

BWC Board of Directors

AUDIT COMMITTEE

Thursday, September 23, 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, Larry Price, David Caldwell,
Charles Bryan, Alison Falls

Counsel Present: James Barnes, General Counsel and Chief Ethics Officer
John Williams, Assistant Attorney General

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

Scribe: Jill Whitworth

CALL TO ORDER – SEPTEMBER 23, 2010

Mr. Haffey called the meeting to order at 8:00 AM and the roll call was taken. All committee members were present except for Mr. Matesich.

MINUTES OF AUGUST 26, 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 executive session for a Litigation Update will not occur. The meeting will be concluded immediately following the executive session for the Inspector General semi-annual report. The agenda was approved as amended by 4-0 unanimous roll call vote on a motion by Mr. Harris, seconded by Mr. Smith.

NEW BUSINESS / ACTION ITEMS

1. FY2010 4th Quarter Executive Summary

Caren Murdock, Chief of Internal Audit, reviewed the FY2010 4th Quarter Executive Summary for Internal Audit. Her presentation included reference to the "FY 10 4th Quarter Executive Summary Report" of September 23, 2010, which is incorporated by reference into the minutes.

Ms. Murdock initially clarified that the report covers the quarter ending June 30, 2010. The Internal Audit Division (IAD) performed four audits during this period.

IAD conducted an audit of the Premium Audit process. The Premium Audit group is responsible for verifying the accuracy of employer payroll reporting. During FY 2009, the Premium Audit Department performed over 11,000 audits and audited 6,400 employer accounts utilizing the cross-match with information submitted to the Department of Job and Family Services to identify discrepancies. Benchmarking was conducted involving comparisons with five (5) other state funds and three (3) private insurers.

Controls for ensuring adequate audit coverage of certain high-risk employer types and payroll tie out procedures were not adequately designed. Areas of concern resulting in "Significant Weakness" comments involved policies with zero payroll, and policies where a professional employer organization (PEO) is involved. For FY 2009, there were 549 policies that reported zero payroll, yet 837 claims were filed against them. Of the 549 policies, only 3% were audited by the premium auditors. IAD analyses showed 204 of 262 PEO's have never been audited. An additional "Significant Weakness" is that premium audit procedures do not require auditors to review original source documents, which are more reliable than tax returns.

Mr. Bryan asked what occurs if an employer is found to be under-reporting payroll. Michael Glass, Director of Premium Audit, explained that the employer is billed for prior-to-coverage amounts or, if there is egregious conduct, penalties can be enforced under Ohio Revised Code §4123.78(C). Penalties have been assessed on two (2) employers in the last three (3) years. Mr. Glass noted that semi-annual reports are now prepared to locate discrepancies with respect to employers reporting zero payrolls. The revised plan is to perform 200 additional audits.

Pursuant to questions from several directors, Mr. Glass gave a brief explanation of the differences between a PEO and a temporary employment agency. Chief Operating Officer Ray Mazzotta advised that a consulting firm has been retained to investigate the exposure and risk presented by PEO's and recommend any necessary changes, both internally and legislatively. Mr. Lhota suggested a presentation on PEO's would be beneficial. Mr. Haffey agreed this will be provided at a future meeting.

IAD also conducted an audit of the employer rate adjustment process. Internal controls for the employer rate adjustment function were adequately designed. It was determined that controls need to be strengthened regarding employer experience modifier (EM)

blocks, including a reconciliation by an independent party. Manual data overrides should be reported to and reviewed by management.

An internal audit of the Personal Investment Trading Policy (PTP) determined that internal controls are not adequately designed to identify policy violations. Although this is noted as a “Significant Weakness”, the risk of exposure is minimal given BWC’s use of outside investment managers. Periodic training will be conducted.

An internal audit of Safety & Hygiene identified opportunities to improve the design and implementation of controls. The review of the activities of the Public Employer Risk Reduction Program field consultants and service office safety consultants indicated that both have similar and overlapping roles, activities, and responsibilities.

