

Memorandum

TO: Joint Audit Committee

FROM: Benjie Chua Foy

SUBJECT: Update on City Auditor
Recommendations

DATE: August 7, 2018

APPROVED:

D. Nguyen

DATE:

8/7/18

INFORMATIONAL

Background

The City Auditor issued the following reports as a result of their internal audits in 2009 and 2010:

- Audit of Employee Medical Benefits – issued June 2009
- Audit of Pensionable Earnings and Time Reporting – issued December 2009
- Pension Sustainability: Rising Pension Costs Threaten the City's Ability to Maintain Service Levels – Alternatives for a Sustainable Future – issued September 2010.

In each of these reports, there were findings and recommendations that affected the Office of Retirement Services (ORS) and the pension plans. Both the Audit of Employee Medical Benefits and the Pension Sustainability findings have been completed as far as ORS is concerned and will no longer be included in this status update. The only report with two findings remaining with a status of partly implemented are summarized below.

In addition, in October 2017, the City Auditor issued report 17-06: Audit of Retirement Services: Greater Transparency Needed in the Budgeting Process, Interactions Among Stakeholders, Investment Policies, and Plan Administration, of which a matrix summarizing the recommendations and status are included as an attachment. This is the format that is required by the City Auditor but it was color coded for ease of review, with green meaning the recommendation was implemented, yellow meaning partially implemented and red meaning not implemented.

Analysis

Audit of Pensionable Earnings and Time Reporting (09-10):

1. *Recommendation #2 in the Audit Report:* Review the highest 12-month salary of all active beneficiaries starting in July 1, 2001 and work with Payroll to adjust those with retroactive lump sum payments to ensure that beneficiaries are receiving accurate pensions.

Status: ORS completed this recommendation for those affected in the Police and Fire Plan, with the last step implemented in December 2017. Staff has completed the recalculations for those affected in the Federated Plan. For the overpaid group, the Board

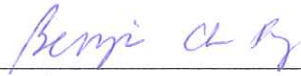
will make a decision on the course of action at the August meeting. For the underpaid group, the corrections to their monthly benefit payments will be made starting in August. See agenda item #6 for more information.

2. *Recommendation #4 in the Audit Report:* To the extent possible, correct pension payments and retirement contributions for the Police and Fire Retirement members and for the Federated Retirement members where higher class pay (HCL) or management allowances were considered pensionable.

Status: ORS completed this recommendation for those affected in the Police and Fire Plan, with the last step implemented in December 2017. Staff has completed the recalculations for those affected in the Federated Plan. For the overpaid group, the Board will make a decision on the course of action at the August meeting. For the underpaid group, the corrections to their monthly benefit payments will be made starting in August. See agenda item #6 for more information.

Audit of Retirement Services: Greater Transparency Needed in the Budgeting Process, Interactions Among Stakeholders, Investment Policies, and Plan Administration (17-06)

See attached matrix which summarizes all five findings and twenty-five recommendations from the report.



Benjie Chua Foy
Accounting Division Manager

17-06 Audit of Retirement Services: Greater Transparency Needed in the Budgeting Process, Interactions Among Stakeholders, Investment Policies, and Plan Administration

#01 The Office of Retirement Services should forward the Annual Fee Reports to the City Council for informational purposes.

Not Implemented

To be updated in June 2018 report Target date: September 2018

DEPARTMENT UPDATE AS OF JUNE 2018: The 2017 fee reports will not be completed until September, at which time, it will be forwarded to the City Council for informational purposes. The 2016 Fee reports were forwarded to the City Council in May 2018.

#02 The Office of Retirement Services should include its proposed personnel budget and staffing plan for City Council approval as part of the comprehensive annual budget outlined in Recommendation #3.

Implemented

To be updated in June 2018 report Target date: June 2018

DEPARTMENT UPDATE AS OF JUNE 2018: This recommendation was completed in June 2018 when ORS included its proposed personnel budget and staffing plan in MBA #1 that was approved by City Council in June.

#03 The Office of Retirement Services should prepare a comprehensive annual budget document covering the entire aggregate expense of administering each plan.

Implemented

To be updated in June 2018 report Target date: June 2018

DEPARTMENT UPDATE AS OF JUNE 2018: This recommendation was completed in June 2018 when ORS prepared a comprehensive annual budget document covering the entire aggregate expense of administering each plan. The comprehensive annual budget was included in MBA #1, with MBA #2 showing the investment fee analysis. Both MBAs were approved by City Council in June 2018.

#04 In compliance with the City Charter, the Office of Retirement Services should formally request each retirement board annually adopt the annual budget document that has also been approved by the City Council.

Implemented

To be updated in June 2018 report Target date: June 2018

DEPARTMENT UPDATE AS OF JUNE 2018: This recommendation was completed when City Council approved MBA #1 in June 2018, which included the budget documents that the Boards approved in April 2018.

