

Governance Committee Agenda

Thursday, May 26, 2011

William Green Building

Level 2, Room 3

8:00 AM – 8:30 AM

Call to Order

Larry Price, Committee Chair

Roll Call

Jill Whitworth, Scribe

Approve Minutes of March 24, 2011 meeting

Larry Price, Committee Chair

Review and Approve Agenda

Larry Price, Committee Chair

New Business/ Action Items

1. Review and Approve FY 2011 Board Self-assessment materials
Larry Price, Committee Chair
2. Revise Governance Guidelines
Larry Price, Committee Chair
Donald C. Berno, Board Liaison
3. Review meeting procedure changes
Larry Price, Committee Chair
Donald C. Berno, Board Liaison

Discussion Items

1. Committee Calendar

Adjourn

Larry Price, Committee Chair

Next Meeting: Wednesday, June 15, 2011

*Not all agenda items have material.

** Agenda Subject to change

5/16/2011 8:36 AM

Date: May 16, 2011

From: The BWC Governance Committee

To: The BWC Board of Directors

cc. Stephen Buehrer, Don Berno, Jason Rafeld, Ann Shannon, Janyce Katz, Ron O'Keefe

Re: Annual Board Self-Assessment Process – FY 2011

In accordance with its Governance Guidelines, the Board is proceeding with the self-assessment process for FY 2011. The purpose of this memorandum is to review the background and rationale for the process, to provide a draft of the proposed 2011 form – as revised from last year's form – for any suggested modifications and to propose a timeline for the 2011 Board Self-Assessment process. The "Summary of Director Responses" from the results of the 2010 Board Self-Assessment process has been provided in the Board Books. One measure of the effectiveness of last year's self-assessment process is the substance of the follow-up action steps set forth at the end of the Summary of Director Responses.

Background

The BWC Board of Directors is not required by law to conduct an annual self-assessment of the effectiveness of the Board. However, a Board self-assessment process is a governance process that is considered to be a "best practice" and a requirement for all publicly traded companies on the NYSE.

The role of the Governance Committee is to design a process that provides for input from all Board members regarding their opinion on a range of Board matters, including information, discussion and decision-making. The objective is for the Directors to take time to be introspective and for the Board to use the self-assessment process to be proactive in recommending action steps to continuously improve its processes and effectiveness.

Proposed Timeline for the 2011 Board Self-Assessment Process

- May 26, 2011: The Governance Committee reviews the self-assessment form and timeline and makes a recommendation, with changes as appropriate, to the Board.
- May 27, 2011, the Board considers the Governance Committee recommendation and votes to approve or modify the form and timeline for the FY 2011 self-assessment process.
 - As approved, the form and process memorandum will be delivered via email to each Board member at or shortly following the meeting.
- June 6, 2011: Board members should return their completed forms to Fiduciary Counsel by close of business on **Monday, June 6, 2011**. Individual Board members should contact Fiduciary Counsel with respect to questions they may have regarding

their completion of the form. Forms may be returned either by word processing and e-mail, fax or hard copy.

- June 7 through 11, 2011: Once the completed forms have been received, Fiduciary Counsel will create a compilation report including the input of each Board member, will generate a first draft of an overall summary report and will discuss the compilation and draft summary report, and the suggested follow-up action steps to be included in the draft summary report, with the Board Chair, the Governance Committee Chair and the Administrator.
- June 13, 2011: At the direction of the Board and Governance Committee Chairs, Fiduciary Counsel will distribute to each Director the compilation and the draft summary report.
- June 16, 2011: In executive session, the Board will review and discuss the various perspectives reflected in the compilation report with a view towards resolving apparent differences and/or moving toward a consensus view for the summary report. The Board will also discuss and move toward a consensus view regarding recommended follow-up action steps.
 - The Board will reconvene in an open meeting for any vote on the Board's self-assessment and/or action plan, as may be appropriate or required.

**BUREAU OF WORKERS' COMPENSATION
BOARD SELF-ASSESSMENT**

May 2011

1 = Unacceptable
2 = Needs Improvement
3 = Acceptable
4 = Excellent
5 = Superior

1. I believe I am well informed about the BWC's:
- Mission and strategic plans 1 2 3 4 5
 - Insurance business 1 2 3 4 5
 - Actuarial soundness 1 2 3 4 5
 - Investment policy 1 2 3 4 5
 - Financial performance 1 2 3 4 5
 - Litigation status 1 2 3 4 5
 - Risk management 1 2 3 4 5

Comments:

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2. I believe pre-meeting reading materials I am sent for Board and Committee meetings are:
- Timely 1 2 3 4 5
 - Complete 1 2 3 4 5
 - Understandable 1 2 3 4 5

Comments:

3. I believe management's regular presentations on various aspects of the BWC's business are:
- Clear and understandable 1 2 3 4 5
 - Helpful in providing an accurate picture of the BWC's performance 1 2 3 4 5

Comments:

4. I believe I receive information of sufficient clarity and quality to enable me to understand BWC's business and financial risks. 1 2 3 4 5

Comments:

5. I believe the Board's Committees are meeting the objectives as described in their respective charters. (See attached **Addendum** for a statement of the purposes of each Committee.)
- | | | | | | |
|-----------------------------|---|---|---|---|---|
| Actuarial | 1 | 2 | 3 | 4 | 5 |
| Audit | 1 | 2 | 3 | 4 | 5 |
| Governance | 1 | 2 | 3 | 4 | 5 |
| Investment | 1 | 2 | 3 | 4 | 5 |
| Medical Services and Safety | 1 | 2 | 3 | 4 | 5 |

Comments:

6. I believe the rationale for proposed Board and Committee actions is adequately explained prior to action being taken. 1 2 3 4 5

Comments:

7. Overall, I believe I am provided the resources and tools I need to effectively exercise my fiduciary and oversight responsibilities. 1 2 3 4 5

Comments:

8. Overall, I believe the Board makes the appropriate use of the skills and experience of its members. 1 2 3 4 5

Comments:

9. Overall, I believe the Directors engage in full and candid discussions of the issues before the Board and personally feel comfortable expressing my views at Committee and Board meetings. 1 2 3 4 5

Comments:

10. I would rate the overall performance of the Board as follows: 1 2 3 4 5

Comments:

11. If there is one change I would make it is.....

Comments:

DRAFT

Signature

Addendum – “Purpose” Paragraphs from the Committee Charters¹

Actuarial:

The Actuarial Committee, a statutory committee of the Board of Directors, shall:

- assist the Board of Directors in fulfilling its oversight responsibilities relating to developing and implementing sound actuarial policies and practices;
- monitor the actuarial soundness and financial condition of the funds and review rates, reserves and the level of net assets;
- monitor the integrity of the actuarial audit process;
- monitor compliance with legal and regulatory requirements;
- monitor the design and effectiveness of the actuarial studies;
- confirm external actuarial consultants’ qualifications and independence;
- review any independent external actuarial work product, and
- review opportunities and challenges the Board of Directors needs to discuss as it fulfills the statutory requirement to fix and maintain the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund.

Audit:

The Audit Committee has been established to assist the Board of Directors of the Ohio Bureau of Workers’ Compensation in fulfilling its fiduciary oversight responsibilities through:

- providing oversight of the integrity of financial reporting process;
- ensuring compliance with legal and regulatory requirements;
- monitoring the design and effectiveness of the system of internal control;
- confirming external auditor’s qualifications and independence
- reviewing performance of the internal audit function and independent auditors

Governance:

The Governance Committee², a standing committee of the Board of Directors, shall:

- Assist the Board of Directors in fulfilling its oversight responsibilities relating to developing and implementing sound governance policies and practices.
- Review and recommend to the Board the adoption of governance guidelines and committee charters;
- Oversee compliance with federal and state laws, regulations, policies and ethical requirements;
- Develop a process for the Board’s assessment of its performance and the performance of Board committees;

¹ Note: All Committee actions must be ratified or adopted by the Board of Directors to become effective.

² RC 4121.12(G)(2) states the Board may create committees in addition to the audit, actuarial and investment committees that the board determines are necessary to assist the board in performing its duties

- Oversee the process for orientation of new Board members and the continuing education program for all Board members;
- Make recommendations for Board Vice-Chair, Committee Chairs and Vice-Chairs and Director assignments to Board committees for the Chair's consideration;
- Coordinate processes and procedures for the Administrator's annual performance review; and
- Review opportunities and challenges the Board of Directors needs to discuss as it fulfills the statutory requirement to fix and maintain the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund.

Investment:

The Investment Committee, a statutory committee of the Board of Directors, shall:

- assist the Board of Directors in fulfilling its oversight responsibilities relating to developing and implementing sound investment policies and practices;
- ensure that the assets of the Ohio Bureau of Workers' Compensation (OBWC) are effectively managed in accordance with the laws of the State of Ohio, and the Ohio Bureau of Workers' Compensation Statement of Investment Policy and Guidelines;
- assist the Board of Directors in the review and oversight of the State Insurance Fund and each Specialty Fund (collectively the Funds) assets;
- develop and monitor the implementation of the BWC's investment policy
- review opportunities and challenges the Board of Directors needs to discuss as it fulfills the statutory requirement to fix and maintain the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund.

Medical Services and Safety:

The Medical Services and Safety Committee, a standing committee of the Board of Directors³, shall:

- assist the Board of Directors in fulfilling its oversight responsibilities relating to developing and implementing sound medical services and safety policies and practices;
- assist the Board of Directors in the development of strategic policy for the provision of quality, cost-effective safety and accident prevention programs for the mutual benefit of injured workers and employers;
- assist the Board of Directors in the development of strategic policy for the provision of quality, cost-effective treatment and rehabilitation services necessitated as the result of workplace injuries for the mutual benefit of injured workers and employers, and

³ RC 4121.12(G)(2) states the Board may create committees in addition to the audit, actuarial and investment committees that the Board determines are necessary to assist the Board in performing its duties.

