

BWC Board of Directors
AUDIT COMMITTEE
Thursday, June 17, 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

Members Absent: James Matesich

Other Directors Present: James Hummel, Thomas Pitts, Alison Falls, Larry Price,
David Caldwell, Charles Bryan

Counsel Present: John Williams, Assistant Attorney General

Scribe: Jill Whitworth

CALL TO ORDER

Mr. Haffey called the meeting to order at 8:00 AM and the roll call was taken. Mr. Matesich will not be present at today's meeting.

MINUTES OF MAY 27, 2010

The minutes were approved without changes by 4-0 unanimous roll call vote on a motion by Mr. Smith, seconded by Mr. Lhota.

REVIEW/APPROVE AGENDA

Mr. Haffey noted one change to the Agenda. The first reading for FY2011 financial projections will be moved to the July meeting. The agenda as amended was approved by 4-0 unanimous roll call vote on a motion by Mr. Smith, seconded by Mr. Lhota.

NEW BUSINESS / ACTION ITEMS

1. FY 2011 Proposed Audit Plan

Caren Murdock, Chief of Internal Audit, reviewed the proposed FY2011 audit plan. Her presentation included reference to the “FY 2011 Annual Audit Plan” of June 17, 2010, which is incorporated by reference into the minutes.

Ms. Murdock initially explained the risk assessment process, which consists of the possibility of occurrence evaluated according to likelihood and impact. BWC follows industry best practices as outlined by the Institute of Internal Auditors (IIA) International Professional Practices Framework. The audit universe is broad, but can be broken down and assessed by specific area. The three major risk categories consist of financial, operational and strategic risk.

Ms. Murdock next discussed the “heat map” on page 5 of the Audit Plan, which includes BWC internal audits, external audits and Office of Budget and Management (OBM) audits. The heat map tracks impact and likelihood of the specific risk. Per a question from Mr. Smith, assessment of reinsurance falls under Item 24, “Insurance”. Ms. Murdock clarified that enterprise-wide risks are discussed within individual categories.

Per a question from Mr. Harris, Ms. Murdock noted that “Inventory” was not a part of this audit plan because an audit was conducted in FY 2010, and comments are still being addressed. She also identified which IT-based audit projects will be addressed by OBM, which projects will be covered by BWC internal audit, and which will not be addressed in FY 2011 because of lower risk ratings and recent internal audits. Mr. Haffey noted that while there is an audit cycle, it remains fluid so that audits can't be anticipated.

Ms. Murdock discussed several of the extensive audit projects, beginning with external audit assistance. Mr. Bryan questioned whether there really is a cost benefit in providing such assistance, given the internal audit hours devoted to this project. Ms. Murdock responded that such “soft” costs are already included in salaries, and the internal personnel have a greater understanding of the processes evaluated by the external auditors. Mr. Smith and Mr. Haffey noted the economies of such assistance and that this is a growing trend. This will also be addressed in the next contract negotiations with the external auditor.

Other major audit projects in the next fiscal year include investment compliance, managed care organizations (increasing from one last year to five this year), new claims, pharmacy benefits, and professional employer organizations. Mr. Bryan asked if the BWC claims process could be evaluated against the private sector. Ms. Murdock stated such benchmarking is always a goal, but may be thwarted by a lack of available information from similar entities. Per a question from Mr.

Smith, Ms. Murdock noted the professional employer organization audit will examine BWC's internal controls at this time. She indicated concerns about misclassification of employees would be discussed further and addressed to the extent possible. Mr. Price expressed appreciation for incorporating stakeholder impact and feedback as part of the audit plan process.

Ms. Falls asked if, in the event internal controls would fail, contingency plans are reviewed by the internal auditors. Ms. Murdock responded this is considered as part of risk factors, and any contingency plans are requested and reviewed. When an audit commences, a risk assessment is performed to identify what could go wrong with the process. A brainstorming session is conducted to identify controls in place to mitigate the risk and the risk assessment is analyzed for control gaps.

