BWC Board of Directors

Audit Committee

Thursday, March 19, 2009, 10:00 A.M.
William Green Building
30 West Spring St., 2nd floor (MEZZANINE)
Columbus, Ohio 43215

Members Present:	Mr. Kenneth Haffey, Chair Mr. Robert Smith, Vice Chair Mr. William Lhota Mr. James Harris Mr. James Matesich
Members Absent:	None
Other Directors Present:	Mr. Charles Bryan Mr. David Caldwell Ms. Allison Falls Mr. James Hummel Mr. Thomas Pitts

CALL TO ORDER

Mr. Haffey called the meeting to order at 10:03 AM, and the roll call was taken. All members were present.

MINUTES OF FEBRUARY 19, 2009

Mr. Haffey recommended one change to the minutes of the February 19, 2009. In the last sentence on page 3, he recommended a change from "Mr. Smith noted Enron had a model charter for their Audit Committee, but it failed because there was no culture of compliance" to "Mr. Smith noted Enron had a model charter for their Audit Committee, but it failed because there was not a culture of compliance."

Mr. Matesich moved the minutes be approved, as amended through Mr. Haffey's recommendation, and the motion was seconded by Mr. Lhota. The motion passed by a unanimous roll call vote.

MODIFICATION OF AGENDA

Mr. Haffey moved the Audit Committee's agenda be modified to allow Joe Bell, Office of Budget and Management (OBM) Chief Account Executive, to present the first discussion item on the agenda, OBM, Office of Internal Audit (OIA) Update, prior to the introduction of new business, with the remaining agenda proceeding as previously scheduled. Mr. Smith seconded the motion, and the motion passed by a unanimous roll call vote.

FIRST DISCUSSION ITEM – OBM/OIA Update

Mr. Bell thanked the Audit Committee for allowing him to go first in this session. Appearing with Mr. Bell was James Kennedy from OIA.

Mr. Bell began by notifying the Audit Committee that BWC will be benefitting from federal stimulus activities; in particular, he expected Information Technologies (IT) resources and management to be obtaining more resources.

Mr. Bell notified the Audit Committee that June 22, 2009 is the transition date where BWC's internal audit employees will transfer to OBM/OIA. He also indicated OBM/OIA met with the affected employees as to status and impact from the transition.

Mr. Bell noted the State Audit Committee will meet every quarter. Mr. Bell reported it will be necessary for the Board of Directors to define the relationship between BWC and the State Audit Committee, as well as how to communicate with the committee.
Mr. Kennedy noted he had been working with OIA since August, and he has been dealing with twenty-one different agencies in their oversight by OIA. Part of OIA's function was to identify high risk areas and what skill sets in staff and information technology was needed to address those risks. Historically, BWC has had more financial risks in information technology as opposed to other areas. Mr. Kennedy indicated the process is still ongoing until mid May. In early June, the Statewide Audit Committee will review and comment on plans of all agencies for fiscal year 2010. At that time, Mr. Kennedy said an engagement letter will be sent outlining scopes and costs.

Administrator Marsha Ryan asked if OBM would be able to share their findings. Mr. Bell replied in the affirmative, both enterprise and agency specific reviews will be shared.

Mr. Bell continued, stating OBM/OIA was also developing access controls, but certain user controls were going to have to be agency specific. Mr. Bell was using a six discipline approach, including IT management and IT governance, and the controls will be within *COSO and COBiT* standards.

Mr. Haffey agreed with Mr. Bell's approach to the control issues. Mr. Haffey inquired if heat maps were being used, and Mr. Kennedy replied in the affirmative. Mr. Haffey noted this was a logical step in the process where risks are assessed in red -yellow-green priority scheme.

Mr. Kennedy noted BWC internal audit functions is a mature operation, so the results and recommendations forthcoming may be different than other agencies that have never completed internal audits. Mr. Kennedy agreed with Mr. Bell that federal stimulus money was forthcoming; however, other agencies may receive more funds than BWC.

