts to address the identified delinquent accounts are effectively coordinated to avoid confusion on behalf of the employer and increase overall effectiveness of collections efforts. For example, it is possible that the ECU and EFT may both have an open case for the same employer while at the same time the Collections Department is contacting that employer; in this case the employer may be receiving three uncoordinated, potentially duplicative, communications from the Bureau. Furthermore, there is no overarching, centralized repository of key data and information that each department or unit can access to assist in improving overall performance. Finally, while leadership within each department and unit seeks to ensure duties are carried out in an effective manner, there is not currently a data-driven effort to systemically evaluate the ongoing effectiveness of the entire process.

Methodology

This sub-section, **Debt Collection Tracking**, seeks to analyze the effectiveness of the data gathering and usage with regards to collection efforts. During the planning and scoping phase of the performance audit, OBWC leadership identified this as a possible area that an objective analysis could identify opportunities for improved efficiency.

Operations information was provided by OBWC and supplemented by testimonial evidence from management and staff within the functional units. Additional sources of information include the Ohio Administrative Knowledge System (OAKS), ORC requirements, Workers' Compensation Information System reports, ECU SharePoint reports, and Fraud Management System (FMS) reports. Data points were used from FY 2012-13 through FY 2014-15, the last complete year as of the completion of audit field work. However, information is included from FY 2010-11 and FY 2011-12 to provide historical context. During the course of the audit, data was evaluated for sufficiency and appropriateness.

In seeking to better understand the Bureau's management of collections, weaknesses in key pieces of business intelligence were identified, including workload information for the Collections Department and reports on collections activity from the AGO. These data gathering weaknesses were discussed with OBWC leadership.

The analysis focuses on data gathering and usage in each of the functional units: the Collections Department, the ECU, and the EFT. Analysis was specifically designed to identify areas where additional business intelligence could assist OBWC leadership with management decisions.

Analysis

The Bureau does not have a systematic method in place to track key data associated with collections communications and outreach. Although several OBWC sections record several data points in the applications they use, this information is not uniform or shared with other collections functions. Data that would be useful in efforts to improve collections effectiveness include:

- Time, date, and method associated with collections outreach;
- Communication received regarding outstanding debts; and
- Bureau staff time associated with outreach efforts.

FICO, a data analytics company, highlights ways to improve collections and recovery rates in *Five Ways to Improve Your Collections* (FICO, 2009). They include:

- Automate workflows;
- Monitor resource performance;
- Integrate collections analytics;
- Improve Bureau management; and
- Integrate recovery analytics

Currently, OBWC does not have automated workflows for the collections process. Additionally, resource performance is not monitored, because workload information is not collected from Collections Department staff. Collecting this data would allow the Bureau to analyze its collections and determine when and how to steer Collections Department staff in order to maximize collections for the Bureau.

Conclusion

OBWC does not currently collect some critical data and information that is important for managing the collections process. Furthermore, where key data and information is collected, it is generally not easily accessible for reporting results to division management. As such, division management is at a disadvantage in its efforts to improve the efficiency and effectiveness of the collections process.

Recommendation 1.1: OBWC should gather, analyze, and communicate key collections data to ensure that the debt collections process is conducted in an effective and timely manner.

Financial Implication of 1.1: N/A

R1.2 Proactive Collection Process

Section Background

The Collections Department reviews system reports to determine which employers are behind on their scheduled payments. Employees use internal data systems to verify that outstanding balances are accurate. The Collections Department then contacts the employers to notify them that their payments are past due. Due to the high quantity of accounts past due, the Collections Department is unable to contact every employer, and prioritizes its time according to accounts with the highest amounts due to the Bureau. After six months, the Collections Department may send the account to the ECU. However, due to a lack of formal policies and procedures for the collections process, this timeline sometimes varies based on management directives or employee workload.

Methodology

This sub-section, **Proactive Collection Process**, seeks to analyze the effectiveness of the collection efforts made by each section of OBWC's collections resources. During the planning and scoping phase of the performance audit, OBWC leadership identified this as a possible area that an objective analysis could identify opportunities for improved efficiency.

Operations information was provided by OBWC and supplemented by testimonial evidence from management and staff within the functional units. Additional sources of information include OAKS, ORC requirements, Workers' Compensation Information System reports, ECU SharePoint reports, and FMS reports. Data points were used from FY 2012-13 through FY 2014-15, the last complete year as of the completion of audit field work. However, information is included from FY 2010-11 and FY 2011-12 to provide historical context. During the course of the audit, data was evaluated for sufficiency and appropriateness.

The analysis focuses on data gathering and usage in each of the functional units: the Collections Department, the ECU, and the EFT. Analysis was specifically designed to identify areas where additional business intelligence could assist OBWC leadership with management decisions.

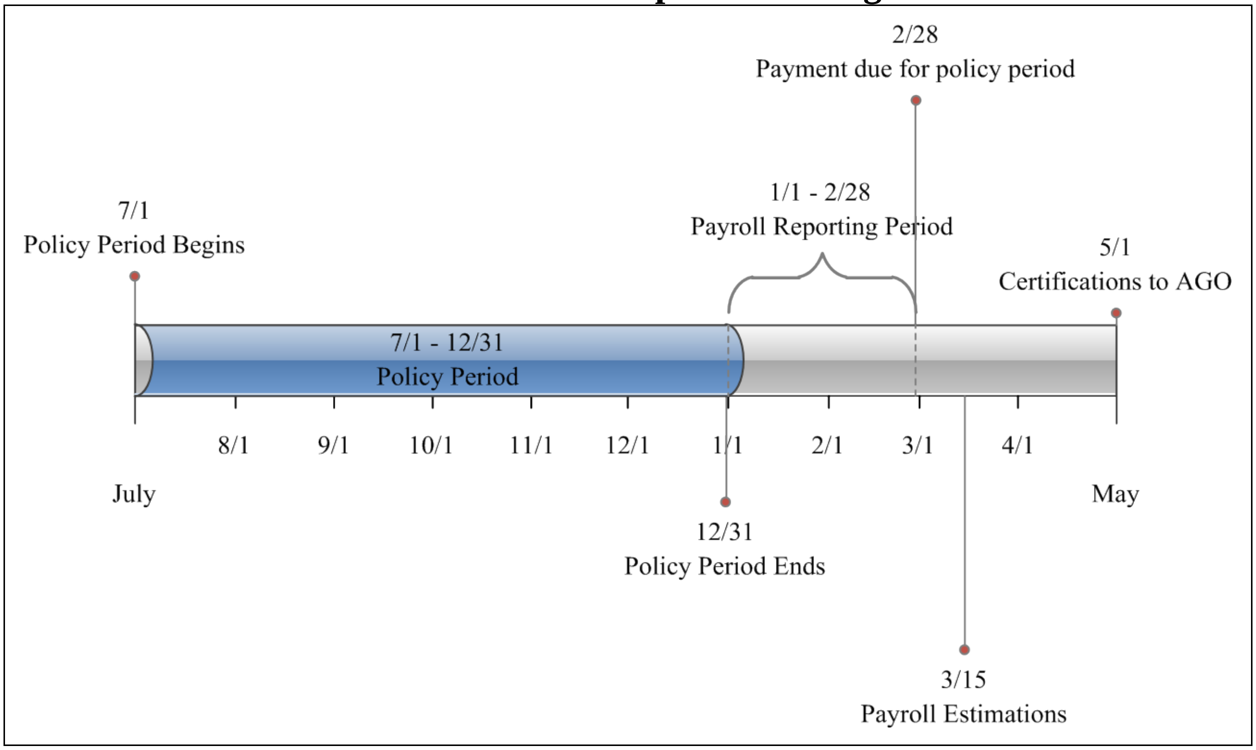
Analysis

The Bureau's 2015 transition to prospective billing temporarily impacted the job functions within all of OBWC's collections resources, as the Bureau focused on a smooth transition to the new billing model. The Collections Department staff spent time answering phone calls and correcting billing issues, while the ECU was directed to focus on special projects related to the transition.

The transition also affected OBWC's billing cycles. Prior to prospective billing, there were two six-month policy periods. Under prospective billing, there is now a one-year policy period. At the conclusion of the policy period, the Bureau begins a "true-up" process that reconciles calculated premiums with actual payroll expenses during the policy period, and adjusts premium payments to reflect the actual payroll expenses for that policy period.

Chart 1-3 shows the timelines for policy periods under the retrospective billing cycle. This highlights the limited time available for internal collection efforts under the previous billing model.

Chart 1-3: Retrospective Billing

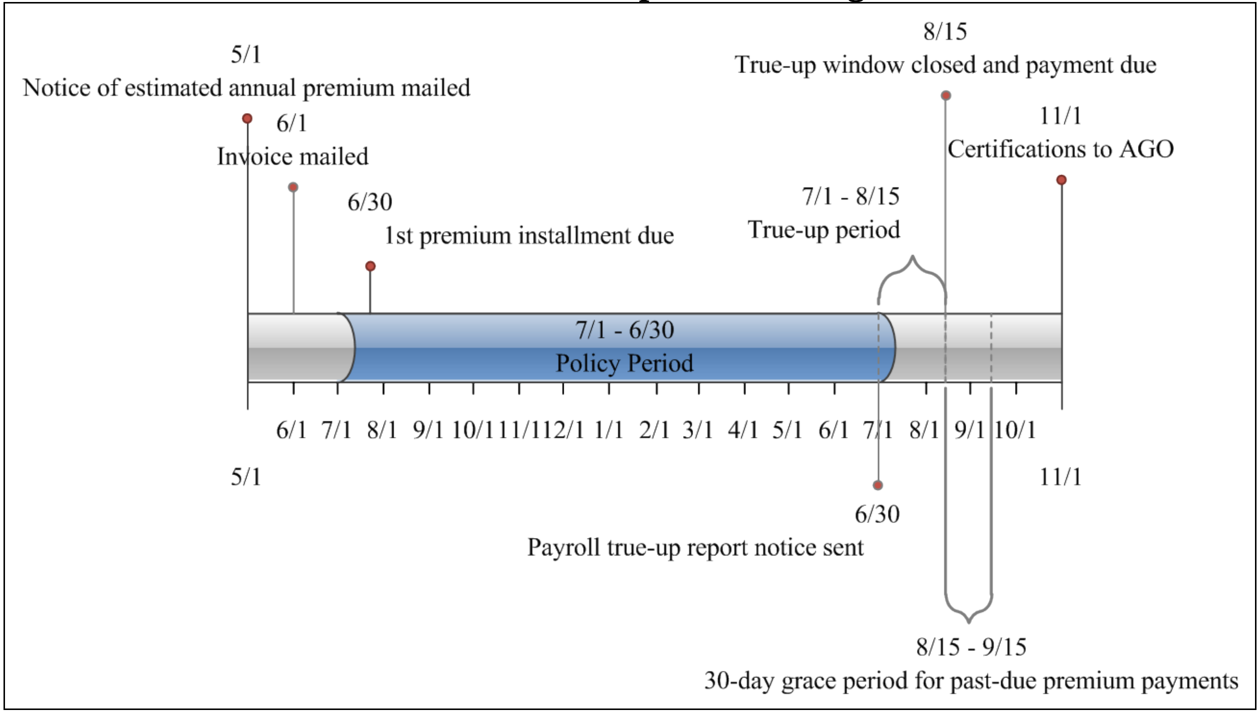


Source: OBWC and OPT analysis

As shown in **Chart 1-3**, a retrospective billing cycle has two six-month policy periods per year. Premiums are calculated based on actual payroll expenses and classifications during the policy period. After the completion of the policy period, employers have 60 days to report actual payroll costs during the policy period to the Bureau. A premium is then calculated, and payment is due within the 60-day payroll reporting period. If employers do not report payroll fifteen days after the payroll reporting period ends, the Bureau estimates the premiums due and those premiums become due immediately. The Bureau certifies any past-due amounts 45 days after the payroll estimations are complete. In total, from the time the payroll reporting period is complete and payments were due, no more than 60 days elapses before past-due amounts are certified to the AGO for collection.

Chart 1-4 shows the timelines for policy periods for the prospective billing cycle. This highlights the revised outreach period for OBWC collections.

Chart 1-4: Prospective Billing



Source: OBWC and OPT analysis

As shown in **Chart 1-4**, a prospective billing model affects the policy periods and time available for collection efforts. An invoice for estimated premiums is sent 30 days prior to the policy period, and the first premium installment is due one day before the policy period begins.

The transition to prospective billing has enabled OBWC to allow different payment plans for employers to better serve their needs. The remainder of the premium payments is due during the course of the policy period. Once the policy period is complete, a true-up is completed, and any necessary premium adjustments are made. Any amounts owed to the Bureau based on the payroll true-up are due at the end of the true-up period, 45 days after the policy period ends. OBWC instituted a 30-day grace period for past-due premium payments as a result of the true-up process for the prospective billing arrangement. After this, the Bureau will certify any past-due debts owed after the 45-day period, as prescribed in ORC § 131.02. The Bureau will not certify any past due payments to the AGO until after the true-up period, as the payments due are based on estimated premiums. This change will allow additional time for in-house collection activities. In general, this shows that prospective billing offers the Bureau additional time to pursue internal collection efforts. For example, if an employer has agreed to pay 12 monthly installments and misses the first payment, the Bureau has 11 months of installments and the true-up period to collect the debt, in addition to the 45-day hold period prior to when debts are certified to the AGO. This provides the Bureau with up to one year to engage in employer outreach. Maximizing the efforts during this period will ensure that uncollectible debts are minimized.

Since OBWC's adoption of the prospective billing model, the Bureau has not developed formal policies and procedures regarding the optimization of past due A/R collections. Key priorities for Collections Department Staff include answering calls, collections outreach, and assisting with correcting policies due to the prospective billing transition.

According to Accion[2], in *Best Practices for Collection Strategies* (Accion, 2008), a company should maximize its internal collection efforts using the following leading practices:

- **Adopt proactive strategies to quell delinquency before it starts:** Educate customers about collections fees and charges, establish mutually agreeable payment dates, address customer service complaints quickly, and use positive reinforcement.
- **Improve internal productivity of the collections area:** Determine appropriate collections procedures, select and train staff members, and create staff incentives.
- **Ensure quality information gathering and management:** Develop efficient information and support systems, ensure the quality of client information, establish an internal past-due committee, and establish internal methodological control units.
- **Develop well-defined strategies for collections of delinquent accounts:** Establish client-contact policies, risk-based collections, track trends in delinquency through segmentation, and offer payment alternatives.

These best practices identify an emphasis on proactive collection management as a result of clear oversight of the collections process.

While utilizing retrospective billing, OBWC had a process map for the collection of past due accounts receivable. However, after the Bureau switched to prospective billing, it did not fully develop a new map of the collections process. By not developing formal policies and procedures for collection staff under prospective billing, OBWC is unable to capitalize on expanded collection time frames and warning indicators associated with a prospective billing model.

Conclusion

OBWC has historically developed a process for the collection of past due accounts receivables; however, the Bureau's transition to prospective billing has created enhanced opportunities for internal collection efforts. The Bureau can benefit from developing policies and procedures regarding the collection of past-due accounts receivable that align with industry best practices.

Recommendation 1.2: OBWC should implement formal policies and procedures for the collection of past due accounts receivable. In doing so, the Bureau should implement practices that increase the overall efficiency of the collections function, such as standardized time frames and the use of varied mediums for account outreach.

Financial Implication of 1.2: N/A

[2] Accion was founded in 1961 and is a global nonprofit that focuses on assisting business achieve greater efficiency.

2. Provider Enrollment and Certification

Section Overview

This section focuses on the Ohio Bureau of Workers' Compensation (OBWC or the Bureau), Division of Medical Operations, Provider Enrollment and Certification (PEC) function. Information was collected and analysis was performed to develop an operating profile of PEC's management framework surrounding the implementation of planned improvements to PEC Information Technology (IT) systems. Analysis identified opportunities to leverage a performance framework to better inform IT integration decision making to achieve greater operational efficiency and effectiveness.

Recommendation Overview

Recommendation 2.1: OBWC should develop a performance framework to determine the cost and benefit associated with its planned IT updates. At a minimum, the framework should take into account each planned update to PEC's goals, the planned efficiency impact, and with collaboration from OBWC's IT division, the cost. Utilizing this information will ensure that OBWC deploys resources effectively and efficiently when needed.

Financial Implication 2.1: N/A

R2.1 Provider Enrollment Performance Framework

Background

OBWC's PEC was established in 1996 under Ohio Revised Code (ORC) § 4121.441 with the goal of establishing credentialing criteria to maintain a network of providers. Providers, typically medical professionals, bill for the services rendered to injured workers and can include individual providers and provider entities. Individual providers personally bill for their services, such as physicians, nurses, and dentists. Provider entities are providers that bill under a collective group or building such as provider groups, pharmacies, and physical therapy centers.

PEC establishes its criteria for credentialing providers using the following actions:

- **Enrollment –** Enrollment allows providers to receive payment for rendering service to an injured worker.
- **Certification –** Certification allows providers to be physicians of record, which permits them to treat injured workers throughout the entire injury. Certified providers are listed on the Bureau's website in order to provide accessible information to injured workers. PEC's goal is to recertify providers timely to ensure its network is current.
- **Decertification** – Decertification changes the status of a certified provider to that of an enrolled provider. Infrequently, PEC will move to decertify a provider based upon Ohio Administrative Code (OAC) 4123-6-2, including no longer meeting credentialing requirements. Providers can appeal a decertification action.
- **Enrollment Deactivation** – Enrollment deactivation removes the provider from the Bureau's network, no matter the reason, which may include disciplinary actions, provider retirements, or other provider requests.
- **Certification Lapsed –** A lapse in certification occurs due to providers not responding to recertification requests, or can be initiated by the Bureau if the provider has not billed for a period of 18 months or longer.
- **Record Updates –** Record updates are for changes in provider contact information.

Table 2-1 shows the count and percent of total for each type of individual provider participating in the provider network for calendar year (CY) 2016. This type of analysis helps to demonstrate the variety of providers that service injured workers, and provides context as to the most common types of providers within the network.

Table 2-1: Participating Individual Providers by Type CY 2016

Provider Type	Total Providers	% of Total
Physician or Medical Doctor	38,754	52.5%
Advanced Practice Nurse	7,062	9.6%
Physician or Doctor of Osteopathy	5,822	7.9%
Nurse Anesthetist	4,386	5.9%
Physician Assistant	3,912	5.3%
Chiropractor	3,032	4.1%
Counselor/Independent Social Worker	1,765	2.4%
Licensed Massaged Therapist	1,718	2.3%
Psychologist	1,480	2.0%
Dentist	1,207	1.6%
Optometrist	885	1.2%
Podiatrist	789	1.1%
Others [1]	2,986	4.0%
Total	**73,798**	**100.0%**

Source: OBWC
Note 1: Providers are as of September 2016.
Note 2: Shaded provider types collectively represent 81.2 percent of all individual providers.
Note 3: Percent of total calculations may be off up to 0.1 percent due to rounding.
[1] Others consist of a variety of medical professionals and specialists that individually represent less than 1.0 percent of total.

As shown in **Table 2-1**, of the 73,798 total participating individual providers, 38,754, or 52.5 percent, are physicians or medical doctors. While no other category of individual provider exceeds 10.0 percent, the top five categories, including physician or medical doctor, collectively make up 81.2 percent of all individual providers.

Table 2-2 shows the most common participating provider entity types, as of CY 2016. This type of analysis helps to demonstrate the variety of provider entities that service injured workers as well as provides context as to the most common types of provider entities within the network.

Table 2-2: PEC Participating Provider Entity Types CY 2016

Provider Type	Total Providers	% of Total
Provider Group [1]	13,744	43.3%
Pharmacy	6,130	19.3%
Physical Therapist	4,504	14.2%
Ambulance	1,302	4.1%
General Acute Hospital	1,240	3.9%
Nursing Home	862	2.7%
Home Health Agency	728	2.3%
DME Supply	632	2.0%
Prosthetist or Orthotist	393	1.2%
Radiology Service	359	1.1%
Laboratory	357	1.1%
Others [2]	1,499	4.7%
Total	**31,750**	**100.0%**

Source: OBWC
Note 1: Providers are as of September 2016.
Note 2: Shaded provider types collectively represent 80.9 percent of all individual providers.
Note 3: Percent of total calculations may be off up to 0.1 percent due to rounding.
[1] Provider Groups are collections of individual practitioners billing as one.
[2] Others consist of a variety of provider entities that individually represent less than 1.0 percent of total.

As shown in **Table 2-2**, of the 31,750 total participating provider entities, 13,744, or 43.3 percent, are provider groups. The top four categories, including provider group, collectively make up 80.9 percent of all provider entities.

Collectively, **Table 2-1** and **Table 2-2** show that PEC provides service to 105,548 participating individual providers and provider entities in CY 2016.

Providers currently mail or fax completed applications to the PEC to become enrolled, certified, and/or to update information. Forms used by providers in communicating changes to PEC include:

- **Recertification –** Application to renew a provider's certification status;
- **Record Updates –** Form to update basic information about the provider such as contact information;
- **Medco-13 –** Application for providers to both enroll and certify with the Bureau;
- **Medco-15 –** Application for managed care organizations to enroll providers, typically used in one-time payment situations or temporary care; and
- **Medco-13A** – Application for enrolling providers who are ineligible for Bureau certification.

The Provider Enrollment and Certification House (PEACH) is used to enter data points found on received applications. Applications are assigned to a work list within the PEACH system to begin the process of enrolling, certifying, and/or updating providers. PEACH is the primary provider database where Provider Enrollment records are stored and maintained.

Table 2-3 shows the number of applications handled by PEC employees in CY 2015 on both an annual and per work day timeframe. Understanding the overall and individual demand for respective application types can help PEC leadership focus their efforts, and offers insight into the frequency with which PEC applications are processed.

