BWC Board of Directors

AUDIT COMMITTEE

Thursday, August 27, 2009 4:00 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 Jim Matesich William Lhota, ex officio
Other Members Present:	Charles Bryan Alison Falls Thomas Pitts
Members Absent:	David Caldwell James Hummel Larry Price
Counsel Present:	None

CALL TO ORDER
Mr. Haffey called the meeting to order at 4:06 pm.

ROLL CALL
Roll call was taken. Mr. Matesich was not present at the roll call.

APPROVE MINUTES OF THE JULY 30, 2009 MEETING
Upon motion of Mr. Lhota, seconded by Mr. Harris, the minutes of the July 30, 2009 meeting were approved as written. Roll call was taken and the motion passed 4-0.

AGENDA
Mr. Haffey mentioned that the meeting would contain an Executive Session that would be held after the Discussion Items were completed. Upon motion of Mr. Lhota, seconded by Mr. Smith, the agenda was approved as written. Roll call was taken and the motion passed 4-0.

NEW BUSINESS/ACTION ITEMS:

INTERNAL AUDIT ANNUAL REPORT

Caren Murdock, Chief of Internal Audit, referred the Committee to the Internal Audit Division Annual Report July 1, 2008-June 30, 2009. The report is incorporated into the minutes by reference. She noted that the Audit Division has issued 156 audit comments and validated management actions supporting the implementation of 94 audit comments. The Audit Division uses internal measurements in order to set annual objectives. The measurements are in the following categories: Effectiveness, Quality, Budget Accountability, Reporting and Human Resources. In order to measure effectiveness, the Audit Division determines the percentage of recommendations that have been accepted by management. During fiscal year 2009, management accepted 97% of the recommendations made by the Audit Division. Quality is tracked based on the number of management requests received, the client satisfaction survey results and quality of the training and education performed to improve employee awareness. Ms. Murdock emphasized that one important goal is to educate the Bureau about risk management issues and to perform new supervisor training. Surveys are used to track customer satisfaction. The feedback surveys are sent to management to be completed anonymously after an audit is completed. Ms. Murdock explained that the survey responses are helpful to determine the strengths and weaknesses of the audit process. The written feedback that the Audit Division has gotten from the surveys has been primarily positive. Ms. Murdock noted that the comments are sent to an independent group that summarizes the comments and then sends them to the Internal Audit Division. Ms. Murdock referred the Committee to the Budget Accountability chart. Payroll costs account for 80% of the total budgeted expenses. In comparing the budget to the actual expenditures, the 2009 fiscal year expenses were $ 40,000 under budget. It was noted that the training budget was reduced by taking advantage of free courses and cost effective courses. The Reporting chart shows the status of the annual audit plan. Not all planned audits were completed. The timeframes on the audit plans may have changed when new risks were identified, unplanned requirements arose or changes to the audit resources occurred. Some of the audits were deferred due to the expected transfer of the OBM (Office of Business Management) or at the request of management. The Safety and Hygiene audit was deferred while awaiting a new superintendent. Page 7 has a list of unplanned audits. Ms. Murdock noted that some of the planned audits were set aside when a higher risk unplanned audit was identified. Ms. Murdock pointed out the experience, degrees, training and certification of the Internal Audit Division. They are required to earn 40 hours of Continuing Professional Education (CPE) credits per year. She explained that those employees who did not get the training last year will be required to attend this year. Mr. Haffey added that accountants must attend 120 hours of continuing education over a three year period to maintain their licenses. Ms. Murdock reviewed the goals for the 2010 fiscal year. Mr. Haffey indicated that he worked with Ms. Murdock to compile a list that summarized the Audit Division's activities, the results of the audits and the goals for the following year. Mr. Harris added that he was impressed with the staff credentials. Mr. Smith asked why there were five different levels of employees. Ms. Murdock responded that the supervisors and managers conduct audits as well. They are also able to do stop and go audits. The levels encourage young people to aspire to the higher, more qualified levels. Mr. Haffey noted that most accounting firms and professional firms would have around seven levels, giving employees the opportunity to move up as they became more proficient. Ms. Murdock emphasized that although the report was not required and this was the first year of the report, it would be created each year in order to allow for benchmark comparisons. Mr. Haffey asked about the current staffing level. Ms. Murdock responded that the unit has 13 auditors on staff who are all well-trained and able to satisfy the high risk programs. Mr. Haffey noted that the private sector would not have as much accreditation and complimented the staff on being highly qualified and credentialed.

