

BWC Board of Directors
AUDIT COMMITTEE
Wednesday, December 15, 2010, 3:00 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
James Matesich

Members Absent: None

Other Directors Present: James Hummel, Alison Falls, Thomas Pitts, Larry Price,
Charles Bryan (departed at 3:30)

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
Tom Croyle, Chief Information Officer
Thomas Prunte, Director, Employer Management Services
Don Berno, Board Liaison

Scribe: Jill Whitworth

CALL TO ORDER – DECEMBER 15, 2010

Mr. Haffey called the meeting to order at 2:48 PM and the roll call was taken. All committee members were present.

MINUTES OF NOVEMBER 18, 2010

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

REVIEW/APPROVE AGENDA

There were no changes to the agenda. The agenda was approved by unanimous roll call vote on a motion by Mr. Smith, seconded by Mr. Harris.

NEW BUSINESS / ACTION ITEMS

1. FY 2010 Comprehensive Annual Report

Don Berno, Board Liaison, presented the BWC 2010 Annual Report to the Committee for review and approval. His presentation included reference to the "Annual Report July 1, 2009 – June 30, 2010", which is incorporated by reference into the minutes.

The report is required by statute pursuant to House Bill 100. For ease of presentation, the report includes several other required reports, including Investment by Class, Safety & Hygiene, and External Audit. These reports have already been reviewed and approved in the appropriate committee meeting. The Ohio Industrial Commission annual report is also included.

Mr. Harris complimented Administrator Marsha Ryan for the "Administrator's Letter" included in the report, which serves as a useful reference point.

A motion was made by Mr. Smith, seconded by Mr. Matesich, that the Audit Committee of the Workers' Compensation Board of Directors accept the recommendation of the Administrator to approve the BWC Annual Report and refer it to the Board of Directors for review, approval, and release. The motion was approved by unanimous roll call vote.

2. FY 2012 – 2013 Budget Process Education Session

Tracy Valentino, Chief of Fiscal and Planning, presented a high level discussion of the FY 2012-2013 Biennial Budget (Budget). Her presentation included reference to the "BWC's Biennial Administrative Budget" dated December 15, 2010, which is incorporated by reference into the minutes.

The presentation is meant to provide a working knowledge for the committee of the next steps in the budget process. The Budget itself was submitted to the Office of Budget and Management (OBM) earlier this fall. The purpose of the Budget is to establish a funding level for BWC to support overall resources, continuing level of service, and major recurring costs/projects for the benefit of its customers. For this submission, the goal for all state agencies is to maintain administrative services while establishing an annual funding level lower than that for 2010. Ms. Valentino advised that this Budget is 8.7% less than the 2010-2011 budget. Another goal for BWC is to establish a level of funding that maintains or reduces employers' administrative assessments.

The emphasis of this Budget is on performance and priorities, not a line-item approach, and on narratives rather than numbers. Ms. Valentino reviewed the submission requirements. BWC met with OBM prior to the 11/1/2010 submission date, and anticipates another meeting with OBM to be held in January. Because the BWC budget is not part of the general state budget bill, it is submitted to the legislature at an earlier date. Approval is anticipated sometime between March and June 2011. Per a question from Mr. Smith, the BWC budget is always approved earlier than the general budget.

3. Annual Disaster Recovery / Business Continuity Plan

Tom Croyle, Chief Information Officer, presented the BWC Annual Disaster Recovery / Business Continuity Plan to the Committee. His presentation included reference to a document entitled "BWC's Disaster Recovery Plan (DRP)", which is incorporated by reference into the minutes.

BWC's DRP is consistent with industry standards. The handout is a condensation of the management portion of the DRP. Six DRP procedures, and the steps involved in executing those procedures, were reviewed as follows:

- Activation: whether the DRP should be implemented;
- Recovery: utilization of the remote site for recovery activities;
- Recovery Coordinator Responsibilities: transition of authority to the appropriate personnel;
- Site Restoration: media reclamation and returning to the home site;
- Administrative: monitoring record keeping and recovery progress; and
- Preparedness: ensuring that the appropriate personnel are prepared on a daily basis to activate and carry out the DRP.

Tom Stevens is the contact point person on the management team with respect to reporting any event that could involve the DRP. Activation of the DRP is a critical decision, as it costs \$100,000.00 when the outside vendor is requested to restore BWC's systems at the remote site in New York.

The spring and fall DRP tests offered mixed results. While all operating systems and databases were recovered, problems persist with not being able to recover "flat files" such as the claims management system. A team is being assembled to correct this problem going forward and Mr. Croyle anticipates no further failures of this nature. Printing problems during the spring test were corrected and did not occur in the fall test. Once the state takes over the printing function, \$30,000.00 in printing costs will be eliminated. In response to a question from Mr. Lhota, Mr. Croyle noted we do test the administrative part of the plan, but not to the degree that we test the technical side.

Mr. Croyle concluded with anecdotal information regarding a valve failure in the computer room which was appropriately identified and corrected.

4. FY2011 1st Quarter Executive Summary

Caren Murdock, Chief of Internal Audit, reviewed the FY2011 1st Quarter Executive Summary for Internal Audit. Her presentation included reference to the "FY 11 1st Quarter Executive Summary Report" of December 15, 2010, which is incorporated by reference into the minutes.