Table 2-3: OBWC PEC Applications CY 2015

Application Type	Annual Count	Count Per Work Day	% of Total Applications
Recertification	7,031	28	35.6%
Record Updates	4,725	19	23.9%
Medco-13	4,605	18	23.3%
Medco-15	2,551	10	12.9%
Medco-13A	826	3	4.2%
Total Applications	**19,738**	**79**	**100.0%**

Source: OBWC

Note 1: **Table 2-3** excludes 74 applications where the application was processed but the type was not recorded for tracking purposes. These applications, which accounted for .4 percent of the total received, were excluded because the specific application type could not be identified.

Note 2: Count per Work Day and Percent of Total Applications may be off due to rounding.

As shown in **Table 2-3**, PEC processed 19,738 total applications and forms in CY 2015. The most common application type was recertification, which accounted for 7,031, or 35.6 percent, of the processed total. Recertifications, record updates, and Medco-13 applications collectively accounted for 82.8 percent of the application workload. When considering the annual count of applications on a per work day basis, PEC processes 79 paper-based applications per working day, on average.

Methodology

The **Provider Enrollment and Certification** section of the performance audit, highlights the opportunity for additional insight into PEC project planning. During the planning and scoping phase of this performance audit, OBWC leadership identified this as a possible area where an objective analysis could identify opportunities for improved efficiency.

OBWC provided current and historical baseline operational data. Sources of data include Ohio Administrative Knowledge System (OAKS) Human Capital Management and OBWC's PEACH systems. Data points used were from CY 2013 to CY 2015, and CY 2016 when applicable and/or available. In all cases requiring clarification, OBWC data was supplemented by testimonial or documentary evidence from knowledgeable OBWC PEC staff.

The analysis first focuses on PEC's ability to achieve recertification goals. Then the analysis examines PEC's plans for PEACH enhancements. Finally, the analysis discusses the importance of determining the cost and benefit of IT updates when evaluating, selecting, planning, and implementing PEACH enhancements.

Analysis

OBWC has 73,798 individual providers and 31,750 provider entities participating for a total of 105,548 providers. Of these providers, 73,073 were certified as of CY 2015. OAC 4123-6-02 authorizes the Bureau "to recertify a provider at least every one to three years." However PEC's internal goal is to recertify each provider every three years.

Table 2-4 shows the number of providers that would need to be recertified each year in order to achieve three-year certification for each of the 73,073 certified providers for CY 2015. The Bureau's actual annual recertification capability for CY 2015 is also shown to provide context as to PEC's current capabilities.

Table 2-4: PEC Recertification Capabilities and Goals CY 2011 to CY 2015

Total Certified Providers	73,073
Average Annual Recertification Mailings	9,451
Average Years to Recertify All Providers	7.7
	Every Three Years
Goal Annual Recertifications	24,358
Current Difference from Goal	(14,907)
Current Percent Difference from Goal	(61.2%)

Source: OBWC

As shown in **Table 2-4**, PEC is recertifying applications every 7.7 years. PEC has been unable to average its three-year recertification goal of 24,358 annual recertifications. PEC identified PEACH system limitations as a bottleneck in its recertification process. PEC recertification letters are electronically generated; however, the PEACH system that generates them has limited functionality and requires IT involvement for each group of mailings. Further, the language in the communication can require modifications in order to adjust for changes to the process and legal requirements, with each edit requiring communication with IT for integrations. PEC completed a full review of PEACH correspondence, identifying seven letters that required wording changes over the last year, with integration dependent upon the OBWC IT Department's availability.

In order to improve the Bureau's ability to, at minimum, recertify each provider every three years as well as to improve provider functionality, PEC is currently evaluating and/or planning to implement several PEACH system enhancements. These enhancements, which would be completed by the Bureau's IT division, will allow the system to operate more efficiently and with less data entry. PEC completed a plan for PEACH enhancements, including the following key steps:

1. **Replace current software platform –** The current software platform (webMethods) must be entirely removed and replaced with a new platform;
2. **Develop a web-based offering –** PEACH does not have any web-based offerings for providers to submit applications, requiring all applications to be mailed or faxed;
3. **Create additional data fields and modifying existing data fields –** PEACH does not currently provide all of the management reports necessary for timely management decision making;

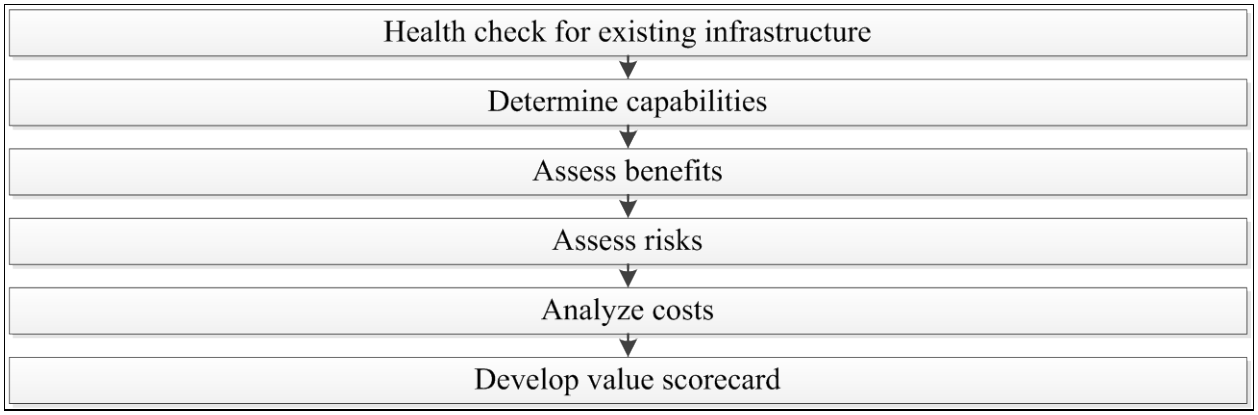
4. **Update correspondence and functionality –** PEACH has instances of outdated/incorrect language in correspondence being sent to providers. Additionally, PEC would like to see certain correspondence automatically attach to emails or other communications, which is a functionality that PEACH does not currently support;
5. **Develop a systemic routine deactivation and decertification process –** PEACH does not automatically deactivate or decertify non-billing providers;
6. **Develop data sharing interface –** PEACH is not integrated with other state licensing boards, so non-routine decertifications require manual work by PEC. Through data sharing with medical boards and licensing agencies, PEC could reduce the amount of manual effort/time; and
7. **Develop reporting and query functions –** PEC is unable to retrieve the reports it needs from PEACH and instead must have the Bureau's IT staff run reports on their behalf. By developing a reporting and query function, PEC would be able to efficiently pull the reports it needs.

In March of CY 2015, PEC completed an impact analysis of the first two planned steps of the PEACH enhancements and identified the potential for significant payroll savings as a result of increased system efficiency. However, this impact analysis did not take into consideration the cost of IT development or implementation. Further, PEC has not yet quantified the cost/benefit impact of the remaining five steps of PEACH enhancements. Quantifying this impact and the associated cost for each projected step will ensure that PEACH updates, if determined to be costly, can be offset by efficiency and/or effectiveness gains.

In the publication, *IT Infrastructure Projects: A Framework for Analysis* (EduCause, 2015), Dr. Jerrold Grochow, former Vice President of Information Services and Technology at the Massachusetts Institute of Technology (the Institute), states that "[an IT value proposition] provides background to enhance understanding of the various types of infrastructure projects, present capabilities, analyze benefits and risks, develop a cost model, and, by comparing alternatives, develop the value proposition for presentation to decision makers." With this type of analysis, stakeholders will be in a better position to understand the value of IT infrastructure and approve necessary projects.

Exhibit 2-1 shows Dr. Grochow's progression regarding IT infrastructure planning. This shows that key elements of IT integration include assessing benefits and analyzing costs.

Exhibit 2-1: IT Infrastructure Flowchart



Source: EduCause

As shown in **Exhibit 2-1**, assessing the benefits and risks of an IT plan, as well as analyzing the associated costs, are important to IT implementation planning. However, during the course of the audit, the Bureau was unable to directly quantify or provide an estimate for the cost of IT development. For example, PEC's step six of its PEACH enhancement plan has the potential to save manual data entry work by PEC employees by developing a data sharing interface with licensing boards and commissions as a part of the decertification process. Currently, non-routine decertifications (i.e., those that are not as a result of provider requests or provider inactivity) are some of the most burdensome as they are done by cross-referencing provider lists to multiple sources for sanctions including state boards and media outlets.

Table 2-5 shows the Bureau's non-routine decertification actions by sanction cause for CY 2013 through CY 2015. This highlights opportunities for data sharing with State Medical Boards or licensing bodies on OBWC's operations.

Table 2-5: Non-Routine Provider Decertifications Overview

Sanction Cause	CY 2013	CY 2014	CY 2015	Total	Average	% of Total
Loss of License	36	35	78	149	49.7	79.6%
Criminal Conviction	9	5	6	20	6.7	10.7%
Medicare/Medicaid Denial	0	5	0	5	1.7	2.7%
Lack of Drug Enforcement Agency Certification	2	0	2	4	1.3	2.1%
Out of State Restriction from Practicing/Prescribing	0	0	4	4	1.3	2.1%
Failed to Repay Overpayment	1	1	0	2	0.7	1.1%
Other	2	0	1	3	1.0	1.6%
Total	**50**	**46**	**91**	**187**	**62.4**	**100.0%**

Source: OBWC
Note: Percent of total calculations have been rounded to the nearest 0.1 percent.

As shown in **Table 2-5**, between CY 2013 and CY 2015, PEC identified and decertified 187 providers due to non-routine circumstances. Licensure changes were the most common cause leading to sanctions and decertification; on average 49.7 per year or 79.6 percent of all non-routine decertifications. In this case, a direct data sharing connection to other licensing boards and commissions would improve the Bureau's ability to quickly decertify unlicensed providers. The second most common cause leading to sanctions and ultimately to decertification was criminal convictions; on average 6.7 per year or 10.7 percent of all non-routine decertifications. Similar to licensure changes, many of these decertified providers were found to have been no longer licensed by the time that PEC began the decertification process for an identified criminal conviction. In total, more than 90.0 percent of all non-routine decertifications could have been identified through the use of data sharing among state licensing boards and commissions.

Given the large proportion of non-routine decertifications coming from state medical boards and licensing bodies, a data sharing initiative, like the one proposed in step 6 of the PEACH enhancements, should sizably reduce the manual workload of PEC employees. However, without understanding the full cost of implementing this step, or the exact time savings to be gained, the Bureau is unable to move forward with the best information possible to ensure that this enhancement is going to provide a net benefit to the Bureau, providers, and stakeholders.

Conclusion

Although all of the PEACH enhancements appear to offer some benefit, the Bureau was unable to quantify the cost of implementing these enhancements. Calculating this cost and comparing it to its potential impact is an important element in determining the potential impact of an IT update and this type of analysis should be conducted for each of the PEACH enhancements under consideration. Doing so will allow the Bureau to make better informed decisions regarding the development and implementation of these updates.

Recommendation 2.1: OBWC should develop a performance framework to determine the cost and benefit associated with its planned IT updates. At a minimum, the framework should take into account each planned update to PEC's goals, the planned efficiency impact, and with collaboration from OBWC's IT division, the cost. Utilizing this information will ensure that OBWC deploys resources effectively and efficiently when needed.

Financial Implication 2.1: N/A

3. Facility Utilization

Section Overview

This section focuses on the Ohio Bureau of Workers' Compensation's (OBWC or the Bureau) facility management practices. Information was collected and analysis was performed to develop an operating profile of OBWC's facility usage. Analysis identified opportunities to reduce facility costs by reducing space needs to efficiently meet demand.

The Facility Utilization section is divided into three sub-sections of analysis, each analyzing a distinct element of the Bureau's facility usage including:

- **Regional Service Office Utilization:** The first sub-section analyzes how the Bureau could reduce its regional service office lease costs by rightsizing space and bringing utilization in line with industry benchmarks.
- **William Green Building Utilization:** The second sub-section analyzes how the Bureau could increase lease revenue at the William Green Building by rightsizing space and bringing utilization in line with industry benchmarks.
- **Warehouse Utilization:** The third sub-section analyzes how the Bureau could decrease its warehouse lease costs by rightsizing space requirements to meet needs.

Recommendations Overview

Recommendation 3.1: OBWC should rightsize regional service offices to efficiently meet space needs while minimizing unnecessary lease cost. The Bureau can do so by employing an industry benchmark to quantify space needs and then renegotiate existing leases or seek alternative office locations. Although the Bureau will incur a one-time moving cost for each right-sizing effort, the ongoing annual savings will pay for this cost, as well as generate cumulative savings, within a reasonable timeframe; often in less than two years.

Financial Implication 3.1: OBWC could save a net average of **$770,361** annually by rightsizing regional service office space to be in line with industry benchmarks.

Recommendation 3.2: OBWC should rightsize its office space within the William Green Building to a level comparable to industry benchmarks. In doing so, the Bureau can free up additional space to generate additional lease revenue.

Financial Implication 3.2: OBWC could increase William Green Building lease revenue by **$746,266** annually by rightsizing the Bureau's offices and renting out the unneeded space.

Recommendation 3.3: OBWC should bring lease rates for the William Green Building in line with market rates. In doing so, the Bureau can remain market competitive in its offering while generating additional lease revenue.

Financial Implication 3.3: OBWC could increase William Green Building lease revenue by between **$540,827** and **$928,629** annually by bringing lease rates in line with what other state government entities are paying in the downtown Columbus market.

Recommendation 3.4: OBWC should rightsize its warehouse space to efficiently meet its needs. Doing so will allow the Bureau to minimize unnecessary lease and utilities cost.

Financial Implication 3.4: OBWC could save a total of **$130,654** annually by rightsizing warehouse space to efficiently meet Bureau needs.

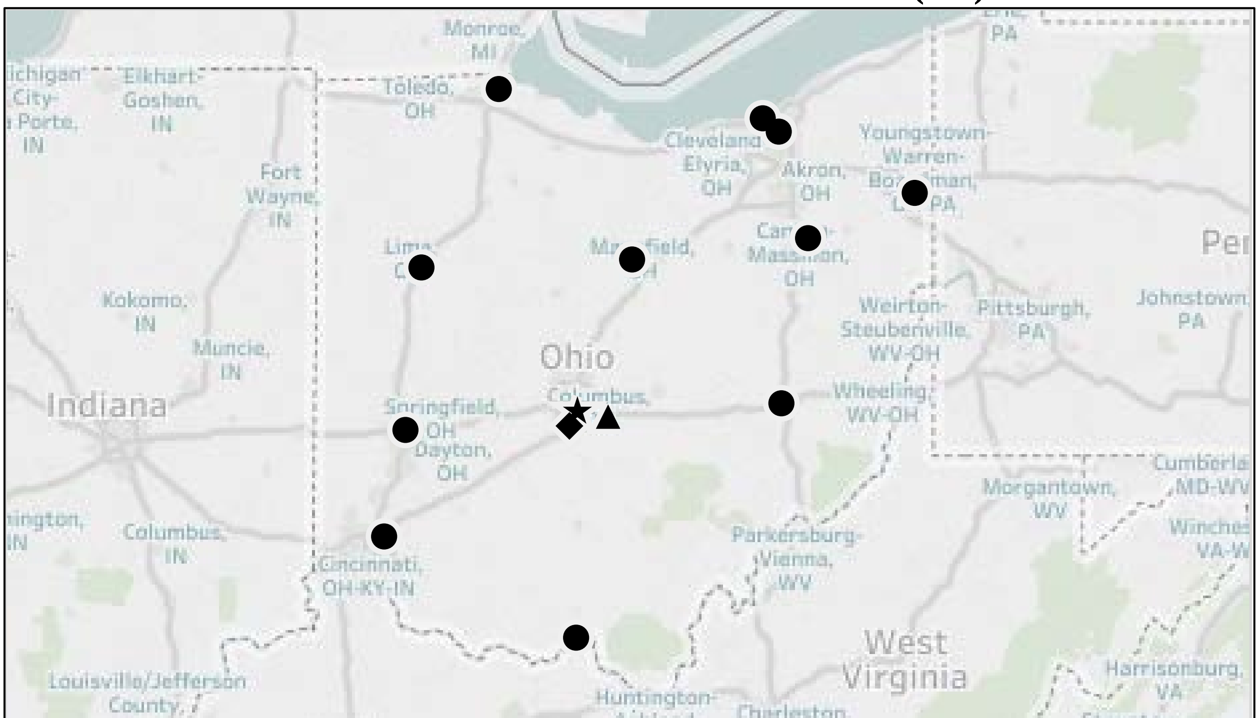
Section Background

Facilities Overview

OBWC operates various types of facilities throughout the state in order to fulfill the Bureau's mission, which is "to protect Ohio's workers and employers through prevention, care and management of workplace injuries and illnesses at stable, reasonable rates."

Exhibit 3-1 shows the location and types of the 14 facilities owned or leased by OBWC throughout the state of Ohio.[3] This demonstrates how the Bureau's facilities are distributed throughout the state.

Exhibit 3-1: OBWC Active Facilities Fiscal Year (FY) 2016-17



Facility Type

- ▲ Call Center
- ★ Central Office
- ● Service Office
- ◆ Warehouse

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[3] OBWC leases space from the State of Ohio Computer Center. This space houses the Bureau's servers, but is not staffed by Bureau employees. As such, this space was excluded from the scope of this analysis.

Source: OBWC
Note 1: The Central Office includes two distinct but co-located buildings; the William Green Building and the Annex, which includes a parking garage.
Note 2: Excludes server space leased from the State of Ohio Computer Center.

As shown in **Exhibit 3-1**, OBWC operates several types of facilities, each with a distinct and unique purpose. These facility types include:

- **Ohio Center for Occupational Safety and Hygiene (OCOSH) –** This leased facility holds OBWC's customer service call center as well as the Bureau's primary training facility.
- **Regional Service Offices –** These are leased facilities and, with 11 total buildings, the most abundant facility type. Regional Service Offices are used to provide a service portal for OBWC's customers, including both employers and injured workers. Service Offices are additionally used to house core OBWC staffing functions similar to the Central Office, including claims processing. Most service offices are routinely used for training functions by Safety and Hygiene employees and have large conference rooms for this purpose.
- **Warehouse –** This leased warehouse holds OBWC's Main File Room (MAFIL), which houses paper files. Although OBWC began a paperless initiative in 2000, there are still many paper records that have yet to be converted into digital form. The warehouse also houses a central shipping function as well as facility equipment storage. (See **R3.2 Warehouse Utilization** for additional detail.)
- **Central Service Office –** The Central Service Office is comprised of two buildings, the William Green building, which is the Bureau's main office tower; and the co-located but detached Annex, which houses the Special Investigations Unit and a parking garage. In addition to housing core OBWC functions, which include executive staff and support activities, the Central Service Office also provides services similar to those provided by regional service offices. These buildings are OBWC's only owned facilities.

Facilities Space Measurement

According to the Building Owners and Managers Association[4], square footage can be calculated several different ways depending on the use purpose of the measurement. However, rentable square feet/footage (RSF) is commonly used in the facility management industry to determine rent as it focuses on usable space that takes into consideration shared amenities. For example, RSF includes all usable square feet as well as a portion of the building's shared space, which includes lobbies, restrooms, and hallways while excluding elevator shafts and stairwells.

[4] The Building Owners and Managers Association (BOMA) is a facilities management industry organization, founded in 1907, that publishes building measurement standards.

Table 3-1 shows OBWC employees, RSF, and RSF per employee for each facility in FY 2015-16, including sub-totals for owned and leased facilities and a total for all facilities. Understanding how the Bureau's employees are dispersed across these facilities helps to provide context for two important concepts. The first concept is how the number of employees at a given location can impact RSF needs. This is particularly true for regional service offices with cubicles, offices, conference rooms, etc. The second concept is the degree of potential flexibility that the Bureau has through its combined use of leased and owned facilities. All facility leases are two-year agreements, consistent with the appropriations authority within each biennium budget. The short-term nature of these agreements may afford the Bureau an opportunity to be more responsive and efficient in how the facilities are used, relative to an exclusively owned facilities model.

Table 3-1: OBWC Facility Staffing and RSF FY 2015-16

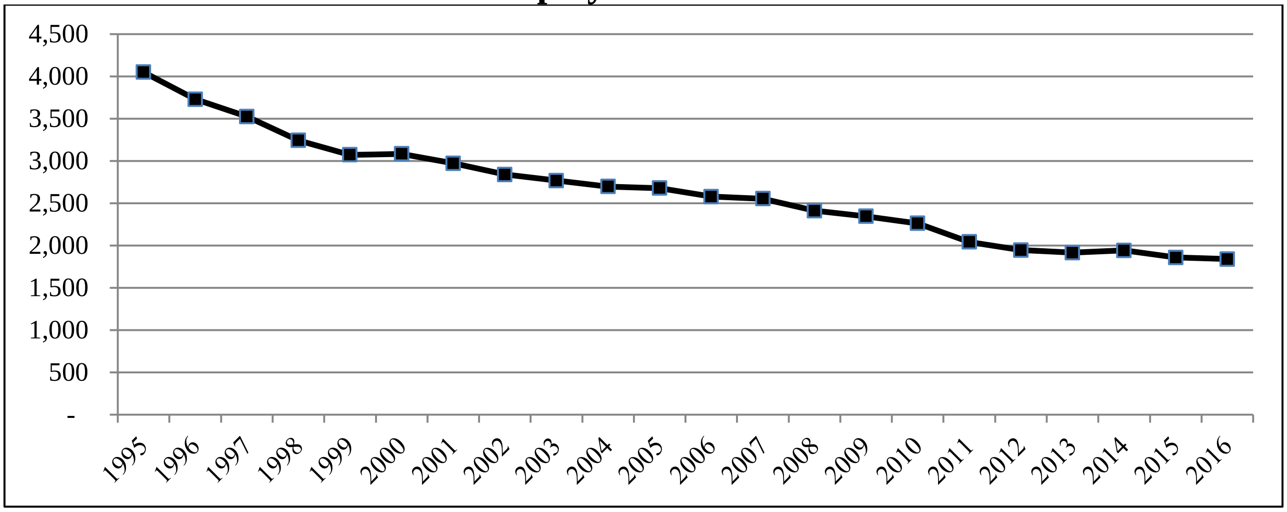
Owned Facilities	RSF	Employee Headcount	RSF per Employee
William Green Building [1]	270,132	865	312.3
William Green Building Annex	13,160	29	453.8
Total of Owned Facilities	**283,292**	**894**	316.9
Leased Facilities	**RSF [2]**	**Employee Headcount**	**RSF per Employee**
Garfield Heights Service Office	74,082	140	529.2
Governor's Hill Service Office	44,232	115	384.6
Canton Service Office	32,474	101	321.5
OCOSH	40,708	99	411.2
Youngstown Service Office	28,611	81	353.2
Dayton Service Office	31,801	79	402.5
Toledo Service Office	23,004	67	343.3
Cleveland Service Office	36,999	60	616.7
Mansfield Service Office	35,399	53	667.9
Lima Service Office	18,214	49	371.7
Cambridge Service Office	25,426	45	565.0
Portsmouth Service Office	17,240	40	431.0
Warehouse	96,522	18	5,362.3
Total of Leased Facilities	**504,712**	**947**	**533.0**
Total All Facilities	**788,004**	**1,841**	**428.0**

Source: OBWC and OAKS
Note: OBWC's employee headcounts are as of May 2016
[1] Only the portion of the William Green Building currently occupied by OBWC staff is shown here.
[2] Some service offices sublease space to other agencies. This space has been excluded from RSF calculations.