FISCAL YEAR 2010 PROJECTIONS

Tracy Valentino, the Chief Fiscal and Planning Officer, directed the Committee's attention to the Fiscal Year 2010 Financial Projections report. The report is incorporated into the minutes by reference. She indicated that the Committee had discussed the 2010 financial projections in the last meeting, but more information had been gathered since that meeting. She noted that the premium and assessment income was primarily affected by the reduction in premium rates. Mr. Matesich arrived during the discussion on this action item. Ms. Valentino noted that in developing the projections, payroll and premium trends were reviewed for employers and an assumption was made that payroll would remain unchanged for private employers. However, payroll for state agencies was reduced to consider the impact of hiring freezes and cost savings days. She also noted that a provision for uncollectible accounts was created based on receivable aging trends, trends with write-offs and specific provisions for specific accounts. In calculating other income, historical patterns were reviewed for penalties and interest on employer accounts as well as expected rental income. In determining the Workers' Compensation benefits and compensation expenses, information collected by the Actuarial Department was used to calculate the reserve patterns as well as information from the most recent actuarial audit. MCO expenses, the approved budget for administrative expenses and payment trends for medical and indemnity were also considered. Ms. Valentino indicated that there was no real change in the balance sheet liability for claims and loss adjustment expenses from 2009 to 2010. It was assumed that the new year of claims would offset the runoff of old claims. Mr. Smith asked how the proposed adjustment in the discount rate would be reflected in the chart. Ms. Valentino responded that the decrease in the discount rate has been reflected in the beginning balance for net assets. The beginning net asset balance for 2010 is different than the fiscal year 2009 net asset balance from last month's Enterprise Report due to the reflection of the anticipated changes from year-end audit adjustments. Mr. Haffey added that the report was looking both forwards and backwards. Ms. Falls asked about the Financial Enterprise report. She noted that the report from the actuarial audit would have used the March 31st data. Ms. Valentino referred the Committee to page 4 of the Financial Enterprise report, indicating that the net assets at the end of June at $2.583 million took into consideration the change in the reserve and the discount rate from the actuarial audit using March 31st data. She indicated that the change was not reflected in the June Enterprise report. Ms. Falls mentioned that the Actuarial Committee meeting discussed using a 6% inflation rate and asked if the same inflation rate was being used in the budget amounts. Ms. Valentino responded in the affirmative. In looking at the amount of expenses, the Administrative budget was reviewed and projected as well as the transfer of funds to the Ohio Department of Natural Resources, the Workers' Compensation Council and the Ohio Inspector General. Ms. Valentino noted the projections for investment income were obtained from the Investment Department. She then discussed the assumptions used to calculate the cash receipts from premiums. She indicated that the amount of the bond payment, estimated at $20 million was also used in projecting the net cash flow. Cash redemptions from investment managers are projected to be higher than last year with an estimate of $213 million. Mr. Smith asked about the length of the bond payment. Ms. Valentino responded that the last payment would be due in 2014 with declining payments totaling an estimated $20 million. Ms. Valentino emphasized that all of the information was used to compute the Bureau's projected insurance ratios. The State Insurance Fund (SIF) net leverage was 6.2.

Mr. Haffey asked for an explanation of how cash flow is calculated using the Statement of Operations. The Projected Statement of Operations is incorporated into the minutes by reference. Ms. Valentino replied that the increase or decrease in net assets is added to the beginning net assets in order to determine the ending net assets. The 2009 fiscal year had an unaudited $47 million decrease in net assets while a $558 million increase in net assets is projected for the 2010 fiscal year, caused by an overall $600 million increase. Ms. Valentino pointed out that the 2009 fiscal year had a negative change in net assets. Mr. Bryan asked what caused the net income gain or loss. Mr. Pitts noted that there were changes in the fair value of the investment portfolio. Ms. Valentino noted that at the end of the year, the books were reconciled; the auditors reviewed the information and made the projections. She assured the Committee that the senior staff and the Administrator have reviewed and agreed with the projections.

Barb Ingram, Director of Accounting, along with Ms. Valentino began to explain income accruals by directing the Committee's attention to the Premium Income Accruals report of August 27, 2009. The report is incorporated into the minutes by reference. The accrual basis of accounting recognizes revenues when they are earned and records expenses when they are incurred. Ms. Valentino explained the Bureau uses GAPP accounting. Ms. Ingram referred the Committee to page 4 of the report, explaining how the Bureau's income is recorded and collected. Mr. Bryan asked how retrospective premiums are calculated. Ms. Ingram responded that an actuarial study is used for projecting these premiums. Ms. Valentino added that reported income also includes rate adjustments, the amount of prior to premium coverage and the impact of credits for discount programs. Ms. Ingram pointed out the revenue accrual example showing projected SIF premiums of $793 million. The monthly income earned is calculated by dividing the full amount of premiums by the six month coverage period. In the example, the coverage period based on the income earned extended from July 1st through December 31st while the reporting and collection of these premiums occurred from January through February of the following year. In the example, income earned was $793 million and premiums reported were $811 million. Mr. Smith inquired if late fees were recorded. Ms. Ingram responded in the affirmative. She indicated that the difference in the coverage period and reporting period amounts allows for an $18 million true up adjustment. The adjustment is made after the premiums are reported. Mr. Bryan asked if the Bureau has deferred acquisition costs as other insurance companies would. Ms. Valentino responded in the negative. She added that the following month's meeting would discuss reserve and liability accrual. Going back to the projections for FY 2010, Mr. Matesich asked how the change in the fair market value of the investment portfolio shown could be reconciled with the amounts shown in the Investment Committee. The amounts reported in the Investment Committee should be in agreement with the amounts reported in the monthly enterprise report and include both realized and unrealized gains and losses. Mr. Smith and Ms. Ingram responded that the realized gains and losses can only be calculated when the market value is determined at the point of sale. The Investment Committee portfolio performance information includes both realized and unrealized gains. Ms. Falls indicated that the $127 million projected change in market value as seen on the Statement of Operations would be a conservative assumption. She added that with a 6% gain, the gains would constitute over $ 1.0 billion. Mr. Smith left the meeting during this discussion because of a prior commitment.

