

BWC Board of Directors  
**Audit Committee Agenda**

**William Green Building**  
**Wednesday, February 23, 2011**  
Level 2, Room 3  
9:00 a.m. – 10:30 a.m.

**Call to Order**

Ken Haffey, Committee Chair

**Roll Call**

Jill Whitworth, Scribe

**Approve Minutes of December 15, 2010 meeting**

Ken Haffey, Committee Chair

**Approve Agenda**

Ken Haffey, Committee Chair

**New Business/ Action Items**

1. Overview of the Annual Internal Audit Risk Assessment Process
  - Keith Elliott, Audit Manager
  - Karl Zarins, Internal Audit Director
2. First Reading
  - a. Electronic Submission of Documents Rule 4125-1-02
    - Tom Sico, Assistant General Counsel

**Discussion Items\***

1. “Ten To-do’s for Audit Committees in 2011”
  - Donald C. Berno, Board Liaison
2. Open Discussion with Internal Auditor
  - Caren Murdock, Chief of Internal Audit
3. Committee Calendar
  - Ken Haffey, Committee Chair
4. Quarterly Litigation Update, Executive Session
  - Ann Shannon, Legal Counsel
5. Inspector General Discussion, Executive Session
  - Mike Rover, Deputy Inspector General

## **Adjourn**

Ken Haffey, Committee Chair

**Next Meeting: Thursday, March 24, 2011**

\* Not all agenda items have material. \*\* Agenda subject to change.

**Ohio Bureau of Workers' Compensation  
Internal Audit Division**

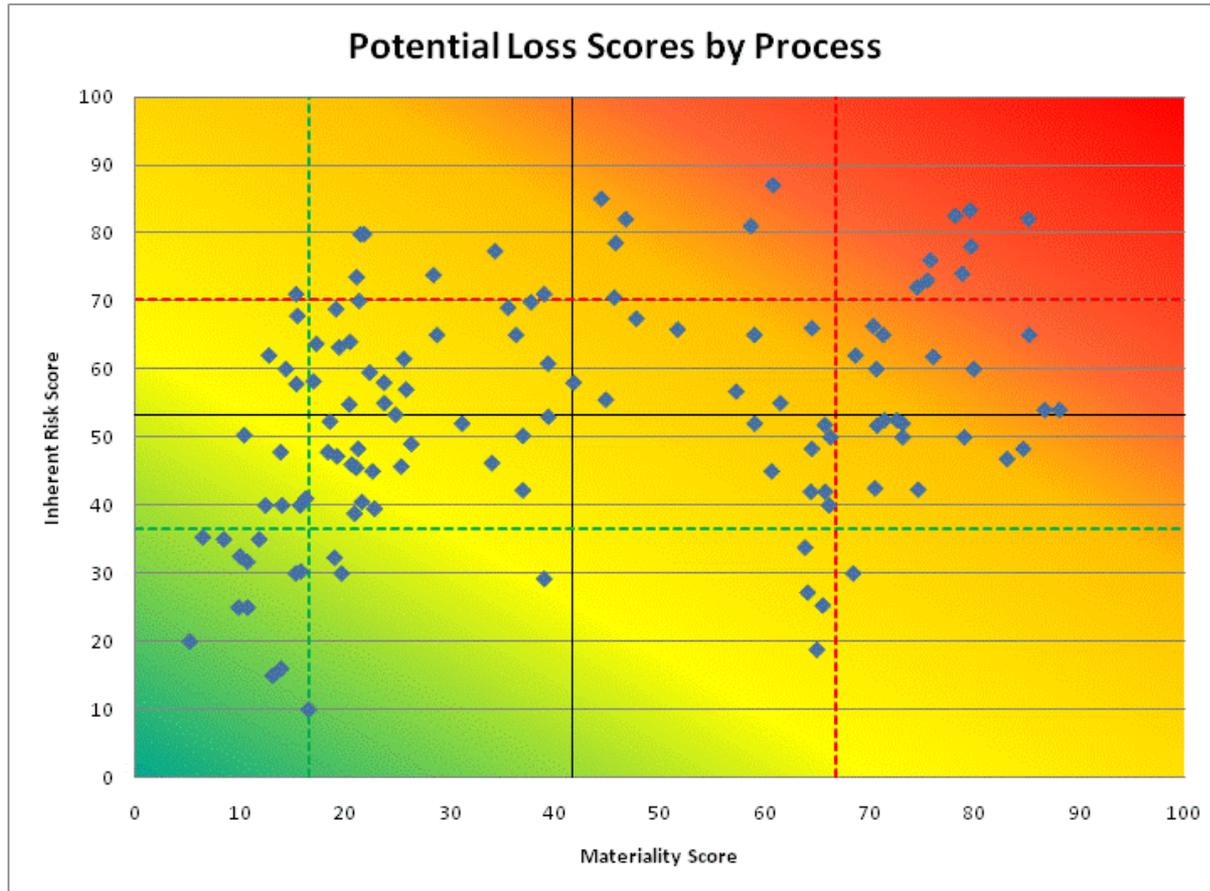
**Annual Internal Audit  
Risk Assessment Process**

