

STATE OF OHIO
OFFICE OF THE INSPECTOR GENERAL

RANDALL J. MEYER, INSPECTOR GENERAL

REPORT OF
INVESTIGATION



AGENCY: OHIO BUREAU OF WORKERS' COMPENSATION
FILE ID NO.: 2005-091 (AMENDED)
DATE OF REPORT: APRIL 24, 2014

The Office of the Ohio Inspector General ... The State Watchdog

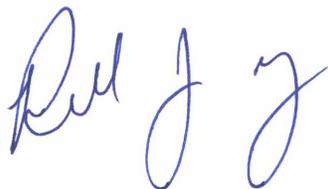
“Safeguarding integrity in state government”

The Ohio Office of the Inspector General is authorized by state law to investigate alleged wrongful acts or omissions committed by state officers or state employees involved in the management and operation of state agencies. We at the Inspector General’s Office recognize that the majority of state employees and public officials are hardworking, honest, and trustworthy individuals. However, we also believe that the responsibilities of this Office are critical in ensuring that state government and those doing or seeking to do business with the State of Ohio act with the highest of standards. It is the commitment of the Inspector General’s Office to fulfill its mission of safeguarding integrity in state government. We strive to restore trust in government by conducting impartial investigations in matters referred for investigation and offering objective conclusions based upon those investigations.

Statutory authority for conducting such investigations is defined in *Ohio Revised Code §121.41* through *121.50*. A *Report of Investigation* is issued based on the findings of the Office, and copies are delivered to the Governor of Ohio and the director of the agency subject to the investigation. At the discretion of the Inspector General, copies of the report may also be forwarded to law enforcement agencies or other state agencies responsible for investigating, auditing, reviewing, or evaluating the management and operation of state agencies. The *Report of Investigation* by the Ohio Inspector General is a public record under *Ohio Revised Code §149.43* and related sections of *Chapter 149*. It is available to the public for a fee that does not exceed the cost of reproducing and delivering the report.

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The Inspector General’s Office remains dedicated to the principle that no public servant, regardless of rank or position, is above the law, and the strength of our government is built on the solid character of the individuals who hold the public trust.



Randall J. Meyer
Ohio Inspector General



STATE OF OHIO
OFFICE OF THE INSPECTOR GENERAL

RANDALL J. MEYER, INSPECTOR GENERAL

REPORT OF INVESTIGATION

FILE ID NUMBER: 2005-091 (AMENDED)

SUBJECT NAME: Thomas Noe, et al

POSITION: Investment Manager

AGENCY: Ohio Bureau of Workers' Compensation

BASIS FOR INVESTIGATION: Complaint

ALLEGATIONS: Mismanagement of Public Monies;
Fraud/Theft;
Lack of Oversight.

INITIATED: April 7, 2005

DATE OF REPORT: April 24, 2014

PREFACE

The Noe investigation was initiated based on a complaint received by the Office of the Ohio Inspector General on April 5, 2005. The issuance of this report concludes the multi-agency venture that led to numerous individuals being held accountable for criminal conduct as well as effectuating change at the Ohio Bureau of Workers' Compensation to prevent and deter similar acts from reoccurring in the future. Lingering criminal proceedings remain ongoing for several defendants as of the date of release of this report.

The report is based on information that is subject to public disclosure and is not derived from matters: afforded grand jury protections; deemed confidential by the former inspector general; sealed by court order; or not subject to release under Ohio or federal law.

As the task force investigation was completed prior to the current Inspector General assuming this office, there were no resources utilized to re-investigate an already completed matter. This report serves as a compilation of relevant criminal matters, legislative reforms, and the recommended and implemented changes to the operations and procedures of OBWC.

TABLE OF CONTENTS

INITIAL ALLEGATION AND COMPLAINT SUMMARY 1

BACKGROUND 1

INVESTIGATIVE SUMMARY 3

 I. Ohio Bureau of Workers’ Compensation 6

 A. Authorization for Investment Funds 6

 B. Investment Policies and Procedures 9

 II. Criminal Conduct 10

 A. Thomas Noe 11

 1. Investment Funds Wrongdoing 11

 a. CCFI Investment Fund 12

 b. CCFII Investment Fund 14

 2. Ethics Violations 16

 3. Election Law Violations 20

 B. Terrence Gasper and OBWC Racketeering Enterprise 21

 C. Mark Lay and MDL Fraud 26

 III. Special Audits, Appraisals, MRT Report, and Fiduciary Review 29

 A. Auditor of State Special Audit 29

 1. Independent Audit Findings 29

 2. Sotheby’s Appraisal 44

 B. Governor’s Management Review Team Report 46

 C. Independent Fiduciary Review of OBWC 75

 1. The Workers’ Compensation Oversight Commission 76

 2. The Governor of Ohio 77

 3. OBWC Staff 79

 4. Reporting/Review Procedures 81

 In Addition to the OBWC Response 84

 IV. Legislative Solutions and Asset Recovery 90

 A. Legislative Solutions 90

 B. Recovery Actions 91

 1. Liquidation of Noe Assets 92

 2. Other Methods of Recovery 93

CONCLUSION 93

RECOMMENDATIONS 94

INITIAL ALLEGATION AND COMPLAINT SUMMARY

The Office of the Ohio Inspector General (OIG) first became aware of potential wrongdoing after an article was published by the Toledo Blade newspaper on April 3, 2005. The article documented that the Ohio Bureau of Workers' Compensation (OBWC or bureau) had made a multi-million dollar investment in two rare coin funds which were managed by Thomas Noe. Several state senators who read the article sent a letter to the OIG dated April 5, 2005, requesting an investigation. After obtaining preliminary information from OBWC, the OIG opened an investigation into OBWC's investment practices on April 7, 2005.

BACKGROUND

Ohio Bureau of Workers' Compensation

The Ohio Bureau of Workers' Compensation (OBWC) is responsible for providing workers' compensation insurance to all public and private employees except those that qualify for self-insurance. It is the largest exclusive workers' compensation system in the United States. An administrator/chief executive officer of OBWC is appointed by the governor. OBWC is also overseen by an 11-member board, with members experienced in financial accounting, investments and securities, and actuarial management. OBWC is funded through assessments paid by employers.

Ohio Revised Code (ORC) §4123.44 allowed the administrator of workers' compensation, in accordance with the investment objectives, policies, and criteria established by the Workers' Compensation Oversight Commission (WCOC, or commission), pursuant to ORC §4121.12, to invest any of the surplus or reserve belonging to the state insurance fund.

ORC §4121.12 created the Workers' Compensation Oversight Commission, which consisted of nine members. ORC §4121.12(F)(6) directed the commission to establish objectives, policies, and criteria for the administration of the investment program that includes asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives and performance evaluation guidelines; and to monitor the administrator's progress in implementing the objectives, policies, and criteria on a quarterly basis. The commission was directed to publish the objectives, policies, and criteria no less than annually and was required to make

copies available to interested parties. The commission prohibited investment activity that it found to be contrary to its investment objectives, policies, and criteria.

Investigatory Task Force

Due to the complex nature of the investigation, as well as the potential for uncovering violations of both state and federal law, an investigatory task force was convened; with members from multiple agencies acting in concert, but with different investigatory emphasis.

While the task force was a cooperative effort, the different member agencies had separate jurisdictional areas and investigatory focus. At the time this task force was in operation, the Office of the Ohio Inspector General was tasked, by ORC §121.42, with investigating the management and operation of state agencies in order to determine whether wrongful acts and omissions had been committed or were being committed by state officers or state employees.

“State Agency” was then defined as any organized body, office, or agency established by the laws of the state for the exercise of any function of state government. “State Employee” was similarly defined as any person who is an employee of a state agency or any person who does business with the state. “Wrongful act or omission” was defined as an act or omission, committed in the course of office holding or employment that is not in accordance with the requirements of law or such standards of proper governmental conduct as are commonly accepted in the community and thereby subverts, or tends to subvert, the process of government.

Restrictions on Disclosure

Because of the involvement of the United States District Attorneys for the Northern and Southern districts of Ohio, as well as the Lucas County Prosecuting Attorney’s Office, much of the investigatory product was pulled under the protection of Federal or State Rule of Criminal Procedure 6(e) which is instituted to protect the secrecy of the Grand Jury Process. Federal Rule 6(e) makes confidential all matters and material “occurring before a Grand Jury.”

Materials produced at trial, including documents and testimony, are not protected by Rule 6(e), and are public records, unless otherwise sealed by the court. A person or agency who divulges

privileged 6(e) material may be exposed to contempt sanctions by the court under whose authority the Grand Jury convened.

Further, in the intervening years, many of the individuals who were criminally charged and subsequently convicted of crimes had those records sealed by court order under ORC §2953.32. A sealing of the record, commonly called an “expungement,” is a legal proceeding whereby an eligible criminal offender can petition the court for an order erasing the record of prior criminal proceedings. Upon issuance of a court order “the proceedings shall be sealed” and “shall be considered not to have occurred.”

ORC §2953.35 makes it a misdemeanor of the fourth degree for any officer or employee of the state, or a political subdivision of the state, to divulge any information pertaining to “the arrest, complaint, indictment, trial, hearing, adjudication, [or] conviction” in a case a person knows to be sealed.

INVESTIGATIVE SUMMARY

Upon opening the investigation, the Office of the Ohio Inspector General (OIG) contacted the Ohio Bureau of Workers’ Compensation and asked them to provide copies of all bureau documents related to the coin fund investments. To obtain additional information surrounding the documents and for information regarding the coin fund investments, interviews were conducted of numerous OBWC personnel.

Based on preliminary information obtained from OBWC, representatives of the OIG met with officials from the Ohio State Highway Patrol (OSHP) in order to pool together investigative efforts into potential criminal wrongdoing by Tom Noe involving his business, Vintage Coins and Collectibles,¹ located in Maumee, Ohio.

As the investigation continued, investigators obtained a search warrant with the assistance of the Lucas County Prosecutor’s Office to be executed at Vintage Coins and Collectibles. The warrant

¹ The Ohio Secretary of State lists both “Vintage Coins and Cards” and “Vintage Coins and Collectibles” as business entities, but these two companies appear to be used interchangeably. The Office of the Ohio Inspector General uses “Vintage Coins and Collectibles” to refer to either entity.

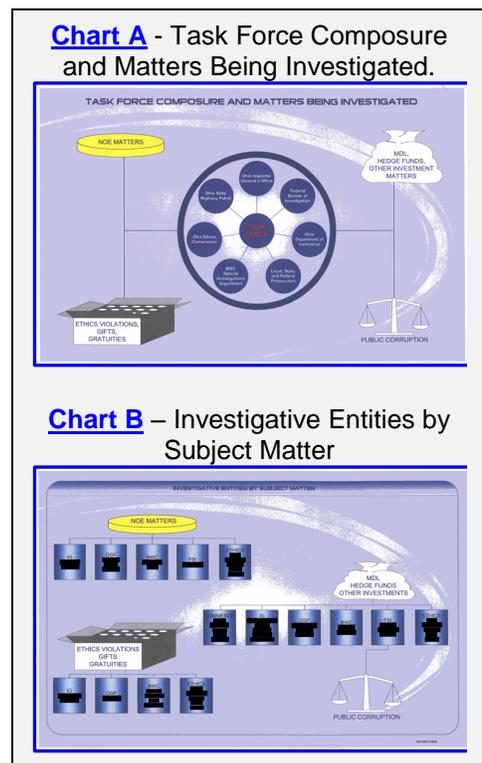
was executed on May 26, 2005, and continued over the next several days due to the extent of inventory on site. Investigators from the OIG, OSHP, OBWC, and Auditor of State's Office (AOS) worked with experts from Sotheby's of New York (Sotheby's) to inventory records, collectibles, and coins located at the business. Upon the completion of the inventory, the items were transported to Columbus, Ohio, for further analysis and to be maintained as evidence.

Ohio Revised Code §121.42(F) and §121.45 task the OIG with identifying other agencies that may also be responsible for investigating, auditing, reviewing, or evaluating the management and operation of state agencies, and to work and share information with those agencies to avoid duplication of effort.

Based on the growing complexity and expansive nature of the investigation beyond coin investments, the OIG established a multi-agency task force into various investment practices of OBWC. The scope of the investigation by the task force involved the creation and management of Capital Coin Fund Ltd. (CCFI) and Capital Coin Fund Ltd. II (CCFII), Noe investments, as well as other investment entities, ethics violations, and OBWC management and oversight.

Due to the possibility of violations of local, state, and federal laws, additional agencies were added to assess the conduct in a comprehensive manner. The task force was comprised of the following members:

- Office of the Ohio Inspector General
- Ohio State Highway Patrol
- Ohio Ethics Commission
- Ohio Department of Commerce - Division of Securities
- Ohio Bureau of Workers' Compensation Investigations Unit
- Columbus City Prosecutor's Office
- Franklin County Prosecutor's Office
- Lucas County Prosecutor's Office
- Federal Bureau of Investigation



- United States Attorney's Office, Southern District of Ohio
- United States Attorney's Office, Northern District of Ohio

The majority of the 17,000+ pieces of evidence collected during the investigation were stored at the OSHP Alum Creek facility. Included were coins, currency, and collectibles valued at \$33 million. OSHP personnel were also responsible for inventorying and securing more than 1,100 separate items seized during the execution of the search warrant at Vintage Coins & Collectibles which were initially maintained in the OIG evidence room.

Various members of the task force traveled across the country to conduct essential interviews. A plethora of interviews were completed in furtherance of the investigation, many of which were conducted under the auspices of providing information to the Grand Juries which had convened in Lucas County and the United States District Court, Northern District of Ohio.

In addition to conducting interviews, the task force obtained more than 1.5 million pages of documents related to the investigation. Many of the documents were obtained via Lucas County and federal Grand Jury subpoenas. Among the documents were records of coin fund financial transactions, personal bank records, business records, and email and phone records related to parties in the investigation.

On May 16, 2005, at the request of the OIG, the Auditor of State initiated a special audit of OBWC investments. On June 1, 2005, the AOS announced it had employed two independent auditing firms to conduct certain portions of the special audit. Crowe Chizek and Company LLC (Crowe) conducted independent forensic accounting procedures on the fund inventories of Capital Coin Fund Ltd. and Capital Coin Fund Ltd. II (collectively CCF). Clark, Schaefer, Hackett & Co. (Clark, Schaefer) conducted a review of OBWC's policies, procedures, and practices surrounding the establishment and management of CCF and MDL Capital Management, Inc. (MDL), and OBWC's private equity investments. Additionally, the AOS hired Sotheby's, an international auction house, for the purpose of valuing and inventorying CCF coins and memorabilia. Records obtained during the investigation and necessary for the purposes of auditing were provided to AOS.

Finally, the OIG was authorized by the state legislature to conduct an independent fiduciary review of OBWC's investment policies and practices. Pursuant to ORC §121.48, the OIG contracted with Evaluation Associates and Jeffrey Van Orden (Evaluation Associates) for assistance. The report of the fiduciary review was released on June 30, 2006.

I. Ohio Bureau of Workers' Compensation

The Ohio Bureau of Workers' Compensation and the Ohio Industrial Commission (OIC) were created in 1912 and 1925, respectively. The Ohio Bureau of Workers' Compensation provides medical and compensation for work-related injuries, diseases, and deaths for Ohio workers. The majority of the benefits are funded through monies received by OBWC from premiums paid by companies operating within the state of Ohio. OBWC invests funds in a variety of investments that are managed by numerous third-party investment managers. OBWC/OIC was created and is operated pursuant to Ohio Revised Code Chapters 4121, 4123, 4127, and 4131. During the duration of the investigation, the OBWC administrator, with the advice and consent of the Workers' Compensation Oversight Commission (WCOC), was responsible for the operations of the workers' compensation system, while the OIC was responsible for administering claim appeals.

A. *Authorization for Investment Funds*

At the time of the investigation, the Workers' Compensation Oversight Commission was a group of nine individuals charged with the responsibility of ensuring the bureau meets its goals and obligations. Five members of the commission were appointed by the governor and among their number were required to be two members representing employers, two members representing employees, and one member representing the public. Those five members comprised the voting body of the commission. The other four members included the chairman and ranking minority member of the Senate Insurance, Commerce, and Labor Committee, as well as the chairman and ranking minority member of the House Commerce and Labor Committee. The last four members were non-voting members of the commission. The commission's duties included:

- Reviewing OBWC's progress in meeting established cost and quality operating objectives;

- Making recommendations to the administrator concerning premium rates;
- Reviewing annual reports and independent financial audits of the bureau;
- Establishing objectives and policies for the bureau’s investment program; and
- Providing advice and consent on matters of workers’ compensation policy.²

On May 31, 1995, Governor Voinovich signed House Bill 7 which became effective on September 1, 1995. The law changed OBWC’s administrative scheme by giving the gubernatorial-appointed administrator full authority to run the bureau, and it relegated the Workers’ Compensation Oversight Commission to what was essentially an advisory role. Governor Voinovich appointed Carlton James Conrad as OBWC administrator on September 1, 1995.

Senate Bill (S.B.) 82 was introduced on February 16, 1995, and was initially designed to create a health care fund for each of the five major state retirement systems. S.B. 82 underwent significant changes when it went to the Senate Education and Retirement Committee. Most notable were the expansion of the authority of the retirement systems to make investments, and the removal of the list of types of investments in which the systems were allowed by law to make. The result was the “prudent person” standard as it applied to investments made by the retirement boards which required investments to be made “... with the care, skill, prudence, and diligence ... that a prudent person ... would use in the conduct of an enterprise of a like character and with like aims”³

On March 27, 1996, the Senate voted to pass S.B. 82. The bill then proceeded to the House Health, Retirement, and Aging Committee on April 11, 1996. While the bill was in the House committee, Terrence Gasper, as chief financial officer of the Ohio Bureau of Workers’ Compensation, testified in favor of the bill’s provisions eliminating the list of authorized investments and retaining the “prudent person” language. Consequently, while the matter was before the House committee, language giving OBWC the same investment as the various retirement systems was added to the bill. This statutory change allowed OBWC’s administrator

² ORC §4121.12(G) (2005).

³ Legislative Services Commission Final Analysis.

the authority to establish partnerships, trusts, limited liability companies, or corporations in order to further its investment strategy. An analysis of the bill as it left the House Health, Retirement, and Aging Committee stated, “The fiscal impact of the expansion of BWC’s investment authority would depend on the specific investment decisions that are made, and cannot be predicted at this time.”⁴

The finalized version of the legislation was signed by former Governor Voinovich on December 6, 1996.

On March 7, 1997, the Workers’ Compensation Oversight Commission approved a new investment policy for OBWC. This new policy included a \$500 million investment goal, with the funds earmarked for emerging and minority managers. Emerging managers, according to OBWC, were “firms that had a successful historic record of fund management but did not have enough assets under management to assume a large allocation of investment dollars.” The managers were selected to receive investment dollars through the bureau’s new Request for Proposal (RFP) process whereby OBWC would solicit business proposals from interested firms. ([Exhibit 1](#)) The bureau’s RFP indicated that it “was interested in acquiring the services of Emerging Investment Fund Managers to exercise full investment discretion and to manage a portion of the assets under its control.”⁵ The due date for responses was January 6, 1998. The firms’ proposals were graded by gauging the firms’ past performance records. The oversight commission had responsibility for approving the bureau’s selections of investment firms, and the amount of money awarded to each approved firm.

OBWC records indicated that Tom Noe, president of Vintage Coins and Collectibles (VCC) submitted his response to the RFP, Bid #B98010, and requested consideration for an investment award for an alternative investment in coins and related materials on December 30, 1997. Noe’s bid was filed timely, and was logged in at OBWC prior to the January 6, 1998, deadline. A notation on the OBWC bid log indicates that the Noe – VCC proposal was considered a bid from

⁴ LBO Fiscal Note & Impact Statement, November 12, 1996, pg. 7.

