

**BWC Board of Directors
Audit Committee**

DRAFT

Thursday, July 24, 2008 4:00 P.M.
William Green Building
Neil Schultz Conference Center
30 W Spring St, 2nd Floor (Mezzanine)
Columbus, OH 43215

Members Present: Kenneth Haffey, Chair
Philip Fulton
William Lhota
James Harris (arrived at 4:27 PM)
James Matesich

Members Absent: None

Other Directors Present: Larry Price, James Hummel, Alison Falls and Robert Smith

CALL TO ORDER

Mr. Haffey called the meeting to order at 4:02 PM and the roll call was taken.

MINUTES OF JUNE 26, 2008

The minutes were approved without further changes by unanimous roll call vote on a motion by Mr. Matesich, seconded by Mr. Lhota.

NEW BUSINESS / ACTION ITEMS

1. Proposed Rule 4123-6-05: HPP MCO Open Enrollment

Tom Sico, Assistant General Counsel, and Robert Coury, Chief of Medical Services, presented proposed Rule 4123-6-05. This amendment eliminates a post-merger open enrollment period for a Managed Care Organization (MCO) which is purchased by a competing MCO. After inquiry by Mr. Matesich, Mr. Sico reviewed the common sense business regulation checklist, noting constituent participation in developing the rule.

Mr. Coury stated that the open enrollment was a barrier to MCO consolidation and devalued the acquired MCO. This was weighed versus protecting employer choice. The amended rule retains the language in subparagraph (E) that if BWC determines it is in the employer's best interest, the employer may select a new MCO.

Mr. Fulton questioned the lack of process explanation in subparagraph (E). Mr. Coury explained that the process is implicit and employers are familiar with this language. Pete Mihaly, BWC

Legal Counsel, also noted that affected employers receive letters from BWC and the acquiring MCO. Mr. Lhota echoed Mr. Fulton's concerns. Mr. Coury designated by name the various constituent parties which had reviewed and approved the proposed rule, including the MCO League, all participating MCO's, NFIB, Ohio Chamber of Commerce, COSE and the Ohio Manufacturing Association.

After further discussion, the matter was tabled to later in the agenda so that clarifying language could be drafted for approval.

2. Medical Fee Schedules

Robert Coury, Chief of Medical Services, and Judy Brabb, Medical Policy Manager, presented a PowerPoint on proposed 2008 provider fees schedules. The Ohio Hospital Association case mandated that these schedules are subject to the administrative rule process. They will be incorporated in an Appendix to OAC Rule 4123-6-08. The public comment period for these proposed schedules runs through August 15, 2008. A provider forum was held July 22, 2008. After review and comment, the schedules will be presented to the Audit Committee for approval at the August meeting. The guiding principle is to "ensure access to high-quality medical care by establishing an appropriate Benefit plan and Terms of service with competitive fee schedule which, in turn, enhances medical provider network."

Mr. Coury and Ms. Brabb explained the methodology and computation process based upon the Medicare model for paying Current Procedure Terminology (CPT) codes, which make up 85% of BWC spending in this area. BWC research and review, including benchmarking Ohio and other payers, produced a conversion factor (CF) of \$50, as opposed to Medicare's \$35 CF. This proposed figure is applicable to all service classes except surgery, which remains at \$79.10. This is comparable to many other state workers' compensation systems with a state fund, whether those systems are privatized or a monopoly. The overall impact of the fee schedule changes is a 5.1% cost increase, or approximately \$18.4M.

Mr. Fulton noted that payments with respect to physical medicine have decreased 5% since 2003, and encouraged adoption of a \$51 conversion factor. Mr. Coury stated that such input is welcomed, but to date there has been no evidence to suggest a change in the figure is necessary. Mileage reimbursement is being increased from \$.30 per mile to \$.51 per mile. Any additional input received before August 15, 2008, including an upcoming meeting with vocational rehabilitation providers, will be shared with the Committee members and Board in August. Administrator Ryan commended the Medical Services personnel for their work in producing this information and encouraged the Board members to provide input and questions. She emphasized that our figures are not outside the benchmarks, and substantially beyond what Medicare provides.

Mr. Hummel raised a question about private company benchmarking. Ms. Brabb explained that although information was requested from insurers, a valid comparison could not be made because the companies would not release all relevant information. We do know that such insurers also use the Medicare benchmarks.

Further discussion on this issue will occur at the August meeting.

3. BWC Fiscal Year 09 Financial Projections

Tracy Valentino, Chief of Fiscal and Planning, and Ray Mazzotta, Chief Operating Officer, provided further review of the financial projections for FY 09, from July 1, 2008 through June 30, 2009. It was noted BWC's track record for projecting the 2007-2008 budgets was not particularly accurate, so further review was conducted of other state agencies such as Tax and ODJFS, along with economic forecasts, payroll trends, investment information, and cash flow.

The projected statement of operations was also addressed. Payroll and premium projections are flat. BWC has taken a very conservative view of benefits and compensation, with no growth in net assets, and some decrease in cash which is not significant. Some one-time events from prior years, such as payouts based on the Santos and OHA rulings, will not occur or impact the 2009 figures.

Mr. Matesich and Ms. Falls raised issues with respect to moving away from targeted figures, whether targets were too aggressive, and is there an overall problem which must be addressed. Administrator Ryan clarified that page 14 of the Board materials addresses these issues, and that targets may require change. Mr. Matesich asked that future projections be displayed with trend lines.

DISCUSSION ITEMS

1. FY 2010/2011 Proposed Budget

Ms. Valentino explained the biennial budget process for submission to the General Assembly by September 15, 2008 for approval of an appropriation (spending cap). BWC spending has been well below the appropriated amount for FY 2008/2009. This budget is subject to Board approval. An executive summary and line-item breakdown will be reviewed at the August Audit Committee meeting. Ms. Valentino and her staff will also provide OBM and Legislative Services Commission budget analysis reports as available. Ms. Falls suggested that the Board undertake a strategic financial planning process for future budgets.

Mr. Hummel suggested the Directors make an effort to attend the budget hearings. Ms. Valentino advised these will be held approximately March 2009.

2. External Audit Update

Mr. Haffey reported on his meeting with the external auditors from Schneider Downs. The first portion of the audit process is concluding and a meeting with management is scheduled for July 31, 2008. The second part of the audit involves balance sheet testing. Mr. Haffey conveyed that no significant matters have arisen to date, management comments are minimal, and everything is proceeding according to expectations.

3. Further Discussion of Rule 4123-6-05

Mr. Sico presented the following clarifying language to subparagraph (E):

“At the bureau’s discretion or upon the employer’s request, the bureau may reassign an employer from the MCO if the bureau determines that the reassignment is in the best interest of both the employer and the MCO.”

Mr. Matesich moved to recommend approval of the proposed Rule 4123-6-05, as amended, to the Board of Directors, seconded by Mr. Fulton. The motion was approved by unanimous roll call vote.

3. Office of Budget and Management, Internal Audit Update

Joe Bell transitions to the OBM effective August 4, 2008, but will still attend Board and Committee meetings. A Request for Proposal for consultants to help establish the State Internal Audit office has been issued. Mr. Bell met with the State Audit Committee chair. The first committee meeting is tentatively set for September 2008.

4. Litigation Update

There was nothing to report for this agenda item.

Calendar Review

The Committee discussed and agreed to move the October Audit Committee meeting date to October 28, 2008 from 4 PM to 6 PM. Mr. Matesich will be unable to attend.

ADJOURNMENT

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

Mr. Lhota moved to adjourn the meeting at 6:05 PM, seconded by Mr. Fulton.

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