

**BWC Board of Directors
Audit Committee**

Thurs., Jan. 24, 2008, 3:00 P.M.

William Green Building
The Neil Schultz Conference Center
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present: Kenneth Haffey, Chair
Philip Fulton
William Lhota

Members Absent: None

Other Board Directors in attendance were Charles Bryan, Jim Matesich, James Hummel, Robert Smith, Alison Falls and Larry Price.

Call to Order

Mr. Haffey called the meeting to order at 3:05 PM and the roll call was taken.

Minutes of Dec. 19, 2007

The minutes were approved on a motion by Mr. Lhota, seconded by Mr. Fulton. It was agreed that minutes should reflect all Board members in attendance.

New Business / Action Items

1. Charter

Donald Berno, Board Liaison, noted two small amendments to the Audit Committee Charter. Paragraph 2 is amended to state that the Chair and Vice-Chair are designated by the Board. Paragraph 3 is amended to combine the language therein into a single sentence, that the Board Chair, if not a member of the Committee, is an ex-officio member, and shall not vote if his/her vote will create a tie.

Mr. Lhota moved to approve the Charter as amended, seconded by Mr. Fulton. The motion was approved by unanimous roll call vote. Mr. Fulton will be recommended to the Board to serve as Vice- Chair of the Audit Committee.

2. Rule Review

a. PERRP Rules

Tom Sico, Assistant General Counsel, and Michael Rea, Industrial Safety Administrator, presented a change to Rule 4167-3-04. The rule is amended to incorporate a cross-reference to new OSHA rules regarding personal protective equipment. This change does not require JCARR or public hearing. Mr. Fulton moved to recommend approval of the proposed changes to the Board of Directors, seconded by Mr. Lhota. The motion was approved by unanimous roll call vote.

Personal Information Rules

Mr. Sico next presented the five-year rule review for Rules 4123-16-01 to 4123-16-03, and 4123-16-05 to 4123-16-13. These rules relate to personal information systems maintained by state agencies. There were no items requiring change. A new provision implemented by H.B. 104 may require an additional rule, but does not affect the existing rules. These rules are filed with JCARR for review but do not require public hearing.

Mr. Sico offered the assistance of Ken Cain, Staff Counsel, Leo Genders, Chief Information Officer, and Tom Stevens, Disaster Recovery Manager, for questions from the Committee. Mr. Haffey inquired as to the process for informing the Committee of personal information usage (Rule 4123-16-05) and security precautions (Rule 4123-16-11). Mr. Sico stated there are record retention and destruction schedules for documents containing personal information, such as claim and risk files. Mr. Gender noted the state is establishing an overall policy in this area.

Mr. Fulton asked if consideration was given to rule changes reflecting that injured worker names and addresses are not public records, as revised by S.B. 7. Mr. Sico indicated this was not done. Mr. Fulton then explained there is a public records exception provided for journalists, which is being corrupted by medical professionals and attorneys creating newsletters, and requesting injured worker personal information as a “journalist”. Mr. Fulton also suggested contacting the lobbyist for the newspaper association to assist in taking corrective action. Mr. Sico stated that the claim file information itself, such as medical records and treatment, is not a public record, and expressed concern that injured workers mistakenly believe medical solicitations are somehow condoned by BWC.

Chief Legal Officer and General Counsel James Barnes advised that BWC has requested an opinion from the Attorney General regarding the definition of “journalist”. He will report back to the Committee after the AG opinion is issued.

Mr. Lhota inquired why no changes were needed to reflect general technological advances over the last five years. Mr. Genders explained that BWC has internally done a great deal of work in the last 12 months to tighten system security, encryption, and sensitive data transmission. Mr. Sico noted he had reviewed the underlying statute, R.C. Chapter 1347, and no changes had been made except for the new provision, R.C. § 1347.12, which does not impact these rules.

Mr. Haffey moved to recommend to the Board of Directors that these rules be filed with JCARR for review, seconded by Mr. Lhota. The motion was approved by unanimous roll call vote.

c. Employer Coverage Renewal Rule

Mr. Sico addressed changes to Rule 4123-19-07 brought about by H.B. 100, permitting BWC to lapse coverage of public employers who do not timely pay premiums. The Rule previously only applied to private employers. Mr. Fulton inquired as to how coverage is treated if the employer eventually pays the premium. Mr. Sico explained that if the employer pays within 59 days or less, coverage can be retroactively reinstated by the Adjudicating Committee upon a showing of good cause. This is a statutory provision. Mr. Fulton questioned whether this should also be in the Rule. Mr. Sico offered to provide the appropriate statute reference prior to the conclusion of the meeting.