As shown in **Table 3-1**, OBWC has 1,841 employees across 14 facilities. Although the Warehouse is staffed with the fewest employees, this is expected given the support nature of the Warehouse's operations. Across the regional service offices, employee headcount ranges from as low as 40 at the Portsmouth Service Office, to as high as 140 at the Garfield Heights Service Office. Similarly, RSF per employee ranges from as low as 321.5 at the Canton Service Office, to as high as 667.9 at the Mansfield Service Office.

Chart 3-1 shows OBWC's employee headcount from FY 1994-95 to FY 2015-16. As previously noted, the number of employees may directly impact the Bureau's need for space, especially within regional service offices. As such, any significant increase or decrease in employee headcount over time should generally correlate to an increase or decrease in square footage, and possibly number of facilities.

Chart 3-1: OBWC Employees FY 1994-95 to FY 2015-16



Source: OBWC and DAS
Note: Information on square footage was not available for the full time period shown.

As shown in **Chart 3-1**, OBWC's employee headcount has decreased significantly over the past 22 years. Specifically, total headcount decreased by 2,209, or 54.6 percent, from 4,050 in FY 1994-95 to 1,841 in FY 2015-16. On average, the Bureau has decreased headcount by 100 employees per year. Although Bureau leadership was unable to provide specific cause and effect information across the entire time period, technology–related operational efficiencies were identified as the primary factor that has allowed the Bureau to rightsize its workforce and eliminate unnecessary positions through attrition.

Retirements, and associated position attrition, are likely to continue to impact OBWC's operations in the foreseeable future. For example, as of FY 2015-16, 50.6 percent of the Bureau's workforce is either currently eligible for retirement, or will be within the next five years.

The Facility Utilization section is divided into three sub-sections of analysis, each analyzing a distinct element of the Bureau's facility usage including:

- **Regional Service Office Utilization:** The first sub-section analyzes how the Bureau could reduce its regional service office lease costs by rightsizing space and bringing utilization in line with industry benchmarks.
- **William Green Building Utilization:** The second sub-section analyzes how the Bureau could increase lease revenue at the William Green Building by rightsizing space and bringing utilization in line with industry benchmarks.

- **Warehouse Utilization:** The third sub-section analyzes how the Bureau could decrease its warehouse lease costs by rightsizing space requirements to meet needs.

R3.1 Regional Service Office Utilization

Background

OBWC operates a Central Office and 11 regional service offices that are used to deliver key resources and services to employers and injured workers throughout the State. Each of these offices contain a lobby, hearing rooms, training rooms, conference rooms, office space, and space for core building services such as utility rooms and restrooms.

Methodology

This sub-section, **Leased Service Office Utilization**, seeks to analyze the utilization of OBWC's regional service offices facilities. During the planning and scoping phase of the performance audit, Bureau leadership identified this as a possible area that an objective analysis could identify opportunities for improved efficiency.

Sources of data include OBWC the Department of Administrative Services, and the Ohio Administrative Knowledge System (OAKS). The data points used focused on FY 2015-16, as this was the most current data at the time the analysis was completed. Where necessary, Bureau employees provided additional insight to identify frequency of field employees utilizing their service office space. All cases requiring clarification were addressed through the inclusion of centrally-held information and were supplemented by testimonial, or documentary, evidence from knowledgeable facilities employees.

This analysis uses all OBWC employees in utilization calculations; however, it was identified during the audit that not all positions are required to report to the regional service offices each day. For example, the Bureau does allow some employees to utilize telework in order to fulfill their job responsibilities. However, these employees are not currently required to track time in and out of the regional service offices. While exact data regarding regional service office utilization by telework employees was unavailable, these employees were surveyed in order to estimate regional service office utilization.

The analysis first examines the overall cost and quantity of leased space within the regional service offices. The analysis then quantifies the utilization of these facilities when considering employee space requirements based on an industry benchmark. The analysis then considers the potential impact that the Bureau's telework policies could have on the utilization of these facilities. Finally, the analysis quantifies the potential cost savings associated with rightsizing leased space, and presents a potential implementation timeline.

Analysis

Regional Service Office Lease Cost

Regional service offices vary in size, largely depending on the services provided and the Bureau's assigned staff. **Table 3-2** shows the annual cost of leased service office facilities for FY 2015-16. This type of analysis shows that there is variation in the cost per RSF across the regional service offices that could impact the cost associated with inefficient space utilization.

Table 3-2: Service Office Square Footage FY 2015-16

Regional Service Office	RSF	Cost per RSF	Annual Cost
Garfield Heights	74,082	$13.29	$984,550
Governor's Hill	44,232	$18.25	$807,234
Mansfield	35,399	$13.00	$460,187
Canton	32,474	$15.50	$503,347
Dayton	31,801	$14.25	$453,164
Youngstown	28,611	$14.57	$416,862
Cleveland	36,999	$10.76	$398,109
Lima	18,214	$15.45	$281,406
Cambridge	25,426	$13.58	$345,285
Portsmouth	17,240	$14.42	$248,601
Toledo	23,004	$12.65	$291,001
Totals	**367,482**	**N/A**	**$5,189,746**

Source: OBWC

As shown in **Table 3-2**, the leased service offices range in size from 74,082 RSF at the Garfield Heights Service Office to 17,240 RSF at the Portsmouth Service Office. As previously shown in **Table 3-1**, the Garfield Heights Service Office had the most employees at 140, while the Portsmouth Service Office had the least at 40. However, rent costs vary from a low of $10.76 per RSF at the Cleveland Service Office to a high of $18.25 at the Governor's Hill Service Office. This is due to differences in the location and size of the building, as well as the length of time OBWC has occupied the facility.

Regional Service Office Space Utilization

The International Facilities Management Association (IFMA) periodically surveys and reports on data and information within the facilities management industry. One such publication, *Operations and Maintenance Benchmarks* (IFMA, 2009), studied key metrics such as size of facilities and square footage per occupant. To complete the study, IFMA surveyed more than 1,400 participants across a variety of industries, and published results included specific detail by industry segment. Of the industry segmentation for which data was specifically published, OBWC operates most similarly to the insurance industry. Within this segment, 41 participants reported a median of 250 RSF per employee.

Although OBWC is largely comparable to these insurance industry businesses in terms of function, there may be aspects of the Bureau's operations that affect overall square footage needs, but would not necessarily be present in a non-government setting. For example, the

Bureau's Division of Safety and Hygiene routinely holds trainings for large numbers of employers and requires large conference rooms (training rooms) and building lobbies to accommodate these events. As such, training room and lobby square footage was excluded from Bureau calculations when comparing to the IFMA insurance industry benchmark of 250 RSF per employee.

Comparison to Benchmarks

Table 3-3 shows OBWC's RSF by regional service office as well as the calculated industry benchmark RSF. It also shows the difference and percent difference based on the actual employee headcounts for FY 2015-16. Analyzing the gap between actual RSF provided and RSF needed, based on the industry benchmark, provides context on the amount of excess space currently leased by the Bureau.

Table 3-3: Regional Service Office Space Comparison FY 2015-16

Regional Service Office	RSF	Benchmark RSF [1]	Difference	%
Garfield Heights	74,082	38,262	(35,820)	(48.4%)
Mansfield	35,399	16,512	(18,887)	(53.4%)
Cleveland	36,999	18,262	(18,737)	(50.6%)
Governor's Hill	44,232	32,012	(12,220)	(27.6%)
Cambridge	25,426	14,512	(10,914)	(42.9%)
Dayton	31,801	23,012	(8,789)	(27.6%)
Youngstown	28,611	23,512	(5,099)	(17.8%)
Portsmouth	17,240	13,262	(3,978)	(23.1%)
Canton	32,474	28,512	(3,962)	(12.2%)
Toledo	23,004	20,012	(2,992)	(13.0%)
Lima	18,214	15,512	(2,702)	(14.8%)
Total	**367,482**	**243,382**	**124,100**	**(33.8%)**

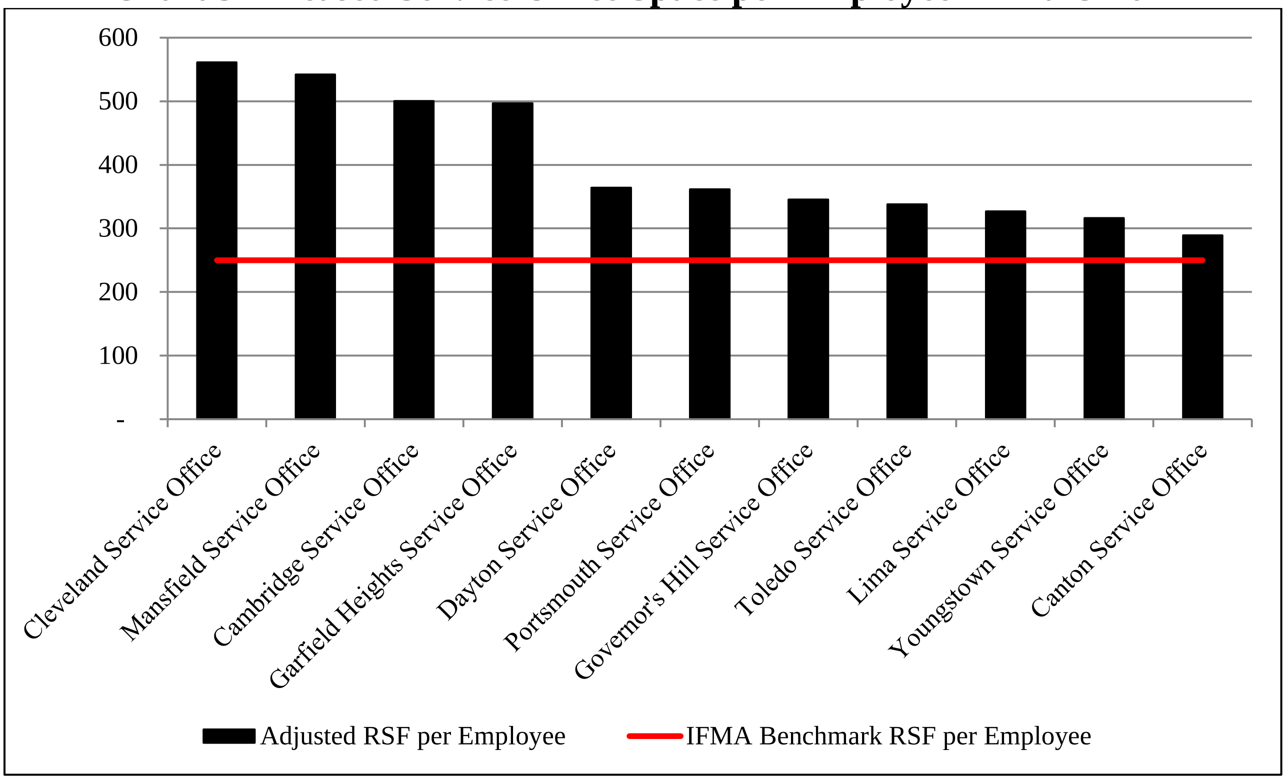
Source: OBWC and IFMA

[1] Benchmark RSF is inclusive of the IFMA industry median of 250 RSF per employee. It also includes training room and lobby space based on the Canton Service Office, which total 2,247 RSF and 1,015 RSF, respectively. The Canton Service Office was used as a model for likely need because it is the Bureau's most recently occupied regional service office.

As shown in **Table 3-3**, OBWC is currently leasing a total of 367,482 RSF, but if regional service office sizes were rightsized to the industry benchmark of 250 RSF per employee, the Bureau would only need to lease 243,382 RSF. This is 124,100 RSF, or 33.8 percent, less than is currently leased. In addition, the gap between current RSF and benchmark RSF varies widely from a difference of 35,820 at the Garfield Heights Service Office to 2,702 at the Lima Service Office.

Chart 3-2 shows the Bureau's adjusted RSF per employee by regional service office as of FY 2015-16. Adjusted RSF, which is each facility's rentable square feet less the square feet of the facilities' lobby and training room, provides insight on the space actually used for employee workspace. The horizontal line represents the IFMA insurance industry median of 250 RSF per employee. This analysis helps to demonstrate not only the variation in adjusted RSF per employee that currently exists across the Bureau's regional service offices, but also provides context as to how these regional service offices compare to the industry utilization benchmark.

Chart 3-2 Leased Service Office Space per Employee FY 2015-16



Source: BWC, IFMA, and OAKS
Note: OBWC's employee headcounts are as of May 2016

As shown in **Chart 3-2**, all of the Bureau's regional service offices have a higher adjusted RSF per employee than the industry benchmark of 250 RSF per employee. In addition, the Bureau's adjusted RSF per employee varies widely. For example, adjusted RSF per employee ranges from a high of 561 at the Cleveland Service Office to a low of 289 at the Canton Service Office; these are 124.5 percent, and 15.7 percent, higher than the industry benchmark of 250, respectively. Although the Canton Service Office exceeds the industry benchmark, it is the Bureau's most recently occupied facility (i.e., the Bureau began its lease of this location in 2014), and represents a significant positive step toward bringing regional service offices in line with industry utilization benchmarks.

Potential Impact of Telework on Space Utilization

The United States General Services Administration (GSA) defines telework as "a work flexibility arrangement under which an employee performs the duties and responsibilities of such employee's position…from an appropriate alternative worksite other than the location from which the employee would otherwise work."

OBWC employee policy number HR-4.30, *Telework Policy*, allows telework for specific classifications of employees, some of which are otherwise assigned to regional service offices for reporting purposes. **Table 3-4** shows the number of employees, by section, that utilize telework. It includes a quantification of the average office days per year (i.e., the number of days that these employees report to an office) as well as the percentage of business days this represents. Although employees may be formally assigned to report to a specific regional service office or other location, telework limits the practical number of days in the actual office. This, in turn, may reduce the overall need for permanent office space.

Table 3-4: Telework Employees FY 2015-16

Section	Employee Headcount	Avg. Office Days per Year	% of Available Business Days
Special Investigations Unit	31	21.7	8.7%
Field Operations	85	18.5	7.4%
Public Employment Risk Reduction Program	3	16.0	6.4%
Occupational Safety and Health Administration	11	12.0	4.8%
Safety Violations Investigation Unit	8	12.0	4.8%
Weighted Average	**N/A**	**18.3**	**7.3%**
Facility	**Field Staff**	**Employee Headcount**	**% of Total**
Lima Service Office	11	49	22.4%
Mansfield Service Office	9	53	17.0%
Canton Service Office	16	101	15.8%
Garfield Heights Service Office	22	140	15.7%
Toledo Service Office	10	67	14.9%
Dayton Service Office	10	79	12.7%
Youngstown Service Office	10	81	12.3%
Cambridge Service Office	5	45	11.1%
Portsmouth Service Office	4	40	10.0%
Governor's Hill Service Office	11	115	9.6%
OCOSH	5	99	5.1%
Cleveland Service Office	3	60	5.0%
Central Service Office	22	894	2.5%
Total	**138**	**1,823**	**7.6%**

Source: OBWC
Note: Excludes days where telework employees reported to training rooms rather than assigned offices and/or cubicles.

As shown in **Table 3-4**, there are a total of 138 employees that were identified as utilizing telework arrangements. Although these employees represent only 7.6 percent of the 1,823 total regional service office and Central Office staff (see **Table 3-1**), the amount of space otherwise allocated to accommodate these employees can be significant. For example, even if the Bureau were operating in line with the industry benchmark of 250 RSF per employee, this would equate to 34,500 total square feet; an area larger than all but three of the regional service offices. Furthermore, of the employee groups utilizing telework, none identified reporting to the offices even as much as 10.0 percent of the year. For example, employees assigned to the Special Investigations Unit had the highest rate of reporting. On average, they reported 21.7 days per year, or 8.7 percent of the available business days. In contrast, employees assigned to the Occupational Safety and Health Administration and the Safety Violations Investigation Unit had the lowest rate of reporting. On average, they reported 12.0 days per year, or 4.8 percent of the available business days.

In combination with telework strategies, employers often use alternative space management strategies such as hoteling to more efficiently use work space. The GSA describes hoteling as a concept that "allows those who already telework to reserve office workspace on an as needed basis without being permanently assigned to a workstation". Furthermore, CoreNet Global, in a recent survey of real estate professionals, identified that 74 percent of those surveyed had actively reduced workspace by implementing either hoteling or similar concepts. The publication, *Workspace Utilization and Allocation Benchmark (GSA, 2012)* identifies a prevailing workspace standard of 218 RSF per employee while utilizing telework practices, with the GSA's headquarters office averaging 92 RSF per employee. Appropriating hoteling space rather than dedicated work space can provide a sizeable opportunity in reducing square footage while still providing space for the Bureau's employees.

Quantification of Potential Cost Savings

As previously noted, OBWC relocated the Canton Service Office from another facility in 2014. As a part of this relocation, the Bureau tracked information on the cost of the move, including workstation refurbishing, installation of required IT systems, and moving items from the old facility into the new. In total, the Bureau identified that the move cost over $432,000, or $13.31 per RSF. Although exact moving cost incurred may vary, this provides a realistic basis for the likely cost that will be incurred for additional regional service office relocations.

Table 3-5 shows the annual savings and one-time moving cost associated with rightsizing each regional service office for FY 2015-16. The calculation of years to payback identifies how quickly the ongoing annual savings will pay for the one-time moving cost. A shorter payback timeline indicates a more urgent need to rightsize and a better financial gain from doing so.

Table 3-5: Estimated Cost Savings and Payback FY 2015-16

Regional Service Office	Annual Savings [1]	One-Time Moving Cost [2]	Years to Payback
Mansfield	$245,531	$219,775	0.9
Garfield Heights	$476,048	$509,267	1.1
Cleveland	$201,610	$243,067	1.2
Cambridge	$148,212	$193,155	1.3
Governor's Hill	$223,015	$426,080	1.9
Dayton Service	$125,243	$306,290	2.4
Portsmouth	$57,363	$176,517	3.1
Youngstown	$74,292	$312,945	4.2
Lima	$41,746	$206,465	4.9
Canton	$61,411	$379,495	6.2
Toledo	$37,849	$266,360	7.0

Source: OBWC and IFMA

[1] Annual savings was calculated by multiplying the IFMA space reduction identified in **Table 3-4** by each regional service office's cost per RSF.

[2] All calculations of one-time moving cost utilize the Bureau's Canton Service Office moving cost of $13.31 per square foot.

As shown in **Table 3-5**, rightsizing larger, less utilized regional service offices such as the Garfield Heights Service Office results in the largest estimated annual savings of $476,048. However, due to the Garfield Heights Service Office's need for relatively large office to efficiently accommodate the current employee headcount, a substantial one-time estimated moving cost of $509,267 would also be incurred. The result is that although the first year will result in a loss, by the end of the first quarter of the second year, the savings from rightsizing the Garfield Heights Service Office are projected to fully pay for the one-time moving cost, after which the Bureau will continue to accrue the annual financial benefits. Years to payback ranges from a low of 0.9 years, or nearly 11 months, at the Mansfield Service Office to a high of 7.0 years at the Toledo Service Office.

This type of analysis is important to fully inform OBWC's decision making as part of the overall consideration of how best to plan and implement these rightsizing initiatives. Based on budgetary and staffing considerations, Bureau leadership identified that one service office relocation per year was reasonable. This is due to the need to identify and enter into a lease agreement, complete initial office setup as required in the lease agreement, and plan for and move employees and any remaining equipment and furniture into the new location. This is to ensure no critical loss of customer services during the move.

Table 3-6 shows an example facility downsizing schedule over the next 10 years. This demonstrates the potential financial benefit available to the Bureau from downsizing existing space by investing in one-time moving costs over the next 10 years. Only offices with payback periods less than 5 years were incorporated in the analysis; as such, the Canton Service Office and Toledo Service Office were excluded.

