

BWC Board of Directors

**AUDIT COMMITTEE**

**Thursday, June 18, 2009, 4:00 p.m.**

**William Green Building**

30 West Spring Street, 2<sup>nd</sup> Floor (Mezzanine)

Columbus, Ohio 43215

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

Members Absent: None

Other Directors Present: David Caldwell, Larry Price, James Hummel,  
Thomas Pitts (arrived at 4:25 PM)

**CALL TO ORDER**

Mr. Haffey called the meeting to order at 4:17 PM and the roll call was taken.

**MINUTES OF MAY 28, 2009**

The minutes were approved by unanimous roll call vote on a motion by Mr. Lhota, seconded by Mr. Smith.

**REVIEW/APPROVE AGENDA**

Mr. Haffey clarified that the first review of financial projections will occur in July. An executive session will be held for a litigation update, after which the meeting will adjourn without further business. The agenda was approved by unanimous roll call vote on a motion by Mr. Smith, seconded by Mr. Lhota.

**NEW BUSINESS / ACTION ITEMS**

**1. FY2010 Audit Plan**

Caren Murdock, Chief of Internal Audit, presented a review of the FY2010 audit plan. Ms. Murdock initially noted that the plan is developed at a point in time and may be modified depending upon newly identified risks. A risk assessment was performed to develop the plan and was based on various risk factors to the organization, interviews with members of management, the BWC Board of Directors, and other stakeholders.

Ms. Murdock discussed both the high level risk assessment and review by focus areas, using the Claims Medical Process as an example. Evaluation is done using scores from 1-5, then an aging score is also applied to determine high-risk areas. The aging factor is length of time since the last audit, with 100% used for an audit within the past year, increasing by 25% to a ceiling of 200% if not audited within the past five years. Per a question from Mr. Matesich, Ms. Murdock clarified that most programs are audited every four years. However, if the length of time since last audit was over 5 years, it would automatically use the 200% aging factor.

Ms. Murdock then reviewed the audit plan chart, indicating when the audits would take place for each program area, a brief overview of the audit, and the estimated hours devoted to each audit. Per an observation from Mr. Harris, she agreed there are many large audit projects in the upcoming fiscal year. Per a question from Mr. Lhota, Ms. Murdock stated the calendar is a best case scenario. If it can be followed, sufficient resources are available to complete all the internal audits in a timely manner. If any unforeseen changes occur, it will have a trickle-down effect and delay completion of subsequent audits.

Per a question from Mr. Smith, Ms. Murdock replied nothing shocking was uncovered in the interview process to develop the audit plan. Mr. Haffey noted guidelines from the Institute of Internal Auditors are used in the planning process, making it much more scientific and consistent with best practices.

## **2. Net Asset Discussion**

Don Berno, Board Liaison, and Tracy Valentino, Chief of Fiscal and Planning, presented further updates to the funding policy, based on feedback provided from Director Falls and others. Per discussion at the May meeting, guidelines are included for both Funding Ratio and Net Leverage Ratio. The funding ratio will not be below 1.0. Ms. Valentino pointed out that state funds tend to have higher net loss ratios and lower funding ratios compared to the private sector. This can be an acceptable result for a public entity. Mr. Smith noted it was important to include this in the discussion. Mr. Matesich suggested changing the word “range” to “guideline” in the third bullet point under “Business Rationale” and “ranges” to “guidelines” in the second bullet point on page 2, for purposes of consistency. Mr. Haffey asked what the next steps would be for establishing the net asset policy. Mr. Berno replied that the Committee Chairs will be available on June 29<sup>th</sup> for a planned further discussion of this issue, which should result in guidelines being presented to the Committee in July.

Ms. Valentino advised that most of the reinsurance intermediary RFP is completed. A candidate has been selected, but no announcement can be made because a contract has not been completed. This should be finalized in July.

## **DISCUSSION ITEMS**

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

Ms. Murdock noted that two IT auditors will be moving to the Office of Budget and Management next week. She and Mr. Berno will be attending a presentation by the OBM Chief Audit Executive, Joe Bell, to the State Audit Committee.

Five audits have been closed out in the last month. This will enable Internal Audit to begin the FY2010 projects on time. A more extensive presentation will be given to the Committee in September.

Mr. Lhota suggested Ms. Murdock review the most recent Inspector General fraud report involving the Department of Administrative Services.

### **2. Committee Calendar**

Mr. Haffey pointed out that the calendar is being filled in advance as items arise. The calendar was reviewed through September.

### **3. Litigation Update, Executive Session**

At 5:06 PM, Mr. Haffey moved to recess to Executive Session for a litigation update, seconded by Mr. Smith and approved by unanimous roll call vote.

At 5:23 pm, Mr. Haffey moved to close the Executive Session, seconded by Mr. Lhota and approved by unanimous roll call vote.

## **ADJOURNMENT**

Mr. Lhota, moved to adjourn the meeting at 5:25 pm, seconded by Mr. Smith and passed by unanimous roll call vote.

Prepared by Jill Whitworth, Staff Counsel  
June 19, 2009