

BWC Board of Directors

AUDIT COMMITTEE

Thursday, August 26, 2010, 1:30 p.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, Larry Price, David Caldwell,
Charles Bryan

Counsel Present: James Barnes, General Counsel and Chief Ethics Officer

Staff Present: Caren Murdock, Chief, Internal Audit
Tracy Valentino, Chief, Fiscal and Planning

Scribe: Jill Whitworth

CALL TO ORDER – AUGUST 26, 2010

Mr. Haffey called the meeting to order at 1:30 PM and the roll call was taken. All committee members were present except for Mr. Matesich.

MINUTES OF JULY 28, 2010

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

REVIEW/APPROVE AGENDA

Mr. Haffey noted several changes to the Agenda. The Internal Auditor discussion will be moved to the first item in "Discussion Items". There will then be an executive session to cover the External Audit Update and a Litigation Update. The meeting will be concluded immediately following the executive session. The agenda was approved as amended by 4-0 unanimous roll call vote on a motion by Mr. Smith, seconded by Mr. Lhota.

NEW BUSINESS / ACTION ITEMS

1. BWC Code of Ethics

James Barnes, General Counsel and Chief Ethics Officer, gave a presentation on the BWC Code of Ethics. His presentation included reference to the "Ethics4BWC" handout of August 26, 2010, which is incorporated by reference into the minutes.

The review of BWC's program concerning ethics is required by the Audit Committee Charter, as well as Ohio Revised Code Sections 4121.15 and 4123.15. A prior Executive Order of Governor Strickland required the appointment of a Chief Ethics Officer by all state agencies. BWC also has an Ethics Committee with representatives from various divisions, which meets twice a year. Several attorneys in the Legal Division staff the Ethics4BWC Mailbox to answer inquiries, the bulk of which relate to outside employment and gift acceptance. This mailbox had 572 inquiries in 2009, and 420 inquiries to date in 2010.

Mr. Lhota asked if a mailbox inquiry can be sent anonymously. Mr. Barnes responded that this is not possible at this time. The primary focus of the mailbox is to ask and receive a response to an ethics question before a problem arises. The Ethics4BWC website, which includes links to the Ethics Commission and Inspector General, also contains a wealth of information, including a drop-down menu for specific policies by topic, and a link to frequently asked questions.

All BWC employees are required to have ethics training every two years. New employees also have training deadlines post-hiring. Supervisors receive training and are responsible for training their own staff. Mr. Barnes showed a portion of the training video relating to gift acceptance. Per a question from Mr. Lhota, the video is a public document and available to the Board.

Mr. Hummel asked what policies were in place regarding ethics before the Executive Order. Mr. Barnes responded that there was no formal process, although informal training and information was dispensed. Mr. Caldwell made a point of commending BWC personnel, who have been above reproach in their ethical conduct during his time as a Board member. Caren Murdock, Chief of Internal Audit, noted that Internal Audit reviewed the Ethics process and only made minor comments. Mr. Haffey inquired if there needed to be any changes to the Code of Ethics, or internally at BWC. Mr. Barnes reiterated that the current situation was satisfactory.

2. Motion for Board Consideration

A. For Second Reading

1. FY 2012/2013 Biennial Budget

Tracy Valentino, Chief of Fiscal & Planning, reviewed the FY 2012/2013 Biennial Budget. The presentation included reference to the "Executive Summary – Fiscal Year 2012-2013 Biennial Budget" of August 13, 2010, which is incorporated by reference into the minutes.

The budget reflects proposed funding for the Administrative Cost Fund, Safety & Hygiene Fund, Disabled Workers' Relief Fund, Marine Industry Fund, and Coal Workers' Pneumoconiosis Fund. BWC is proposing a total budget of \$300 million for each year. These figures reflect a \$28 million (9%) decrease from current appropriation. However, it is 5.6% higher than the current budget, primarily related to payroll adjustments. The current budget reflects Cost Savings Days and a moratorium on step increases, which are not applicable in the proposed budget.

Ms. Valentino reviewed a budget summary of line item appropriations, explaining fluctuations in several areas. Per a question from Mr. Smith, she explained that BWC and the Attorney General's Office (AGO) negotiate payment for legal services, because the AGO's support function for BWC is equivalent to an outside law firm. Mr. Harris raised a question about an expense for domestic water pumps. Ms. Valentino will provide further information on this item.

Mr. Lhota asked about numerical differences between the appropriations and the budget. Ms. Valentino responded that the biennial budget is done in advance, so there must be room for flexibility. The \$300 million figure is a ceiling. The annual budget will be presented to the Board in the spring of 2011. Mr. Harris inquired about the influence of the Office of Budget and Management (OBM). Ms. Valentino replied that the only limitation required by OBM is that the proposed budget cannot exceed the current appropriation. However, BWC's biennial budget is subject to OBM's review.

Mr. Harris moved that the Audit Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation for the biennial budget for fiscal years 2012-2013 for submission to the Office of Budget and Management. The motion was seconded by Mr. Smith and approved by unanimous 4-0 roll call vote.

DISCUSSION ITEMS

1. Open Discussion with Internal Auditor

Caren Murdock, Chief of Internal Audit stated that management reported correction action was implemented on 21 comments for the 4th Quarter Executive Summary. Internal Audit validated and removed 14 of the 21 comments. Additional work was needed on the remaining seven comments. Six reviews are in process – 2 in planning, 3 in field work and 1 in final phase. Two reviews have been postponed. Four projects will be presented at next month's meeting – Premium Audit, Employer Rate Adjustment, Investment Personal Trading, and Safety & Hygiene. Staff continues to be adequate for project coverage.

OBM has determined not to transfer BWC Internal Auditing from BWC to the OBM Office of Internal Audit. Per a question from Mr. Smith, Ms. Murdock replied that this was revised from a budgetary standpoint. Mr. Haffey commented that OBM also believes the present staffing allocation is satisfactory.

2. Committee Calendar

There were no changes to the calendar. The September meeting will feature the 4Q Executive Summary and the Inspector General's semi-annual report.

3. External Audit Update

Mr. Haffey moved to adjourn to executive session for an external audit update from Ms. Valentino, and a litigation update by Mr. Barnes. The motion was seconded by Mr. Harris and approved by 4-0 unanimous roll call vote at 2:21 PM.

ADJOURNMENT

At 3:07 PM, the Audit Committee returned from executive session. Mr. Lhota moved to adjourn the meeting. The motion was seconded by Mr. Smith and approved by 4-0 unanimous roll call vote.