Mr. Haffey inquired to Mr. Bell regarding his meeting with Ms. Murdock's staff. Mr. Bell stated there was a high-level staff overview of the organization charts. By end of month, Mr. Bell expected more of a draft model, which he will share with management for input. Mr. Bell indicated the importance of management's input, as the model incorporates not just policies and procedures, but tools as well. The model is taking a wider focus, and Mr. Bell anticipates working through trials and becoming as automated as possible. Mr. Bell also plans to share practice aids between agencies and develop one statewide audit plan.

Mr. Haffey commended Mr. Bell for the face-to-face meeting. Given the current uncertainty in the transition, Mr. Haffey appreciated Mr. Bell's efforts. Mr. Haffey noted success begins with everyone being on the same page, and the face-to-face meeting certainly begins that process.

Mr. Bell asked if there were any concerns or items that needed to be updated at the present time. There were none, and Mr. Haffey indicated he would keep Mr. Bell apprised if any questions from the Board of Directors are posed to him.

NEW BUSINESS / ACTION ITEMS

1. **Enterprise Report Review: Cash Flow Statement and Impact of Discount Rate and Balance Sheet**

Ms. Tracy Valentino, Chief of Fiscal & Planning, appeared before the Audit Committee. Ms. Valentino appeared to provide detail in the cash flow statement contained in the Enterprise Report.

Ms. Valentino noted cash flow documents, on a dollar in/dollar out basis, when BWC receives funds and when BWC spends funds, as well as for what purpose. The cash flow statement complies with GASB standards. The calculation takes into consideration exactly when BWC receives dollars, and when BWC spends those dollars.

Operating revenues and expenditures include premiums received by employers and claims costs, respectively. Additional operating expenditures include salaries, rents and utilities.

Ms. Valentino noted the vast bulk of premiums are collected in the months of January/February and July/August. Premiums this past January were higher than expected, but overall less than the previous year. $134 million was collected in January, which is approximately twenty per cent (20%) less than BWC normally collects; however, there was a timing consideration. This year, the due date for premium payments–February 28th—fell on a Saturday; hence any payments held in the lockbox on Friday or which came into BWC through Sunday would not be booked in the cash flow statement until March. To document this accounting abnormality, Ms. Valentino pointed out revenue collection for the first eleven days of March was twenty-five per cent (25%) higher than the year before. In sum, there were fewer days in the business cycle due to premium due date falling on Saturday. This same type of abnormality also occurs when the due date falls on Friday or Sunday, or a leap year. To date, premium collections are down 5.4% from last year, but momentum has been gained since the down figure in January.

Ms. Valentino also noted a smaller increase in operating revenue in April/May periods. This increase was due to the receipt of the second half of the 50/50 payments, as well as the due date for the first half year of public employer taxing districts. Public employer taxing districts have 45% of their premiums due on May 15th, and the remaining 55% is due by December 1st. However, Ms. Valentino noted we have collected most of our public employer premiums in this fiscal year to date.

Ms. Valentino reported other operating revenues considered in the cash flow calculation were overpayment recoupments and subrogation funds, which are in the other receipts category. Other revenues included net of receivables from the Industrial Commission for the use of our buildings and sale of property, plant and equipment. Other expenditures include such items as non-capitalized financing like subsidies made by BWC to the Department of Natural Resources and other monetary transfers from BWC to other state agencies, as well as any debt service. With regard to operating expenditures, the bulk of this figure is claim payments. This figure also includes travel and training for employees, software licensing, and rent.

Ms. Valentino noted cash from investment includes: transfers from BWC's activities in buying and selling securities, investment management fees, and securities redeemed as they mature. This figure is strictly a cash figure.

Mr. Haffey liked the presentation, as it considered projections and year over year comparisons. He noted people are very interested in the financial state of the BWC, especially the investments. He inquired regarding the fact BWC had $91 million more in cash from investments than last year, and what Ms. Valentino's opinion of why there was a change. Ms. Valentino deferred to Mr. Bruce Dunn, Chief Investment Officer. Mr. Dunn believed the current financial crisis impacted this figure, and this crisis led to accelerated redemptions from outstanding investment managers. Another element is the $100 million brings more liquidity to the BWC. Ms. Valentino agreed to meet with Mr. Dunn to do further analysis.