Table 3-6: Example Right-Sizing Implementation Schedule

Regional Service Office	Biennium 1 FY 2017-19		Biennium 2 FY 2019-21		Biennium 3 FY 2021-23		Biennium 4 FY 2023-25		Biennium 5 FY 2025-27	
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Mansfield	($219,775)	$245,531	$245,531	$245,531	$245,531	$245,531	$245,531	$245,531	$245,531	$245,531
Garfield Heights		($509,267)	$476,048	$476,048	$476,048	$476,048	$476,048	$476,048	$476,048	$476,048
Cleveland			($243,067)	$201,610	$201,610	$201,610	$201,610	$201,610	$201,610	$201,610
Cambridge				($193,155)	$148,212	$148,212	$148,212	$148,212	$148,212	$148,212
Governor's Hill					($426,080)	$223,015	$223,015	$223,015	$223,015	$223,015
Dayton Service						($306,290)	$125,243	$125,243	$125,243	$125,243
Portsmouth							($176,517)	$57,363	$57,363	$57,363
Youngstown								($312,945)	$74,292	$74,292
Lima									($206,465)	$41,746
Annual Net Savings	**($219,775)**	**($263,736)**	**$478,512**	**$730,034**	**$645,321**	**$988,126**	**$1,243,142**	**$1,164,077**	**$1,344,849**	**$1,593,060**
Cumulative Savings	**($219,775)**	**($483,511)**	**($4,999)**	**$725,035**	**$1,370,356**	**$2,358,482**	**$3,601,624**	**$4,765,701**	**$6,110,550**	**$7,703,610**

Source: OBWC and IFMA

As shown in **Table 3-6**, if OBWC were to move its leased service offices at a pace of one per year, the Bureau would be able to realize an annual savings of $1.6 million annually after full implementation (i.e., in year 10). By focusing on leased service offices with the highest return on investment, as identified in **Table 3-5**, the Bureau would be able to maximize its initial moving investments and ensure success of its facilities rightsizing in subsequent years. In total, the Bureau could save $7,703,610 over 10 years, or an average of **$770,361** annually during this period.

Conclusion

OBWC has significantly reduced employees over the last 20 years; however, the Bureau's efforts to rightsize the facility footprint of the regional service offices has not kept up with that decrease in employees. As a result, when compared to the industry benchmark, OBWC's regional service offices are all larger than necessary to efficiently meet space needs. Given that all regional service offices are leased, this inefficiency results in unnecessary lease cost. The Bureau could reduce lease cost by rightsizing regional service offices to be in line with the industry benchmark. Although the Bureau will incur one-time moving cost, cumulative annual savings will cover moving cost as well as generate net savings within the first two years.

Recommendation 3.1: OBWC should rightsize regional service offices to efficiently meet space needs while minimizing unnecessary lease cost. The Bureau can do so by employing an industry benchmark to quantify space needs and then renegotiate existing leases or seek alternative office locations. Although the Bureau will incur a one-time moving cost for each right-sizing effort, the ongoing annual savings will pay for this cost, as well as generate cumulative savings, within a reasonable timeframe; often in less than two years.

Financial Implication 3.1: OBWC could save a net average of **$770,361** annually by rightsizing regional service office space to be in line with industry benchmarks.

R3.2 & R3.3 William Green Building Utilization

Background

The William Green Building (WGB) is an OBWC-owned, 35-story building[5] located in downtown Columbus, Ohio. As of FY 2015-16, the Bureau uses this building to provide office space, including administrative offices, for 865, or 47.0 percent of its 1,841 employees.

Table 3-7 shows a breakdown of the WGB's total office RSF, including that which is occupied by the Bureau and leasing occupants for FY 2015-16. This helps to demonstrate the relative footprint of the Bureau and its lease occupants, and provides context to the extent that which sub-lease space is variable based on tenant needs.

Table 3-7: WGB Occupants and Footprint

Occupant	RSF Currently Occupied	Percent of Total WGB RSF
OBWC	**270,132**	**56.3%**
Ohio Industrial Commission	98,085	20.4%
Ohio Facilities Construction Commission	33,388	7.0%
Ohio Department of Youth Services	31,358	6.5%
Ohio Administrative Knowledge System [1]	19,237	4.0%
Ohio Ethics Commission	8,318	1.7%
Sub-Total Occupied Leased Space	**190,386**	**39.7%**
Unoccupied Leasable Space	**19,237**	**4.0%**
Total WGB	**479,755**	**100.0%**

Source: OBWC

Note: This analysis focuses only on the WGB's office RSF and excludes other RSF such as storage and servers areas that would not currently be suitable for office use. Although these areas may be leased by the Bureau, it likely would need to do so at a lower, non-office rate.

[1] The Ohio Administrative Knowledge Systems is a division of the Ohio Department of Administrative Services.

[2] DAS is in the process of seeking to negotiate with potential occupants for the currently unoccupied lease space. However, as of the completion of this analysis no final lease agreement was in place.

As shown in **Table 3-7**, the Bureau occupies 270,132, or 56.3 percent, of the 479,755 total office RSF in the WGB. Currently, 190,386 RSF, or 39.7 percent, is occupied by five leasing state agencies and commissions, the largest being the Ohio Industrial Commission at 98,085 RSF, or 20.4 percent of the total. In addition, there is an unoccupied, but leasable, floor in the WGB that is 19,237 RSF, or 4.0 percent of total.

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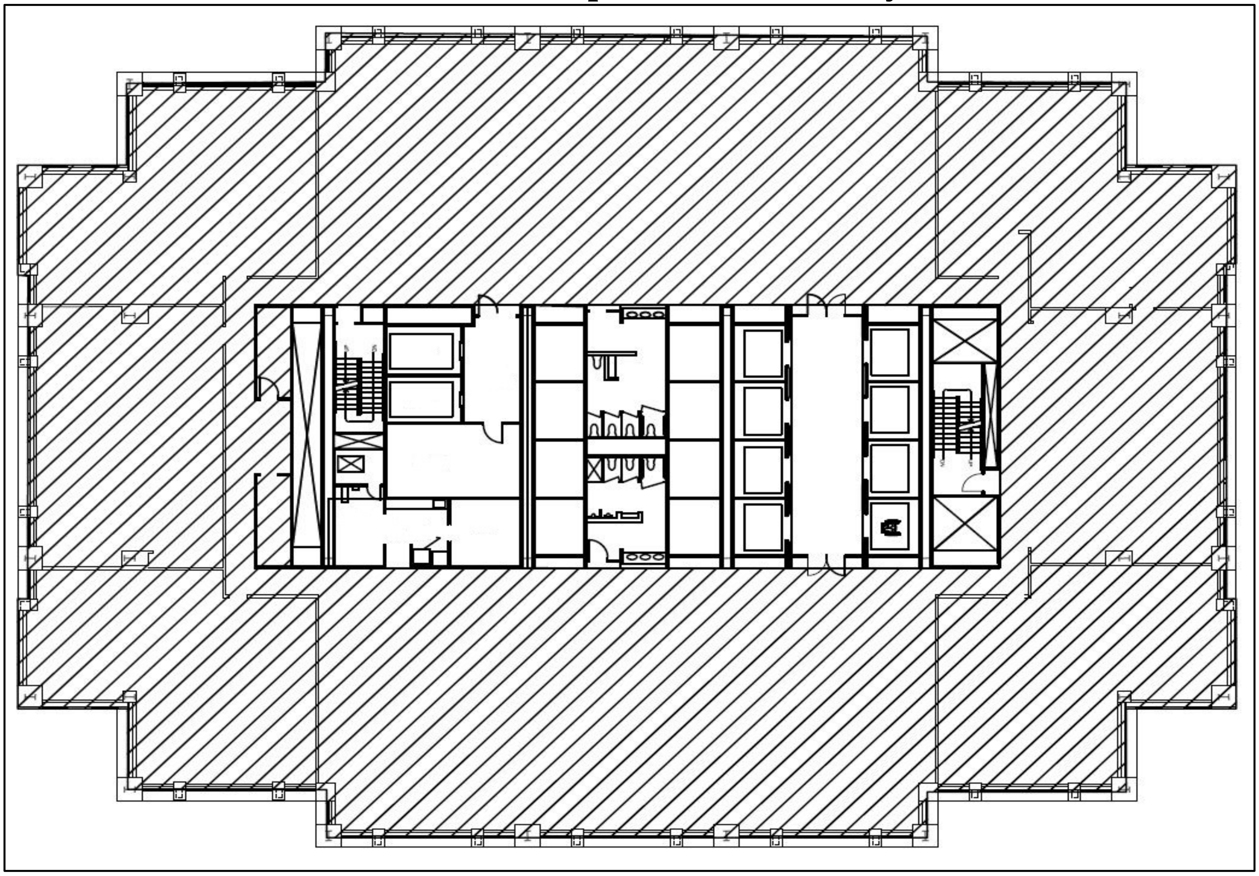
[5] The WGB is 33 stories tall above ground and has two basement levels below ground for 35 levels in total.

Although some floors within the WGB have different quantities of space available for use, the general layout is the same. **Exhibit 3-2** shows this general layout as well as access points and amenities such as bathrooms and break rooms. These access points are key to understanding the general flexibility of use within a single floor of the WGB.

Exhibit 3-2: Example WGB Floor Layout



Source: OBWC

As shown in **Exhibit 3-2**, WGB occupants have multiple access points to shared amenities including restrooms and break rooms, as well as access to elevators and stairwells. This has allowed OBWC to sub-lease partial and/or entire floors of the building without compromising security or impeding traffic flow to either the Bureau's or the occupant's space. As such, the extent to which the Bureau or its tenants want to occupy more or less office space is generally flexible, as shown in **Table 3-7**.

Methodology

This sub-section, **William Green Building Utilization**, seeks to analyze OBWC's use of the WGB, including the efficiency of the Department's occupied building space as well as the potential lease revenue that could be generated through more efficient utilization of that space. During the planning and scoping phase of the performance audit, OBWC leadership identified this as a possible area that an objective analysis could identify opportunities for improved efficiency.

Sources of data included OBWC, DAS, and OAKS. Types of data included facility staffing, size, purpose, and lease rates (i.e., including sub-leases for WGB and other state agency lease rates in the Columbus area). Data points used in this analysis focused on FY 2015-16, as this was the most current data at the time the analysis was completed. All cases requiring clarification, including OBWC's occupied space in the WGB and tenant lease rates, were addressed through the inclusion of centrally-held corroborating information, or were supplemented by testimonial or documentary evidence from knowledgeable Facility employees, including the Bureau's Director of Facilities.

The analysis first focuses on the Bureau's occupied space, and quantifies the current and potential utilization of this space when considering employee space requirements based on an industry benchmark. The potential lease revenue available from this unneeded space is then quantified based on an analysis of lease rates for other state agencies, boards, commissions, and offices of elected officials in the Columbus, Ohio market, as well as the rate for downtown Columbus, specifically within the 43215 zip code. Finally, in analyzing the potential lease rate for the unoccupied space, it was identified that the WGB sub-lease tenants are paying a rate that is significantly below the market rate. As such, the analysis included a quantification of the potential to increase lease revenue by bringing tenant rates in line with comparable benchmarks.

Analysis

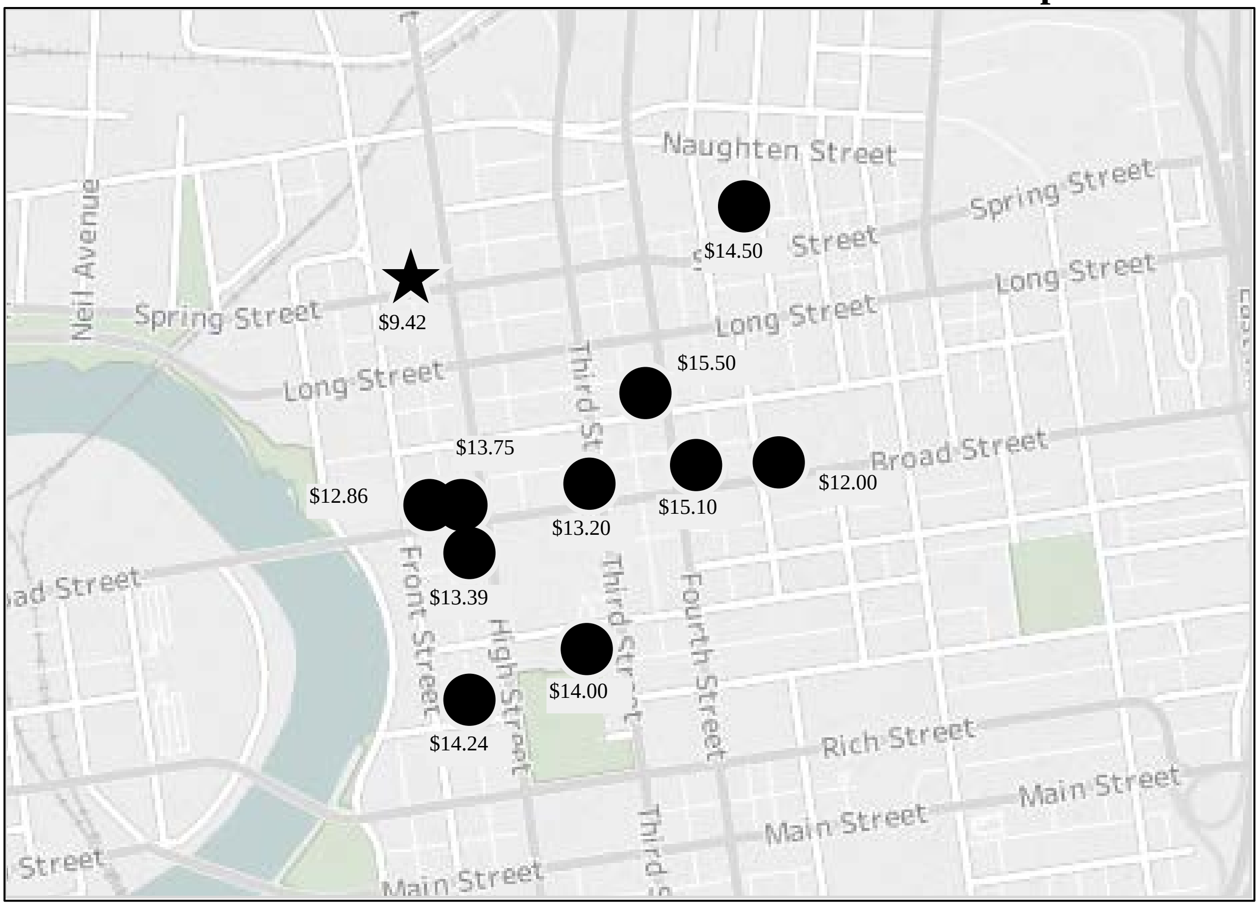
OBWC's Space Utilization and Comparison to Benchmarks

OBWC occupied 270,132 RSF for its 865 employees in FY 2015-16. This equates to 312.3 RSF per employee. As previously noted (see **Regional Service Office Utilization**), the publication, *Operations and Maintenance Benchmarks* (IFMA, 2009) reported that survey respondents within the insurance industry identified a median of 250.0 RSF per employee. In comparison to this benchmark, the Bureau occupies 62.3 more RSF per employee. In total, the Bureau could reasonably operate at a total of 216,250 RSF, or 53,882 less.

Comparable Market Lease Rates

It is common for state agencies, boards, commissions, and offices of elected officials to lease office space and it is also common for these entities to do so within downtown Columbus. **Exhibit 3-3** shows OBWC's tenant lease rate per RSF for FY 2016-17 as well as the lease rate per RSF for other state government entities with office space in close proximity to the WGB.

Exhibit 3-3: Downtown Columbus Government Lease Rates per RSF



Source: DAS and OBWC
Note: It is common for multiple tenants to lease space within the same building; as such, cost per RSF reflects the weighted average of these multiple tenants where applicable. This provides a more conservative calculation of the lease rate, as leases for larger office spaces typically receive a discounted rate.

As shown in **Exhibit 3-3**, OBWC's lease rate of $9.42 per RSF is substantially lower than other lease rates currently paid by governmental entities within the 10 buildings that are in close proximity to the WGB in downtown Columbus. For example, lease rates range from a high of $15.50 per RSF to a low of $12.00 per RSF. The average lease rate of these 10 buildings is $13.85 per RSF, which is $4.43 more per RSF than the Bureau's lease rate. Even at the lowest comparable rate shown, the Bureau's lease rate is potentially underpricing the market by at least $2.58 per RSF. When considering the broader Columbus market, spanning 24 buildings, the average office lease rate per RSF is $12.41, which is $2.99 more than the Bureau's lease rate.

According to OBWC and Facility leadership, the current lease rate of $9.42 per RSF represents a continuation of a historical lease rate that had been agreed upon by a previous administration with at least one lease tenant. Since that time, all leases have been based on this amount rather than the market rate.

Quantification of Potential Revenue Enhancements

In consolidating its office footprint within the WGB, the Bureau can free up underutilized space of at least 53,882 RSF. The Bureau should then seek to lease this space at a comparable market rate, at least $13.85 per RSF, the downtown Columbus average. If the Bureau is able to lease this space at the downtown Columbus average rate, it will generate **$746,266** in additional annual lease revenue.

Table 3-8 shows two options for bringing current leases more in line with market rates. The first uses the Columbus downtown average (i.e., $13.85 per RSF) to quantify potential revenue increases and the second uses the lowest downtown Columbus rate (i.e., $12.00 per RSF).

Table 3-8: Impact of Bringing WGB Lease Rate In Line with Market Rates

Current Occupied Leased Space	190,386	
Current Unoccupied Leasable Space [1]	19,237	
Total RSF Subject to Renegotiation	**209,623**	
Current Lease Rate per	**$9.42**	
Current Total Lease Revenue	**$1,974,649**	
	Scenario A – Downtown Average	**Scenario B – Downtown Lowest**
Revised Lease Rate per RSF	**$13.85**	**$12.00**
Revised Total Lease Revenue	**$2,903,278**	**$2,515,476**
Net Lease Revenue Gain/(Loss)	**$928,629**	**$540,827**

Source: OBWC and OPT analysis

[1] Given that the Bureau is already in negotiations to lease the unoccupied space, it is assumed that the agreed upon rate will be a continuation of the past practice to use $9.42 per RSF.

As shown in **Table 3-8**, bringing WGB lease rates in line with the Columbus downtown average would generate additional annual lease revenue of **$928,629**. At minimum, bringing the WGB lease rate in line with the lowest downtown Columbus rate would generate additional annual lease revenue of **$540,827**.

Conclusion

Within the WGB, OBWC occupies substantially more space per employee than the industry benchmark identifies as necessary. Consolidating occupied space and bringing utilization in line with the industry benchmark would allow the Bureau to lease additional space in the WGB, generating significant annual revenue. Further, OBWC currently leases space in the WGB for less than the market rate. Bringing these lease rates in line with market rates would allow the Bureau to remain competitive in its offering while still generating significant annual revenue.

Recommendation 3.2: OBWC should rightsize its office space within the William Green Building to a level comparable to industry benchmarks. In doing so, the Bureau can free up additional space to generate additional lease revenue.

Financial Implication 3.2: OBWC could increase William Green Building lease revenue by **$746,266** annually by rightsizing the Bureau's offices and renting out the unneeded space.

Recommendation 3.3: OBWC should bring lease rates for the William Green Building in line with market rates. In doing so, the Bureau can remain market competitive in its offering while generating additional lease revenue.

Financial Implication 3.3: OBWC could increase William Green Building lease revenue by between **$540,827** and **$928,629** annually by bringing lease rates in line with what other state government entities are paying in the downtown Columbus market.

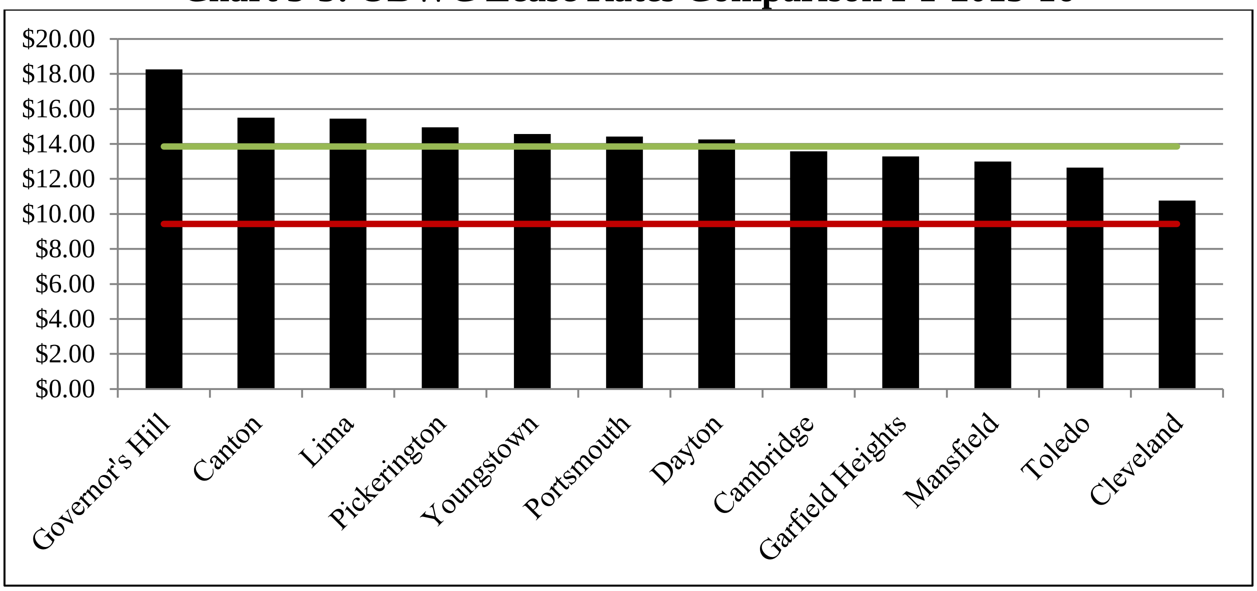
Issue for Further Study

Issues are sometimes identified that are not related to the objectives of the audit, but could yield economy and efficiency if examined in more detail. During the course of the audit, OBWC's practice of leasing out a portion of the WGB while simultaneously leasing regional service offices was identified as one such issue.