⁵ Request for Proposals issued December 8, 1997, Section 1.1 by OBWC. ([Exhibit 2](#))

an Ohio-based vendor which afforded him special consideration for the Emerging Managers Program. ([Exhibit 2](#))

Former OBWC Chief Investment Officer Robert Cowman stated during an interview that he and then-OBWC Chief Financial Officer Terrence Gasper reviewed all 106 bids, and narrowed the number for further consideration to 28. Noe's bid was included in the bids that were to undergo further scrutiny and scored pursuant to the RFP's criteria before being presented to the WCOG for final approval.

According to the minutes of the March 23, 1998, oversight commission meeting, Cowman and Gasper evaluated the responses to the RFP and selected the 28 bids because no consultant had the necessary expertise to evaluate the applicant's proposals. ([Exhibit 3](#)) This method of evaluation was contrary to the mandatory Investment Policy and Guidelines adopted by OBWC and the oversight commission on February 12, 1997. The guidelines stated "Investment Consultants **shall** assist in the development of criteria and procedures to be utilized in the selection of **all** fund managers." (Emphasis added) ([Exhibit 4](#)) Intuitively, if the external investment consultants had the expertise to develop selection criteria, they seemingly should have had the requisite expertise to apply the criteria for the selection of applicants.

B. Investment Policies and Procedures

OBWC invested a total of \$50 million of funds with Tom Noe; who, on March 31, 1998, received \$25 million as a selected emerging fund manager over the Capital Coin Fund Ltd. venture (CCFI). The memorandum entered into with OBWC states:⁶

Capital Coin Fund Limited (the "Company") is an Ohio Limited Liability Company in organization, the managers of which will be Vintage Coins and Cards, a Division of Thomas Noe, Inc., and Delaware Valley Rare Coin Co, Inc. The Company intends to acquire a diversified portfolio of rare coins and related material principally, but not limited to, those certified and graded by the Professional Coin Grading Service and Numismatic Guaranty Corporation of

⁶ OBWC Confidential Memorandum dated March 25, 1997, p. iii.

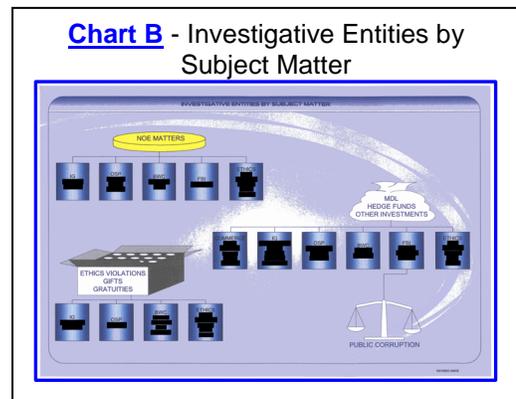
America, and to use the expertise, knowledge and abilities of officers of the Managers to capitalize on the eventual resale of the coins to dealers in the wholesale market and the general public in the retail market. The Company will distribute all its assets not previously distributed and liquidate within eleven (11) years of formation. ([Exhibit 5](#))

Over the course of the next three years, Noe maintained relationships with Gasper, Cowman and others at OBWC. In 1999, Keith Elliott, an internal auditor at OBWC, questioned the coin investment and its lack of controls. Upon learning of the concerns of the OBWC internal auditor, Cowman drafted a letter for Noe to use in response, telling Noe to put the letter on his own letterhead and submit it to the bureau, and all questions would be resolved. ([Exhibit 6](#)) Gasper and Cowman kept the substance of Elliott's complaints from Director Conrad.

On July 13, 2001, Conrad signed the subscription agreement for Capital Coin Fund Ltd. II (CCFII). Shortly thereafter, Noe received an additional \$25 million. An RFP was not published for the second investment, nor did Noe submit a new proposal to OBWC. Conrad stated in an interview the second venture was the result of a recommendation from Gasper.

II. Criminal Conduct

The task force which was convened to investigate the OBWC investment matter was divided into different working groups as the case became more complex. As more evidence of criminal conduct began to mount, the workgroups were able to focus on smaller aspects of the overall investigation, such as specific ethics or elections violations.



The investigation into Tom Noe uncovered wrongdoing on his part, showing Noe stole funds from his investment account; revealing his participation in illegally funneling money to political candidates; and uncovering wrongdoing by state officials in failing to report gifts or things of value given to them by Noe.

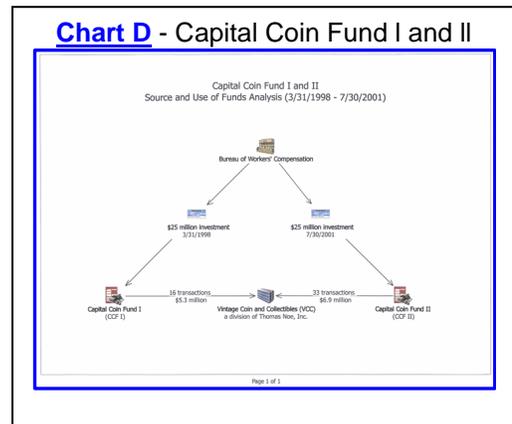
- Engaging in a Pattern of Corrupt Activity (1 count)
- Grand Theft (5 counts)
- Aggravated Theft (6 counts)
- Money Laundering (11 counts)
- Tampering with Records (8 counts)
- Forgery (22 counts)

Tom Noe was convicted by a jury of 29 of the 53 counts contained in the indictment. Further, the jury found Noe not guilty on 11 of the counts, with another 13 counts having been dismissed by the prosecutor prior to trial. Noe was sentenced to a combined 18 years in state prison, fined \$139,000, and ordered to pay restitution to the state of Ohio in the amount of \$13,747,000.

(Exhibit 10)

a. CCFI Investment Fund

Tom Noe received a \$25 million payment on March 31, 1998, for the Capital Coin Fund Ltd. (CCFI) investment. That same day, Noe deposited \$1,375,000 into the Vintage Coins and Collectibles (VCC) bank account. Several transactions were conducted by Noe in close proximity to the March 31, 1998, transaction that benefited him personally and violated the terms of the operating agreement with OBWC. A total of 16 transactions were disguised on the books as inventory purchases by CCFI from VCC. It was determined in these instances that VCC accounting records did not support the validity of the purchases, nor did VCC have the inventory to support the transactions in question.



Money from the \$1,375,000 transfer was traced to various payees, including but not limited to, the following:

IMPROPER CCFI EXPENDITURES	
Payee	\$ Amount
Thomas Noe Inc. Line of Credit	446,471
Tom Noe	218,000
VCC Payroll for March	4,426
Mid America Sports	20,000
Dr. Paul Vesoulis to pay a debt	95,000
Jim Bremer to pay a debt	21,000

The balance of the initial transfer to VCC was paid to or on behalf of related parties, or other miscellaneous payees outside of the scope of the operating agreement.

Analysis of the remaining 15 transactions, totaling \$3,930,000, disguised as purchases of inventory, revealed that the money was used for the following purchases:

ADDITIONAL IMPROPER CCFI EXPENDITURES	
Payee	\$ Amount
Tom Noe	227,289
Builders and Home Appliance Vendors	176,088
Thomas Noe and VCC Financial Institutions	504,657
Related Companies	542,675
Related Individuals	1,020,676
U.S. Senior Open (2001)	3,000
Other	1,455,264

Tom Noe was able to obtain investment funds from OBWC, which were intended to be invested in rare and valuable coins. Out of the initial \$25 million investment, Noe misappropriated \$4,734,546 of tax payer money for his own personal gain.

ADDITIONAL IMPROPER CCFII EXPENDITURES	
Payee	\$ Amount
Tom Noe	584,497
Builders and Home Appliance Vendors	232,491
Thomas Noe Inc.	742,188
Related Companies	847,481
Related Individuals	319,606
U.S. Senior Open (2003)	26,824
Other	2,118,049

Noe was able to obtain a second investment of \$25 million from OBWC to invest in a second rare coin fund. From this investment, Noe misappropriated \$6,871,136 of taxpayer money for his own personal gain.

From these two funds, Noe misappropriated a total of \$11,605,682, and deprived the state and people of Ohio even more in lost profit and interest.

On October 10, 2006, a jury trial began in Lucas County, Ohio. On November 3, 2006, the State of Ohio finished presenting its case in chief, and on November 6, 2006, the defense rested. Closing arguments were presented by both the State of Ohio and the defense on November 7, 2006. On November 8th, the jury began to deliberate; and on November 13, 2006, the jury reached a verdict and found the defendant guilty of the following counts:

Thomas Noe Conviction			
Indictment Count(s)	Offense	ORC Section	Felony Level
1	Engaging in a Pattern of Corrupt Activity	2923.32(A)(1)	Felony 1
30	Aggravated Theft	2913.02	Felony 1
2	Aggravated Theft	2913.02	Felony 3
7, 13, 17, 20	Money Laundering	1315.55	Felony 3
32-46, 48, 49, 52	Forgery	2913.31	Felony 5
22, 24, 25, 26	Tampering with Records	2913.42	Misdemeanor 1

In addition, the jury found Noe guilty of the forfeiture specification, thus requiring him to forfeit his financial interest in his voting stock in Numismatic Guaranty Corporation of America and his non-voting stock in Numismatic Guaranty Corporation of America.

Thomas Noe was sentenced to an 18-year period of incarceration at the state level, of which 10 years are mandatory. The state-level incarceration was imposed to run consecutively to the sentence imposed from the United States District Court for the Northern District of Ohio.

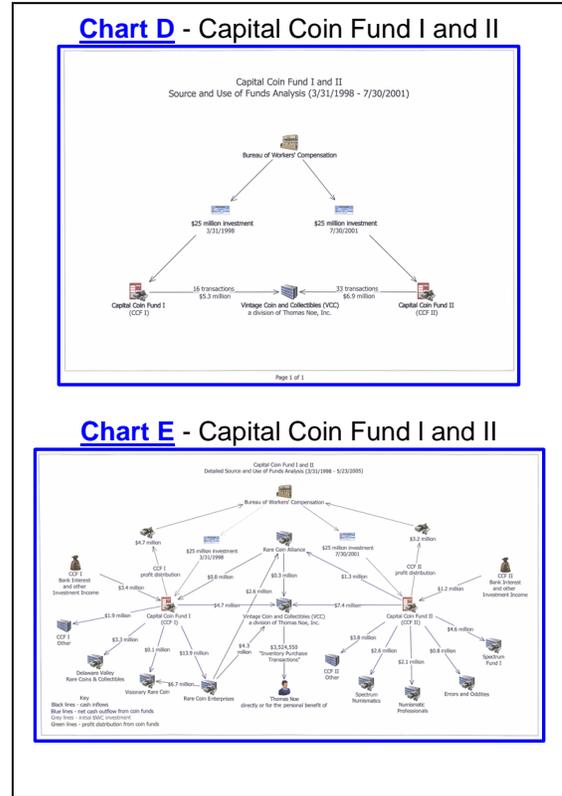
The court imposed the following financial sanctions against Noe:

- \$13,747,000 in restitution payable to the State of Ohio, Bureau of Workers' Compensation
- \$2,979,402 in costs of prosecution
- \$99,000 in fines + court costs

As of this report's issuance, Tom Noe has pending litigation in the form of a Petition for a Writ of Habeas Corpus in the Ohio Supreme Court.

2. Ethics Violations

The investigation identified numerous instances where public officials accepted improper gifts and gratuities. Evidence was obtained from interviews and records acquired during the course of the investigation, revealing instances where Tom Noe and other persons provided meals, money, loans, gifts, and gratuities to both OBWC employees and other public officials.



The Ohio Ethics Commission promotes ethics in public service to strengthen the public's confidence that government business is conducted with impartiality and integrity. The commission was established as part of the Ohio Ethics Law in 1973.

The Ethics Law, effective January 1, 1974, created new ethical standards for public officials and employees by: requiring personal financial disclosure; creating new restrictions upon unethical conduct with criminal sanctions; and establishing uniform review of ethics issues by statewide commissions of the three branches of government. The commission has jurisdiction over Ohio's Executive Branch that is for all public officials and employees at the state and local levels of government; with the exception of legislators, judges, and their staffs.

The ethics portion of the investigation culminated with convictions on multiple individuals, including state employees and elected officials who have since had their convictions expunged. As previously mentioned, expungement is a judicial proceeding which seals the records of any criminal proceedings, creating the effect where the proceedings shall be considered not to have occurred, per ORC §2953.32(C)(2).

Former Governor of Ohio Bob Taft was found guilty in Franklin County Municipal Court on August 18, 2005, of four misdemeanor ethics violations, one for each year from 2002 to 2005. Taft was convicted for receiving gratuities that he failed to report on his annual financial disclosure statement that is filed with the Ohio Ethics Commission. ([Exhibit 51](#)) Taft was fined a total of \$4,000 and was ordered to pay court costs associated with his case. ([Exhibit 52](#)) The investigation found that the governor attended multiple golf outings valued at more than \$75 each that were required by law to be reported.

Brian Hicks, former chief of staff for Governor Bob Taft, was convicted in Franklin County Municipal Court of one ethics violation and fined \$1,000 and court costs. The investigation determined that Hicks failed to report gifts received from Tom Noe on his financial disclosure statement. ([Exhibit 11](#)) In addition, Hicks stayed at Noe's vacation home on two occasions and paid substantially less than market value for his lodging. ([Exhibit 12](#))

J. Douglas Moormann, former staff member to Governor Bob Taft, received a \$5,000 loan from Tom Noe during the time he was employed by the state as a member of the Transportation Review Advisory Council. Moormann entered a plea of guilty to an ethics violation in Franklin County Municipal Court for failing to disclose the \$5,000 loan to the Ohio Ethics Commission on his financial disclosure statement. [\(Exhibit 53\)](#) The court imposed a \$1,000 fine and ordered him to pay court costs. In addition, Moormann was ordered to place \$5,000 in escrow for future payment to OBWC, since it was determined that the loan proceeds were for monies taken by Mr. Noe from the Capital Coin Funds. [\(Exhibit 54\)](#)

H. Douglas Talbott, former staff member to Governor Bob Taft and former member of the State Board of Cosmetology, was convicted in Franklin County Municipal Court of two ethics violations for attending “Supper Club” dinners hosted by Tom Noe and for receiving \$39,000 from Noe for a vacation home. [\(Exhibit 13\)](#) Talbott was ordered to pay \$2,000 in fines plus court costs, and ordered to place \$39,000, the amount of the loan, into escrow for future repayment to OBWC since the monies were taken from the Capital Coin Fund Ltd. and Capital Coin Fund Ltd. II. [\(Exhibit 14\)](#)

Donna Owens, a former member of the Ohio Industrial Commission, former director of the Ohio Department of Commerce, and former mayor of Toledo, was found guilty of an ethics violation in Toledo Municipal Court for failing to report \$1,900 that she received from Tom Noe. [\(Exhibit 15\)](#) The investigation revealed that she funneled the money from Noe into the Bush/Cheney 2004 presidential campaign. She was fined \$1,000 in court costs for her actions, and was ordered to pay \$4,125 to the Ohio Ethics Commission to cover the cost of the investigation. [\(Exhibit 16\)](#)

Sally Perz, a former member of the Transportation Review Advisory Council (TRAC) and former state representative, entered a plea of guilty in Toledo Municipal Court to an ethics violation for failing to disclose that she had received \$3,900 from Tom Noe in October 2003. [\(Exhibit 17\)](#) Like Owens, Perz served as a conduit of funds from Noe to the Bush/Cheney 2004 campaign. She was fined \$1,000 in court costs for her actions, and ordered to pay \$4,125 to the Ohio Ethics Commission to cover the cost of the investigation. [\(Exhibit 18\)](#)

Maggie Thurber, a former clerk of Toledo Municipal Court and former Lucas County commissioner, received a gift of \$3,750 from Tom Noe. Like Owens and Perz, she passed the money from Noe to the Bush/Cheney 2004 campaign. She entered a plea of guilty in Toledo Municipal Court to an ethics violation for failing to disclose the gift on her ethics financial disclosure form. ([Exhibit 19](#)) She was fined \$1,000 in court costs for her actions, and ordered to pay \$4,125 to the Ohio Ethics Commission to cover the cost of the investigation. ([Exhibit 20](#))

Betty Shultz, a former Toledo City councilwoman, acted as a conduit by accepting \$1,950 from Noe that she donated to the Bush/Cheney 2004 campaign. ([Exhibit 21](#)) Shultz’s actions resulted in a conviction in Toledo Municipal Court for an ethics violation, where she was fined \$1,000, and ordered to pay \$4,125 to the Ohio Ethics Commission to cover the cost of the investigation. ([Exhibit 22](#))

Ethics Summary		
Subject	Narrative	Conviction-Disposition
Bob Taft, former Governor of Ohio	Bob Taft was found guilty in Franklin County Municipal Court for failing to report multiple golf outings that had been provided to him free of charge.	Convicted of 4 ethics violations. Fined \$4,000 and court costs.
Brian Hicks, former chief of staff, Office of Ohio Governor	Hicks was found guilty in Franklin County Municipal Court for failing to report gifts from Noe. Hicks and his family stayed at Noe’s Florida vacation home twice for a fraction of its true value.	Convicted of 1 ethics violation. Fined \$1,000 and court costs.
J. Douglas Moormann, TRAC member and former staff member for Governor Taft	Moormann accepted a \$5,000 loan from Tom Noe. He was found guilty in Franklin County Municipal Court for failing to disclose the loan to the Ohio Ethics Commission.	Convicted of 1 ethics violation. Fined \$1,000 and court costs. Ordered to place \$5,000 in escrow.
H. Douglas Talbott, former member of the Ohio State Board of Cosmetology	Talbott admitted he attended “Noe Supper Clubs,” accepted a \$39,000 loan from Noe for a vacation home, and also accepted \$1,960 from Noe to use as a conduit for three State Supreme Court candidates. Talbott was found guilty for his crimes in Franklin County Municipal Court.	Convicted of 2 ethics violations and 1 state elections violation. Fined \$2,000 and \$1,960; assessed court costs; and ordered to place \$39,000 in escrow.

Ethics Summary		
Subject	Narrative	Conviction-Disposition
Donna Owens, former member of the Ohio Industrial Commission	Owens was found guilty in Toledo Municipal Court for failing to disclose that she had received \$1900 from Tom Noe in October 2003. Owens used the money as a conduit from Noe to the Bush campaign. Owens is also the former director of Commerce, and former Toledo city mayor.	Convicted of 1 ethics violation. Fined \$1,000 in court costs, and \$4,125 for cost of investigation.
Sally Perz, former TRAC board member and former state representative	Perz was found guilty in Toledo Municipal Court for failing to disclose that she had received \$3,900 from Tom Noe in October 2003. Perz used the money as a conduit from Noe to the Bush campaign.	Convicted of 1 ethics violation. Fined \$1,000 in court costs, and \$4,125 for cost of investigation.
Maggie Thurber, former Lucas County commissioner	Thurber admitted she received \$3,750 from Tom Noe to use as a conduit towards the Bush campaign. Maggie Thurber was found guilty in Toledo Municipal Court for failing to disclose the money to the Ohio Ethics Commission.	Convicted of 1 ethics violation. Fined \$1,000 in court costs, and \$4,125 for cost of investigation.
Betty Shultz, former Toledo City councilwoman	Shultz was found guilty in Toledo Municipal Court for failing to disclose that she had received \$1,950 from Tom Noe in October 2003. Shultz used the money as a conduit from Noe to the Bush campaign.	Convicted of 1 ethics violation. Fined \$1,000 in court costs, and \$4,125 for cost of investigation.

Once potential ethical violations were discovered, the Ohio Ethics Commission worked with other members of the task force, from the collection of evidence through the final disposition, to avoid duplication of efforts.

3. Election Law Violations

The Ohio Elections Commission was created in 1974 as a result of the circumstances surrounding the Watergate affair in the early 1970s. Similar to the Federal Elections Commission, the Ohio Elections Commission was created as a means of enforcing the state's campaign finance and fair campaign practices laws.

