

**City of Cincinnati Retirement System
Performance Evaluation Committee**

**City Hall Council Chambers and via Zoom
March 3, 2022 – 12:00 PM**

AGENDA

Members

Kathy Rahtz
Tom Gamel
John Juech
Bill Moller
Don Steins
Erica Winstead

CRS Staff

Mike Barnhill
Renee Kabin

Call to Order

Approval of Minutes

 April 8, 2021

Unfinished Business

New Business

 Consideration and discussion of Proposed 2022 Goals and Objectives

- Documents:
 - Draft 2022 CRS Strategic Plan
 - Summary of OPERS Fiduciary Audit
 - NCPERS Public Systems Survey: Trends

Adjournment

Next Meeting: TBD



**City of Cincinnati Retirement System
Performance Evaluation Committee Minutes
April 8, 2021, 12:00 P.M.
City Hall, Council Chambers and online via Zoom**

Members

Kathy Rahtz, Chair
Tom Gamel
John Juech
Bill Moller

Absent

Don Stiens
Erica Winstead

Administration

Paula Tilsley
Renee Kabin
Bev Nussman
John Dietz

CALL TO ORDER

Meeting was called to order at 12:14 p.m. A roll call was taken; committee members in attendance were T. Gamel, J. Juech, B. Moller, and K. Rahtz. and M. Menkhaus, Jr. also attended.

APPROVAL OF MINUTES

K. Rahtz ordered minutes filed due to the change in committee members and length of time since the last meeting in 2019. No vote was taken to approve.

NEW BUSINESS

Discussion of Outstanding and New CRS Initiatives

Evaluation criteria previously established in the development of a performance evaluation template in 2019 were discussed as well as updates on the current status of six of the performance initiatives as of March 2021.

Committee Action

T. Gamel made a motion to set the anniversary date of hire as the date of the Board's annual performance evaluation for the next Executive Director. B. Moller seconded the motion.

Roll call vote:

K. Rahtz – Y
T. Gamel – Y
J. Juech – Y
B. Moller – Y

Set the anniversary date of hire as the date of the Board's annual evaluation for the next Executive Director.

Discussion occurred on a previously tabled goal of performing a fiduciary audit. B. Moller provided background information and cautioned that this is not a financial audit but a review of how well operational and governance best practices are applied. Mr. Moller recalled that since CRS is under the City's organizational structure, it was challenging to develop criteria for a scope of services as compared

to other stand-alone pension systems. P. Tilsley further explained that CRS is subject to the City's Human Resources, Purchasing, Enterprise Technology Services and certain Finance Department requirements and CRS does not manage investments in-house. Further, the Collaborative Settlement Agreement (CSA) dictates certain roles and responsibilities of the City Administration and the Board which limits the ability for comparative analysis with certain other retirement industry practices. Ms. Tilsley recommended the Board may want to specify areas in which a fiduciary audit could be conducted, thereby attempting to narrow the focus and subsequent cost.

Goal #2, regarding a new financial accounting software package, is on track to be completed by January 1, 2022. P. Tilsley stated that processes are currently being mirrored to ensure a smooth transition. Testing and implementation will be finished by the completion date.

K. Rahtz stated Goals #3, #4 and #5 are on track for completion in July and do not need to be carried over. Goal #6 was in response to a City-wide initiative and was completed, with ongoing maintenance and updates incorporated into the annual budget.

Goal #7, regarding how to best represent the ongoing complex issues related to administering the Collaborative Settlement Agreement (CSA) and its many provisions, was discussed. P. Tilsley added that any required response by CRS is dependent on actions taken by the various parties to the CSA and reminded the Committee that the Executive Director position takes direction from the City Administration and the Law Department, so it is difficult to hold an individual accountable for a goal of that size and scope. A modifying clause could be added, such as "as approved by the Court." B. Moller observed that perhaps this could be set aside for now or even modified by adding the phrase "as approved by the Court" as suggested by Ms. Tilsley.

Additional in-depth discussion occurred on establishing benchmarks to measure customer service. B. Moller suggested an assessment of current practices and continuing communication efforts once the new Director is in place. B. Moller further stated additional goals may be considered based on the results or recommendations of the asset/liability study that will be presented in July.

Mr. Moller mentioned other items that will need to be addressed by the Board include a redesign or simplification of survivor benefits due to a member's death in service, and researching the feasibility of instituting electronic balloting for trustee elections as has been used by other public retirement systems.

Having no further business, T. Gamel made a motion to adjourn. B. Moller seconded the motion. Results of the roll call vote:

K. Rahtz – Y

T. Gamel Y

J. Juech – Y

B. Moller - Y

The motion to adjourn passed. The meeting was adjourned at 1:02 P.M .

Next Meeting: TBD

Cincinnati Retirement System

STRATEGIC PLAN -- DRAFT

March 2022

CRS MISSION

- **Assure Promised Pension and Healthcare Benefits for Current and Future Retirees**
- **Assist and Support CRS Members in Achieving a Successful Retirement**
- **Assure CRS Transparency and Accessibility for all Stakeholders**

CRS Board of Trustee Goals

- Invest CRS financial assets to establish a reasonable probability that the assumed annual rate of return is achieved.
- Establish reasonable actuarial and investment assumptions and determine the probability that current retirees and future retirees will receive promised pension and healthcare benefits.
- Provide recommendations to the City Administration, City Council, and Mayor to achieve full funding of pension and healthcare benefits.
- Provide strategic CRS direction and support to the CRS Department.
- Provide timely communication to active and retiree members regarding CRS financial status and pension and healthcare benefits.
- Cultivate and advance collaborative relationships, marked by mutual respect and transparency, among CRS administration and CRS Board.
- Prioritize customer service best practices to strengthen responsiveness and reduce barriers to communication among stakeholders.

CRS Board of Trustee Responsibilities

- The Cincinnati Retirement System (CRS) Board of Trustees (Board) shall administer CRS solely for the benefit of active and retiree members.
- The CRS Board shall have exclusive authority to govern the Pension Trust and Healthcare Trust as fiduciaries.
- The Board shall have full power to invest and reinvest fund assets as a prudent investor and according to investment policies adopted by the Board.
- The CRS Board shall be responsible for determining and approving the CRS Budget.
- The CRS Board shall be guided by principles of full transparency to inform the members and the public of the Board's concerns, considerations, and decisions.
- The CRS Board shall generate and maintain a governing manual, including rules, procedures, and regulations.
- The CRS Board will provide information and documentation as required by the Collaborative Settlement Agreement.
- The CRS Board shall actively participate in searches for the CRS Director.
- The CRS Board shall perform an annual evaluation of the CRS Director and shall submit it to the City Manager.
- The CRS Board shall be responsible for selecting actuaries, investment advisors, and other professionals, subject to the City's procurement process.
- The CRS Board shall not limit actuaries, investment advisors, and other professionals regarding information that they deem necessary for the city administration, CRS members, or the public to know.
- The CRS Board shall have an actuarial review of experience and assumptions every five years and make a valuation of assets and liabilities at least every two years.
- The CRS Board shall adopt mortality tables and other assumptions as it considers necessary.
- The CRS Board shall create committees to fulfill its obligations each having membership of at least one retiree Board member, one active Board member, and one appointed Board member.
- The CRS Board Chair shall appoint and investment committee.
- The CRS Board shall approve by a two-thirds vote any changes to the CRS annual budget.
- The CRS Board shall establish rules for the election of active and retiree members to fill Board positions.
- The Board shall elect a Chair and Vice-Chair for the Board to serve for two years.

