

BWC Board of Directors

AUDIT COMMITTEE

Thursday, November 19, 2009, 4:30 p.m.

William Green Building

30 West Spring Street, 2nd Floor (Mezzanine)

Columbus, Ohio 43215

Members Present: Kenneth Haffey, Chair
Robert Smith, Vice Chair
William Lhota
James Harris
James Matesich

Members Absent: None

Other Directors Present: James Hummel, Thomas Pitts, Alison Falls,
Charles Bryan, David Caldwell

CALL TO ORDER

Mr. Haffey called the meeting to order at 4:35 PM and the roll call was taken.

MINUTES OF OCTOBER 29, 2009

The minutes as amended were approved without changes by unanimous roll call vote on a motion by Mr. Smith, seconded by Mr. Matesich.

REVIEW/APPROVE AGENDA

There were no changes to the Agenda, which was approved by unanimous roll call vote on a motion by Mr. Matesich, seconded by Mr. Harris.

NEW BUSINESS / ACTION ITEMS

1. External Audit Update

Joseph Patrick, Jr. of Schneider Downs discussed four topics related to the external audit: financial statement, yellow book report, management letter and Audit Committee communications. Mr. Haffey noted this conforms to the items in the Audit Committee charter to review audit results and monitor ongoing action plans and internal controls.

Mr. Patrick noted there were no changes since he met with the Committee in September. The external audit report has been accepted by the Auditor of State and the 2009 audit has been closed.

There was one finding discussed with respect to MCO SAS (Statement on Auditing Standards) 70 reviews. Some MCOs (3 of 19) did not receive clean opinions from their own independent auditors. Schneider Downs' concern is that services are not being performed appropriately. This has been an issue for two years, and measures are being taken to improve the situation.

Mr. Smith asked if Schneider Downs believed different procedures should have been employed by the MCO independent auditors. Mr. Patrick replied that the auditor has a fiduciary duty to the client to utilize the appropriate procedures. Tracy Valentino, Chief of Fiscal and Planning, clarified that BWC internally reviews the MCO SAS 70 reports, and felt some testing was inadequate or inadequately documented. BWC then returns the report and requests further documentation. Mr. Haffey noted that BWC provides guidance to the MCOs on what BWC expects from SAS 70 testing.

There are eight (8) comments in the Management Letter. Mr. Patrick explained these are normal issues with any large-scale operation with corresponding documentation flow. None of the items are material and all have been discussed with management. There were a couple minor misstatements uncovered which were discussed with management, but no revisions were necessary.

Mr. Patrick then proceeded to review the communications required under Statement of Auditing Standards 99. All qualitative aspects of accounting policies and practices were appropriate and not changed from last year. BWC has a good process for financial estimates, and they are fairly completed. There were no impediments from BWC staff during the audit. Schneider Downs made two adjustments, but they were not significant enough to require prior year adjustments. There were no disagreements with management. Finally, Schneider Downs has no knowledge of BWC consultations with other accounting firms during this audit.

Mr. Patrick, in summation, stated there were no difficulties with the external audit and no disagreements between the auditors and management.

2. Education Session - Reinsurance

Bruce Hockman of Towers Perrin gave a presentation on the role of reinsurance for BWC. Reinsurance is a form of capital which insures the

risk of an insurer. Because the state fund cannot develop debt, reinsurance would allow BWC to use someone else's capital to support its goals.

There are two types of reinsurance: quota share and excess of loss. Within the excess of loss category, coverage can be provided by claim, by occurrence or by aggregate. While BWC can cover the risk of individual claims, a scenario was presented where a catastrophic event could occur. This is the risk reinsurance is available to cover, above the funds BWC and the federal government can provide. The recommendation is \$250 million for all perils and \$210 million for terrorist protection. A minimum of 15 reinsurers would need to participate to cover this risk.

Towers Perrin has submitted a proposed list of reputable reinsurers. BWC management has given Towers Perrin authority to approach reinsurers to gauge interest and obtain quotes. Information is due back by 11/25/09. The rough estimate of coverage cost is \$9.5 to 11 million, or one-half of 1% of overall premium.

Per a question from Mr. Lhota, it was clarified that any cost above the reinsurance limit would be borne by BWC. Mr. Pitts noted that this is also a means of protecting employers and indicating that the financial condition of BWC is important to Ohio, its employers and its economy. In response to an inquiry from Director Falls, the bids will be submitted in layers. Per a question from Mr. Smith, Ms. Valentino stated the reinsurance cost would appear as an expense on the balance sheet.

A timeline for the reinsurance process was reviewed. Much of the activity will occur within the next three weeks.

Mr. Matesich departed the meeting at 5:27 PM.

3. Motions for Board Consideration

A. For Second Reading

1. Committee Charter

Don Berno, Board Liaison, and Ann Shannon, Legal Counsel, reviewed changes to the Committee Charter.

The following changes were requested:

- Page 3, item 12 will be amended to conform with language on page 15 of the Governance Guidelines, with respect to an annual review and establishing guidelines for the funding ratio and net leverage ratio; and

- Page 3, Item 14, sentence 4 will begin “ The subcommittee” rather than “ Each subcommittee.

Mr. Smith moved that the Audit Committee of the Workers’ Compensation Board of Directors approve its amended Charter and refer it to the Board of Directors for review and approval. The motion was seconded by Mr. Lhota and approved by a 4-0 unanimous roll call vote.

DISCUSSION ITEMS

1. Open Discussion with Internal Auditor

Caren Murdock, Chief of Internal Audit, noted that three (3) internal audits have been finalized and ten (10) other projects are ongoing. These items will be discussed in more detail via the quarterly executive summary at the December meeting. Ms. Murdock expects seven (7) of the projects to be completed prior to the March 2010 meeting.

2. Committee Calendar

Mr. Haffey commented that the quarterly executive summary will be presented at the December meeting, and a disaster recovery update will be presented at the January meeting.

ADJOURNMENT

Mr. Lhota moved to adjourn the meeting at 5:39 PM, seconded by Mr. Smith and approved by a 4-0 unanimous roll call vote.

Prepared by Jill Whitworth, Staff Counsel
November 20, 2009