In addition to the previously mentioned ethics violations, H. Douglas Talbott was found guilty in Franklin County Municipal Court of a state elections law violation for accepting \$1,960 from Tom Noe. Talbott acted as a conduit by making contributions to the campaign funds of three Ohio Supreme Court candidates in his name rather than Noe's, who had already made the maximum contributions allowed by law to the same three campaigns. Talbott was assessed a fine of \$1,960 plus court costs. The case was prosecuted in Franklin County based on a referral from the Ohio Elections Commission. ([Exhibit 23](#))

Susan Metzger, an assistant for Tom Noe at his Vintage Coin and Collectibles business, was assessed a \$250 fine by the Ohio Elections Commission. The Ohio Elections Commission opened a case against Metzger after she admitted to task force investigators that Noe gave her money to pass along to several statewide candidates' campaigns. ([Exhibit 24](#))

B. Terrence Gasper and OBWC Racketeering Enterprise

In September 1995, Terrence Gasper was hired as the chief financial officer of the Ohio Bureau of Workers' Compensation, a position he held until October 2004. Gasper was in a position to exert both formal and informal influence over decisions regarding all financial matters related to OBWC; including, but not limited to, those regarding the selection, retention, and funding of investments and investment money managers and advisors. Gasper oversaw a staff of 210 employees in accounting, actuarial, investment, facilities management and risk insurance departments within the Finance Division of OBWC. In holding this position, Terrence Gasper owed a duty of honest services and fair dealing to the OBWC and citizens of the state of Ohio.

During the investigation of Tom Noe, it was determined that Gasper devised a scheme designed to defraud the public, the OBWC, and the citizens of Ohio. Gasper perpetrated a scheme whereby he would accept bribes in exchange for using his position and influence at OBWC to obtain and retain OBWC investment business for third parties.

Initially, it was discovered that Tom Noe had given \$25,000 as an investment to Betsy Ratcliff, who was Terrence Gasper's girlfriend at the time. Terrence Gasper was the true owner and

intended beneficiary of this money, and he knew that the money was intended as a bribe. The money was given to Betsy Ratcliff in an effort to disguise or conceal the true nature of the money.

Noe provided the \$25,000 sometime between March 31, 2001, and July 13, 2001. On July 30, 2001, OBWC authorized a second payment of \$25 million to Noe's rare coin funds, with recommendation and approval from Gasper. ([Exhibit 25](#))

Through the investigation, it was determined that Gasper was involved in a much larger bribery scheme, involving more people than just Noe. ([Exhibit 26](#) & [Exhibit 27](#))

Michael Lewis and Daniel O'Neil, two licensed brokers and security salespeople, entered into a scheme to bribe Gasper with a condominium in return for favorable consideration from Gasper with respect to obtaining OBWC investment business, and maintaining existing investment business with OBWC.

In November 1998, Gasper visited Islamorada, Florida, where he met with a real estate agent, viewed condominiums available for purchase, and entered into a binding assignable contract to purchase Unit E-21 and boat slip #63 at the Coral Harbor Club Condominium complex in Islamorada, Florida, for \$345,000.

On November 16, 1998, Gasper's contract to purchase Unit E-21 and boat slip #63 was assigned to Michael Lewis and Daniel O'Neil, who accepted the contract to purchase the unit for the agreed-upon price of \$345,000. After placing a \$70,000 good faith down payment on the unit, Michael Lewis and Daniel O'Neil completed the contract to purchase the unit and became the lawful owners of the condominium on January 4, 1999.

From June 1999 to September 2004, Michael Lewis and Daniel O'Neil jointly paid the mortgage and all condominium fees related to Unit E-21 and boat slip #63. Beginning as early as February 11, 1999, and continuing through October 2004, Gasper stayed at the condominium and treated it

as if it were his own; allowing others, including his girlfriend, her family members, and her veterinarian to use the condominium free of charge. ([Exhibit 28](#))

Additionally, Gasper accepted more than \$5,000 in cash or goods from Patrick White, another securities salesperson, and the founder of Great Lakes Capital Partners. These payments were intended to influence and reward Gasper for any business OBWC might do with White.

([Exhibit 29](#))

On April 11, 2002, Clarke Blizzard wrote a check to the girlfriend of Terrence Gasper for \$2,300. Although this check was not written to Terrence Gasper, the check was deposited into Gasper's own bank account. On July 26, 2004, Blizzard wrote a check for \$9,005 to the college that Gasper's son attended. The check memo line stated "Fall Tuition '04." Both of these payments were for the benefit of Gasper and were in exchange for Gasper's exercise of his official influence regarding OBWC investment dollars to companies with which Clarke Blizzard was associated, employed, or represented. ([Exhibit 30](#), [Exhibit 31](#), & [Exhibit 32](#))

For Terrence Gasper's involvement in the bribery scheme, by intending to benefit himself at the expense of his duty to the public, Gasper pled guilty to a Bill of Information in U.S. District Court, Northern District of Ohio, to one count of Operating a Racketeering Enterprise in violation of RICO. Gasper was sentenced to 60 months in federal prison. ([Exhibit 33](#)) For his dealings with Tom Noe, Gasper entered a plea of guilty to a Bill of Information in Franklin County Common Pleas Court for one count of Bribery and one count of an ethics violation.

([Exhibit 34](#))

Patrick White, for his part in bribing Terrence Gasper to benefit his business, pled guilty to one count of Bribery in a federally funded program in the U.S. District Court, Northern District of Ohio. ([Exhibit 35](#))

Clarke Blizzard pled guilty in the United States District Court, Northern District of Ohio, to one count of Conspiracy to Commit Bribery as part of the Racketeering Enterprise established by

Gasper. ([Exhibit 36](#)) Blizzard was also convicted of one count of Money Laundering in the Franklin County Court of Common Pleas for his contributions to Gasper's corruption.

([Exhibit 37](#))

Both White and Blizzard received sentences of incarceration in federal prison.

Lewis and O'Neil were acquitted of any criminal acts by a Jury in the U.S. District Court, Northern District of Ohio. ([Exhibit 38](#))

The investigation into Gasper, spurred on by the Noe investigation, revealed a more systematic corruption than just Tom Noe. The illicit activities of Blizzard, White, and others, were not limited to Gasper, but other OBWC employees as well.

Peter Hoffmannbeck and Frederick Zigler also entered a plea of guilty to state criminal ethics charges. Hoffmannbeck and Zigler were both employed by OBWC, and as administrative staff under the supervision of Chief Investment Officer Robert Cowman, were responsible for helping to assess the feasibility of different investment options. Their acceptance of gifts from various fund managers created the appearance that their ability to fairly and accurately assess the viability of the investment options was compromised.

Frederick Zigler was accused of accepting six free golf outings and a pair of concert tickets, totaling \$1,428 in value. He was convicted of three counts of ethics violations as well as three counts of providing false statements in the Franklin County Municipal Court. ([Exhibit 39](#)) Zigler was placed on one-year probation in lieu of incarceration, and fined a total of \$2,000.

Peter Hoffmannbeck was charged with accepting \$4,300 worth of airfare to the Bahamas, as well as membership in a beer-of-the-month club valued at \$359, and tickets to Columbus Blue Jackets games, worth \$218. Hoffmannbeck was convicted of three ethics violations and one count of providing a false statement in the Franklin County Municipal Court. ([Exhibit 40](#)) Hoffmannbeck was placed on one-year probation in lieu of incarceration, and fined \$2,000.

George Forbes was a member of the workers' compensation oversight commission. ORC §4121.12 created the workers' compensation oversight commission, which consisted of nine members. ORC §4121.12(F)(6) directed the commission to establish objectives, policies, and criteria for the administration of the investment program that includes asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives and performance evaluation guidelines, and monitors the administrator's progress in implementing the objectives, policies, and criteria on a quarterly basis. The commission was directed to publish the objectives, policies, and criteria no less than annually and to make copies available to interested parties. The commission was prohibited from conducting investment activity it found to be contrary to its investment objectives, policies, and criteria.

In his role as board member of the workers' compensation oversight commission, George Forbes was directly involved with the drafting, revising, and adopting of the OBWC Investment Policy and Guidelines. Even though the commission acted in an advisory manner, with the actual investment authority left to the administrator, Forbes was able to exercise some influence in the decision-making process. During this investigation, Forbes was found to have accepted gifts from various investment fund managers, and failed to disclose those gifts in his mandatory ethics disclosure filings. For these violations, Forbes was convicted in the Franklin County Municipal Court of two ethics violations and four counts of providing a false statement. ([Exhibit 41](#)) Forbes was sentenced to 30 days incarceration, which was suspended provided Forbes maintained no further convictions for a year, and he was ordered to complete 60 hours of community service. Forbes was also fined \$6,000.

In addition to accepting gifts which undermined his impartiality and ability to provide fair and honest dealings, Forbes was found to have failed to disclose his personal connection to MDL Capital Management, Inc. (MDL). MDL was an investment firm which was able to obtain a large volume of investment funds from OBWC, and was able to act as fund manager over those funds. Forbes failed to disclose that his daughter was employed by MDL as a compliance officer.

MDL Capital Management, Inc. was founded and operated by Mark D. Lay, and during this investigation, was found to have been fraudulently obtaining investment funds.

Terrence Gasper's actions as the bureau's chief financial officer and the actions of other OBWC employees and commission board members constituted wrongdoing by accepting bribes from various parties in exchange for favorable consideration of OBWC investment funds. These bribes were intended to benefit the employees personally, and were expected to return a quid pro quo in the form of increased business to the investment managers providing them.

C. Mark Lay and MDL Fraud

Mark D. Lay incorporated MDL Capital Management, Inc. (MDL) in 1992, under the laws of the State of Pennsylvania. Lay was at all times chairman, co-CEO, principal shareholder and chief investment strategist. MDL was registered with the United States Securities and Exchange Commission (SEC) as an investment adviser under the Investment Advisers Act of 1940. As an investment adviser, MDL provided investment adviser services, such as the purchase and selling of securities, to corporate, institutional, and individual investors in exchange for compensation.

SEC-registered investment advisers and their officers and directors have a fiduciary duty to act with good faith, loyalty, and fair dealing with clients.

Around May 18, 1998, OBWC and MDL entered into an Investment Management Agreement, executed by Lay on behalf of MDL, and OBWC Administrator James Conrad. ([Exhibit 42](#)) Under the terms of this agreement, MDL was to manage and reinvest funds on behalf of OBWC, placing MDL in a fiduciary position with respect to OBWC funds.

Between May 1998, and July 2003, OBWC transferred a total of \$355,000,000 to the management and care of MDL, for reinvestment in what was called the "Long Fund." OBWC was to pay a quarterly management fee to MDL for the work of managing and reinvesting the "Long Fun" money. From May 1998 to April 2005, OBWC paid \$1,973,797 in management fees to MDL.

Lay then incorporated another fund, the MDL Active Duration Fund. Ltd. (ADF), in Bermuda, as a vehicle through which investors could invest in a portfolio primarily of government, corporate- and mortgage-backed securities. Lay and the president of MDL were selected as the board of directors for ADF. MDL and ADF then entered into an Investment Advisory Agreement, where MDL would serve as the investment advisor for ADF. Investors in the ADF investment fund were required to pay MDL a Management and Incentive Fee.

Both Lay, and Patrick White, the founder of Great Lakes Capital Partners who was convicted of bribery in connection to Terrence Gasper, solicited investments from OBWC for ADF.

OBWC agreed to invest in ADF and transferred \$100 million to ADF as an initial investment. [\(Exhibit 43\)](#) OBWC was the only investment client of ADF for the duration of the fund's existence.

During the life of ADF, OBWC paid \$1,793,231 to MDL as a management fee for its managing of ADF. This fee was in addition to the management fees OBWC was paying to MDL in connection with the "Long Fund" investment. In total, OBWC paid \$3,767,028 to Lay as management fees.

Lay was the sole director for trade activity for the ADF portfolio. The full description of the ADF investment vehicle stated that the fund assets could be leveraged up to 150 percent, which was to enhance returns, but also substantially increased the risk of loss. [\(Exhibit 44\)](#)

Lay began directing the transactions of the fund, and proceeded to leverage the initial investment assets well above the 150 percent cap. Due to excessive leveraging, the ADF fund began to take significant losses. In April 2004, the OBWC chief investment officer met with Mark Lay to discuss a \$7 million loss in fund assets. At that meeting, Lay concealed the nature of the loss, and further concealed that the leveraging of fund assets was approximately 900 percent.

By May 2004, OBWC had learned the actual loss to fund assets was \$32 million, which Lay had previously concealed. Despite the loss, OBWC invested an additional \$100 million in ADF.

After the large loss was revealed to OBWC in May 2004, the ADF Board of Directors, including Lay, met and decided to revise the language of the investment vehicle to allow for leveraging greater than 150 percent.

The ADF board did not notify OBWC of this change until August 2004. The ADF board asked OBWC to sign an agreement allowing Lay to exercise greater than 150 percent leveraging of fund assets, ([Exhibit 45](#)) presenting the change as a clarification to the terms, and not as a change to them. OBWC refused to execute the agreement, believing it to be a substantial change in the agreement, and not merely a clarification. ([Exhibit 46](#))

By September 2004, the overleveraging of ADF assets reached 4,500 percent and the fund had lost in excess of \$57 million. On September 23, 2004, Lay requested \$25 million from OBWC as an additional investment, in order to avoid the imminent loss of all fund assets.

This additional \$25 million was delivered by OBWC. However, On September 29, 2004, OBWC submitted a redemption notice, requesting that the remaining balance be liquidated and distributed back to OBWC.

In October 2004, Lay was still making investment requests of OBWC, which were denied. Of the \$225 million investment, only \$9 million has been recovered, making the loss to taxpayers for OBWC involvement in the ADF fund approximately \$216 million.

Mark Lay, as advisor and fund manager, took steps to conceal this excessive leveraging from the client, OBWC. Lay made fraudulent statements to his client, failed to act in the best interest of his client, as fiduciary, and fraudulently obtained additional investment funds by misrepresenting and concealing the activities of ADF.

Lay was indicted in the United States District Court, Northern District of Ohio, on Investment Advisor Fraud, Mail Fraud, Conspiracy to Commit Fraud, and Aiding and Abetting. ([Exhibit 47](#)) Lay was sentenced to 12 years in prison, and ordered to make restitution for the money lost due

to his fraudulent actions. He was also ordered to forfeit the profits he made with his own ownership stake in the fund.

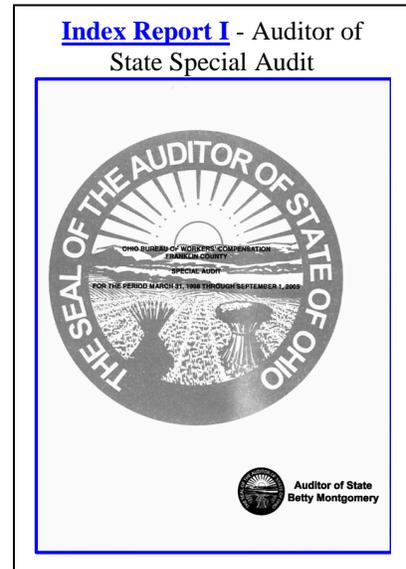
As of this report's issuance, Mark Lay is involved with ongoing litigation, in the form of a Petition for Writ of Habeas Corpus in the United States District Court. That Court has granted a Certificate of Appealability, to be heard in the United States 6th Circuit Court on the issue of jurisdiction. ([Exhibit 48](#))

III. Special Audits, Appraisals, MRT Report, and Fiduciary Review

In an attempt to identify where the gaps in oversight existed which lead to the widespread corruption, and to prevent future corruption within state government, several audits, analysis, and reports were commissioned by various state agencies.

A. Auditor of State Special Audit

In April 2005, the Office of the Ohio Inspector General and the U.S. Attorney for the Northern District of Ohio, Greg White, met with the Ohio Auditor of State to discuss OBWC's private equity investment in the CCFI and CCFII managed by Tom Noe. Additional conversations were held regarding the potential scope of a special audit and the expertise that would be required to conduct the engagement. On May 13, 2005, the Ohio Inspector General formally requested the Ohio Auditor of State to initiate a special audit of OBWC. The Auditor of State formally initiated the audit on May 16, 2005.



1. Independent Audit Findings

The Auditor of State contracted with the accounting firms Crowe Chizek and Company, LLC (Crowe) and Clark, Shaefer, Hackett & Co. (CSH) to conduct separate portions of the audit. Specifically, Crowe was tasked with performing the forensic audit of the Capital Coin Fund Ltd. and Capital Coin Fund Ltd. II with a concentration on transactions that the Capital Coin Funds made with the \$50 million capital investment of OBWC. In order to complete the engagement,

Crowe worked directly with the investigative task force and conducted a forensic review of Vintage Coin and Collectible records to track the money moving between the coin funds, subsidiary companies, and other entities linked to Tom Noe and his personal accounts. Records necessary for the purpose of audit were provided to the Auditor of State. CSH was responsible for reviewing the controls, policies, and procedures surrounding the OBWC investment function. Of particular interest were procedures applicable to the Capital Coin Funds and other private equity investments.

The Special Audit of the Ohio Bureau of Workers' Compensation was released on October 2, 2006. Significant findings of the Special Audit included findings for recovery totaling \$13,559,203. A finding for recovery is required when an audit report determines that public money has been illegally expended, public money collected has not been accounted for, public money due has not been collected, or that any public money has been converted or misappropriated.⁸

The basis for the findings for recovery is as follows:

Capital Coin Fund Ltd.	
Basis for Finding for Recovery	\$ Amount
Unsupported Inventory Purchases from Vintage Coins and Collectibles	5,305,000
Profits not Allocated Properly	95,497
Profit Distributions Owed to OBWC	614,332

Capital Coin Fund Ltd. II	
Basis for Finding for Recovery	\$ Amount
Unsupported Inventory Purchases from Vintage Coins and Collectibles	6,871,540
Profits not Allocated Properly	174,826
Profit Distributions Owed to OBWC	498,008

In addition to the findings for recovery, the Special Audit made a total of 22 recommendations regarding the effectiveness of OBWC's internal controls over the investment function.

⁸ Ohio Revised Code §127.28.

Below is a key to the abbreviations and terms used in the following tables of Special Audit Recommendations and Management Review Team Report.

Key Abbreviations and Terms		
<ul style="list-style-type: none"> ▪ AG - Ohio Attorney General ▪ ALM - Asset Liability Modeling ▪ AOS - Ohio Auditor of State ▪ Board - OBWC Board of Directors ▪ BNY Mellon - The Bank of New York Mellon Corporation, OBWC's 3rd party investment accounting vendor ▪ BWC or OBWC - Ohio Bureau of Workers' Compensation ▪ CEO/ Administrator - OBWC Chief Executive Officer or OBWC Administrator ▪ CFA - Chartered Financial Analyst ▪ CFO - OBWC Chief Financial Officer 	<ul style="list-style-type: none"> ▪ CIO - OBWC Chief Investment Officer ▪ CLO - OBWC Chief Legal Officer ▪ COO - OBWC Chief Operating Officer ▪ CPA - Certified Public Accountant ▪ CTP - Certified Treasury Professional ▪ DOI - Director of Investments ▪ FTE - Full-time equivalent staff member (2,080 hours per year) ▪ GIPS - Global Investment Performance Standards ▪ JPM or JPMorgan - JPMorgan Chase Bank, OBWC's 3rd party investment sub-custodian and investment performance vendor ▪ IAD - Internal Audit Division 	<ul style="list-style-type: none"> ▪ IPS - OBWC Investment Policy Statement ▪ OIG - Ohio Inspector General ▪ IT - Information Technology ▪ MRT - Governor Taft's Management Review Team ▪ ORC - Ohio Revised Code ▪ QED - OBWC's internal legacy investment accounting system ▪ RFP - request for proposal ▪ RVK or Investment Consultant - R.V. Kuhns & Associates, the OBWC Board of Director's current investment consultant ▪ SIF - State Insurance Fund ▪ TOS - Ohio Treasurer of State, custodian of OBWC's assets ▪ WCOC - Workers' Compensation Oversight Commission

The following table summarizes the 22 Special Audit recommendations and the OBWC response to the control weaknesses existing in 2005.

