

BWC Board of Directors

**AUDIT COMMITTEE**

**Thursday, November 18, 2010, 12:30 p.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  
James Matesich

Members Absent: None

Other Directors Present: James Hummel, Thomas Pitts, David Caldwell, Alison Falls, Charles Bryan, Larry Price (arrived 12:35)

Counsel Present: James Barnes, General Counsel and Chief Ethics Officer  
Ann Shannon, Legal Counsel

Staff Present: Caren Murdock, Chief of Internal Audit  
Tracy Valentino, Chief of Fiscal and Planning  
Tina Kielmeyer, Chief of Customer Services  
Thomas Prunte, Director, Employer Management Services  
Don Berno, Board Liaison

Scribe: Jill Whitworth

**CALL TO ORDER – NOVEMBER 18, 2010**

Mr. Haffey called the meeting to order at 12:30 PM and the roll call was taken. All committee members were present.

**MINUTES OF OCTOBER 21, 2010**

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

**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. Matesich.

## **NEW BUSINESS / ACTION ITEMS**

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

#### **A. For Second Reading**

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

Don Berno, Board Liaison, and Ann Shannon, Legal Counsel reviewed the Audit Committee Charter. The presentation included reference to the “OBWC Board of Directors Audit Committee Charter” as amended, which is incorporated by reference into the minutes.

Mr. Berno noted that the charter had been reviewed by the Governance Committee at its meeting earlier today. Changes recommended by the Governance Committee meeting, were:

- Page 1, “Purpose” is revised to read “The Audit Committee, a statutory committee of the Board of Directors, shall:”
- Page 1, a new first bullet point, “assist the Board of Directors in fulfilling its oversight responsibilities relating to developing and implementing sound audit policies and practices;”
- Page 1, verb tenses in the various bullet points have been changed for grammatical conformity.
- Page 1, second paragraph under “Membership”, the last sentence now reads, “As an ex-officio member, the Board Chair shall vote last, and if his/her vote will create a tie, shall abstain from voting.”
- Page 3, item 3 under “Duties and responsibilities”, change “which would impact” to “that would impact”.

Mr. Smith moved that the Audit Committee of the Workers’ Compensation Board of Directors approves the Audit Committee Charter as amended, and refer the Charter to the Board of Directors for review and approval. The motion was seconded by Mr. Matesich and approved by unanimous roll call vote.

### **2. Audit Discussion with External Auditor**

Joseph Patrick of Schneider Downs reviewed the external audit results and management letter for the year ended June 30, 2010. The presentation included reference to the Schneider Downs government “Yellow book” report and the management letter dated September 30, 2010, which is incorporated by reference into the minutes.

Mr. Patrick initially stated that the BWC financial statements have been issued to the Auditor of State with a clean opinion. There was one finding discussed in the government “Yellow book” report with respect to MCO SAS (Statement on Auditing Standards) 70 reviews. There was significant improvement from the sweeping comment Schneider Downs made in the 2009 external audit report with respect to this topic. However, one MCO did not submit a SAS 70 report because it was purchased by another MCO. Schneider Downs opined that BWC should have obtained a SAS70 for the time period in which the MCO operated. BWC management acknowledged that the situation occurred but indicated other mitigating controls were in place and additional processes were performed to reduce financial exposure.

There are nine (9) comments in the management letter. None of the items are material and all have been discussed with management. Mr. Bryan asked why comments which did not rise to a high level of significance were included in the management letter. Mr. Patrick explained that Schneider Downs performs very detailed internal control testing in its audit process. While these comments are at a low level of significance, Schneider Downs felt management would want to know about these issues and correct them.

Mr. Patrick made the following required communications: BWC’s accounting policies have not changed, significant accounting estimates were reviewed and found appropriate, there were no difficulties encountered in the performance of the audit, there were no adjustments and no disagreements with management. The appropriate representations were made by management and BWC did not consult with other accounting firms during the audit process.

Mr. Bryan questioned, on page 17 of the financial report, an apparent misstatement with respect to reinsurance coverage. The proper statement is that BWC’s reinsurance provides limited coverage of a nuclear, biological, chemical or radiological terrorist event, but does cover other nuclear events such as a power plant. Mr. Haffey stated this would be corrected.

### **3. Discussion of External Audit Comments**

Tracy Valentino, Chief of Fiscal and Planning, reviewed the management responses to the external audit comments. The presentation included reference to the Schneider Downs management letter dated September 30, 2010, which is incorporated by reference into the minutes.

