

BWC Board of Directors

Audit Committee Agenda

William Green Building

Thursday, October 21, 2010

Level 2, Room 3

8:00 a.m. – 9:30 a.m.

Call to Order

Ken Haffey, Committee Chair

Roll Call

Jill Whitworth, Scribe

Approve Minutes of September 23, 2010 meeting

Ken Haffey, Committee Chair

Approve Agenda

Ken Haffey, Committee Chair

New Business/ Action Items

1. Motions for Board Consideration
 - A. For First Reading
 1. Audit Committee Charter Review
Don Berno, Board Liaison
Ann Shannon, Legal Counsel
 2. Internal Audit Annual Accomplishments Report
Caren Murdock, Chief of Internal Audit

Discussion Items*

1. Open Discussion with Internal Auditor
Caren Murdock, Chief of Internal Audit
2. Committee Calendar
Ken Haffey, Committee Chair
3. Quarterly Litigation Update (Executive Session)
James Barnes, Chief Legal Officer and General Counsel

Adjourn

Ken Haffey, Committee Chair

Next Meeting: Thursday, November 18, 2010

*Not all agenda items have material. **Agenda subject to change.

OBWC Board of Directors Audit Committee Charter

Purpose

The Audit Committee has been established to assist the Board of Directors of the Ohio Bureau of Workers' Compensation in fulfilling its fiduciary oversight responsibilities through:

- providing oversight of the integrity of financial reporting process;
- ensuring compliance with legal and regulatory requirements;
- monitoring the design and effectiveness of the system of internal control;
- confirming external auditor's qualifications and independence
- reviewing performance of the internal audit function and independent auditors
- reviewing opportunities and challenges the Board of Directors needs to discuss as they fulfill the statutory requirement to “. . . fix and maintain. . . the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund . . .”.

In order to constitute the will of the Board of Directors, Committee actions must be ratified or adopted by the Board of Directors to become effective.

Membership

The Committee shall be composed of a minimum of five (5) members. One member shall be the member of the Board who is appointed as the certified public accountant. The Board, by majority vote, shall appoint at least four additional members of the Board to serve on the Audit Committee and may appoint additional members, who are not Board members, as the Board determines necessary. Bureau management personnel cannot serve as a committee member.

The Chair and Vice Chair are designated by the Board, based on the recommendation of the Board Chair. If the Board Chair is not a member of the Committee, he/she shall be an ex-officio member. As an ex-officio member, he/she shall not vote if his/her vote will create a tie vote.

The Committee Chair will be responsible for scheduling all meetings of the Committee and providing the Committee with a written agenda for each meeting. In the absence of the Committee Chair, the Committee Vice-Chair will assume the Chair's responsibilities. The Committee will have a staff liaison designated to assist it in carrying out its duties.

Members of the Audit Committee serve at the pleasure of the Board, and the Board, by majority vote, may remove any member except the member of the committee who is the appointed certified public accountant member of the Board.

Meetings

The Committee shall meet at least nine (9) times annually. The Committee chair will provide a meeting report at the next subsequent Board meeting. The Board grants the Committee authority to have additional meetings. Additional meetings may be requested by the Committee Chair, 2 or more members of the Committee, or the Chair of the Board.

A quorum shall consist of a majority of Committee members. Committee meetings will be conducted according to Robert's Rules of Order. All Directors are encouraged to attend the Committee meetings.

The Committee will invite members of management, external auditors, internal auditors and/or others to attend meetings and provide pertinent information as necessary.

Minutes for all meetings of the Committee will be prepared to document all actions of the Committee in the discharge of its responsibilities.