Ms. Murdock next gave a general overview of the 73 outstanding internal audit comments. 93% of outstanding comments are from 2008 to present. Most of the older outstanding comments require long-term attention and solutions, such as group rating and IT.

Ms. Murdock gave brief overviews of outstanding comments in the following areas:

- Lump Sum Settlement Process
The mission remains to settle the right claim for the right value, at the right time and under the right circumstances. Training is complete under Phase II, and Phase III will be implemented by July 2011. Management reports have been created and become effective October 1, 2010.
- Employer Policy Application Process
Modifications with respect to prior-to-coverage payroll reports continue, including an IT interface to avoid duplication and quality review of policies outside UDS. If there is more than two years of a prior-to-coverage period, it is referred to the premium audit unit.
- Auto Adjudication
Management has accepted the identified risk. New medical codes will be implemented in 2013, so it would not be an efficient use of resources to alter the system at this time. Policies are in place to require heightened review in the interim.

Per a question from Mr. Haffey, Ms. Murdock stated that management has been very responsive about addressing IAD comments, and makes this a high priority. Administrator Marsha Ryan noted that correction of the rate process has made it easier to identify and correct underlying issues.

Ms. Murdock noted several changes to the annual audit plan. A new project has been scheduled for claims quality assurance, and several audits have been moved up. The new claims audit was delayed due to policy changes, while the permanent partial audit was delayed to accommodate audit team assignments.

With respect to the prior discussion regarding the Auto Adjudication audit, Mr. Hummel asked what happens to the outstanding comment after management has accepted the risk. Ms. Murdock explained that it is shifted to a spreadsheet, but remains subject to periodic review during audit planning and the risk assessment process.

Ms. Falls asked if it is unusual that so many audits are rated “Extra Large Effort” on the audit plan. Ms. Murdock responded this is not unusual. If changes to the process have occurred, more effort may be needed. IAD also builds in additional time to address issues management has asked to be reviewed.

DISCUSSION ITEMS

1. Open Discussion with Internal Auditor

Ms. Murdock reported that 9 reviews are in process – 3 in the planning phase, 5 in field work and 1 in final phase. Per a question from Mr. Bryan, she explained that the MCO audit is using expanded testing, involving more than reviewing the MCO contracts. In response to a question from Mr. Pitts, Ms. Murdock replied that auditors spend approximately one week reviewing files on-site during each MCO audit.

Of the 1,000 allotted hours for external audit support, 970 have been used. The new claims audit has been delayed six months due to the implementation of a recent wage policy change. Lead time is needed to accrue an appropriate sample.

Staff continues to be adequate for project coverage, although scope and objectives have been narrowed. There are currently thirteen (13) employees in IAD. Ms. Murdock also advised she continues to coordinate with Joe Bell to make sure that BWC’s internal auditing is optimal from the statewide perspective and efforts are not duplicated. The risk assessment for the state external audit is now due in December, so IAD will be contacting the directors, management and external stakeholders for feedback.

2. Committee Calendar

There were no changes to the calendar. The October meeting will feature the Audit Committee Charter review and the IAD annual accomplishments report. The BWC external audit conducted by Schneider Downs will be finalized by September 30, 2010 and reported on at the November meeting. In fulfillment of his duties as chair of the Audit Committee, Mr. Haffey is meeting on a regular basis with the external auditors.

3. Inspector General Semi-Annual Report

Mr. Haffey moved to adjourn to executive session for presentation of the Inspector General’s semi-annual report by Joe Montgomery, Deputy Inspector General. The motion was seconded by Mr. Smith and approved by 4-0 unanimous roll call vote at 9:04 AM.

ADJOURNMENT

At 9:27 AM, the Audit Committee returned from Executive Session, and Mr. Lhota moved to adjourn the meeting. The motion was seconded by Mr. Harris and approved by 4-0 unanimous roll call vote.