19. The Board shall provide input and recommendations to the City regarding funding policy for healthcare.
20. The Board shall report annually to City Council regarding CRS status.
21. The general administration and responsibility for the proper operation of the retirement system shall be vested in a board of trustees.
22. The pension fund manager shall be the secretary of the board of trustees. The pension fund manager shall oversee the benefits administration, investment management, and member services of the division, and shall direct, control and supervise all officers and employees within the division of retirement.

CY 2022 Board Objectives

<u>Item</u>	<u>Owner</u>	<u>Target Date for Completion</u>	<u>Status/Date Completed</u>
Complete Governance Manual and Board Rules	Governance Comm., Mike Barnhill	6/30/2022	Underway
Establish fiduciary audit scope	Board, Mike Barnhill	6/30/2022	Underway
Prepare and present CRS orientation to City Stakeholders (City Mgr, Mayor, Vice Mayor, Council Fin. Comm Chair)	Board, Mike Barnhill	6/30/2022	Underway
Prepare and provide trustee training plan, including training policy and curriculum	Board, Mike Barnhill	6/30/2022	Underway
Establish "treadwater" employer contribution and employer contribution "ramp up" recommendation	Board, Mike Barnhill	3/31/2022	Underway
Develop CRS handbook for active and retired members	Mike Barnhill	12/31/2022	Underway
Develop and provide newsletters for active and retired members	Mike Barnhill	6/30/2022	Underway
Develop and implement CRS website content enhancements to provide timely, complete, and easily accessible info.	Mike Barnhill	9/30/2022	Underway
Provide the City Administration with input and recommendations regarding the healthcare trust funding policy	Mike Barnhill	3/31/2022	Underway
Review CRS Department staffing positions and complement	Board, Mike Barnhill	3/31/2022	Underway
Prepare and approve the 2022 budget	Board, Mike Barnhill	3/31/2022	Underway
Assist the Mayor and Council in filling appointed member Board vacancies	Board, Mike Barnhill	6/30/2022	Underway
Complete the five-year actuarial experience study	Board, Mike Barnhill	3/31/2023	Start in 3Q 2022
Prepare and submit the annual CRS report to City Council	Board, Mike Barnhill	6/30/2022	Start in 2Q 2022
Prepare an annual financial report for active and retired members	Investment Comm., Mike Barnhill	6/30/2022	Start in 2Q 2022
Review and approve the annual 12/31/2021 Actuarial Valuation Report	Board	6/30/2022	Start in 2Q 2022
Review and approve the quarterly and Annual Investment Reports	Board	Ongoing	Ongoing
Establish the format for providing input into the City Manager's evaluation of the Director	Performance Eval Comm.	12/31/2022	Start in 3Q 2022
Assign Board Members to Committees	Chair Moller	Ongoing	Ongoing
Select Board Chair and Vice Chair	Board	7/31/2022	Start in 3Q 2022
Completion of the election process for one retiree and one active trustee	Elections Comm., Mike Barnhill	8/4/2022	Underway
Review and make recommendations regarding survivor benefits	Benefits Comm.	12/31/2022	Start in 2Q 2022
Develop for Board approval CRS Board Goals and Strategies for 2022	Performance Eval Comm.	3/31/2022	Underway
Keep the Board well-informed about important developments and issues	Mike Barnhill	Ongoing	Ongoing
Review current customer svc practices and identify strengths and opportunities for improvements	Mike Barnhill	6/30/2022	Underway

CRS Department Values Statement

Everything we do matters! Everyone we meet is important and nothing is insignificant. Every day and in every way, our work affects the lives of our members, so we constantly strive to deliver excellent customer service by providing timely, accurate, and useful information in a courteous and professional manner.

CRS Department Goals

1. Keep the Promise
 - a. Seek long-term fiscal sustainability of the system
 - b. Promote use of mainstream actuarial assumptions and methodologies
2. Promote Retirement with Dignity
 - a. Provide counseling, education and resources to help members achieve successful retirement
 - b. Provide excellent customer service
3. Maintain Operational Best Practices
 - a. Continue to Identify and adopt operational best practices
 - b. Provide system transparency through information/accessible website

CY 2022 CRS Department Operational Objectives

<u>Item</u>	<u>Owner</u>	<u>Target Date for Completion</u>	<u>Status/Date Completed</u>
Obtain Approval for and Create Member Counselor/Education Position in Board Budget Process	Mike Barnhill	1Q 2022	Underway
Chart on Invoice Entry for MAE and Acumatica	Bev Nussman	1Q 2022	Completed, 2/1/2022
Create Delegations Document	Mike Barnhill	1Q 2022	Start by 3/1/2022
Utilize Acumatica to provide financial reports for actuarial valuation	Bev Nussman	1Q 2022	Underway
Update Staff Leave Notice Procedures	Mike Barnhill	1Q 2022	Underway
LifeStatus 360 Account Access	Christine Roberts, Keith Miller	1Q 2022	Completed, 2/1/2022
Prepare 2022 CRS Budget	Bev Nussman, Mike Barnhill	1Q 2022	Completed, 2/23/2022
Update Pension Gold to allow edits in the Indicators and Medicare sections	Mary Kelsey, Christine Roberts	2Q 2022	
Follow-up on Board vacancy with CMO	Mike Barnhill	1Q 2022	Completed, 2/10/2022
Complete Work on Asset Liability Study	Cheiron	2Q 2022	Completed, 2/3/2022
Update Record Retention Policy	John Dietz	2Q 2022	
Acoustic paneling for staff cubicle area	John Dietz, Mike Barnhill	2Q 2022	Underway
Continue work on Cross-Training and Function Assignments	John Dietz, Mike Barnhill	2Q 2022	Underway
Re-start Retirement and Member Matters Newsletters	Kyle Brown, John Dietz, Mike Barnhill	2Q 2022	Underway
Evaluate the Kroger diabetes program with the CVS program	Mary Kelsey, Christine Roberts	2Q 2022	Underway
Fiduciary Insurance Re-bid	Mike Barnhill	2Q 2022	Start in 2Q 2022
Evaluate upgrade of health positions	Mary Kelsey, Mike Barnhill	2Q 2022	Underway
Evaluate cash overlay for operating cash account	Bev Nussman	2Q 2022	Underway
Complete review and make recommendation on CSA health points/grid proposal	Mike Barnhill	2Q 2022	Underway
Evaluate stop loss insurance for commercial population	Mike Barnhill, Mary Kelsey	2Q 2022	Underway
Health plan booklet for pre-65 retirees	Mike Barnhill, Mary Kelsey	2Q 2022	Completed, 2/1/2022
Prepare and implement training and professional development plan for staff	Mike Barnhill, John Dietz	2Q 2022	Underway
Organize and tidy Office	Mike Barnhill, Ellen Karr, Keith Miller	2Q 2022	Underway
Create Project List for Pension Gold	John Dietz, Cynthia Unger	2Q 2022	Underway
Configure Pension Gold to produce data files for all healthcare vendors	Mary Kelsey, Christine Roberts	2Q 2022	