- review opportunities and challenges the Board of Directors needs to discuss as they fulfill the statutory requirement to fix and maintain the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund.

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**BWC BOARD OF DIRECTORS
BOARD SELF-ASSESSMENT**

SUMMARY OF DIRECTOR RESPONSES

Dated: June __, 2010

Rank the following questions on a scale from 1 – 5

Key: 1= Unacceptable, 2= Needs Improvement, 3= Acceptable, 4=Excellent, 5=Superior

The Governance Committee of the Board of Directors of the Ohio Bureau of Workers' Compensation (BWC) hereby submits, for consideration by the BWC Board of Directors, a summary of director responses to the self-assessment process voluntarily undertaken by the Board and related action steps. The self-assessment process included the use of a numerical rating system and input was solicited from all Board members. The summary reflects an overall numerical assessment rating for FY 2010 of 4.50 on a rating scale in which 5.0 = "Superior" and 4.0 = "Excellent." The overall rating for FY 2009 was 4.58, although the rating scale and the items rated were revised from those used in FY 2009. The objective of the self-assessment process was for the Board to take time to be introspective and then use the individual Director responses to be proactive in recommending action steps in an effort to continuously improve the Board's processes and effectiveness.

1. I believe I am well informed about the BWC's:

	Rating
Mission and strategic plans	4.2
Insurance business	4.1
Actuarial soundness	4.3
Investment policy	4.6
Financial performance	4.8
Litigation status	4.2
Risk management	4.1
Cumulative rating	4.3

The directors generally believe that the Administrator and staff do an excellent job in keeping the Board informed before, during and after the Board and committee meetings. In particular, the BWC staff is to be commended for the time and attention they invest in providing the Board with substantial background information, presentations, and policy recommendations. The education sessions before making major decisions are very helpful. As the education sessions are important to the Board's growth, they should be an ongoing process.

2. I believe the pre-meeting reading materials I am sent for Board and Committee meetings are:

	Rating
Timely	4.3
Complete	4.2
Understandable	4.2
Cumulative rating	4.2

The directors generally appreciate the time and effort of the Administrator and Staff in preparing the materials in advance of the Board and Committee meetings. It was noted that providing the Board book a week before meetings is excellent in that it allows a weekend to review the material. In addition, it was noted that the “two reading” format has helped reduce the pressure to review materials received close in time to the meeting dates. It was acknowledged that the timeliness and completeness of the information has improved greatly since the inception of the Board, though concerns were expressed about “paper overload” and the numerical ratings reflect a greater desire to understand the materials provided.

3. I believe management’s regular presentations on various aspects of the BWC’s business are:

	Rating
Clear and understandable	4.4
Helpful in providing an accurate picture of the BWC’s performance	4.5
Cumulative rating	4.4

The directors generally acknowledge that the Staff presentations are well prepared and delivered, although some expressed that the presentations are not always easy to comprehend. It was generally acknowledged that the Administrator and Staff are committed to transparency and that the responsiveness of staff to following up on questions raised and information requested have helped the Board make informed decisions. In particular, it was noted that the Staff experts on the Actuarial, Audit and Investment Committees are very helpful in explaining complex issues. At least one director expressed an interest in obtaining more information on the views of BWC stakeholders and interested parties.

4. I believe I receive information of sufficient clarity and quality to enable me to understand BWC’s business and financial risks.

Rating	4.4
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It was generally acknowledged that the Senior Team has worked hard over the last 12 months to present the financial and business risks in an understandable fashion to the Board, giving the right mix of data and explanation. It was noted that, because certain Board members don’t have the same level of comprehension as others when it comes to certain issues, the presenters are encouraged to “know their audience” and gear their presentations accordingly. The Deloitte Study was praised as a great example of quality analysis of the BWC’s business and financial risks and it was noted that the follow-up summary of progress on the Deloitte findings has been excellent.

5. I believe the Board’s Committees are meeting the objectives as described in their respective charters. (See attached Addendum for a statement of the purposes of each Committee.)

	Rating
Actuarial	4.5
Audit	4.5
Investment	4.5
Governance	4.6
Medical Services and Safety	4.4
Cumulative rating	4.5

There is a strong consensus among the Directors that the very effective operation of the committee structure has enabled the Board, as a whole, to perform at a high level. There is a consistent quality of committee performance that reflects strong committee chairs and participation by members as well as non-committee members. Each committee thoroughly reviews and discusses the relevant information prior to voting on the recommendation to the Board. It was noted that the new Medical Services and Safety Committee highlights the increased Board focus on this area and that the work of this Committee has greatly improved the information available to the Board regarding this very important element of the BWC.

6. I believe the rationale for proposed Board and Committee actions is adequately explained prior to action being taken.

Rating	4.4
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There is a consensus that the Committees are very dedicated and adequately review and discuss all issues before voting on recommendations to the Board. In this connection, it was noted that the Board and Committees have demonstrated an appropriate deference not to take action unless there is a consensus to do so. As the Board largely acts on Committee recommendations, the quality of the Committee deliberations, including the rationale for the recommendations it makes, also affects the quality of the Board actions. Whenever the rationale for a proposed action has not been clear initially, additional time for deliberation and/or information has been requested and provided. Although the numerical rating reflects general satisfaction on this item, there were a variety of suggestions for improvement, among them: 1) additional time should be spent on consideration of how individual action items may affect the total BWC operations; 2) it would be helpful in certain cases for the Staff to provide a more detailed explanation of the options and/or alternatives that were considered but not selected; 3) sometimes things could be made clearer to non-Committee members attending Committee meetings; and 4) there should be a continued emphasis on the need for documentation of the rationale for actions proposed and taken in Staff memos and Committee and Board minutes.

7. Overall, I believe I am provided the resources and tools I need to effectively exercise my fiduciary and oversight responsibilities.

Rating	4.6
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There is a general consensus that the Administrator and Staff are willing to go the extra mile to make sure needed information is provided in an understandable manner. It was noted that a high standard of responsibility has developed among the Staff in providing requested information to the Board members. It was also noted that the development of stakeholder input has seen a vast improvement since the inception of the Board and that this area should have continued emphasis by the Staff.

8. Overall, I believe the Board makes the appropriate use of the skills and experience of its members.

Rating	4.8
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This item received one of the highest numerical ratings. The directors are unanimous in their belief that the diversity of experience and expertise of all Board members is efficiently and effectively utilized and is one of the greatest strengths of the Board. It was noted that, under the leadership of the Chair, each Board member is encouraged to provide their expertise as well as their unique perspective on the matter under discussion and that this collective input greatly enhances the decision-making process. It was also noted that there is a very strong group of subject-matter experts on the Board.

9. Overall, I believe the Directors engage in full and candid discussions of the issues before the Board and I personally feel comfortable expressing my views at Committee and Board meetings.

Rating	4.8
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This item also received a very high numerical rating. There is a unanimous belief that the interaction among the Board members is excellent and even superior when compared to the experience of certain Directors on other boards, and that the atmosphere is such that the Directors are not hesitant to express their views. The Directors believe that the Board and Committee Chairs do an excellent job of encouraging free and open dialogue and that the level of detail and candor at the Committee meetings is noteworthy. In particular, it was noted that the Committee Chairs have been very good at providing the time to address questions from Committee members and other Board members alike.

10. The process by which the Board evaluates the Administrator's performance works well. (Qualified Directors Only.)

Rating	4.6
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There is a general sense that this very important process is conducted in a thorough manner and works very well. It was noted that Board members have been diligent in their responsibility to provide input and constructive comments. The contributions of the Governance Committee chair and fiduciary counsel to this process were noted. In general, it is acknowledged that each partner in the process – including the Administrator – has helped to enhance the quality of the total process.

11. I would rate the overall performance of the Board as follows (see memorandum referencing the Board's duties):

Rating	4.5
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The Directors generally appear to be satisfied with the overall performance of the Board in discharging its duties. There is a general consensus that the Directors fully understand their duties and the importance and magnitude of the decisions they make, and that the Board members are cooperative, efficient and committed. It was noted that the Board has grown and developed over its three years and that individual Directors have demonstrated a strong focus on the BWC's

mission and have conducted themselves without personal agendas. It was noted that the Board will routinely challenge management to support the rationale for the programs that are recommended. The respective roles of the Governance Committee, the Board Liaison and the Legal Staff were acknowledged as important in keeping the Board on track. It was suggested that there should be a focus on continual improvement and education, including further opportunities to learn more about the multi-faceted business of the BWC.

12. If there is one change I would make, it is . . .

Some Directors expressed that they did not see the need for substantial changes at this time. Others expressed specific comments, as follows:

- Better time management with respect to the length and timing of Committee and Board meetings
- Continuation of education in all areas
- Involvement of Deloitte in gaining perspective on the implementation of the recommendations in the Deloitte study
- Greater participation of staff experts and/or outside consultants in those Committee and Board meetings at which technical issues are being discussed
- More creative use of information technology to provide information to the Directors in advance of Committee and Board meetings
- Continued improvement in the follow-up and updates to the Board as a result of public hearings
- Developing additional ways to gain input from BWC stakeholders and interested parties.