Duties and responsibilities

1. The Audit Committee shall be responsible for the following statutory requirements:

- Recommend to the Board an accounting firm to perform the annual audit required under RC 4123.47. (RC 4121.129 (A)(1))
- Recommend an auditing firm for the Board to use when conducting audits under RC 4121.125. (RC 4121.129 (A)(2))
- Review results of each annual audit and management review; if problems exist, assess appropriate course of action to correct, and develop action plan. (RC 4121.129 (A)(3))
- Monitor implementation of any action plans created to correct problems noted in each annual audit. (RC 4121.129 (A)(4))
- Review management's biennial appropriation requests and recommend approval to the Board. (RC 4121.121 (B)(10)).
- Review and recommend to the Board the proposed annual fiscal year Administrative Cost budget prepared by management. Also, advise the Board of any adjustments made to the proposed budget. (RC 4121.121 (B)(10)).

- Review all internal audit reports on a regular basis. (RC 4121.129(A)(5))
 - At least once every 10 years, have an independent auditor conduct a fiduciary performance audit of BWC's investment program, policies and procedures. Provide a copy of audit to the Auditor of State. (RC 4121.125(I))
 - Provide input to the Board when the Administrator seeks the advice and consent of the Board on the appointment and/or removal of the Chief of Internal Audit. (RC 4121.125 (J))
2. Oversight of the integrity of the financial information reporting process:
 - a. Review with management and the external auditor significant financial reporting issues and judgments made in connection with the preparation of the financial statements.
 - b. Review with management and the external auditor the results of the audit.
 3. Coordinate with other Board committees on issues of common interest, including but not limited to an annual discussion of audit issues which would impact the Board's statutory requirement to "... fix and maintain the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund ..."
 - ~~3-4.~~ Serve as the primary liaison for Bureau of Workers' Compensation Board of Directors and providing a forum for handling all matters related to audits, examinations, investigations or inquiries of the Auditor of State and other appropriate State or Federal agencies.
 - 4-5. Develop an oversight process to assess the adequacy and effectiveness of internal controls and provide the mechanisms for periodic assessment of system of internal controls on an ongoing basis.
 - ~~5-6.~~ Oversee the assessment of internal administrative and accounting controls by both the external independent financial statement auditor and internal auditor.
 - ~~6-7.~~ Ensure the independence of the external auditor and approve all auditing, other attestations services and pre-approve non-audit services performed by the external auditor.
 - ~~7-8.~~ Review the internal financial statements upon the request of a committee member or BWC staff.
 - ~~8-9.~~ Receive and review reports from management regarding the status of appropriations bills.
 - ~~9-10.~~ At least annually, meet with General Counsel and Chief of Internal Audit to review BWC Code of Ethics to ensure that it is adequate and up-to-date. Report on review and recommended changes, if necessary, to the Board.
 - ~~10-11.~~ Retain and oversee consultants, experts, independent counsel, and accountants to advise the Committee on any of its responsibilities.
 - ~~11-12.~~ Seek any information it requires from employees—all of whom are directed to cooperate with the Committee's requests, or the requests of internal or external parties working for the Committee. These parties include, but are not limited to internal auditors, all external auditors,

consultants, investigators and any other specialists working for the Committee.

12.13. The Audit Committee is responsible for strategic financial policies for assuring the appropriate legal-level of net assets for the appropriate BWC funds, including an annual review of the funding ratio and the net leverage ratio pursuant to BWC's Net Asset Policy. The Audit Committee shall also take the lead in the process for establishing the discount rate for reserves.

13.14. At least annually, review the Audit Committee charter and submit any proposed changes to the Governance Committee and to the Board for approval.

14.15. The Committee by majority vote may create a subcommittee consisting of one or more Directors on the Committee. In consultation with the chair, other board members may be appointed to the subcommittee as appropriate. The subcommittee shall have a specific purpose. The subcommittee shall keep minutes of its meetings. The subcommittee shall report to the Board of Directors through the Committee. The Committee by majority vote may dissolve the subcommittee at any time.

15.16. Perform such other duties required by law or otherwise as are necessary or appropriate to further the Committee's purposes, or as the Board may from time to time assign to the Committee.