Special Audit Recommendations	
Recommendation	OBWC 2014 Update⁹
<p>1 OBWC should establish written criteria for the selection of managers as part of its Request of Proposal (RFP) process, including a scoring or evaluation system. Written documentation regarding the evaluation and selection of managers should be retained.</p>	<p>The Investment Division is required to adhere to all OBWC policies and procedures for procurement and contracting. Procedures for investments include that the Investment Committee and the board of directors review and approve investment asset allocation, all investment managers, and review current allocations. Investment managers representing all asset classes (with the exception of value added real estate) are selected through a RFP process which segregates solicitation, selection, and authorization.</p> <p>The number of opportunities at any one time, and short funding opportunity windows of the value added real estate asset class, requires an ongoing search for these managers to ensure that best in class managers are selected, rather than simply those available at the</p>

⁹ This update was prepared by the Ohio Bureau of Workers' Compensation.

Special Audit Recommendations

Recommendation		OBWC 2014 Update
1	(continued)	<p>time of an RFP. However, the evaluation and authorization phases of procurement are consistent for all asset classes. The board has an Investment Consultant who sources all value added real estate investment opportunities. After the OBWC investment staff completes its own satisfactory due diligence of the most attractive investment opportunities presented for its consideration in this asset class, all such investment opportunities are jointly recommended for board approval by the investment staff and Investment Consultant.</p> <p>In all other instances the RFP process is used. The board’s Investment Consultant is a member of the RFP Evaluation Committee that scores and recommends all new investment managers for board approval (with the exception of value added real estate managers as explained herein). The RFP Evaluation Committee scoring documentation is prepared and retained by the Investment Division.</p> <p>After the Investment Committee and board approve the selected investment managers, the legal division reviews and approves all contracts in conjunction with the Investment Division. Investment contracts must all be signed by the administrator. Finally, the request to transfer funds is initiated by the Investment Division (sent with evidence of authorization), processed and approved by the Finance Division, and then executed by the TOS. Only select personnel in the Finance Division are able to create new accounts, and transferring assets requires a dual signature (from the administrator, CFO, COO or CLO; and separately from a member of the Investment Division’s senior management). The dual signature requirement is enforced by the third party investment custodian. The Finance Division also reconciles custodian and accounting records of positions, market value, and income for the legacy and new accounts both prior to transfers and after transfers. Once the reconciliations are complete, an authorization letter is sent to the investment manager and custodian authorizing trades to commence if it is a new account.</p>

Special Audit Recommendations		
	Recommendation	OBWC 2014 Update
2	OBWC staff should approve and execute all transactions of the managers and affirm, settle, and reconcile all transactions and balances.	The OBWC Investment Committee and board of directors review and approve investment asset allocation and all new investments, including all partnership investments, and they review allocations. Each investment manager is responsible for daily buy/sell decisions of assets within their mandates and for obtaining best execution on trades. The OBWC Finance Division performs reconciliations of cash, positions, market value, income, and performance on a daily/weekly/monthly basis, to ensure that the investment managers', the custodian's, and the investment accountant's records are consistent. The Investment Division also uses the BNY Mellon Compliance Monitor system to evaluate every daily position to ensure compliance with Ohio statutes, the IPS, the approved mandate, and any restrictions specified within the contract with the investment manager. Finally, the board's Investment Consultant reports independently calculated investment performance (gross and net of fee) to the board's Investment Committee for all accounts, as compared to the applicable benchmark, each quarter, which serves as a control over the effectiveness of the investment manager's investment decisions.
3	OBWC staff should obtain the authorization of the WCOC for additional funding of an investment manager.	The Investment Committee and board of directors review and approve investment asset allocation and all new investments, including all partnership investments, and they review allocations. Any subsequent transfers or funding that deviates from initial authorization should be detected by the Board's Investment Consultant in its preparation of the board's quarterly performance report by account, which includes market values, contributions, distributions, and allocations by account. Finally, the process to transfer funds involves a dual signature, one of which is segregated from the Investment Division. The dual signature requirement is enforced by the investment custodian.
4	OBWC should implement a formal process to perform and document the quarterly performance evaluation of each manager as required by its investment policy.	The Board's Investment Consultant reports independently calculated investment performance to the Board's Investment Committee for all accounts, as compared to the applicable benchmark each quarter and those reports are publicly available. This is required in the IPS §III.E.v. The OBWC Investment Division implemented a documented investment manager report card process to "grade" investment

Special Audit Recommendations		
	Recommendation	OBWC 2014 Update
4	(continued)	managers on a regular basis; this process includes at least annual meetings and discussions with the investment managers.
5	OBWC should implement a formal process to ensure that annual meetings with managers are performed and documented.	The OBWC Investment Division implemented a documented investment manager report card process to “grade” investment managers on a regular basis; this process includes at least annual meetings and discussions with the investment managers.
6	The workers’ compensation oversight commission (WCOC) should include an individual with a background in finance and/or investing.	ORC §4121.12(A) requires one OBWC board member to be a Certified Public Accountant and two to be investment and securities experts.
7	The WCOC should increase its monitoring of investments as required by policy and the Ohio Revised Code, by establishing procedures that assure review of the activities and strategies of each manager.	Each investment account represents a board-approved asset class, asset strategy, and investment manager. The Board’s Investment Consultant reports independently calculated investment performance (both gross and net of fees) to the Board’s Investment Committee for all accounts each quarter. This is required in the IPS §III.A.iv and also III E. v.
8	The WCOC should adopt policies that assure the oversight commission is notified of any changes in funding levels with a manager.	<p>The Board’s Investment Consultant’s quarterly performance report denotes holdings by manager and account contributions/distributions. Allocations may change due to changes in market values of one asset class relative to another. In §IV.B. of the IPS, the OBWC Board has a policy of rebalancing when actual asset allocations fall outside of the desired ranges.</p> <p>The Investment Division reports asset allocations by asset class relative to the approved allocation ranges to the Investment Committee on a monthly basis. Additionally, changes to mandates (even if within IPS asset allocations) must be approved by the board and transferring funds requires approval from individuals both within and outside of the Investment Division.</p> <p>The Investment Division is required to adhere to all OBWC policies and procedures for procurement and contracting. Procedures for investments include that the Investment Committee and the board of directors review and approve investment asset allocation, all investment managers, and review current allocations. Investment managers representing all asset classes (with the exception of value added real estate) are selected through a RFP process which segregates solicitation, selection, and authorization.</p>

Special Audit Recommendations

Recommendation		OBWC 2014 Update
8	(continued)	<p>The number of opportunities at any one time, and short funding opportunity windows of the value added real estate asset class, requires an ongoing search for these managers to ensure that best in class managers are selected, rather than simply those available at the time of an RFP. However, the evaluation and authorization phases of procurement are consistent for all asset classes. The board has an Investment Consultant who sources all value added real estate investment opportunities. After the OBWC investment staff completes its own satisfactory due diligence of the most attractive investment opportunities presented for its consideration in this asset class, all such investment opportunities are jointly recommended for board approval by the investment staff and Investment Consultant.</p> <p>In all other instances the RFP process is used. The Board’s Investment Consultant is a member of the RFP Evaluation Committee that scores and recommends all new investment managers for board approval (with the exception of value added real estate managers as explained herein). The RFP Evaluation Committee scoring documentation is prepared and retained by the Investment Division.</p> <p>After the Investment Committee and board approve the selected investment managers, the Legal Division reviews and approves all contracts in conjunction with the Investment Division. Investment contracts must all be signed by the administrator. Finally, the request to transfer funds is initiated by the Investment Division (sent with evidence of authorization), processed and approved by the Finance Division, and then executed by the TOS. Only select personnel in the Finance Division are able to create new accounts, and transferring assets requires a dual signature (from the administrator, CFO, COO or CLO; and separately from a member of the Investment Division’s senior management). The dual signature requirement is enforced by the third party investment custodian. The Finance Division also reconciles custodian and accounting records of positions, market value, and income for the legacy and new accounts both prior to transfers and after transfers. Once the reconciliations are complete, an authorization letter is sent to the investment manager and custodian authorizing trades to commence if it is a new account.</p>

Special Audit Recommendations		
Recommendation	OBWC 2014 Update	
9	<p>The WCOC should receive quarterly reports that contain adequate detail to assess performance of each manager, including information on private equity investment transactions.</p>	<p>The Board’s Investment Consultant reports independently calculated investment performance to the Board’s Investment Committee for all accounts each quarter. Each investment account represents a board-approved asset class, asset strategy, and manager. This is required in the IPS §III E. v. In addition, the Board’s Investment Consultant prepares quarterly performance reports for real estate funds one quarter in arrears as is industry practice with this asset class. This report provides total real estate portfolio review of funding, funding commitments outstanding, fund market values, allocation by core vs. value added strategies, geographic diversification relative to the benchmark index, property type diversification (ex. apartments vs. office, etc.), leverage analysis, fee analysis, allocation by capital structure type, and cash flows to illustrate beginning and ending market value. In addition, the Investment Consultant’s quarterly real estate performance report provides detailed information for each real estate fund.</p>
10	<p>OBWC should implement controls for monitoring investment managers consistent with the adopted investment policy and reporting the results of that monitoring to management and the oversight commission on a regular basis.</p>	<p>The Board’s Investment Consultant reports independently calculated investment performance to the Board’s Investment Committee for all accounts each quarter. Each investment account represents a board-approved asset class, asset strategy, and manager. This is required in the IPS §III E. v. Furthermore, the Investment Division uses the BNY Mellon Compliance Monitor system to evaluate every daily position to ensure compliance with Ohio statutes, the IPS, the approved mandate, and any restrictions specified within the contract with the investment manager.</p>
11	<p>The chief investment officer and others designated to review proposals from fund managers should establish specific procedures to document their evaluation of proposals prior to acceptance.</p>	<p>The Investment Division is required to adhere to all OBWC policies and procedures for procurement and contracting. Procedures for investments include that the Investment Committee and the board of directors review and approve investment asset allocation, all investment managers, and review current allocations. Investment managers representing all asset classes (with the exception of value added real estate) are selected through a RFP process which segregates solicitation, selection, and authorization.</p> <p>The number of opportunities at any one time, and short funding opportunity windows of the value added real estate asset class, requires an ongoing search for</p>

Special Audit Recommendations

Recommendation		OBWC 2014 Update
11	(continued)	<p>these managers to ensure that best in class managers are selected, rather than simply those available at the time of an RFP. However, the evaluation and authorization phases of procurement are consistent for all asset classes. The board has an Investment Consultant who sources all value added real estate investment opportunities. After the OBWC investment staff completes its own satisfactory due diligence of the most attractive investment opportunities presented for its consideration in this asset class, all such investment opportunities are jointly recommended for board approval by the investment staff and Investment Consultant.</p> <p>In all other instances the RFP process is used. The Board’s Investment Consultant is a member of the RFP Evaluation Committee that scores and recommends all new investment managers for board approval (with the exception of value added real estate managers as explained herein). The RFP Evaluation Committee scoring documentation is prepared and retained by the Investment Division.</p> <p>After the Investment Committee and board approve the selected investment managers, the Legal Division reviews and approves all contracts in conjunction with the Investment Division. Investment contracts must all be signed by the administrator. Finally, the request to transfer funds is initiated by the Investment Division (sent with evidence of authorization), processed and approved by the Finance Division, and then executed by the TOS. Only select personnel in the Finance Division are able to create new accounts, and transferring assets requires a dual signature (from the administrator, CFO, COO or CLO; and separately from a member of the Investment Division’s senior management). The dual signature requirement is enforced by the third party investment custodian. The Finance Division also reconciles custodian and accounting records of positions, market value, and income for the legacy and new accounts both prior to transfers and after transfers. Once the reconciliations are complete, an authorization letter is sent to the investment manager and custodian authorizing trades to commence if it is a new account.</p>

Special Audit Recommendations		
Recommendation	OBWC 2014 Update	
12	<p>The chief investment officer should adhere to the policy of quarterly consultations with managers and an annual meeting to discuss the status of the investment. These meetings should be documented with formalized agendas and meeting minutes or other types of written documentation.</p>	<p>The OBWC Investment Division implemented a documented investment manager report card process to “grade” investment managers on a regular basis; this process includes at least annual meetings and discussions with the investment managers.</p>
13	<p>The Special Audit recommends OBWC evaluate the need for the continued use of investment consultants. If OBWC continues to use investment consultants, procedures should be implemented which ensure the consultants are providing adequate information for management and the WCOC to evaluate the performance of all individual managers. This would include requiring each consultant to make a judgment regarding the manager’s performance.</p>	<p>The RFP process for selection of the current Investment Consultant involved the active participation of the board’s Investment and Securities experts. The Investment Consultant is approved by the board and has fiduciary responsibility to OBWC. The Board’s Investment Consultant reports independently calculated investment performance (both gross and net of fees) to the Board’s Investment Committee for all accounts each quarter. This is required in the IPS §III E. v. A section on significant variances to the investment manager target is included in the Investment Consultant’s report.</p>
14	<p>OBWC should implement a process which documents the utilization and review of the consultants’ reports by management and the WCOC.</p>	<p>The presentation and discussion of the Board’s Investment Consultant’s quarterly performance analysis occurs in the open Investment Committee meetings and are included in the committee minutes. The minutes and performance analysis are publicly available.</p>
15	<p>The administrator and chief investment officer must obtain change in a manager’s strategy in writing and seek WCOC approval prior to a change in the asset allocation.</p>	<p>The Investment Division is required to adhere to all OBWC policies and procedures for procurement and contracting. Procedures for investments include that the Investment Committee and the board of directors review and approve investment asset allocation, all investment managers, and review current allocations. Investment managers representing all asset classes (with the exception of value added real estate) are selected through a RFP process which segregates solicitation, selection, and authorization.</p> <p>The number of opportunities at any one time, and short funding opportunity windows of the value added real estate asset class, requires an ongoing search for these managers to ensure that best in class managers are selected, rather than simply those available at the time of an RFP. However, the evaluation and authorization phases of procurement are consistent for all asset classes. The board has an Investment Consultant who sources all value added real estate investment opportunities. After the OBWC investment staff completes its own satisfactory due</p>

Special Audit Recommendations

Recommendation		OBWC 2014 Update
15	(continued)	<p>diligence of the most attractive investment opportunities presented for its consideration in this asset class, all such investment opportunities are jointly recommended for board approval by the investment staff and Investment Consultant.</p> <p>In all other instances the RFP process is used. The Board’s Investment Consultant is a member of the RFP Evaluation Committee that scores and recommends all new investment managers for board approval (with the exception of value added real estate managers as explained herein). The RFP Evaluation Committee scoring documentation is prepared and retained by the Investment Division.</p> <p>After the Investment Committee and board approve the selected investment managers, the Legal Division reviews and approves all contracts in conjunction with the Investment Division. Investment contracts must all be signed by the administrator. Finally, the request to transfer funds is initiated by the Investment Division (sent with evidence of authorization), processed and approved by the Finance Division, and then executed by the TOS. Only select personnel in the Finance Division are able to create new accounts, and transferring assets requires a dual signature (from the administrator, CFO, COO or CLO; and separately from a member of the Investment Division’s senior management). The dual signature requirement is enforced by the third party investment custodian. The Finance Division also reconciles custodian and accounting records of positions, market value, and income for the legacy and new accounts both prior to transfers and after transfers. Once the reconciliations are complete, an authorization letter is sent to the investment manager and custodian authorizing trades to commence if it is a new account.</p> <p>The investment mandate for all investment managers is established in their contracts with BWC, which contracts incorporate the IPS by reference, and any variance from the terms of the investment contracts would constitute a breach of contract. Ongoing monitoring of the investment managers’ compliance with their contract is accomplished with the BNY Mellon Compliance Monitor System. The Investment Division uses the BNY Mellon Compliance Monitor system to evaluate every daily position to ensure compliance with Ohio statutes, the IPS, the approved</p>

Special Audit Recommendations		
	Recommendation	OBWC 2014 Update
15	(continued)	mandate, and any restrictions specified within the contract with the investment manager. This is intended to detect unauthorized changes in asset classes or strategies initiated by the investment manager. Finally, the Investment Committee's quarterly review of performance relative to mandate benchmarks (prepared by the Investment Consultant) is another mechanism to detect changes in an investment manager's strategy that deviate from the terms of the investment contract.
16	OBWC should never enter into an agreement for an investment that is not permissible under its current investment policy.	The Legal Division reviews and approves all investment contracts in conjunction with the Investment Division. All OBWC investment RFPs/contracts include a requirement that the investment manager agree to comply with the IPS. Investment contracts must all be signed by the administrator and two signatures (Investment Division senior management and separately from the administrator, CFO, COO or CLO) are required by the custodian for any transfer of funds to/from OBWC investment managers. An Executive Summary accompanies any contract presented to the administrator for signature describing the IPS authority for the contract and the board approval. These actions are preceded by OBWC Board approvals and IPS changes, if necessary. Furthermore, the Investment Division uses the BNY Mellon Compliance Monitor system to evaluate every position on a daily basis to ensure compliance with Ohio statutes, the IPS, the approved mandate, and any restrictions specified within the contract with the investment manager. Exception reports are shared with IAD daily.
17	The Special Audit recommends that internal audit reports related to investment managers are responded to by the chief investment officer and reported to the WCOC.	Currently all internal audit reports are discussed with the CIO and at the Board Audit Committee.
18	All private equity investment managers should be required to submit audited financial statements annually and a process should be implemented to review each audit report and discuss any audit issues with the investment manager.	OBWC has divested its private equity positions referenced by this recommendation. The IPS does not allow "traditional" private equity investments (§VI.), but it does allow investment in the real estate asset class that might be executed through a private partnership structure. The IPS (§IV. C.) limits commitments to any one core or value added real

Special Audit Recommendations	
Recommendation	OBWC 2014 Update
18	<p>(continued)</p> <p>estate fund.</p> <p>OBWC has the right to inspect or audit investment managers' records (including core and value added real estate) of OBWC managed assets.</p> <p>The IPS incorporates OBWC compliance procedures as a requirement for investment managers and for real estate general partners. Collecting the financial statements is an investment staff responsibility, per the IPS.</p> <p>Finally, the OBWC Investment Division implemented a documented investment manager report card process to "grade" investment managers on a regular basis; this process includes at least annual meetings and discussions with the investment managers and obtaining and reviewing audited financial statements from commingled accounts and real estate accounts.</p>
19	<p>All agreements with private equity investment managers should be reviewed by internal and/or external legal counsel prior to execution.</p> <p>The IPS does not allow "traditional" private equity investments (§VI.), but it does allow investment in the real estate asset class that will typically be executed through a private partnership structure.</p> <p>The Investment Division is required to adhere to all OBWC policies and procedures for procurement and contracting. Procedures for investments include that the Investment Committee and the board of directors review and approve investment asset allocation, all investment managers, and review current allocations. Investment managers representing all asset classes (with the exception of value added real estate) are selected through a RFP process which segregates solicitation, selection, and authorization.</p> <p>The number of opportunities at any one time, and short funding opportunity windows of the value added real estate asset class, requires an ongoing search for these managers to ensure that best in class managers are selected, rather than simply those available at the time of an RFP. However, the evaluation and authorization phases of procurement are consistent for all asset classes. The board has an Investment Consultant who sources all value added real estate investment opportunities. After the OBWC investment staff completes its own satisfactory due diligence of the most attractive investment opportunities presented for its consideration in this asset class, all such investment opportunities are jointly recommended for board approval by the</p>

