

**WORKERS' COMPENSATION BOARD OF DIRECTORS**

**AUDIT COMMITTEE**

**WEDNESDAY, SEPTEMBER 26, 2007, 3:00 PM  
WILLIAM GREEN BUILDING  
THE NEIL SCHULTZ CONFERENCE CENTER  
30 WEST SPRING ST., 2<sup>ND</sup> FLOOR (MEZZANINE)  
COLUMBUS, OHIO 43215**

Members Present:     Kenneth Haffey, Chairman  
                              William Lhota  
                              Philip Fulton

**CALL TO ORDER**

The meeting was called to order by Mr. Haffey at 3:04 PM and the roll call was taken.

**MINUTES OF AUGUST 24, 2007**

A motion to approve the minutes of the prior month's meeting was made, and seconded. One change was made at the top of page 3 to note that the Committee meeting is to be held the day before the Board meeting. With that change, the minutes were unanimously approved.

**NEW BUSINESS / ACTION ITEMS**

**AUDIT COMMITTEE CHARTER**

Mr. Lhota pointed out that the full Board must determine when the Audit Committee meets. In addition, Joe Bell, BWC's Chief of Internal Audit, made additional recommendations to the Audit Committee's draft charter. Mr. Bell stated that the Auditor of State has the responsibility to conduct audits, but may contract with an external auditor to perform that function. When the Auditor of State selects an external auditor, relevant information for the role the auditors will play is contained in the request for proposal. BWC plays a substantial role in drafting the request for proposal for the independent auditor. The Audit Committee members expressed interest in playing an active role in selection of this external auditor. The current auditor has just finished the first year of a five year contract. Changes to the draft charter will be made and sent out through Joe Bell.

**RULE-MAKING PROCESS**

Tom Sico, BWC Assistant General Counsel, conducted a presentation on the rule making process.

**RULE UPDATES**

**Rule regarding coverage application**

Joy Bush, BWC Director of Employer Services, presented on the House Bill 100 coverage application rule. This rule requires employers to provide a minimum amount of information within the application for coverage in order to be given workers' compensation coverage. The purpose of the change is to facilitate establishing appropriate coverage through obtaining accurate information from employers.

A motion was made by Mr. Fulton and seconded by Mr. Lhota to recommend that the Board approve WCBOD Resolution 07-01 relating to OAC Rule 4123-17-13, which controls the making of the initial application for employer coverage. The motion was passed by unanimous vote.

### **Rule regarding hospital reimbursement rates**

Stephanie Ramsey, BWC's Director of Managed Care Services, gave a presentation on the proposed hospital reimbursement rule. Amendments to the hospital reimbursement rule are designed to reflect changes that have been made to the Code of Federal Regulations and the Federal Register. Mr. Fulton moved, and Mr. Lhota seconded that the Audit Committee recommend that the Board approve WCBOD Resolution 07-02 relating to OAC Rule 4123-6-37.1 concerning the payment of hospital in-patient services. The motion was passed by unanimous vote.

## **DISCUSSION ITEMS**

### **External audit update**

Mr. Haffey reported on the external audit. The external audit will be completed Friday September 28, 2007. This is a first year audit for the independent auditor, Schneider Downs. Financial statements and a management letter will be presented to management by the auditor. Mr. Haffey raised the issue as to what should be done with audit reports when they come to the BWC, including MCO audits, with an emphasis placed on process controls. Mr. Lhota raised the issue as to whether or not other third party vendors to BWC are audited. They are audited, according to Tracy Valentino, Interim Chief Financial Officer. These are known as SAS 70 audits. Mr. Haffey emphasized the significance of SAS 70 reports.

### **DRWF Update**

Tracy Valentino provided an update on disabled workers' relief fund (DRWF) issues. Over the years, BWC grappled with the question of whether it should be recording a liability entry for DRWF. Ms. Valentino advised that the answer was yes, but at the time, no entry was made. Ms. Valentino discussed the legislative remedy permitting BWC to enter an asset transaction to correspond with the liability entry. As a consequence, a 1.9 billion dollar net asset entry is reflected in the current audit. This will not impact DRWF assessment amounts.

### **IG Manual Override Report**

James Barnes, BWC General Counsel, discussed the Inspector General Manual Override report. The report is available on the Inspector General's website. The audit period covered in the report is January 2003 through September 30, 2005. The report recommends that internal controls should be implemented, as well as processes for

experience modifier calculations and override policy. The report makes a recommendation that responsibility for making adjustments to claim costs be re-assigned to the Actuarial Department, and that management be prevented from making overrides (only underwriters can make overrides). The report recommends that the modification of rates and payments systems be designed to display all activity, and to develop fixed rules on making rate adjustments, as well as standard controls to prevent rate manipulation by groups. In addition, the report recommends that BWC follow established minimum threshold criteria for awarding safety grants, follow recommendations of internal auditor and actuarial consultant, and give equal consideration to all override requests. BWC has already taken corrective action on many of the recommendations of the Inspector General report. BWC's response to the Inspector General report is due October 19, 2007.

### **Litigation Updates**

James Barnes reported that the Board of Directors will be made aware of noteworthy cases at monthly meetings, which may involve executive session.

### **Calendar**

Joe Bell discussed providing quarterly executive summaries and legislative updates. Two to three items of note will be discussed on a monthly basis, as well as annual reviews.

### **Internal Control and Documentation Process**

The Committee discussed the identification of core processes, the documentation of overview flow charts (clear & transparent), and the implementation of corrective measures. Emphasis was placed on consistency and identification of the key controls.

### **ADJOURNMENT**

A motion was made to adjourn the meeting, and seconded. The meeting adjourned by Mr. Haffey at 4:58 PM.