

WORKERS' COMPENSATION BOARD OF DIRECTORS

AUDIT COMMITTEE

**WEDNESDAY, SEPTEMBER 26, 2007, 3:00 PM
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2ND FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215**

Members Present: Kenneth Haffey, Chairman
 William Lhota
 Philip Fulton

CALL TO ORDER

The meeting was called to order by Mr. Haffey at 3:04 PM and the roll call was taken.

MINUTES OF AUGUST 24, 2007

A motion to approve the minutes of the prior month's meeting was made, and seconded. One change was made at the top of page 3 to note that the Committee meeting is to be held the day before the Board meeting. With that change, the minutes were unanimously approved.

NEW BUSINESS / ACTION ITEMS

AUDIT COMMITTEE CHARTER

Mr. Lhota pointed out that the full Board must determine when the Audit Committee meets. In addition, Joe Bell, BWC's Chief of Internal Audit, made additional recommendations to the Audit Committee's draft charter. Mr. Bell stated that the Auditor of State has the responsibility to conduct audits, but may contract with an external auditor to perform that function. When the Auditor of State selects an external auditor, relevant information for the role the auditors will play is contained in the request for proposal. BWC plays a substantial role in drafting the request for proposal for the independent auditor. The Audit Committee members expressed interest in playing an active role in selection of this external auditor. The current auditor has just finished the first year of a five year contract. Changes to the draft charter will be made and sent out through Joe Bell.

RULE-MAKING PROCESS

Tom Sico, BWC Assistant General Counsel, conducted a presentation on the rule making process.

RULE UPDATES

Rule regarding coverage application

Joy Bush, BWC Director of Employer Services, presented on the House Bill 100 coverage application rule. This rule requires employers to provide a minimum amount of information within the application for coverage in order to be given workers' compensation coverage. The purpose of the change is to facilitate establishing appropriate coverage through obtaining accurate information from employers.

A motion was made by Mr. Fulton and seconded by Mr. Lhota to recommend that the Board approve WCBOD Resolution 07-01 relating to OAC Rule 4123-17-13, which controls the making of the initial application for employer coverage. The motion was passed by unanimous vote.

Rule regarding hospital reimbursement rates

Stephanie Ramsey, BWC's Director of Managed Care Services, gave a presentation on the proposed hospital reimbursement rule. Amendments to the hospital reimbursement rule are designed to reflect changes that have been made to the Code of Federal Regulations and the Federal Register. Mr. Fulton moved, and Mr. Lhota seconded that the Audit Committee recommend that the Board approve WCBOD Resolution 07-02 relating to OAC Rule 4123-6-37.1 concerning the payment of hospital in-patient services. The motion was passed by unanimous vote.

DISCUSSION ITEMS

External audit update

Mr. Haffey reported on the external audit. The external audit will be completed Friday September 28, 2007. This is a first year audit for the independent auditor, Schneider Downs. Financial statements and a management letter will be presented to management by the auditor. Mr. Haffey raised the issue as to what should be done with audit reports when they come to the BWC, including MCO audits, with an emphasis placed on process controls. Mr. Lhota raised the issue as to whether or not other third party vendors to BWC are audited. They are audited, according to Tracy Valentino, Interim Chief Financial Officer. These are known as SAS 70 audits. Mr. Haffey emphasized the significance of SAS 70 reports.

DRWF Update

Tracy Valentino provided an update on disabled workers' relief fund (DRWF) issues. Over the years, BWC grappled with the question of whether it should be recording a liability entry for DRWF. Ms. Valentino advised that the answer was yes, but at the time, no entry was made. Ms. Valentino discussed the legislative remedy permitting BWC to enter an asset transaction to correspond with the liability entry. As a consequence, a 1.9 billion dollar net asset entry is reflected in the current audit. This will not impact DRWF assessment amounts.

IG Manual Override Report

James Barnes, BWC General Counsel, discussed the Inspector General Manual Override report. The report is available on the Inspector General's website. The audit period covered in the report is January 2003 through September 30, 2005. The report recommends that internal controls should be implemented, as well as processes for

experience modifier calculations and override policy. The report makes a recommendation that responsibility for making adjustments to claim costs be re-assigned to the Actuarial Department, and that management be prevented from making overrides (only underwriters can make overrides). The report recommends that the modification of rates and payments systems be designed to display all activity, and to develop fixed rules on making rate adjustments, as well as standard controls to prevent rate manipulation by groups. In addition, the report recommends that BWC follow established minimum threshold criteria for awarding safety grants, follow recommendations of internal auditor and actuarial consultant, and give equal consideration to all override requests. BWC has already taken corrective action on many of the recommendations of the Inspector General report. BWC's response to the Inspector General report is due October 19, 2007.

Litigation Updates

James Barnes reported that the Board of Directors will be made aware of noteworthy cases at monthly meetings, which may involve executive session.

Calendar

Joe Bell discussed providing quarterly executive summaries and legislative updates. Two to three items of note will be discussed on a monthly basis, as well as annual reviews.

Internal Control and Documentation Process

The Committee discussed the identification of core processes, the documentation of overview flow charts (clear & transparent), and the implementation of corrective measures. Emphasis was placed on consistency and identification of the key controls.