Audit Committee Charter.doc
Draft 092607
Review & Approved 112107, Ken Haffey, Chair
Revised 012408
Revised 012508
Revised 092408
Annual Review and Revision 112108
Annual Review and Revision 112009

The State of Ohio Bureau of Workers' Compensation

Internal Audit Division
Annual Report
July 1, 2009 – June 30, 2010

Caren Murdock, CIA, CPA, CISA
Chief of Internal Audit

Message from the Chief of Internal Audit

October 21, 2010

To Chairman Haffey and Members of the BWC Audit Committee,

It is the policy of the Ohio Bureau of Workers' Compensation (BWC) to provide and support an Internal Audit Division as an independent appraisal and consultation function. The Division supplies BWC Management and the Audit Committee of the Workers' Compensation Board of Directors with objective evaluations, appraisals, and recommendations concerning the risk management, control and governance activities reviewed. The Division also provides an independent assessment of the performance of programs, activities and functions.

All audit activities are governed by Institute of Internal Auditors' *International Professional Practices Framework (Standards)* and provide information to improve accountability and facilitate decision-making by parties with the responsibility to oversee or initiate corrective action. The Chief of Internal Audit reports directly to the Audit Committee with a dotted line to the Administrator.

Significant accomplishments for FY 2010 included:

- ❖ Issued 101 audit recommendations/comments and 56 consulting recommendations;
- ❖ Validated management actions supporting the implementation of 67 audit comments;
- ❖ Achieved a 100% acceptance rate for findings issued;
- ❖ Averaged a 96% satisfaction rating from client satisfaction surveys received;
- ❖ Performed annual organizational risk assessment process and audit plan; and
- ❖ Acted as an objective consultant for staff and sectional management to address issues, concerns, and challenges.

The Internal Audit Division Annual Report contains a listing of internal measurements in the following categories:



Measurements are useful in setting annual objectives, reporting progress to the Audit Committee, and effectively performing the tasks at hand. Following are some of the significant measurements tracked by the Internal Audit Division during the fiscal year 2010.

Sincerely,

Caren Murdock
Chief of Internal Audit

Internal Audit Division Mission Statement:

Our mission is to provide an independent assessment of programs, processes and internal controls, and provide value added recommendations that result in operational efficiencies, strengthened internal controls and reduced costs.

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One measure of effectiveness is the number of audit findings issued and the percentage of recommendations accepted by management. The IA division's high percentage of findings accepted (**100%**) indicates good communication during the engagement and client satisfaction with the auditors' work. Quantifying direct dollar savings is difficult since it is dependent upon management's implementation. However, our audit findings included significant improvements to organizational processes which will result in long-term cost reductions. A summary of audit and review findings is as follows:

Audit	Recommendations	# Accepted	% Accepted	Minor Comments
Collections Audit*	4	4	100%	7
Death Benefits Audit	7	7	100%	3
Employer Rate Adjustment Audit	7	7	100%	0
Employer WCIS Credit Transactions Audit	12	12	100%	0
Ethics Audit*	0	0	NA	3
Fixed Asset	8	8	100%	1
Investment Accounting Audit	0	0	NA	4
Investments Personal Trading Policy	1	1	100%	3
MCO Audit #8	6	6	100%	1
Premium Audit	8	8	100%	6
Safety and Hygiene Audit	8	8	100%	4
Self Insured Underwriting Unit Audit	8	8	100%	0
Audit Recommendation Sub Total	69	69	100%	32
Minor Comments Sub Total	32			
Consulting Projects	Recommendations			
Coal Mine Safety Program Consulting Engagement	4			
Coal Workers' Pneumoconiosis/Marine Fund Claims	13			
Drug Utilization Review	10			
Employer Complaint and Adjudicating Committee Process	10			
Outside Investment Manager (OIM) Background Check Process	3			
Self Insured Audit Process	14			
Warrant Printing Consulting Project	2			
Consulting Sub Total	56			
Total Recommendations	157			

*FY2009 Audit Plan projects completed during FY2010.

