

Ohio Bureau of Workers' Compensation
Management Review Team

Final Report

June 29, 2006

To: Gov. Bob Taft
From: Bill Mabe, Administrator/CEO, Ohio Bureau of Workers' Compensation
Subject: Final Report
Date: June 29, 2006

The following is presented as a final report on the findings of the Management Review Team (MRT) and the efforts of the Ohio Bureau of Workers' Compensation (BWC) to stabilize and improve the bureau's investment program. When the MRT was formed at your direction one year ago, the members were charged with:

- Performing a complete and systematic review of the BWC investment portfolio;
 - Contract, if necessary, with independent evaluators to assist with the investment review;
 - Assess the BWC investment management and audit staffing;
 - Consult on these matters with the Workers' Compensation Oversight Commission (WCOC);
 - Cooperate fully with all ongoing investigations.
-

The result was an Action Report containing 40 recommendations to improve the investment and internal auditing systems. When I started at BWC on Oct. 31, 2005, 16 items had been completed. To date, 20 more have been completed. The remaining four are in progress.

The following significant actions occurred.

- The WCOC created an investment committee and an audit committee.
 - The WCOC engaged the services of Wilshire Associates Inc. as an investment consultant.
 - The trading desk closed.
 - BWC terminated, without prejudice, all of the external public investment managers and moved BWC assets into a safer, less expensive bond index fund.
 - A new independent Internal Audit Division was created, staff transitioned and a new chief internal auditor (CIA) hired.
 - A new chief investment officer (CIO) was hired.
-

Four issues are poised to be completed. They are:

- More investment professionals will be hired.
- The WCOC is establishing an actuary committee.
- The actuary committee will report its finding to the investment committee.
- Periodic fiduciary performance audits will be performed.

BWC is proud of the work that has been completed, and will continue to implement the remaining recommendations to protect and strengthen the state insurance fund for all Ohioans.

Status of MRT finding and recommendations

1

Finding

Powers of attorney were granted to two members of the investment staff giving them complete authority to conduct transactions and to enter into contracts on behalf of BWC.

Recommendation

BWC should immediately rescind all powers of attorney granted to any member of the investment department.

Completed action

All powers of attorney were rescinded by order of the interim administrator via MEMORANDUM dated June 7, 2005, to all executive staff.

Completion date

June 2005

2

Finding

Investment staff was required to report through various levels of the administration before reaching the administrator. This served to stifle staff from raising questions and concerns they may have had about the practices in the Investment Division.

Recommendation

BWC should change the organizational chart so the investment department reports directly to the administrator. MRT has recommended that legislation be drafted to create an independent investment board with the CIO and investment staff reporting to it.

Completed action

The organizational chart has been changed so the CIO reports directly to the administrator. HB 376, sponsored by Rep. Tom Patton, was introduced Oct. 11, 2005, to create an independent investment board. The legislation was referred to the House State Government Committee, chaired by Rep. Steve Buehrer. No further hearings are expected on this bill for the remainder of the 126th General Assembly.

Completion date

June 2005

3

Finding

The investment department did not follow the usual policies and procedures of BWC when entering into contracts.

Recommendation

The investment department should be required to adhere to all BWC policies and procedures for procurement and contracting.

Completed action

The administrator requires the Investment Division to follow all existing procedures for contracting and procurement including a review by the law department. In addition, the administrator now signs all contracts and will develop long-term financial relationships through a competitive procurement process. This was established via MEMORANDUM from the interim administrator June 21, 2005.

Completion date

June 2005

4

Finding

The contracts with the investment managers did not contain a restriction on campaign contributions as required under Ohio Revised Code (ORC) 3517.13. Beginning in 2001, RFPs contained the 3517.13 restrictions, but they were only incorporated into the contract by reference.

Recommendation

BWC should include a restriction on campaign contributions (ORC 3517.13) in all contracts with investment managers.

Completed action

The interim administrator has directed staff to include the restrictions of ORC 3517.13 in all contracts regardless of the method of procurement. This was first executed in the contract for State Street Transition Management.

Completion date

September 2005

5

Finding

The ancillary investment portfolios is managed by an investment staff which lacks appropriate supervision and suffers from a lack of well-defined guidelines for the successful management of the assets in this fund.

Recommendation

BWC should follow the recommendation of Ennis Knupp and contract with an existing BWC fixed income manager to assume responsibility for the management of the \$1.3 billion in assets in the Ancillary Fund. This arrangement should continue until BWC has the opportunity to competitively bid the service.

