

BWC Board of Directors

**AUDIT COMMITTEE**

**Thursday, October 21, 2010, 8:00 a.m.**

**William Green Building**

30 West Spring Street, 2<sup>nd</sup> Floor (Mezzanine)

Columbus, Ohio 43215

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Members Present: Kenneth Haffey, Chair  
Robert Smith, Vice Chair  
William Lhota  
James Harris (arrived 8:04)  
James Matesich

Members Absent: None

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

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

Staff Present: Caren Murdock, Chief Internal Audit  
Tracy Valentino, Chief Fiscal and Planning  
Don Berno, Board Liaison

Scribe: Jill Whitworth

**CALL TO ORDER – OCTOBER 21, 2010**

Mr. Haffey called the meeting to order at 8:02 AM and the roll call was taken. All committee members were present.

**MINUTES OF SEPTEMBER 23, 2010**

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

## **REVIEW/APPROVE AGENDA**

Mr. Haffey noted no changes to the Agenda. The meeting will be concluded immediately following the executive session for the Quarterly Litigation Update. The agenda was approved by unanimous roll call vote on a motion by Mr. Smith, seconded by Mr. Lhota.

## **NEW BUSINESS / ACTION ITEMS**

### **1. Motions for Board Consideration**

#### **A. For First Reading**

##### **1. Audit Committee Charter Review**

Don Berno, Board Liaison, and Ann Shannon, Legal Counsel reviewed the “OBWC Board of Directors Audit Committee Charter” of October 8, 2010, which is incorporated by reference into the minutes.

Mr. Berno noted that the charter had been reviewed by the Governance Committee at its September meeting. Any suggested changes from today’s meeting will be incorporated for review and approval by the Governance Committee in November.

Additional changes in this draft and from today’s meeting are as follows:

- Page 1, sixth bullet point under “Purpose” is revised to read “as it fulfills the statutory requirement to fix and maintain the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund.”
- Page 1, first paragraph under “Membership” is revised to read “One member shall be the member of the Board who is appointed as the certified public accountant.” Further, the last sentence is revised to read “Bureau management personnel cannot serve as committee members.”
- Page 2, paragraph 1 is revised to read “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.”
- Page 3, new item 3 is revised to read “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.”

Per suggestion of Mr. Lhota, the opening sentence under “Purpose” was then revised to read “The Audit Committee assists the Board of Directors of the Ohio Bureau of Workers’ Compensation in fulfilling its fiduciary oversight responsibilities through:” .

Mr. Matesich moved that the Audit Committee of the Workers’ Compensation Board of Directors refer the Audit Committee Charter to the Governance Committee to consider the recommended changes as discussed here today. The motion was seconded by Mr. Smith and approved by unanimous roll call vote.

## **2. Internal Audit Annual Accomplishments Report**

Caren Murdock, Chief of Internal Audit, reviewed the FY2010 Internal Audit Annual Report. The presentation included reference to the “State of Ohio Bureau of Workers’ Compensation Internal Audit Division Annual Report July 1, 2009 – June 30, 2010” of October 21, 2010, which is incorporated by reference into the minutes.

Ms. Murdock initially reviewed the Internal Audit Division (IAD) mission statement and significant accomplishments for FY 2010. She emphasized the high percentage of recommendation acceptance as well as client satisfaction, which showed significant improvements from 2009 in several categories. Suggested future improvements based on client feedback include process changes to provide more progress meetings, distinguishing critical control flaws from operational inefficiencies, and providing more education as to the positive aspects and functions of the internal audit process. Mr. Smith commented that it was appropriate for the committee to recognize the improvement in overall IAD results.

Ms. Murdock further noted that IAD used 87% of its allotted budget, and this amount was 5% less than actual expenditures from FY 2009. There were significantly reduced travel costs resulting from decreased MCO review. Mr. Lhota pointed out the risk involved in decreasing audit reviews in order to save money. Ms. Murdock noted that IAD relies heavily on management compliance work with MCOs, and that the Office of Budget & Management believes MCOs fall more under management functions than audit functions. Travel costs will increase this year since more MCOs are scheduled to be audited. Ms. Murdock also advised that in the current fiscal year, IAD will be auditing the unit that monitors MCOs.