Recommendations – Specific Follow-Up Action Steps

After a review and discussion of the summary results, the Governance Committee recommends that the Board affirm the following action steps:

1. The Board would encourage the consideration of creative scheduling alternatives to balance the press of business to be addressed in meetings of the five Board Committees with the available time on the days of the Committee meetings and the Board meeting.
2. The Board would continue its efforts to reach out to the various stakeholders and interested parties of the BWC in order to be informed of their various points of view regarding the BWC and specific matters before the Board.
3. The Board would create more opportunities for strategic business discussions at the Board level regarding the operations of the BWC, including risk management. Experts such as Deloitte, Mercer and BWC staff should be consulted for enhanced understanding where additional advice is desired.
4. The Board would explore whether and to what extent information technology could be used to provide more rapid and less cumbersome dissemination of information prior to Board and Committee meetings. The recommended goals for the use of technology would be to enhance timeliness, facilitate updating and reduce paperwork regarding the materials provided; however, mitigating factors such as the relative familiarity of the directors with applicable technologies and the desirability of the use of electronic devices during in-person meetings should be considered.

BWC Board of Directors' Duties

Duties	
Chairperson	Sets the meeting dates of the Board as necessary to perform the duties of the Board. Board shall meet at least 12 times a year. ¹
Board's mandatory duties	Establish overall administrative policy for BWC. ²
	Review BWC's progress in meeting cost & quality objectives, and compliance with Ohio Revised Code. ³
	Submit annual report to President of Senate, Speaker of House, Governor & WCC to include: ⁴ <ul style="list-style-type: none"> ➤ evaluation of cost & quality objectives of BWC ➤ statement of net assets available for comp & benefits ➤ statement of changes to net assets in the fiscal year preceding the report ➤ for the last 6 fiscal years, information on: <ul style="list-style-type: none"> ➤ schedule of net assets available ➤ annual cost of payment of comp & benefits ➤ annual administrative expenses incurred ➤ annual employer premiums allocated for comp & benefits ➤ description of significant changes in the last 6 years that affect ability of board to compare information from year to year
	Review all independent financial audits of BWC. ⁵
	Study issues as requested by the Administrator or Governor. ⁶
	Contract with the following: ⁷ <ul style="list-style-type: none"> ➤ independent actuarial firm to assist in making recommendations re: premium rates ➤ outside investment counsel to assist investment committee in its duties ➤ independent fiduciary counsel to assist Board
	Approve investment policy developed by the investment committee. ⁸
	Review & publish investment policy annually, & make copies available to interested parties. ⁹
	Prohibit, on prospective basis, any specific investment contrary to investment policy approved by the Board. ¹⁰
	Vote to open investment classes. ¹¹
	Adopt rules on due diligence standards for employees of BWC investing in the class, policies & procedures to review & monitor performance & value of each investment class. ¹²
	Submit annual report on performance & value of each investment class to Governor, Senate & House. ¹³
	Advise & consent on the following: ¹⁴ <ul style="list-style-type: none"> ➤ Rules regarding classification of occupations or industries, premium rates & contributions, amounts to be credited to surplus fund, systems of rating, rate revisions & merit rating ➤ Duties & authority of Administrator pursuant to the Ohio Revised Code ¹⁵ ➤ Rules regarding HPP & QHP ➤ Rules regarding the public employment risk reduction program
	Perform all duties required under the Ohio Revised Codes. ¹⁶
	Meet w/ Governor on annual basis to discuss Administrator's performance. ¹⁷
	Develop & participate in a BWC Board of Directors education program, to consist of: ¹⁸ <ul style="list-style-type: none"> ➤ orientation component for new members ➤ continuing education component ➤ curriculum to include: member duties & responsibilities, compensation & benefits payable under Ohio Revised Code, ethics, governance, actuarial soundness, investments, etc. ¹⁹
	Submit education program to WCC for approval. ²⁰
	Hold all sessions, classes & other events for the education program in this state. ²¹
	Contract to have the following prepared: ²² <ul style="list-style-type: none"> ➤ annual report of the actuarial valuation of the assets, liabilities & funding requirements of the state insurance funds to be submitted to the WCC & the Senate & House (September 1 deadline)

BWC Board of Directors' Duties

	<ul style="list-style-type: none"> ➤ at least once every 5 years have actuarial investigation of experience of employers; mortality, service & injury rate of employees; payment of benefits in order to update the assumptions of the annual actuarial report ➤ have actuarial analysis prepared of any legislation expected to have measurable financial impact on the system, w/in 60 days after introduction of legislation
	At least once every 10 years, have an independent auditor conduct a fiduciary performance audit of BWC's investment program, policies & procedures. Provide a copy of audit to the Auditor of State. ²³
	By majority vote, appoint 2 members of the Board to the audit committee in addition to the 3rd member who must be a CPA. By majority vote, determine how often the audit committee shall meet & report to the Board. ²⁴
	By majority vote, appoint 2 members of the Board to the actuarial committee in addition to the 3rd member who must be the actuary member of the Board. By majority vote, determine how often the actuarial committee shall meet & report to the Board. ²⁵
	By majority vote, appoint 2 members of the Board to the investment committee in addition to the 2 members of the Board who serve as investment & securities experts. By majority vote, determine how often the investment committee shall meet & report to the Board. ²⁶
	Establish the policy for all adjudicating committee procedures. ²⁷
	Adopt a rule that governs how & when cash refunds or reduction of premiums can be done. ²⁸
	Provide advice & consent to the Administrator in the performance of her duties. ²⁹
	Provide the WCC w/ any information necessary to carry out its duties. ³⁰
	Duty to safeguard & maintain the solvency of the state insurance funds (together w/ the Administrator.) ³¹
	Serve as trustees of the state insurance fund together w/ the Administrator & Chief Investment Officer. ³²
	Shall provide advice and consent for the employment of the Superintendent of Safety & hygiene. ³³
Board's discretionary duties	May vote to close any investment class. ¹
	May create any additional committees deemed necessary to assist Board in performing its duties. ²
	May contract with outside actuarial firm as necessary to assist in measuring performance of Ohio's workers' comp system, & comparing it to other state & private systems. ³
	May contract with outside firm to conduct management & financial audits of the workers' comp system. ⁴
	May request an actuary to study adequacy of premium rates & adjust those rates as recommended by the actuary. ⁵
	May request & review internal audits conducted by BWC's internal auditor. ⁶
	If reinsurance of the risks of the self-insuring employers' guaranty fund is necessary to assure the solvency of the fund, the Board may contract for the purchase of reinsurance coverage & require the Administrator to pay the cost of reinsurance from the fund. ⁷
	If reinsurance of the risks of the marine industry fund is necessary to assure the solvency of the fund, the Board may contract for the purchase of reinsurance coverage & require the Administrator to pay the cost of reinsurance from the fund. ⁸
	May procure reinsurance of liability of public & private funds. ⁹
Committee Duties	
Audit Committee's duties	Recommend to the Board an accounting firm to perform the annual audit required under the Ohio Revised Code. ¹
	Recommend an auditing firm for the Board to use when conducting audits under the Ohio Revised Code. ²
	Review results of each annual audit & management review; if problems exist, assess appropriate course of action to correct, and develop action plan. ³
	Monitor implementation of any action plans created to correct problems noted in annual audit. ⁴
	Review all internal audit reports on regular basis. ⁵

BWC Board of Directors' Duties

Actuarial Committee's duties	Recommend actuarial consultants for the Board to use for the funds specified in the Ohio Revised Code. ¹
	Review calculations on rate schedules & performance prepared by the actuarial consultants w/ whom the Board contracts. ²
	The bureau of workers' compensation board of directors, based upon recommendations of the workers' compensation actuarial committee, shall establish the policy for all adjudicating committee procedures, including, but not limited to, specific criteria for manual premium rate adjustment. ³
Investment Committee's duties	Develop investment policy for the administration of the investment program for BWC. ¹
	Submit investment policy to the Board for approval. ²
	Monitor implementation of investment policy by the Administrator & Chief Investment Officer of BWC. ³
	Recommend outside investment counsel w/ whom the Board may contract to assist the investment committee in fulfilling its duties. ⁴
	Review performance of Chief Investment Officer & any investment consultants retained by the Administrator to assure compliance w/ investment policy & achievement of best possible returns. ⁵

Board Mandatory Duties

- ¹ O.R.C. 4121.12(D)(4)
- ² O.R.C. 4121.12(F)(1)
- ³ O.R.C. 4121.12(F)(2)
- ⁴ O.R.C. 4121.12(F)(3)
- ⁵ O.R.C. 4121.12(F)(4)
- ⁶ O. R.C. 4121.12(F)(5)
- ⁷ O.R.C. 4121.12(F)(6)
- ⁸ O.R.C. 4121.12(F)(7)
- ⁹ O.R.C. 4121.12(F)(8)
- ¹⁰ O.R.C. 4121.12(F)(9)
- ¹¹ O.R.C. 4121.12(F)(10)
- ¹² R.C. 4121.12(F)(11)
- ¹³ O.R.C. 4121.12(F)(12)
- ¹⁴ O. R.C. 4121.12(F)(13)
- ¹⁵ O.R.C. 4121.37
- ¹⁶ O.R.C. 4121.12(F)(14)
- ¹⁷ O.R.C. 4121.12(F)(15)
- ¹⁸ O. R.C. 4121.12(F)(16)
- ¹⁹ O.R.C. Chapters 4123, 4127, 4131
- ²⁰ O.R.C. 4121.12(F)(17)
- ²¹ O. R.C. 4121.12(F)(18)
- ²² O.R.C. 4121.125(C) & O. R.C. 4123.47(A)
- ²³ O.R.C. 4121.125(I)
- ²⁴ O.R.C. 4121.129(A)
- ²⁵ O. R.C. 4121.129(B)
- ²⁶ O. R.C. 4121.129(C)
- ²⁷ O.R.C. 4123.291
- ²⁸ O. R.C. 4123.321
- ²⁹ Various sections
- ³⁰ O.R.C. 4121.77(D)
- ³¹ O.R.C. 4123.34
- ³² O.R.C. 4123.44
- ³³ O.R.C. 4121.37