Completed action

Acting in accordance with the recommendation by Ennis Knupp to have the five ancillary funds, formerly managed internally by BWC, be outsourced, the ancillary investment portfolios have been transferred to JPMorgan Investment Advisors Inc.

Completion date

July 2005

6

Finding

The BWC internal audit department is understaffed and is, therefore, required to rely on the work product of external investment consultants to audit fund manager performance and to audit the criteria and procedures for the selection of fund managers.

Recommendation

The BWC internal audit department should be sufficiently staffed and include individuals with appropriate investment experience.

Completed action

The Internal Audit Division has hired a new CIA and the division hired an investment audit professional. In addition, the administrator combined three audit units and formed an internal audit division that now consists of 26 professionals.

Completed date

May 2006

7

Finding

The internal audit department's reports were not shared with WCOC. As early as May 18, 2000, the manager of internal audit voiced significant concerns with the operations of the Capital Coin Fund, in a memorandum to the former chief financial officer (CFO) and CIO. Unfortunately, WCOC never saw this document.

Recommendation

BWC should increase the staff of the internal audit department and increase its independence by having all reports sent directly to WCOC, Auditor of State and the administrator. BWC should also create a separate audit committee with a charter and built-in independence with a dotted line reporting authority between the internal auditor and audit committee. The audit committee should periodically meet in private session with the internal and external auditors and the committee should have input into the internal auditor performance evaluation and any related personnel actions. Auditing staff should include staff dedicated and trained in investments. Best practices in the audit area should reflect the basic requirements of the Sarbanes Oxley Act.

Completed action

An Audit Committee Charter was established to assist the BWC's WCOC in fulfilling its fiduciary oversight and responsibilities with the Internal Audit Division. In addition, the newly formed Internal Audit Division is using Sarbanes Oxley Act as a guide for its approach to audits.

Completed date

January 2006

8

Finding

The BWC internal auditor was discouraged from conducting a full audit of Capital Coin Fund. The former CFO and CIO, according to the internal auditor, did not want to place an undue burden on the fund manager and therefore would not allow the internal auditor direct access to the Capital Coin Fund investment manager. As an alternative, the Capital Coin Fund investment manager accepted a set of agreed-upon procedures for valuing the assets.

Recommendation

The internal auditor must be given free and unfettered access to all investment managers to ensure that all managers are operating in a manner consistent with their contract and Generally Accepted Accounting Principles. The WCOC needs to establish agreed-upon procedures with the Auditor of State's external auditor for a deeper analysis of the Investment Division.

Completed action

The administrator now allows the internal auditor to report findings to the appropriate parties outside of the BWC and has access to all investment managers via the audit committee. The Internal Audit Division Charter was presented to the audit committee in April 2006.

Completed date

April 2006

9

Finding

The internal auditor was not given direct access to QED, the internal investment data and accounting system, due to the cost of physically running a line between floors. This prevented the internal auditor from having access to the tools necessary to perform a thorough, unconstrained review of the actions of the investment department.

Recommendation

The internal auditor should be given immediate and direct access to the QED system and the Oracle financial system.

Completed action

Members of the Internal Audit Division received QED user ID's and passwords and later attended QED training.

Completed date

August 2005

10

Finding

The investment department generated the requests for the transfer of funds and was also the contact with Treasurer of State to have the funds transferred. Failure to have another party outside of the investment department act as the contact with the Treasurer of State may present control issues.

Recommendation

BWC should consider improving segregation of duties for the process of requesting fund transfers for investments. This would help ensure that all such requests are properly approved and that any related subscription agreements receive the proper review and approval from the administrator, the CIO and any other appropriate members of BWC management.

Completed action

Per the ORC and bureau policies, BWC now requires dual signatures for outgoing Investment Fund transfers, and the administrator signs all contracts.

Completed date

September 2005

11

Finding

The current funding process does not require more than one signature on requests for funding of investments. Currently, the CFO, CIO, and/or one of the senior investment officers can execute these requests with no additional authorization. Permitting transfers of funds based on the signature of only one individual increases the potential for inappropriate activity.

Recommendation

BWC should modify internal procedures for funding investment managers to require two signatures on the requests for funding, one from the administrator and one from the CIO.

Completed action

The administrator and the CIO will now sign off on all requests for funding.