Mr. Fulton moved to recommend approval of the proposed changes to the Board of Directors, seconded by Mr. Lhota. The motion was approved by unanimous roll call vote.

Discussion Items

1. New Item – Fiduciary Responsibility

Mr. Lhota distributed materials to Committee members from Fiduciary Counsel F. Ronald O'Keefe regarding the Board's responsibilities under the Caremark decision, in conjunction with the oversight duties of the Inspector General. A discussion draft prepared by Mr. O'Keefe has been provided to counsel for the Inspector General for input, who will work with Mr. O'Keefe to finalize. Any recommended changes will be forwarded to the Governance Committee for incorporation within the Board's Governance Guidelines. In addition, the recommendations of fiduciary counsel may also be incorporated in the Audit Committee Charter, and may result in changes to BWC reporting requirements.

At this point it was determined to move Mr. Barnes' quarterly litigation update report to the end of the meeting.

2. External Audit Comments - Update

Barbara Ingram, Director of Accounting, provided a quarterly update regarding the 16 comments from the FY07 external audit. The written comments and resolution actions previously provided to the Committee were reviewed on an individual basis. Eight have been implemented, and all should be resolved within 12 months except for review of reserve for compensation adjustment expenses, for which the target date is 12/31/08.

In addition, the comment regarding segregation of the Surplus Fund within the State Insurance Fund may require legislative correction. A discussion was held clarifying that this stems from an old statute requiring a segregated surplus fund of \$100,000.00. The statute is outdated, and no penalties have ever been enforced for non-compliance. Mr. Barnes stated a legal analysis is

currently being conducted. Administrator Ryan emphasized the need for legislative responsiveness to change the statute

John Pedrick, Chief Actuarial Officer, clarified the process regarding manual overrides. It was suggested that any such instances be presented to the Committee in an annual report.

3. Top 100 Non-Complying Employers

Ms. Ingram reviewed the history and semi-annual process of identifying and contacting non-complying employers who have estimated premiums of \$10,000.00 or more. Since December 2005, these employers have also been posted on the BWC website. The IT Division identifies coverage changes nightly. Through January 18, 2008, 97 of 117 employers remain on the list. Administrator Ryan stated the effectiveness of this program is being evaluated. Mr. Barnes explained there is also a work group involving all units who deal with this program.

4. Internal Audit Update

Joe Bell, Chief Internal Auditor, reported that the Office of Budget and Management (OBM) is reviewing BWC's internal auditing processes. Mr. Bell serves on an OBM advisory committee that is reviewing all state agencies' internal auditing processes. The OBM advisory committee is currently reviewing RFPs from accounting firms to serve as a consultant for this project.

Mr. Bell next discussed the concept of process mapping. A steering committee is reviewing the top three processes: claims, risk and actuarial rating. The long-term goal is to streamline the processes for more efficiency.

Mr. Bell reviewed staffing evaluation and changes in the Internal Audit Division. There are currently 7 vacancies in the 20 overall positions. Administrator Ryan emphasized the importance of quality in filling these vacancies.

Current IT initiatives discussed are the MIRA II project, avoidance of duplication, and self-assessment monitoring.

5. Other Business

Mr. Sico provided the requested clarification that R.C. § 4123.37 applies to both private and public employers with respect to waiver of premium payment default for a period less than 60 days. Therefore, no additional rule changes are needed.

Mr. Lhota moved for recess to executive session, seconded by Mr. Fulton. The motion was approved by unanimous roll call vote. The Committee recessed to executive session at 4:40 for presentation of pending court litigation by Mr. Barnes.

At 5:40, Mr. Lhota moved to conclude the executive session, seconded by Mr. Fulton. The motion was approved by unanimous roll call vote.

Adjournment

The next Audit Committee meeting is February 28, 2008 at 4:00 PM.

Mr. Haffey moved to adjourn the meeting at 5:40 PM, seconded by Mr. Lhota.

Prepared by Jill Whitworth, BWC Staff Counsel
January 25, 2008