

BWC BOARD OF DIRECTORS

**AUDIT COMMITTEE**

**THURSDAY, JANUARY 22, 2009, 4:00 P.M.**

**WILLIAM GREEN BUILDING**

30 WEST SPRING STREET, 2<sup>ND</sup> FLOOR (MEZZANINE)  
COLUMBUS, OHIO 43215

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

Members Absent: James Matesich

Other Directors Present: Alison Falls, Thomas Pitts (arrived 4:20), Charles Bryan (arrived 5:16)

**CALL TO ORDER**

Mr. Haffey called the meeting to order at 4:05 PM and the roll call was taken.

**MINUTES OF DECEMBER 17, 2008**

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

**NEW BUSINESS / ACTION ITEMS**

**1. Consultant Report on Lump Sum Settlements**

Tina Kielmeyer, Chief Customer Service Officer, and Ray Mazzotta, Chief Operating Officer, presented an overview of the report prepared by outside consultants Insurance Perspectives + Solutions regarding BWC lump sum settlement procedures. A settlement enhancement team has been formed and held its first meeting today, January 22, 2009 to review all recommendations, set priorities and develop an action plan. Five major objectives have been identified as follows:

- create a guiding principle that claims be settled for the right value at the right time and circumstance;
- establish settlement eligibility guidelines, become more proactive in identifying claims for settlement;
- establish a more disciplined evaluation and documentation process;
- implement rigorous governance and controls, including regular committee review, training and metrics; and
- utilize resources more effectively.

In the first calendar quarter 2009, emphasis will be placed upon CSS training and Medicare set-asides. The second quarter will focus on determining settlement eligibility developing a proactive approach, and outreach to unrepresented claimants. The third quarter will be directed toward overall claim resolution strategy, including structured settlements. Mr. Mazzotta noted the Legal Division will be very involved in the process, but Ms. Kielmeyer has primary responsibility for the overall project.

Several Board members expressed approval of the report. Per a question from Mr. Pitts, Ms. Kielmeyer noted that research indicates similar entities from other jurisdictions all seem to be struggling with these issues. Mr. Pitts requested to be kept apprised of the process and offered assistance if warranted. It was pointed out that the fast-track settlement process has been suspended while these issues are pending. Stakeholder input will also be solicited at a later date when focus turns to external controls.

## **DISCUSSION ITEMS**

### **1. Open Discussion with Internal Auditor**

Caren Murdock, Chief of Internal Audit, advised that there are presently ten outstanding audits. Two or three will be presented to the Committee in February. Five audits are expected to be completed in January, four in February, and the remaining audit in May.

Ms. Murdock discussed training of new staff and presented an informational handout on the qualifications and experience of the internal audit team members. Michael Overmyer, Investment Compliance Program Manager, was introduced. Discussion was had as to staffing levels in view of budget constraints.

## **2. Office of Budget and Management, Office of Internal Audit Update**

Joe Bell, OBM Chief Audit Executive, gave an overview of HB 166 and a historical perspective on the Office of Internal Audit. A vendor has been hired to review overall enterprise-wide risks, infrastructure and software needs. The present focus is on high-risk processes at eight agencies. BWC Board members will be involved in the process.

A state bipartisan audit committee has been created. The chairman has met with Committee Chairman Haffey. Mr. Haffey stated he is confident the Board will be kept apprised on statewide internal audit matters.

Per a question from Mr. Pitts, one area of review is whether internal audit can perform functions which have traditionally been outsourced. Per a question from Ms. Falls, Mr. Bell explained the Auditor of State will remain ultimately responsible for hiring external auditors.

## **3. External Audit Management Letter Comments – Status Update**

Tracy Valentino, Chief of Fiscal and Planning, presented a continuing update as to thirteen comments in the previous two management letters. Only one of these rose to the level of significant deficiency, concerning MCO SAS-70 Type 2 reports. These reports concern controls which are identified and tested, and provide BWC with significant information impacting the financials. Adequacy of testing is now being reviewed. More than “inquiry and observation” must be done.

This is an ongoing process involving more than twenty MCO's and is being implemented through the MCO contract. Financial penalties have been imposed to require that deficiencies be corrected before the MCO can add further employers. Ms. Valentino is very confident that this comment will not appear in the next management letter, although 100% certainty is not possible at this time.

No items were deemed a material weakness. Twelve other matters were items of consideration for improvement. Eight have been resolved, with two more to be resolved by the end of FY09. The remaining matters are pending. One involves the surplus fund. Proposed legislative language changes are being considered as part of the budget bill. The other cannot be presently addressed as needed resources are allocated to other matters.

#### **4. Committee Calendar**

Rule changes have been moved to the Governance Committee. Mr. Haffey discussed reference materials he will be sharing with the directors.

Per request of Mr. Haffey, Barbara Ingram, Director of Accounting, discussed the monthly "Money Talks" articles and videos she presents regarding BWC financial statements. These are developed at a level of understanding for all employees, so there will be less likelihood of miscommunication to constituents.

#### **5. Quarterly Litigation Update (Executive Session)**

A motion was made by Mr. Haffey, seconded by Mr. Smith, to enter Executive Session at 5:16 PM for the quarterly litigation update presentation by James Barnes, Chief Legal Officer. The motion was approved by unanimous roll call vote.

A motion was made by Mr. Haffey, seconded by Mr. Lhota, to return from Executive Session at 5:41 PM. The motion was approved by unanimous roll call vote.

#### **ADJOURNMENT**

The next Audit Committee meeting is February 19, 2009 at 4:00 PM.

Mr. Lhota moved to adjourn the meeting at 5:42 PM, seconded by Mr. Smith. The motion was approved by unanimous roll call vote.

Prepared by Jill Whitworth, Staff Counsel  
January 23, 2009