**Date: February 2011**

# Risk Assessment Goal

- Goal
  - Evaluate and identify BWC processes for inclusion in the FY 2012 Annual Audit Plan in compliance with the Institute of Internal Auditor's (IIA) standards.

# Approach Overview: Likelihood vs. Materiality



- Relative measures to rank processes

# Assessing the Likelihood of Loss

- Methodology:
  - Identifying key processes of BWC
  - Identifying process subject matter experts (SMEs)
  - Administering a survey to process SMEs
  - Conducting stakeholder interviews

# Assessing the Likelihood of Loss

- Scoring Likelihood of Loss:
  - Complexity
  - Level of change
  - Potential for fraud
  - Operational clean up projects
  - Staffing adequacy

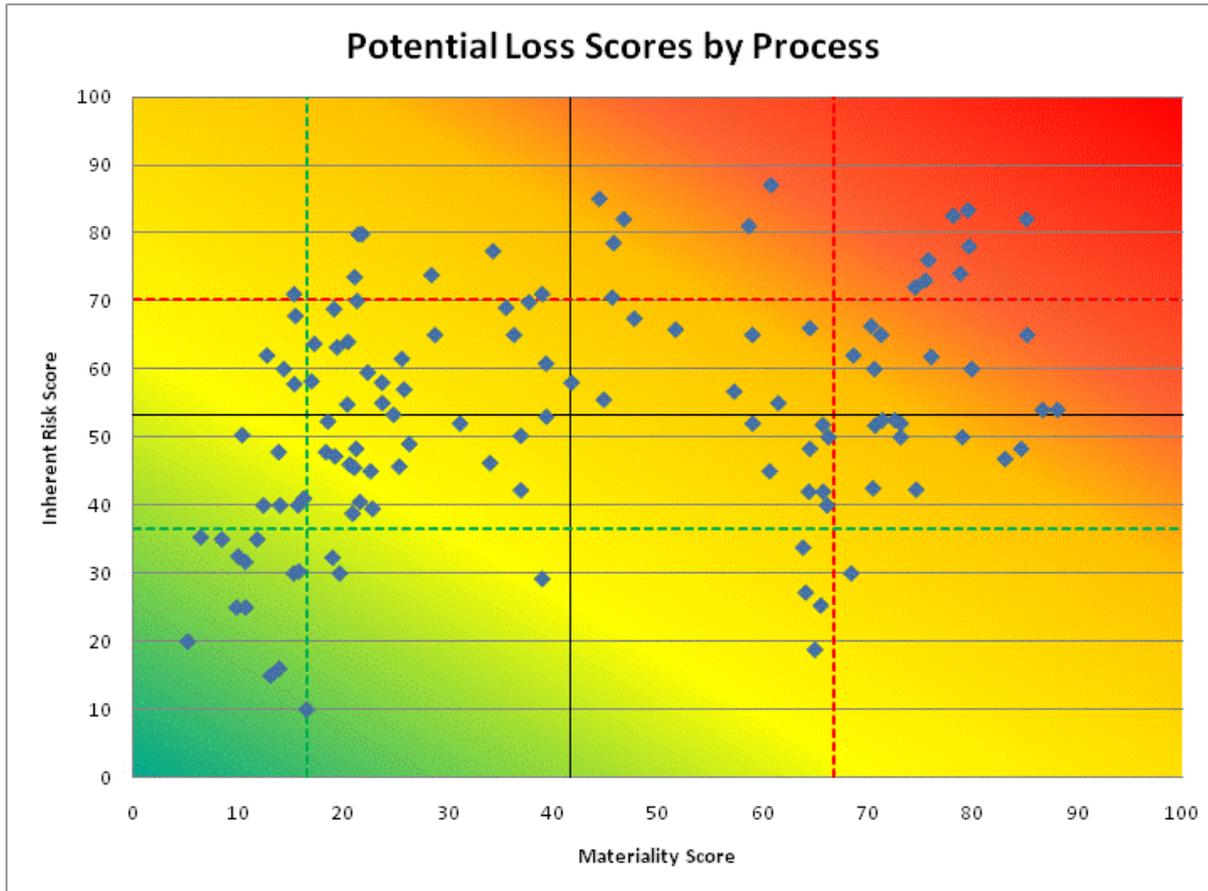
# Assessing Process Impact

- Methodology:
  - Evaluated BWC's financial metric targets and estimated a loss tolerance for consideration in materiality scoring
  - Developed impact scoring components
  - Scored processes with input from the Fiscal and Planning Division

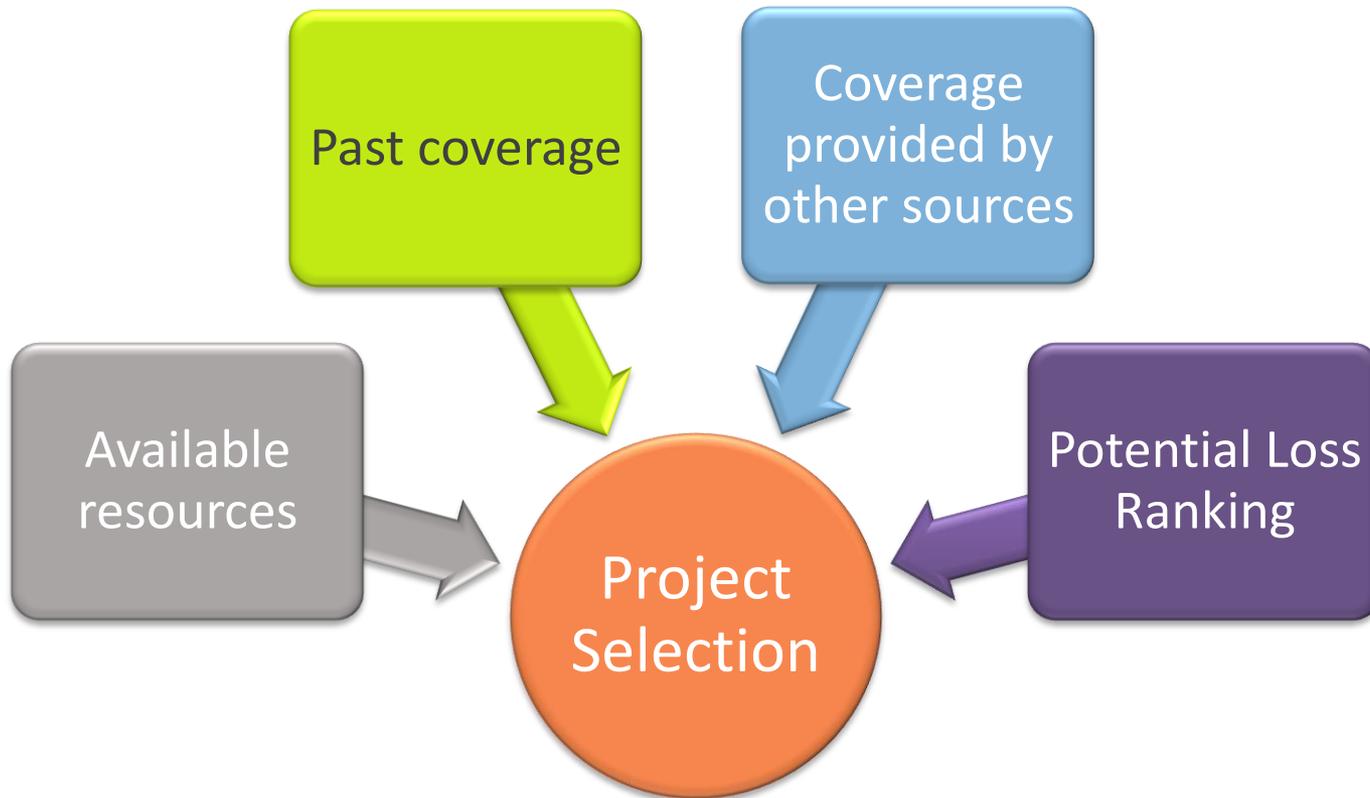
# Assessing Process Impact

- Scoring Process Impact:
  - Financial impact
  - Injured worker impact
  - Employer impact
  - Stakeholder impact
  - Operational impact
  - Public relations impact