NOTE: Some findings are long-term in nature. As such, if the client is agreeable to the comment's intent and has begun to take corrective action to remedy the situation, we consider the finding to be accepted. As a result of our recommendations, the Bureau has seen changes and improvements made in virtually every section that we have reviewed. Over the years, managers and staff at all levels have expressed their appreciation for our assistance in improving their operations.

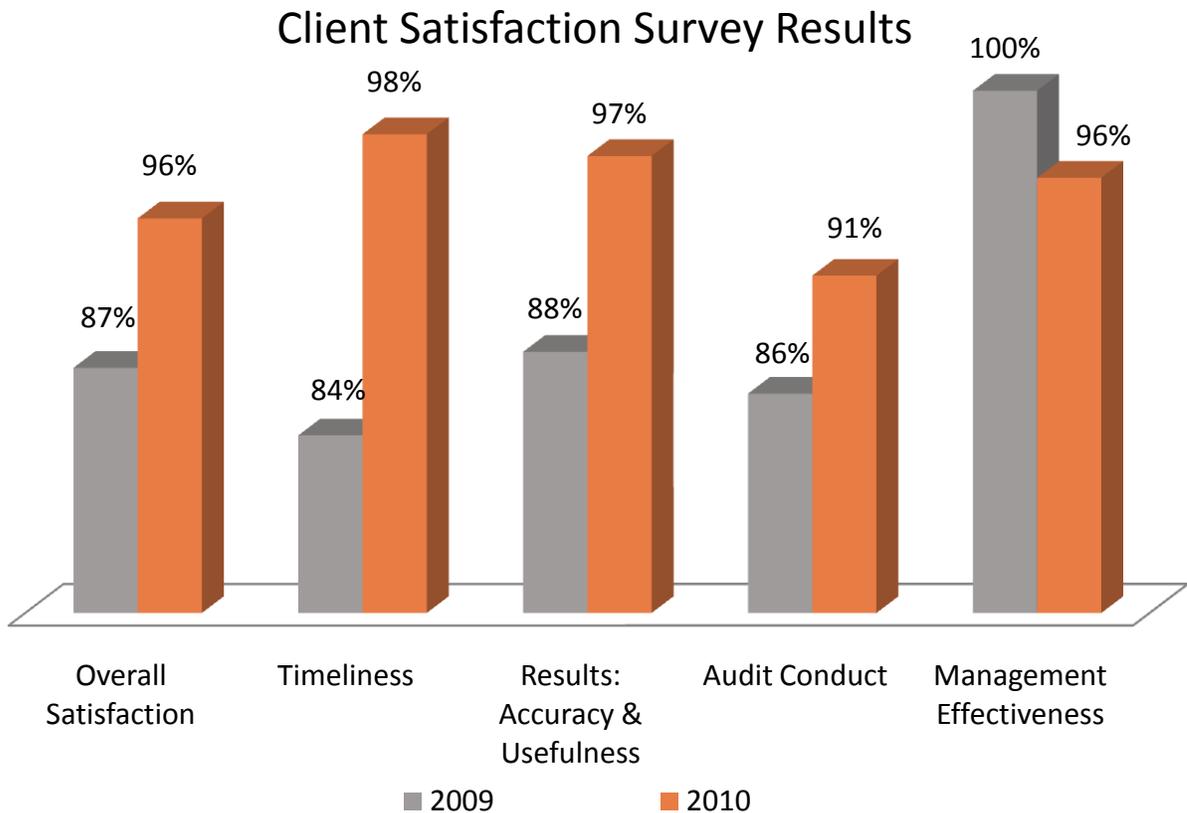
Quality can be evaluated in a number of ways, including: (a) number of management requests received and average response time; (b) client satisfaction surveys received after completing an audit or review; and (c) education and training initiatives to improve employee awareness as to the importance of internal controls.