Migrate Low Income Subsidy Payments to Supplement Category in Pension Gold	Mary Kelsey, John Dietz, LRS	2Q 2022	
Identify and network with directors in peer systems	Mike Barnhill	2Q 2022	
Implement Accounts Payable Module in Acumatica	Bev Nussman	3Q 2022	Underway
Implement GASB 87 (Leases) for CRS	Bev Nussman	3Q 2022	
Questions re health benefits for adult disabled dependents; consider policy adoption/modification project	Mike Barnhill	3Q 2022	
Monitor ERIP Payments	Mike Barnhill	3Q annually	Ongoing
Evaluation of asset allocation	Board, Marquette, Mike Barnhill	3Q annually	
Decide on Annual v Monthly Tax Table for Pension Gold	John Dietz, Pension Gold Vendor	3Q-4Q 2022	
CRS Website Updates, including financial and investment reports, and health booklets	Mike Barnhill, Webmaster	3Q-4Q 2022	Underway
Prepare CRS Balanced Scorecard for Director's Board Report	Mike Barnhill	4Q 2022	Underway
Complete annual CRS financial audit for City ACFR	Bev Nussman	4Q 2022	
Provide Access to Member Direct for Retirees	John Dietz, Keith Miller, Christine Roberts	4Q 2022	
Evaluate and Provide Recommendation for Board Health Committee	Mike Barnhill	4Q 2022	Underway
Evaluate \$5mm sec. lending liability with BoNY/Mellon	Bev Nussman, Mike Barnhill	4Q 2022	Underway
Discuss outstanding \$300k ERIP bond liability with Finance	Bev Nussman, Mike Barnhill	4Q 2022	Underway
Update CRS Continuity of Operations Plan	Mike Barnhill	4Q 2022	
Complete imaging of CRS member files	John Dietz, Christine Roberts	4Q 2022	
Complete service time review	John Dietz	4Q 2022	
Ethics and disclosure review	Mike Barnhill	4Q 2022	
DROP and reciprocity issue	Mike Barnhill, John Dietz	4Q 2022	
Evaluate adjusting 2% interest on contributions to 10yr Treasury rate	Mike Barnhill, John Dietz	4Q 2022	
Security and risk review; SOC 1 Type 2 audit of LRS; internal control review on all cashflows	Mike Barnhill, Bev Nussman	4Q 2022	
Get Law presentation on governance, ethics, fiduciary, records retention rules	Mike Barnhill, Law	4Q 2022	
Review, organize and index CRS contract Files	Mike Barnhill, Bev Nussman	4Q 2022	
Evaluate CRS Report for Federal District Court per CSA	Mike Barnhill	4Q or 1Q annually	

CY 2023-24 CRS Department Operational/Strategic Objectives

<u>Item</u>	<u>Owner</u>	<u>Target Date for Completion</u>	<u>Status/Date Completed</u>
Review and Update CRS Policies and Procedures; Consolidate Gov Manual, Board Policies and Rules	Mike Barnhill	CY2023	
Complete Acumatica Implementation	Bev Nussman	1Q 2023	
Implement Acumatica cash flow analysis	Bev Nussman	CY2023	
Implement Acumatica budget report	Bev Nussman	CY2023	
Evaluate preparation of CRS Popular Financial Report	Bev Nussman	CY2023	
Notice Policy re Inactive Nonvested	Mike Barnhill	CY2023	
Index CRS Website so subjects can be searched for links	Mike Barnhill, Webmaster	CY2023	
Cash Handling Self Audit	Bev Nussman	CY2023	
Evaluate suitability of current office location for member access	Mike Barnhill	CY2024	
Update reciprocity agreements with all Ohio systems	Mike Barnhill, John Dietz, Ann Schooley	CY2024	

Evaluate DROP/lump sum program	Mike Barnhill	CY2024	Underway
Evaluate CRS and Finance workflows and approvals	Mike Barnhill, Bev Nussman	CY 2024	
Consider Reimbursable Service or Svc Level Agreements for Chargeback Rates	Mike Barnhill	CY 2024	
Evaluate multiplier for Group G after 30 years decreases to 2%	Mike Barnhill	CY 2024	
Evaluate Ohio P&F Work for cost allocation or relocation	Mike Barnhill	CY 2024	
Evaluate alignment of fiscal year with City; publish CRS budget with City	Mike Barnhill	CY 2024	
Evaluate timing of budget cycle	Mike Barnhill	CY 2024	
Evaluate suitability of City assets for transfer to CRS	Mike Barnhill	CY 2024	
Evaluate issuance of judgment bonds	Mike Barnhill	CY 2024	
Evaluate retiree health plan for new employees	Mike Barnhill	CY 2024	



Fiduciary Performance Audit of
The Ohio Public Employees Retirement System
Conducted on Behalf of
The Ohio Retirement Study Council

November 14, 2019

OPERS Fiduciary Performance Audit

Scope and Subject Matters of Audit

Task Area 1: Board Governance and Administration

- A. Governing Statutes and Compliance
- B. Board Composition
- C. Documentation of Responsibilities and Reporting Lines
- D. Board Education and Associated Costs
- E. OPERS Budget Process and Compliance
- F. Administrative Costs
- G. Conflict of Interest Policies and Procedures
- H. Communications
- I. Succession Planning

Task Area 2: Organizational Structure and Staffing

- A. Staffing, Hiring, and Performance Evaluations
- B. Customer Satisfaction Evaluation Process
- C. Compensation
- D. Monitoring and Maintaining Staff Qualifications and Continuing Education

Task Area 3: Investment Policy and Oversight

- A. Investment Policy
- B. Investment Oversight
- C. Investment and Fiduciary Risk
- D. Custody Policy

Task Area 4: Legal Compliance

- A. Legal Compliance and Adherence to IRS Regulations
- B. Internal and External Legal Counsel
- C. Ethics Training

Task Area 5: Risk Management and Controls

- A. Adequacy of the Framework Used to Identify and Respond to Risks
- B. Financial Controls and Integrity of Financial Statements
- C. Adequacy of Accounting Process
- D. Adequacy of Internal and External Audit Procedures
- E. Adequacy of Recordkeeping Processes

Task Area 6: IT Operations

- A. Assessment of OPERS' Policies, Processes, and Oversight
- B. Evaluation of Processes Used to Define and Mitigate High-Risk IT Areas

Executive Summary

The content of this report supports our conclusion that, overall, the Ohio Public Employees Retirement System (OPERS) is a well-run organization, with many exemplary policies and practices. There are a few areas where we believe OPERS would benefit from enhancements, and recommendations are provided where this is the case. Nothing was found that represents insurmountable fiduciary or operational risk.

OPERS has implemented many policies and processes which align with best or leading-edge practices; consequently, the majority of the 56 recommendations contained in this report can be characterized as fine-tuning. Even so, we believe that fine-tuning OPERS' operations can add value and, therefore, all recommendations in this report merit consideration.