Ms. Valentino next discussed the operating cash flow ratio. This figure is one of the financial performance measures used by her department. The target figure for this ratio BWC uses is 1.18. This target provides a little more cash coming in than is going out. The figure fluctuates quarter to quarter as well as year to year. Ideally, the figure should not below 1.0 at any time, but the overall target is to sustain 1.18 across the entire year, which includes seasonal lower periods. Her division works hard to keep the number over 1.0 because a figure of less than 1.0 means BWC must sell or redeem investments to make payments. Ms. Valentino reported late in the calendar year BWC typically has to redeem approximately $150 million in investments to make payments; however, this past year the figure was much higher, at around $265 million.

Ms. Falls wished to clarify whether or not cash flow encompasses net cash from investment activities. Ms. Valentino reported it did not; the figure was strictly a ratio of operating receipts to operating disbursements.

Mr. Lhota inquired whether or not BWC typically sold investments to cover operating expenditures. Mr. Lhota said it was his understanding BWC did this as a normal practice. Ms. Valentino replied BWC had done so in the past, but the BWC's goal was to minimize the practice as much as possible. In this past year, Ms. Valentino noted BWC swept cash from an investment manager, which was still an investment expense, just a different source of cash. Mr. Smith wanted to know if this method was more efficient than past practices. Ms. Valentino replied the process worked a little better from her department's perspective, but the process may have been cumbersome for the Investment Department. Given the process' start up time, the current investment environment, and overall market conditions, Ms. Valentino suspected this new process was a challenge for the Investment Department.

Presently, Ms. Valentino mentioned BWC has $747 million in cash as of the end of February. These funds must sustain BWC for the next four to five months until the next collection cycle. Ms. Valentino concluded this portion of her presentation by noting cash is what is needed to pay bills, and BWC wishes to avoid using the investment portfolio to pay bills. Her department works with the Investment Department to determine the best way to invest the cash in the next four month downward cycle of collection receipts.

Mr. Bryan asked if BWC's collection of premiums basically ran on a six month cycle, and Ms. Valentino replied in the affirmative. Mr. Bryan also wanted to understand public employers have twelve months to pay their premiums, and Ms. Valentino responded in the affirmative. Mr. Smith noticed new claims filed had been on a decreasing trend, and he inquired if there were any figures considering new claims filed: payroll dollar reported. Ms. Valentino indicated those figures were not available. Ms. Valentino stated such a comparison would be difficult to calculate due to the reporting cycle of premiums. Mr. Haffey noted the significance of the presentation, and all of this information translates directly to BWC's balance sheet.

Ms. Valentino then proceeded to the final portion of her presentation, which concerned the impact of modifying the reserve discount rate. She wanted to provide this information to the Audit Committee, so the directors could be better informed during their discussion at the Board of Directors meeting tomorrow.

Ms. Valentino started by noting the discount rate is presently at 5%, and her discussion considers all things being equal except for changing the discount rate. By increasing the rate, this action implies BWC does not need to collect as much in premium or carry as much reserve in the present because BWC can expect to earn more than 5% in the future on its investments. Likewise, lowering the discount rate indicates BWC will need more money up front, or increased premiums and higher reserves, because BWC is expecting to earn less than 5% over the long term. Essentially there is an inverse relationship between the discount rate and the amount of premiums and reserves needed for future expenses. Mr. Smith verified the investment return on the portfolio was not significant in this discussion, and Ms. Valentino confirmed that statement was true. Mr. Smith confirmed the other piece of the puzzle to the discount rate and reserves was the effect on premiums, and Ms. Valentino confirmed that was also an accurate statement.

Ms. Valentino considered, as an example, the effect of changing the discount rate at the end of February, and how the change would impact the reserves. For each quarter point change, the reserve, which also impacts net assets, would be impacted by $300 million. If the discount rate was reduced by 0.25%, the reserves would go up $300 million. A half point decrease in the discount rate would increase reserves by $600 million. And a full point decrease in the discount rate would increase reserves by $1.3 billion. Ms. Valentino reiterated no recommendation was being made by her or her department in this matter; the point of this presentation was to allow the Board of Directors to make a well informed decision. She did recommend the Board of Directors refer to actuarial and general accounting principles for guidance in their decision making.