Per MEMORANDUM dated June 21, 2005, the interim administrator requires two signatures on funding investment managers.

Completed date

June 2005

12

Finding

The quarterly investment reports did not include detailed reporting to WCOC and other members of BWC management regarding all investment managers, the nature of their respective investments, the cumulative amounts funded, current market values and cumulative performance for each manager. Instead, only summary information was presented by asset classification or type of investment. Failure to present the cumulative funding of the various managers, current market values, and total gains and losses for the individual investment managers decreased the ability to readily identify Investment managers with significant losses.

Recommendation

The quarterly investment reporting process should be modified to conform to current investment industry standards and should include a comprehensive listing of all investments, including: the nature of the investment, the primary investment manager, the cumulative amounts funded, current market values and the performance net of fees since inception of the manager. Quarterly performance reports should be the responsibility of the independent investment consultant and should be reported directly to the WCOC's Investment Board.

Completed action

BWC's investment reporting meets industry standards, comprehensively lists and is independently reported by WCOC's Investment Committee via BWC's investment consultant, Wilshire Associates Inc., (Wilshire), directly to the WCOC on a monthly basis.

Completed date

March 2006

13

Finding

BWC's custodial bank, JPMorgan Chase, also serves as an investment manager for BWC, running a mid cap domestic equity portfolio. One of the functions of the custodial bank is to participate in the valuation of the assets of BWC and, therefore, could place the custodial bank in the unusual position of evaluating its own performance.

Recommendation

WCOC should amend its investment policies to either restrict the custodial bank from also serving as an investment manager or develop an alternative, independent method of evaluating its performance.

Completed action

Ennis Knupp completed a historic review of the investment performance for the last 10 years. The new investment consultant, Wilshire, is required to report on investment performance on a quarterly basis.

Completed date

November 2005

14

Finding

Investment staff provided the rates of return they received from the individual investment managers to Callan & Associates. Callan & Associates did not perform any independent verification of returns, making it impossible to provide an independent and unbiased evaluation as required by the investment policy.

Recommendation

BWC should not renew the contract with Callan & Associates and should seek proposals for a new investment consultant.

Completed action

The interim administrator decided not to extend the contract of Callan & Associates as the BWC investment consultant. On Nov. 4, 2005, four firms (Mercer, Ennis Knupp, RV Kuhns and Wilshire) made presentations to the WCOC to become BWC's new investment consultant. On Dec. 1, 2005, Wilshire signed a contract to become the new investment consultant.

Completed date

December 2005

15

Finding

At the direction of BWC's investment department, Callan & Associates was required to conduct an asset liability study using the total return method only and not a liability-driven approach that would match asset allocation with future liabilities. The result of this action would provide BWC with an incomplete view of its future obligations and could result in an asset allocation plan that is inappropriate to meet the future liability needs of BWC.

Recommendation

Once BWC and WCOC have completed their RFP and selected a new investment consultant, that consultant should review the work completed by Callan & Associates and either confirm its recommendations or conduct a new study. After the asset liability study is completed, WCOC, with the help of its outside consultant, should review and amend its investment policies and include a clear delineation of investment roles and responsibilities of key parties.

Completed action

The new investment consultant, Wilshire, reviewed Callan's asset liability study and added it as an appendix in the new investment policy. Wilshire completed an asset liability study and presented it for first consideration to the investment committee at its May 2006 meeting. The new asset liability study is expected to be voted on by the WCOC in the July 2006 meeting. The new investment policy includes clear delineation of investment rules and responsibilities of key parties.

Completed date

May 2006

16

Finding

Callan & Associates was restricted in its ability to fully evaluate the investment portfolio because the scope of its engagement was limited to the top 30 to 45 investment managers.

Recommendation

A new investment consultant should be retained to replace Callan & Associates. The new investment consultant should operate in a manner consistent with investment industry best practices and the investment policies of WCOC, and offer an independent and unbiased evaluation of all the investment managers in the portfolio. The investment consultant should answer only to WCOC, or an investment board or committee as required.

Completed action

BWC retained a new WCOC investment consultant, Wilshire, to report on all BWC portfolios.

Completed date

December 2005

17

Finding

BWC staff did not have access to a fiduciary counsel to assist them in establishing appropriate investment policies, in making investment decisions and in helping them deal with private equity investment managers.

Recommendation

BWC should retain the services of an experienced fiduciary counsel.