The final lease rate agreed upon by OBWC and its tenants is the product of negotiation and may be influenced by factors that are outside of market forces and/or the Bureau's control.

Chart 3-3 shows OBWC's regional service office lease rates for FY 2015-16. The topmost horizontal bar represents the downtown Columbus average lease rate of $13.85 per RSF while the bottom horizontal bar represents the Bureau's current WGB lease rate of $9.42 per RSF. This provides a comparison of the opportunity cost of the Bureau's leasing decisions.

Chart 3-3: OBWC Lease Rates Comparison FY 2015-16



Source: OBWC

As shown in **Chart 3-3**, OBWC is currently leasing space to other state government entities in the WGB for less than what it pays per RSF in each regional service office. Even at the downtown Columbus average rate, seven of the Bureau's 11 regional service offices are more costly on an RSF basis than the space that is being leased out at the WGB.

If OBWC is unable to lease space within the WGB at a rate comparable to the market, Bureau leadership should further study its ability to consolidate service office functions into the WGB rather than leasing space to tenants at a net loss. However, doing so will require evaluation of the mission and purpose of regional service offices; an assessment of potential customer impacts; and, ultimately, the Bureau's ability to relocate positions through direct transition or attrition.

R3.4 Warehouse Utilization

Background

OBWC operates a 96,522 square foot warehouse facility in Grove City, Ohio. The warehouse is divided into two sections, the Main File Room (MAFIL) and Asset Storage. The facility is operated by 18 MAFIL and facilities employees.

MAFIL is primarily comprised of shelving units that hold files associated with OBWC claims. These files are for claims that were made prior to 2000, when the Bureau began a paperless initiative, and are required to be kept by OBWC in accordance with records retention policies. As noted, the Bureau began a paperless initiative in 2000 in order to save storage costs and decrease waste. A part of this paperless initiative has been the ongoing effort to scan and digitize the pre-2000 files. Progress in this effort has resulted in MAFIL using much less space than was originally allocated. Asset Storage primarily provides space for the Bureau to store unused assets, including office furniture and computer equipment, until needed. Additional shelving unit storage is available for longer-term items such as legal documents, which are subject to records retention policies and record holds.

Methodology

This sub-section, **Warehouse Utilization**, seeks to analyze OBWC's warehouse utilization and identify potentially underutilized space with the goal of rightsizing the warehouse and reducing unnecessary lease cost. During the planning and scoping phase of the performance audit, OBWC leadership identified this as a possible area that an objective analysis could identify opportunities for improved efficiency.

Sources of data and information include OBWC, DAS, and OAKS and types of data and information include facility staffing, size, and purpose. .The data points used focus on FY 2015-16, as this was the most current data at the time the analysis was completed. AOS employees toured and completed visual inspections of the facility, as well as each section, on multiple occasions to ensure that the analysis represented more than just a single moment in time. All cases requiring clarification were addressed through the inclusion of centrally-held information, and were supplemented by testimonial or documentary evidence from knowledgeable facility employees.

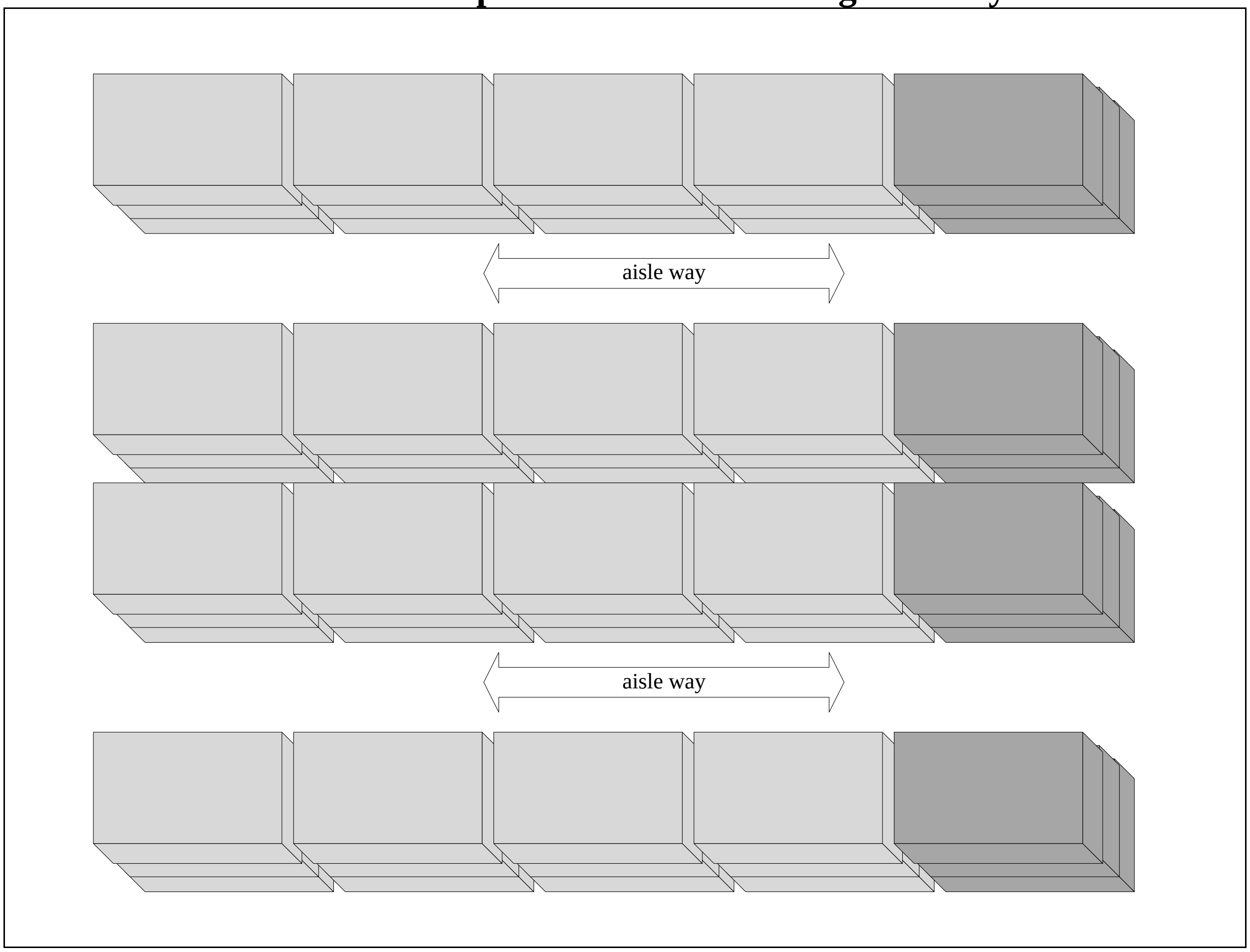
The analysis first introduces a generalized layout of the warehouse space, including shelving units which are commonly used across both sections. The analysis then introduces the potential impact that underutilized shelving units could have on the overall size of the warehouse. Finally, the analysis enumerates the actual unused space, specific to MAFIL and then Asset Storage within the warehouse, and quantifies the potential reduction in lease cost associated with a rightsized warehouse.

Analysis

OBWC utilizes shelving units within both the MAFIL and Asset Storage sections of the warehouse for general storage purposes. Each shelving unit generally consists of three shelves, where pallets of materials and/or documents can be stored. However, due to declining space demands, not all shelving units are currently being fully utilized.

Exhibit 3-4 shows an example shelving unit layout that is applicable to both the MAFIL and Asset Storage portions of the warehouse. This visual representation of the current facility layout is vital to understanding the manner in which storage needs can impact the demand for space.

Exhibit 3-4: Example Warehouse Shelving Unit Layout



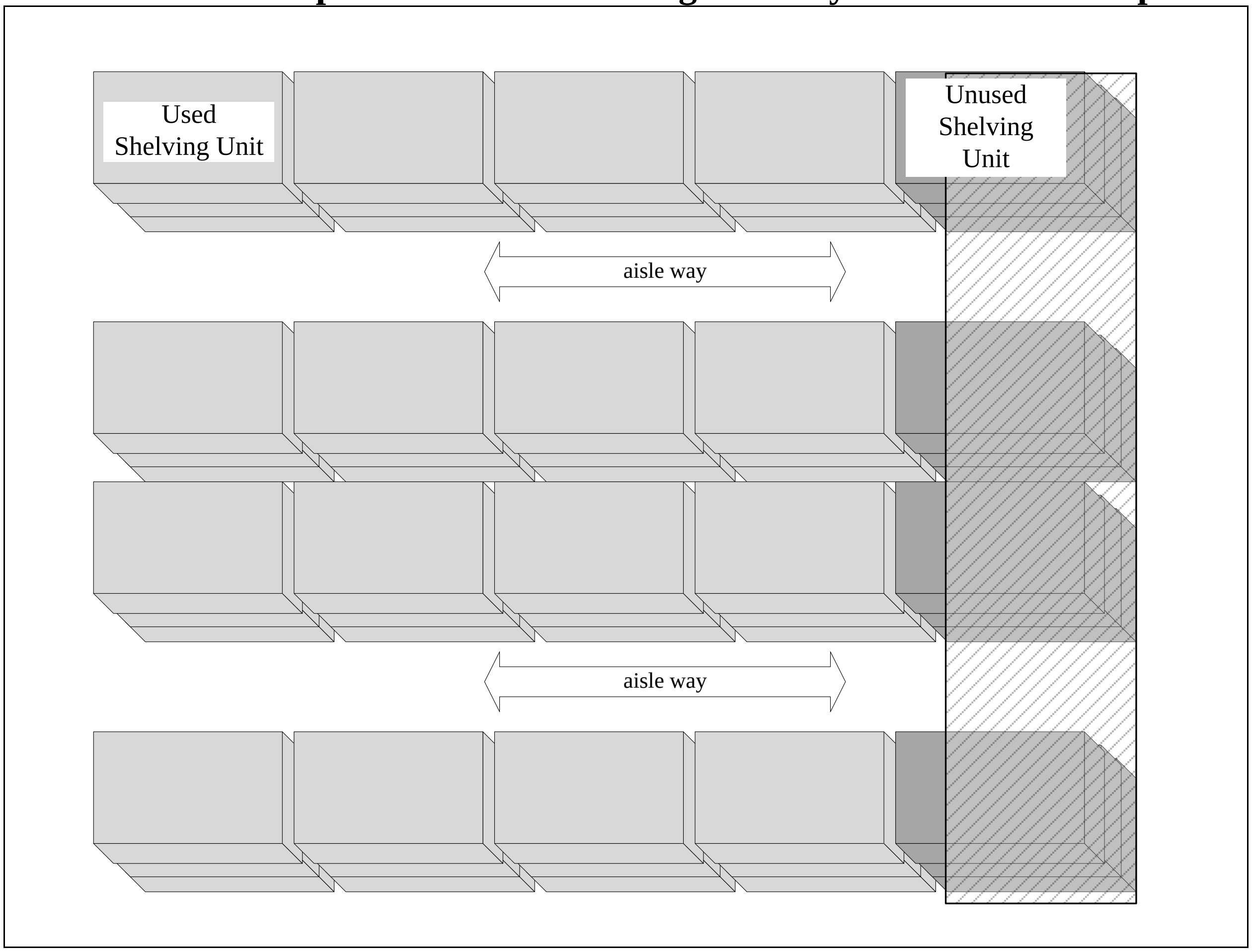
Source: OBWC and OPT

Note: Dimensions not drawn to scale, as this example presents only a small portion of the warehouse.

As shown in **Exhibit 3-4**, OBWC's warehouse is organized in rows with shelving units available from a shared aisle. The aisle is used by warehouse staff in accessing the records, and in the case of the asset storage section, for utilizing forklifts and reach trucks.

Exhibit 3-5 shows the same example layout, but with a shaded overlay representing the unused shelving area that could be eliminated through a reduction of space. This depiction of diminished spatial requirements illustrates the specific link between operational resource needs and demand for facility space.

Exhibit 3-5 Example Warehouse Shelving Unit Layout with Unused Space



Source: OBWC and OPT
Note: Dimensions not drawn to scale, as this example presents only a small portion of the warehouse.

As shown in **Exhibit 3-5**, reducing facility space for the shelving also inherently reduces the aisle way space associated with that shelving unit. The shaded section demonstrates the space that would no longer be needed if the last column of shelving was no longer needed.

MAFIL Utilization and Potential Cost Savings

Table 3-9 shows a breakdown of the used and unused MAFIL space for FY 2015-16. The percentages of total MAFIL space, as well as associated costs, have been included to demonstrate the overall impact that unused space is having on operation of the warehouse as well as the Bureau's lease cost.

Table 3-9 MAFIL Utilization FY 2015-16

	Used	Unused	Total
Section Square Footage [1]	31,960	13,593	45,553
Cost Per Square Foot [2]	$5.76	$5.76	$5.76
Cost per Category	**$184,090**	**$78,296**	**$262,385**
Percent of Total	**70.2%**	**29.8%**	**100.0%**

Source: OBWC and OPT
Note: Utilization rates for MAFIL (i.e., used and unused) were provided by OBWC but were confirmed through on-site inspections.
[1] Section square footage used is the cumulative footprint of the shelving units that would be required to hold all files when consolidated.
[2] Cost per square foot consists of both the Bureau's lease cost per square foot as well as the average utilities cost per square foot over the last three years, or $5.00 and $0.76, respectively.

As shown in **Table 3-9**, within the MAFIL section, the Bureau currently utilizes 31,960 square feet, or 70.2 percent, of the total 45,553 square feet. As a result, 13,593 square feet, or 29.8 percent of total, is not being used. This vacant space within the MAFIL section cost the Bureau a total of $78,296 in lease and utilities for FY 2015-16.

Asset Storage Utilization and Potential Cost Savings

Table 3-10 shows a breakdown of the used and unused Asset Storage space for FY 2015-16. The percentages of total Asset Storage space, as well as associated costs, have been included to demonstrate the overall impact that unused space is having on operation of the warehouse as well as the Bureau's lease cost.

Table 3-10 Asset Storage Utilization FY 2015-16

	Used	Unused	Total
Section Square Footage [1]	11,700	9,090	20,790
Cost Per Square Foot [2]	$5.76	$5.76	$5.76
Cost Per Category	**$67,392**	**$52,358**	**$119,750**
Percent of Total	**56.3%**	**43.7%**	**100.0%**

Source: OBWC and OPT
Note: Utilization of the Asset Storage section (i.e., used and unused) was evaluated on two separate occasions with a variance of 0.2 percent between the observations. To be conservative in overall impact, this analysis uses the highest used rate observed (i.e., 56.3 percent).
[1] Section square footage used is the cumulative footprint of the shelving units that would be required to hold all files when consolidated.
[2] Cost per square foot consists of both the Bureau's lease cost per square foot as well as the average utilities cost per square foot over the last three years, or $5.00 and $0.76, respectively.

As shown in **Table 3-10**, within the Asset Storage section, the Bureau currently utilizes 11,700 square feet, or 56.3 percent, of the total 20,790 square feet. As a result, 9,090 square feet, or 43.7 percent of total, is not being used. This vacant space within the Asset Storage section cost the Bureau a total of $52,358 in lease and utilities for FY 2015-16.

Given the current utilization of the warehouse, the Bureau could save **$130,654** annually by rightsizing space to efficiently meet its needs.[6]

Conclusion

OBWC occupies substantially more warehouse space than it currently requires or uses for both the MAFIL and Asset Storage sections. As a result of this underutilization, the Bureau is incurring unnecessary lease and utilities cost at the warehouse. Rightsizing the warehouse space to efficiently meet the needs of both the MAFIL and Asset Storage sections will result in significant annual cost savings for the Bureau.

Recommendation 3.4: OBWC should rightsize its warehouse space to efficiently meet its needs. Doing so will allow the Bureau to minimize unnecessary lease and utilities cost.

Financial Implication 3.4: OBWC could save a total of **$130,654** annually by rightsizing warehouse space to efficiently meet Bureau needs.

[6] The Bureau is currently seeking available options to rightsize within the existing warehouse space, which would allow for minimal one-time moving costs. However, if DAS is unable to secure a lease within the same facility, the Bureau may incur a moving cost. Any moving cost should be taken into account when assessing the total cost/benefit and years to payback associated with implementation of this recommendation.

4. Premium Audit

Section Overview

This section of the performance audit focuses on the Ohio Bureau of Workers' Compensation (OBWC or the Bureau) Premium Audit Department (the Department). Information was collected and analysis was performed to develop an operating profile of the Department. Analysis identified opportunities to improve Department operations through formalized methodologies, consistent application, and by collecting premium audit time data.

Recommendation Overview

Recommendation 4.1: OBWC should develop a formal premium audit selection methodology that takes into account both the likelihood of a misadjusted premium as well as the need to provide adequate coverage for all employers. After adoption, the Bureau should ensure that all audit staff are following the methodology and process as intended. A consistent, uniformly applied methodology and process will allow the Bureau to optimize workload and staffing in a manner that best meets its goals.

Financial Implication 4.1: N/A

R4.1 Premium Audit Selection Methodology

Background

Premium Audit Overview

In fiscal year (FY) 2014-15, there were 253,106 employers that had active workers' compensation policies with OBWC.

Each employer's workers' compensation premium is based on the historical experience and magnitude of employee injuries, as well as the probability that injuries will occur in the future. As such, the premium is set at a level commensurate to the employer's overall risk, and reflects "a level that assures the solvency of the fund", in accordance with Ohio Revised Code (ORC) 4123.29(2)(a).

Two primary factors taken into account when calculating the premium, regardless of historical experience, include payroll size, which helps to provide a measure for the total number of employees, and manual classifications (i.e., the job functions of the employees). In the way that they are used to calculate premiums, manual classifications reflect the risk of injury by industry, based on historical occurrences.[7] Manual classifications associated with high-risk job functions, will increase an employer's workers' compensation premium.

However, the information that OBWC uses to calculate an employer's premium is largely self-reported. As such, the Bureau has a premium audit process in place that seeks to ensure that employers are accurately reporting key information. Auditing and correcting the information, where necessary, results in the employer being accurately billed based on their actual operations.

As part of the Bureau's task of assuring solvency of the fund, audits of employer payroll and other pertinent records are undertaken to identify misadjusted rate payments among active coverage policies. Further, employers are required to maintain all associated records for a period of five years.

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[7] These manual classifications are based on a classification system created by the National Council on Compensation Insurance (NCCI). The NCCI gathers data, analyzes industry trends, and prepares objective insurance rate and loss cost recommendations.

Premium Audit Workload

Table 4-1 shows the Department's number of audits completed, full-time equivalent (FTE) premium auditors, and audits completed per FTE for FY 2012-13 to FY 2014-15. This type of analysis is important to understanding not only the resources available to the Department but also the general workload output that can be expected of each auditor in a given year.

Table 4-1: Premium Audit Workload FY 2012-13 to FY 2014-15

Fiscal Year	Audits Completed	Auditor FTEs	Audits per FTE
FY 2012-13	10,178	25.8	394.5
FY 2013-14	9,276	28.2	328.9
FY 2014-15	9,109	29.7	306.7
Three-Year Average	**9,521**	**27.9**	**341.3**

Source: OBWC and Ohio Department of Administrative Services (DAS)
Note: FTEs are calculated based on each full-time audit employee working 2,080 hours in a year.

As shown in **Table 4-1**, on average, the Department has completed more than 9,500 premium audits per year over the last three complete years, or an average of 341 premium audits per FTE. However, the total number of audits completed has trended downward from FY 2012-13 to FY 2014-15 by 1,069 audits, or 10.5 percent. At that same time, auditor FTEs have increased by 3.9, or 15.1 percent. The combination of a decreasing number of audits and an increasing number of auditors has reduced the audits per FTE by 88.1, or 22.3 percent.

Table 4-2 shows the estimated number of years it would take the Department to perform a premium audit on all current employers in Ohio, based on the three-year average annual audits completed for FY 2012-13 through FY 2014-15. This information is fundamental to understanding the need for the Department to deploy its audit resources as efficiently as possible, given their limited nature.

Table 4-2: Estimated Time to Audit Every Employer in Ohio

FY 2014-15 Number of Policy-holding Employers in Ohio	253,106
FY 2012-13 to FY 2014-15 Average Annual Audits Completed	9,521
Average Annual Percentage of Employers Audited	3.8%
Number of Years to Audit All Employers	**26.6**

Source: OBWC

As shown in **Table 4-2**, based on historical throughput of 9,521 audits per year, or 3.8 percent of total, it is estimated that the Department would need more than 26 years to audit all employers.