Board Discretionary Duties

BWC Board of Directors' Duties

¹ O.R.C. 4121.12(G)(1)

² O.R.C. 4121.12(G)(2)

³ O.R.C. 4121.125(A)

⁴ O.R.C. 4121.125(B)

⁵ O.R.C. 4121.125(H)

⁶ O. R.C. 4121.125(J)

⁷ O.R.C. 4123.351(D)(3)

⁸ O.R.C. 4131.13(D)

⁹ O.R.C. 4123.82(B)(2)

.....**Audit Committee Duties**

¹ O.R.C. 4121.129(A)(1)

² O. R.C. 4121.129(A)(2)

³ O.R.C. 4121.129(A)(3)

⁴ O. R.C. 4121.129(A)(4)

⁵ O.R.C. 4121.129(A)(5)

.....**Actuarial Committee Duties**

¹ O. R.C. 4121.129(B)(1)

² O.R.C. 4121.129(B)(2)

³ O.R.C. 4123.291 (C)

.....**Investment Committee Duties**

¹ O.R.C. 4121.129(C)(2)(a)

² O.R.C. 4121.129(C)(2)(b)

³ O. R.C. 4121.129(C)(2)(c)

⁴ O.R.C. 4121.129(C)(2)(d)

⁵ O. R.C. 4121.129(C)(2)(e)

**OHIO BUREAU OF WORKERS' COMPENSATION
BOARD
GOVERNANCE GUIDELINES**

| Approved by the Board: ~~November 19, 2010~~

CONTENTS

❖ Introduction and Purpose	4
❖ Organization of the BWC Board of Directors	5
▪ Board Composition	5
▪ Duties & Responsibilities	6
▪ Administrator’s Performance Objectives & Evaluation	6
▪ Board Self-Assessment Process	7
▪ Duty of Oversight	7
❖ Board Procedures	8
▪ Board of Directors’ Meetings	8
▪ Conduct at Meetings	8
▪ Agenda Development & Distribution	9
▪ Reports by Board Committees	9
▪ Committee Meetings	10
▪ Rules/New Business Submittal Process	10
▪ Administrator’s Report	11
▪ Minutes of Board Meetings & Committee Meetings	11
▪ Executive Session	11
▪ Director Education Program	12
▪ Public Forum Process	13
▪ Communication Guidelines	13
❖ Board Committees- Composition and Responsibilities	14
▪ Actuarial Committee	14
▪ Audit Committee	15
▪ Investment Committee	15
▪ Governance Committee	16
▪ Medical Services & Safety Committee	16
❖ Board Governance- General	17
▪ Ethics	17
▪ Oversight Process Guidelines	18
▪ Delegation of Authority	19
▪ Referral Process for Wrongdoing	19

EXHIBITS

Exhibit A	Memorandum from Hahn Loeser & Parks LLP, fiduciary counsel Ronald O’Keefe dated August 16, 2010	21
Exhibit B	Board Members & Terms of Office	26
Exhibit C	Memorandum from BWC General Counsel James Barnes dated August 16, 2010	28
Exhibit D	E-mail Memorandum from BWC General Counsel James Barnes dated August 11, 2009	31
Exhibit E	Policies and Procedures for Public Forums	34
Exhibit F	Charters of the Board’s Committees	36
Exhibit G	Net Asset Policy	52
Exhibit H	Reserve Discount Rate Policy	56
Exhibit I	Outline of Ohio Ethics Law from the Ohio Ethics Commission	60
Exhibit J	Opinions of the Ohio Ethics Commission pertaining to the BWC Board of Directors	66
Exhibit K	Board Oversight Process Guidelines	120
Exhibit L	Board of Directors Schedule of Mandatory Reports	126
Exhibit M	Memorandum from the Governor’s Chief Legal Counsel Kent Markus dated October 11, 2007	128

INTRODUCTION AND PURPOSE

The Ohio Bureau of Workers' Compensation ("BWC") is a state agency that provides medical and compensation benefits to Ohio employees for work-related injuries, diseases and deaths. Ohio employers pay premiums for these benefits to Ohio's State Insurance Fund and/or its specialty funds: Disabled Workers' Relief Fund, Coal-Workers' Pneumoconiosis Fund (CWPF), Public Work-Relief Employees Compensation Fund (PWREF), the Marine Industry Fund (MIF), and the Administrative Cost Fund (ACF). In addition to benefits paid, the BWC makes available and provides loss prevention services to Ohio employers. Ohio's workers' compensation system has the largest state fund in the nation and is one of the largest underwriters of workers' compensation insurance in the country. Also, the BWC oversees compliance with statutes and rules of employers who choose to self-insure. There is also oversight of the Self-insured Employers Guaranty Fund (SIEGF) which provides payment for workers who were injured while working for self-insured employers who are now bankrupt.

The BWC Board of Directors ("Board") was created by Ohio law and its authority and responsibilities are set forth in detail in the Ohio Revised Code.¹ The primary areas of Board focus are to establish the overall administrative policy of the BWC, to review the progress of the BWC in meeting its cost and quality objectives and to provide advice and consent regarding actions proposed by the BWC Administrator, who is responsible for the management of the day-to-day operations of the agency.² The Board operates in collaboration with other state entities, including the Office of the Attorney General, the Inspector General, the Workers' Compensation Council, Workers' Compensation Board of Directors Nominating Committee, the State Office of Internal Audit, the Industrial Commission, and the Ombuds Office.

The Board and its members have fiduciary responsibilities to the BWC. A fiduciary is a person having a duty, created by an undertaking, to act *primarily for the benefit of another* in matters connected with that undertaking. The monies paid into the workers' compensation funds constitute a trust fund for the benefit of employers and employees.³ The members of the BWC Board are obligated by law to adhere to the highest standards of judgment and care when making decisions or taking actions that may affect the financial integrity and soundness of the workers' compensation funds.⁴ In order to properly discharge the Board's fiduciary responsibilities, the Board should be guided by three primary considerations with respect to matters that come before it: (1) the provisions of Ohio law that directly impact the Board's activities; (2) the duty of loyalty to protect the workers' compensation funds and to act in good faith and in the interests of all the stakeholders of the BWC, taken as a whole; and (3) the duty of care in ensuring that all Board decisions and actions are the result of an informed deliberative process in which the significant information items relevant to the proposed decision or action are identified and considered by the Board. The Board's fiduciary duties are further outlined in the memorandum authored by fiduciary counsel, and attached hereto as Exhibit A.

Accordingly, it is incumbent upon the Board to operate with the integrity appropriate to its fiduciary duties as it oversees the business of BWC. The Board aspires to implement the best practices of corporate governance and to incorporate all significant developments in this area into its policies and procedures. The Board has adopted the measures set forth in this document to describe the governance structure and guidelines by which the Board shall conduct its business. It is the intention of the Board to review these guidelines at least annually.

ORGANIZATION OF THE BWC BOARD OF DIRECTORS

Board Composition

The BWC Board of Directors consists of eleven (11) members. Board members are appointed by the Governor of Ohio from a list of candidates prepared by the Workers' Compensation Board of Directors Nominating Committee and with the advice and consent of the Ohio Senate. It is provided by statute that one member of the Board shall be a representative of employees; two members of the Board shall be representatives of employee organizations; three members of the Board shall be representatives of employers with one of the three representing self-insuring employers; two members of the Board shall be investments and securities experts; one member of the Board shall be a certified public accountant (CPA); one member of the Board shall be an actuary; and one member of the Board shall represent the public.⁵ The Governor of Ohio selects the Chair of the Board of Directors, who serves at the pleasure of the Governor.

Ohio law established that the members of the Board of Directors will serve staggered three year terms of office. One group consists of the employee representative, one of the employer representatives, and the public representative. The second group consists of another employer representative, one of the employee organization representatives, one of the investment and securities expert and the CPA representative. The third group consists of the third employer representative, the other employee organization representative, the other investment and securities expert, and the actuary representative. There are no term limits. Ohio law sets forth detailed procedures for the filling of vacancies occurring as a result of the expiration of a Board member's term of office or otherwise.⁶ The current Board members and their respective terms of office are listed in a document attached hereto as Exhibit B.