# Potential Loss Scores



# Selecting Audits



# Coordination of Audits

- With information provided by the Internal Audit Division (IAD), OBM's Office of Internal Audit (OIA) will complete a similar process for BWC's IT governance processes
- IAD and OIA integrated operational audits

# Enterprise Risk Management (ERM)

- COSO ERM Definition:
  - ERM is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.
- IAD Working Definition:
  - As an integral facet of an organization's strategic planning function, ERM is a systematic approach to identifying and managing risk according to an organization's risk tolerance.



## Questions?

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**Common Sense Business Regulation (BWC Rules)**

(Note: The below criteria apply to existing and newly developed rules)

**Rule 4125-1-02**

**Rule Review**

1.  The rule is needed to implement an underlying statute.

Citation:   R.C. 4121.31  

2.  The rule achieves an Ohio specific public policy goal.

What goal(s): The rule outline the criteria and procedures under which BWC and the IC will accept electronic submission of documents.

3.  Existing federal regulation alone does not adequately regulate the subject matter.

4.  The rule is effective, consistent and efficient.

5.  The rule is not duplicative of rules already in existence.

6.  The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7.  The rule has been reviewed for unintended negative consequences.

8.  Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

Explain: BWC worked with the Industrial Commission and the Industrial Commission rule advisory committee on this rule. The IC rule advisory committee consists of labor, injured worker, state fund, and self-insured employer representatives.

9.  The rule was reviewed for clarity and for easy comprehension.

10.  The rule promotes transparency and predictability of regulatory activity.

11.  The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12.  The rule is not unnecessarily burdensome or costly to those affected by rule.

If so, how does the need for the rule outweigh burden and cost?

13.  The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor’s Executive Order.

**Executive Summary**  
**Five-Year Rule Review**  
**Rule 4125-1-02: Electronic submission and acceptance of documents**

**Introduction**

Rule 4125-1-02 of the Administrative Code is a joint rule of the Industrial Commission and Bureau of Workers' Compensation relating to the electronic submission and acceptance of documents.

**Five-Year Rule Review**

Pursuant to R.C. 119.032, state agencies are required to review all agency rules every five years to determine whether to amend the rules, rescind the rules, or continue the rules without change. The statute requires the agency to assign a rule review date for each of its rules so that approximately one-fifth of the rules are scheduled for review during each calendar year. Rule 4125-1-02 is a joint rule with the Industrial Commission. The rule was scheduled for five year rule review on February 1, 2007. BWC and the IC last performed a five year rule review of the rule in 2002.

**Background Law**

Under sections 4121.30 and 4121.31 of the Revised Code, the IC and BWC are authorized to adopt joint rules. Section 4121.30(A) states that "the administrator of workers' compensation and commission shall proceed jointly, in accordance with Chapter 119. of the Revised Code, including a joint hearing, to adopt joint rules governing the operating procedures of the bureau and commission."

R.C. 4121.31(A)(4) provides that the administrator and the industrial commission jointly shall adopt:

- (4) Rules governing the submission and sending of applications, notices, evidence, and other documents by electronic means. The rules shall provide that where this chapter or Chapter 4123., 4127., or 4131. of the Revised Code requires that a document be in writing or requires a signature, the administrator and the commission, to the extent of their respective jurisdictions, may approve of and provide for the electronic submission and sending of those documents, and the use of an electronic signature on those documents.

Accordingly, the IC and BWC jointly adopted rule 4125-1-02, Electronic submission and acceptance of documents, effective October 1, 2000.

**Rule Changes**

The IC recently voted to retain this rule without changes. BWC concurs in this assessment, and recommends no changes in this rule. There have not been any significant issues with the rule since its enactment. The IC and BWC would not be precluded from revisiting the rule in the future for possible changes, but at this point in the rule review process the IC and BWC agree that the rule is acceptable as currently adopted.

#### **4125-1-02 Electronic submission and acceptance of documents.**

(A) As used in this rule:

(1) "Bureau" means the bureau of workers' compensation and the authority vested in the administrator of workers' compensation.

(2) "Commission" means the industrial commission.