Special Audit Recommendations	
Recommendation	OBWC 2014 Update
19	<p>(continued)</p> <p>investment staff and Investment Consultant. In all other instances the RFP process is used. The Board's Investment Consultant is a member of the RFP Evaluation Committee that scores and recommends all new investment managers for board approval (with the exception of value added real estate managers as explained herein). The RFP Evaluation Committee scoring documentation is prepared and retained by the Investment Division. After the Investment Committee and board approve the selected investment managers, the Legal Division reviews and approves all contracts in conjunction with the Investment Division. Investment contracts must all be signed by the administrator. Finally, the request to transfer funds is initiated by the Investment Division (sent with evidence of authorization), processed and approved by the Finance Division, and then executed by the TOS. Only select personnel in the Finance Division are able to create new accounts, and transferring assets requires a dual signature (from the administrator, CFO, COO or CLO; and separately from a member of the Investment Division's senior management). The dual signature requirement is enforced by the third party investment custodian. The Finance Division also reconciles custodian and accounting records of positions, market value, and income for the legacy and new accounts both prior to transfers and after transfers. Once the reconciliations are complete, an authorization letter is sent to the investment manager and custodian authorizing trades to commence if it is a new account.</p>
20	<p>OBWC should implement procedures to strengthen its monitoring of its private equity investments, as well as a process to document its monitoring activities.</p> <p>The Board's Investment Consultant reports independently calculated investment performance to the Board's Investment Committee for all accounts each quarter. Each investment account represents a board approved asset class, asset strategy, and manager. This is required in the IPS §III E. v. In addition, the Board's Investment Consultant prepares quarterly performance reports for real estate funds one quarter in arrears as is industry practice with this asset class. This report provides total real estate portfolio review of funding, funding commitments outstanding, fund market values, allocation by core vs. value added strategies, geographic diversification relative to the benchmark index, property type diversification (ex. apartments vs. office, etc.), leverage analysis, fee</p>

Special Audit Recommendations	
Recommendation	OBWC 2014 Update
20	<p>(continued)</p> <p>analysis, allocation by capital structure type, and cash flows to illustrate beginning and ending market value. In addition, the Investment Consultant’s quarterly real estate performance report provides detailed information for each real estate fund.</p> <p>OBWC has divested its private equity positions referenced by this recommendation. The IPS does not allow “traditional” private equity investments (§VI.), but it does allow investment in the real estate asset class that might be executed through a private partnership structure. The IPS (§IV. C.) limits commitments to any one core or value added real estate fund.</p> <p>OBWC has the right to inspect or audit investment managers’ records (including core and value added real estate) of OBWC managed assets.</p> <p>The IPS incorporates OBWC compliance procedures as a requirement for investment managers and for real estate general partners. Collecting the financial statements is an investment staff responsibility, per the IPS.</p> <p>Finally, the OBWC Investment Division implemented a documented investment manager report card process to “grade” investment managers on a regular basis; this process includes at least annual meetings and discussions with the investment managers and obtaining and reviewing audited financial statements from commingled accounts and real estate accounts.</p>
21	<p>OBWC should review its current private equity investments to determine if they are consistent with its investment strategies and objectives.</p> <p>OBWC has divested its private equity positions referenced by this recommendation. The IPS does not allow “traditional” private equity investments (§VI.), but it does allow investment in the real estate asset class that might be executed through a private partnership structure. The IPS (§IV. C.) limits commitments to any one core or value added real estate fund.</p> <p>OBWC has the right to inspect or audit investment managers’ records (including core and value added real estate) of OBWC managed assets.</p> <p>The IPS incorporates OBWC compliance procedures as a requirement for investment managers and for real estate general partners. Collecting the financial statements is an investment staff responsibility, per the IPS.</p> <p>Finally, the OBWC Investment Division implemented</p>

Special Audit Recommendations	
Recommendation	OBWC 2014 Update
21	(continued)
	<p>a documented investment manager report card process to “grade” investment managers on a regular basis; this process includes at least annual meetings and discussions with the investment managers and obtaining and reviewing audited financial statements from commingled accounts and real estate accounts.</p> <p>Prior to approval of investment in the real estate asset class, extensive education sessions were conducted for the Board’s Investment Committee by the Board’s Investment Consultant, which education sessions included discussions of risks specific to this asset class and the ability to diversity and reduce various investment risks specific to OBWC’s portfolio.</p>
22	<p>When OBWC enters into private equity investments, the level of risk should be disclosed to the WCOC prior to its approval.</p>
	<p>See AOS # 21.</p> <p>OBWC Investment Committee and board of directors review and approve investment asset allocation and all investments managers, and review current allocations. The Investment Committee’s Investment Consultant was a member of the RFP Evaluation Committee that scored and recommended core real estate investment managers for the Investment Committee and board approval. OBWC due diligence procedures included onsite reviews by Investment Division staff.</p>

These audit findings are included in the Auditor of State Special Audit, and have been incorporated into the findings and recommendations of the Office of the Ohio Inspector General.

2. Sotheby’s Appraisal

In order to determine the value of the coins in the coin fund, a contract was entered into with Sotheby’s on May 20, 2005. Sotheby’s was founded in London in March 1744 and currently maintains 90 locations in 40 countries.¹⁰ On May 20, 2005, Sotheby’s entered into an agreement with the Auditor of State to perform the following services:

- A. Review the most updated coin inventory documents for the Capital Coin Funds and determine what the value of the funds should be, based on the inventory documents only.

¹⁰ <http://www.sothebys.com>

- B. Inventory all of the coins that will have been identified for the consultant by the OBWC to determine whether or not all of the coins listed in the inventory documents are physically present and accounted for.
- C. Appraise the market value of all the coins indemnified by the OBWC.

The staff of Sotheby's took a team approach with the Ohio Auditor of State's Office, the Ohio Bureau of Workers' Compensation, the Ohio State Highway Patrol, and the Office of the Ohio Inspector General. The work performed by Sotheby's was very time intensive and involved extensive travel to various locations where the coin inventory was maintained.

Five weeks, from July 27, 2005, through September 28, 2005, were spent at Sotheby's New York refining the valuations. On November 11, 2005, Sotheby's completed an appraisal for a total of 12,904 line items for OBWC Capital Coin Fund Ltd. and Capital Coin Fund Ltd. II:

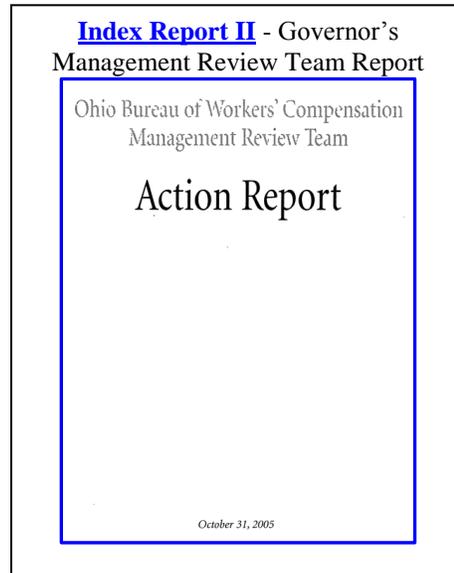
Appraisal of Capital Coin Fund Ltd. and Capital Coin Fund Ltd. II		
Inventory	Low \$ Estimate	High \$ Estimate
California	\$ 5,249,320	\$ 6,860,560
Colorado	2,046,312	2,567,531
Delaware	6,584,055	8,167,370
Florida	281,970	329,483
Maumee	504,095	625,560
Pennsylvania	2,492,625	3,165,100
Additional Coins	1,019,165	1,269,405
Total	\$ 18,177,542	\$ 22,985,009

On November 11, 2005, Sotheby's completed a valuation on collectible memorabilia and additional non-Coin Fund coins. The appraised value of the memorabilia amounted to between \$2,101,250 to \$2,960,750, and the value of the non-Coin Fund coins appraised at between \$425,031 to \$533,047.

On November 17, 284 additional coins from Pennsylvania were appraised and valued between \$42,258 and \$50,713; bringing the final appraised value for all of the coins and collectible memorabilia from a low estimate of \$20,917,671 to a high estimate of \$26,721,889.

B. Governor’s Management Review Team Report

As a result of inadequate oversight and mismanagement of the investment division of the Ohio Bureau of Workers’ Compensation, certain measures were initiated by former Governor Bob Taft to ensure that investment funds were properly safeguarded and handled responsibly. The management review team (MRT) was comprised of the following three persons: a former director of the Ohio Lottery, former executive director of the Public Employees Retirement System of Ohio, and the former treasurer of The Ohio State University. The team utilized the services of Ennis Knupp and Associates, an independent investment consulting firm for assistance. The MRT was charged with “completing a systematic review of the OBWC investment portfolio, including internal audit and control systems; contracting with independent evaluators to assist with the investment review; assessing OBWC investment management and audit staffing; all while consulting with the Workers’ Compensation Oversight Commission (WCOC) and cooperating fully with all ongoing investigations and audits.” MRT issued an action report on October 31, 2005, recommending 40 specific reforms in governance and investment operations. At the time that the MRT report was released, 21 reforms had been completed and 19 were in progress or set for future action.



The table on the following pages illustrates MRT-recommended actions, the OBWC response at the time of the report, and the status of the recommendations as of the issuance of this report.

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update¹¹
1	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 OBWC.	OBWC should immediately rescind all powers of attorney granted to any member of the investment department. ¹²	All powers of attorney were rescinded by order of the interim administrator.	No one in the Investment Division has the independent authority to sign contracts on behalf of BWC. All investment contracts must be signed by the administrator. In addition, two signatures (Investment Division CIO or DOI; and separately the administrator, CFO, COO or CLO) are required by the custodian for any transfer of investment funds. In practice, the administrator serves as the final authorization for OBWC to enter into contracts with investment managers.
2	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 department.	OBWC 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 that board.	The investment department now reports directly to the administrator.	The Investment Division reports directly to the administrator. ORC § 4123.441(A) empowers the administrator to employ a CIO with the advice and consent of the board. The statute requires the administrator to employ an individual designated as a Chartered Financial Analyst and licensed by the Division of Securities in the Department of Commerce. OBWC's IPS further defines the roles and responsibilities of the Board's Investment Committee, the administrator, and the CIO. While the legislature has not created an "Investment Board," they did create an independent board of directors and require the board have a standing Investment Committee. The Investment Committee reviews and approves investment asset allocation, all investment managers and reviews current allocations.

¹¹ This update was prepared by the Ohio Bureau of Workers' Compensation.

¹² The OBWC investment department is now named the OBWC investment division.

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
3	The investment department did not follow the usual policies and procedures of OBWC when entering into contracts.	The investment department should be required to adhere to all OBWC policies and procedures for procurement and contracting.	The interim administrator now requires the investment department to follow all existing procedures for contracting and procurement, including a review by the law department. In addition, the interim administrator now signs all contracts and will develop long-term financial relationships through a competitive procurement process.	<p>The Investment Division is required to adhere to all OBWC policies and procedures for procurement and contracting. Procedures for investments include that the Investment Committee and the board of directors review and approve investment asset allocation, all investment managers, and review current allocations. Investment managers representing all asset classes (with the exception of value added real estate) are selected through a RFP process which segregates solicitation, selection, and authorization.</p> <p>The number of opportunities at any one time, and short funding opportunity windows of the value added real estate asset class, requires an ongoing search for these managers to ensure that best in class managers are selected, rather than simply those available at the time of an RFP. However, the evaluation and authorization phases of procurement are consistent for all asset classes. The board has an Investment Consultant who sources all value added real estate investment opportunities. After the OBWC investment staff completes its own satisfactory due diligence of the most attractive investment opportunities presented for its consideration in this asset class, all such investment opportunities are jointly recommended for board approval by the investment staff and Investment Consultant.</p> <p>In all other instances the RFP process is used. The Board's Investment Consultant is a member of the RFP Evaluation Committee that scores and recommends all new investment</p>

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
3	(continued)			<p>managers for board approval (with the exception of value added real estate managers as explained herein). The RFP Evaluation Committee scoring documentation is prepared and retained by the Investment Division.</p> <p>After the Investment Committee and board approve the selected investment managers, the Legal Division reviews and approves all contracts in conjunction with the Investment Division. Investment contracts must all be signed by the administrator. Finally, the request to transfer funds is initiated by the Investment Division (sent with evidence of authorization), processed and approved by the Finance Division, and then executed by the TOS. Only select personnel in the Finance Division are able to create new accounts, and transferring assets requires a dual signature (from the administrator, CFO, COO or CLO; and separately from a member of the Investment Division's senior management). The dual signature requirement is enforced by the third party investment custodian. The Finance Division also reconciles custodian and accounting records of positions, market value, and income for the legacy and new accounts both prior to transfers and after transfers.</p> <p>Once the reconciliations are complete, an authorization letter is sent to the investment manager and custodian authorizing trades to commence if it is a new account.</p>

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
4	The contracts with the investment managers did not contain a restriction on campaign contributions as required under ORC §3517.13. Beginning in 2001, RFP's contained the ORC §3717.13 restrictions but they were only incorporated into the contract by reference.	OBWC should include a restriction on campaign contributions (ORC §3517.13) in all contracts with investment managers.	The interim administrator has directed staff to include the restrictions of ORC §3517.13 in all contracts regardless of the method of procurement.	All current RFPs and contracts include restrictions on campaign contributions and the Investment Division requires the outside investment managers to affirm at least annually that they are in compliance with this requirement.
5	The Ancillary Investment Portfolio is currently 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.	OBWC should follow the recommendation of Ennis Knupp with an existing OBWC 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 OBWC has the opportunity to competitively bid the service.	The Ancillary Investment Portfolio was transferred to JPMorgan Chase Bank.	The ancillary funds (funds other than the SIF) are managed by large, professional, passively indexed investment managers selected through a competitive bidding process.
6	The OBWC 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.	The OBWC internal audit department should be sufficiently staffed and include individuals with appropriate investment experience.	The internal administrator has approved a plan to increase the internal audit staff from 7 to 12 persons including one who is trained in investments.	The IAD staff level is currently at 10 FTEs (with three vacancies approved to be filled), including a Director of Investment Compliance Audit position. Several individuals have appropriate investment training and experience.

Management Review Team Report

	Finding	Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
7	<p>The internal audit department's reports were not shared with the WCOC. As early as May 18, 2000, the manager of internal audit voiced significant concerns with the operations of the Capital Coin Funds, in a memorandum to the former CFO and CIO. Unfortunately, WCOC never saw this document.</p>	<ul style="list-style-type: none"> a) OBWC should increase the staff of the internal audit department and increase its independence by having all reports sent directly to the WCOC, the auditor of state, and the administrator. b) OBWC 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. c) 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. d) Auditing staff should include staff dedicated and trained in investments. e) Best practices in the audit area should reflect the basic requirements of the Sarbanes Oxley Act. 	<p>The interim administrator has directed that a copy of all internal audit reports be sent to WCOC upon completion.</p>	<p>The WCOC was abolished by the Legislature, in favor of the independent board of directors currently in place.</p> <ul style="list-style-type: none"> a) IAD staff level is currently at 10 FTEs. Some of these individuals have investment training and/or investment operational knowledge. All internal audit reports are submitted to the Audit Committee of the board, the administrator, and the external financial auditors. b) The Chief of IAD is approved by the board of directors. The Audit Committee of the board has a charter that is reviewed and revised annually. c) Ohio sunshine laws limit when a majority of the board or its operating committees can have private meetings. The Audit Committee has held executive sessions with both internal and external auditors to discuss certain pending audit issues. In addition, the Chief of IAD has weekly meetings with the Audit Committee Chairperson. The Audit Committee Charter states that the Audit Committee shall review the performance of the internal audit function and independent auditors. d) IAD has dedicated, experienced staff to perform continuous auditing of investment activities. e) OBWC is not a covered entity under the Sarbanes-Oxley Act. IAD is currently working with the external financial audit firm to adopt portions of the requirements of the Sarbanes-Oxley Act that provide value to OBWC.

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
8	<p>The OBWC internal auditor was discouraged from conducting a full audit of Capital Coin Fund Ltd. and Capital Coin Fund Ltd. II. 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 Fund investment manager. As an alternative, the Capital Coin Funds investment manager accepted a set of agreed-upon procedures for valuing the assets.</p>	<p>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 external auditor for a deeper analysis of the investment department.</p>	<p>The interim administrator now allows the internal auditor to report findings to the appropriate parties outside of the OBWC and has access to all investment managers.</p>	<p>The IAD charter grants to the IAD full access to all OBWC documents, records, staff, and to the external investment managers. This charter is reviewed and approved by the Audit Committee annually. The IAD issues all reports to the Board Audit Committee and the external auditor. Furthermore, OBWC has the right to inspect or audit OBWC investment manager records of OBWC managed assets. Finally, OBWC is subject to an annual financial audit (currently performed by Schneider Downs & Co., Inc. contracted by, and on behalf of the AOS) to evaluate OBWC's financial statements, including extensive testing of its investment accounts.</p>
9	<p>The internal auditor was not given direct access to the internal investment data and accounting system (QED), 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.</p>	<p>The internal auditor should be given immediate and direct access to the QED system and the Oracle financial system.</p>	<p>The internal auditor now has direct access to the QED system.</p>	<p>The QED internal investment accounting system was replaced with the outsourced BNY Mellon Workbench system. IAD has two individuals with access to Workbench and access to the investment custodian system (JPMorgan Chase Bank).</p>

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
10	<p>The investment department generated the requests for the transfer of funds and was also the contact with the 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.</p>	<p>OBWC should consider improving segregation of duties for the process of requesting funds 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 OBWC management.</p>	<p>Two parties must now approve any transfer of funds. One of the parties must be the administrator.</p>	<p>Duties are segregated today.</p> <p>No one in the Investment Division has the independent authority to sign contracts on behalf of BWC. All investment contracts must be signed by the administrator. In addition, two signatures (Investment Division CIO or DOI; and separately the administrator, CFO, COO or CLO) are required by the custodian for any transfer of investment funds. In practice, the administrator serves as the final authorization for OBWC to enter into contracts with investment managers.</p> <p>The Investment Division is required to adhere to all OBWC policies and procedures for procurement and contracting. Procedures for investments include that the Investment Committee and the board of directors review and approve investment asset allocation, all investment managers, and review current allocations. Investment managers representing all asset classes (with the exception of value added real estate) are selected through a RFP process which segregates solicitation, selection, and authorization.</p> <p>The number of opportunities at any one time, and short funding opportunity windows of the value added real estate asset class, requires an ongoing search for these managers to ensure that best in class managers are selected, rather than simply those available at the time of an RFP. However, the evaluation and authorization phases of procurement are consistent for all asset classes. The board has an Investment Consultant who sources all value added real estate investment</p>

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
10	(continued)			<p>opportunities. After the OBWC investment staff completes its own satisfactory due diligence of the most attractive investment opportunities presented for its consideration in this asset class, all such investment opportunities are jointly recommended for board approval by the investment staff and Investment Consultant.</p> <p>In all other instances the RFP process is used. The Board's Investment Consultant is a member of the RFP Evaluation Committee that scores and recommends all new investment managers for board approval (with the exception of value added real estate managers as explained herein). The RFP Evaluation Committee scoring documentation is prepared and retained by the Investment Division.</p> <p>After the Investment Committee and board approve the selected investment managers, the Legal Division reviews and approves all contracts in conjunction with the Investment Division. Investment contracts must all be signed by the administrator. Finally, the request to transfer funds is initiated by the Investment Division (sent with evidence of authorization), processed and approved by the Finance Division, and then executed by the TOS. Only select personnel in the Finance Division are able to create new accounts, and transferring assets requires a dual signature (from the administrator, CFO, COO or CLO; and separately from a member of the Investment Division's senior management). The dual signature requirement is enforced by the third party investment custodian. The</p>

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
10	(continued)			Finance Division also reconciles custodian and accounting records of positions, market value, and income for the legacy and new accounts both prior to transfers and after transfers. Once the reconciliations are complete, an authorization letter is sent to the investment manager and custodian authorizing trades to commence if it is a new account.
11	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.	OBWC 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.	The administrator and the CIO will now sign off on all requests for funding.	<p>The process to transfer funds involves a dual signature (from the CEO, CFO, COO or CLO; and the Investment Division), indicating a review of a contract signed by the administrator. The dual signature requirement is enforced by the investment custodian.</p> <p>The Investment Division is required to adhere to all OBWC policies and procedures for procurement and contracting. Procedures for investments include that the Investment Committee and the board of directors review and approve investment asset allocation, all investment managers, and review current allocations. Investment managers representing all asset classes (with the exception of value added real estate) are selected through a RFP process which segregates solicitation, selection, and authorization.</p> <p>The number of opportunities at any one time, and short funding opportunity windows of the value added real estate asset class, requires an ongoing search for these managers to ensure that best in class managers are selected, rather than simply those available at the time of an RFP. However, the evaluation and authorization phases of procurement are</p>