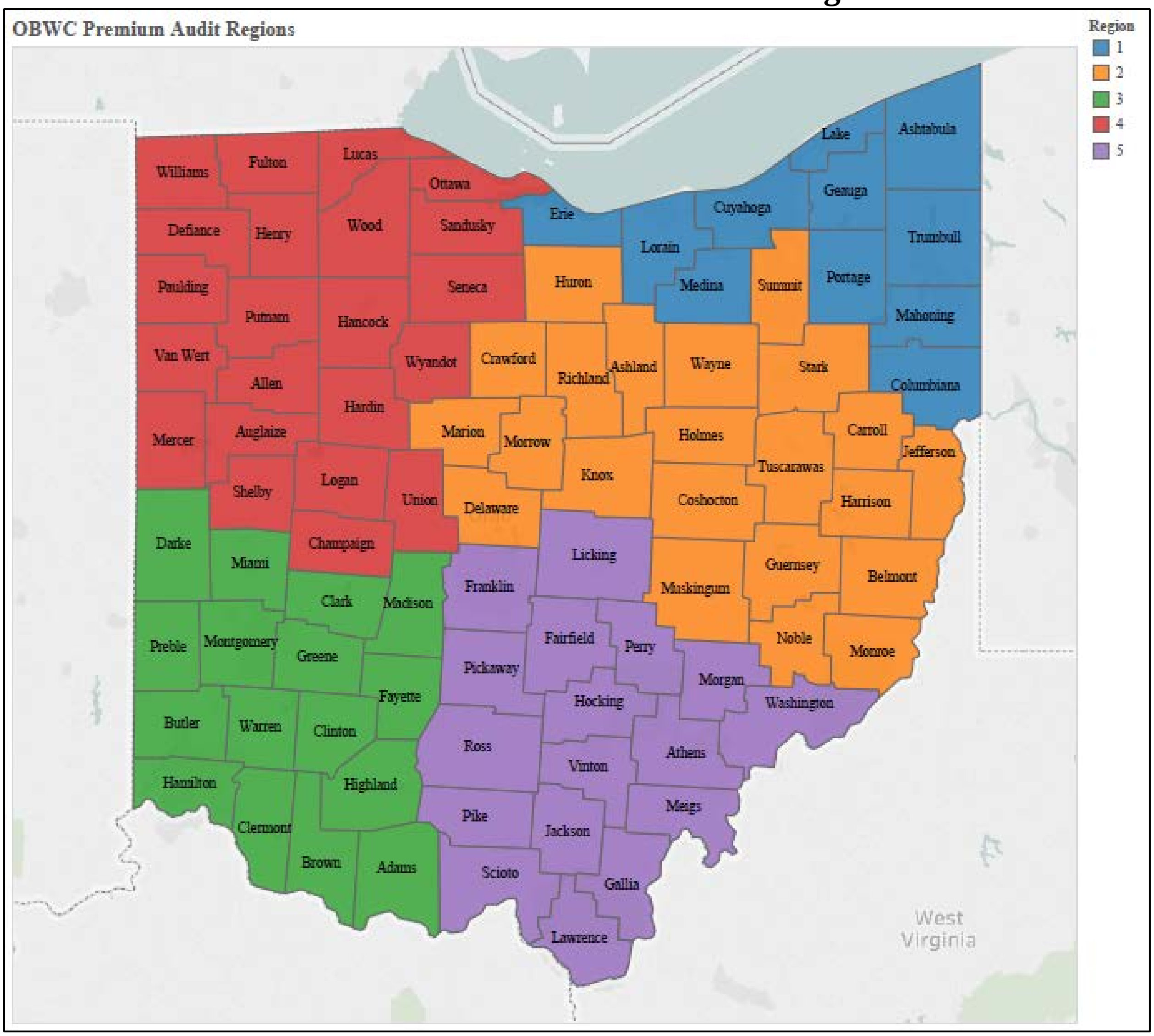
Although the number of annual audits completed provides an important measure of actual and potential audit coverage, and is helpful to understanding resource allocation, it is limited in that not all employers are alike and therefore may not all require the same amount of time to complete the premium audit. However, the Department does not require employees to track the time to complete each premium audit. Without this type of data, the Department is unable to directly quantify or specifically analyze data trends in employer types or characteristics, which would directly associate with the resources necessary to complete the premium audit.

Premium Audit Organization

The Department is under the leadership of a Director who reports to the Director of Employer Services, who in-turn reports to OBWC's Chief Operations Officer. In addition to the Director of the Department, there are five audit managers corresponding to each of the five audit regions. Audit work is generally performed at the direction of this leadership team with data analysis support from the Department's Underwriting Consultant.

Exhibit 4-1 shows the Department's five regions and the counties covered by each. This provides important context to how the work is actually assigned based on each employer's location.

Exhibit 4-1: OBWC Premium Audit Regions



Source: OBWC

As shown in **Exhibit 4-1**, each of the five premium audit regions is generally reflective of both population distribution and geographic coverage. Although the majority of audit work is at the direction of the Department's leadership team, audit manager and auditors are afforded a level of discretion in carrying out day-to-day operations within the regions.

General Premium Audit Process

After the Department's leadership team has identified an employer which it intends to audit, a letter is sent to the employer notifying it of the intent to audit, what to expect from the audit process, a list of pertinent documents that should be provided on the day of the audit, and a request for the employer's updated contact information. Once the employer responds to the Department with contact information, a Department representative contacts the employer to schedule a time and place for the audit to be conducted. As previously noted, audits are assigned to staff based on regional coverage. Further, each audit is conducted by a single, assigned auditor working with the support of the regional audit manager.

When conducting an audit, at minimum, the auditor examines the two most recent semi-annual reporting periods of employer records that are comprised of the following:

- Payroll records;
- Semiannual OBWC payroll reports;
- Various Internal Revenue Service forms; and
- Quarterly Ohio Department of Jobs and Family Services reports.

When examining these records, the auditor first attempts to verify that payroll records and tax forms indicate the same quantity and classifications of workers. Further scrutiny of employer records includes a rating inspection to determine that the appropriate manual classifications are reflected in the employer's calculated premium. Lastly, when an employer maintains multiple manual classifications among its workers, the auditor identifies whether or not improper payroll segregation of these classifications exists, which may result in the employer's payment of a misadjusted premium. Once this review is completed, the auditor determines whether or not there are any estimated findings. Findings are an adjustment to the premium amount that an employer pays for workers' compensation insurance coverage. These adjustments can either increase or decrease the employer's future premium payment amount, depending on what is found during the audit.

Audit Assignment and Daily Workload

As previously noted, the Department does not actively track the amount of time necessary to complete audit assignments. However, the Department has a long-standing but informal goal of two audits per day per auditor. The Department implemented this goal as part of a collective bargaining agreement (CBA) in FY 1997-98. This was a performance improvement measure aimed at increasing the productivity of premium auditors who were starting to incur an excessive amount of overtime. On occasion, auditors will not complete two full audits in one day as a result of the unforeseen complexity of an audit. When this happens, the audit manager must approve "mitigating time", which effectively adds approved time to certain audit assignments, superseding the need to complete two audits for the day. Although the two audits per auditor per day requirement was ultimately removed from the CBA, the Department continues to use it as a guideline to inform workload planning.

As shown in **Table 4-1 (see page 56)**, each auditor is, on average, completing 341 audits per year. This equates to nearly 1.4 audits per day, based on 250 work days available per year.[8] When adjusted for a notional 80.0 percent availability (e.g., to account for likely leave use, training time, etc.), this equates to 1.7 audits per day over 200 available days.

One way that the two audits per day per auditor guideline may directly impact the work performed is in how auditors and audit managers exercise discretion within the region. For example, seeking to perform two audits per day can lead to discretionary selections based on location convenience (e.g., one employer is already scheduled and another in the area will be scheduled to round out the day), or length of audit considerations (e.g., the audit already scheduled is likely to take more than half of the day due to size and/or complexity so the other audit will be smaller and/or less complex). While neither discretionary option is inherently a bad choice, it is possible that there may be other options that would have provided a more optimal outcome for the Department and/or employers. Alternatively, it is possible that a single premium audit could take more than one day due to a very large or very complex employer. In this case, the two audits per day per auditor guideline has the potential to create confusion or concern for the auditor or manager when approaching this work assignment.

[8] Business days available per year excludes Ohio's 10 official holidays.

Methodology

This section of the performance audit, **Premium Audit**, seeks to assess and evaluate the current administration of the Premium Audit Department with a focus on identifying opportunities for improved efficiency and effectiveness. During the planning and scoping phase of this performance audit, OBWC leadership identified this as a possible area an objective analysis could identify opportunities for improved efficiency.

OBWC provided current and historical data regarding the performance of premium audits. Sources of data include Ohio Administrative Knowledge System (OAKS) Human Capital Management and OBWC's data warehouse. Data points used were from FY 2012-13 to FY 2014-15. In all cases requiring clarification, OBWC data was supplemented by testimonial or documentary evidence from knowledgeable OBWC premium audit staff.

The initial step toward performing this analysis was to establish the volume of audits conducted from FY 2013-14 to FY 2014-15 by type. The next step showed the overarching way in which the totality of employers that currently maintain an active policy are sorted into a smaller pool of employers to be scored with the Department's scoring criteria. Following this was a demonstration of the Department's scoring methodology, the raw number of employers that obtained each criterion score, as well as a graph displaying the distribution of total scores resulting from each employer's sum of criterion scores. Next, two comparative distributions are displayed, contrasting a notional, strict performance of audits working from high total score to low total score with the actual distribution of audits performed in FY 2014-15. The analysis then makes a comparison of actual FY 2014-15 premium audit results, with projected results from a strict adherence to the notional high-to-low total score audit methodology. Concluding the analysis is a breakdown of audits and findings by region and score grouping. Verifying the effectiveness of this methodological approach is foundational to establishing the importance of a formal methodology and conducting audits in accordance with it. Once documented, this data can be used in conjunction with audit time data in order to most effectively allocate Department resources.

Analysis

Premium Audit Selection Types

As previously noted, the Department is unable to audit every employer every year. As such, the Department must develop an audit plan and approach that allows its employees to proactively mitigate risk of misadjusted premiums as well as remain flexible to conduct audits as requested or referred. In general, the Department selects which employers to audit based upon the following sources:

- **Internal Referrals –** These are audit requests that come from other Bureau sources such as the Employer Compliance Unit, the Collections Department, Ohio Center for Occupational Safety and Hygiene (OCOSH) staff, and/or claims representatives;
- **External Referrals –** These are audit requests that come from the general public;
- **Employer Requests –** These are audit requests that come from the employer, generally as a result of uncertainty regarding the accuracy of the current premium; and
- **Scorecard Audits –** These are audit selections that are initially identified based on the Department's scorecard matrix (the scorecard) of employer data, which was developed to quantitatively identify the likelihood that an employer is paying a misadjusted premium. The Bureau created the scorecard in FY 2012-13 and began implementing the scorecard for premium audit selection purposes at the start of FY 2013-14. Since implementation, the Department has continually worked to improve the scorecard, including altering the scorecard criteria and/or criteria weighting each year.[9]

[9] For example, the scorecard methodology in place for FY 2013-14 calculated total scores for employers ranging from two to 25. The FY 2014-15 iteration of the scorecard methodology calculated total scores ranging from 11 to 42, with the addition of a unique 50 category for new policy holding employers. Due to these significant changes in scorecard methodology, analysis focuses on FY 2014-15 as the last complete year of audits, and the most relevant to the Department's current operations.

Table 4-3 shows the total premium audits as well as the number and percentage of scorecard and non-scorecard (i.e., internal and external referrals and employer requested) premium audits that were conducted from FY 2013-14 to FY 2014-15. This table provides a year-over-year view of the volume of work performed by the Department before and after the inception of the scorecard as well as a general understanding of the mix of audit types conducted in a given year.

Table 4-3: Premium Audit Composition FY 2012-13 to FY 2014-15

		Scorecard Audits [1]		Non-Scorecard Audits	
Fiscal Year	**Total Audits**	**Audits**	**% of Total**	**Audits**	**% of Total**
FY 2012-13	10,178	9,375	92.1%	803	7.9%
FY 2013-14	9,276	6,387	68.9%	2,889	31.1%
FY 2014-15	9,109	7,577	83.2%	1,532	16.8%
Total	**28,563**	**23,339**	**81.7%**	**5,224**	**18.3%**

Source: OBWC

[1] Scorecard audits were first conducted in FY 2013-14. However, prior to this time, the Department used a scorecard-like methodology (e.g., auditors were directed to audit based on perceived or known risk of a misadjusted premium) to select employers for premium audit. Given that this selection methodology was uniquely different than the non-scorecard audit methodology (i.e., audits selected by the Department rather than referred to or requested of the Department) these are shown as scorecard audits in FY 2012-13.

As shown in **Table 4-3**, of the 28,563 total audits conducted from FY 2012-13 to FY 2014-15, 23,339, or 81.7 percent, were scorecard audits. Although the Department does not control the number of non-scorecard audits that are either referred or requested, it does, to the degree resources are available, control the amount and focus of scorecard audits performed.

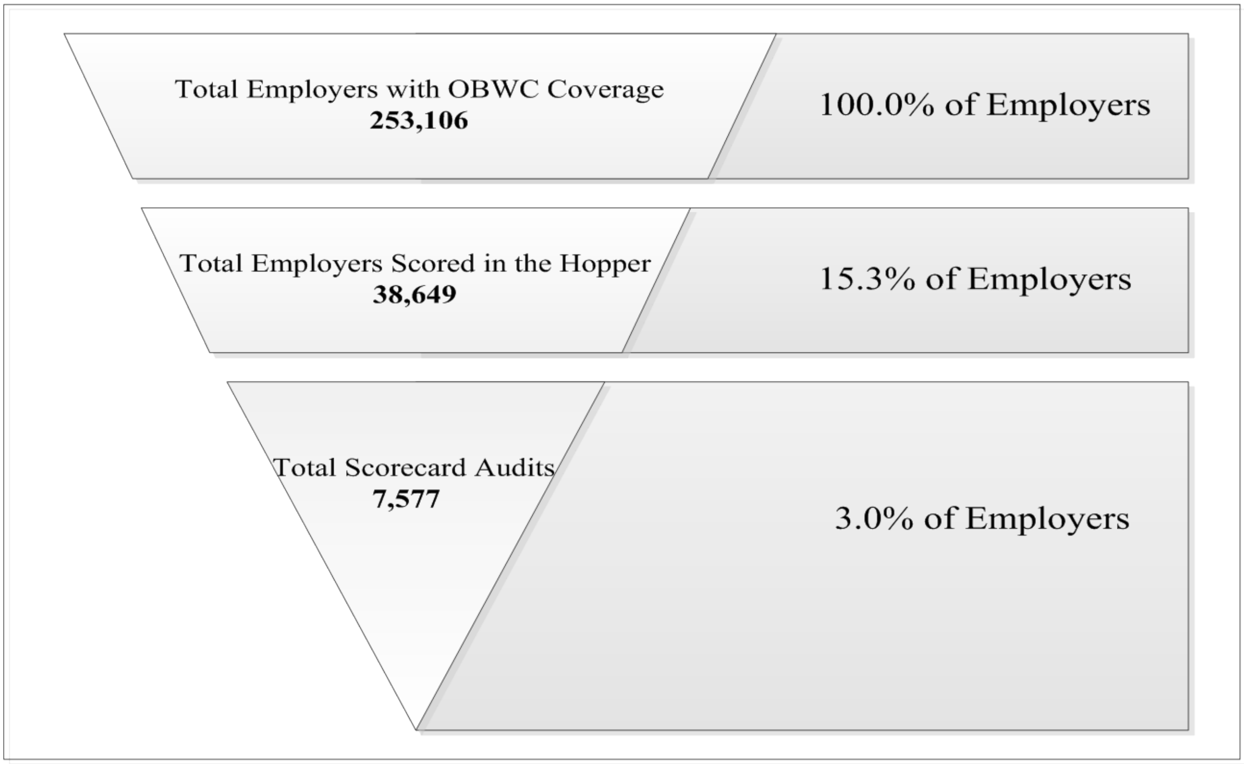
Scorecard Hopper Process

When utilizing the scorecard, determining which employers will be selected for a premium audit is a multi-step process. The first step includes using what the Department refers to as the "hopper". The hopper is a filter process through which the Department selects a small number of projects which are a point of emphasis for a given year.[10] Each employer with the targeted project(s) then is automatically entered into the hopper. For example, if tree trimmers were selected as a manual classification, all employers with at least one employee under that manual classification will be entered into the hopper. Once grouped together, these employers are evaluated using the scorecard.

[10] A project is the way in which the Department refers to the specific criteria which have been pinpointed for auditing in a given year. Among other things, these criteria can include manual classifications, specific industries, and/or a threshold of observed variation in data reporting.

Exhibit 4-2 shows how the Department narrowed down total employers to hopper employers, and ultimately to the number of scorecard audits for FY 2014-15. This provides context for the relative size of the hopper as it relates to both the total number of employers and those ultimately selected for audit using the scorecard.

Exhibit 4-2: Employer Hopper and Selection Narrowing FY 2014-15



Source: OBWC

As shown in **Exhibit 4-2**, 38,649 or 15.3 percent of all employers were selected and scored as a part of the hopper. Of this group, 7,577 actually received a premium audit; accounting for only 3.0 percent of total employers for FY 2014-15. This represents the vast majority of total premium audits performed in FY 2014-15, but remains a small portion of the total number of employers which maintain an active workers' compensation insurance policy with OBWC.

Scorecard Categories

The Department's ability to actually audit only a small number of employers in a given year underscores the importance of ensuring that the scorecard is effectively designed to identify, quantify, and rank the most significant factors associated with the risk of a misadjusted premium.

Table 4-4 shows the five scorecard categories and score ranges within each category for FY 2014-15. Also included are the hopper employers as scored within each category for FY 2014-15. Together this helps to provide context on the relative weighting of each category (e.g., a top-end score ranging between five and 10), but also the general distribution of employers by score.

Table 4-4: Scorecard Scoring Ranges and Employer Scores FY 2014-15

Premium Level	Score	Hopper Employers by Score
$0-$10,000 [1]	4	27,221
$10,001-$25,000	5	4,495
$25,001-$50,000	7	2,065
$50,001+	10	1,967
Payroll Level	**Score**	**Hopper Employers by Score**
$0-$10,000 [2]	2	6,345
$10,001-$25,000	3	2,727
$25,001-$50,000	7	3,065
$50,001+	10	23,611
Last Audit Level	**Score**	**Hopper Employers by Score**
0-3.0 years	2	3,997
3.1-6.0 years	5	13,408
6.1-9.0 years	7	7,273
9+ years	10	11,070
Experience Modifier	**Score**	**Hopper Employers by Score**
0.00-1.00	1	30,164
1.01-1.25	3	2,383
1.26+	5	3,201
Manual Classifications	**Score**	**Hopper Employers by Score**
0-2	2	21,831
3-5	5	12,299
6+	7	1,618

Source: OBWC

Note: The Department has identified that under this scoring methodology, the lowest premium level and highest payroll level encompass a volume of employers which does not provide enough detail to be the most effective indicator of risk possible. These have been amended to reflect a more appropriate level of risk moving forward.

[1] Within the premium level category, the Department mistakenly assigned two scores to the $0 to $10,000 level. Based on the scorecard data provided, 374 employers at this level were assigned a categorical score of three, while 26,847 employers at this level were assigned a categorical score of four. For the purpose of this analysis, all 27,221 employers are shown with the categorical score of four.

[2] Within the payroll level category, the Department mistakenly assigned two scores to the $0 to $10,000 level. Based on the scorecard data provided, 6,342 employers at this level were assigned a categorical score of two, while three employers at this level were assigned a categorical score of four. For the purpose of this analysis, all 6,345 employers are shown with the categorical score of two.

As shown in **Table 4-4**, there are five scorecard categories for FY 2014-15. Broadly these categories include:

- **Premium Level –** This is the dollar range into which an employer falls based on the amount paid for workers' compensation insurance;
- **Payroll Level –** This is the dollar range into which an employer falls based on the total annual amount paid for salaries and wages;
- **Last Audit Level –** This is the range of years into which an employer falls based on the amount of time that has passed since the last premium audit;
- **Experience Modifier –** This is the range of rate multipliers into which an employer falls based on past claims history; and
- **Manual Classification –** This is the range of manual counts into which an employer falls based on the number of employee manual classifications maintained.

As previously noted, the scorecard, as a whole, was developed to quantitatively identify the likelihood that an employer is paying a misadjusted premium. Each category, and it's corresponding scores shown in **Table 4-4**, is a piece of that broader quantitative identification. While all categories are meaningful, based on the actual distribution of employers within each category, some are more meaningful than others in terms of contributing to higher overall total scores. For example, on a weighted basis, payroll level is the most impactful category with which to total scores having a weighted average employer score of 7.8, while experience modifier is the least impactful category with which to total scores having a 1.5 weighted average employer score. Last audit level, premium level, and manual classifications, in order from most to least impactful, make up the remainder of the categories; weighted average scores for these categories were 6.6, 4.6, and 3.3, respectively.

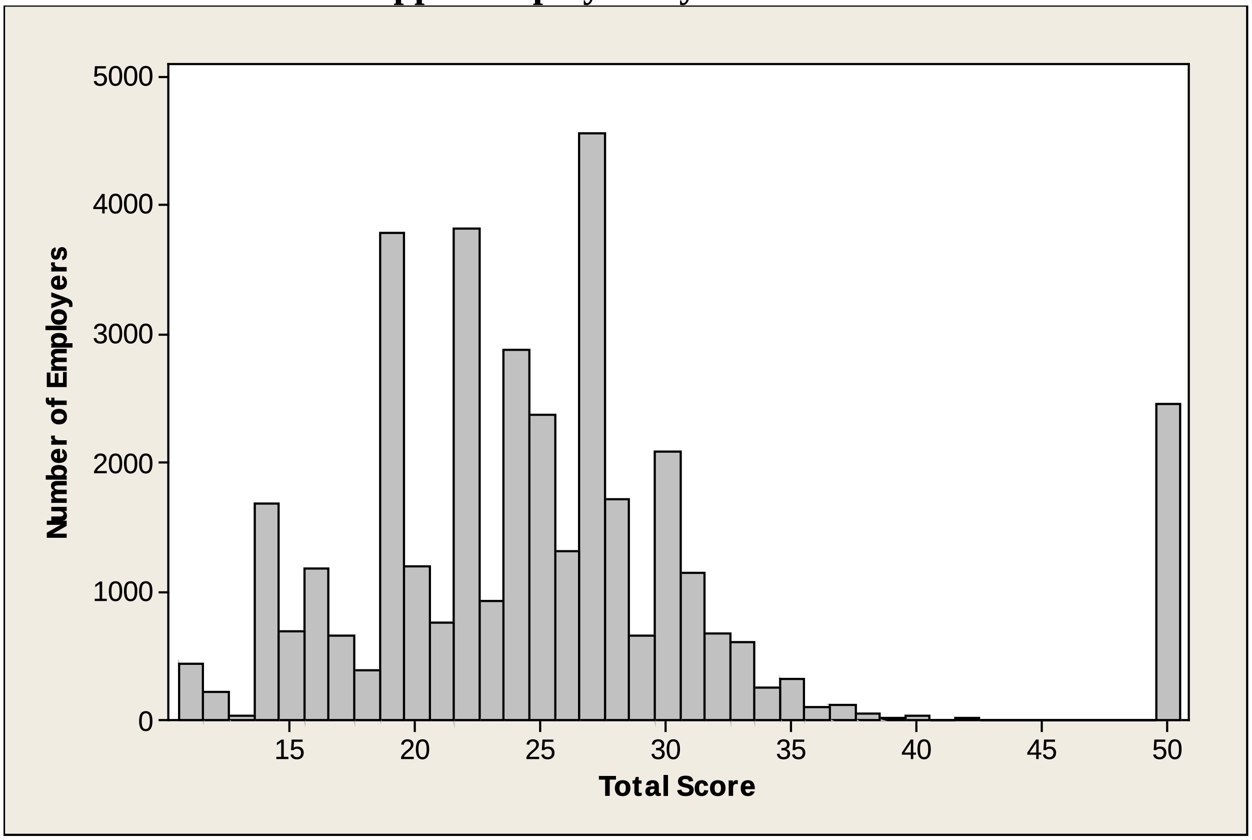
Total Scorecard Scores

As noted, each hopper employer is scored within each category in order to calculate a total employer score. Strictly using the scorecard, as developed for FY 2014-15, results in a total score that ranges from between 11 and 42.