Mr. Lhota inquired as to why accrued premiums vary with the discount rate. Ms. Valentino explained, for example, the self insured Disabled Workers Relief Fund and state agencies are on a “pay as you go” billing. Premiums for those accounts are predicated on the reserves. Mr. Lhota asked for further clarification. Ms. Valentino used the state agency employers as an example. Every year, those employers are billed on what their estimated claim payments will be in a given year. BWC has reserved the entire cost of the claim, and at some point in the future, the state agency will have to pay off the entire reserve. If BWC changes the liability of the state agency, by increasing the reserve due to a lower discount rate, BWC will be collecting more from the state agency over time. Mr. Haffey added there were a couple of added layers in the calculation.

Mr. Smith inquired if the state agencies know the reserve breakdown for each entity. Ms. Valentino responded the agencies did have this information. Mr. Lhota responded, for clarification, a decrease in the discount rate will increase reserves and consequently lead a state agency to pay more in premiums. Ms. Valentino replied this statement was correct. Mr. Smith inquired whether or not the effect noted for state agencies would be true for private employers. Ms. Valentino indicated this was a true statement.

Mr. Bryan asked if, for example the discount rate was reduced from 5% to 4.5%, would the change be booked on June 30, 2009 or July 1, 2009. Ms. Valentino noted there would be a change in net assets that would impact financial statements for the year ending June 30, 2009. . Ms. Valentino indicated the charge would be necessary as part of the financial audit process. Mr. Bryan sought clarification that a half point decrease from 5% to 4.5% would increase reserves by $500 million to $600 million. Ms. Valentino noted this statement was correct.

2. Risk Assessment

Ms. Caren Murdock, Chief of Internal Audit introduced Mr. Keith Elliott, Internal Audit Manager, to the Audit Committee. Mr. Elliott has been employed by BWC since 1993 and is a certified public accountant. Mr. Elliott oversees the financial and managed care organization audit groups for BWC. Mr. Elliott then proceeded with a slide show presentation to the Audit Committee on risk analysis processes.

Mr. Elliott began by stating the internal audit risk assessment is performed annually to help ensure that audit resources are devoted to the areas of most risk, which is required by professional standards. Risk assessement is defined as the identification and analysis of relevant risks to the achievement of an entity’s objectives, forming a basis for determining how the risks should be managed.

Mr. Elliott stated there was a four phase process in internal audit risk assessment: planning the risk assessment; conducting the risk assessment; analysis of results; and providing deliverables to agency management.

In the first phase, Mr. Elliott noted there were three steps: internal preplanning; identifying/updating the audit universe; and internal assessment of the risk categories. With regard to the first step, this stage involved gathering agency information, including: pre-planning checklist; prior audits; key statistical information on the agency; key goals/objectives, which should be aligned with agency management; technology/platform issues; and available Statement Auditing Standard (SAS) 70 reports.

Mr. Smith inquired if SAS 70 reports were required for individual investment managers doing business with BWC, especially in light of financial issues involving State Street and JP Morgan of late. Mr. Elliott was not certain.

Mr. Bryan asked for further clarification. Mr. Elliott reported the SAS 70 reports are used in combination with the test work performed by the auditors and the nature of the test work. Mr. Bryan noted most reputable firms use SAS 70 reports. Mr. Elliott reported he believed Cambridge and JP Morgan used the reports, and Mr. Bryan noted that added a level of comfort. Mr. Elliott noted managed care organizations process payments for BWC; they are required to have SAS 70 reports, which include a review of IT controls and password protections, among other things.

Mr. Bryan asked who was responsible for quality control issues regarding an auditor. Mr. Elliott responded the Finance Department is actively involved in managed care organizations and maintaining their expectations, along with consequences, if adequate levels of testing are not met.

Mr. Haffey commented BWC must pay attention to who is and should be doing the audit for our external vendors. Mr. Haffey noted firms do obtain peer reviews from the Ohio Society of CPA's in Dublin, and BWC should be able to obtain a list of firms who do this work that are found credible by their peers.

Ms. Falls noted this discussion goes to identifiable risks. Ms. Falls asked where developing risks, such as in legislation, fit into the discussion. Mr. Elliott replied that developing risks are identified through meetings with management.