This executive summary is an abridged version of the key findings and recommendations contained in the report. It is a high-level summary and is not intended as a replacement for the full report. Rather than relying on this executive summary, we encourage readers to examine the detailed narrative within the report. A recommendation matrix, which aggregates all the recommendations that appear in the report, can be found in Appendix A at the end of this report on pages 140 through 144. A glossary of terms is also provided in Appendix B on pages 145 through 149. We caution readers that our findings and recommendations are limited to the areas of review defined in the project's scope of work and the information provided to us.

An overview of key findings and recommendations for each of the six main sections of the report are highlighted below.

1. Board Governance and Administration

Expand Board Appointee Expertise Requirement

The fiduciary standards governing OPERS are consistent with best practices. We found the OPERS Board composition, size, selection process, and term length to be appropriate. Consistent with best practices, there is an expertise requirement for the OPERS appointed members. However, the requirement is limited to investment expertise. Given the importance of the OPERS Audit Committee's oversight functions, we **recommend** that OPERS' governing statute be amended to require that one of the OPERS Board appointees have financial audit or internal controls expertise or, as an alternative, that OPERS retain a consultant that is a qualified "audit committee financial expert" to advise the OPERS Audit Committee.

Amend Governing Statutes to Better Align with Best Practices by Granting OPERS Authority to Select Its Essential Service Providers

The current governing statutes include four statutory limitations which are not consistent with best practices and run contrary to OPERS' ability to carry out its fiduciary duty to act in the sole interest of the beneficiaries and participants. These limitations are: (1) OPERS' inability to select its legal advisers; (2) OPERS' inability to select its financial auditor; (3) OPERS' inability to select its custody bank(s); and (4) the requirement that the custody bank be in state. The latter two statutory limitations are the most significant issues we found during our review.

Virtually all public retirement systems in the United States have exclusive authority and control, and thus oversight of their custody bank(s); this is not, however, the case under Ohio law. Requiring the custody bank to be in state is also an atypical requirement and not in line with the common or best practice. Ohio law designates the Ohio Treasurer of State (TOS) as the custodian. As the custodian, the TOS selects the custody bank(s) that OPERS must use. Consequently, OPERS receives and pays for the services but has no authority over the custody bank. We found that both the TOS and OPERS have made best efforts to operate under the current legal constraints. However, the designation of the TOS as the custodian and the in-state bank requirement hinders OPERS' efficiency, introduces risk, and necessitates the expenditure of millions of additional dollars to make the current requirements workable.

The common and best practice, whether public or corporate, is to use a single custodian. Under the current statutorily required custody serve model, in order for OPERS to receive the custody services needed to support its operations, three different custody banks must be used. This is because there is only one eligible in-state bank that is capable of supporting the consolidated custody model needed by OPERS. In most cases, the in-state bank still needs to subcontract with a non-state bank or entity to provide some of the services required by OPERS (e.g., global custody, securities lending, investment performance, investment compliance, investment risk reporting, etc.). This results in a non-competitive environment that does not align with best practices. Further, OPERS must use a master recordkeeper to combine all of the accounting data into one source. The master recordkeeper is also necessary to reduce the impact on and mitigate risk to OPERS from the TOS changing the custody bank(s). Historically, the custody has been changed more frequently than we would expect.

The Current Custody Model Results in Higher Fees

Because there are multiple custodians, the combined custody/recordkeeping fees for 2016 were \$7.8 million (0.86 basis points). OPERS' custody fees are approximately 200% higher than the average basis points paid by its peer public funds (0.29 basis points). Further, total fees have nearly doubled since the custodian conversion in 2013. This increase is contrary to the current custody fee decline observed in the industry. Consolidating all custody services with a single provider under the authority of OPERS would remove the need for a master recordkeeper. We estimate this could result in a fees savings of several million dollars. We **recommend** amending Ohio law (R.C. 145.26 and 145.11(C)) to remove the TOS' custodian role and grant OPERS with exclusive authority and control over the custodian relationship. We **recommend** amending Ohio law (R.C. 135.03) to remove the requirement that the custodian bank must be located in Ohio. (The custody model used by OPERS is addressed in Task Area 3.D. on pages 98 through 113 of this report. It is discussed here because of its importance to the governance and administration of OPERS.)

Additionally, to bring OPERS in line with best practices, we **recommend** amending the applicable statutes to also grant OPERS exclusive authority and control over the selection of (1) its legal advisors and (2) its financial auditor.

OPERS Has Extensive Documentation of Its Governance

Overall, the breadth of OPERS' governance documentation is leading-edge. This is also the case regarding the tools OPERS uses to communicate with the OPERS Board, its members,

and retirees. Examples include: (1) OPERS' documentation of responsibilities and reporting lines; (2) OPERS' Financial Reporting Budget Policy and the reporting mechanisms used to ensure adherence; (3) the policies and processes OPERS has in place to facilitate compliance with the Ohio Ethics law; and (4) the newsletters, handbooks, and leaflets OPERS produces.

OPERS' Education and Total Administrative Costs Are Reasonable

During the review period, OPERS' Board education and associated costs were \$41,889. We find this amount to be de minimis compared to OPERS' total budget and the costs expended by comparable retirement systems. Further, we found OPERS' total administrative costs of \$109 per member, inclusive of health costs, to be much lower relative to the median and average administrative costs of comparable retirement systems.

2. Organizational Structure and Staffing

OPERS' Staffing and Compensation Levels Are Reasonable

OPERS' overall staff size of 555 employees (as of 12/31/2017) is within normal limits. Peer funds generally have between 300 and 700 employees. OPERS' investment staff headcount of 57 is above the peer median staffing size of 46 but well below the high quartile of 100 employees. For non-investment functions, OPERS uses 4.15 employees per 10,000 members versus the peer group average of 4.77. Thus, OPERS' non-investment staffing levels are also within competitive normal limits. We found that, overall, OPERS' compensation levels are conservative compared to peers.

OPERS' Turnover Has Increased

We found OPERS' hiring procedures to be leading-edge and a model that can be used by other public retirement systems. OPERS also has a leading-edge employee performance evaluation process, provides excellent in-house training and development opportunities, and has high engagement scores. Notwithstanding, OPERS' turnover for 2017 was 13.2%. Although 44% of the 2017 turnover was due to retirements and involuntary departures, high levels of turnover can negatively impact the effectiveness and efficiency of an organization and, therefore, are not consistent with best practices. We **recommend** OPERS explore ways to diminish turnover.

3. Investment Policy and Oversight

OPERS' Investment Policy Statement and Review Processes Are Appropriate

The current investment policy documentation is comprehensive and consistent with best practices. The processes used by OPERS to adopt, monitor, periodically review and update its investment policy, and the extent to which it observes the policy, are also appropriate. OPERS also has written policies and procedures in place around broker selection and oversight, which we found to be in line with industry best practices.

The controls and processes used by OPERS to regularly review and monitor investment performance and assess compliance by external and internal investment managers are sound. OPERS' robust approach exceeds that of many other retirement systems and favorably aligns

with best practices implemented by many commercial market participants such as asset management firms.