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
11	(continued)			<p>consistent for all asset classes. The board has an Investment Consultant who sources all value added real estate investment opportunities. After the OBWC investment staff completes its own satisfactory due diligence of the most attractive investment opportunities presented for its consideration in this asset class, all such investment opportunities are jointly recommended for board approval by the investment staff and Investment Consultant.</p> <p>In all other instances the RFP process is used. The board's Investment Consultant is a member of the RFP Evaluation Committee that scores and recommends all new investment managers for board approval (with the exception of value added real estate managers as explained herein). The RFP Evaluation Committee scoring documentation is prepared and retained by the Investment Division.</p> <p>After the Investment Committee and board approve the selected investment managers, the Legal Division reviews and approves all contracts in conjunction with the Investment Division. Investment contracts must all be signed by the administrator. Finally, the request to transfer funds is initiated by the Investment Division (sent with evidence of authorization), processed and approved by the Finance Division, and then executed by the TOS. Only select personnel in the Finance Division are able to create new accounts, and transferring assets requires a dual signature (from the administrator, CFO, COO or CLO; and separately from a member of the Investment</p>

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
11	(continued)			Division's senior management). The dual signature requirement is enforced by the third party investment custodian. The Finance Division also reconciles custodian and accounting records of positions, market value, and income for the legacy and new accounts both prior to transfers and after transfers. Once the reconciliations are complete, an authorization letter is sent to the investment manager and custodian authorizing trades to commence if it is a new account.
12	<p>The Quarterly Investment Reports did not include reporting to WCOC and other members of OBWC 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.</p>	<p>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 investment board.</p>	<p>The RFP for a new investment consultant required appropriate standards for the Quarterly Investment Reports.</p>	<p>In 2006, the Board's Investment Consultant, Wilshire Consulting, modified the quarterly investment portfolio reporting process. The IPS §III E. v. now requires the Investment Consultant to report on risk and performance of the funds to the board. OBWC maintains separate investment accounts for each board approved asset class, asset strategy, and investment manager. The Investment Consultant independently calculates quarterly performance for each account presented (both gross and net of fees) against target benchmarks in accordance with GIPS for multiple time periods and provides analysis for significant differences by account. At an account level, this report also presents market values, contributions, distributions, and allocations.</p>

Management Review Team Report

	Finding	Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
13	<p>OBWC’s custodial bank, JPMorgan Chase, also currently serves as an investment manager for OBWC, 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 OBWC, and could therefore place the custodial bank in the unusual position of evaluating its own performance.</p>	<p>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.</p>	<p>Ennis Knupp completed an historic review of the investment performance for the last 10 years. The new investment consultant will be required to report on investment performance on a quarterly basis.</p>	<p>OBWC’s custodial bank, JPMorgan Chase Bank, does not serve as an investment manager for OBWC. However, for certain passively managed indexed commingled accounts, those investment managers have custody of assets as is industry practice for this account structure; these investment managers are subject to annual financial audits and internal control audits.</p>
14	<p>Investment staff provided the rates of return they received from the individual investment managers to Callan & Associates. Callan & Associates did not perform an independent verification of returns, making it impossible to provide an independent and unbiased evaluation as required by the Investment Policy.</p>	<p>OBWC should not renew the contract with Callan & Associates, and should seek proposals for a new investment consultant.</p>	<p>The interim administrator has decided not to extend the contract of Callan & Associates as the OBWC investment consultant. A new investment consulting firm will be selected through an RFP process and will report to WCOC. The contract for the new investment consultant will specify how returns are to be computed and reported in accordance with industry best practices.</p>	<p>OBWC did not renew the contract with Callan & Associates. Consistent with OBWC’s general investment RFP process, the RFP for investment consulting services segregates solicitation, selection, and authorization (as outlined in the response to MRT #3). The board’s Investment and Securities experts are actively involved in the selection of the board’s Investment Consultant. The Investment Consultant (currently RVK) is approved by the board and has fiduciary responsibility to OBWC.</p>

Management Review Team Report

Management Review Team Report			
Finding	Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
15	<p>At the direction of the OBWC 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 OBWC 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 OBWC.</p>	<p>Once OBWC 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.</p>	<p>Callan & Associates was requested to include a liability-driven approach when preparing their asset allocation study. The new investment consultant will review Callan’s asset liability study.</p> <p>In 2007, the board’s Investment consultant, Wilshire Consulting, worked with OBWC and the WCOC to complete an ALM analysis and IPS portfolio asset allocation for the SIF, which represents the vast majority of OBWC assets.</p> <p>In 2009, the board’s Investment Consultant at that time, Mercer Consulting, worked with OBWC staff and the board to complete another ALM analysis for all appropriate OBWC Funds (SIF, Disabled Workers’ Relief Fund, Coal Workers’ Pneumoconiosis Fund, Public Work-Relief Employees’ Fund and Marine Industry Fund).</p> <p>The Investment Consultant, RVK (hired in 2011), and investment staff continue to provide guidance on necessary updates to the IPS for the board’s approval.</p> <p>The IPS requires a formal asset/liability analysis to be conducted for each fund every three to five years, or more frequently if conditions warrant (IPS §IV. A). The board’s Investment Committee is currently working with RVK to conduct another ALM analysis for SIF in 2014.</p>

Management Review Team Report

	Finding	Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
16	Callan & Associates was restricted in its ability to fully evaluate the investment portfolio because the scope of its engagement was limited to the top 30-45 investment managers.	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.	OBWC has included this function as a component of the RFP for a new investment consultant.	OBWC replaced Callan & Associates. The RFP process for selection of the current Investment Consultant involved the active participation of the board of directors' Investment and Securities experts. The Investment Consultant was approved by the board and has fiduciary responsibility to OBWC. RVK reports independently calculated investment performance (net and gross of fees) to the Board's Investment Committee for all accounts each quarter. This is required in the IPS §III E. v.
17	OBWC 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.	OBWC should retain the services of an experienced fiduciary counsel.	OBWC retained the services of Ian Lanoff of the Groom Law Group to advise OBWC on all fiduciary and investment matters.	The board of directors has retained independent fiduciary counsel. OBWC's CLO and Legal Division advise the OBWC. The AG's office has also assigned an Assistant Attorney General to advise the board of directors. By statute, the AG is the legal counsel for OBWC.

Management Review Team Report

	Finding	Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
18	<p>The OBWC Statement of Investment Policy and Guidelines requires that all large cap stock transactions requested by investment managers be conducted through the OBWC 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.</p>	<p>OBWC 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 are strongly encouraged to conduct these transactions electronically whenever possible, which will significantly reduce the transaction price per share.</p>	<p>Acting on a recommendation from the MRT and the interim administrator, WCOC terminated the OBWC trading operation in August 2005. Trades are being conducted through investment managers.</p>	<p>OBWC does not maintain an internal trading desk; it outsources this function to its investment managers. All contracts with OBWC investment managers require them to obtain best execution on trades. The IPS requires the Investment Division to monitor trading execution and provide a brokerage trading report to the Board of Director’s Investment Committee on an annual basis. Furthermore, the Investment Consultant independently calculates quarterly performance for each account, which calculation reflects and nets out brokerage costs and is compared to a stated benchmark index.</p>
19	<p>The OBWC investment department receives soft dollars in the form of rebates and other incentives from brokers 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.</p>	<p>OBWC 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.</p>	<p>The OBWC interim CIO and CFO terminated this practice and now require all expenditures for goods and services be done using properly established purchasing procedures.</p>	<p>OBWC terminated the practice of accepting soft dollars from vendors. All expenditures for goods and services are required to be procured using established OBWC purchasing procedures. The operating expenses of the Investment Division are budgeted in the same manner as all OBWC departments or divisions and such budgets are public records.</p>

Management Review Team Report

	Finding	Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
20	<p>OBWC 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.</p>	<p>OBWC should engage an independent investment consultant to evaluate the private partnerships and advise OBWC whether to continue or restructure those partnerships.</p>	<p>OBWC has engaged Ennis Knupp to evaluate the private equity partnerships.</p>	<p>In 2007-2008, OBWC sold 68 private equity partnerships in secondary sales, eliminating the private equity asset class for SIF; this was completed with the assistance of an investment bank that was selected through a request for proposal process. The OBWC Investment Committee and board of directors review and approve investment asset allocation and all new investments, including all partnership investments, and they review asset allocations. The IPS does not allow “traditional” private equity investments (§VI.), but it does allow investment in the real estate asset class that might be executed through a private partnership structure.</p> <p>OBWC currently engages the Investment Consultant to review any new partnership investments as either part of the RFP Evaluation Committee or to provide its investment recommendation for any new value added real estate partnership. The Investment Consultant also provides a quarterly review report to the Board’s Investment Committee of each partnership investment (currently only commingled real estate fund partnerships are included in the SIF portfolio).</p>
21	<p>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.</p>	<p>OBWC should contract with a passive investment fund manager to invest all proceeds recovered from any terminated investment manager.</p>	<p>At the August 2005 WCOG meeting, the interim administrator received authority to contract with Barclay’s to serve as passive index fund managers for OBWC. A contract is being prepared to</p>	<p>In 2006, the passive investment manager, State Street Global Advisors, managed the OBWC funds pending the completion of a new ALM analysis and subsequent IPS portfolio asset allocation (completed in first quarter 2007). Going forward, recovery of assets from terminated managers will not generally be necessary given the segregation of</p>

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
21	(continued)		secure the services of State Street Global Advisors.	custody from investment management for the majority of asset classes and mandates. For terminated managers, the Investment Division also has the option to use transition managers or other means to maintain continuous investment of affected assets when appropriate under the specific situation. Transition Management contracts are awarded through a competitive selection process.
22	As it is currently constructed, WCOC is not able to provide sufficient oversight to the investment staff.	Create a new, separate and independent investment board composed of seven members – five investment experts (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. The Recommendation Investment Committee should develop investment objectives and risk targets.	The administration has advocated enactment of legislation to create a separate OBWC investment board and a bill to do so was introduced in the Ohio General Assembly. As an intermediate step, WCOC created an investment committee in September 2005.	Generally consistent with the Evaluation Associates report commissioned by the Inspector General, ORC §4121.12 created an 11-member board of directors to replace the WCOC. The intent was to create a more independent governance system for the OBWC with greater professional expertise, strengthened accountability and broader representation of customers. The board currently has five operating committees: Actuarial; Audit; Investment (these first three mandated by ORC §4121.129); Governance; and Medical Services and Safety. ORC §4121.12 also requires two investment experts, a Certified Public Accountant, and a credentialed actuary with full voting privileges to be appointed to the board. Additionally, meetings are open to the public and meeting minutes are publicly available. The board and its three statutory committees have met 12 times per year since 2007. In addition, the IPS states that the board is the body charged with overseeing investment activities relating to all OBWC funds.

Management Review Team Report

Management Review Team Report				
	Finding	Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
23	The investment consultant, Callan & Associates, reported to the OBWC 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.	A new investment consultant should be retained to replace Callan & Associates and should provide independent and unbiased reports directly to WCOC.	WCOC will direct the hiring of a new investment consultant who will report directly to the commission, providing it with better checks and balances on the performance of managers and the total portfolio.	OBWC replaced Callan & Associates. The RFP process for selection of the current Investment Consultant involved the active participation of the Board of Director's Investment and Securities experts. The Investment Consultant was approved by the board and has fiduciary responsibility to OBWC. RVK reports independently calculated investment performance (net and gross of fees) to the Board's Investment Committee for all accounts each quarter. This is required in the IPS §III E. v.
24	The current staff of the OBWC investment department is both understaffed and undertrained to carry out the mission of the department.	OBWC should immediately hire experienced and credentialed investment professionals to assist in the management of the portfolio.	OBWC has reorganized the investment department and will hire additional investment experts.	All current OBWC investment professionals maintain a CFA charter. In addition, one investment professional is a Certified Public Accountant and two have the CTP (Certified Treasury Professional) designation.
25	Through a RFP process, the treasurer of state selects one of the six Ohio banks to serve as the custodial bank for OBWC. Although input is sought by the treasurer of state, OBWC has no role in evaluating the RFPs or selecting the custodial bank.	OBWC should be permitted to participate in the selection process for its custodial bank and be granted right of refusal to prevent any bank that was terminated as an investment manager during the previous four years from serving as the OBWC custodial bank.	OBWC is holding a series of meetings with the treasurer of state to determine protocol.	The TOS is responsible for a competitive selection process and recommending the custodial bank to the State Board of Deposit. The State Board of Deposit awards the contract for the custodial bank. OBWC does not have statutory authority to select a custodial bank. However, the OBWC CIO and DOI were allowed input into the recommendation, as communicated to the TOS Office, for the last several contract renewals.

Management Review Team Report

	Finding	Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
26	<p>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.</p>	<p>The OBWC Investment Policy should be modified to require WCOC (or investment board) review and approve 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.</p>	<p>The WCOC investment committee is incorporating these recommendations into the new investment policy.</p>	<p>The Investment Division is required to adhere to all OBWC policies and procedures for procurement and contracting. Procedures for investments include that the Investment Committee and the board of directors review and approve investment asset allocation, all investment managers, and review current allocations. Investment managers representing all asset classes (with the exception of value added real estate) are selected through a RFP process which segregates solicitation, selection, and authorization. The number of opportunities at any one time, and short funding opportunity windows of the value added real estate asset class, requires an ongoing search for these managers to ensure that best in class managers are selected, rather than simply those available at the time of an RFP. However, the evaluation and authorization phases of procurement are consistent for all asset classes. The board has an Investment Consultant who sources all value added real estate investment opportunities. After the OBWC investment staff completes its own satisfactory due diligence of the most attractive investment opportunities presented for its consideration in this asset class, all such investment opportunities are jointly recommended for board approval by the investment staff and Investment Consultant. In all other instances the RFP process is used. The board's Investment Consultant is a member of the RFP Evaluation Committee that scores and recommends all new investment</p>

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
26	(continued)			<p>managers for board approval (with the exception of value added real estate managers as explained herein). The RFP Evaluation Committee scoring documentation is prepared and retained by the Investment Division.</p> <p>After the Investment Committee and board approve the selected investment managers, the Legal Division reviews and approves all contracts in conjunction with the Investment Division. Investment contracts must all be signed by the administrator. Finally, the request to transfer funds is initiated by the Investment Division (sent with evidence of authorization), processed and approved by the Finance Division, and then executed by the TOS. Only select personnel in the Finance Division are able to create new accounts, and transferring assets requires a dual signature (from the administrator, CFO, COO or CLO; and separately from a member of the Investment Division's senior management). The dual signature requirement is enforced by the third party investment custodian. The Finance Division also reconciles custodian and accounting records of positions, market value, and income for the legacy and new accounts both prior to transfers and after transfers. Once the reconciliations are complete, an authorization letter is sent to the investment manager and custodian authorizing trades to commence if it is a new account.</p> <p>The Internal Auditor is charged with auditing compliance with investment policies.</p>

Management Review Team Report

Management Review Team Report				
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27	Returns on investments for OBWC 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.	OBWC should require the new investment consultant to calculate rates of return for both gross of management fees and net of management fees, and present them directly to WCOC or investment board once per quarter.	OBWC and WCOC are currently hiring a full-service consultant and will require calculation of fees in accordance with recommendations.	The Board's Investment Consultant reports independently calculated investment performance (net and gross of fees) to the Board's Investment Committee for all accounts each quarter. This is required in the IPS §III E. v.
28	OBWC investment staff was responsible for cash management and made investments without any standards, policies, or supervision.	The OBWC should transfer the cash management function to their custodial bank and establish a new policy to govern cash management.	The cash management function was moved to the OBWC custodial bank and a new policy is being established.	Investment cash management function was moved to the awarded custodial bank. Operational cash transfers are performed by the Finance Division.
29	The OBWC investment department invested in hedge funds before it was authorized to do so by WCOC.	OBWC should liquidate all hedge funds in the portfolio.	By order of the interim administrator, all hedge funds are being liquidated and contracts terminated.	Hedge funds were liquidated; no hedge fund investments exist or are permitted according to the IPS allowable asset allocation (§VI.)
30	OBWC failed to use best practices in the calculation of the rate of return on the investment portfolio.	30(a.) Rates of return should be calculated by OBWC'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	OBWC will require the new investment consultant to perform a rate of return calculation for each investment manager on a quarterly basis and will require the full-service investment consultant to implement all additional rates of return recommendations, including responsibility of the custodial bank.	The Board's Investment Consultant independently calculates quarterly performance presented and compared against target benchmarks in accordance with GIPS for multiple time periods. The Investment Consultant provides analysis for significant differences by account. The OBWC Finance Division performs weekly/monthly/quarterly cash, position, value, income and performance reconciliations. These performance reconciliations compare the independently prepared investment returns

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
30	(continued)	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 OBWC that provide support for each rate of return calculation. 30(e.) Rates of return among sources should be reconciled periodically.		calculated by each of the investment managers, the outside investment accountant (BNY Mellon Bank), the Investment Division's performance vendor (JPMorgan Chase Bank), and the Investment Consultant (R.V. Kuhns & Associates).
31	The OBWC investment department does not have the necessary support systems to operate a modern, successful investment operation.	Working with its investment consultant, the investment department should ensure that 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.	OBWC and WCOC are in the process of hiring a full-service investment consultant who will make recommendations regarding investment department internal staffing and systems.	<p>ORC §4121.12 created an 11-member board of directors to replace the former WCOC. The intent was to create a more independent governance system for the OBWC with greater professional expertise, strengthened accountability and broader representation of customers. The Investment Committee is one of five board operating committees, and is mandated by ORC §4121.129.</p> <p>Currently the Investment Division employs four CFAs to monitor investment manager performance, compliance, and risk. The Finance Division has four staff who work in concert with the third party investment accountant (BNY Mellon). BNY Mellon serves as the master record keeper of the investment portfolio. The Investment Division and Finance Division utilize the Mellon workbench system and the JPM custodial systems.</p> <p>IAD has dedicated staff for continuous auditing of investment activities and controls.</p>

Management Review Team Report

	Finding	Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
32	<p>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.</p>	<p>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 OBWC in their respective areas.</p>	<p>WCOC has established an investment committee and plans to establish audit and actuary committees.</p>	<p>ORC §4121.12 created an 11-member board of directors to replace the former WCOC. The intent was to create a more independent governance system for the OBWC with greater professional expertise, strengthened accountability and broader representation of customers. The board currently has five operating committees: Actuarial; Audit; Investment (these first 3 mandated by ORC §4121.129); Governance; and Medical Services and Safety. Board meetings are open to the public and meeting minutes are publicly available. The board and its three statutory committees have met 12 times per year since 2007. In addition, the IPS states that the board is the body charged with overseeing investment activities relating to all OBWC funds.</p>
33	<p>OBWC 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.</p>	<p>OBWC should significantly reduce the number of public market managers and index a sizable portion of those assets. MRT provides three options for reducing the number of managers. At a minimum, poorly performing managers need to be evaluated promptly.</p>	<p>OBWC has already taken action to terminate five poorly performing managers and will be reviewing the three options offered by MRT in the near future.</p>	<p>In 2006, OBWC terminated all remaining active style investment managers and exclusively used passive indexed mandates (with large passive indexed managers) until an ALM study could be completed. The Investment Committee and board of directors conducted an ALM analysis for SIF. This analysis resulted in a revision to the IPS asset allocation in the first quarter of 2007. RVK subsequently conducted research and analysis into the risk and rewards of an active investment management style for each asset class. In select asset classes, it was determined that investment risk could be reduced and performance enhanced through active management. After extensive education sessions and analysis, the Investment</p>

Management Review Team Report				
Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
33	(continued)			<p>Committee and the board of directors approved active investment management strategies for select asset classes. The first active investment managers began managing assets in April 2012.</p> <p>The OBWC Investment Committee and board of directors review and approve target investment asset allocation and all investment managers, and they review current allocations.</p> <p>In order to monitor and evaluate investment managers, the Investment Consultant independently calculates and reports to the Investment Committee quarterly performance compared to target benchmarks in accordance with GIPS for multiple time periods. Poorly performing investment managers are identified and monitored.</p>
34	In the case of the Capital Coin Funds, a lack of an audited financial statement reduced OBWC's ability to identify and correct internal control, and other issues, in a timely manner.	OBWC 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 the OBWC CIO, OBWC may also want to consider requiring SAS 70 reports for these funds.	The WCOC investment committee will review and implement private equity reporting requirements.	The Investment Committee and board of directors review and approve target investment asset allocation and all investment managers, and review current portfolio asset allocations. The IPS does not allow "traditional" private equity investments (§VI.), but it does allow investment in the real estate asset class that will typically be executed through a private partnership structure. The real estate asset class is targeted at 6 percent of the SIF portfolio market value and each investment in a real estate fund is limited to, at most, 20 percent of that fund's net asset value at the time of investment, among other limitations. OBWC has the right to inspect or audit investment manager records of OBWC managed assets.

