

# **Cincinnati Retirement System**

## **Governance Review**

### **Final Report**

February 14, 2024



# CRS Governance Review Final Report

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# CRS Governance Review Final Report

## Overview

### Objective

In September 2023, Funston Advisory Services (FAS) was engaged by the Cincinnati Retirement System (CRS) to conduct a comprehensive governance review to address the concerns of key stakeholders and develop preliminary recommendations.

In this draft report, FAS has identified what we consider to be lagging, prevailing, and leading governance practices when comparing CRS to its peers. However, FAS recognizes that “one size fits one” so CRS will need to decide what is best for CRS.

### Activities Completed

This was a multi-step project that included the following activities:

- Reviewed and analyzed current CRS charters, governance policies and practices
- Developed a CRS InGov<sup>®</sup> governance peer benchmarking profile.
- Designed and administered a Self-Assessment Survey for trustees and executives
- Identified preliminary opportunities for discussion and discussed with each trustee in individual interviews.
- Developed a draft final report with findings and recommendations and verified with the Director and staff.
- Reviewed the draft final report with the Board Chair and Vice Chair and received feedback.
- Finalized the final report and submitted to the CRS Board of Trustees.
- Presented findings and recommendations to the CRS Board of Trustees.

### Report Structure

This report is organized into six topical areas as described in the RFP:

1. Legal and Regulatory
2. Governance Framework
3. Investment Program and Operations
4. Pension Operations
5. Administrative Operations
6. Compliance

# CRS Governance Review Final Report

## Executive Summary

### 1. Legal and Regulatory

While most public retirement systems in the U.S. have implemented some type of plan reforms over the past two decades, CRS has perhaps undergone more changes than most during that time period. This culminated in the Collaborative Settlement Agreement of 2016.

Since then the CRS Board of Trustees has been functioning effectively, the Director and staff have been effectively providing services to active and retired members, and relations among the Board, CRS staff, and other City departments have been collaborative and cordial. There has been significant progress, and all parties should be congratulated for achieving this success.

Acknowledging the progress that has been made, CRS still has a complex legal and governance framework, and the source statutory and municipal code and city and retirement system policies are found in multiple documents. It can be challenging for a CRS trustee, or anyone else, to know where to look to find the authoritative document applicable to a specific topic.

Many municipal public retirement systems rely on various services from other departments within the city, similar to CRS. However, the CRS legal structure is an outlier with respect to the Director and retirement system staff hiring, firing, and reporting structure. In addition, the CRS Board has limited authority compared to its peer public retirement systems. For example, the CRS Board lacks the final authority to contract with a range of third-party service providers. This could impair the Board's ability to fulfill its fiduciary duties and perhaps even expose other City officers to potential fiduciary liabilities.

Overall, we recommend the Legal and Regulatory framework be improved by:

- Defining and clarifying the fiduciary roles and authorities of the Board of Trustees, City Council and Mayor, City Manager and Finance Director, and the CRS Director.
- Aligning the Board of Trustees' authorities with its fiduciary responsibilities, including:
  - Naming the CRS Director as a direct report to the Board, with authority to hire/fire, evaluate, and set compensation of the Director;
  - Allowing CRS trustees who are not City employees to vote on CRS procurement decisions; and
  - Providing the Board of Trustees with independent external legal counsel.

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### 2. Governance Framework

CRS governance policies are comprehensive. With a few exceptions, policies appear to be both appropriate and consistent with prevailing practice amongst peer funds. However, there are multiple documents that govern CRS, and in many instances these documents contain overlapping provisions that are not always consistent. Consolidation of the various CRS governance provisions into an updated CRS Governance Manual could bring greater clarity and improve CRS governance effectiveness.

The CRS Board of Trustees currently appears to function well, with effective leadership and well-run meetings. The Board committees are generally considered to be effective, but committees do not spend much time meeting and each has a large number of members. An Audit Committee could potentially improve the Board's oversight of verification and reassurance.

This governance review process included a self-evaluation process that helped to identify areas for potential improvement. The Board should implement a policy to have self-evaluations on a periodic basis going forward. This should be accompanied by a structured Board onboarding and continuing education program that is informed by the self-evaluation process. The trustees believe onboarding and continuing education could be significantly improved.