Completed action

BWC retained the services of an experienced fiduciary counsel with The Groom Law Group to advise BWC on all fiduciary and investment matters.

Completed date

July 2005

18

Finding

The BWC Statement of Investment Policy and Guidelines requires that all large cap stock transactions requested by investment managers be conducted through the BWC trading desk. This process is inefficient and could result in increased costs for brokerage fees and an opportunity cost for delaying a transaction and therefore not securing the best execution in trading.

Recommendation

BWC should require all investment managers to be responsible for their own trading on all classes of equities. The investment managers should be required to obtain best execution cost and strongly encouraged to conduct these transactions electronically whenever possible which will significantly reduce the transaction price per share.

Completed action

Acting on a recommendation Ennis Knupp to “require all external investment managers to be directly responsible for executing trades related to their respective portfolios” WCOC terminated the BWC trading operation at its August 2005 meeting. BWC required outside investment managers to execute trading independently of BWC.

Completed date

August 2005

19

Finding

The BWC investment division receives soft dollars in the form of rebates and other incentives from brokers (\$780,000 in 2004) to purchase unbudgeted goods and services. This is not an industry best practice. It blurs accountability for costs and could result in a competitive advantage for a broker who participates in the rebate scheme.

Recommendation

BWC should terminate the practice of accepting soft dollars from vendors doing business with the investment department to purchase goods and services. The operating expenses of the investment department should be transparent and reflect all costs of operating the investment function.

Completed action

The BWC interim CIO and interim CFO terminated this practice. BWC now requires all expenditures for goods and services be done using properly established purchasing procedures.

Completed date

August 2005

20

Finding

BWC has invested in 68 private equity partnerships. The large number of private equity investments makes it difficult for the limited investment staff to monitor and perform proper due diligence on these complex arrangements.

Recommendation

BWC should engage an independent investment consultant to evaluate the private partnerships and advise BWC whether to continue or restructure those partnerships.

Completed action

BWC engaged an interim independent investment consultant, Ennis Knupp, to evaluate the market value and the internal rate of return for all 68 private equity partnerships. An RFP was sent on May 16, 2006 requesting the services of an investment bank or investment placement agent for sale of BWC's Private Equity Portfolio. BWC selected a new independent investment consultant, Wilshire, in December 2005 to succeed Ennis Knupp to evaluate, monitor and advise BWC on private equity investments.

Completed date

May 2006

21

Finding

Once a decision was made to terminate an investment manager, there was no appropriate place to temporarily place money until the appropriate investment decision could be made.

Recommendation

BWC should contract with a passive investment fund manager to invest all proceeds recovered from any terminated investment manager.

Completed action

At the August 2005 WCOC meeting, the interim administrator received authority to contract with Barclay's Global Investors or State Street Global Advisors to serve as passive index fund managers for BWC. The bureau contracted with State Street Global Advisors to use their passive index fund for terminated investment managers.

Completed date

August 2005

22

Finding

As it is currently constructed WCOC cannot provide sufficient oversight to the investment staff.

Recommendation

Create a new, separate and independent investment board composed of seven members — five investment professionals (two appointed by the Treasurer of State, one by the Governor and two by the General Assembly, one each appointed by the majority and minority leaderships) and two from WCOC. In the interim, WCOC should create an investment committee composed of the additional investment professionals and one member of WCOC. The recommendation investment committee should develop investment objectives and risk targets.

Action still to be completed

Legislation has been introduced to create a separate BWC Investment Board in House Bill 357 in September 2005. As an intermediate step, WCOC created an investment committee in September 2005.

Completed date

September 2005

23

Finding

The investment consultant, Callan & Associates, reported to the BWC investment department, not to WCOC, on investment performance and evaluation of managers. As a result, WCOC was denied independent advice and verification of investment performance.

Recommendation

A new investment consultant should be retained to replace Callan & Associates and should provide independent and unbiased reports directly to WCOC.

Completed action

BWC hired Wilshire as the new investment consultant that reports directly to the WCOC.

Completed date

December 2005

24

Finding

The current staff of the BWC investment department is both understaffed and under trained to carry out the department's mission.

Recommendation

BWC should immediately hire experienced and credentialed investment professionals to assist in the management of the portfolio.

Action still to be completed

BWC has reorganized the investment department and will hire additional investment professionals. On May 2, 2006, BWC named Bruce Dunn as the organization's new CIO.