The Department, in recognizing the potential for higher risk of a misadjusted premium among employers that are new policyholders, also scored a flat total of 50. This was applied to all hopper employers that were new policy holders regardless of how they otherwise would have been scored based on the five categories. For FY 2014-15, there were 2,901 hopper employers who were assigned a score of 50.

Chart 4-1 shows the distribution of hopper employers by total score for FY 2014-15. This type of distribution is important to provide context for the amount of hopper employers that are considered to be higher risk, as corresponds to a higher total score.

Chart 4-1: Hopper Employers by Total Score FY 2014-15



Source: OBWC

As shown in **Chart 4-1**, aside from the relatively large number of hopper employers with an assigned score of 50, the peak of the distribution of calculated scores is largely centered between a total score of 19 and 30. This suggests that the Department's scorecard is generally effective at categorizing hopper employers into a bell curve.

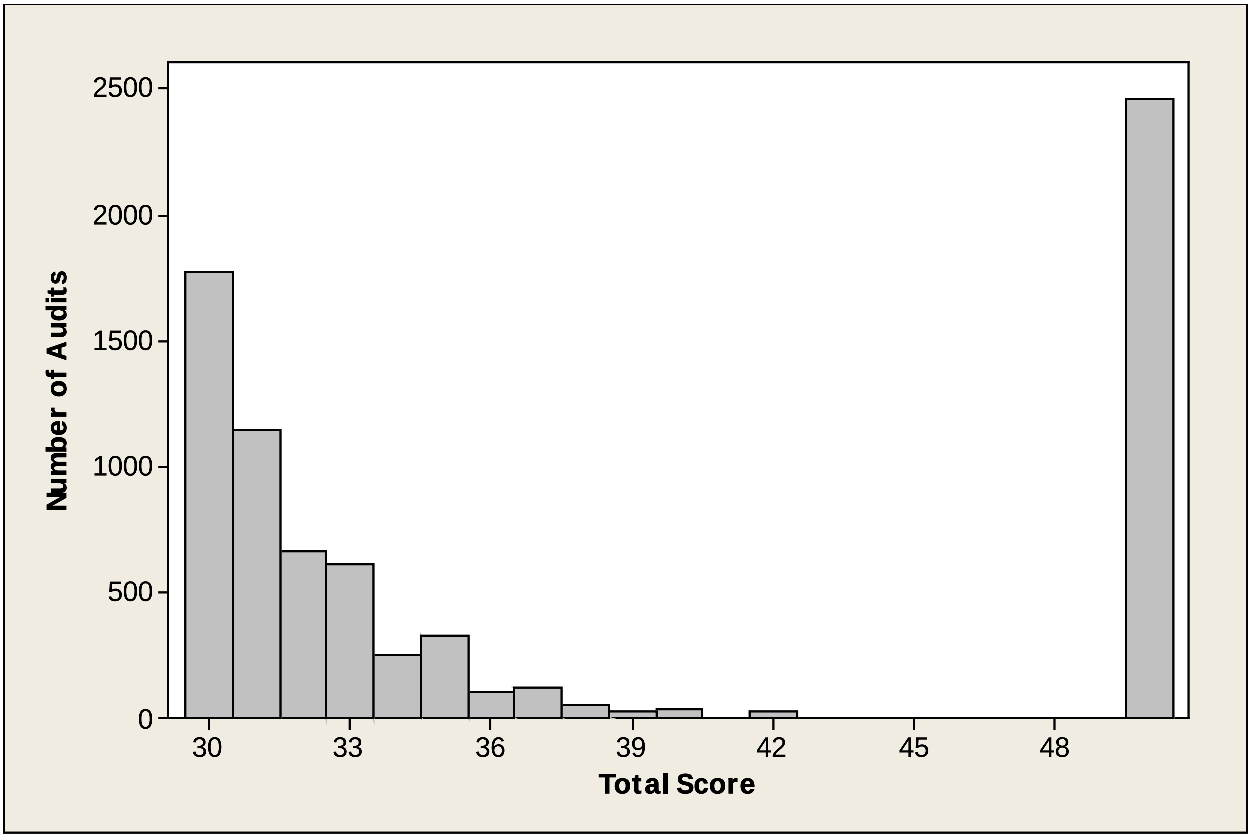
This bell curve of employer scores is theoretically very useful in that the employers with the highest risk of a misadjusted premium will be on the far right side of the distribution, with higher scores, allowing for easy identification and differentiation from the bulk of the employers with generally less risk of a misadjusted premium.

Strict Scorecard Selections Methodology

As previously noted, and shown in **Table 4-4**, employers with higher scores are likely larger and/or more complex from an audit standpoint. As such, it may not be possible or practical for the Department to audit employers starting with the highest score and working in descending order. However, for demonstrative purposes, it is possible to project what the Department's audit coverage would look like if it were to focus all audit staff on the highest-scoring employers first.

Chart 4-2 shows a modeled distribution of FY 2014-15 employer audits based on strictly following the scorecard for audit selections. As noted, this approach is notional only, but does provide context as to the general extent to which the Department could provide audit coverage across the employers with the highest total scores.

Chart 4-2: Modeled Audits Based on Strict Scorecard FY 2014-15



Source: OBWC and OPT analysis

As shown in **Chart 4-2**, if the Department were able to audit the top 7,577 employers based on total score, it may have been able to get complete coverage for all assigned 50 score employers as well as make significant progress in auditing many of the higher overall score employers. It is projected that the Department would have been able to audit all employers with a score of 31 or higher, and a sizeable portion of employers with a score of 30, at which point it would have exhausted its resources. Again weighted average is an indicator of the central tendency of this approach, and provides meaningful context in comparison to the actual audits performed in FY 2014-15. Following the strict scorecard selections methodology, the Department could have theoretically completed 7,577 audits with a weighted average score of 37.8.

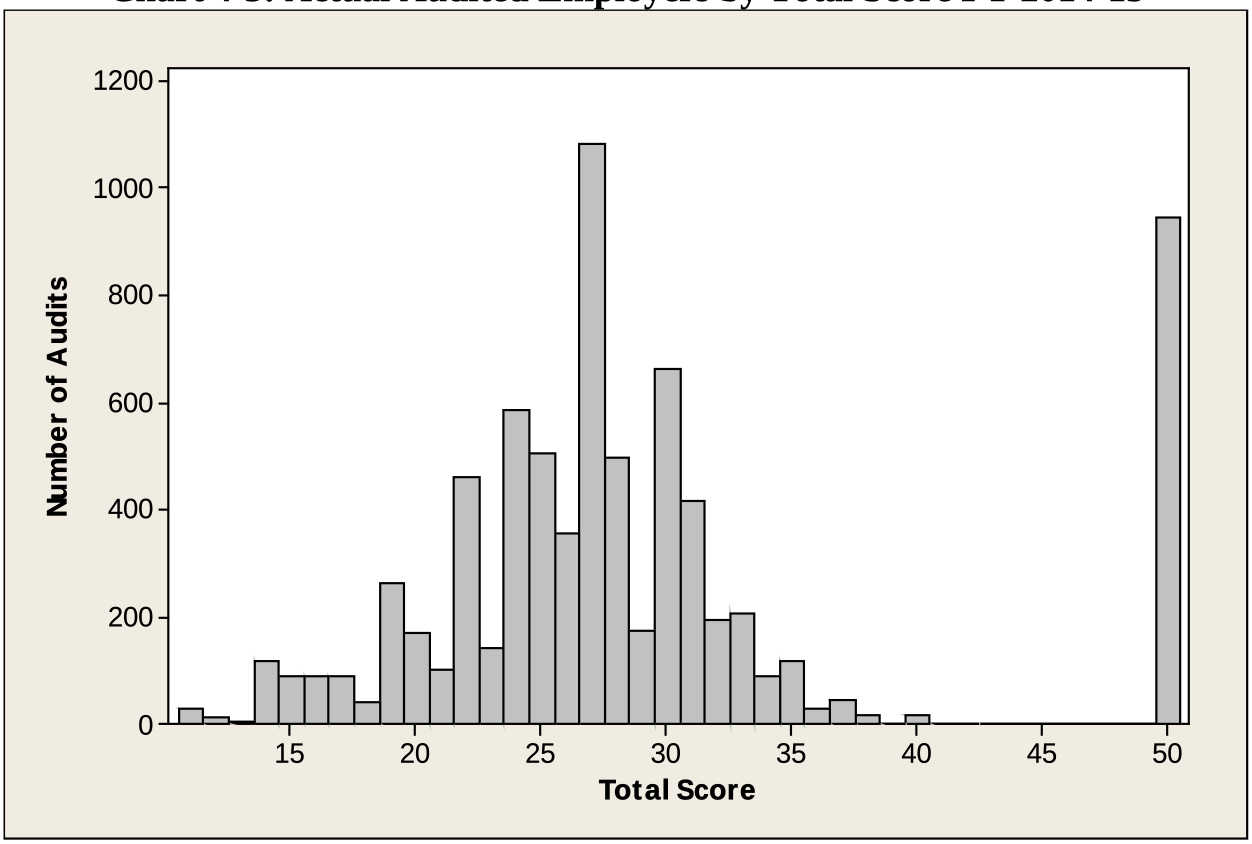
Given that the Department does not currently track the amount of time necessary to complete audits, it is impossible to currently determine whether or not this type of modeled approach would be feasible to implement.

Actual Scorecard Selections Methodology

Although the scorecard is the most obvious and formal methodological factor taken into account by the Department, there are other factors that also influence the decision to select an employer for audit. For example, Department leadership actively seeks to target resources toward those employers with a high risk of a misadjusted premium, while providing adequate coverage across all employers at the same time. Audit coverage is necessary for identifying and correcting misadjusted premiums across a range of employers, but also for discouraging intentional misrepresentation of reported data to the Bureau in order to gain a financial advantage.

Chart 4-3 shows actual audit coverage by employer score for FY 2014-15. This type of analysis is important for understanding how the Department carries out the two-part goal of risk mitigation and coverage.

Chart 4-3: Actual Audited Employers by Total Score FY 2014-15



Source: OBWC

As shown in **Chart 4-3**, the Department's actual audit coverage much more closely matches the general bell curve of all hopper employers shown in **Chart 4-1**. However, the Department's approach is slightly more weighted toward the higher score employers who produce an overall weighted average score of 29.1.

Comparison of Actual Scorecard versus Strict Scorecard Methodologies

A key measure of success in the premium audit function is for the audit to identify an actual misadjusted premium. Based on the amount of data available across each score category, the Department's actual results are able to be projected over the notional strict scorecard methodology. **Table 4-5** shows the Department's actual scorecard methodology and results in terms of audits and audits with findings, as compared to the strict scorecard methodology and projected audits with findings. Again, this type of comparison helps to provide general context to overall operations and may be useful in informing decision making.

Table 4-5: Actual Versus Example Results Comparison FY2014-15

Score Group and Range	Group 1 11 to 18	Group 2 19 to 26	Group 3 27 to 34	Group 4 32 to 42	Group 5 50s Only	Totals
Total Hopper Employers	5,281	17,025	11,690	671	2,460	**37,127**
Actual Scorecard Methodology						
Number of Audits	472	2,588	3,322	227	947	**7,556**
Audits with Findings	130	936	1,509	135	403	**3,113**
% of Audits with Findings	27.5%	36.2%	45.4%	59.5%	42.6%	**41.2%**
Example Strict Scorecard Methodology						
Number of Audits	N/A	N/A	4,425	671	2,460	**7,556**
Audits with Findings	N/A	N/A	2,182	374	1,047	**3,603**
% of Audits with Findings	N/A	N/A	49.3%	55.7%	42.6%	**47.7%**

Source: OBWC and OPT analysis

Note 1: Some information was unable to be categorized by audit region, as this piece of data was missing from a small number of entries for FY 2014-15. A total of 1,522 employers, or 3.9 percent of total hopper employers; 21 audits, or 0.3 percent of total audits; and 14 findings, or 0.4 percent of total findings, were excluded from this analysis.

Note 2: Groups one through four were developed based on an even distribution of actual score categories 11 through 42, resulting in eight scores in each category. Given that scores of 50 were directly assigned by the Department, all 50s were treated as a fifth and final group.

As shown in **Table 4-5**, the actual scorecard methodology currently used by the Department resulted in 3,113 audits with findings, or 41.2 percent of all audits. In contrast, the notional straight scorecard methodology potentially offers a slightly higher number of audits with findings and percent of total audits with findings; 3,603 and 47.7 percent respectively.

As previously noted, given that the Department does not currently track the amount of time necessary to complete audits, it is impossible to currently determine whether or not this type of modeled approach would be feasible to implement. In addition, the Department's current model offers the advantage of both risk mitigation and coverage. The benefits of this binary approach may far outweigh the potential supplementary audits and findings the Department may derive by following the strict scorecard method.

Results by Audit Region

Table 4-6 shows actual hopper employers, audited employers, and audits with findings by audit region for FY 2014-15. This is important to the understanding of how each region executes the audit workload, and may help to demonstrate how slight differences in approach may impact overall results.

Table 4-6: Audit Coverage and Findings by Region FY 2014-15

Audit Region	Employers in Hopper	Number of Audits	% of Hopper Audited	Audits with Findings	% of Audits with Findings
Region 1	10,229	2,264	22.1%	759	33.5%
Region 2	7,084	1,343	19.0%	520	38.7%
Region 3	8,822	1,575	17.9%	817	51.9%
Region 4	5,167	1,257	24.3%	484	38.5%
Region 5	5,825	1,117	19.2%	533	47.7%
Totals	**37,127**	**7,556**	**20.4%**	**3,113**	**41.2%**

Source: OBWC

Note: Some information was unable to be categorized by audit region, as this piece of data was missing from a small number of entries for FY 2014-15. A total of 1,522 employers, or 3.9 percent of total hopper employers; 21 audits, or 0.3 percent of total audits; and 14 findings, or 0.4 percent of total findings, were excluded from this analysis.

As shown in **Table 4-6**, the Department's current audit approach resulted in 3,113 audits with findings, or 41.2 percent of the total number of audits performed. However, there are observable differences among the regions that warrant further examination. For example, Region 4 audited the highest percentage of hopper employers, but on a percentage basis, had the second lowest rate of audits with findings. In contrast, Region 3 audited the lowest percentage of hopper employers, but on a percentage basis, had the highest rate of audits with findings. Overall, the percentage of audits with findings ranges from a high of 51.9 percent in Region 3 to a low of 33.5 percent in Region 1. Region 5, Region 2, and Region 4 make up the middle of the range, with 47.7 percent, 38.7 percent, and 38.5 percent, respectively.[11]

Detailed Analysis by Audit Region

Without additional examination of the detailed work performed, it would be impossible to tell if these data points were the product of meaningful differences in the way the regions are performing their work. However, it does appear that when focused solely on audits resulting in findings, Regions 3 and 5 appear to be more effective than Regions 1, 2, and 4.

Table 4-7 shows the detailed breakdown of hopper employers, number of audits, percent of hopper employers audited, audits with findings, and percent of audits with findings by score group and region for FY 2014-15. This type of analysis is necessary to determine if there are meaningful differences in audit approach by region.

[11] When presented with these differences, Department leadership was unable to identify specific factors contributing to these differences by region.

Table 4-7: Detailed Audit Coverage and Findings by Region FY 2014-15

Score Group 1 (11 to 18)	Employers in Hopper	Number of Audits	% of Hopper Audited	Audits with Findings	% of Audits with Findings
Region 1	1,396	62	4.4%	20	32.3%
Region 2	1,150	180	15.7%	39	21.7%
Region 3	818	22	2.7%	10	45.5%
Region 4	992	179	18.0%	41	22.9%
Region 5	925	29	3.1%	20	69.0%
Total Group 1	**5,281**	**472**	**8.9%**	**130**	**27.5%**
Score Group 2 (19 to 26)					
Region 1	4,472	737	16.5%	230	31.2%
Region 2	3,400	571	16.8%	192	33.6%
Region 3	3,688	359	9.7%	154	42.9%
Region 4	2,386	451	18.9%	155	34.4%
Region 5	3,079	470	15.3%	205	43.6%
Total Group 2	**17,025**	**2,588**	**15.2%**	**936**	**36.2%**
Score Group 3 (27 to 34)					
Region 1	3,509	1,069	30.5%	365	34.1%
Region 2	1,974	315	16.0%	150	47.6%
Region 3	3,469	1,021	29.4%	548	53.7%
Region 4	1,449	484	33.4%	224	46.3%
Region 5	1,289	433	33.6%	222	51.3%
Total Group 3	**11,690**	**3,322**	**28.4%**	**1,509**	**45.4%**
Score Group 4 (35 to 42)					
Region 1	219	96	43.8%	46	47.9%
Region 2	86	12	14.0%	7	58.3%
Region 3	213	67	31.5%	51	76.1%
Region 4	80	21	26.3%	12	57.1%
Region 5	73	31	42.5%	19	61.3%
Total Group 4	**671**	**227**	**33.8%**	**135**	**59.5%**
Score Group 5 (50s Only)					
Region 1	633	300	47.4%	98	32.7%
Region 2	474	265	55.9%	132	49.8%
Region 3	634	106	16.7%	54	50.9%
Region 4	260	122	46.9%	52	42.6%
Region 5	459	154	33.6%	67	43.5%
Total Group 5	**2,460**	**947**	**38.5%**	**403**	**42.6%**

Source: OBWC

Note 1: Some information was unable to be categorized by audit region, as this piece of data was missing from a small number of entries for FY 2014-15. A total of 1,522 employers, or 3.9 percent of total hopper employers; 21 audits, or 0.3 percent of total audits; and 14 findings, or 0.4 percent of total findings, were excluded from this analysis.

Note 2: Groups one through four were developed based on an even distribution of actual score categories 11 through 42, resulting in eight scores in each category. Given that scores of 50 were directly assigned by the Department, all 50s were treated as a fifth and final group.

As shown in **Table 4-7**, each audit score group produced a different percentage of audits with findings for FY 2014-15. The highest percentage of audits with findings was observed in Score Group 4 at 59.5 percent. In contrast, the lowest percentage of audits with findings was observed in Score Group 1 at 27.5 percent. It is observable that the Department's scorecard is generally very effective at assigning higher total scores to employers that have higher risk of a misadjusted premium, as borne out by the increasing percentage of audits with findings as total scores increase. Although Score Group 5 does not necessarily follow this same trend, it is important to remember that the score of 50 was assigned due to the employer being a new policyholder, rather than an aggregation of the categorical scores, as was the case with Score Groups 1 through 4.

Broadly, it is also observable that both Region 3 and Region 5 are unique in that within each of the four traditional score groups, both consistently have the two highest percentages of audits with findings. The only exception is for Score Group 5, where Region 3 is highest and Region 5 is third, outpaced by Region 2 at 49.8 percent. In addition to overall higher rates of audits with findings, Region 3 and Region 5 also provide the least amount of coverage to Score Group 1 and Score Group 2.

Conclusion

The Department has a formal scorecard and methodology that is intended to give employers with a higher risk of a misadjusted premium a higher total score, with the intent of auditing these employers accordingly. Based on actual audits and findings data, it appears that this scorecard methodology is effective in accomplishing this goal. However, it is clear that the Department takes additional factors into account other than just the total score, when determining which scorecard employers to audit. This approach appears to result in a balance between risk mitigation and coverage, and also appears to offer distinct advantages over just following the scorecard, as there is no formal method to ensure that these additional valuable inputs are routinely incorporated into the proces in an objective, data-driven way. Furthermore, when analyzing audit execution by region, there are observable differences that may or may not be carrying out the intended methodology and/or achieving the results that the Department intends. A key factor to unlocking potential optimization of the premium audit function will be for the Department to track the amount of time that it takes to complete each audit. This information is necessary for full evaluation of region-specific approaches as well as further evaluation of potential methodologies.

Recommendation Overview

Recommendation 4.1: OBWC should develop a formal premium audit selection methodology that takes into account both the likelihood of a misadjusted premium as well as the need to provide adequate coverage for all employers. After adoption, the Bureau should ensure that all audit staff are following the methodology and process as intended. A consistent, uniformly applied methodology and process will allow the Bureau to optimize workload and staffing in a manner that best meets its goals.