Investment Fees Are In Line with Peers; Documentation of Fee Review Analysis Should Be Enhanced

We found that OPERS' investment management fees are generally in line with those of peer public pension funds and in line with the level we would expect given the asset size, asset allocation, and implementation style.

As part of our analysis, we reviewed an April 2018 fee presentation that was produced for the hedge fund portfolio. The presentation evaluated hedge fund fees over time and across strategies and differentiated management fees and incentive fees. We believe this type of analysis is an important component of ongoing oversight and assists OPERS in communicating how it thinks about, evaluates, and manages investment management fees. We **recommend** conducting this type of analysis on each asset class as part of ongoing oversight and as a tool in communicating to stakeholders the underlying value proposition of each investment and why fees vary from one investment to the next.

Documentation of Manager Selection Processes Aligns with Best Practices

OPERS' investment manager selection processes, including each of the necessary steps, are clearly defined in distinct documents for each asset class in which OPERS invests. Overall, the documentation aligns with industry best practices. OPERS uses an approval committee for each asset class. Committee approval is required before investing in any external investment manager. This approach, along with robust documentation, helps to ensure a collaborative and consistent selection process. OPERS engages specialty external consultants to supplement its knowledge and functional work in areas where it may not have internal resources or expertise. The use of specialty consultants is a common and best practice.

Operational Due Diligence Should Be Improved

OPERS' current risk-based investment managers review approach is used by many market participants in order to optimize resource allocation. However, it is not a best practice. We **recommend** that OPERS implement an investment manager review schedule to ensure all external managers for its external public markets programs are reviewed onsite on a periodic basis to update its operational due diligence (ODD).

The position responsible for OPERS' ODD process for external public markets is independent from the investment department, which aligns with best practices. However, OPERS' ODD process for private markets is embedded within its investment due diligence process. While this approach generally aligns with market practice, to be consistent with best practice, the ODD process should be separate. We **recommend** the OPERS Risk Management Team perform the ODD process independently of the investment team for its private market program. As an alternative, we **recommend** OPERS engage its external consultant to conduct detailed ODD for each mandate.

4. Legal Compliance

We found the policies and processes used by OPERS for purposes of legal compliance and adherence to United States Internal Revenue Service regulations to reflect best practices. OPERS' allocation between benefits and transactional legal work is also appropriate. The statutory designation of the Ohio Attorney General (AGO) as the legal advisor to OPERS is consistent with common practice among public retirement systems; however, it is not a best practice. To align with best practices, OPERS should have the ability to select its own legal counsel, independent of the AGO (Recommendation 1.A.1. provided in Task Area 1 on page 11).

5. Risk Management and Controls

OPERS Maintains an Effective, Comprehensive Risk Management Framework

Risk management and controls are an evolving trend among public retirement systems. Only a few public funds have an enterprise risk management framework in place; OPERS is one of them. OPERS currently operates under two distinct risk management frameworks: Operational Risk Management and Enterprise Risk Management (ERM). OPERS' approach to defining responsibilities, oversight, and procedures aligns with best practices. OPERS is in the process of fully integrating its ERM framework.

The detailed documentation of OPERS' accounting procedure is consistent with best practice and, in some cases, represents leading-edge practice. Further, the external audit procedures appear to be adequate. OPERS received an unqualified audit opinion for the year ending December 31, 2016. Oversight of financial reporting and internal controls are key responsibilities of the OPERS Audit Committee. Notwithstanding, the ability of the OPERS Audit Committee to provide effective oversight and control would be enhanced if it were comprised of members with strong accounting or audit experience. This could be achieved by the adoption of Recommendation 1.B.1., provided in Task Area 1 on page 15, to amend OPERS' governing statute to require that one of the appointees have financial audit or internal controls expertise or, as an alternative, that OPERS retain a consultant that is a qualified "audit committee financial expert" to advise the OPERS Audit Committee. (Recommendation 1.B.2.)

6. Information Technology (IT) Operations

OPERS' IT Policies, Processes, and Oversight Generally Align with Best Practices

Physical security surrounding the office building and access to the location were found to be in line with expectations. OPERS selects an external vendor annually to conduct penetration testing of its IT network. An annual risk assessment focusing on IT is also performed. OPERS' recovery time objective for priority one incidents is inside 24 hours, and it has developed a helpdesk solution that is in place to record, prioritize, and dispatch appropriate personnel through a supporting incident response system.

OPERS has business continuity and disaster recovery policies and processes in place that are in line with industry best practices.

Appendices

Appendix A – Recommendations Matrix

Fiduciary Performance Audit of the Ohio Public Employees Retirement System For the Audit Scope Period of January 1, 2017 through December 31, 2017

Number	OPERS Fiduciary Performance Audit Report Recommendations	Page Number
	Task Area 1: Board Governance and Administration	
	A. Governing Statutes and Compliance	
1.A.1.	Seek a statutory amendment to vest authority in the OPERS Board to independently select its legal advisers or to use the AGO's office, in its discretion, for legal advice and representation.	11
1.A.2.	Seek a statutory amendment to vest authority in the OPERS Board to select its own independent financial auditor.	11
1.A.3.	Establish a single cumulative annual report to the OPERS Board that certifies OPERS was in compliance with key legal and administrative rules for the fiscal year.	11
1.A.4.	Establish a chief compliance officer position, which reports to senior leadership but is also authorized to go directly to the OPERS Audit Committee.	11
	B. Board Composition	
1.B.1.	Amend OPERS' governing statute to require that one of the board appointees have financial audit or internal controls expertise.	14
1.B.2.	As an alternative to amending the statute, we recommend that OPERS retain a consultant that is a qualified "audit committee financial expert" to advise the OPERS Audit Committee.	15
	C. Documentation of Responsibilities and Reporting Lines	
1.C.1.	OPERS should consider adopting a strategic planning policy.	18
1.C.2.	To reduce keyman risk, OPERS should consider reducing the number of executive director direct reports.	18
	D. Board Education and Associated Costs	
1.D.1.	Establish a board education and associated costs quarterly tracking and reporting process, which discloses the following information to the board: (a) when a new board member attended the statutorily required new member orientation and whether follow-up orientation was offered to the new member; (b) the attendance status of members with more than one year at continuing education sessions; and (c) the total travel expense for each board member, by name, year to date. The total travel expense report for each board member should also include the dates and locations of all trips, the names of the seminars or conferences attended, and details as to the total costs of the trips, including for example airfare, lodging, meals, and registration fees.	21
1.D.2.	Include a notation of meeting agendas that designates the sessions which have been approved for purposes of continuing education.	21
1.D.3.	Compile an annual list of recommended external educational opportunities for board member training.	21