(3) "Electronic" includes electrical, digital, magnetic, wireless, optical, electromagnetic, facsimile or any other form of technology that entails capabilities similar to these technologies.

(4) "Electronic record" means a record generated, communicated, received, or stored by electronic means for use in an information system or for transmission from one information system to another.

(5) "Electronic signature" means a signature in electronic form attached to or logically associated with an electronic record.

(6) "Person" means an individual, corporation, business trust, estate, trust, partnership, limited liability company, association, joint venture, governmental agency, public corporation, or any other legal or commercial entity.

(7) "Health care provider" or "provider" has the same meaning set forth in rule 4123-6-01 of the Administrative Code.

(8) "Managed care organization" or "MCO" has the same meaning set forth in rule 4123-6-01 of the Administrative Code.

(9) "Record" means information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form including, but not limited, to applications, notices, evidence, or other documents.

(10) "Approved electronic information system" means the system designated by the commission or bureau for submission of electronic records. All electronic submissions are subject to data validation criteria as determined by the commission or bureau.

(B) Where a statute in Chapter 4121., 4123., 4127., or 4131. of the Revised Code or a rule in Chapter 4121., 4123., 4125., 4127. or 4131. of the Administrative Code, requires that applications, notices, evidence, and other documents, be in writing or requires a signature, the commission or bureau may, to the extent of their respective jurisdictions, approve of and provide for the electronic submission and sending of those documents, and the use of an electronic signature on those documents.

(C) For purposes of authentication, a person wishing to file certain electronic records shall obtain an identification number or other approved identification recognized by the commission or bureau.

(D) All electronic records received by the commission or bureau must be authenticated by the sending person's or provider's unique electronic signature or its equivalent as

deemed appropriate by the commission or bureau. If the person or provider fails to authenticate the electronic record with the electronic signature or its equivalent as deemed appropriate by the commission or bureau, the commission or bureau may disregard such record in rendering a decision, determination, or order to which the record would otherwise be relevant.

(E) If the commission or bureau finds that any electronic record received is unintelligible, incomplete, or in any manner illegible or incomprehensible, or, if the record fails to comply with paragraph (A)(10) of this rule, the commission or bureau shall make a reasonable attempt to contact the sender to correct the deficiency of the electronic record. If the commission or bureau is unable to contact the sender or the sender is unable to correct the deficiency of the electronic record, the commission or bureau may disregard the electronic record or evidence in rendering a decision, determination, or order to which the record or evidence would otherwise be relevant.

(F) To be accepted as timely filed or received, a record which is submitted electronically must:

(1) Be received by an electronic device, or at an electronic address designated by the commission or bureau as being appropriate for the intended purpose, and

(2) Be confirmed by the commission or bureau to have been received within the prescribed time frames of statutes or administrative rules.

(G) Electronic records not received by the commission or bureau during regular business hours, will be considered received and filed on the next business day.

(H) The electronic submission of applications, notices, evidence, or other documents is deemed equivalent to the submission of the original document.

(I) The electronic submission of documents to the commission or bureau is not required. A person may continue to submit non-electronic documents to the commission or bureau.

(J) The provisions of this rule notwithstanding, electronic submission and acceptance of documents by MCOS will continue to be governed by the MCO contract. To the extent this rule conflicts with any provisions of the MCO contract or the rules of Chapter 4123-6 of the Administrative Code, the MCO contract or rules of Chapter 4123-6 of the Administrative Code are controlling.

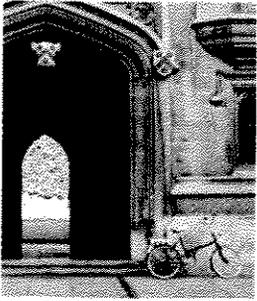
R.C. 119.032 review dates: 11/08/2002 and 02/01/2007

Promulgated Under: 119.03

Statutory Authority: 4121.12, 4121.30, 4121.31, 4123.05

Rule Amplifies: 4121.31, 4123.511, 4123.52, 4123.84

Prior Effective Dates: 10/1/2000



## Audit Committee Institute

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December 2010

### Ten To-Do's for Audit Committees in 2011

When considering and carrying out their 2011 agendas, audit committees should...