The reports the Board receives are voluminous and need to have better executive summaries to provide an overview of what matters with the supporting details. Exception reporting is used in monitoring of the asset allocation and budget performance. This could be enhanced to include other aspects of vital performance such as asset allocation, total plan performance, total portfolio risk, and investment manager performance versus targets, as well as member services metrics.

Overall, we recommend the Governance Framework be improved by:

- Aggregating and organizing the Board's policies from all sources into a Board Governance Manual.
- Reducing the size of each committee to three or five members to better utilize trustee time.
- Appointing a Board Audit Committee with oversight of internal and external audits.
- Conducting a biennial Board self-evaluation process.
- Defining ongoing training requirements for Board members, including an onboarding plan for new trustees and required fiduciary training.
- Providing continuing education.
- Improving reporting to the Board through better use of executive summaries and exception reporting.

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### 3. Investment Program and Operations

CRS uses Marquette Associates to manage the investment program, with the CRS Board approving the asset allocation and hiring and termination of external managers. This is a typical model for a public fund with the scale of CRS. The CRS Investment Policy Statement is consistent with similar scale peer plans. The CRS Board does not have a Statement of Investment Beliefs but should consider developing one prior to the next Asset Liability Study.

CRS policies and practices for the development of the strategic asset allocation, with assistance from the consultant, are generally consistent with prevailing practice. However, CRS has in recent years made annual changes to the strategic asset allocation. In recognition of the time horizon differences between strategic and tactical decisions, most public pension funds only change their strategic asset allocation as part of a comprehensive Asset Liability Study conducted no more frequently than every three years, and more typically every four or five years.

The quarterly investment reports provided by Marquette Associates are consistent with prevailing practice at peer funds. However, the reporting is voluminous, and an executive summary that would focus on highlights and exceptions as an introduction to the details would help the Board to better navigate the reporting package.

Overall, we recommend that Investment Program and Operations be improved by:

- Developing a separate Statement of Investment Beliefs (SIB) to guide development and implementation of the strategic asset allocation.
- Extending the time horizon for the strategic asset allocation to 3-5 years and only make changes to the target asset allocation as part of a comprehensive Asset Liability Study.
- Streamlining investment reporting through use of executive summaries and exception reporting.

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### 4. Pension Operations

CRS does not have the basic telecommunications system capabilities found in most public retirement systems. One basic feature of a contact center telecommunications system is a self-service menu that provides initial options to the caller. If CRS had this feature, the majority of calls to CRS could be directly re-routed to the appropriate third-party vendor. This would likely significantly increase retiree satisfaction by ensuring that every call was quickly answered and eliminating the need to be told to make another call to a different number.

CRS utilizes a retirement benefits administration system called Pension Gold that includes a portal called Member Direct. Member Direct capabilities include online member statements, calculations of pension estimates, ability to update beneficiaries, ability to print out forms (mostly fillable), and ability to make online changes of address.

These are many of the prevailing practice capabilities found at other retirement systems. Currently, Member Direct is only available to active members, but CRS intends to make the portal available to retirees within the next four months. Member Direct is a separate portal not available through the CRS website, which is run by the City. CRS intends to redesign its website sometime over the next few years. CRS should establish an overall long-term plan for a coordinated transition.

CRS does not collect metrics in many areas due to extensive manual processes and does not have peer benchmarking information to gauge how its pension operations performance compares to other systems. Prevailing practice with larger funds is to participate in annual or periodic benchmarking studies to gain an understanding of how performance compares and identify the highest priority improvement opportunities.

The current assumed rate of return is fixed at 7.5 percent in the Collaborative Settlement Agreement (CSA) of 2015. According to a recent study by the National Association of State Retirement Administrators (NASRA), in fiscal year 2015, the median nominal public pension investment return assumption was 7.5 percent, but in fiscal year 2023 the median was 7.0 percent, the result of most systems having made adjustments. Among 131 state plans in the NASRA research group, 81 percent had reduced their assumed investment rate of return from FY 2018 to FY 2023. CRS should revisit the assumed rate of return with the actuary and determine if an adjustment to the rate in the CSA should be recommended.