Number	OPERS Fiduciary Performance Audit Report Recommendations	Page Number
G. Conflict of Interest Policies and Procedures		
1.G.1.	Amend R.C.145.093 to add language requiring that any amendments to OPERS' Ethics Policy must be consistent with applicable law and subject to review by the Ohio Ethics Commission and the Ohio Retirement Study Council.	28
1.G.2.	Add language to the OPERS Ethics Policy that specifies those doing business with OPERS are subject to the purview of the policy.	28
H. Communications		
1.H.1.	We recommend the addition of no contact, "black-out period" language to the OPERS Board Communications Policy.	31
1.H.2.	We recommend the addition of language to the OPERS Board Communications Policy to include its current protocol of requiring staff to inform the executive director prior to initiating ex parte communications with a board member.	31
1.H.3.	We recommend the addition of language to the OPERS Board Communications Policy regarding the parameters of board members' use of social media regarding OPERS matters.	31
1.H.4.	We recommend expanding the information provided on the OPERS website to include links to board committee assignments, the OPERS Board Governance Policy Manual, a comprehensive organizational chart, meeting minutes for at least the last three years, and the executive director's monthly reports to the board.	31
1.H.5.	We recommend that separate committee minutes be maintained for each committee meeting and published on the OPERS website.	31
I. Succession Planning		
1.I.1.	Develop a written succession planning policy that establishes the philosophy and processes OPERS uses, particularly as it relates to mitigating keyman risk.	33
1.I.2.	Use best efforts to limit the use of interim candidates in a vacant position to no more than six to nine months.	33
Task Area 2: Organizational Structure and Staffing		
A. Staffing, Hiring, and Performance Evaluations		
2.A.1.	Explore ways to diminish turnover.	37
2.A.2.	Explore ways to further enhance OPERS' engagement score and its employee experience score.	37
2.A.3.	Update the board's self-evaluation policy to require a more formalized annual self-evaluation process, including the use of a third-party facilitator.	43
2.A.4.	Consider the use of a third-party facilitator for purposes of the executive director's evaluation.	43
B. Customer Satisfaction Evaluation Process		
2.B.1.	We recommend that OPERS consult with CEM and its peers to determine what, if anything, can cost effectively be done to enhance OPERS' call outcomes service score.	47
C. Compensation		
2.C.1.	OPERS should continue to conduct regular compensation reviews to ensure compensation levels remain competitive and fair.	50

Number	OPERS Fiduciary Performance Audit Report Recommendations	Page Number
2.C.2.	OPERS should evaluate each individual position’s market competitiveness and internal fairness in relation to the roles and responsibilities of each position.	50
2.C.3.	OPERS should evaluate whether offering near median maximum total cash levels relative to the performance required to earn maximum total cash is adequate to attract, retain, and motivate the talent required for OPERS’ long-term success.	50
D. Monitoring and Maintaining Staff Qualifications and Continuing Education		
2.D.1.	Develop a tracking system to monitor adherence to required personnel qualifications and certifications.	53
Task Area 3: Investment Policy and Oversight		
A. Investment Policy		
3.A.1.	In the roles and responsibilities of actuary section of the document entitled “OPERS Board Policies Governing Investment Activities,” we recommend modifying the existing language from “the board shall consider review of the asset liability study approximately every five years” to “the board shall consider review of the asset liability study every three to five years or when material changes to the liabilities take place (e.g., plan design changes, material changes in underlying assumptions, etc.)” to be consistent with the language elsewhere. This amendment applies to the investment objective and asset allocation policy for both the DB Fund and the HC 115 Fund.	57
3.A.2.	In the liquidity policy contained in the risk management section of the document entitled “OPERS Board Policies Governing Investment Activities,” we recommend adding more clarifying context to the statement regarding the funded value.	57
3.A.3.	Modify the existing language in the document entitled the “OPERS Board Policies Governing Investment Activities” regarding periodic review under the asset allocation section from “every three to five years the board will undertake a comprehensive strategic asset allocation review...” to “every three to five years or when material changes to the liabilities take place (e.g., plan design changes, material changes in underlying assumptions, etc.), the board will undertake a comprehensive strategic asset allocation review...” for added flexibility. This amendment applies to the OPERS Investment Objective and Asset Allocation Policies for both the DB Fund and the HC 115 Fund.	66
3.A.4.	Given that the financial projections for the HC 115 Fund anticipate potential insolvency in the future, add additional documentation and context regarding the HC 115 Fund to allow for a starker contrast with pension language. The additional language should be added to the Investment Objectives and Asset Allocation Policy section of the document entitled “OPERS Board Policies Governing Investment Activities.”	67
B. Investment Oversight		
3.B.1.	In order to better assess the broker-dealers’ overall capabilities, the OPERS Broker Review Committee should include voting representatives from both operations and trading/front office functions.	76
3.B.2.	OPERS should utilize a static benchmark for the opportunistic sub-asset class within the DB Fund policy benchmark that reflects the overarching goal of the sub-asset class.	81

Number	OPERS Fiduciary Performance Audit Report Recommendations	Page Number
3.B.3.	Perform a fee analysis on each asset class as part of ongoing oversight and as a tool in communicating to stakeholders the underlying value proposition of each investment and why fees vary from one investment to the next.	85
3.B.4.	Clarify the process for verifying real estate and private equity fees and document how the process should be performed.	85
3.B.5.	We recommend conducting recurring background checks on OPERS' employees who are designated as performing key or sensitive roles.	87
3.B.6.	We recommend that OPERS implement an investment manager review schedule to ensure all external managers for its external public markets program are reviewed onsite on a periodic basis to update its ODD.	93
3.B.7.	We recommend OPERS' risk management team perform the ODD process independently of the investment team for its private market program. ODD expertise is more portable than IDD expertise. Consequently, OPERS should not have to develop or hire dedicated private markets ODD experts to facilitate the program. As an alternative, we recommend OPERS engage its external consultant to conduct detailed ODD for each mandate.	93
C. Investment and Fiduciary Risk		
3.C.1.	We recommend that OPERS change its two scenario stress test model to a three scenario model that includes baseline, adverse, and severely adverse scenarios.	98
3.C.2.	We recommend that OPERS separate its investment compliance function from the investment accounting and compliance department and establish an independent functional group that reports elsewhere in the organization, such as to the general counsel or executive director.	98
D. Custody Policy		
3.D.1.	Amend Ohio law, R.C. 145.26 and 145.11(C), to remove the TOS' custodian role and grant OPERS exclusive authority and control over the custodian relationship, including selection, negotiation of the contract's scope of services and fees, and terminations.	113
3.D.2.	Amend Ohio law, R.C.135.03, to remove the requirement that the custodial bank must be located in Ohio.	113
3.D.3.	Contingent upon granting OPERS exclusive authority and control over the custodian relationship and removing the in-state bank requirement, we recommend, to the extent possible, consolidating service providers to a single custodian that can provide all custody and custody-related services required by OPERS.	113
3.D.4.	Re-examine cash movement security protocols with the banks to identify a more automated and electronic solution.	113
Task Area 4: Legal Compliance		
C. Ethics Training		
4.C.1.	Establish a requirement that provides for annual ethics and fiduciary training for the board and staff members who are fiduciaries.	116
Task Area 5: Risk Management and Controls		
A. Adequacy of the Framework Used to Identify and Respond to Risks		
5.A.1.	OPERS should ensure that all stages of the risk management process, from risk identification to risk assessment, monitoring, and reporting, utilize consistent terminology of risk types and categories.	122