ADJOURNMENT

A motion was made to adjourn the meeting, and seconded. The meeting adjourned by Mr. Haffey at 4:58 PM.



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BWC Audit Committee Calendar

Fiscal Year 2008

July	August
Internal Audit - Annual Audit Plan for the Fiscal Year	Internal Audit Quarterly Executive Summary Report
September	October
External Audit Status Update	BWC Annual Financial Statement Overview
Annual Review of Audit Committee Charter	Annual Review of the External Audit Report
November	December
Internal Audit Quarterly Executive Summary Report	Annual Disaster Recovery/Business Continuity Plan
	Quarterly Actuarial & Investments Update
	Semi-annual Inspector General Update
January	February
Meeting with Outside Counsel	External Auditor Scope Presentation - FY '08 Audit
BWC Quarterly Litigation Update	Internal Audit Quarterly Executive Summary Report
BWC Quarterly Financial Statement Overview	
March	April
Quarterly Actuarial & Investments Update	BWC Risk Management Strategies
	BWC Quarterly Litigation Update
	BWC Quarterly Financial Statement Overview
May	June
Annual Audit Scope Meeting - Internal Audit Division	Review of BWC Internal Fraud (Whistle Blower) Policy
Internal Audit Quarterly Executive Summary Report	Quarterly Actuarial & Investments Update
Annual Review of the Internal Audit Division Charter	Semi-annual Inspector General Update

OHIO BUREAU OF WORKERS' COMPENSATION

AUDIT COMMITTEE CHARTER DRAFT

Purpose

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

- Oversight of the integrity of financial reporting process.
- Compliance with legal and regulatory requirements.
- Monitor the design and effectiveness of the system of internal control.
- Confirm external auditor's qualifications and independence.
- Review performance of the internal audit function and independent auditors.

Membership

The Committee shall be composed of a minimum of three (3) members, appointed by majority vote of the Board of Directors of the Ohio Bureau of Workers' Compensation. One member must be a certified public accountant. The Chairperson is designated by the Board, based on the recommendation of the Board chair and the Governance Committee.

Meetings

The Audit Committee shall meet at least nine (9) times annually, or as frequently as needed and will provide activity reports to the Board of Directors. The Committee will invite members of management, external auditors, internal auditors and/or others to attend meetings and provide pertinent information, as necessary. Subject to open meeting laws, the Committee will hold executive sessions with external auditors, when deemed appropriate in the performance of their duties. A quorum shall consist of a majority of the Committee members. The Committee will have a staff liaison designated to help it carry out its duties.

Duties and responsibilities

The Audit Committee shall have responsibility for the following:

1. Oversight of the integrity of the financial information reporting process:
 - a. Review with management and the external auditor significant financial reporting issues and judgments made in connection with the preparation of the financial statements.
 - b. Review with management and the external auditor the results of the audit.
2. Developing an oversight process to assess the adequacy and effectiveness of internal controls and provide the mechanisms for periodic assessment of system of internal controls on an ongoing basis.
3. Overseeing the assessment of internal administrative and accounting controls by both the external independent financial statement auditor and internal auditor.
4. Consulting on the appointment and/or removal of the Chief of Internal Audit and have oversight on the work of the Internal Audit Division.

5. Serving as the primary liaison for Bureau of Workers' Compensation Board of Directors and providing a forum for handling all matters related to audits, examinations, investigations or inquiries of the Auditor of State and other appropriate State or Federal agencies.
6. Ensuring the independence of the external auditor and approve all auditing, other attestations services and pre-approve non-audit services performed by the external auditor.
7. After every meeting, report to the Board of Directors of the Bureau of Workers' Compensation on all activities, findings and recommendations of the Committee.
8. Establishing policies and procedures to function effectively.
9. At least once every 10 years, have an independent auditor conduct a fiduciary performance audit of BWC's investment program, policies and procedures. Provide a copy of audit to the Auditor of State.
10. Review all internal audit reports on regular basis.
11. Recommend to the Board an accounting firm to perform the annual audit required under R.C. 4123.47. Recommend an auditing firm for the Board to use when conducting audits under R.C. 4121.125.
12. Retain and oversee consultants, experts, independent counsel, and accountants to advise the Committee on any of its responsibilities or assist in the conduct of an investigation.
13. Seek any information it requires from employees—all of whom are directed to cooperate with the Committee's requests, or the requests of internal or external parties working for the Committee. These parties include, but are not limited to internal auditors, all external auditors, consultants, investigators and any other specialists working for the Committee.
14. Review results of each annual audit and management review; if problems exist, assess appropriate course of action to correct, and develop action plan. Monitor implementation of any action plans created to correct problems noted in annual audit.
15. All Committee actions must be ratified or adopted by the Board of Directors of the Bureau of Workers' Compensation to be effective.
16. Coordinate with the other Board Committees on items of common interest.
17. The Audit Committee Charter will be reviewed on an annual basis.

Audit Committee Charter.doc
Draft 092607
Review & Approved 102507, Ken Haffey, chairperson