DISCUSSION ITEMS:

OPEN DISCUSSION WITH INTERNAL AUDITOR

Ms. Murdock reiterated the information noted in the earlier report. She added that the audit validation testing had been completed. She also indicated that five audits had been completed and seven projects were in process including the assistance for external financial audit. She emphasized that the Collections audit caused a significant amount of positive changes.

ETHICS 4 BWC

Ms. Murdock noted that one of the completed audits was performed in the Ethics division. She then introduced Bob Coury, Chief Medical Services and Compliance Officer and Matt Gill, Director of Training to present information on the Ethics 4 BWC program. A presentation on the Ethics Program was shown as part of the discussion. The presentation is incorporated into the minutes by reference. Mr. Coury explained that the ethics program was created to act only in the public interest. He added that the spirit to serve the public begins with upper management and must be used as an example to guide the other employees. Marsha Ryan, the Bureau Administrator, noted that sometimes people forget that the Governor has an Executive Order that discusses ethics. She added that sometimes employees don’t follow the rules because they forget that they are public servants and other times, they forget that there is a rule. Mr. Coury indicated that the purpose of the Ethics Program is to update the ethics policies as well as educate employees on the Ohio Law, the Code of Ethics, the nepotism policy, outside employment policy, gift acceptance and return policy, internal fraud policy and the Governor’s Executive Order. He emphasized that the outside employment policy and the gift policy create the most questions. Both vendors and recipients pose questions regarding limits on gifts. Mr. Coury indicated that the Bureau is required to have a Chief Ethics Officer. This officer is responsible for ethics training and for designating a group to provide answers to ethics questions. The Ethics Division has created an Ethics Committee that consists of collaboration among the Chief Ethics Officer, the Legal Department and the Customer Service Department. They in turn have created an Ethics4BWC mailbox that is staffed daily by the Legal Department. The mailbox has received 150 email inquiries in the last year. Matt Gill introduced the ethics website. He noted that the site has had 120 hits per month. He pointed out that the home page has a message from the Administrator outlining the importance of the site. He also indicated that there were links to the Ethics Commission, Frequently Asked Questions, the Inspector General, Law & Policy and Education. He added that the Law & Policy link contains all of the policies and procedures while the Education link has the educational material and the ethics training requirements for the various levels of staff. Mr. Harris asked if the link to the Inspector General goes to the internal or external Inspector General area. Mr. Gill responded that it is a link to the State Inspector General site. Mr. Coury noted that that the site has contact information for the Inspector General and the Ethics Commission. Per the recommendation of a recently completed internal audit, the contact information for the Chief Ethics Officer will be added. Mr. Haffey asked how ethics training is handled at the Bureau. Mr. Gill responded that an interactive training video was created last year. The program included a list of questions that was provided to the facilitators. Mr. Haffey asked if the training was group training. Mr. Gill responded in the affirmative. Mr. Lhota complimented the presentation. He also inquired as to how the employee training was documented. Mr. Gill replied that employees had to enroll in the course through the Learning Management System and had to sign a sheet for attendance. The system tracks attendance. Mr. Coury added that the employees who were required to report had to sign in and were given a code at the end of the course to enter their attendance into the system.

COMMITTEE CALENDAR

Mr. Haffey referred the Committee to the Committee Calendar. The calendar is incorporated into the minutes by reference. It was noted that the previously scheduled Enterprise Report review for the following month's meeting had been moved. The September meeting will contain an external audit update. The purpose of the audit is to ensure quality control and to ensure that expectations were being met.

EXECUTIVE SESSION

LITIGATION UPDATE

Motion was made by Mr. Haffey, seconded by Mr. Lhota to recess for an Executive Session to discuss pending litigation at 5:21 pm. Roll call was taken and the motion passed 4-0.

A motion was made by Mr. Haffey, seconded by Mr. Matesich to return from Executive Session at 5:40 pm. Roll call was taken and the motion passed 4-0.

ADJOURN:

Motion was made by Mr. Lhota, seconded by Mr. Matesich, to adjourn the meeting at 5:42 pm. Roll call was taken and the motion passed 4-0.

Prepared by: Linda Byron, Staff Attorney, Legal Division, September 4, 2009