Management Requests (Consulting)

The IA Division continually receives management requests for reviews, and we strive to be very responsive to our clients' needs. As a result, we perform consulting activities, participate in committees, serve on advisory boards, and review draft policies and procedures for our clients upon request. In addition, numerous requests are received during scheduled audits/reviews that are incorporated into a section's audit/review, often expanding the audit scope and extending our fieldwork hours. In FY 2010, Internal Audit performed 2 of 3 consulting engagements requested by management.

Client Satisfaction Surveys

After each audit or review, a post audit survey is sent to management involved in the audit process. The survey is designed to assist Internal Audit in assessing the quality of our audit service delivery, identifying our strengths, and areas in which we can improve. Feedback survey ratings and comments were consistently positive for FY 2010, resulting in a 96% overall satisfaction rating.



The client satisfaction surveys also contained written feedback responses, which were primarily positive and complimentary. Comment excerpts include:

Strengths:

“The Chief is a proficient and learned Auditor with exemplary audit skills applied with current techniques and proper management of staff auditors. This is critical for investment audits to be efficient and productive.”

“Establishing and communicating a clear and concise understanding of departmental processes. The IA helps to focus on areas that need improvement and makes recommendations for process changes to obtain the desired improvements. It also helps to identify "stop gap" issues that may inhibit overall agency business processes.”

“The leadership within the department is by far the greatest strength. This sets the tone for design, implementation and completion of audits.”

“I think that the department is very professional in its interactions with other departments.”

“We have a great IA department and the players are not only very technically proficient and skilled, but also are courteous and go out of their way to help us.”

“They have been able to identify areas of weakness in our operations so we can work on creating controls to strengthen our controls. Also when you have a PARC finding, it is easier to get IT resources to get fixes put in place that help automate some of the steps and controls.”

Suggested Improvement:

“I would appreciate more interactive closeout and checkout meetings. I realize that requires the business units' active engagement in the process but think both Internal Audits and business units should be more engaging on points involved in the audit. Such dialogue improves understanding of all involved. Thanks.”

“Keep digging to distinguish a critical control flaw/omission from a deficiency that would be "nice" to remedy.

Continue working to educate BWC staff in general that the IA is not a negative process, but a learning and evaluation process intended to improve our credibility and prevent negative external perceptions and finally prevent potential unintended consequences.”

“I have felt like we've had to explain our internal controls and functions several times to the same people in the past year. I would think with the educated people in the Internal Audit department we would not have to repeat ourselves.”

“I understand that there is a move to consolidate the IA function statewide but there is an immediate need for additional IAs locally as well as centrally. One very small item for improvement is using unique PARC or observation numbers such as 2010-IT-01 instead of #1, 2, 3 etc. I have heard and seen the confusion that it creates in particular when a PARC is removed and the PARC numbers are changed.”

“Make sure to gain a thorough understanding of the business process being audited - including why the function is important to BWC.”

BWC Education and Training Initiatives Provided by Internal Audit

The IA Division endeavors to educate all BWC personnel about the importance of internal controls, control risk assessment, compliance with grant requirements, laws and regulations, and the

services that Internal Auditing can provide. To that end, we participate in the BWC New Supervisor Training on an ongoing basis.

The Division also developed educational presentations to provide the Audit Committee with pertinent information regarding the:

- Risk Assessment Process;
- Internal Audit Timelines;
- Division Charter;
- Annual Audit Plan; and
- Investment Continuous Monitoring.

Budget Accountability

Aside from payroll costs, which make up 79% of our total budgeted expenditures, our personal services budget consisted of training on internal audit techniques, best practices and other relevant topics. It is particularly important to invest in acquiring these skill sets to achieve future benefits. Training is also required for continuing education and is a vital part of the success of the Internal Audit Department.