Anticipated completion date

December 2006

25

Finding

Through a RFP process, Treasurer of State selects one of the six Ohio banks to serve as the custodial bank for BWC. Although input is sought by the Treasurer of State, BWC has no role in evaluating the RFPs or selecting the custodial bank.

Recommendation

BWC should be permitted to participate in the selection process for its custodial bank and granted right of refusal to prevent any bank that was terminated as an investment manager during the previous four years from serving as the BWC custodial bank.

Completed action

BWC has held a series of meetings with Treasurer of State to determine protocol for custodial bank selection. A meeting with BWC's CIO and the Treasurer of State's office occurred in June 2006 and the Treasurer of State's RFP for a new custodial bank is pending.

Completed date

June 2006

26

Finding

The current investment policy requires WCOC approval of investment managers, but not of all investment funds. Since MDL Active Duration was a new fund with an existing manager, the existing control did not appear to require such approval based solely on the creation of the second fund.

Recommendation

The BWC investment policy should be modified to require WCOC (or investment board) review and approval of all investment funds, in addition to fund managers. This approval documentation should accompany all initial funding requests to provide evidence of proper approval. The internal auditor should be charged with responsibility for auditing compliance with this policy.

Completed action

BWC's new investment policy requires WCOC approval of all investment funds in addition to fund managers.

Completed date

April 2006

27

Finding

Returns on investments for BWC are not calculated by netting out the management fees. This gross-of-fee calculation method overstates rates of return, runs the risk of inattention to fee levels and does not conform to best practices and industry standards.

Recommendation

BWC should require the new investment consultant to calculate rates of return both gross of management fees and net of management fees and present them directly to WCOC or investment board once per quarter.

Completed action

BWC's new investment consultant, Wilshire, calculates rates of return gross of fees and net of fees.

Completed date

March 2006

28

Finding

BWC investment staff was responsible for cash management and made investments without any standards, policies or supervision.

Recommendation

The BWC should transfer the cash management function to their custodial bank and establish a new policy to govern cash management.

Completed action

Provided that in the absence of a policy on cash investments, the lack of proper controls, and the absence of meaningful reporting, Ennis Knupp reported that "BWC not manage the cash investments internally." The cash-management function was moved to the BWC custodial bank JPMorgan.

Completed date

August 2005

29

Finding

The BWC investment department invested in hedge funds before it was authorized to do so by WCOC.

Recommendation

BWC should liquidate all hedge funds in the portfolio.

Completed action

By order of the interim administrator all hedge funds have been liquidated and contracts terminated.

Completed date

June 2005

30

Finding

BWC failed to use best practices in the calculation of the rate of return on the investment portfolio.

Recommendations

30 (a.) Rates of return should be calculated by BWC's custodial bank and/or by an independent consultant.

30 (b.) Rates of return should be calculated by all parties using generally accepted performance measurement methods.

30 (c.) Rates of return should be calculated and reported using both gross of management fees and net of management fees so that expenses are not hidden.

30 (d.) Records should be maintained by BWC that provide support for each rate of return calculation.

30 (e.) Rates of return among sources should be reconciled periodically.

Completed action

BWC will require the new investment consultant, Wilshire, to perform a rate of return calculation for each investment manager on a quarterly basis and requires the full-service investment consultant to implement all additional rates of return recommendations including responsibility of custodial bank.

Completed date

March 2006

31

Finding

The BWC investment department does not have the necessary support systems to operate a modern, successful investment operation.

Recommendation

Working with its investment consultant, the investment board should ensure adequate staff, IT, accounting, custody, control systems and auditing structures are in place to support the investment department and allow proper oversight and accounting of assets.

Completed action

The investment committee and the BWC administrator ensure adequate staffing and support systems regarding the Investment Division on an annual review basis.

Completed date

December 2005

32

Finding

Because the WCOC lacks a specialized committee structure, it is inefficient and ineffective. The current structure prohibits an in-depth review of the many complex issues confronting WCOC.

Recommendation

WCOC, with or without the aid of a consultant, should set up a committee structure to include an investment committee, an audit committee and an actuary committee. Each committee should have free and unfettered access to any staff and consultants employed by BWC in their respective areas.

Completed action

WCOC set up a committee structure to include an investment committee in September 2005. WCOC set up a committee structure to include an audit committee in November 2005.