Board members shall aspire to maintain the highest ethical standards and integrity in fulfilling their responsibilities, and shall demonstrate a willingness to act on and be accountable for Board decisions. Members shall strive to utilize their diverse backgrounds, talents and experiences to provide wise, informed and thoughtful counsel to BWC management. Members shall demonstrate loyalty and commitment to the success of the BWC. It is expected that members may hold differing points of view on issues before the Board and are encouraged to express their points of view. Regardless of their particular points of view, members shall at all times act in the best interests of the BWC and its stakeholders as a whole. Members shall devote an appropriate amount of effort in preparation for meetings, participate fully in the activities of the Board and its

Committees, and shall strive to be prompt and regular in attendance at Board and Committee meetings. Board members shall be compensated for their attendance at Board meetings and members of the Actuarial, Audit, and Investment Committees shall be reimbursed for attendance at their respective meetings if such meetings occur on a day other than the Board's meeting. Board members shall be reimbursed for all reasonable and necessary expenses while engaged in the performance of their duties, all as provided by statute.⁷

Duties & Responsibilities

Under Ohio law,⁸ the Board's responsibilities include the following:

- Establish overall administrative policy for BWC;
- Review BWC's progress in meeting cost and quality objectives, and its compliance with the Ohio Revised Code;
- Meet with the Governor of Ohio annually to discuss the Administrator's performance;
- Advise and consent on rules that BWC wishes to pursue;
- Contract with an actuarial firm, outside investment consultant and independent fiduciary counsel to assist the Board in fulfilling its duties;
- Contract with an actuarial consultant to prepare an annual actuarial report, an actuarial investigation of employers' experience and injured workers' benefits every five years (by 2012), and actuarial analysis of legislation expected to have measurable financial impact on the system;
- Review investment policy annually, approve investment policy changes for BWC, prohibit investments that are contrary to Board-approved investment policy, vote to open investment classes, and adopt rules establishing due diligence standards for BWC employees to follow when investing in an open investment class and establish policies and procedures to review and monitor the performance and value of each investment class;
- Contract with an independent auditor to conduct a fiduciary performance audit of BWC's investment program at least once every ten years (by 2017).
- Review all independent financial audits of BWC;
- Submit an annual report to the Ohio General Assembly, the Governor, and the Workers' Compensation Council regarding BWC operations and progress;
- Submit an annual report on the performance and value of BWC investments to the Governor and the Ohio General Assembly;
- Develop and participate in an education program for the Board members, and submit the education program to the Workers' Compensation Council; and
- Study issues as requested by the Governor or the Administrator.

Administrator's Performance Objectives & Evaluation

Annually the Board shall oversee a process for the evaluation of the Administrator's performance and shall also develop prospective performance objectives for the Administrator for the coming fiscal year. At the end of the review year, the Board will examine the Administrator's actual performance against the Board's objectives as well as the Governor's objectives. The Board's process for the Administrator's evaluation shall

include (i) a review by the Governance Committee of the Specific Performance Objectives contained in the Administrator's Flexible Performance Agreement with the Governor, as well as leadership attributes that the Board believes are important to an overall evaluation of the Administrator's performance, (ii) the development of an evaluation form to be completed by all qualified Directors⁹ with respect to the Administrator's evaluation, (iii) the review by the Board of the compilation of all Director responses to the evaluation form, (iv) the review, comment and finalization of a draft Annual Evaluation Report prepared by the Governance Committee with the assistance of fiduciary counsel, revised to reflect input from individual Board members, (v) the review, comment and finalization of the Annual Evaluation Report by the full Board, and (vi) the discussion of the Annual Evaluation Report first with the Administrator and then with the Governor at a meeting of the Board for that purpose. The final written Annual Evaluation Report shall be made publicly available.

Board Self-Assessment Process

Although not required by Ohio law, the Board of Directors shall engage in a yearly self-assessment process for the purpose of continuous self-improvement. This process provides an occasion for input from all Board members regarding their opinion on a range of Board issues, including receipt of information, discussion and decision-making. The objective is for the Board to take time to be introspective and then use the self-assessment process to be proactive in recommending action steps to continuously develop the Board's processes and effectiveness. The self-assessment will assist the Board members to identify opportunities for improvement, as well as recognition of past areas of success. The self-assessment will contain a balance of both objective and subjective observations. The self-assessment process shall be evaluated on a yearly basis to ensure continued relevancy of all questions posed.

Duty of Oversight

In general, the Board is responsible for approving the strategic direction proposed by BWC management. In order to approve any such plans, it is necessary and appropriate for the Board to develop a depth of knowledge regarding BWC operations that shall enable the Board to analyze the effectiveness and feasibility of the strategic proposals of the Administrator. In addition, the Board shall monitor the performance of BWC as it works to fulfill the business approach adopted by the agency. As the Board monitors BWC performance, it shall be necessary for the Board to review and approve BWC's financial objectives, plans and actions, as well as to review and approve any transactions not in the ordinary course of business. To enable successful fulfillment of BWC objectives, the Board shall ensure that BWC is structured to require compliance with the law, to encourage ethical behavior, and that sound accounting principles, actuarial standards and auditing practices are instituted.

Further, the Board and its Committees shall review opportunities and challenges that may need to be addressed by the Board as it fulfills the statutory requirement to fix and maintain the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund.¹⁰ The Board acknowledges that it shall be continually responsible for the oversight of risk management conducted by BWC. As part of that

oversight responsibility, the various Committees of the Board shall assist in this function depending upon each Committee's area of expertise. At least annually, the Board as a whole shall conduct a review of the various strategic and operational risks that BWC may confront.

The Board of Directors may be required to provide information to the Workers' Compensation Council as it fulfills its duties. Such information shall be provided with all due speed. The Board of Directors shall provide its annual report, as well as its actuary report to the Workers' Compensation Council. The Board shall submit its annual education program to the Workers' Compensation Council.

The process of Board oversight of the Administrator and Staff of the BWC is an interactive one. The Administrator is required to obtain the advice and consent of the Board prior to implementing the recommended measures in fulfillment of the Administrator's statutory responsibilities (a "Recommendation"). As part of the Board's review of a Recommendation in connection with its oversight duties, it is appropriate for the Board to request the BWC Staff to consider matters deemed relevant and important by the Board as a matter of policy. In that connection, the Board may request the BWC Staff to consider changing the way in which certain matters in a Recommendation are treated in order to address what the Board may perceive as important policy considerations.

In exercising their fiduciary responsibilities, Board members shall be guided by the specific provisions of Ohio law relative to the Board and the BWC. To assist the Board in fulfilling its fiduciary responsibilities, the Board shall retain independent fiduciary counsel.¹¹ BWC shall obtain fiduciary liability insurance for the Board.

BOARD PROCEDURES

Board of Directors' Meetings

The Board of Directors conducts its business through open and public meetings in compliance with the Ohio Open Meetings Act. Members of the public and press are invited to attend these meetings. Advance notice of the time and place of all meetings shall be provided to the media at least twenty-four (24) hours in advance, and shall be posted on BWC's web site. Notice shall be provided subject to a test of reasonableness. The Chair of the Board shall set the meeting dates of the Board as necessary to perform the duties of the Board. The Board shall meet at least twelve times a year.¹² Minutes of all Board and Committee open public meetings shall be taken and maintained. Robert's Rules of Order is generally followed at both Board and Committee meetings. The Chair of the Board presides at Board meetings. In the event that the Chair is unable to attend, the Vice Chair of the Board shall preside at the Board meeting.

Conduct at Meetings

A Board member desiring to speak shall address the Board Chair and, upon recognition by the Board Chair, shall confine discussion to the issue before the Board and shall observe appropriate courtesy of behavior including: avoiding discussion of personalities

or personal matters, avoiding the use of indecorous language, and refraining from personal attacks and verbal abuse. A Board member, once recognized, shall not be interrupted while speaking unless called to order by the Board Chair, unless a point of order is raised by another Board member, or unless the speaker chooses to yield to questions from another member. If a Board member is called to order while speaking, that member shall cease speaking immediately until the question of order is determined. If ruled to be in order, the member shall be permitted to proceed. If ruled to be not in order, the member shall remain silent or make additional remarks in accordance with the rules of the Board.

A Board member desiring to question a BWC staff member shall address such questions to the Board Chair, the Administrator or the appropriate Board Committee Chair. Such person shall be entitled either to answer the inquiries or to designate some member of the BWC staff for that purpose. Board members shall treat with respect members of the BWC staff, who shall observe the same rules of decorum as the BWC Board members.

Whenever possible, motions and amendments to motions should be in writing and distributed to all Board members prior to the Board and Committee meetings. Formal motions shall be made to approve the minutes of the Board and Committee meetings, and to approve meeting agendas as well as modification to the agendas. To adjourn a Board or Committee meeting, a motion shall also be made and voted upon. ~~All votes taken by the Board and its Committees shall be done by roll call vote.~~

Agenda Development & Distribution

The Board Chair, in cooperation with the Administrator and/or the Board Liaison, shall prepare the agenda for the Board meeting. Any Board member desiring to do so is encouraged to submit suggestions or requests for agenda topics relevant to the conduct of the Board's duties to the Board Chair. At a minimum of a week prior to each regular Board meeting informational material with respect to that meeting shall be delivered to the Board, including a preliminary agenda and supporting documents with respect to the matters to be considered at the meeting. Whenever practical, and particularly for major policy initiatives or major rule changes, background and informational material shall be provided to the members of the Board more than a week in advance of scheduled Board meetings to allow addition time for review and reflection. This same process shall be followed for Committee meetings. A Board member may request that an agenda item be deferred, removed or added by making the request to the Board or Committee Chair. The request to defer, remove or add an agenda item shall be considered by the Board or Committee Chair and implemented where practical. Should the Board member's request to defer, remove or add an agenda item be refused, the Board member may make a motion to have the Committee or the full Board consider the request by vote.

Reports by Board Committees

At the Board's monthly meeting, the Committee Chairs shall regularly provide a report of the activities of the Committees. This agenda item enables Committee Chairs or designated representatives to report any actions or pending actions taken by Committees and to request Board approval of Committee recommendations as appropriate.

Committee Meetings

Committee meetings are conducted as often as determined necessary by majority vote of the Board of Directors. Only members of the Committee may participate in voting on Committee matters. All members of the Board are encouraged to attend and participate in discussion at Committee meetings. The Committee Chair shall develop the agenda for the Committee meetings. Ample opportunity shall be given for any Board member to submit suggestions or requests for agenda topics to the Committee Chair. Committee agendas and supporting documents shall be provided to the Board and appropriate BWC staff prior to the Committee meeting. Minutes of Committee meetings shall include identification of Committee members and other Board members present, agenda items and official actions taken by the Committee. Committee minutes shall follow all the requirements for minutes for the full Board meetings, as noted below in “Minutes of Board Meetings and Committee Meetings”.