#05 The Retirement Boards should establish formal budget adoption policies and procedures that include clear delegation of authority to staff to spend plan assets subject to certain limits defined by the Boards.

Not Implemented

To be updated in June 2018 report Target date: August 2018

DEPARTMENT UPDATE AS OF JUNE 2018: ORS has completed a formal budget adoption policies and procedures, which will be approved by the Boards at their August meetings.

#06 The City Manager's Office should update the City's Operating Budget to:

- a) include total employee and employer retirement contributions in the City's Operating Budget as summary or historical information,
- b) cross-reference its separate approval of the Retirement budget, and
- c) modify the presentation in the Operating Budget's Source and Use statements to display investment expense.

Not Implemented

To be updated in June 2018 report Target date: TBD

DEPARTMENT UPDATE AS OF JUNE 2018: Although this affects ORS, action needs to be taken by the City Manager's Office and not ORS.

#07 The City Council and the two Retirement Boards should hold a joint annual study session to discuss topics relevant to all parties, such as:

- a) forecasts for the City's expected revenue and budget,
- b) City and employee retirement contribution rates,
- c) actuarial assumptions of the retirement plans,
- d) the plans' investment returns, and
- e) the plans' funded status.

Implemented

To be updated in June 2018 report Target date: May 2018

DEPARTMENT UPDATE AS OF JUNE 2018: First Joint meeting was held between the City and the Boards in May 2018.

#08 The City should structure a formal process to orient new City Councilmembers about the Retirement plans.

Not Implemented

To be updated in June 2018 report Target date: TBD

DEPARTMENT UPDATE AS OF JUNE 2018: Although this affects ORS, action needs to be taken by the City Manager's Office and not ORS.

#09 The Retirement Boards should structure a formal process to periodically orient Board members to the City's budget and service level solvency.

Partially Implemented

To be updated in June 2018 report Target date: October 2018

DEPARTMENT UPDATE AS OF JUNE 2018: The Board Education Policy was approved by the Boards in June. The Budget Director is scheduled to educate the Boards on the City Budget process and to the extent possible, service level solvency, in October.

#10 The City as the plan sponsor should provide the Retirement Boards, on a regular basis, with relevant budget documents, such as the City's 5-year budget forecast, the Mayor's budget messages, and the City's proposed operating budget.

Partially Implemented

To be updated in June 2018 report Target date: October 2018

DEPARTMENT UPDATE AS OF JUNE 2018: Although this affects ORS, action needs to be taken by the City Manager's Office and not ORS. That said, it is expected the Budget office will provide the present the required documents to the Boars as part of their City Budget presentation discussion at the Boards meetings.

#11 The City Council should clarify their expectations of the Council representatives to the Retirement Boards, including the type of report and frequency of reporting that would be most useful to the Council.

Not Implemented

To be updated in June 2018 report Target date: TBD

DEPARTMENT UPDATE AS OF JUNE 2018: Although this affects ORS, action needs to be taken by the City Manager's Office and not ORS.

#12 The Retirement Boards should clarify their expectations of each Council representative, including the type and frequency of reporting that would be most useful to the Board.

Not Implemented

To be updated in June 2018 report Target date: August 2018

DEPARTMENT UPDATE AS OF JUNE 2018: Newly created Council Representative Charter to be reviewed and approved by Boards at August meeting.

#13 To facilitate communication of relevant activities to the City, the Retirement Boards should:
a) Work with City staff to determine what types of activities or agenda items are appropriate to notify the City about in advance and update relevant charters and/or policies accordingly, and
b) Modify the CEO charter to clarify the CEO's role in communicating with the City.

Implemented

To be updated in June 2018 report Target date: June 2018

DEPARTMENT UPDATE AS OF JUNE 2018: This recommendation was completed when the CEO charter was modified to clarify CEO's role in communicating with City, including the types of activities. The modified charter was approved by the Boards at their June meetings.

#14 The City Administration should designate a City staff member as the liaison to Retirement Services and provide guidelines for the liaison's role (e.g., monthly meetings with the Retirement CEO and attendance at Retirement Board meetings).

Not Implemented

To be updated in June 2018 report Target date: TBD

DEPARTMENT UPDATE AS OF JUNE 2018: Although this affects ORS, action needs to be taken by the City Manager's Office and not ORS.

#15 The Retirement Boards should adopt a formal set of performance measures to be included in the retirement plans' budgets for both plan administration and the investment program. The Retirement Boards should provide the City Council with the opportunity to review and provide comment on the adopted performance measures.

Not Implemented

To be updated in June 2018 report Target date: December 2018

DEPARTMENT UPDATE AS OF JUNE 2018: The governance and investment committees are still in discussion as to the performance measure changes. ORS has received clarification from the Budget Office but still needs to discuss with the Governance and Investment Committees.