In the second phase of conducting the risk assessment, Mr. Elliott noted meetings are held with agency management and stakeholders. Mr. Elliott noted areas of assessment performed with management included: stakeholder concerns; changes in systems, people or processes, either in the past year or going forward; and financial/operational reporting. Mr. Elliott reported Internal Audit held discussions with Call Center areas and areas handling stakeholder complaints to determine if there are trends of increases in complaints, which may indicate the potential need to audit a given process area. Mr. Haffey inquired to what had changed in this model, and Mr. Elliott noted the goal was for BWC to become proactive to addressing complaints instead of being reactive to them now.

In the third phase of conducting the risk assessment, analysis of results, there are two steps: finalizing the risk assessment summary; and identifying sub-audit areas for the planned audit areas. First there must be a finalization of the risk assessment summary, which includes assessing a risk factor on a 1 (low risk) to 5 (high risk) scale. Then, a calculated average risk score for each audit universe category is done, and sorted by score to highlight the highest risk areas. Alternative approaches for risk coverage are considered, and areas to be in the audit plan are then determined. Mr. Elliott noted this procedure allows for the maximum audit coverage while minimizing duplicative efforts. Mr. Haffey remarked this analysis was the qualitative piece: it's necessary to look at the quantitative piece, but auditors also need to examine if all of the steps are needed as the best way to approach the situation in light of everything else being done in an organization. With regard to sub-audit area examples, Mr. Elliott provided an auditable area as claims indemnity payments, with sub-audit areas of temporary total, permanent total disability, or settlements. Mr. Elliott noted each auditable area has numerous sub-auditable areas.

Finally, Mr. Elliott noted the first step in providing deliverables to the agency, the fourth and final phase of risk assessment, was to provide an agency heat map. The heat map provides a graphic representation of the high risk (red), moderate risk (yellow), and low risk (green) areas based on composite scores. The heat map is then discussed with agency management, as well as planned projects for the coming year. Mr. Elliott noted the planned projects need to be discussed as management may know of pending events that may impact the desirability of performing an audit of a given area, or the timing of when an audit should be performed. Finally, the audit plan is finalized and submitted for review and approval.

Mr. Elliott noted this risk assessment process will also be performed at each agency under OIA oversight, and a consolidated internal audit plan will be submitted to the State Audit Committee each June for review and comment. Mr. Elliott reiterated the BWC audit team will become part of OIA on June 22, 2009.

ADDITIONAL DISCUSSION ITEMS

1. Open Discussion with Internal Auditor

Ms. Murdock addressed the Audit Committee in open discussion. Ms. Murdock began by reporting that outstanding comments were, overall, being addressed in a timely manner. These comments are required to be updated by management quarterly as to their disposition. If the outstanding comment is reported as implemented, Ms. Murdock's team validates the report by verifying controls are in operation and working effectively. Once validated, the comment is removed from the outstanding comments list. For those outstanding comments whose resolution dates have passed, Ms. Murdock's team must inquire to the delay in implementation.

Ms. Murdock reported there were seven audits in process: Auto Adjudication; Self Insured Bankrupt Securitization; Fleet Management; Employer Policy Application; Managed Care Organization; IT Security; and Change Management. Four new audits were recently started: Adjudicating Committee; Collections; Employer Refunds/Premium Discount; and Investment Statement Compliance review.

Ms. Murdock reported OBM Human Resources and OBM staff provided her staff a high level overview, including a draft organizational chart and an open forum for her staff to ask questions regarding the transition and consolidation occurring. Ms. Murdock reported her staff was a little anxious, and they realize there is a lot of work to be done without anything completely finalized. Overall OBM did a good job in addressing her staff's concerns.

Mr. Smith inquired if the transition for her employees will be seamless from a time and service perspective. Ms. Toni Brokaw, Chief of Human Resources, answered this question. Ms. Brokaw noted there will be only slight issues with service time with some auditors, but overall, service time will not be affected for most employees. With regard to classifications, Ms. Brokaw reported OBM has its own specific classifications; for example, the BWC's Internal Auditor 2 classification will become an Auditor 2 classification. Ms. Brokaw believed five or six people would see a slight increase in pay grade from this shift, and potentially two people will be frozen in pay because their new classification pay grade will be lower. A few Internal Audit Supervisors are being reclassified as Senior Internal Auditors, which will reduce supervision and management duties. Ms. Murdock noted further meetings are still planned with OBM.