Rules/New Business Submittal Process

Generally, BWC staff should submit proposed rules and major policy decisions to the Board Liaison at least two weeks prior to the upcoming Board meeting or Committee meeting. It is recognized that unforeseen circumstances may prevent such advance submission. For issues concerning the various Committees, the Board Chair, with the advice and consent of the Committee Chair, shall determine whether issues are presented to the Board for resolution.

Information regarding major policy decisions or rule changes that may be contemplated by BWC should be submitted for the agendas of the Committees for a “first reading” and subsequent reporting by the Committee chair to the full Board. The same major policy decisions or rule change would then be included on the agendas of the Committee at a later meeting for a “second reading” and possible approval. The first and second readings provide the Board and its Committee members the opportunity to obtain background information, ask questions of BWC staff members, and engage in discussion regarding the topics that are under consideration. The same major policy decisions or rule change would proceed from a first reading to a second reading at a later Committee meeting before the Board would consider approval.

This process of providing both a first and second reading is intended to ensure a fully informed vote by the Board concerning a major policy decision or rule change. However, the Committee may wish to waive a “second reading” of a major policy decision or rule change. In the event a Committee wishes to waive the second reading of a major policy decision or rule change, a motion to waive shall be submitted for consideration, and voted upon ~~by roll call vote~~. If the motion to waive the second reading passes at the Committee level by a majority vote, the Committee may then proceed to consider the underlying major policy decision or rule change for recommendation to the Board.

Administrator's Report

At the Board's monthly meeting, the Administrator shall provide a report. This agenda item provides an opportunity for the Administrator to present information on issues of interest to the Board and others.

Minutes of Board Meetings & Committee Meetings

There shall be detailed minutes kept of each Board and Committee meeting. The minutes record the formal actions taken by the Board and Committees and a summary of important reports and discussions. These minutes should reflect the length and intensity of the discussion of key issues before the Board or Committee, and also record with precision the actions of the Board or Committee with respect to the matters on which it takes action. Minutes should contain appropriate details of the meetings, and should reflect the Board's or Committee's fulfillment of applicable fiduciary standards of conduct. In its decision-making processes, the Board and Committees shall give thoughtful attention to the issues before it; the minutes shall indicate the full consideration given by the Board or Committee. The minutes should also document such matters as whether further follow up was requested from the Administrator or Staff. The minutes shall demonstrate the Board's or Committee's adherence to the Governance Guidelines. Board or Committee members may request that specific comments be included in the minutes. Minutes should usually be reviewed and voted on for approval at the next subsequent Board meeting, at which individual Board members may offer suggestions of amendment to the minutes. Accordingly, a draft of the Board and Committee minutes, in substantially final form, shall be furnished to the Board members in the next subsequent Board package. The Board shall approve the Board minutes by majority vote; the members of each Committee shall approve the minutes of the respective Committees by majority vote. Once approved, the minutes constitute the official record of the Board's or Committee's actions and decisions.

Executive Session

Consistent with Ohio law,¹³ the Board and its Committees may move to go into Executive Session (i.e. exclude the public from attendance) under a limited set of circumstances by stating the reason for the Executive Session and taking a roll call vote, with passage requiring a majority vote. The proper purposes for Executive Session are to discuss any of the following issues:

- Personnel (to consider appointment, employment, performance evaluation, dismissal, discipline, promotion, demotion or compensation of a public employee or official, or to consider the investigation of charges or complaints against a public employee or official); Additional information regarding entering Executive Session for personnel reasons can be found in the memorandum authored by BWC General Counsel, and attached hereto as Exhibit C;
- Property (to consider the purchase or sale of property if disclosure of the information would result in a competitive advantage to the other side);
- Court action (to discuss pending or imminent court action with legal counsel);
- Collective bargaining (to prepare for, conduct or review collective bargaining strategy);

- Confidential matters (to discuss matters required to be kept confidential by federal law, rules or state statute);
- Security arrangements (to discuss details of security arrangements and emergency response protocols where disclosure could be expected to jeopardize the security of the Board of Directors); and
- As otherwise permitted by law and approved by legal counsel.

No action or any votes may be taken in Executive Session. A motion to adjourn the Executive Session and return to public session is not necessary.¹⁴ Any voting on matters discussed in Executive Session shall be taken in public session. Attendance at Executive Sessions is limited to Board members and others invited by the Board Chair or Committee Chair as necessary.

Director Education Program¹⁵

The Board of Directors shall develop an education program for its members with the oversight of the Governance Committee. The education program shall contain an orientation component for newly appointed members, as well as a continuing education component for members who have served at least one year. For orientation of new members, information regarding all activities of BWC shall be provided, as well as information regarding the roles of the Board and its Committees. The Board Liaison shall schedule new members for briefing sessions with other Board members, Board legal counsel, as well as BWC staff. The briefing sessions and ongoing education curriculum shall cover the following topics:

- Information about Board member duties and responsibilities;
- Information concerning injured worker compensation and benefits paid under Chapters 4121, 4123, 4127, and 4131 of the Ohio Revised Code;
- Summary of HB 100 legislation and amendments thereto;
- Ohio ethics statutes and rules, BWC ethics policy, and all ethics opinions from the Ohio Ethics Commission concerning Board members;
- Fiduciary responsibility including memorandum from fiduciary counsel;
- Governance processes and responsibilities;
- BWC Administrator and agency goals and objectives;
- Administrator evaluation process;
- Board self-assessment process;
- Concepts of actuarial soundness;
- Investments;
- Budgeting and financial reporting;
- Auditing processes and procedures;
- Any other topic reasonably related to the duties of the Board.

The Board of Directors shall submit the education program it develops to the Workers' Compensation Council. All sessions, classes, and other events for the education program developed by the Board shall be held in the State of Ohio. Education sessions can be conducted at Committee or Board meetings, as long as a majority of Board members attend. Materials for all educational sessions shall be provided to the Board members in

advance for review. If a Board member is unable to attend an educational session, it is the responsibility of that Board member to review the material provided and follow up with any questions. Additional information regarding Board member participation at educational sessions can be found in Exhibit D. The Board shall review and approve its education program annually and submit it to the Workers' Compensation Council. At least annually, both the Director of the Ethics Commission as well as Board fiduciary counsel shall be invited to address the Board on their respective areas of subject matter expertise. At that time, the Board Liaison shall provide copies of the ethics requirements within the Ohio Revised Code on a yearly basis to all Board members.

Public Forum Process

The Administrator, in consultation with the Board, shall annually create a plan for public forums to solicit views from the public on various issues, to be held periodically throughout the coming year. Each public forum shall address a topic or topics deemed by the Administrator or the Board to be of interest to BWC stakeholders. Members of the public shall be provided notice of and have an opportunity to provide comments and/or register to speak at such forums. The Administrator and the Board may also invite certain stakeholders with an interest in the topic to speak. Appropriate written comments provided during the meeting shall be posted on the BWC web page. The Board and BWC shall follow the Policies and Procedures for Public Forums, as adopted by the Board and attached hereto as Exhibit E.

Communication Guidelines

As a general rule, it is the Board's position that the BWC Administrator, or BWC management appointed for such purpose by the Administrator, speaks for the agency as a whole.

Members of the public can provide written submission of comments to BWC's website at OhioBWC.com. Comments on pending legislation should be limited to those necessary to conduct the business of the Board of Directors. Comments beyond that should be directed to members of the Ohio General Assembly or the Workers' Compensation Council. The Chair of the Board of Directors reserves the right to limit comments from the public during meetings.

As a matter of policy, the Board shall acknowledge and respond to any letter sent to its attention as indicated below. Communications received directly by Board members from persons outside the BWC shall be forwarded to the Board Liaison. If the communication is to the entire Board, the Board Liaison shall work with the Board Chair and prepare the appropriate response. The response shall be shared with the Board. If the communication is addressed to an individual Board member, the Board member receiving such communication shall work with the Board Liaison to prepare the appropriate response. The original communication and response shall be provided to the entire Board. The Board Liaison shall be responsible for retention of the Board's public records and communications with the public. The Board Liaison shall follow state law and BWC policies for records retention.

BOARD COMMITTEES – COMPOSITION AND RESPONSIBILITIES

By law,¹⁶ the Board of Directors shall establish three Committees: the Actuarial Committee, the Audit Committee, and the Investment Committee. Additional Committees may be established by the Board of Directors as needed.¹⁷ Currently, the Board of Directors has established a Governance Committee and a Medical Services and Safety Committee in addition to the statutorily mandated Committees. At least annually, shortly after scheduled Board appointments, the appointment of the Board Vice Chair, Committee members, the Committee Chair, and the Committee Vice Chair shall be considered. Recommendations for these positions shall be made by the Governance Committee to the Board Chair, who will consider the recommendations. The Board Chair shall then make recommendations to the full Board of Directors for each of these positions. All appointments to these positions shall be considered and approved by the majority vote of the Board of Directors.

The Committee Chairs shall preside at Committee meetings. In the absence of a Committee Chair, the Vice Chair of the Committee shall preside at the Committee meeting. If both the Chair and Vice Chair are not available, the Chair of the Board shall appoint an acting Chair for that Committee meeting. Additional detail regarding the Board's Committees, including the roles and responsibilities of all Committees, are further defined by the Committee Charters, as approved by the Committees and adopted by the Board. Each Charter shall be reviewed and updated as necessary on an annual basis. The Charters of the Board's Committees are attached hereto as Exhibit F.