#16 The Retirement Boards should incorporate in their respective Investment Policy Statements, or establish in a separate document, more comprehensive guidance in line with the Government Finance Officer's Association recommendations on fee policies for public plans, containing at least the following:

- a) Delegation of responsibility to negotiate, monitor, and report on fees;**
- b) The respective roles of trustees, staff, consultants, and investment managers in controlling fees;**
- c) Strategies that will be employed to seek the lowest reasonable fees in traditional asset classes; and**
- d) Strategies that will be employed to ensure the plans are not paying excessive fees for alternative assets.**

Implemented

To be updated in June 2018 report Target date: April 2018

DEPARTMENT UPDATE AS OF JUNE 2018: This recommendation was completed by ORS in April 2018 when the Boards approved the revised investments policies for fees to be in line with GFOA recommendations.

#17 The Retirement Boards should incorporate in their respective Investment Policy Statements a policy on investment manager evaluation that reflects existing manager due diligence process and procedures, and includes the following:

- a) Defining the "extraordinary review" process;**
- b) Establishment of a "watch list" and/or "probationary status" for underperforming managers;**
- c) Process by which managers of concern are identified, placed under "extraordinary review," and given a final decision;**
- d) Quantitative criteria for underperformance which would trigger placement under "extraordinary review" and/or on a "watch list;"**
- e) Potential actions resulting from the "extraordinary review" process;**
- f) Delegation of authority for implementing each step in this process; and**
- g) As necessary, incorporating into the policy the nuances of different asset classes or fund types.**

Implemented

To be updated in June 2018 report Target date: April 2018

DEPARTMENT UPDATE AS OF JUNE 2018: This recommendation was completed by ORS in April 2018 when the Boards approved the revised investments policies for fees to be in line with GFOA recommendations.

#18 The Retirement Boards should clarify the different levels of investment decisions and which bodies have the authority to implement or approve them. The Boards should incorporate these clarifications into updates to the Investment Policy Statements, and if necessary, the Investment Committee Charter and Chief Investment Officer Charter.

Implemented

To be updated in June 2018 report Target date: April 2018

DEPARTMENT UPDATE AS OF JUNE 2018: This recommendation was completed by ORS in April 2018 when the Boards approved the revised investments policies for fees to be in line with GFOA recommendations.

#19 The Retirement Boards should periodically provide copies of the retirement plans' investment policies to the City Council.

Implemented

To be updated in June 2018 report Target date: April 2018

DEPARTMENT UPDATE AS OF JUNE 2018: The updated policies have been posted to the ORS website and City Council has been made aware of it.

#20 The Office of Retirement Service should ensure compliance with the City Gift Policy by paying for the total cost of attendance at vendor-sponsored conferences.

Implemented

To be updated in June 2018 report Target date: April 2018

DEPARTMENT UPDATE AS OF JUNE 2018: This recommendation was completed in April 2018 when the Boards approved the revised gift policy, which is in compliance with the City Gift Policy.

#21 If the Retirement Boards would like to establish a more stringent gift policy, they should reaffirm the City Gift Policy and pass an addendum that further limits gifts to Retirement Board Members and Retirement Service Staff.

Implemented

To be updated in June 2018 report Target date: April 2018

DEPARTMENT UPDATE AS OF JUNE 2018: This recommendation was completed in April 2018 when the Boards approved the revised gift policy, which is in compliance with the City Gift Policy.

#22 The Office of Retirement Service should assess how to use workflow functionality in PensionGold Version 3 for case management, including routing beneficiary requests to subject matter experts or staff familiar with the case, and to track workload statistics (such as time to complete requests), or acquire a separate case management software system.

Not Implemented

To be updated in June 2018 report Target date: February 2019

DEPARTMENT UPDATE AS OF JUNE 2018: The workflow functionality in PensionGold Version 3 will be used once the new system goes live in February 2019.

#23 The Office of Retirement Services should expand its newsletters to include more information about the plans, upcoming events, and information about retirement.

Not Implemented

To be updated in June 2018 report Target date: TBD

DEPARTMENT UPDATE AS OF JUNE 2018: Given personnel budget limitations, this recommendation is currently on hold.

#24 The Office of Retirement Service should upgrade their website to promote transparency and ease of navigation for stakeholders and plan members to find information.

Not Implemented

To be updated in June 2018 report Target date: June 2020

DEPARTMENT UPDATE AS OF JUNE 2018: IT staff is currently consumed with the pension administration system upgrade. Once the new system has been implemented and goes live, IT staff can commence work on a new website for fiscal year 2019-2020.

#25 To improve transparency, the Office of Retirement Services should post plan charters and policies, as well as audio recordings of committee meetings, online.

Implemented

To be updated in June 2018 report Target date: May 2018

DEPARTMENT UPDATE AS OF JUNE 2018: This recommendation has been implemented since June 2017, when the website was updated for its contents.