- 1. Keep the audit committee's eye on the ball: financial reporting and related internal control risk.** Ensuring that the audit committee agenda appropriately focuses on the issues that require the committee's attention will be a significant undertaking in 2011. The challenges of a continuing slow growth economy coupled with the impact of major public policy and regulatory initiatives—Dodd-Frank, IFRS and accounting standards convergence, financial services regulation, healthcare, the environment, energy, etc.—on the company's compliance, risk, and governance processes will require the attention of every audit committee. To meet this workload challenge, develop more-focused (yet flexible) agendas, with an eye on the company's key financial reporting and related internal control risks. Streamline committee meetings by insisting on quality pre-meeting materials, spending less time on low-value or "checklist" activities, and engaging in more discussion (versus presentations).
- 2. Understand how the raft of accounting changes on the horizon will impact the company and its resources.** While the SEC determines what role IFRS will play in U.S. financial reporting, significant change to U.S. accounting is on the way. The FASB and the IASB are working on a number of joint projects, and final accounting standards in several areas—including revenue recognition, leases, and fair value measurements—are scheduled to be issued by June of 2011 (with more new standards to follow later in the year). Understand how these projects will impact your company, including implementation / resource requirements, and stay close to where the projects are headed and the timeline. FASB has requested comment on how it should proceed with implementation of these major convergence projects. If your management team has concerns, make sure they submit comments.
- 3. Review the company's whistleblower processes and compliance program.** The Dodd-Frank Act's whistleblower bounty program, together with stepped-up enforcement efforts by the SEC and DOJ—particularly in connection with suspected FCPA violations—point to the need for companies to reassess their compliance efforts. In light of the Act's incentives for whistleblowers to report concerns directly to the SEC, consider whether there is a need to revitalize the company's existing whistleblower processes so that employees are encouraged "to talk to the company first." (Test the whistleblower system yourself.) A comprehensive review of the company's anti-fraud and compliance programs, including its FCPA program, may be in order. The right tone at the top and throughout the organization is critical.
- 4. Understand the company's significant tax risks.** Tax authorities in the U.S. and globally are ratcheting-up their enforcement efforts—and are more aggressively sharing information to increase the effectiveness of their tax audits of multinationals. In September, the IRS announced that it will require companies to report uncertain tax positions on their tax returns—providing important information to the IRS for use in tax audits. Given this tax risk environment, understand management's process for determining the company's tax risk appetite. Who is involved? What are management's processes for determining whether a tax position is uncertain? What about the related controls? When did your tax director last meet with the audit committee?

5. **Continue to monitor fair value estimates, impairments, and management’s assumptions underlying critical accounting estimates.** These issues, together with loss contingencies, pension funding shortfalls, and going-concern challenges, should continue to be a major area of focus for the audit committee. Recognize that the company’s greatest financial reporting risks are often in those areas where there is a range of possible outcomes, and management is called upon to make difficult judgments and estimates. Understand management’s framework for making accounting judgments and estimates, and make sure that management has appropriate controls in place. One such framework is provided in the *Pozen Report*, Chapter. 3, Section III, Aug. 2008 (<http://www.sec.gov/about/offices/oca/acifr/acifr-finalreport.pdf>).
6. **Consider whether the company’s financial statements and disclosures provide investors with a good, plain-English understanding of the state of the business.** Given the importance of transparency to the investor community, as well as the SEC’s intense focus on disclosures (as reflected in SEC staff comment letters), consider how disclosures can be improved—perhaps going beyond what’s “required”—to better address expectations. Enlist management’s disclosure committee in this effort. At the end of the day, do the financial statements and disclosures tell the company’s story?
7. **Reassess the quality of business controls around the company’s key operational risks—and consider possible lessons learned from the business crises of the past 18 months.** Understand the company’s key operational risks—including low probability, high impact risks—and assess the adequacy of the business controls management has put in place around those risks. What’s changed in the operating environment? Have we had any failures—or near misses? What are the risks posed by the extended organization—sourcing, outsourcing, sales and distribution channels? How good are our disaster recovery plans? Are emerging risks—whether slow-moving or fast-hitting—getting sufficient agenda time? Does the audit committee have a good sense of the company’s risk culture—beyond the boardroom and senior management level? Is the company’s risk appetite clearly articulated and understood?
8. **Set clear expectations for external and internal auditors, and be sensitive to the strains on the CFO and finance organization.** The audit committee relies heavily on internal and external auditors for insights, technical expertise, judgment, and independence. Encourage (and expect) frequent, informal communications with the audit engagement partner, and ask to receive important information on a real-time basis. Assess whether internal audit has adequate resources, and is sufficiently focused on the company’s key operational risks and related controls. Given the demands of the economic environment, resource constraints, and pressure to meet performance expectations, make sure the CFO and finance organization have what they need to succeed.
9. **Talk about the audit committee’s role in IT governance.** Understanding the opportunities and risks posed by IT is a critical challenge for companies today—from IT spending and strategic alignment of IT resources, to systems implementation and outsourcing, information privacy and security, cloud computing, internal controls, business continuity, and ultimately to information quality and the company’s competitive position. Does the company have a social media networks policy in place? Is there a need for IT expertise on the board? Does management—particularly the CIO—communicate with directors in plain-English, and in business context? Clarify the role of the audit committee (versus the board and other board committees) in IT governance and oversight—and keep IT on the radar.
10. **Make time to review and discuss the new *Report of the NACD Blue Ribbon Commission on The Audit Committee*.** Leverage the report to benchmark and calibrate your audit committee’s oversight practices. Released in October, the report offers important insights for every audit committee member and director. It’s a quick and easy read – written for the layman.