2. Motion for Board Consideration

A. For Second Reading

1. Confidential Personal Information

James Barnes, General Counsel, and Ken Cain, Staff Counsel, presented a second reading of proposed rules 4123-10-01 to 4123-10-05 regarding access to confidential personal information by BWC employees for legitimate business purposes. These are based on model rules for state agencies as mandated by House Bill 648. While the definitions contained in Rule 4123-10-01 have been approved by JCARR as presented by the Department of Administrative Services, the remaining rules are specific to BWC.

Mr. Barnes explained that the primary impact is to document employee access to the information systems and the reasons for such access. Employees will be required to manually log such system access. Although electronic recording would save time, create a record, allow tracking of employee productivity and provide easier, quicker access, electronic recording is cost-prohibitive due to budget constraints at this time. Director Harris noted that his question last month regarding confidentiality of an employer's number of employees had been answered by Mr. Barnes. Per a question from Mr. Price, Mr. Barnes noted the "journalist bill" is not involved in these rules. Because one valid reason to access confidential personal information is responding to a public records request, Mr. Lhota asked how public records are defined. Mr. Barnes referenced the grid posted on the BWC website delineating what is and is not a public record.

Mr. Smith moved that the Audit Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to adopt Rules 4123-10-01 to 4123-10-05 of the Administrative Code, relating to confidential personal information. These rules are required by House Bill 648 of the 127th General Assembly. The Motion consents to the Administrator adopting Rules 4123-10-01 to 4123-10-05 as presented here today.

Mr. Harris seconded and the motion was approved by 4-0 unanimous roll call vote.

DISCUSSION ITEMS

1. External Audit Update

Tracy Valentino, Chief of Fiscal and Planning, presented an update on the external audit process. Schneider Downs has been on-site approximately one month and is wrapping up initial control documentation and testing. They will return in August. Two areas of concern have been identified, which will be discussed with the subject matter experts internally for validation. Nothing major has been uncovered to date. Mr. Haffey will be meeting with Schneider Downs and provide an update at the July committee meeting.

Per a question from Mr. Bryan, Ms. Valentino clarified that the 4% reserve rate was included in June 30, 2010 actuarial audit using March 31, 2010 data. The adjustment was posted in financial statements after discussion at the Actuarial Committee in May. Information regarding the adjustment will be provided to the auditors. The Actuarial Committee will discuss the final rollforward review at their August meeting. This will produce a final number for inclusion in the audited financial statements.

Mr. Bryan asked if BWC has any interaction with Pinnacle, the actuary utilized by Schneider Downs. John Pedrick, Chief of Actuarial, stated that the reserve information has been provided to Pinnacle and thus far no questions have arisen. Ms. Valentino and Mr. Pedrick both opined that if any major questions arose on the reserve information or other financial statement measurements, they would be brought before the Actuarial Committee.

2. Open Discussion with Internal Auditor

Caren Murdock, Chief of Internal Audit, reported that Internal Audit staff of 13 auditors is losing one member to BWC's Division of Fiscal and Planning. No replacement for the position is planned at this time. The resulting loss of available auditing hours is approximately 1600 hours per year. Ms. Murdock believes adjustments can be made to compensate, particularly as approximately 3500 audit hours are set aside each year for such contingencies.

There are 8 current internal audit projects. Those concerning premium audits and the Safety and Hygiene review are in the final phase. Five projects have just been completed, to be discussed at the July Audit Committee meeting. Per a question from Ms. Falls, the FY 2011 Audit Plan does contain carry-over projects from FY 2010, but does not factor in the loss of staff.

3. Committee Calendar

Mr. Haffey reviewed the upcoming calendar events. There will be no executive session today, as a quarterly litigation report will be presented at the July meeting.

ADJOURNMENT

Mr. Haffey moved to adjourn the meeting at 9:12 AM, seconded by Mr. Harris and approved by 4-0 unanimous roll call vote.