

BWC Board of Directors

AUDIT COMMITTEE

Thursday, February 25, 2010, 8:00 a.m.

William Green Building

30 West Spring Street, 2nd Floor (Mezzanine)

Columbus, Ohio 43215

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

Members Absent: None

Other Directors Present: James Hummel, Thomas Pitts, Alison Falls, Larry Price,
David Caldwell, Charles Bryan (arrived 8:22 AM)

CALL TO ORDER

Mr. Haffey called the meeting to order at 8:00 AM and the roll call was taken.

MINUTES OF JANUARY 21, 2010

The minutes were approved without changes by unanimous roll call vote on a motion by Mr. Smith, seconded by Mr. Lhota.

REVIEW/APPROVE AGENDA

Mr. Haffey noted no changes to the agenda. The agenda was approved by unanimous roll call vote on a motion by Mr. Smith, seconded by Mr. Lhota

NEW BUSINESS / ACTION ITEMS

1. **Motion for Board Consideration**
 - A. **For First Reading**
 1. **Survivorship Rule 4123-17-02**

Michael Glass, Director, Underwriting and Premium Audit, and Tom Sico, Assistant General Counsel, reviewed proposed amendments to Ohio Administrative Code Rule 4123-17-02, which addresses the transfer of claims experience and liabilities when a business changes ownership. Ohio Revised

Code 4123.32 authorizes the Administrator to adopt rules to protect the state insurance fund.

The catalyst for these amendments was the Ohio Supreme Court's decision in the Valley Roofing case. The court determined that a business purchase through an intermediary bank, after foreclosure on the business assets, was involuntary and precluded the purchaser from being found a successor in interest. The proposed rule amendments address BWC's concern that sale transactions would be artificially structured to avoid successor liability.

Mr. Glass explained that there are four situations where successor liability would be found:

- The purchaser expressly or impliedly agrees to assume the obligations;
- The transaction is a *de facto* merger or consolidation;
- The successor is a continuation of the predecessor; or
- The transaction is fraudulent to escape workers' compensation obligations.

There may be further changes to replace the word "fraud". The concern is that this term may be too strictly defined in a legal sense.

BWC reviewed similar rules promulgated by other state agencies, and sought input from stakeholders. Stakeholders commented in four areas: impact on group rating, circumvention of the Valley Roofing decision, assigning a new policy number, and application in an asset-only sale. These did not result in any changes to the proposed rule. The rule does not apply in an asset-only sale, and does not circumvent, but rather clarifies, the application of Valley Roofing.

Per a question from Mr. Lhota, Mr. Glass stated that bankruptcy generally does not impact an experience transfer. Mr. Haffey asked who reviews the asset purchase agreements. Mr. Sico explained that Mr. Glass' group usually performs the review, with assistance from Legal if requested. Mr. Sico reiterated that the Valley Roofing decision will be followed when applicable.

DISCUSSION ITEMS

1. Open Discussion with Internal Auditor

Caren Murdock, Chief of Internal Audit, reported that Internal Audit staff is currently involved in 5 projects (2 consulting engagements and 3 audits) which will be discussed at the March meeting. Nine other projects are in process, 6 of which will be completed for presentation at the June meeting. OBM internal audit is currently reviewing Data Warehouse. The internal audit charter has been

updated to reflect the current Institute of Internal Auditors standards. A risk assessment is being prepared for the 2011 audit plan.

Per a question from Mr. Harris, Ms. Murdock explained that the WCIS project is a review of operational processes rather than of IT function, to examine whether information is being handled in a proper manner prior to computer entry, and remove processes which don't add value to the process.

Ms. Murdock then reviewed the timeline for the March quarterly executive summary (QES). Presenting the QES to the directors is a continuous process. Per a question from Ms. Falls, discussion was had with respect to prioritizing findings which are at a higher risk level. Ms. Murdock explained that there is sufficient time and staff to give all comments a thorough review. However, she meets with the Senior Team weekly and would bring any serious situation for their review in an expedited fashion. Mr. Haffey and Administrator Ryan commented that they have been contacted directly in such situations.

Per inquiry from Mr. Haffey, Ms. Murdock discussed the use of SharePoint in the internal audit process. All comments are entered and updated as to status on an ongoing basis. This provides for easier and timely reporting, as well as an accurate history.

No further questions were forthcoming.

2. Committee Calendar

Mr. Haffey reviewed the calendar for the March meeting. Per a suggestion from Ms. Falls, a review of funding ratio and net leverage ratio targets will be included with the discussion of discount rate.

3. Information Technology Audit Approach

Joe Bell, Office of Budget and Management (OBM) Chief Audit Executive, initially noted that the state audit committee, a bipartisan group appointed by the Senate, House of Representatives and the Governor's Office, has a newly appointed member with IT experience. Mr. Bell will update BWC's Board of Director's Audit Committee in executive session prior to providing a high level verbal update to the state audit committee.

Mr. Bell then gave a PowerPoint presentation regarding the annual audit process with respect to IT audit approach. Mr. Smith asked whether such a review is redundant, given that BWC already performs internal audits, and also has an external audit. Mr. Bell explained that the purpose of his organization is to add

value in performing consulting and assurance activities to evaluate IT risks, not duplicate other efforts.

Mr. Bell noted that the three primary areas where management input is essential are control environment, changes to systems, processes and people, and stakeholder concerns. He reviewed a FY2010 risk map showing what risks are covered by the various audits and their priority. Per a question from Ms. Falls, Mr. Bell explained that enterprise risks refer to those which are common across all agencies and are reviewed globally. An example is mobile data security. Mr. Smith asked about areas which fall under the category "not planned". Mr. Bell stated higher risk processes were scheduled for review in FY2010 and "not planned" areas will be considered in future audits. He then reviewed the audit process and current status. No further questions were forthcoming.

4. Office of Budget and Management IT Audit Update (Executive Session)

Upon motion by Mr. Haffey, seconded by Mr. Smith, and approved by unanimous roll call vote, the Committee adjourned to executive session at 9:05 AM for the OBM IT Audit update presented by Raj Subramanian, OBM Chief of Business Process and IT Audit.

ADJOURNMENT

Mr. Haffey moved to return from executive session and adjourn the meeting at 9:27 AM, seconded by Mr. Smith and approved by unanimous roll call vote.

Prepared by Jill Whitworth, Staff Counsel
February 25, 2010