	Budgeted FY 2010	Actual FY 2010	Variance (over) / under
Personal Services			
Regular Payroll	\$1,276,278	\$1,276,278	\$0
Overtime	1,462	0	\$1,462
Purchased Services	30,041	24,519	
Total Personal Services	\$1,307,781	\$1,300,797	\$ 6,984
Maintenance			
Supplies	4,557	4,106	\$451
Travel – In State	7,942	724	\$7,218
Communications	4,385	684	\$3,701
Fuel/Utilities	12,968	12,968	\$0
Maintenance and Repairs	18,724	18,724	\$0
Rentals/Leases	144,188	144,118	\$70
Printing and Advertising	1,407	0	\$1,407
General and Other Expenses	347,873	135,696	\$212,177
Total Maintenance	\$ 542,044	\$ 317,020	\$225,024
FY 2010 Totals	\$1,849,825	\$1,617,817	87%
FY 2009 Totals	\$1,738,658	\$1,698,791	98%

(Source: BWC June 30, 2010 Year-to-Date Budget Report)

The Internal Audit Division is committed to providing quality services while stretching budget dollars. In FY2010, our training budget was closely scrutinized and travel was restricted. Division staff worked with Telecommunications staff to disconnect unused telephone lines and ensure charges accurately reflected actual use. Staff began using shared printers, returned infrequently used cellular equipment, cancelled the related service contracts, and funds allocated for OBM audits were not fully spent. As a result, the Division spent 87% of its FY 2010 allocated budget, 5% less than FY 2009 actual expenditures. Internal Audit continues to be fiscally conservative through effective budgeting and careful monitoring of expenses.

As a part of our Annual Risk Assessment Process, an annual audit plan is compiled and communicated to the BWC Audit Committee, Administrator and affected Divisions. As with any plan, actual timeframes to complete a project may differ from the plan as new risks are identified, unplanned requirements arise, and changes to audit resources occur. Additionally, some work was deferred due to the expected transfer to OBM Office of Internal Audit or at the request of Management.

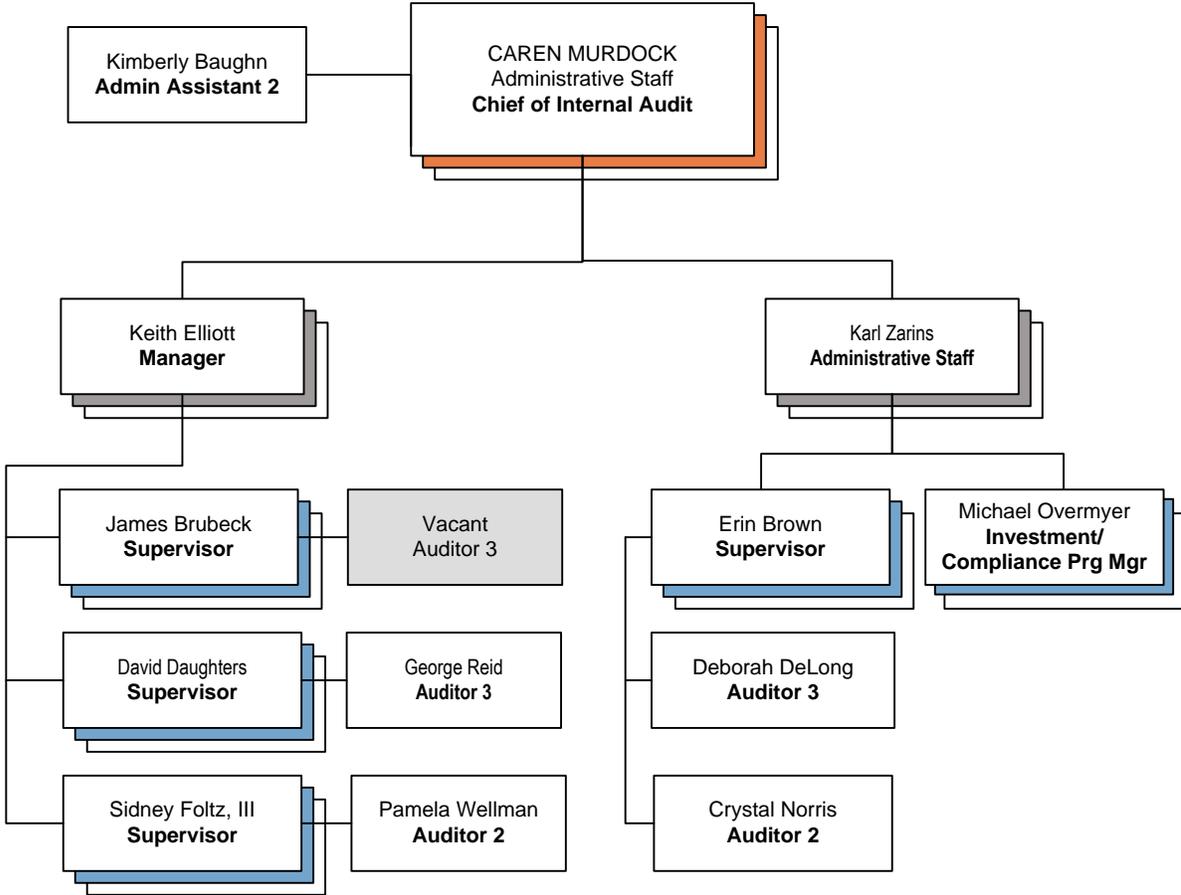
The following list includes audits and external audit support planned for FY 2010 and the status of those audits as of June 30, 2010. In addition, there were other audits and consulting activity that were undertaken throughout the fiscal year.