Actuarial Committee

Although Ohio law requires a minimum of three members to be part of the Actuarial Committee, the Board has determined that the Actuarial Committee should consist of a minimum of five members of the Board of Directors. One member shall be the member of the Board who is appointed as the actuary. The Board, by majority vote, shall appoint additional members of the Board to serve on the Actuarial Committee. The Board may also appoint additional members who may not be on the Board, as the Board determines necessary through majority vote. Members of the Actuarial Committee serve at the pleasure of the Board and the Board, by majority vote, may remove any member except the member of the Committee who is appointed as the actuary member of the Board.

The Actuarial Committee performs several functions mandated by law.¹⁸ It recommends actuarial consultants for the Board to use for actuarial analysis of BWC funds, and reviews the annual report of the actuarial valuation of the assets, liabilities, and funding requirements of the State Insurance Fund. In addition, the Actuarial Committee reviews the calculations on rate schedules and performance prepared by the actuarial consultants retained by the Board. The Actuarial Committee reviews all administrative code rules proposed for change, rescission, or addition that concern rate making. The Actuarial Committee has actuarial analysis conducted for any legislation expected to have a measurable financial impact on the BWC system. At least once every five (5) years, the Actuarial Committee arranges for an actuarial investigation of: the experience of

employers; mortality, service and injury rate of employees; and payment of benefits, in order to update the assumptions on the annual actuarial report. This actuarial investigation shall be conducted next in the year 2012.

Audit Committee

Although Ohio law requires a minimum of three members to be part of the Audit Committee, the Board has determined that the Audit Committee shall consist of a minimum of five members of the Board of Directors. One member shall be the member of the Board who is appointed as the certified public accountant. The Board, by majority vote, shall appoint additional members of the Board to serve on the Audit Committee. The Board may also appoint additional members who may not be on the Board, as the Board determines necessary through majority vote. Members of the Audit Committee serve at the pleasure of the Board and the Board, by majority vote, may remove any member except the member of the Committee who is appointed as the certified public accountant member of the Board.

The Audit Committee performs several functions mandated by law.¹⁹ It makes recommendations to the Board regarding the accounting firm that performs BWC's annual audits. It also recommends to the Board the accounting firm(s) that the Board uses when conducting the fiduciary performance audit of BWC's investment program, and other management and financial audits that the Board may deem necessary under R.C. §4121.125. The Audit Committee reviews the results of each annual financial audit and management review, assessing and developing appropriate courses of action to correct any problems that may arise. The Audit Committee also monitors the implementation of any action plans it creates, and reviews all internal audit reports on a regular basis. The Audit Committee also oversees the annual and biennial agency budget process by providing initial review to BWC budget materials prior to Board review and approval. The Audit Committee assists the Board in providing oversight of the integrity of BWC's financial statements.

The Audit Committee is responsible for strategic financial policies that assure the appropriate level of net assets for the appropriate BWC funds. The Audit Committee is responsible for an annual review of the funding ratio and the net leverage ratio pursuant to BWC's Net Asset Policy, which is attached hereto as Exhibit G. As part of this policy, the Audit Committee and then the Board shall review BWC staff recommendations in order to establish guidelines for funding ratio and net leverage ratio. The Audit Committee shall also take the lead in the process for establishing the discount rate for reserves. Pursuant to BWC's Reserve Discount Rate Policy, attached hereto as Exhibit H, the Administrator has the responsibility and authority to establish the discount rate for reserves with the review and guidance of the Audit Committee and the concurrence of the Board.

Investment Committee

Although Ohio law requires a minimum of four members to be part of the Investment Committee, the Board has determined that the Investment Committee shall consist of a minimum of five members. Two members shall be the members of the Board who are the

investment and securities experts. The Board, by majority vote, shall appoint additional members of the Board to serve on the Investment Committee. The Board may also appoint additional members who may not be on the Board, as the Board determines necessary through majority vote. Each additional non-Board member appointed shall have at least one of the following qualifications: a) experience managing another state's pension or workers' compensation funds; or b) expertise that the Board determines is needed to make investment decisions. Members of the Investment Committee serve at the pleasure of the Board and the Board, by majority vote, may remove any member except the members of the Committee who are the investment and securities expert members of the Board.

The Investment Committee performs several functions mandated by law.²⁰ It develops the investment policy for BWC, and submits it to the Board for approval. The Investment Committee must assure that BWC invests in accordance with its investment policy, and that the best possible return on investment is achieved while protecting the solvency of the State Insurance Fund. The Investment Committee monitors implementation by BWC of the investment policy. It recommends an outside investment consultant for the Board. Finally, the Investment Committee reviews the performance of BWC's Chief Investment Officer and the investment consultants retained by BWC.

Governance Committee

The Governance Committee was established by the Board of Directors under its authority to create additional Committees as it deemed necessary.²¹ The Governance Committee consists of a minimum of five members. One member is the Chair of the Board of Directors. Members of the Governance Committee serve at the pleasure of the Board and the Board, by majority vote, may remove any member except the member of the Committee who is the Board Chair.

The Governance Committee is responsible for developing governance policies and advising as to best governance practices for the Board. The Governance Committee assists in the establishment of the Board's annual performance objectives for the Administrator and coordinates and facilitates the process for the Board's annual performance evaluation of the Administrator. The Governance Committee is responsible for the initial review of rules that are not within the purview of another committee. In addition, the Governance Committee coordinates and facilitates the Board's annual self-assessment process, and monitors any follow up or action steps that may result from that assessment. The Governance Committee oversees the Board's educational programs, recommends the selection of independent fiduciary counsel to the Board for its approval, and makes recommendations to the Board Chair for the Vice Chair of the Board, Committee Chairs, Vice Chairs of the Committees, and Committee memberships.

Medical Services and Safety Committee

The Medical Services and Safety Committee was established by the Board of Directors under its authority to create additional Committees as it deemed necessary.²² The Medical Services and Safety Committee consists of a minimum of five members. The Board may also appoint additional members who may not be on the Board, as the Board

determines necessary through majority vote. Members of the Medical Services and Safety Committee serve at the pleasure of the Board and the Board, by majority vote, may remove any member.

The Medical Services and Safety Committee is responsible for assisting the Board of Directors and BWC in the development of strategic policy for the provision of quality, cost-effective safety and accident prevention programs for the mutual benefit of injured workers and employers. The Medical Services and Safety Committee also assists in the development of strategic policy for the provision of quality, cost-effective treatment and rehabilitation services necessitated as the result of workplace injuries. In addition, the Medical Services and Safety Committee is responsible for the review of rules regarding medical, safety and claims issues. The Committee will provide review and oversight of BWC's policies with respect to its medical provider network and practice guidelines; managed care and disability prevention delivery models; and outcome metrics for the above.

BOARD GOVERNANCE -- GENERAL

Ethics

The Board of Directors is committed to following ethical standards that promote the integrity of the workers' compensation system in Ohio. The Board is charged to comply fully with all federal and state laws, rules, regulations and policies applicable to the BWC. In particular, it is necessary that Board members become familiar with the applicable ethics requirements in order to ensure compliance with them. These requirements include the provisions of the Ohio Revised Code, the Governor's Executive Orders addressing ethics, and the opinions of the Ohio Ethics Commission pertaining to the BWC Board of Directors. An outline of Ohio ethics law prepared by the Ohio Ethics Commission as well as copies of the opinions of the Ohio Ethics Commission pertaining to the BWC Board of Directors are attached and identified as Exhibits I and J respectively.

The Board is also subject to BWC's Code of Ethics, as found in the BWC Employee Handbook. To meet its obligations under Ohio law, each Board member is required to file an annual Financial Disclosure Statement to the Ohio Ethics Commission for any year, in whole or part, in which the Board member served. The Board Liaison will coordinate this process and shall submit the forms as required to the Ohio Ethics Commission. The Board Liaison shall also forward a copy of the annual Financial Disclosure Statement to the Board's legal counsel at the Attorney General's office. The BWC Legal Counsel and the Board's legal counsel at the Attorney General's office shall review the statements for potential conflicts of interest. In keeping with the guidance of the Ethics Commission, the Board shall give broad interpretation to the requirements to report any other board membership, fiduciary relationship, business or other association when completing the annual Financial Disclosure Statement. The Board views the requirements of Ohio law and BWC policy with respect to ethics as a minimum measure

for its standard of conduct. It is the aspiration of the Board to perform its duties in accordance with the highest ethical standards.

To adhere to these standards, the Board's Directors must avoid conflicts of interest. A conflict of interest is a situation in which a Director has professional or personal interests that compete with the interests of BWC. Because each Director has a duty of loyalty to BWC, a conflict of interest should not be permitted to breach that duty. To avoid any potential conflict each Director should determine if there is a possibility of an actual conflict of interest or the appearance of a conflict of interest with any issues coming before the Board. If there is an actual conflict of interest or even the appearance of a conflict of interest the Director should recuse himself/herself from participating in any way in the discussions, as well as any decisions of the issue creating the conflict of interest or appearance of a conflict of interest. As the issue arises, the Director should state for the record the reason for the conflict of interest or appearance of a conflict of interest, and excuse himself/herself from the Committee or Board room for the duration of discussion and possible voting on the issue that created the conflict of interest or the appearance of a conflict of interest. Finally, the record should indicate that the Director in question did not participate in any way on the matter requiring recusal.