Number	OPERS Fiduciary Performance Audit Report Recommendations	Page Number
5.A.2.	To align with best practices, we recommend OPERS consider adopting the COSO Framework in developing its risk management program.	123
D. Adequacy of Internal and External Audit Procedures		
5.D.1.	We recommend that OPERS consider adopting the audit analytics approach.	132
5.D.2.	To better respond to risks that may affect it, we recommend that OPERS consider adopting a more comprehensive “Agile Internal Audit” framework.	132
Task Area 6. IT Operations		
A. Assessment of OPERS’ Policies, Processes, and Oversight		
6.A.1.	We recommend that OPERS continue its current effort to consider implementing a single technology platform within its application infrastructure to cover the full spectrum of the investment process across multiple asset classes, which will further allow for multiple departments to consolidate their systems.	137
6.A.2.	We recommend that OPERS adopt a requirement establishing that a different external service provider be selected for penetration testing every year.	137
6.A.3.	In regard to its disaster recovery and business continuity planning, AHIC recommends that OPERS complete the business impact assessment it currently has underway in order to analyze and potentially reassign priority levels for incident categories.	137
B. Evaluation of Processes Used to Define and Mitigate High-Risk IT Areas		
6.B.1.	We recommend that OPERS consider further restricting employees’ use of removable media.	139
6.B.2.	We recommend that OPERS adopt a policy that requires forced rotation for penetration testing service providers.	139

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2021 NCPERS Public Retirement Systems Study

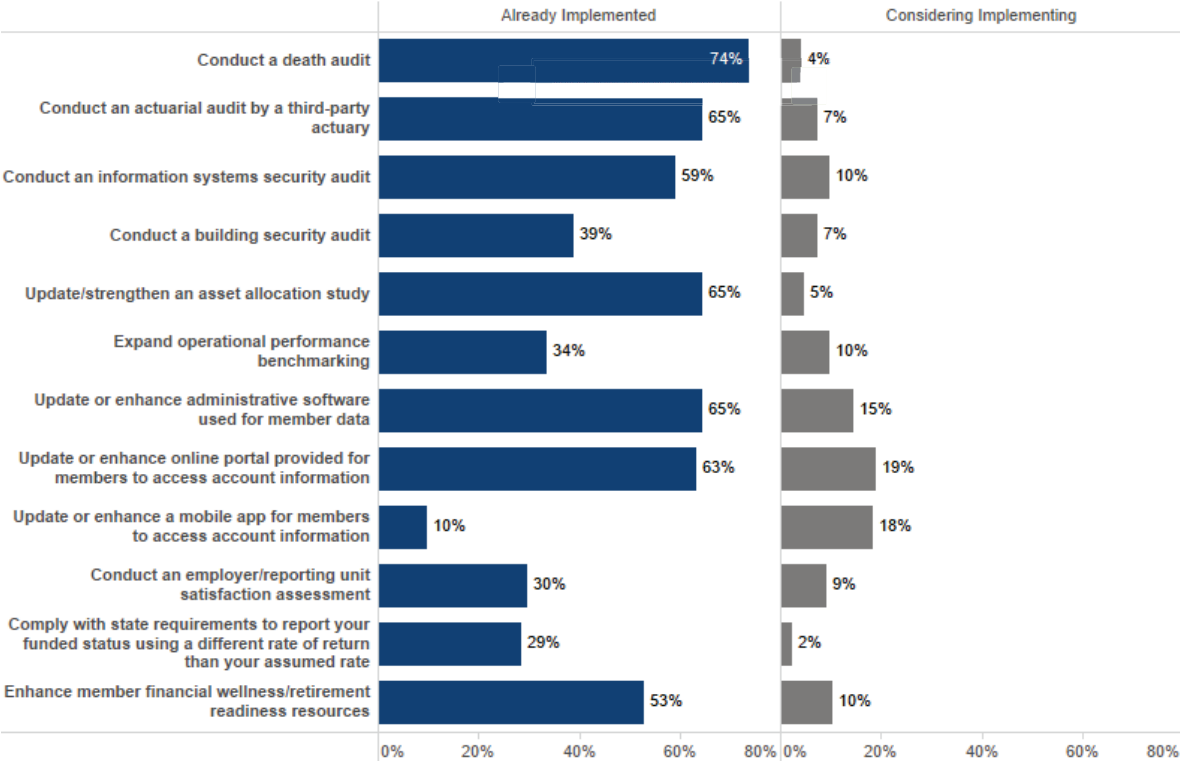
February 2022

Study conducted by the
National Conference on Public Employee Retirement Systems and
Cobalt Community Research

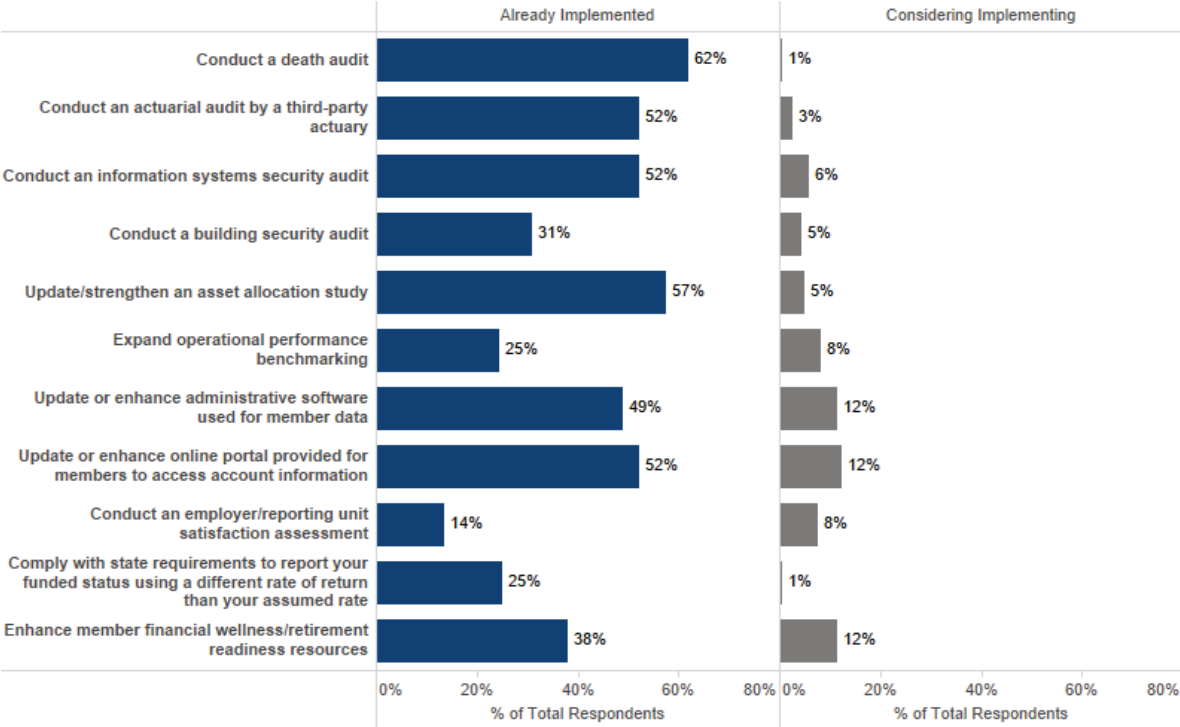
Trends in Business Practices

Conducting a death audit, conducting an actuarial audit, enhancing administrative tools used for member data, and asset allocation studies were the most commonly implemented business practices. The practices under consideration include enhancing online and mobile member account access.

