

BWC Board of Directors

**AUDIT COMMITTEE**

**Wednesday, June 15, 2011, 2:00 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  
Stephen Lehecka  
Dewey Stokes  
Nicholas Zuk

Members Absent: None

Other Directors Present: Mark Palmer, David Caldwell, James Matesich, Chan Cochran, Peggy Griffith, David Johnson

Counsel Present: Ann Shannon, Legal Counsel  
Janyce Katz, Assistant Attorney General

Staff Present: Stephen Buehrer, Administrator  
Keith Elliott, Interim Chief, Internal Audit  
Tracy Valentino, Chief of Fiscal and Planning  
Don Berno, Board Liaison

Scribe: Jill Whitworth

**CALL TO ORDER – JUNE 15, 2011**

Mr. Haffey called the meeting to order at 2:16 PM and the roll call was taken. All committee members were present.

**MINUTES OF MAY 26, 2011**

The minutes were approved without changes by unanimous voice vote on a motion by Mr. Smith, seconded by Mr. Stokes.

**REVIEW/APPROVE AGENDA**

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

## **NEW BUSINESS / ACTION ITEMS**

### **1. Motions for Board Consideration** **a. FY 2012 Internal Audit Plan**

Keith Elliott, Interim Chief of Internal Audit, presented the FY 2012 Internal Audit Plan. His presentation included reference to a document entitled "Internal Audit Division Fiscal Year 2012 Annual Audit Plan", a copy of which is incorporated by reference into the minutes.

Professional accounting standards require an annual risk-based audit plan to provide documentation of the audit projects to be performed in the following year. This document is presented to senior management and the Board for approval. The Internal Audit Division (IAD) reports directly to the Audit Committee and administratively to the Administrator. Mr. Smith asked who initiates the IAD consulting engagements. Mr. Elliott stated that these usually stem from management requests to do a front-end review of a new project or process.

IAD's purpose is to independently assess the adequacy of internal controls throughout the organization. The risk assessment process is done through analysis of eleven risk factors based on likelihood and materiality. Financial impact is given the greatest weight in evaluating materiality, while complexity and level of change are given the greatest weight in evaluating likelihood. In developing the audit plan, external reviews are also considered in order to avoid duplication and maximize audit coverage. Keith mentioned that it is important to note the role of the Office of Budget and Management - Office of Internal Audit (OBM-OIA), which is charged statutorily with auditing all state agencies. However, since BWC has an established audit department and Audit Committee, OBM OIA relies on the work performed by IAD in fulfilling its responsibilities. In order to be able to place reliance on the work performed by the IAD, OBM OIA will review various factors including the independence and objectivity of the function, competency of staff, adequacy of engagement planning supervision and documentation, and audit follow up procedures performed to assess whether management has implemented suggested changes or accepted the risk.

IAD generally performs five types of projects: operational audits, internal control/compliance audits, financial audits, consulting engagements and special investigations. Mr. Elliot reviewed the specifics of each, along with a list of upcoming projects for FY 2012 and a "heat map" showing how the projects rank in terms of likelihood and impact. Mr. Smith asked how much time is spent on audit validation testing and the benefit of this task. Mr. Elliott responded that it does not involve a significant amount of time, but is beneficial in making sure that appropriate attention is given to resolving issues of concern. When evaluating IAD recommendations, if Management determines that there is not a cost/benefit

to implementing the recommended changes, management can choose to assume the risk of not implementing that particular recommendation. If management does assume the risk, the IAD has a process to review the issue with the Administrator and the Audit Committee to ensure that such determination does not result in unreasonable risk to the agency.

Mr. Elliott noted that OBM-OIA will also present an audit plan to the state audit committee, and assist BWC with Information Technology Audits of several areas, including the Electronic Benefit Transfer audit, the Medical Benefit plan design, core system assessment, virtualized server, and change of management processes.

Mr. Zuk asked whether categories which are not included in this year's plan have been audited in the past. Mr. Elliott replied in the affirmative. Mr. Zuk also inquired about average settlement figures, which will be provided.

Mr. Haffey noted that the Audit Committee has a review process with respect to areas of risk. He recognized Joe Bell from OBM-OIA, who has been a valuable resource for the committee. Mr. Smith pointed out the IAD interviews each director individually with respect to any areas of concern.

Mr. Smith moved that the Audit Committee recommend that the BWC Board of Directors approve the Fiscal Year 2012 Internal Audit Plan as presented here today. The motion was seconded by Mr. Stokes and approved by unanimous voice vote.

## **DISCUSSION ITEMS**

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

Mr. Elliott reported a new project on additional allowances is in the field work phase. The MCO audit report has been completed and is awaiting management response. The new claims and Sysco reimbursement audits are now in final phase.

The Chief of Internal Audit position has been posted and interviews are in process.

### **2. External Audit Update**

Tracy Valentino, Chief of Fiscal and Planning, gave a brief overview of the external audit process. Schneider Downs, the external audit firm, is in the final year of its five-year engagement. The Auditor of State will conduct a request for proposal with respect to the external auditor. BWC will also have a key role in the

selection. Ms. Valentino noted the benefit of having a consistent audit team in place.

The Schneider Downs audit team is on-site through the end of June, when internal control testing will be completed. They will return August 3<sup>rd</sup>. The external audit report is due to OBM by September 30, 2011, but the goal is for submission by September 23<sup>rd</sup>. BWC will receive a financial statement and management letter. Last year's management letter comments have been addressed, and Ms. Valentino is hopeful there will be no ongoing "yellow book" comments.

Mr. Haffey agreed that Schneider Downs should be commended for their consistency and communication over the period of the contract.

### **3. Committee Calendar**

There were no changes to the calendar. Mr. Haffey noted that May-September is the busiest portion of the year for Audit Committee business.

### **ADJOURNMENT**

Mr. Smith moved to adjourn the meeting. The motion was seconded by Mr. Lehecka and approved by a 4-0 voice vote as Mr. Stokes had momentarily departed. The meeting adjourned at 3:09 PM.