Board Oversight Process Guidelines

In order for the Board to fulfill its fiduciary responsibilities regarding oversight of the BWC, it must receive accurate and reliable information from the Administrator and BWC staff. Further, the Board must do its part in promoting the provision of quality information by making sure that measures are in place to ensure, to the extent practicable, that it is receiving the best information available. A related responsibility of the BWC, as an Ohio state governmental agency, is to develop, implement, and enforce policies and procedures that prevent or reduce the risk of wrongful acts and omissions by its officers and employees. In furtherance of the Board's oversight role, the Board has regularly scheduled meetings in which information exchange between it and BWC takes place. In addition, Charters have been established for all Committees to provide guidance regarding the Committees' purpose and function. The Board also created the Governance Committee to oversee governance issues. Furthermore, information exchange between the Board and the Inspector General's ("IG") office has been established. The Board Chair shall periodically contact the IG to invite sharing of information regarding IG investigations relative to the BWC. It was acknowledged in this connection that, in some cases, the IG may not be able to share information due to the confidentiality and other constraints imposed by statute on the IG's office. The Board Oversight Process Guidelines are attached hereto as Exhibit K.

As detailed in its charter, the Audit Committee is the arm of the Board that has the formal responsibility of interacting with the Auditor of State, the State Office of Internal Audit, and other agencies within the Ohio and federal governmental systems. In the event there is an internal BWC investigation which is not referred to the deputy IG, and the Administrator has determined that there is no need for confidentiality with respect to such matter, the Audit Committee shall be informed of such matter at a regular meeting. If there is a need for confidentiality, as determined by the Administrator, in consultation with the Board Chair, the Audit Chair shall be informed of such matter, and the Audit

Chair shall make a judgment as to whether or not there is a need to inform others on the Board regarding the investigation. The policy underlying this procedure is that, in any such event, either the Board, the Board Chair, or the Audit Chair shall know what is occurring.

There are several reports mandated by law that the Board of Directors must submit to various bodies. In order to coordinate the preparation, review and release of these reports, the Board has asked the Governance Committee to assume appropriate oversight of the general process and assign responsibility to the various Committees for oversight of specific reporting processes. Generally speaking, no Board of Director reports that are required by statute may be released without express Board review and approval. The Governance Committee of the Board provides general oversight of this process. However, the respective committees with specific expertise with respect to any such report will provide the supervision necessary for completion of the report. The various committees will work with BWC staff, review the report product, and provide any feedback necessary for finalization of the documents to be released. The timetables for completion of these reports shall be established by the committee responsible for the report, and the responsible parties shall comply with any mandatory due dates set forth therein or with respect thereto. A document detailing the division of responsibility and accountability for each report, as well as a general timetable for completion has been established called "Board of Directors Schedule of Mandatory Reports," which has been adopted by the Board of Directors and is attached hereto as Exhibit L.

Delegation of Authority

Under some circumstances, the Board of Directors may find it necessary to designate an individual Board member or Board members to carry out a specific task or duty on behalf of the Board. In situations where such delegation of authority may be recommended, the Board shall consider the matter through formal motion and after thorough discussion regarding the task or duty. The motion to be voted upon must specify the task or duty to be performed, the individual to whom the task or duty will be assigned, and the timeframes in which the task or duty must be performed. After a ~~formal roll call~~ vote by the Board affirming the motion delegating authority, the Board member(s) shall complete the task or duty according to the terms specified in the motion. Upon completion of the delegated task or duty, the individual Board member or Board members shall report back to the Board with a complete explanation regarding the actions of the Board member(s) in fulfilling the terms of the motion voted upon by the Board.

Referral Process for Wrongdoing

The Board of Directors is fully committed to the detection, investigation and prevention of wrongdoing at BWC. In the event a Board member receives information concerning possible wrongdoing at BWC, it is the member's obligation to promptly notify the Board Chair and the Administrator of the information so that the matter can be fully investigated and handled. In some instances, matters may be referred to the IG's office for investigation.

The Board of Directors shall comply with BWC's Employee Handbook regarding requirements for the reporting of wrongdoing. In addition, the Board shall also follow the Governor of Ohio's requirements for the reporting of wrongdoing, as contained in the memorandum from the Governor's Chief Legal Counsel Kent Markus dated October 11, 2007, which is attached hereto as Exhibit M.

BWC staff is responsible for keeping the Board of Directors fully informed of investigations and their outcomes. To this end, the Administrator shall provide updates to the Board as necessary. In some instances, updates regarding investigations of wrongdoing shall be provided in executive session, as permitted by Ohio law.

R.C. 124.341 establishes the procedures and responsibilities incumbent upon all state agency employees with respect to the reporting of wrongdoing, as well as the responsibilities of supervisory personnel within state agencies with respect to whistleblowing occurrences, including referral of the report to the appropriate authority and the protection of the whistleblower. The Board shall similarly follow such procedures and observe the requirements of Ohio law regarding whistleblowing.

Annual Review, Revision & Approval 11/19/10 Board of Directors Revision & Approval 5/28/10 Board of Directors Annual Review, Revision & Approval 11/20/09 Board of Directors Annual Review, Revision & Approval 11/21/08 Board of Directors Initial Review & Approval 2/29/08 Board of Directors
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¹ R.C. 4121.12(F)

² R.C. 4121.121(B)

³ R.C. 4123.30

⁴ Ohio Attorney General Opinion No. 89-033 (1989)

⁵ R.C. 4121.12(A)

⁶ R.C. 4121.12(C)

⁷ R.C. 4121.12(D)

⁸ R.C. 4121.12(F)

⁹ Ohio Ethics Commission Opinion dated July 30, 2007 provides that a Director who receives compensation to represent clients on matters before the BWC is disqualified from any matters before the Board that directly affect an individual official or employee of the BWC. For example, a Director who is an attorney representing clients before BWC is disqualified from participating in the evaluation of the Administrator's performance.

¹⁰ R.C. 4123.34

¹¹ R.C. 4121.12(F)(6)(c)

¹² R.C. 4121.12(D)(4)

¹³ R.C. 121.22

¹⁴ Ohio Sunshine Laws: An Open Government Resource Manual, 2010; Richard Cordray, Attorney General; Mary Taylor, CPA, Auditor of State; p. 93

¹⁵ R.C. 4121.12(F)(16)

¹⁶ R.C. 4121.129

¹⁷ R.C. 4121.12(G)(2)

¹⁸ R.C. 4121.129(B)

¹⁹ R.C. 4121.129(A)

²⁰ R.C. 4121.129(C)

²¹ R.C. 4121.12(G)(2)

²² R.C. 4121.12(G)(2)

To: Governance Committee
Fm: Donald C. Berno, Board Liaison
Re: Committee and Board Meeting procedures
Dt: May 16, 2011

The Governance Guidelines state we are to follow Robert's Rules of Order in the conduct of the Committee and Board meetings.

In the interest of improving efficiencies while maintaining transparency of the meetings, I have reviewed Roberts' Rules and make the following suggestions:

When the committee convenes, the scribe will complete the roll call. Then,

1. **Reading and approval of minutes:** The chair says "The minutes have been distributed in advance of the meeting. Are there any corrections to the minutes? If there are no corrections [or "no further corrections"] all in favor say aye . . . opposed no. After the voice vote, the Chair would state "Please let the record reflect the minutes are approved unanimously, (or, the minutes are approved with ____ yea votes and ___ nay vote(s) by Director(s) _____.)"

After the minutes are approved, the chair will review the consent calendar.

2. **Consent calendar:** according to Roberts' Rules, the consent calendar is a useful tool for disposing of routine or noncontroversial items of business. The items on the consent calendar are considered in order, unless objected to, in which case they are placed on the regular agenda.

Examples of items we would place on the consent calendar of committee meetings would include second readings of rules that have no changes from the first reading, five year rule reviews with "no change", or rules we have little or no choice in adopting (like the PERRP safety rules and NCCI manual classification rules).

3. **Approval of agenda:** Chair says, "The agenda has been distributed. If there are no changes, all in favor say yea, . . . opposed no. Then state "Please let the record reflect the agenda has been approved unanimously, (or, the agenda is approved with ____ yea votes and ___ nay vote(s) by Director(s) _____.)"
4. **Voice votes:** In taking a voice vote, the chair says "The question is on the motion to _____. Those in favor say aye . . . those opposed say no". After the voice vote, the Chair would state "Please let the record reflect the

_____ is approved unanimously, (or, the _____ is approved with _____ yea votes and ___ nay vote(s) by Director(s) _____.)

5. We will continue using roll call votes on major rule and policy issues at the Board meeting.

12-Month Governance Committee Calendar

	Agenda Topics	NOTES
Date	May 2011	
5/26/2011	1. Launch Board and Committee Self-assessment	
Date	June 2011	
6/15/2011	1. Finalize Board and Committee Self-assessment and action steps	
	2. Committee membership recommendations	
	3. Develop FY 2012 Education Plan	
Date	July 2011	
7/28/2011		
Date	August 2011	
8/25/2011		
Date	September 2011	
9/29/2011	1. Governance Guidelines (1 st read)	
	2. Committee Charters (1 st read)	
Date	October 2011	
10/27/2011		
Date	November 2011	
11/17/2011	1. Governance Guidelines (2 nd read)	
	2. Committee Charters (2 nd read)	
Date	December 2011	
12/14/2011	1. Board Self-assessment and Action Items to date	
Date	January 2012	
TBD		
	February 2012	
TBD		
Date	March 2012	
TBD		
	April 2012	
TBD		

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After the minutes are approved, the chair will review the agenda.

2. **Approval of agenda:** Chair says, "The agenda has been distributed. If there are no changes, all in favor say yea, . . . opposed no. Then state "Please let the record reflect the agenda has been approved unanimously, (or, the agenda is approved with ____ yea votes and ___ nay vote(s) by Director(s) _____.)"
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