Management Review Team Report

	Finding	Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
35	<p>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.</p>	<p>When a new manager is approved for funding, documentation substantiating that the manager meets all required eligibility and experience requirements should be prepared.</p>	<p>OBWC and the WCOC investment committee will update investment policies to include verification of manager qualifications.</p>	<p>The Investment Division is required to adhere to all OBWC policies and procedures for procurement and contracting. Procedures for investments include that the Investment Committee and the board of directors review and approve investment asset allocation, all investment managers, and review current allocations. Investment managers representing all asset classes (with the exception of value added real estate) are selected through a RFP process which segregates solicitation, selection, and authorization.</p> <p>The number of opportunities at any one time, and short funding opportunity windows of the value added real estate asset class, requires an ongoing search for these managers to ensure that best in class managers are selected, rather than simply those available at the time of an RFP. However, the evaluation and authorization phases of procurement are consistent for all asset classes.</p> <p>The board has an Investment Consultant who sources all value added real estate investment opportunities. After the OBWC investment staff completes its own satisfactory due diligence of the most attractive investment opportunities presented for its consideration in this asset class, all such investment opportunities are jointly recommended for board approval by the investment staff and Investment Consultant.</p> <p>In all other instances the RFP process is used. The Board's Investment Consultant is a member of the RFP Evaluation Committee that scores and recommends all new investment</p>

Management Review Team Report

Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
35	(continued)			<p>managers for board approval (with the exception of value added real estate managers as explained herein). The RFP Evaluation Committee scoring documentation is prepared and retained by the Investment Division.</p> <p>After the Investment Committee and board approve the selected investment managers, the Legal Division reviews and approves all contracts in conjunction with the Investment Division.</p> <p>Investment contracts must all be signed by the administrator. Finally, the request to transfer funds is initiated by the Investment Division (sent with evidence of authorization), processed and approved by the Finance Division, and then executed by the TOS. Only select personnel in the Finance Division are able to create new accounts, and transferring assets requires a dual signature (from the administrator, CFO, COO or CLO; and separately from a member of the Investment Division's senior management). The dual signature requirement is enforced by the third party investment custodian. The Finance Division also reconciles custodian and accounting records of positions, market value, and income for the legacy and new accounts both prior to transfers and after transfers. Once the reconciliations are complete, an authorization letter is sent to the investment manager and custodian authorizing trades to commence if it is a new account.</p>

Management Review Team Report

Management Review Team Report				
Finding		Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
36	In both the MDL and Capital Coin Funds scenarios, OBWC's investment represented 99-100 percent of the total investment managed by the respective fund. The lack of other investors in investment funds increased risk to the agency.	OBWC should consider establishing limits on the percentage OBWC'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.	The WCOC investment committee will incorporate private equity recommendations into the new investment policy.	The IPS includes a series of diversification requirements (§IV. C.) at the time OBWC provides funding to an investment manager. Principally, OBWC requires that its investment be a maximum of 20 percent of the firm's total client assets under management as broadly defined by asset class.
37	Policies and procedures governing WCOC operations are out of date and need to be revised and expanded.	WCOC should rewrite all of their policies and procedures to reflect the recent changes at OBWC and to include a code of conduct and ethics policy.	WCOC will update all policies including incorporating fiduciary training.	The Board of Director's operating committees update and review their charters annually. Each board member receives annual fiduciary and ethics training. Additionally, OBWC employees deemed "covered persons" must annually affirm their compliance with Ohio and OBWC ethics statutes and policies as part of the OBWC personal trading policy. All OBWC employees receive ethics training at least annually.
38	OBWC does not conduct periodic reviews of its investment operations.	OBWC should commission a fiduciary performance audit within three years of completing the governance restructuring, and at least every five years thereafter.	WCOC and OBWC will require periodic fiduciary performance audits.	Evaluation Associates, LLC completed a fiduciary review on or about June 30, 2006, for the IG. ORC §4121.125 requires a fiduciary review once every 10 years. In addition, the internal control structures have been continuously validated by the Internal Audit Department.

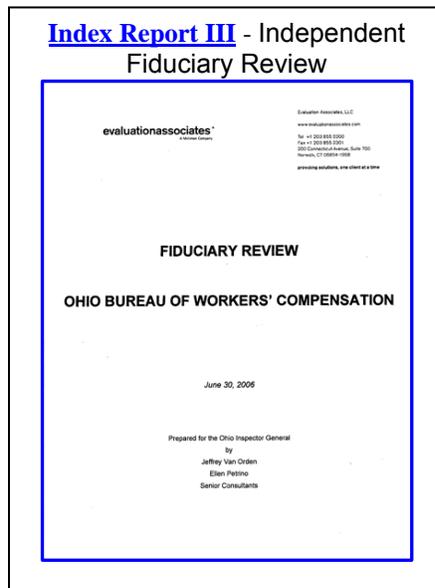
Management Review Team Report

	Finding	Recommendation	OBWC Response to 2005 Report	OBWC Response to 2014 Update
39	OBWC and WCOC do not conduct joint briefings with WCOC, the actuary, and the investment consultant.	OBWC’s actuary should regularly report to the WCOC investment committee regarding the nature of OBWC’s liabilities and adequacy of its financial reserves. The actuary should be involved in periodic asset liability studies.	WCOC will form an actuary committee to report regularly to the investment committee.	<p>ORC §4121.12 created an 11-member board of directors to replace the former WCOC. ORC §4121.12 requires two investment experts, a Certified Public Accountant and a credentialed actuary with full voting privileges to be appointed to the board. ORC §4121.129 requires the establishment of Audit, Investment, and Actuarial operating committees of the board of directors, with membership in those committees to include the applicable expert members. The actuary member of the board of directors is also a member of the Investment Committee.</p> <p>In 2007, the board’s Investment Consultant, Wilshire Consulting, worked with OBWC staff (including actuarial staff) to complete an ALM analysis for SIF.</p> <p>In 2009, the board’s Investment Consultant, Mercer Consulting, worked with OBWC staff (including actuarial staff) to complete an ALM analysis for all OBWC Funds.</p> <p>The IPS requires a formal ALM analysis to be conducted for each fund every three to five years, or more frequently if conditions warrant (IPS §IV.A.) The Investment Committee and OBWC staff (including actuarial staff) are currently working with RVK to conduct another ALM analysis for the SIF.</p>
40	WCOC never required direct reports from the Ohio auditor of state.	The auditor of state should report regularly to WCOC on investment-related audit activities and financial statements.	WCOC intends to form an audit committee to allow direct reporting.	The AOS outsources the annual external audit of BWC. The Board of Director’s Audit Committee communicates with the external auditor and reviews the audit on a regular basis.

The management review team looked at ways of improving the oversight, functioning, and control of the Ohio Bureau of Workers' Compensation. The recommendations put forth by the MRT Report were largely adopted, and any subsequent changes and enhancements are included in the 2014 OBWC response.

C. Independent Fiduciary Review of OBWC

In addition to the audit, appraisals, and report on investment controls policies and procedures that were conducted by the Ohio Auditor of State, the state legislature authorized the Office of the Ohio Inspector General (OIG) to commission a thorough fiduciary review of the Ohio Bureau of Workers' Compensation. The OIG was required by HB 66 (effective September 29, 2005) to have a fiduciary review of OBWC funds conducted by an independent firm. The Office of the Ohio Inspector General engaged Evaluation Associates to conduct the Fiduciary Review of the investment program. The primary goals of the review were as follows:



- Identify the fiduciary standards and principles that apply to the OBWC investment fund(s).
- Document the weaknesses in OBWC investment policies, procedures, and practices that allowed problems to develop.
- Recommend appropriate changes and methods of monitoring compliance.

In the process of the engagement, Evaluation Associates collected information by reviewing files, reports, and other documents, and by interviewing key individuals involved in the management of the assets of the bureau, including OBWC staff, members of the OBWC board of directors investment committee, members of the management review team, and certain providers. In addition, a survey of state workers' compensation organizations was conducted to confirm best practices.

The substantive recommendations resulting from the Fiduciary Review, immediately followed by OBWC's respective responses derived from OBWC in 2014, are detailed below:

Overall Recommendation

- All of the important decisions made with respect to the investment of OBWC assets must be made in the sunshine, figuratively speaking, and the only way for this to be assured is for these decisions to be made by the workers' compensation oversight commission, functioning as a decision-making board of trustees. All decisions of the commission and its investment committee must be made in open meetings, and all documents related to these decisions must be available for public scrutiny.

OBWC Response to Recommendation

- ORC §4121.12, effective September 29, 2005, created an 11-member board of directors to replace the existing WCOC. The intent was to create a more independent governance system for the OBWC with greater professional expertise, strengthened accountability and broader representation of customers. The board currently has five operating committees: an Actuarial; Audit; Investment (these first 3 mandated by ORC §4121.129; Governance; and Medical Services and Safety. Additionally, meetings and meeting minutes are open to the public which increases transparency. The board and its three statutory committees have met 12 times per year since 2007. In addition, the IPS states that the board is the primary body charged with overseeing investment activities relating OBWC funds. The OBWC Investment Committee and the board of directors review and approve investment asset allocation and all investment managers, and reviews current allocations.

1. The Workers' Compensation Oversight Commission

The workers' compensation oversight commission needs to be restructured and strengthened to function as a board of trustees. Its powers are limited, but its responsibility is not. This should be the primary decision-making body, with day-to-day functions delegated to staff.

Independent Fiduciary Recommendations

- Investment experts should have full voting privilege.

- Additional experts in accounting and actuarial science should be added.
- An independent legal advisor should be retained to eliminate the conflict inherent in the Ohio Attorney General serving as legal advisor while at the same time having the statutory requirement to bring civil charges against the OBWC.
- The administrator should be accountable to, and serve at the pleasure of, the commission. A (less desirable) alternative would be to adopt the recommendation of the MRT that legislation be drafted to form an independent investment board, with the CIO and investment staff accountable to that board. This alternative is less desirable because it would create dual accountability for the CIO.

OBWC Response to Recommendation

The Workers' Compensation Board of Directors created by ORC §4121.12 has replaced the WCOC. The authority of the board of directors was strengthened from an advisory role to an approval body.

- ORC §4121.12 requires that two investment and securities experts, a Certified Public Accountant and a credentialed actuary be appointed to the board with full voting privileges.
- The OBWC CLO and Legal Division are primarily responsible to advise the OBWC. The board has also retained independent fiduciary counsel.
- The administrator is appointed by the Governor. The administrator's performance is reviewed annually by the OBWC board, which review is presented to the governor.

2. The Governor of Ohio

The governor has too much power in the current configuration.

- Appoints all five voting commissioners
- Selects the chairperson of the commission
- Appoints the administrator

So long as nearly absolute power is vested with the governor, the potential for the abuse of this power exists. The only way to assure that power will not be abused is to spread it among a variety of persons.

Independent Fiduciary Recommendations

- While it is appropriate for the governor to play an important role in the governance of the OBWC, in our opinion, the governor's power should be limited to the appointment of commissioners. Furthermore, the governor should not be able to appoint all of the voting members of the commission. Rather, we would recommend that the governor's appointees be equal in number to those appointed by other bodies, including the legislature (with assurance of participation from both parties), the Ohio Auditor of State and the Ohio Attorney General.
- While we would prefer that the commission select its own chairperson, so long as the appointment power of the governor is limited in the manner described above, we are comfortable with the chairperson being selected by the governor.
- As spelled out later in this report, we believe the administrator should be hired by the commission and serve at the pleasure of the commission.

OBWC Response to Recommendation

Statutory changes enacted in 2009 address this and multiple OIG Recommendations. All board members and the administrator are fiduciaries to the Bureau and are responsible to act in the best interest of the BWC. ORC §4121.12 created an 11-member board of directors. The intent was to create a more independent governance system for the OBWC with greater professional expertise, strengthened accountability and broader representation of customers. The board currently has five operating committees: Actuarial; Audit; Investment (these first three mandated by ORC §4121.129); Governance; and Medical Services and Safety. ORC §4121.12 also requires two investment and securities experts, a Certified Public Accountant and a credentialed actuary be appointed to the board. Additionally, meetings are open to the public and meeting minutes are publicly available. The board and its three statutory committees have met 12 times per year since 2007.

ORC §4121.12(C) creates a nominating committee to submit a list of four applicants for each vacancy on the board of directors for the Governor's consideration. The members of the Workers' Compensation board of directors nominating committee are:

- Three individuals appointed by AFL/CIO;
- One individual with an open workers' compensation claim and one individual representing non-unionized employees appointed by the Ohio Speaker of the House and President of the Senate;
- The CEO of the Ohio Chamber of Commerce;
- The CEO of the Ohio Manufacturers' Association;
- The CEO of the Self-Insurers' Association;
- The CEO of the Council of Retail Merchants;
- The CEO of the National Federation of Independent Businesses;
- The CEO of the Ohio Farm Bureau;
- The President of the Ohio Township Association;
- The President of the Ohio County Commissioners Association; and
- The Director of Development (non-voting member except in the case of ties).

ORC §4121.12(C) states that the Governor will fill each board vacancy from a list of 4 nominees provided by the nominating committee or request another 4 nominees for selection. The administrator and all board members are appointed by the Governor with the advice and consent of the Senate.

The administrator is appointed by the Governor (ORC § 4121.121) and his performance is reviewed annually by the board of directors who submits an evaluation report of the administrator to the Governor (ORC § 4121.12). Several representatives of the board meet face-to-face with the Governor to discuss this evaluation report of the administrator.

3. OBWC Staff

The OBWC is neither a mutual nor a stockholder-owned company. It is a state agency. Its definition of fiduciary responsibility and its interpretation of the duty of loyalty must be aligned accordingly. Similarly, the bureau should not operate like a private corporation.

Presently there is too much power vested with staff and not enough with commissioners and committees.

Independent Fiduciary Recommendations

- The job description of the administrator and the CIO need to be addressed. Some of the duties of the administrator should be the purview of the investment and other committees.
- The administrator, supported by his/her staff, should be more of an executive director than a CEO. The primary function of this office must be to implement the decisions of the workers' compensation oversight commission.
- A full-time credentialed actuary should be hired to provide needed internal actuarial expertise.

OBWC Response to Recommendation

- ORC § 4121.121(B)(7) states that the administrator shall "Exercise the Investment powers ... in accordance with the investment policy approved by the board ... in consultation with the Chief Investment Officer of the Bureau of Workers' Compensation." The IPS further defines the roles and responsibilities of the board's Investment Committee, the administrator, and the chief investment officer (CIO) as they relate to investment operations. The IPS states that the CIO is employed by the administrator, with the advice and consent of the board. In practice, the administrator serves as the final authorization for OBWC to enter into contracts with investment managers. By statute, the administrator, CIO and board members are now fiduciaries to the Fund.
- The duties of the administrator and the board are defined in statute. Statutes and the IPS define the roles and responsibilities of the Board's Investment Committee, the administrator, and the Chief Investment Officer (CIO) as they relate to investment operations. The IPS further states that the CIO is employed by the administrator, with the advice and consent of the board. The OBWC Investment Committee and board of directors review and approve investment asset allocation and all investment

managers, and review current allocations. In practice, the administrator serves as the final authorization for OBWC to enter into contracts with investment managers.

- BWC's Chief Actuary is a licensed Fellow of the Casualty Actuarial Society (FCAS).

4. Reporting/Review Procedures

Independent Fiduciary Recommendations

- A periodic independent actuarial review (audit) should be conducted by an outside firm other than the retained actuarial consultant. This review should take place, at minimum, every three years. HB 66 requires that actuarial audits be conducted on an annual basis. Our recommendation is that a firm other than the one engaged to do this annual audit be engaged to review the retained actuarial consultant's work.
- The OBWC should have the ability to select its own custodian.
- Performance reporting should include an independent report from the outside investment consultant and include a statement of reconciliation between the custodian and the investment managers. Each report should be reconciled to strict tolerances.
- The selection of investment managers should be an open, transparent process. The problems with manager selection in the past have been well documented. The oversight commission, it appears, rubber-stamped the list of "approved managers" and then the staff had the ability to allocate funds to those managers. This is not the appropriate way for the process to unfold.
- Brokerage and trading operations should be totally outsourced. The manager's fiduciary responsibility needs to be best execution.
- Consideration should be given to giving the Ohio Retirement Study Council responsibility for oversight of the Ohio Bureau of Workers' Compensation in much the same way it provides oversight to the pension systems. The general purpose of the Retirement Study Council is to advise and inform the state legislature on all matters relating to the benefits, funding, investment, and administration of the five statewide retirement systems in Ohio. This purpose could easily be expanded to include the OBWC. If the Retirement Study Council is not deemed to be the appropriate agency for the exercise of legislative oversight, some other vehicle should

be created in its place. The annual report to the president of the Senate, the speaker of the House and the governor, currently required, is not sufficient oversight in our view.

- The provision in HB 66 requiring criminal background checks of every individual involved with the investment of OBWC assets should be considered. The current law strikes as an overreaction to the events surrounding “Coingate” and creates some unwieldy requirements that will materially diminish the bureau’s ability to contract with outside investment management firms.

OBWC Response to Recommendation

- As part of the annual external financial audit, the auditor employs an independent actuary to review OBWC reserve estimates.
- The TOS is responsible for a competitive selection process and recommending the custodial bank to the State Board of Deposit. The State Board of Deposit awards the contract for the custodial bank. OBWC does not have statutory authority to select a custodial bank. However, the OBWC CIO and DOI were allowed input into the recommendation, as communicated to the TOS Office, for the last several contract renewals.
- The Board’s Investment Consultant independently calculates quarterly performance presented and compared against target benchmarks in accordance with GIPS for multiple time periods. The Investment Consultant provides analysis for significant differences by account.

The OBWC Finance Division performs weekly/monthly/quarterly cash, position, value, income and performance reconciliations. These performance reconciliations compare the independently prepared investment returns calculated by each of the investment managers, the outside investment accountant (BNY Mellon Bank), the Investment Division’s performance vendor (JPMorgan Chase Bank), and the Investment Consultant (R.V. Kuhns & Associates).

- The Investment Division is required to adhere to all OBWC policies and procedures for procurement and contracting. Procedures for investments include that the Investment Committee and the board of directors review and approve investment asset allocation, all investment managers, and review current allocations. Investment

managers representing all asset classes (with the exception of value added real estate) are selected through a RFP process which segregates solicitation, selection, and authorization.

The number of opportunities at any one time, and short funding opportunity windows of the value added real estate asset class, requires an ongoing search for these managers to ensure that best in class managers are selected, rather than simply those available at the time of an RFP. However, the evaluation and authorization phases of procurement are consistent for all asset classes. The board has an Investment Consultant who sources all value added real estate investment opportunities. After the OBWC investment staff completes its own satisfactory due diligence of the most attractive investment opportunities presented for its consideration in this asset class, all such investment opportunities are jointly recommended for board approval by the investment staff and Investment Consultant.