Mr. Kennedy reported electronic work papers are being developed. Mr. Haffey, through his professional experience, commended this process, but the process is a difficult one to undertake. Mr. Kennedy noted two of the three demonstration models have been reviewed.

Ms. Murdock completed her remarks by stating her department was very busy at the present time. OBM wants all outstanding projects completed before consolidating her department into OBM; however, Ms. Murdock stated this will be a difficult task because of the size of the projects currently underway. She also said there were several big projects scheduled to begin in the last quarter of this fiscal year.

2. Lump Sum Settlement Update

Ms. Tina Kielmeyer, Chief of Customer Services, appeared before the Audit Committee to provide an update on the Lump Sum Settlement Enhancement Team. Ms. Kielmeyer was pleased to announce much work had been completed since her January report to the Audit Committee.

Ms. Kielmeyer noted the Lump Sum Settlement process needed to implement several changes as a result of internal audit findings. The proposals from the internal audit were probed, and changes are being implemented in a three phase process.

At this time, Ms. Kielmeyer reported being near the completion of Phase I. Phase I focused on internal controls, internal processes, auditing, and measurement of settlement. Key deliverables included developing a mission, or philosophy in settlements, to wit: BWC was willing to settle the right claim, at the right time, at the right value, and at the right circumstances. A favorability tool was developed to look at different circumstances of settlement, and Ms. Kielmeyer emphasized no one criteria will reject a settlement; several elements need to be considered in each case. Ms. Kielmeyer reported the favorability tool was tested in claims presented to the Executive Settlement Committee, and feedback was provided.

Internal Audit was working on a new online settlement workbook with a dashboard. Ms. Kielmeyer stated nurses would be involved in settlements with consideration of higher medical valuations, and where appropriate, vocational experts. The dashboard feature will be able to reach each discipline, and the transparency and efficiency from this feature should be excellent.

Another deliverable Ms. Kielmeyer reported was new authorization levels in the settlement process. Claims Services Specialists (CSSs) will still have authority up to $10,000. Ms. Kielmeyer noted this level handled most of the settlements, as the average settlement value was $9,300. From $10,001 to $25,000, the settlement attorney and the CSS must concur with the settlement. From $25,001 to $100,000, there will be a convergence of multiple disciplines in the settlement process in each service office. Nurses, attorneys, CSSs, and Team Leaders (TLs) will collaborate on settlement, and the TL will have to sign off on the settlement. Between $100,001 and $200,000, settlements will continue to go to the Executive Settlement Committee, and settlements in excess of $200,000 require Administrator Ryan's approval.

Ms. Kielmeyer reported a settlement roundtable was being developed. The settlement roundtable was looking at qualitative aspects of settlements and adjusting audits. New elements were being added to the compensation audits. The qualitative analysis would consider such issues as whether the lump sum settlement made sense or if the BWC's philosophy in the settlement was met. Ms. Kielmeyer saw the roundtable as bringing valuable feedback to CSSs and TLs, as well as necessary coaching and overall improvement in the process.

Ms. Kielmeyer also said training was scheduled for April 14th, 15th, and 16th, at three locations. All parties in the settlement process would be receiving updated training in these initiatives. All of this work will complete Phase I of this project, which was a labor/management cooperative process, including members from OSCEA/AFSCME and 1199 bargaining units.

Finally, Ms. Kielmeyer noted Phase II of this initiative will involve BWC initiating settlements, as well as developing an independent legal review for unrepresented injured workers. Both injured worker attorneys and third party administrators are looking forward to this phase.

Mr. Pitts asked Ms. Kielmeyer how BWC was doing in Pre-Permanent Total Disability (Pre-PTD) settlements due to slowdowns in obtaining vocational evaluations. Ms. Kielmeyer replied she was working with the Medical Division to develop a Medical Vocational Evaluation Panel and selecting vocational evaluators to join the panel. The evaluators would be sent Pre-PTD settlements for their opinion on probability of PTD.