2021 Business Practices



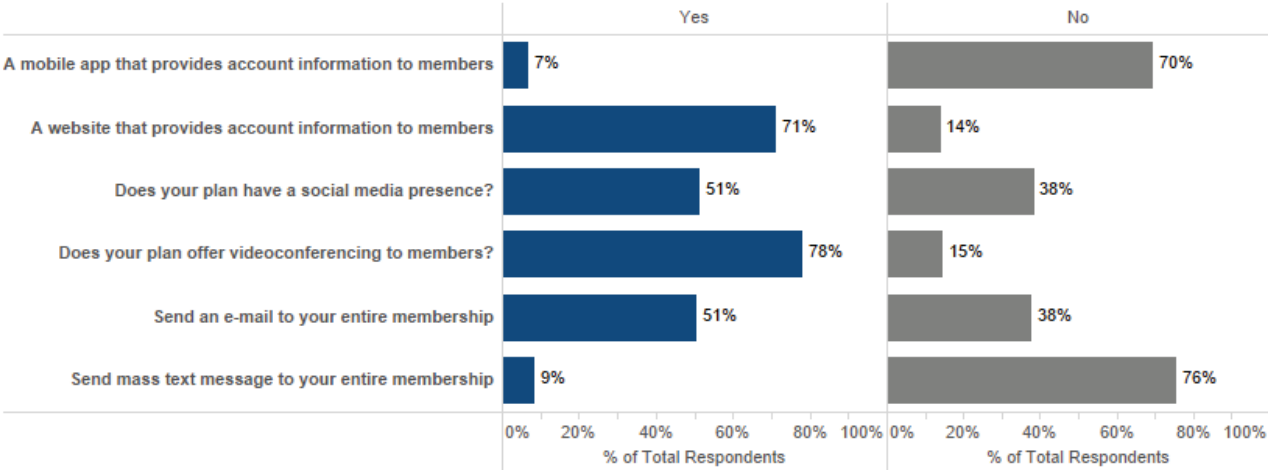
2020 Business Practices



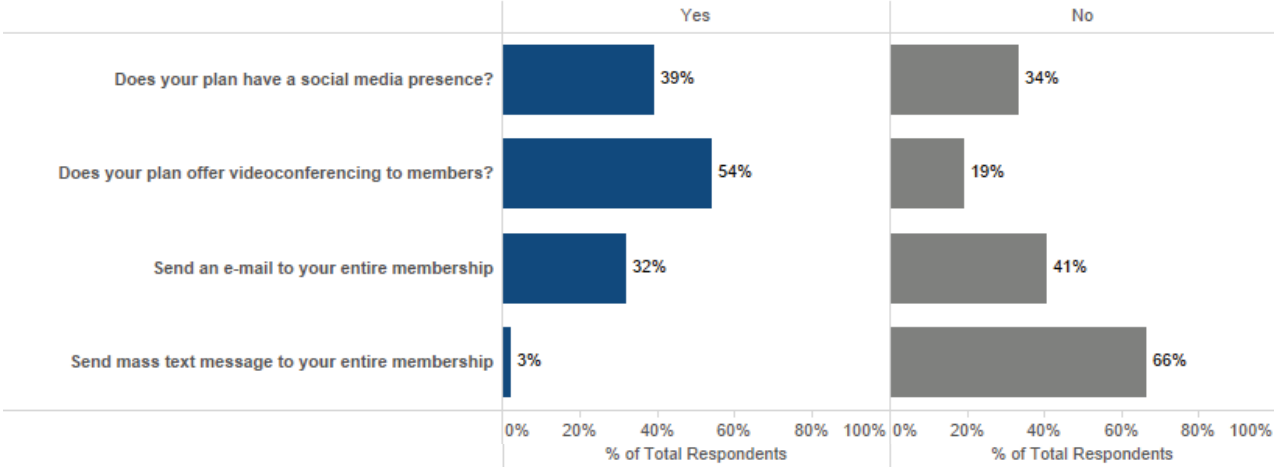
Trends in Communication

Overall, many responding funds have expanded and continue to provide live videoconferencing to members and social media presence. Many also have expanded capabilities to send e-mail and text messages to the entire membership. While many funds provide account information to members on the website, very few are offering this service through a mobile app.

2021 Communication Capabilities



2020 Communication Capabilities



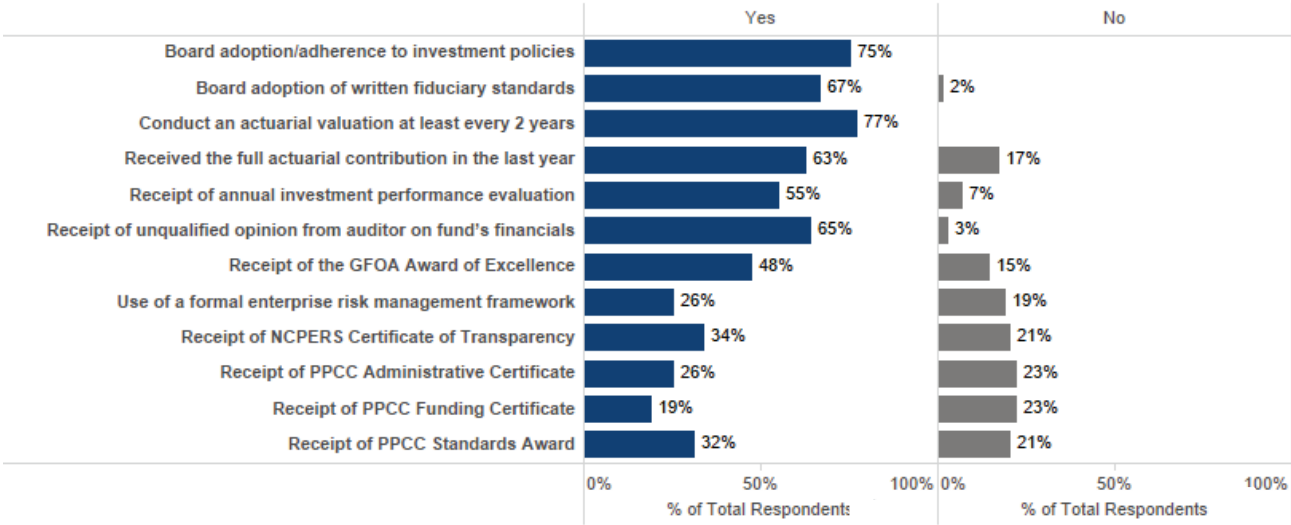
Trends in Oversight Practices

Overall, responding funds showed higher levels of oversight compared to last year in most areas. Practices were very similar to 2020 for those funds that responded in both 2021 and 2020.

2021 Oversight Practices



2020 Oversight Practices



Note: GFOA = Government Finance Officers Association; PPCC = Public Pension Coordinating Council.