Focus Area	Audit Status
Audit Validation Testing	Continuous
Coal Mine Safety Program Consulting Engagement	Completed
Coal Workers' Pneumoconiosis/Marine Fund Claims (Consulting)	Completed
Death Benefits	Completed
Disability Evaluator Panel Process	Deferred
Drug Utilization Review	Completed
Employer Compliance	In-Process
Employer Rate Adjustments	Completed
External Audit Assistance for 2010	In-Process
Fixed Assets	Completed
FY 2011 Audit Plan	Completed
Investment Accounting Audit	Completed
Investment Compliance Monitoring	Continuous
Investment Personal Trading Policy	Completed
MCO Audit	Completed
Percentage Permanent Partial Disability Benefits	Deferred
Premium Audit	Completed
Safety and Hygiene	Completed
Self Insured Bankrupt Claims	Deferred
Self Insured Underwriting	Completed
Temporary Total Disability Benefits	In-Process

Additional Projects, Audits and Consulting Activity	Status
Disabled Workers Relief Fund (DWRF) Audit	In-Process
Employer Complaint and Adjudicating Committee Process	Completed
Outside Investment Manager (OIM) Background Check Process	Completed
Self Insured Audit Process	Completed
Warrant Printing Consulting Project	Completed
Employer WCIS Transaction Audit	Completed

The staffing approach adopted by the IA Division is to maintain an economical, efficient, and, proactive department that consists of an experienced and multifaceted workforce.

**Ohio Bureau of Workers' Compensation
Internal Audit Division**



Human Resources

IA Division staff average 13 years of business experience and 11 years audit experience. Thirty-one percent of our staff members hold advanced degrees, while 77% have earned professional certifications.

Title	Audit Experience	Business Experience	Degrees	Certifications	Training Hours
Chief	14	4	BSBA	CIA, CPA, CISA	68
Administrative Assistant	6	18	BBA, MSP		6
Director	9	4	BBA, MBA	CPA	41
Investment Manager	5	22	BS, MBA	CPA	61
Manager	21	5	BSBA	CPA	55
Supervisor	17	8	BSBA	CIA	87
Supervisor	9	28	BSBA	CPA	68
Supervisor	7	4	BSBA	CPA	50
Supervisor	17	3	BBA	CPA	61
Auditor	10	10	BSBA	CIA, CQA	32
Auditor	12	20	ABA	OWCG	23
Auditor	7	13	BS		25
Auditor	9	27	BBA, MBA		32
	Avg Yrs Audit Exp	Avg Yrs Bus Exp			Avg Training Hours
	11	13			47