Mr. Hummel asked Ms. Kielmeyer for clarification of the new authorization limits. Ms. Kielmeyer reiterated the LSS attorneys will have authorization up to $100,000; however, now the CSS and LSS attorney will need to concur on settlements up to $25,000. Additionally, a roundtable of disciplines will be used in the $25,001 - $100,000 range. Mr. Hummel essentially asked if there was another level of authorization, and Ms. Kielmeyer responded in the affirmative.

Mr. Pitts inquired who would be doing the qualitative analysis of the settlement process. Ms. Kielmeyer indicated that matter had not been determined yet. Mr. Pitts inquired if this would be an audit function, and Ms. Kielmeyer replied in the affirmative. Ms. Kielmeyer indicated three different alternatives were being explored: by TLs, by CSSs, or by outsiders.

Mr. Pitts wanted to know if the April training reported by Ms. Kielmeyer was an internal training, or if the training was open to the public. Ms. Kielmeyer stated the training was for internal employees, not external parties, as the training will focus on processes and control measures.

Mr. Harris inquired if the claimant attorney bar had any input on the front end. Ms. Kielmeyer indicated they had not. Ms. Kielmeyer noted the focus of this phase was internal. No injured worker attorneys, third party administrators, or employers were involved. Ms. Kielmeyer indicated this phase was a skill enhancement within BWC. Ms. Kielmeyer did note that in Phase II, which involves initiating settlements proactively, stakeholder input will be obtained.

Mr. Haffey recommended Ms. Kielmeyer return back at the May meeting of the Audit Committee to touch base. Mr. Haffey thought the plan was very robust, with near term and long term initiatives, especially since the consultant had been brought on board. Mr. Haffey commended Ms. Kielmeyer for a great job on this project, and Ms. Kielmeyer replied she will pass on Mr. Haffey's compliment to the employees.

3. Review Best Practices Checklist

Mr. Donald Berno, Board of Directors' Liaison, appeared before the Audit Committee to present an update on how the Audit Committee's charter compared to nationally recognized best practices. Prior to Mr. Berno addressing the Committee, Mr. Haffey noted he provided the Committee with a study from the Institute of Internal Auditors titled "The role of auditing in public sector governance".
Mr. Berno indicated his presentation was a follow-up discussion from last month. He noted several national studies had been provided to the Committee that discussed "best practices" of Audit Committees. Mr. Berno used a table from one of these studies which listed characteristics of effective audit committee, and compared it to the duties and responsibilities as listed in the charter of the Audit Committee.

Mr. Berno noted BWC's Audit Committee charter matched up almost identically with the characteristics as listed. The only difference was the BWC Audit Committee has budgetary responsibilities, and the listed characteristic suggested a "focus on audit issues only". Overall, Mr. Berno reported the research showed the Audit Committee scored very well.

Mr. Lhota thanked Mr. Berno for his presentation, and he found the results interesting. He believed many of the topic areas were liberally construed in the research. Mr. Haffey remarked this comparison went through the Audit Committee's processes with independent objectivity, and it reviewed the charter, mission, goals and objectives of the Audit Committee. Mr. Haffey was pleased to see the Audit Committee scored this well.

Mr. Berno concluded his presentation by referring to audit committee best practices and pointed out this Audit Committee is legislatively mandated and chaired by a Director.

4. Committee Calendar/Litigation Update/Concluding Remarks

Mr. Haffey noted it was not necessary at the meeting to proceed with a litigation update; therefore, the Audit Committee would not enter into Executive Session.

Mr. Haffey mentioned the Ohio Society of Certified Public Accountants' (CPA) March/April issue of their magazine, *Catalyst*, had a favorable article regarding an interview with Administrator Ryan. Mr. Haffey noted he had received numerous favorable comments about the article from many of his contemporaries. He liked the article's focus, adding the article went a long way to shape and form BWC's message to the CPA community.

ADJOURNMENT

Mr. Haffey moved to adjourn the meeting at 11:41 AM, seconded by Mr. Lhota. The meeting adjourned with a unanimous roll call vote.

Prepared by Michael J. Sourek, Staff Counsel
March 24, 2009