

BWC Board of Directors

**AUDIT COMMITTEE**

**Wednesday, February 23, 2011, 9:00 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  
James Matesich  
Dewey Stokes  
Nicholas Zuk

Members Absent: None

Other Directors Present: James Hummel, Thomas Pitts, Larry Price, David Caldwell, Mark Palmer, Stephen Lehecka

Counsel Present: Jason Rafeld, General Counsel  
Tom Sico, Assistant General Counsel  
Ann Shannon, Legal Counsel  
Janyce Katz, Assistant Attorney General

Staff Present: Stephen Buehrer, Administrator/CEO  
Caren Murdock, Chief of Internal Audit  
Don Berno, Board Liaison

Scribe: Jill Whitworth

**CALL TO ORDER – FEBRUARY 23, 2011**

Mr. Haffey called the meeting to order at 8:45 AM and the roll call was taken. All committee members were present.

**MINUTES OF DECEMBER 15, 2010**

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

**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. Zuk.

## **NEW BUSINESS / ACTION ITEMS**

### **1. Overview of the Annual Internal Audit Risk Assessment Process**

Keith Elliott, Internal Audit Manager, and Karl Zarins, Internal Audit Director, presented an overview of the annual internal audit risk assessment process to the Committee. Their presentation included reference to the “Annual Internal Audit Risk Assessment Process” PowerPoint and printed version thereof, which is incorporated by reference into the minutes.

The assessment process assigns audit resources to areas of greatest risk, in compliance with Institute of Internal Auditors (IIA) standards. Evaluation is based upon the likelihood of loss and the materiality of the loss.

The population of potential audit areas is evaluated through identification of key processes, review by senior management and internal subject matter experts, and further discussion with management, the Board of Directors, and the Administrator. The likelihood of loss is evaluated in five areas: complexity of operations, level of change from the prior year or anticipated for the following year, potential for fraud, waste or abuse, operational clean-up projects to rectify problem areas, and staffing adequacy.

Processes are ranked against one another by evaluating Board-approved metrics, financial statements, operational impact and constituent impact. Constituent impact alone makes up one-third of the scoring.

Mr. Pitts asked how a loss tolerance is estimated. Mr. Zarins explained this is based on any event which could alter by 5% or more the metrics found in the monthly enterprise reports.

The selected audit projects are presented to the Committee in June. Selection is determined by various factors, including allocation of resources, how recently the process has been audited, and the extent of external monitoring by outside entities such as Schneider Downs, or the Office of Internal Audit (OIA). OIA is relied on for IT audits.

Mr. Matesich and Mr. Pitts inquired about how the impact factors are determined and weighted. Financial impact is weighed most heavily as it impacts all constituents. Injured worker impact and employer impact are weighed equally. Although public relations impact is given minimal weight, it is considered, given recent agency history.

### **2. First Reading**

#### **a. Electronic Submission of Documents, Rule 4125-1-02**

Mr. Haffey explained the process of having two readings for rules, and introduced Tom Sico, Assistant General Counsel, who explained the combined function of statutes and rules. The Administrator has the power to make rules with the advice and consent of the Board.

Rule 4125-1-02 is one of two joint rules with the Industrial Commission, and was first adopted in 2000. Mr. Sico explained the five-year rule review process to determine

whether a rule should be revised, rescinded or remain unchanged. This rule has no changes and will be re-filed in existing form. If a statute requires a filing in writing, the option exists to file electronically, although electronic filing cannot be required.

Mr. Price inquired as to the necessity for a second reading of a rule without changes. Mr. Haffey stated that at present, the process of two readings will remain in place. Mr. Zuk asked how a new rule is presented. Mr. Sico explained that rules are created as needs are identified, and explained the review/hearing process of the Joint Committee on Agency Rule Review (JCARR). Mr. Haffey briefly reviewed the items in the “Common Sense Business Regulation” checklist.

## **DISCUSSION ITEMS**

### **1. Ten To-Do’s for Audit Committees in 2011**

Don Berno, Board Liaison, presented a summary of a handout prepared by KPMG LLP, one of the Big Four accounting firms, on current audit committee best practices. His presentation included reference to the Audit Committee Institute “Ten To-Do’s for Audit Committees in 2011” dated December 2010, which is incorporated by reference into the minutes.

Mr. Berno reviewed the items applicable to BWC. Financial reporting and risk identification are kept current throughout the year via various reports to the Audit Committee. Accounting changes are not presently applicable to BWC, which uses government accounting standards. BWC does not pay taxes, so has no significant tax risks. Other items are covered through reviews conducted by Internal Audit and the external auditors, Inspector General reports, and the monthly enterprise report. Information privacy and security is a very important topic that is being extensively evaluated, both internally and by OBM.

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

Ms. Murdock reported that 10 internal audits are in process – 3 in planning, 6 in field work and 1 in final phase. IAD continues to validate outstanding comments for October through December 2010 for presentation with the Quarterly Executive Summary at the March meeting. Ms. Murdock noted that three MCO audits are in process or already completed this fiscal year, with a goal of performing up to eight MCO audits. Per a question from Mr. Hummel, IAD doesn’t visit all seventeen MCO’s for every audit, but uses a risk-based approach.

### **3. Committee Calendar**

There were no changes to the calendar. The March meeting will feature the PEO education session, a first reading of the discount rate and financial metrics, and the Quarterly Executive Summary.

#### **4. Executive Session**

Mr. Haffey moved to recess for an Executive Session to consider a report from the Inspector General, and the Quarterly Litigation Update. The meeting will adjourn immediately following the return from Executive Session. The motion was seconded by Mr. Smith and approved by unanimous roll call vote. The Committee entered Executive Session at 9:48 AM.

#### **ADJOURNMENT**

At 10:10 AM, the committee returned from Executive Session. Mr. Matesich moved to adjourn the meeting. The motion was seconded by Mr. Smith and approved by unanimous roll call vote.