Certification Legend

- CIA Certified Internal Auditor
- CPA Certified Public Accountant
- CISA Certified Information Systems Auditor
- CQA Certified Quality Auditor
- OWCG Ohio Workers' Compensation Generalist

Our training strategy is geared towards learning and utilizing improved skills to make better decisions, require less hands-on supervision, and ultimately provide better recommendations and a higher level of client service. Experienced auditors are generally better able to determine appropriate time to complete specific aspects of each audit. Quality training is an important aspect in the continuous development of the internal audit staff and required to maintain professional designations. Training opportunities have enabled BWC to leverage outside expertise to further develop the IA Division into a leader in the government internal auditing profession. Much of our focus has been aimed at cost effective internal audit courses sponsored by the Institute of Internal Auditors (IIA) and the Association of Government Accountants (AGA).

**Ohio Bureau of Workers'
Compensation
Internal Audit Division**

The IA Division will focus on the following goals for Fiscal Year 2011:

1. Provide quality value added attestation and consulting services;
2. Allocate IAD resources in an optimal and efficient manner to improve the effectiveness of the internal audit function; and
3. Facilitate and support BWC's governance and risk management functions and improve BWC's control environment.

Professional Audit Staff

Caren Murdock
Keith Elliott
Michael Overmyer
Karl Zarins
James Brubeck
Erin Brown
David Daughters
Sidney A Foltz, III
Deborah Delong
Crystal Norris
George Reid
Pamela Wellman

Administrative Support
Kimberly Baughn

**Internal Audit
Information:**

30 W Spring Street, L27
Columbus, OH 43215
Phone: (614) 466-8018
Fax: (614) 621-1343





Internal Audit Open Discussion

Audit Plan:

Planning Phase:

- Compliance and Performance Monitoring Audit
- Managed Care Organization Audit

Fieldwork Phase:

- Annual Risk Assessment/Enterprise Risk Management Project
- Audit Validation for December Audit Committee meeting
- Claims Quality Assurance Engagement
- Employer Compliance Audit
- Investment Request for Proposal Compliance Review
- Special Claims Audit

Final Phase:

- Disabled Workers' Relief Fund Audit
- Temporary Total Disability Audit

Completed Projects:

- External Audit Support

Staff Adequacy

12-Month Audit Committee Calendar

Date	October 2010
10/21/2010	1. Audit Committee Charter Review (1 st Reading)
	2. Internal Audit Annual Accomplishments Report
	3. Quarterly Litigation Update (Executive Session)
	November 2010
11/18/2010	1. External Audit Update
	2. Audit Committee Charter Review (2 nd Reading)
	December 2010
12/15/2010	1. Internal Audit QES Review
	2. Office of Budget and Management Update
	January 2011
1/20/2011	1. Annual Disaster Recovery/Business Continuity Plan
	2. External Audit Comments - Update
	3. Quarterly Litigation Update (Executive Session)
	February 2011
2/23/2011	1. Inspector General Annual Report (Executive Session)
	March 2011
3/24/2011	1. Internal Audit QES Review
	2. Discount Rate and Financial Metrics (1 st Reading)
	April 2011
4/28/2011	1. Discussion of External Audit
	2. Discount Rate and Financial Metrics (2 nd Reading)
	3. FY 2012 Administrative Budget (1 st Reading)
	4. Quarterly Litigation Update
	May 2011
5/26/2011	1. FY 2012 Administrative Budget (2 nd Reading)
	2. Internal Audit Charter
	June 2011
6/15/2011	1. FY 2012 Internal Audit Plan
	2. External Audit Update
	July 2011
7/28/2011	1. Internal Audit QES Review
	2. FY 2012 Financial Projections
	3. Quarterly Litigation Update (Executive Session)
8/25/2011	August 2011
	1. BWC Code of Ethics Review
	2. External Audit Update

12-Month Audit Committee Calendar

Date	September 2011
9/29/2011	1. Internal Audit QES Review
	2. Inspector General Semi-Annual Report (Executive Session)