KPMG’s Audit Committee Institute



## Internal Audit Open Discussion

### Audit Plan

#### Planning Phase:

- Large Deductible Program
- New Claims Audit
- Sysco Reimbursements

#### Fieldwork Phase:

- Claims Quality Assurance Engagement
- Compliance and Performance Monitoring Audit
- Employer Refunds Audit
- Investment New Account Set Up and Asset Transition Review
- FY11 MCO Audit #3
- Percentage Permanent Partial Disability

#### Final Phase:

- FY11 MCO # 2

#### Completed Projects for March Quarterly Executive Summary:

- Investment Request for Proposal Compliance Review
- FY11 MCO #1
- Special Claims Audit

### Other

- Annual Risk Assessment
- Audit Validation for March Audit Committee Meeting
- Office of Budget and Management IT Project

# 12-Month Audit Committee Calendar

<b>Date</b>	<b>February 2011</b>
2/23/2011	1. Overview of the Annual Internal Audit Risk Assessment Process
	2. Electronic Submission of Documents Rule 4125-1-02 (1st read)
	3. Inspector General Annual Report (Executive Session)
	4. Quarterly Litigation Update (Executive Session)
	<b>March 2011</b>
3/24/2011	1. Internal Audit QES Review
	2. Discount Rate and Financial Metrics (1 <sup>st</sup> Reading)
	3. PEO Education Session
	4. OBM Office of Internal Audit IT Update (Executive Session)
	<b>April 2011</b>
4/28/2011	1. Discussion of External Audit
	2. Discount Rate and Financial Metrics (2 <sup>nd</sup> Reading)
	3. FY 2012 Administrative Budget (1 <sup>st</sup> Reading)
	4. Quarterly Litigation Update
	<b>May 2011</b>
5/26/2011	1. FY 2012 Administrative Budget (2 <sup>nd</sup> Reading)
	2. Internal Audit Charter
	<b>June 2011</b>
6/15/2011	1. FY 2012 Internal Audit Plan
	2. External Audit Update
	<b>July 2011</b>
7/28/2011	1. Internal Audit QES Review
	2. FY 2012 Financial Projections
	3. Quarterly Litigation Update (Executive Session)
8/25/2011	<b>August 2011</b>
	1. BWC Code of Ethics Review
	2. External Audit Update
	<b>September 2011</b>
9/29/2011	1. Internal Audit QES Review
	2. Inspector General Semi-Annual Report (Executive Session)
	<b>October 2011</b>
10/27/11	1. Audit Committee Charter Review (1 <sup>st</sup> Reading)
	2. Internal Audit Annual Accomplishments Report
	3. Quarterly Litigation Update (Executive Session)
	4. Semi-annual meeting with Inspector General (Executive Session)

# 12-Month Audit Committee Calendar

<b>Date</b>	<b>November 2011</b>
11/17/2011	1. Audit Committee Charter Review (2 <sup>nd</sup> Reading)
	2. External Audit Update
	3. Finance Education Session
	<b>December 2011</b>
12/14/2011	1. FY 2013 – 2014 Budget Process Education Session
	2. Annual Disaster Recovery/Business Continuity Plan
	3. Internal Audit QES Review
	4. FY 2010 Comprehensive Annual Report
1/xx/2012	<b>January 2012</b>
	1. Overview of the Annual Internal Audit Risk Assessment Process
	2. Quarterly Litigation Update (Executive Session)