In all other instances the RFP process is used. The Board's Investment Consultant is a member of the RFP Evaluation Committee that scores and recommends all new investment managers for board approval (with the exception of value added real estate managers as explained herein). The RFP Evaluation Committee scoring documentation is prepared and retained by the Investment Division.

After the Investment Committee and board approve the selected investment managers, the Legal Division reviews and approves all contracts in conjunction with the Investment Division. Investment contracts must all be signed by the administrator. Finally, the request to transfer funds is initiated by the Investment Division (sent with evidence of authorization), processed and approved by the Finance Division, and then executed by the TOS. Only select personnel in the Finance Division are able to create new accounts, and transferring assets requires a dual signature (from the administrator, CFO, COO or CLO; and separately from a member of the Investment Division's senior management). The dual signature requirement is enforced by the third party investment custodian. The Finance

Division also reconciles custodian and accounting records of positions, market value, and income for the legacy and new accounts both prior to transfers and after transfers. Once the reconciliations are complete, an authorization letter is sent to the investment manager and custodian authorizing trades to commence if it is a new account.

- OBWC does not maintain an internal trading desk; it outsources this function to its investment managers. All contracts with OBWC investment managers require them to obtain best execution on trades. The IPS requires the Investment Division to monitor trading execution and provide a brokerage trading report to the Board of Director's Investment Committee on an annual basis. Furthermore, the Investment Consultant independently calculates quarterly performance for each account, which calculation reflects and nets out brokerage costs and is compared to a stated benchmark index.
- OBWC governance is generally addressed in ORC § 4121.12. By statute, oversight is provided by the board of directors, selected as described in the response to Evaluation Associates recommendation #3 above.
- The Investment Division requires criminal background checks of every key person representative of the management team of each investment management firm in which OBWC assets are invested in accordance with ORC §4123.444.

In Addition to the OBWC Response

In addition to the OBWC 2014 response to the recommendations made in the Special Audit, MRT Report, and Fiduciary Review, the following is a narrative provided by OBWC detailing additional operational changes:

Response of Ohio Bureau of Workers' Compensation

Dated April 16, 2014

After a top-to-bottom review of investment operations and corporate governance, the Ohio Bureau of Workers' Compensation now operates with a high level of professional expertise, accountability and transparency. Legislative changes, as well as numerous steps taken internally to tighten controls, have brought more stringent oversight and greater transparency to OBWC's operations and have strengthened Ohio's workers' compensation system.

Beginning in 2005, OBWC initiated many changes to incorporate best practices, improve operations and ensure thoughtful stewardship of employer premium dollars. First, Governor Bob Taft commissioned an independent Management Review Team (MRT) to review investment portfolio, policies, procedures and related controls at BWC. The three-member MRT consisted of Tom Hayes, director of the Ohio Lottery Commission, Lori Fiori Hacking, director of the Public Employee Retirement System and James Nichols, treasurer for the Ohio State University. This team utilized Ennis Knupp, a nationally recognized investment management consulting firm, to assist in a complete and systematic review of the OBWC investment portfolio and investment staffing in 2005.

The MRT found that OBWC's investment portfolio was solvent, but determined substantial reform was needed to ensure the continued stability of the portfolio. The MRT issued 40 specific recommendations with respect to changes in corporate governance, controls, and the overall investment operation. Key changes resulting from the MRT team's review included:

- Various levels of bureaucracy have been removed and the Investment Division now reports directly to the administrator.
- Sufficient staffing of the Internal Audit Division to increase the department's ability to perform continuous auditing and respond to any concerns like those that were voiced about Capital Coin Investment but not acted upon.

Also in 2005, the Ohio General Assembly passed bi-partisan legislation that added two investment professionals as voting members of the Workers' Compensation Oversight Commission (WCOC). At that time, the WCOC was responsible for governance and oversight of OBWC's investments, finances, and operations. As discussed below, the WCOC was subsequently abolished in favor of an independent, 11-member board of directors, but this step ensured that competent, experienced investment professionals were actively involved in monitoring investment decisions by OBWC going forward.

Following the addition of the two investment professionals to the WCOC, OBWC began to search for an independent investment consulting firm to conduct an asset analysis to determine

the appropriate asset allocation for OBWC's investment portfolios. With support from Governor Taft, then-OBWC Administrator/CEO Bill Mabe terminated existing relationships with over 150 active investment managers and private equity partnerships.

OBWC then added to its in-house investment expertise in 2006 when OBWC Administrator/CEO Bill Mabe hired Bruce Dunn to serve as the agency's chief investments officer. Mr. Dunn brought years of experience to OBWC, and he is a chartered financial analyst charter holder with a master's degree in business administration. Previously, he was a senior investment officer at London Life Reinsurance Co. and at Washington National Insurance Co.

To increase accountability and the opportunity for meaningful independent review of OBWC's investment activities, Governor Ted Strickland signed bi-partisan legislation in 2007 abolishing the WCOC and creating a new governance structure of an independent OBWC board of directors. The board's 11 members have a fiduciary responsibility, meaning a duty of care and a duty of loyalty, to the State Insurance Fund. The board approves all major OBWC investment actions and actively oversees all activity.

The board and the three of its committees that are created by statute - Actuarial, Audit and Investments - have met 12 times a year since 2007. Meetings are open to the public and meeting minutes are published online.

Ohio law dictates that the members satisfy professional qualifications and broadly represent OBWC's customers. Specifically, members of the board must represent the following constituencies or possess particular professional experience: one representative of employees, two representatives of employee organizations, three representatives of employers (one for self-insuring companies, one for state fund employers with fewer than 100 employees, and one for state fund employers with more than 100 employees), two investment and securities representatives, one certified public accountant, one actuary and one public member. Board committee charters are updated annually and each member receives annual fiduciary and ethics training.

Board members are recommended by a nominating committee that represents several organizations, including business and labor. All board members are appointed by the governor with the advice and consent of the Ohio Senate

The Investment Committee is chaired by an investment professional, and it approves all investment policies and appointments of investment managers after an education process and a thorough, robust discussion. The Investment Committee oversees all investment decisions and is charged with:

- Assisting the board in fulfilling its oversight responsibilities relating to developing and implementing sound investment policies and practices;
- Ensuring OBWC assets are effectively managed in accordance with the laws of the State of Ohio, and OBWC's Statement of Investment Policy and Guidelines;
- Assisting the board in the review and oversight of the State Insurance Fund and each Specialty Fund assets;
- Developing and monitoring the implementation of the OBWC's investment policy.

Through its Governance Committee, the board strives to meet the best practices of corporate governance, and the appropriate requirements of Sarbanes Oxley and other governance and reporting guidelines of NYSE-traded companies.

The board, in conjunction with its audit committee, undergoes an annual review of OBWC's auditing practices to ensure standards of the Institute of Internal Auditors are met.

Each committee of the board of directors is charged with operating in a way that supports the lowest possible rates consistent with the maintenance of a solvent State Insurance Fund.

Throughout this time, OBWC continued to professionalize its investment operations by adding additional leadership to its investment division. As required by the 2007 legislation creating the board of directors, OBWC's chief investment officer is a chartered financial analyst, the highest accreditation an investment professional can earn. The current Investment Division staff consists of experienced, qualified investment professionals who follow audited policies and procedures. There are four experienced investment professionals and one administrative support staff person.

Each of the four staff investment professionals has achieved the CFA designation. Two staff members have also achieved the Certified Treasury Professional (CTP) designation and one member is a CPA.

OBWC began divesting itself of its private-equity partnerships in 2007. At that time, with the approval of the OBWC board of directors and the assistance of an investment bank that was selected through a request for proposal process, OBWC started the process of selling its stake in 68 private-equity funds in the secondary market. The process extended into 2008 and ultimately resulted in OBWC eliminating private equity as an asset class for the State Insurance Fund.

OBWC's Board of Directors has continued to closely monitor and make ongoing changes to investment guidelines to bring a higher level of professionalism to investment management. In its first year-and-a-half, the board conducted an analysis of OBWC's investment policy statement and approved a comprehensive update.

OBWC's Investment Division adheres to the board-approved investment policy statement, which in conjunction with the Ohio Revised Code, narrowly dictates the types of investments that can be made. The policy specifically prohibits particular types of investments, including coins, stamps and collectibles.

Investment performance is calculated quarterly by the independent investment consultant and is available for public review.

OBWC has reduced the number of investment managers handling investments from over 150 active managers and private equity partnerships to currently 36 managers overseeing a current mix of approximately 60 percent passive style and 40 percent active style managed investments.

The review and selection process for all investment managers today is open and transparent. All managers, with the exception of value added real estate, are selected through a request for proposal process that segregates solicitation, selection and authorization.

Beginning in 2011, Steve Buehrer was appointed administrator. The results of the past three years have been exceptional. Operations have improved and OBWC is in a strong financial position.

Investments are strongly outperforming expectations with average annual returns of 8.8 percent over the past three fiscal years ending June 30, 2013 for the State Insurance Fund. As a result of the performance of OBWC investments in recent years, OBWC issued a \$1 billion rebate to Ohio employers in 2013.

Average base rates for Ohio's private employers have been reduced and those employers are paying \$224 million less than they were three years ago. Likewise, public employers are paying approximately \$70 million less in premiums, and are now paying their lowest rates in at least 30 years.

OBWC has also streamlined its business and service delivery processes and is operating more efficiently and economically, which has reduced its operating costs by more than \$80 million.

Numerous process, policy and law changes made at the behest of lawmakers and three administrations over a period of nearly a decade brought tremendous change to OBWC, guiding the agency toward professional management and improved customer service. The result is an agency currently in a strong position to support the health and wellbeing of Ohio employers and its workforce.

Today, OBWC is unquestionably a much more professional and accountable organization than it was in 2005. The 2007 bi-partisan legislation overhauled the governance structure to create an active and engaged OBWC Board of Directors that consistently conducts deep examinations of OBWC's operations and policies. The board represents the interests of business and labor and includes experts in areas such as actuarial, audit, and investments. It brings a tremendous depth of knowledge and broad perspective about workers' compensation and insurance matters, which translates into more thoughtful policy and better outcomes for the workers and employers of Ohio.

Prudent management combined with careful, conservative investment strategies promise Ohio employers a sound return on their premium dollars and allow OBWC to strengthen its focus on its core mission – the prevention of workplace injuries and care of those Ohioans who are hurt on the job.

IV. Legislative Solutions and Asset Recovery

In addition to the numerous remedial measures implemented by OBWC since the Noe scandal, the State Legislature passed H.B. 100 in 2007 to mandate additional reforms at OBWC.

Additionally, the state has taken actions to recover the taxpayer funds which were stolen or lost.

A. Legislative Solutions

H.B. 100 abolished the workers’ compensation oversight commission and replaced it with an 11-person board of directors. The board was designed to establish a new and more independent system of governance for OBWC. The act names the board members, instead of the voting members of the oversight commission, the administrator, and the OBWC chief investment officer, as the trustees of the State Insurance Fund (ORC §4123.44). Under the act, the board members assume fiduciary duties and responsibilities. Some of the additional duties transferred to the board include the following:¹³

Legislative Changes		
Duty	Who performed the duty under former law	Who performs the duty under the act
Establishing the overall administrative policy of the OBWC.	The administrator, with the advice and consent of the oversight commission (ORC §4121.121).	The board (ORC §4121.12).
Safeguarding and maintaining the solvency of the State Insurance Fund.	The administrator (ORC §4123.29(A)(2) and §4123.34).	The administrator and the board (ORC §4123.29(A)(2) and §4123.34).
Classifying occupations and industries for the purpose of determining employer premium rates.	The administrator, with the advice and consent of the oversight commission (ORC §4121.121(B)(5) and §4123.29(A)).	The administrator, with the advice and consent of the board (ORC §4121.121(B)(5) and §4123.29(A)).

¹³ Source: Ohio Legislative Services website.

Legislative Changes		
Duty	Who performed the duty under former law	Who performs the duty under the act
Establishing the investment policy for the funds specified in the Workers' Compensation Law (ORC Chapters 4121, 4123, 4125, 4127, 4131, and 4167).	The oversight commission (ORC §3345.12 and §4121.12).	The OBWC board of directors investment committee develops the policy, which must be approved by the board (ORC §3345.12, §4121.12, §4121.129, §4123.44, and §4123.442).
Contracting with actuarial firms to perform audits determined necessary.	The oversight commission (ORC §4121.125).	The board, based upon recommendations of the actuarial committee (ORC §4121.129 and §4121.125).
Having an independent auditor conduct a fiduciary performance audit of the OBWC investment program and the investment policy.	The oversight commission (ORC §4125.125(D)).	The board (ORC §4121.125(D)).
Selecting an accounting firm for the annual audit of the funds specified in the Workers' Compensation Law.	The administrator (ORC §4123.47).	The board, with audit committee recommendations (ORC §4121.129 and §4123.47).

In addition to the above referenced changes, the legislation also created the Office of Deputy Inspector General for the Ohio Bureau of Workers' Compensation and Ohio Industrial Commission. The inspector general must appoint the deputy inspector general. A person employed as the deputy inspector general must have the same qualifications as those specified in continuing law for the inspector general. The members of the Ohio Industrial Commission, OBWC board of directors, OBWC audit committee, OBWC actuarial committee, OBWC administrator, and employees of the Ohio Industrial Commission and the OBWC must cooperate with and provide assistance to the deputy inspector general. In particular, those persons must make their premises, equipment, personnel, books, records, and papers readily available to the deputy inspector general.

B. Recovery Actions

The State of Ohio, in an attempt to recover the taxpayer funds which were stolen or lost through the bad actions of various individuals, have taken various steps to ameliorate the loss, and recover what money possible. The actions outlined here are not meant to be exhaustive of the

state's efforts, but merely provide an overview of the types of methods used to recover misappropriated monies.

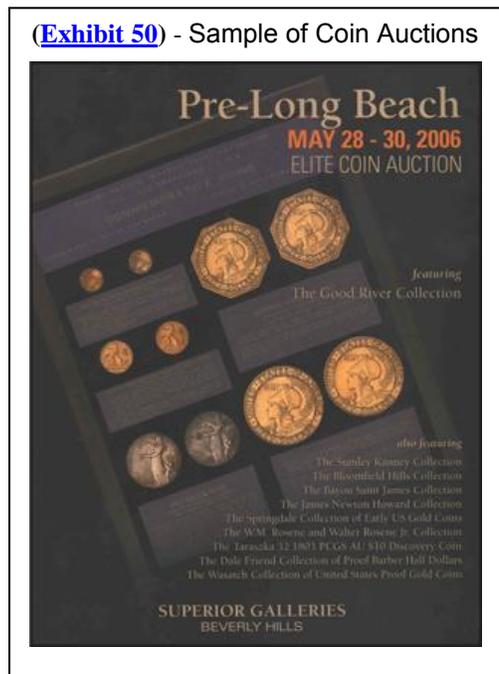
1. Liquidation of Noe Assets

Development Specialists Inc. (DSI) “is a leading provider of management consulting and financial advisory services, including turnaround consulting, fiduciary roles, financial restructure, litigation support, wind-down oversight and forensic accounting services.”¹⁴ DSI is headquartered in Chicago, Illinois, and has additional offices in New York, Los Angeles, San Francisco, Miami, Philadelphia, Columbus, and London.

DSI was designated replacement management by the Ohio Attorney General and the Ohio Bureau of Workers' Compensation and was tasked with winding down the affairs of Capital Coin Fund Ltd. and Capital Coin Fund Ltd. II. DSI analyzed all of the data related to the investments and constructed a plan to maximize recovery and the net return to the State of Ohio.

Additionally, DSI investigated all potential causes of action and supervised the ensuing litigation resulting from Tom Noe's misuse of funds.

OBWC was able to recover close to \$8 million prior to June 2005. The divestment process continued in June 2005 and involved DSI selling coins and other rare collectibles and negotiating settlements to lawsuits. The divestiture was completed in July of 2011 and resulted in a net recovery by DSI of approximately \$48,116,000. **(Exhibit 49)** Thus the total net gain of the Capital Coin Funds investments totaled \$6,019,000.



¹⁴ <http://www.dsi.biz/index.asp>

2. Other Methods of Recovery

In addition to liquidation of assets recovered as part of the task force investigation, other avenues of recovery have been pursued. In addition to Orders of Restitution being issued by various courts in conjunction with the many criminal prosecutions resulting from the task force investigation, the State has also sought civil relief in the form of civil judgments being obtained from various courts. As previously mentioned in the report, a Lucas County jury found Tom Noe guilty of the forfeiture specification in his indictment, which required him to forfeit his financial interest in his voting stock and his non-voting stock in Numismatic Guaranty Corporation of America. The Bureau of Workers' Compensation sued Tom Noe and Bernadette Noe in Franklin County Common Pleas Court, case number 05-CVH-5753. Bernadette Noe was dismissed as a party to the Franklin County case.¹⁵ Ultimately, a settlement agreement was entered into and adopted by the Lucas County Court of Common Pleas in State of Ohio vs. Thomas W. Noe, case number CR06-1348, on June 20, 2008. The settlement agreement approved the sale and disposition of the Numismatic Guaranty Corporation of America stock. The Judge directed the proceeds to be distributed in the following manner:

- (A) \$200,000 to be split between the Lucas County Prosecutor's Office and the Franklin County Prosecutor's Office as those two offices shall agree; and
- (B) \$2,052,000 to Capital Coin Fund Limited and Capital Coin Fund Limited II.

As a result of the entry for distribution of the forfeited asset, the amount of restitution owed by Tom Noe was reduced from \$13,747,000 to \$11,695,000.

CONCLUSION

In early 2005, the Office of the Ohio Inspector General and the Ohio State Highway Patrol began an investigation into allegations of impropriety regarding the management of an OBWC investment, the Capital Coin Funds. The initial inquiry into a single OBWC investment had far-reaching consequences for all of the parties involved and the State of Ohio. As the case developed, others agencies joined to form a task force with the purpose of rooting out the fraud and corruption surrounding the investment. The task force utilized its collective expertise to

¹⁵This information amends language contained in the report issued on April 24, 2014.

examine the Ohio Bureau of Workers' Compensation, its administration and its overall investment and management practices.

The investigation culminated in businessman and investor Thomas Noe's convictions at the state and federal levels relating to the theft of public monies. Additional charges were brought against Terrence Gasper by both the state and the federal government for operating a racketeering enterprise.

Criminal actions were also brought against other public officials, for accepting improper gifts and gratuities, as well as other ethics violations.

The Noe scandal resulted in significant reforms at the Ohio Bureau of Workers' Compensation, both to the organization and in the manner in which the bureau operates. In addition, the scandal brought about legislative changes, and the creation of a position in the Office of the Ohio Inspector General to detect and prevent similar conduct in the future.

RECOMMENDATION(S)

The Office of the Ohio Inspector General will continue to monitor the changes implemented by OBWC to ensure adequate safeguards remain in place to minimize the risk of a reoccurrence in the future.

[\(Click here for Charts A – E combined\)](#)

[\(Click here for Exhibits 1 – 54 combined\)](#)

[\(Click here for Index Report 1-Auditor of State Special Audit Reduced\)](#)

[\(Click here for Index Report 2-Governor MRT\)](#)

[\(Click here for Index Report 3-Independent Fiduciary Review\)](#)



STATE OF OHIO
OFFICE OF THE INSPECTOR GENERAL

RANDALL J. MEYER, INSPECTOR GENERAL

NAME OF REPORT: Ohio Bureau of Workers' Compensation

FILE ID #: 2005-091

KEEPER OF RECORDS CERTIFICATION

This is a true and correct copy of the report which is required to be prepared by the Office of the Ohio Inspector General pursuant to Section 121.42 of the Ohio Revised Code.

Jill Jones
KEEPER OF RECORDS

CERTIFIED
April 24, 2014 (Amended)

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