Ms. Valentino noted that none of the comments represented a significant risk of a financial misstatement. Several comments related to isolated instances of failure to follow a review procedure. Ms. Valentino emphasized that these policies will be reiterated to the appropriate staff and additional training will be conducted.

With respect to the “yellow book” comment regarding the MCO SAS 70 reports, Ms. Valentino stated that the MCO contract has been revised to require a SAS 70 from an MCO which is being sold. MCO’s can hire their own auditors to perform the SAS 70, but BWC has the ability to request more information or explanation. The MCO can be penalized for failure to respond or correct the deficiency.

## **DISCUSSION ITEMS**

### **Education Session**

Tina Kielemeyer, Chief of Customer Services, gave an overview of the Disabled Workers Relief Fund (DWRF) and the Temporary Total Disability program. She was joined by Tom Prunte, Director of Employer Management Services, who gave an overview of the Employer Compliance Department (ECD). These reports were intended to inform the committee about the programs in advance of the internal audit reports that would be presented at the December meeting. The presentation included reference to the “Customer Services Division Report” dated November 18, 2010, which is incorporated by reference into the minutes.

### **Disabled Workers Relief Fund**

DWRF is a supplemental fund used to provide cost-of-living supplements to permanent total disability (PTD) recipients. Payments are provided which bring the PTD benefits up to a minimum weekly entitlement level. Ms. Kielemeyer reported that in FY2010 there were 22,483 individuals receiving PTD benefits. Of those, 14,619 were also receiving DWRF supplements. In FY2010 BWC paid out nearly \$126M in DWRF supplements. Benefits are available to both state fund and self-insured PTD recipients. BWC pays DWRF benefits on self-insured claims and bills the employer for reimbursement. Every PTD claim is evaluated to determine eligibility for DWRF benefits. The minimum entitlement calculation is performed using the consumer price index as of September 1 each year.

Per a question from Mr. Harris, Ms. Kielemeyer will confirm whether the figures stated in the report include self-insured claims.

### **Temporary Total Disability**

Ms. Kielemeyer next gave an overview of temporary total disability compensation. This benefit compensates the injured worker who is totally disabled on a temporary basis due to the work-related injury or disease. Certain exceptions apply, and the first seven (7) days are not compensable unless the injured worker misses fourteen (14) consecutive days of work. BWC and the MCO closely monitor treatment in these claims for appropriateness and timeliness. Independent medical examinations are scheduled at prescribed intervals to determine the extent of disability and appropriateness of continued benefits. Disputes are referred to the Industrial Commission for decision.

## **Employer Compliance**

Thomas Prunte then explained the Employer Compliance Department (ECD). ECD came into existence in August 2008 after extensive study of the problem of non-complying employers by a BWC team, representing several internal divisions. The recommendation was to develop a dedicated team and process for investigation and enforcement, with the initial focus on no coverage employers, lapsed employers who continued to operate, and employers reporting incorrect payroll. Approximately 3,264 employers have been brought into full compliance since ECD was created, despite the fact that its policies and procedures were in a developmental stage throughout this time period.

ECD has also developed a process for information-gathering, and recently instituted further training to increase use of the Injunctive Relief option by the Attorney General's Office. ECD also contacted several other states for information and feedback on this topic. Four states responded, including the State of Washington, which has a data-sharing agreement with the Internal Revenue Service for investigation. The logistics to implement such an agreement in Ohio were determined to be cost-prohibitive in Ohio. Future efforts will continue to focus on use of data mining and performance metrics to ensure compliance.

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

Caren Murdock, Chief of Internal Audit, reported that 11 reviews are in process – 4 in planning, 6 in field work and 1 in final phase. Three projects have been completed and will be discussed during the next quarterly executive summary.

Ms. Murdock also advised she continues to meet with Joe Bell, and Office of Budget and Management personnel have been on-site for pre-planning of a Cambridge system audit. Ms. Murdock will be giving a presentation in December at the state audit committee meeting.

### **2. Committee Calendar**

There were no changes to the calendar. A FY 2012-2013 budget process education session will occur in December, along with annual review of the disaster recovery and business continuity plan. The PEO education session has been moved to January.

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

There will be no quarterly litigation update at today's meeting.

## **ADJOURNMENT**

At 2:00 PM, Mr. Smith moved to adjourn the meeting. The motion was seconded by Mr. Harris and approved by unanimous roll call vote.