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

#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.

Partly Implemented
Target date: TBD

DEPARTMENT UPDATE AS OF JANUARY 2021: ORS agrees with the City Auditor's Office that there are differences in the interpretation of whether or not the investment fees are part of the administrative expenses. ORS has updated their budget policy to reflect this but the Governance Committee / Board of Trustees have not approved this change in the policy because they do not agree with it due to the differences in the interpretation. ORS and the Boards remain committed to find a workable solution to the differences in interpretation.

#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

Partly implemented
Target date: June 2021

DEPARTMENT UPDATE AS OF JANUARY 2021: The performance measures that are in the current City Operating Budget process will be discussed at a future Joint Personnel Committee (JPC) meeting for further discussion and alignment with the current performance metrics of the CEO and CIO. The JPC has approved the CEO performance metrics but still have yet to approve the CIO and Investment staff metrics.

#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.

Partly implemented
Target date: June 2021

DEPARTMENT UPDATE AS OF JANUARY 2021: A new IT Manager was hired in September 2019. Each ORS Division has provided input on the features to be incorporated on the website. The initial wire framing for the new website has been developed and is being refined. New content has been identified and is being created, and existing content is being reviewed. The contract for the third party vendor that will provide the services to implement this is in the process of being drafted.

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

Implemented
Completion date: September 2018

DEPARTMENT UPDATE AS OF JUNE 2019: The 2017 fee reports were completed in August, and it was provided and presented to the City Council in September 2018. The 2016 Fee reports were forwarded to the City Council in May 2018. The 2018 Fee reports will be completed in August 2019 and presented to City Council in September 2019.

#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
Completion 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
Completion date: June 2019

DEPARTMENT UPDATE AS OF JUNE 2019: 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. The auditors wanted see this happen again in the next budget cycle to be considered completed. This was completed in June 2019 when City Council approved ORS' MBA, which comprised both original MBAs combined into one MBA.

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#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

Implemented
Completion date: June 2019

DEPARTMENT UPDATE AS OF JUNE 2019: 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. The auditors wanted see this happen again in the next budget cycle to be considered completed. This was completed in June 2019 when City Council approved ORS' MBA, which comprised both original MBAs combined into one MBA.

#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
Completion date: May 2018

DEPARTMENT UPDATE AS OF JUNE 2019: First Joint meeting was held between the City and the Boards in May 2018. The second meeting was held in April 2019.

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

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

DEPARTMENT UPDATE AS OF JUNE 2018: The Board Education Policy, which addresses a part of the auditor's recommendation, was approved by the Boards in June. In addition, the Budget and Finance Directors presented to the PF Board on October 4th and Fed Board on Oct 18th to educate the Boards on the City Budget process. The education did not include service level solvency.

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#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.

Implemented
Completion date: December 2018

DEPARTMENT UPDATE AS OF JUNE 2019: Newly created Council Representative Charter reviewed and approved by respective Boards-Governance Committee and Boards of Retirement in December 2018.

#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
Completion 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.

#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
Completion 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.

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#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
Completion 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 to establish a watch list for underperforming managers.

#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
Completion date: June 2019

DEPARTMENT UPDATE AS OF MAY 2019: This recommendation was implemented by ORS in March and April 2019 when the Police and Fire and Federated Boards, respectively, approved the revised investments policies for fees to be in line with GFOA recommendations.

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

Implemented
Completion date: October 2019

DEPARTMENT UPDATE AS OF DECEMBER 2019: The updated Investment Policy Statements were provided to the City Council on the October 1, 2019 agenda as part of ORS Comprehensive Annual Investment Expenses report presentation.

#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
Completion 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

Implemented
Completion 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.

Implemented
Completion date: February 2019

DEPARTMENT UPDATE AS OF JUNE 2019: Workflow has been implemented and integrated with the new pension administration system, PensionGold V3. The workflow functionality in PensionGold Version 3 is now being used since the new pension administration system went live in February 2019.

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

Implemented
Target date: January 2020

DEPARTMENT UPDATE AS OF DECEMBER 2019: The Deputy Director, along with the Executive Assistant, have been working with the communications consultant, Marty Boyer, on the first issue. The newsletter, the Retirement Connection, was published and distributed to membership in January 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
Completion date: January 2020

DEPARTMENT UPDATE AS OF JANUARY 2020: ORS posts audio recordings of committee meetings online at https://sjrs.legistar.com/Calendar.aspx. The plan charters and policies are accessible via link on the www.sjretirement.com website. ORS has ensured that all plan charters, policies and recordings of meetings are available online.

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#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.

To Be Implemented by the City - Partly Implented
Target Date: June 2020
DEPARTMENT UPDATE AS OF DECEMBER 2019: a) The 2019-20 Proposed Operating Budget incorporated a Summary of Contributions to Retirement Funds (Pages III-12 and 13 that included total employee and employer retirement contributions. This summary information was also included in the 2018-19 Adopted Operating Budget. b) The Proposed Budget also included appendices (A24–A48)with the Retirement Services Proposed Budgets submitted to the Federated and Police and Fire Plan Boards. Inaddition, the Office of Retirement Services prepared its 2019-20 Proposed Administrative Budget for City Council approval (Manager's Budget Addendum #4). The Auditor's Office notes that in the 2018-19 Adopted Operating Budget, a note was included in the Retirement Services chapter that clarified that the budget figures reflected in that section accounted for only a small portion of the total budget for the Office of Retirement Services. This note was not included in the 2019-20 Proposed Operating Budget, but the Budget Office advises that it will be included in budget documents going forward. c) The Office of Retirement Services did not break out the investment expenses in the Source and Use Statements provided to the Budget Office. The investment income figures presented in the Source and Use Statements were net of investment expenses. As part of MBA#4, the Office of Retirement Services included attachments with the most recent Comprehensive Annual Fee Reports that were presented to the Retirement Boards.

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

To Be Implemented by the City - Implemented

#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.

To Be Implemented by the City - Implemented

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#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.

To Be Implemented by the City - Not Implemented
Target date: June 2020
DEPARTMENT UPDATE AS OF DECEMBER 2019: The CMO will work on bringing forward an action that implements this recommendation this fiscal year.

#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).

To Be Implemented by the City - Implemented