

BWC BOARD OF DIRECTORS

AUDIT COMMITTEE

THURSDAY, February 19, 2009, 5:00 P.M.

WILLIAM GREEN BUILDING

30 WEST SPRING STREET, 2ND FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

Members Present: Kenneth Haffey, Chair
Robert Smith, Vice Chair
James Harris
William Lhota
James Matesich (arrived 5:08)

Members Absent: None

Other Directors Present: David Caldwell, Thomas Pitts, Larry Price, Alison Falls (arrived 5:07), James Hummel (arrived 5:12)

CALL TO ORDER

Mr. Haffey called the meeting to order at 5:00 PM and the roll call was taken.

MINUTES OF JANUARY 22, 2009

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. Enterprise Report Review

Tracy Valentino, Chief Fiscal & Planning Officer, presented an overview of the Statement of Net Assets. This is a standard required report showing assets (what BWC owns) and liabilities (what BWC owes). Mr. Haffey clarified that this gives the directors the opportunity to fully absorb and understand the figures. Ms. Valentino explained that an accrual method of accounting is used rather than a cash basis method.

Line items were individually reviewed. The largest asset is the BWC investment portfolio, which fluctuates monthly based upon market value. Premium receivables also accrue monthly in arrears. Other accruing receivables include such items as non-compliance costs and estimated premiums. Depending on age, a reserve is booked yearly for receivables which are likely uncollectible. "Other assets" include the William Green building and equipment.

The largest liability is future claim costs. These are reviewed quarterly internally, and at year-end by external audit. Other liabilities include utilities, consultant fees, premium security deposits and the Ohio Building Authority bond payment.

Per a question from Mr. Harris, "other accounts receivable" refers to collections owing for a period of years. Until recently, only the Attorney General's Office could write debt off as uncollectible, which is why the figure is so large. There are 84,000 policies currently in lapsed status. Administrator Marsha Ryan explained the compliance unit is now assisting in addressing these issues.

2. Money Talk

Barb Ingram, Director of Accounting, presented a follow-up to her January 2009 presentation on the BWC "Money Talk" video. This was created with the goal of informing and educating BWC employees with respect to BWC's financial status, operating costs, and impact of each employee's job on the bottom line.

The most recent focus has been on the impact of market volatility. The Committee viewed the current video involving a question and answer session with Chief Investment Officer Bruce Dunn. The next installment will cover reserve changes. Ms. Ingram would welcome suggestions for future topics. Mr. Haffey requested, if possible, an indication of how many times the video is viewed.

DISCUSSION ITEMS

FY09 2nd Quarter Executive Summary

Caren Murdock, Chief of Internal Audit, reviewed several audit items in the Executive Summary. The investment fee payment process audit produced one significant comment, that all fee structures, in particular minimum investment fees, should be discussed with the Investment Committee.

The device and media control audit was to evaluate protection from theft and accidental loss of media and devices which may contain sensitive information. While controls are adequate, several areas of significant weakness were recommended for improvement. These include developing written policy and procedures, regular refresher training, utilizing the State of Ohio IT policy for guidance on how to respond to a loss, and cross-training employees to provide back-up for critical security functions.

The MCO audit #6 focused on internal controls, compliance with the BWC contract and policy, case management, bill and adjustment processing, and resolution of prior audit recommendations. One material comment resulted, involving the issuance of a going-concern opinion by the MCO's auditor. There were also two significant comments with respect to modification of password requirements and system requirements, and preparation of a separate

reconciliation. Ms. Murdock explained the MCO audits are based on risk assessment. The five largest MCO's are reviewed annually.

Ms. Murdock reviewed various charts, noting a correction for the first Internal Audit Division chart; the last column should read "FY09 2nd Qtr". 33% of comments have been outstanding more than 365 days, mainly due to waiting for the recommendations from the Deloitte study, or requiring a long-term IT solution. 67% of all comments, including 71% of material comments, will be addressed in the next six months. The updated audit plan was reviewed.

Audit Division Organizational Chart

Ms. Murdock reviewed a new organizational chart for the Internal Audit Division, including comparison with 2008 levels and years of experience. In her view, auditing is at an adequate staffing level given budgetary constraints.

Strategic Discussion on Changing Role of Government Agency Audit Committees

Mr. Haffey discussed meeting with Ms. Murdock and Don Berno, Board Liaison, regarding improvements to the Audit Committee. Materials from the Association of Government Accountants have been compiled for review. Of particular interest are ten characteristics of an effective, mature audit committee. Mr. Lhota will review material he has compiled for additional information. All input is welcome.

Mr. Haffey emphasized the need for complete orientation and education, committee self-evaluation, transparency, accountability, and credibility with the public. Mr. Smith noted that Enron had a model charter for their Audit Committee, but it failed because there was no culture of compliance.

Committee Calendar Litigation Update (Executive Session)

Due to time constraints, these agenda items were not addressed.

ADJOURNMENT

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

Mr. Haffey moved to adjourn the meeting at 6:12 PM, seconded by Mr. Lhota. The motion was approved by unanimous roll call vote.

Prepared by Jill Whitworth, Staff Counsel February 20, 2009