Ms. Murdock then reviewed the audit plan and additions thereto, noting that all in-process items as of June 30, 2010 have now either been completed or are in final phase. With respect to staff training, the goal is 40 hours of training per year for each IAD staff member. The division tries to take advantage of free training offered by the Institute of Internal Auditors and the Association of Government

Accountants. Mr. Smith asked why some staff members did not meet the 40-hour goal. Ms. Murdock attributed this to schedule conflicts, but emphasized that 40 hours training will be mandated in the current fiscal year. Supervisors have been instructed to note areas of improvement for each staff member, and coordinate training to fill in those skill set gaps. Per a question from Mr. Lhota, Ms. Murdock clarified that staff members have non-audit business experience, which is separate and apart from audit experience.

IAD goals for FY 2011 include:

1. Provide quality value added attestation and consulting services.
  - Obtain access to additional BWC internal systems
  - Develop a quality assurance program for workpapers and reports
2. Allocate IAD resources in an optimal and efficient manner to improve the effectiveness of the internal audit function.
  - Appropriately prioritize engagements based on risk
  - Audit 100% of high-risk projects
  - Evaluate audit software for electronic workpapers and project management
3. Facilitate and support BWC's governance and risk management functions and improve BWC's control environment.
  - Enhance the quarterly validation process
  - Additional training on internal controls
  - Provide feedback regarding current process maps

Ms. Falls brought up that although client satisfaction surveys are helpful, the greater concern is that the Board and management are satisfied that IAD is doing its job. Ms. Murdock explained that most audit groups conduct such surveys to ensure audit comments are helpful to the processes that are being audited. Mr. Haffey noted that outside accounting firms also utilize surveys, which are useful for peer review. Mr. Matesich asked if an IAD employee would audit the results of an audit team on which he or she did not participate. Ms. Murdock explained that there are supervisory and management reviews, and an independent review of the audit report by a person who is not on the particular audit team. Per a question from Mr. Harris, Ms. Murdock clarified that some auditors are members of the bargaining unit, but the review is performed by a non-union supervisory employee.

## **DISCUSSION ITEMS**

### **1. Open Discussion with Internal Auditor**

Ms. Murdock reported that 10 reviews are in process – 2 in planning, 6 in field work and 2 in final phase. The next MCO audit will begin October 25. Mr. Smith asked whether IAD has any sort of process with respect to the Inspector General's Office if a problem is reported. Ms. Murdock stated that IAD is not involved in any first review by the Inspector General, but there is contact person with the IGO throughout the year.

Ms. Murdock stated that management reported 29 of 73 outstanding audit comments are implemented and ready for validation. Two projects in final phase will be presented at the December committee meeting. Of the 1,000 allotted hours for external audit support, a final total of 983 hours were used. Staff continues to be adequate for project coverage, although time frames have slowed because of work on the risk assessment. Ms. Murdock also advised she continues to meet with Joe Bell, who has expressed his appreciation for IAD's work on risk assessment at the state agency level.

Mr. Matesich asked for clarification on several items in last month's minutes. It was explained that "high-risk employer" was mentioned in the context of professional employer organizations (PEO), not the type of work performed by an employer. Management is developing processes with respect to claims filed against zero-payroll employers. Administrator Ryan explained that processes are in place in the employer compliance and special investigation units to deal with such claims. Other compliant employers are a frequent source of information.

### **2. Committee Calendar**

There were no changes to the calendar. The external audit report will be presented at the November meeting. A PEO education session will occur in December.

### **3. Quarterly Litigation Update**

Mr. Haffey moved to adjourn to executive session for presentation of the Quarterly Litigation Update by James Barnes, Chief Legal Counsel. The motion was seconded by Mr. Smith and approved by unanimous roll call vote at 9:10 AM.

## **ADJOURNMENT**

At 9:39 a.m. the Audit Committee returned from executive session. Mr. Lhota moved to adjourn the meeting. The motion was seconded by Mr. Matesich and approved by unanimous roll call vote.