The report covers the quarter ending September 30, 2010. The Internal Audit Division (IAD) performed one consultation and three audits during this period. The consultation involved usage of the Administrator's electronic signature on documents used in the Self-Insured Department.

A recommendation was made to limit access to only those individuals requiring access to perform their job duties and to periodically review which individuals should have access and remove any that no longer require access.

IAD conducted an audit of the Disabled Workers' Relief Fund (DWRF) process, which provides additional benefits to permanent total disability recipients. Internal controls were adequately designed. One "Significant Comment" was made with respect to failure to ensure survivors or dependents of deceased DWRF recipients receive accrued compensation owed from the date of last payment to the date of death.

IAD conducted an audit of temporary total disability (TT) claims with respect to evaluation and issuance of benefits. Three areas of Significant Weakness were noted. One involved inconsistencies in setting independent medical examinations according to statutory time frames. The content of TT Notice of Referrals did not consistently contain all necessary information as required by policy.

Ms. Falls noted that the disposition to "remind staff" of these various issues was rather simplistic. Ms. Murdock responded that this was more in the nature of continued education, use of a tickler system for scheduling, and reviewing claim audits with staff.

An internal audit of the Employer Compliance process, which was requested by management, determined that internal controls are not adequately designed or operating correctly. Eleven "Significant Weakness" were noted. There is a backlog of referrals, including 59% of referrals pending for over 360 days, which is based in part on a large initial influx of referrals and inadequate staffing. There is also a lack of adequate quality assurance review procedures and recovery tracking. Targeting needs to be instituted for additional compliance review of temporary agencies, professional employer organizations (PEOs), and employers who never had BWC coverage, but have claims filed against them. Lastly, more utilization should be made of injunctive relief against non-compliant employers through the Attorney General's Office.

Mr. Harris commented that a 2-3 year audit cycle for temporary agencies and PEOs appears inadequate. Thomas Prunte, Director of Employer Management Services, advised that the Premium Audit unit is already performing the bulk of this function, so it is not being neglected. More information will be presented at the PEO education session at next month's committee meeting. Mr. Harris stated that given the track record of PEOs, a more aggressive compliance effort should be made. Mr. Haffey noted that his firm does not audit PEOs.

Ms. Murdock next gave a general overview of outstanding internal audit comments, which are currently at 73. 94% of outstanding comments are from 2008 to present. Most of the older outstanding comments require long-term attention and solutions, such as group rating. 64% of outstanding comments involve customer service, excluding IT comments since IT auditing was transferred to OBM. Ms. Murdock then reviewed changes in target resolution dates for several comments, and the reasons for the change.

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

- BSI Securitization Process (P. 18, comment 3)

Ms. Falls asked for a status regarding this comment, concerning scheduling bankrupt self-insured employers for Self-Insured Review Panel. Mr. Murdock stated she will research this issue and follow up.

Management has accepted the risk for the following comments:

- Lump Sum Settlement Process (P. 15, comment 1 and 2)
Management has accepted the risk of not performing an agency wide impact on actuarial reserves and investment return over future years. Management also accepts the risk of not linking its performance metrics to program goals and objectives.
- Employer WCIS Credit Transactions (P. 19, comment 2)
Management believes requiring payroll record capture for all premium audits exceeds industry practice and would be too great a burden. This will be done in limited circumstances only.

Ms. Falls asked if silence from the Committee during these discussions is consent to management's acceptance of the identified risk. Ms. Murdock replied in the affirmative. Mr. Haffey advised that he reviews these issues with Ms. Murdock and Administrator Ryan, and is comfortable with management's actions. If there is a strong disagreement, Mr. Haffey will bring the matter to the attention of the Committee and Board; in fact, it is his duty to do so. After additional discussion and explanation of the process, Mr. Lhota stated he believed the checks and balances were appropriate and he was comfortable with the process. Per a suggestion from Mr. Matesich, comments which may no longer be on the executive summary, but are still monitored by IAD, may be brought back to the Committee for an update.

Ms. Murdock noted several changes this quarter to the annual audit plan, based on the length of the TT and Employer Compliance audits, and shifting of staff. The PEO audit was delayed so as to not duplicate efforts of the consultant addressing that issue. IAD is also assisting OBM on various matters. Mr. Lhota stated that due to its importance, all directors should attend the PEO education session at next month's meeting.

DISCUSSION ITEMS

1. Open Discussion with Internal Auditor

Ms. Murdock reported that 10 reviews are in process – 3 in planning, 4 in field work and 3 in final phase. IAD has begun validating outstanding comments for October through December 2010. An entrance conference was held on the OBM Cambridge audit. Ms. Murdock gave a presentation at the State Audit Committee meeting on December 14, 2010 regarding the BWC reporting relationship with OBM Office of Internal Audit and described how BWC IAD coordinates activities with them. She also discussed implementing an enterprise wide risk management process at BWC.

2. Committee Calendar

There were no changes to the calendar. The January meeting will feature the PEO education session, enterprise-wide risk assessment, and the Quarterly Litigation Update.

ADJOURNMENT

At 4:23 PM, Mr. Smith moved to adjourn the meeting. The motion was seconded by Mr. Matesich and approved by unanimous roll call vote.