Action still to be completed

WCOC will set up a committee structure to include an actuary committee by June 30, 2006. BWC management presented a draft of the actuary committee structure to the WCOC chairman.

Anticipated completed date

June 2006

Finding

BWC has 70 external public market managers. The large number of managers makes it difficult for investment staff to effectively monitor manager performance and creates a more costly fee structure.

Recommendation

BWC should significantly reduce the number of public market managers and index a sizable portion of those assets. MRT provided three options for reducing the number of managers. At a minimum, poorly performing managers need to be evaluated promptly.

Completed action

Ennis Knupp proposed that BWC “Terminate all of BWC’s marketable securities managers now with prejudice to none of them and place the proceeds in the low-cost index fund.”

In November 2005, BWC notified all active managers that it will terminate their services without prejudice. BWC transitioned into an index portfolio, and all funds were in the new transition managers’ possession in January 2006.

Completed date

November 2006

34

Finding

In the case of Capital Coin Fund, a lack of audited financial statements reduced BWC's ability to identify and correct internal control, and other issues, in a timely manner.

Recommendation

BWC should require all private equity funds and other similar investments to provide annual audited financial statements, prepared in accordance with U.S. Generally Accepted Accounting Principles. In addition, based on discussions with BWC's CIO, BWC may also want to consider requiring SAS 70 reports for these funds.

Completed action

BWC investment policy states that "Each manager shall provide monthly performance evaluation reports that comply with the Global Performance Presentation Standards issued by the CFA Institute." Investment policy was adopted at the May 2006 WCOC meeting.

Completed date

May 2006

35

Finding

The manager for MDL did not have any experience managing a hedge fund, despite investment policy requirements that managers have such experience. Existing controls were not effective in ensuring that before the investment was funded someone outside of investments validated that the manager met all eligibility requirements.

Recommendation

When a new manager is approved for funding, documentation substantiating that the manager meets all required eligibility and experience requirements should be prepared.

Completed action

BWC's new investment policy includes a requirement for verification of all manager qualifications. Investment policy was adopted at the May 2006 WCOC meeting.

Completed date

May 2006

36

Finding

In both the MDL and Capital Coin Fund scenarios, BWC's investment represented 99 percent to 100 percent of the total investment managed by the respective fund. The lack of other investors in investment funds increased risk to the agency.

Recommendation

BWC should consider establishing limits on the percentage BWC's investments can constitute of the total investment in a private equity or joint venture fund (e.g., 5 percent, 10 percent of the total investment). Having other investors involved will serve as an indirect mitigating control.

Completed action

The BWC Investment Division issued an RFP in May 2006, seeking the services of an investment bank or investment placement agent for sale of BWC's Private Equity Portfolio.

Completed date

May 2006

37

Finding

Policies and procedures governing WCOC operations are out of date and need to be revised and expanded.

Recommendation

WCOC should rewrite all of its policies and procedures to reflect the recent changes at BWC and to include a code of conduct and ethics policy.

Completed action

BWC assisted the WCOC in compiling its governing documents to include, but not limited to ORC 4121.12; WCOC Audit Committee Charter, Investment Committee Charter, Code of Conduct and Ethics Policy. Fiduciary training was completed in November 2005 and actuary training was completed in April 2006. Ethics training is expected to be completed in August 2006.

Completed Date

April 2006

38

Finding

BWC does not conduct periodic reviews of its investment operations.

Recommendation

BWC should commission a fiduciary performance audit within three years of completing the governance restructuring and at least every five years thereafter.

Action still to be completed

WCOC and BWC will require periodic fiduciary performance audits and an RFP is expected to be drafted before the end of 2006.

Anticipated completion date

December 2006

39

Finding

BWC and WCOC do not conduct joint briefings with WCOC, the actuary and investment consultant.

Recommendation

BWC's actuary should regularly report to the WCOC Investment Committee regarding the nature of BWC's liabilities and adequacy of its financial reserves. The actuary should be involved in periodic asset liability studies.

Action still to be completed

WCOC will form an actuary committee to report regularly to the investment committee by the end of 2006. BWC management presented a draft for the committee structure to the WCOC chairman.

40

Finding

WCOC never required direct reports from the Auditor of State.

Recommendation

The Auditor of State should report regularly to WCOC on investment-related audit activities and financial statements.

Completed action

BWC and the WCOC formed an audit committee which allows direct reporting of auditing issues.

Completed date

November 2005