Financial Implication 4.1: N/A

5. Fleet Management

Section Overview

This section focuses on the fleet operations and management of the Ohio Bureau of Workers' Compensation (OBWC or the Bureau). Information was collected and analysis was performed to determine the sufficiency of fleet data and to develop an understanding of OBWC's Fleet Management operations. Analysis identified opportunities to improve the Bureau's ongoing data collection and use of both the Voyager Fleet Commander System (Voyager) and the Ohio Administrative Knowledge System (OAKS). These improvements will provide leadership with greater visibility into the overall performance of the fleet, and will help to inform fleet management decision making.

Recommendation Overview

Recommendation 5.1: OBWC should develop a performance management framework for the fleet that is designed to inform long-term strategic decision making, with the goal of improving the efficiency and effectiveness of services. At a minimum, the framework should take into account the type, number, and purpose of vehicles as well as individual vehicle expenditures, mileage, and age. Finally, in collecting the data necessary to inform the framework, the Bureau should make greater use of Voyager. This includes reviewing purchasing practices to ensure that Voyager is being used for all vehicle expenses when appropriate and expenditures are properly recorded by employees. In addition, the Bureau should utilize other sources of data, including OAKS, in order to capture all fleet expenditures.

Financial Implication 5.1: N/A

R5.1 Fleet Performance Management Framework

Background

The OBWC Office of Fleet Management (Fleet Management) oversees more than 300 vehicles that are used to support various aspects of the Bureau's statewide operations. Fleet Management is responsible for all fleet operations including the oversight of maintenance as well as vehicle purchasing and salvaging. The Bureau's fleet management authority is delegated from the Ohio Department of Administrative Services (DAS) in accordance with Ohio Revised Code (ORC) § 125.832(G). OBWC fleet operations are managed by a team of three employees, including the Fleet Coordinator Supervisor. During the course of the audit, the Fleet Coordinator Supervisor left the Bureau for another employment opportunity.[12]

Table 5-1 shows OBWC's count and percent distribution of all vehicles by type for fiscal year (FY) 2015-16. Additionally, the cumulative percentage provides context for the concentration of the distribution of vehicles by type. This type of overview demonstrates that, although the Bureau's fleet is relatively small, the majority of units are heavily concentrated within just a few vehicle types.

Table 5-1: Active Fleet Vehicles FY 2015-16

Vehicle Type	Count of Vehicles	% of Total Vehicles	Cumulative %
Passenger Sedans	239	79.1%	79.1%
Passenger Vans	39	12.9%	92.1%
SUVs	11	3.6%	95.7%
Cargo Vans	6	2.0%	97.7%
Box Trucks	3	1.0%	98.7%
1/2 Ton Pickup Trucks	2	0.7%	99.3%
3/4 Ton Pickup Trucks	2	0.7%	100.00%
Total Fleet	**302**	**100.0%**	**N/A**

Source: OBWC and DAS
Note 1: OBWC's count of vehicles is as of FY 2015-16.
Note 2: Shading represents vehicle types that cumulatively account for more than 90.0 percent of the active fleet.

As shown in **Table 5-1**, the two most common vehicle types, which cumulatively account for 92.1 percent of the fleet, include:

- Passenger Sedans – These are used primarily as assigned vehicles for staff traveling over 6,500 miles in a year, and account for 239 vehicles, or 79.1 percent of the fleet; and
- Passenger Vans – These are used primarily as pool vehicles for transporting staff, and account for 39 vehicles, or 12.9 percent of the fleet.

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[12] ORC § 125.832 (I) requires that all delegated fleets have a certified fleet manager. The Fleet Coordinator Supervisor was in the process of obtaining certified fleet manager status. However, the Bureau's draft posting to fill the position required a candidate to either be a certified fleet manager or be able to obtain certified fleet manager status.

The remaining vehicles are assigned to employees with more unique job requirements such as those within the Special Investigations Unit (SIU). As a part of its investigative and undercover work, SIU requires a diverse fleet of vehicles that includes SUVs, vans, and pickup trucks.

Table 5-2 shows the Bureau's fleet size and composition (i.e., assigned versus pool vehicles) and how both have changed from FY 2010-11 to FY 2015-16. Looking at changes in total fleet size and composition over time provides context to better understand how the fleet has been managed in a way that is complimentary to the Bureau's needs over time.

Table 5-2: Fleet Size and Composition FY 2010-11 to FY 2015-16

	FY 2010-11		FY 2015-16		Five-Year Change	
Assigned/Pool	**Vehicles**	**% of Total**	**Vehicles**	**% of Total**	**Difference**	**% Difference**
Assigned	163	50.3%	208	68.9%	45	24.3%
Pool	161	49.7%	94	31.1%	(67)	(52.5%)
Total Fleet	**324**	**100.0%**	**302**	**100.0%**	**(22)**	**(7.0%)**

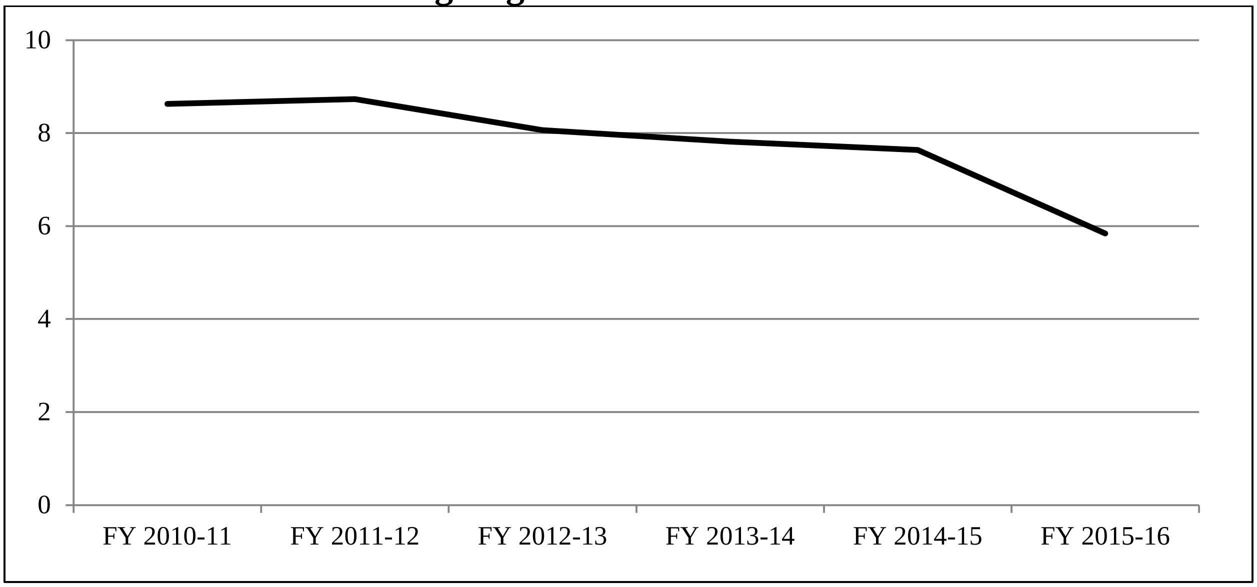
Source: OBWC and DAS

Note: During the course of the audit, the Bureau submitted its FY 2016-17 Fleet Plan to DAS, which includes a total of 308 vehicles, or a net addition of 6 vehicles to the total fleet.

As shown in **Table 5-2**, for FY 2015-16, 68.9 percent of the total fleet vehicles are assigned to employees with responsibilities in the field, while the remaining 31.1 percent are used as pool vehicles. Although the pool vehicles are all considered "pool" for use purposes, they are divided across the Bureau's 11 service office locations; with the majority located at the Columbus Service Office. The number of vehicles designated for pool use has decreased by 67 vehicles or 52.5 percent, while the number of assigned vehicles has increased by 45 vehicles or 24.3 percent. This is a direct result of Fleet Management's focus on "rightsizing" and restructuring the fleet. The total fleet has been reduced by 22 vehicles or 7.0 percent over the last five years.

Chart 5-1 shows the average age of the Bureau's fleet from FY 2010-11 to FY 2015-16.

Chart 5-1: Average Age of Fleet FY 2009-10 to FY 2015-16



Source: OBWC and DAS

As shown in **Chart 5-1**, the average age of the fleet has decreased from over eight years of age to less than six years of age between FY 2010-11 and FY 2015-16. This has been accomplished through rightsizing the fleet, and as a result, salvaging vehicles in greater quantities. In FY 2015-16, Fleet Management salvaged 21 more vehicles than in the prior year. Currently Fleet Management attempts to salvage vehicles at 125,000 miles, with the goal of working towards the DAS guidelines of **six** years and/or **90,000** miles.

Methodology

This section of the performance audit, **Fleet Management**, seeks to assess and evaluate OBWC fleet practices, with a focus on identifying opportunities for improved efficiency and effectiveness. During the planning and scoping phase of this performance audit, OBWC leadership identified this as a possible area where an objective analysis could identify opportunities for improved efficiency. Specifically, OBWC leadership requested an independent evaluation of the current data collection and performance management process for the fleet.

OBWC and DAS provided current and historical baseline data that includes vehicle types, assignments, age, mileage, and salvage history. Sources of data include Ohio Administrative Knowledge System (OAKS), Fleet Plans, Voyager Fleet Commander, and OBWC monthly reports. Data points used were from FY 2010-11 to FY 2014-15, and FY 2015-16 when applicable and/or available. In all cases requiring clarification, OBWC fleet data was supplemented by testimonial or documentary evidence from knowledgeable OBWC Fleet Management staff.

The analysis first discusses the data management obligations. Then the analysis examines the reliability of Fleet Management's internal monthly reporting system compared to Voyager Fleet

Credit Card (Voyager Card) data. The analysis then focuses on non-Voyager Card transactions to identify other forms of payment, such as purchase orders. Finally, the analysis discusses the importance of tracking key performance indicators.

Analysis

Monthly Reports

In accordance with ORC § 125.832 (C), OBWC is required to "provide to the department [DAS] fleet data and other information, including, but not limited to, mileage and costs." To achieve this goal, the Bureau requires its drivers to submit odometer readings, purpose of trips, expenditures, and scanned copies of receipts for all vehicles. This information is collected in individual Excel files for each vehicle for each month. This complete file is referred to as a "monthly report". With a total of 302 vehicles in FY 2015-16, this fleet-wide data is divided across 3,624 individual spreadsheets, which in order to analyze, would require significant manual effort. Furthermore, many of the data points found in monthly reports are hand-entered, increasing the likelihood for data entry errors or omissions.

Table 5-3 shows the reconciliation of monthly reports to Voyager Card expenditures. Fleet purchases, which include fuel, maintenance, and repairs, are primarily made with a Voyager Card. The Voyager Card requires the mileage of the car to be entered at the time of every purchase, whether that is done by the driver at the gas pump or by the merchant. The percent difference between expenditures in the aggregated monthly reports and the aggregated Voyager Card data for calendar year (CY) 2015 demonstrates the potential for error in monthly reports.

Table 5-3: Monthly Report Data Reliability for CY 2015

	Monthly Reports Total	Voyager Reports Total
Expenditures	$527,610.26	$563,900.67
Difference		($36,290.41)
% Difference		6.6%

Source: OBWC and DAS

As shown in **Table 5-3**, the Bureau's monthly reporting system is underreporting expenditures by more than $36,000, or 6.6 percent, when compared to Voyager Card expenditures. This variance is due to missing transactions within the monthly reports. Furthermore, fuel purchases in the monthly reports are not representative of the actual price the Bureau paid for fuel. As a state agency, OBWC is exempt from the Federal Excise Tax (18.4 cents per gallon for gasoline) and this reduction in payment is represented in the Voyager system.

Table 5-4 shows the Bureau's total annual gasoline and diesel fuel expenditures, as recorded in Voyager, for FY 2010-11 to FY 2014-15. Included is the calculated number of gallons of fuel purchased over the same period using the Energy Information Administration's (EIA) average fuel price per gallon. Also included is an estimation of the total federal excise tax, which also broken down by fuel type, based on an average Ohio fuel price per gallon. This shows the potential impact of over-reporting fuel prices by excluding the exemption from the federal excise tax.

Table 5-4: Estimated Federal Excise Tax FY 2010-11 to FY 2014-15

Gasoline Fuel	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
Fuel Spending	$471,920	$513,605	$525,878	$511,439	$384,237
Ohio Average Fuel Price	$2.640	$3.227	$3.264	$3.180	$1.927
Calculated Gallons Purchased	178,758	159,159	161,115	160,830	199,396
Federal Excise Tax	$0.184	$0.184	$0.184	$0.184	$0.184
Total Estimated Gasoline Excise Tax	**$32,891.47**	**$29,285.26**	**$29,645.16**	**$29,592.72**	**$36,688.86**
Diesel Fuel	**FY 2010-11**	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**	**FY 2014-15**
Fuel Spending	$12,967	$19,819	$19,519	$16,185	$11,443
Ohio Average Fuel Price	$2.912	$3.759	$3.721	$3.839	$2.782
Calculated Gallons Purchased	4,453	5,272	5,246	4,216	4,113
Federal Excise Tax	$0.2981	$0.2981	$0.2981	$0.2981	$0.2981
Total Estimated Diesel Excise Tax	**$1,327.44**	**$1,571.58**	**$1,563.83**	**$1,256.79**	**$1,226.09**
Total Estimated Excise Tax	**$34,218.91**	**$30,856.84**	**$31,208.99**	**$30,849.51**	**$37,914.95**

Source: OBWC, DAS, and EIA

As shown in **Table 5-4**, using the monthly reports rather than Voyager is estimated to have resulted in overstating the annual total cost of fuel by as much as $37,914.95 between FY 2010-11 and FY 2014-15. Using the Bureau's monthly reporting system, the Federal Excise Tax would be included as a Bureau expense and could therefore potentially misinform management decision making.

Non-Voyager Card Transactions

During the course of the audit, it was identified that the Bureau's vehicle maintenance expenditures were not fully recorded in Voyager. **Table 5-5** shows OBWC's maintenance expenditures from Voyager as compared to OAKS for FY 2010-11 to FY 2014-15. This demonstrates that the Voyager Card is not used for all transactions.

Table 5-5: OBWC Maintenance Reconciliation FY 2010-11 to FY 2014-15

Year	Voyager	OAKS	% Difference
FY 2010-11	$147,652	$177,684	18.5%
FY 2011-12	$176,486	$204,283	14.6%
FY 2012-13	$167,935	$193,691	14.2%
FY 2013-14	$213,798	$249,510	15.4%
FY 2014-15	$185,863	$249,723	29.3%
Total	**$891,734**	**$1,074,891**	**18.6%**

Source: DAS and OAKS

As shown in **Table 5-5**, 18.6 percent of vehicle maintenance expenses shown in OAKS appear to have occurred without the use of the Voyager Card. Fleet Management explained that this was due to OBWC policies as well as overall purchasing constraints. For example, Voyager Cards cannot currently be used to purchase some brands of tires[13], and OBWC policies state that Voyager Cards cannot be used for any body work or for purchases over $2,500. In these cases, transactions must be made with a purchase order. Purchase orders are also to be used for transactions with vendors not on the approved Voyager vendor list.

Measuring Performance and Managing for Results

A Performance Management Framework for State and Local Government: From Measurement and Reporting to Management and Improving (National Performance Management Advisory Commission, 2010) notes that "performance management has the potential to help governments address the performance challenges they face by focusing organization resources and efforts toward achieving results that will provide the greatest benefit to its stakeholders."[14] This includes making management decisions based upon reliable and relevant data. By continuously monitoring key performance indicators within the organization, management may be able to adjust variable resources while providing services to the public and maximizing potential impact.

To help track purchases, Voyager assigns product descriptions to all transactions. Vendors have control over the description for their services, which can lead to errors in product descriptions. Fleet Management cited an example of a $400 transaction labeled simply as "Car Wash". When such errors arise, DAS has a formal process to correct the descriptions moving forward. However, due to the possibility of errors, Fleet Management has not historically utilized Voyager to inform decision making.

[13] New Goodyear tires could not be purchased with a Voyager card because of how Goodyear billed the State. During the course of the audit, a new contract is being drafted to allow for purchases of new Goodyear tires, as well as many other top brands of tires with Voyager.

[14] The National Performance Management Advisory Commission (NPMAC) includes, but is not limited to, organizations such as the National Association of State Budget Officers, Government Finance Officers Association, National Association of State Auditors, Comptrollers, and Treasurers, and the National Conference of State Legislatures. NPMAC has "developed a conceptual performance management framework to help governments move beyond measuring and reporting those measures to managing performance toward improved results."

By monitoring key performance indicators, including the expenditures and expenditure types for all vehicles, Fleet Management will be able to make more well-informed management decisions to improve the efficiency and effectiveness of fleet functions.

Conclusion

The data captured by the Bureau's internal monthly reporting system is not sufficiently reliable for use in the calculation of performance management metrics, such as vehicle utilization and cycling analyses. The monthly reporting system currently in place lacks easily accessible and transparent data. Furthermore, the onus is placed upon vehicle operators, as well as supervisors, to obtain and report sufficient data. Using Voyager appropriately can help to solve current visibility and control problems. Voyager's customizable reports can provide Fleet Management with increased visibility to help develop a more robust framework for performance metrics and management of its fleet.

Recommendation 5.1: OBWC should develop a performance management framework for the fleet that is designed to inform long-term strategic decision making, with the goal of improving the efficiency and effectiveness of services. At a minimum, the framework should take into account the type, number, and purpose of vehicles as well as individual vehicle expenditures, mileage, and age. Finally, in collecting the data necessary to inform the framework, the Bureau should make greater use of Voyager. This includes reviewing purchasing practices to ensure that Voyager is being used for all vehicle expenses when appropriate and expenditures are properly recorded by employees. In addition, the Bureau should utilize other sources of data, including OAKS, in order to capture all fleet expenditures.

Financial Implication 5.1: N/A

VII. Audit Scope and Objectives Overview

Generally accepted government auditing standards require that a performance audit be planned and performed so as to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. Objectives are what the audit is intended to accomplish and can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria.

AOS and OBWC signed a letter of engagement effective November 23, 2015. The original letter of engagement led to OPT planning and scoping work, in consultation with OBWC, which identified five distinct scope areas including:

- Collections Resolution;
- Provider Enrollment and Certification;
- Facility Utilization;
- Employer Premium Audit; and
- Fleet Management.

Based on the agreed upon scope, OPT developed objectives designed to identify improvements to economy, efficiency, and/or effectiveness. **Table VII-1** shows the objectives assessed in this performance audit and references the corresponding recommendation(s) when applicable.

Table VII-1: Audit Objectives and Recommendations

Objective	Recommendation(s)
Collections Resolution	
What opportunities exist to improve the efficiency and/or effectiveness of the past-due collections resolution process in relation to industry standards and/or leading practices?	**R1 & R1.2**
Provider Enrollment and Certification	
What opportunities exist to improve the efficiency and/or effectiveness of the Provider Enrollment and Certification function in relation to industry standards and/or leading practices?	**R2.1**
Facility Utilization	
What opportunities exist to improve facility space utilization and minimize unnecessary lease costs in relation to industry standards and/or leading practices?	**R3.1, R3.2, R3.3, & R3.4**
Employer Premium Audit	
What opportunities exist to improve the efficiency and/or effectiveness of the Employer Premium Audit function in relation to industry standards and/or leading practices?	**R4.1**
Fleet Management	
What opportunities exist to improve fleet management efficiency and/or effectiveness in relation to industry standards and/or leading practices?	**R5.1**

VIII. Abbreviated Terms and Acronyms

A/R - Accounts Receivable
AGO - Attorney General's Office
AOS - Auditor of State
BOMA - Building Owners and Managers Association
CBA - Certified Bargaining Agreement
CY - Calendar Year
DAS - Ohio Department of Administrative Services
ECU - Employer Compliance Unit
EFT - Employer Fraud Team
EIA - Energy Information Administration
Fleet Management - Office of Fleet Management
FMS - Fraud Management Software
FTEs - Full Time Equivalents
FY - Fiscal Year
GAGAS - Generally Accepted Government Auditing Standards
GSA - United States General Services Administration
IFMA - International Facilities Management Association
IT - Information Technology
MAFIL - Main File Room
NCCI - National Council on Compensation Insurance
NPMAC - The National Performance Management Advisory Commission
OAC - Ohio Administrative Code
OAKS - Ohio Administrative Knowledge System
OBWC or the Bureau - Ohio Bureau of Workers' Compensation
OCOSH - Ohio Center for Occupational Safety and Hygiene
OPT - Ohio Performance Team
ORC - Ohio Revised Code
PEACH - Provider Enrollment and Certification House
PEC - Provider Enrollment and Certification
RSF - Rentable Square Feet
SIU - Special Investigations Unit
The Administrator - The Administrator/Chief Executive Officer of OBWC
Voyager - Voyager Fleet Commander System
Voyager Card - Voyager Fleet Credit Card
WGB - William Green Building

IX. OBWC Response

The letter that follows is OBWC's official response to the performance audit. Throughout the audit process, staff met with Bureau officials to ensure substantial agreement on the factual information presented in the report. When the Bureau disagreed with information contained in the report and provided supporting documentation, revisions were made to the audit report.

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November 21, 2016

David Yost
Auditor of State
88 East Broad St., 5th Floor
Columbus, Ohio 43215

Dear Auditor Yost:

On behalf the Bureau of Workers' Compensation (BWC), I would like to thank you and your staff for completing our recent performance audit. Aaron Shaw and his team were astute and conscientious. I am impressed with their thorough audit and appreciate the recommendations for improvement.

We have reviewed the suggestions to streamline processes and enhance efficiency. As an agency, we are continually looking for opportunities to improve as we work toward our goal of becoming a world class workers' compensation carrier. We look forward to addressing your recommendations as we move closer to achieving that goal.

Again, we appreciate the time and effort you and your staff have spent in improving the agencies of the State of Ohio.

Respectfully,

Sarah D. Morrison
Administrator/CEO

OHIO BUREAU OF WORKERS COMPENSATION
FRANKLIN

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 10, 2017

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