Overall, we recommend Pension Operations be improved by:

- Implementing a member contact center telecommunications system.
- Developing a long-term plan for pension operations with service, performance, and cost objectives.
- Obtain a pension administration cost and performance benchmarking report.
- In consultation with the actuary, determining if an adjustment to the investment assumed rate of return should be recommended.



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### 5. Administrative Operations

The CRS investment accounting, performance reporting, and fund valuation processes are largely performed by the custodial bank, BNY Mellon, and the investment consultant, Marquette Associates. This is consistent with peer practice at similar scale peer funds. The CRS Finance Manager and staff are responsible for planning, budgeting, and performance reporting. This appears to operate effectively and be adequately staffed. Budget reports are provided quarterly to the Board.

CRS Human Resources handles most CRS requirements, working within the City policies and processes and utilizing City information systems. Recruitment and hiring utilizes the City's intake processes, for example, but are conducted by the Director and staff. Employee training and development are also a staff responsibility. In general, human resources works effectively for CRS, although recruiting can sometimes take more time to complete than is desirable.

The current working relationship with the Director and the Board of Trustees appears to be effective and positive, with mutual respect. Although the Board is only an advisor to the City Manager in the Director evaluation and compensation setting processes, there do not appear to be any current issues.

As there has been turnover in the Director position over the past few years, the Board and City Manager have demonstrated the ability to fill the open position on an effective and timely basis. However, there is not a formal succession plan for the Director position.

CRS has a written disaster recovery plan, but it is outdated and could be more comprehensive.

Overall, we recommend Administrative Operations be improved by:

- Developing succession planning and implementing a cross training program for staff to minimize key person risk and enhance staff development.
- Updating the disaster recovery plan.

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### 6. Compliance

As CRS does not have internal legal counsel, and the City Law Department provides all legal services, the Law Department is responsible for monitoring CRS compliance effectiveness. Although there have not been any significant recent incidents where non-compliance was identified, it is not clear that there has been a systematic identification of key compliance requirements and, consequently, that requirements are being actively monitored.

CRS staff monitor contracts on a regular basis and have standard reporting due dates. There have not been identified issues with contractual non-compliance in recent years.

An assigned member of the City Solicitor's Office serves as legal counsel to CRS and its Board and typically participates in all meetings and ensures Board compliance with open meeting requirements.

Overall, we recommend Compliance be improved by:

- Assigning leadership, training, and monitoring responsibilities for compliance to ensure compliance with conflict of interest and ethics policies.
- Developing a repository of risk-ranked compliance requirements.
- Establishing tracking mechanisms to identify and escalate non-compliance.

## Summary of Recommendations

### 1. Legal and Regulatory

#### 1.1 Improve definition and clarity of roles and authorities of:

- The Board of trustees
- Board chair
- Individual trustees
- City Council and Mayor
- City Manager and City Finance Director
- CRS Director

1.2 The City should expand Board of Trustees personnel authorities to align with the Board's responsibilities, for example, naming the CRS Director as a direct report to the Board, with authority to hire/fire, evaluate, and set compensation.

1.3 The City Solicitor should provide the Board of Trustees with independent external legal counsel or establish a policy and process that allows CRS to retain independent external counsel and/or hire internal CRS counsel to address potential conflicts of interest associated with the City Solicitor's representation of other clients on the same matters.

1.4 Confirm the Board's authority, as the named fiduciary, to contract with actuaries, investment consultants, investment managers, custodial banks, benefit providers, and legal counsel, all of which require unique pension and investment expertise.

1.5 The City Manager should allow CRS trustees who are not City employees to vote on CRS procurement decisions; the Board, as fiduciaries, should have final authority on those decisions.

1.6 If the CRS Board is not given authority to hire/fire/evaluate/compensate the Director, work with the City Manager to develop a Memorandum of Understanding that addresses the City Manager's role as a potential fiduciary and formalizes procedures where the Board and City Manager, Finance Director or other officers have overlapping responsibilities (e.g., setting goals for and evaluating the Executive Director); CRS may need to consider options for engagement of independent fiduciary legal counsel to assist with this initiative.

### 2. Governance Framework

2.1 Aggregate and organize the Board policies from all sources into a Board Governance Manual with online access and links to underlying document provisions; include the mission statement, goals, trustee responsibilities, committee charters and the Code of Ethics.

#### 2.2 Develop new policies or formalize current policies and practices for:

- Trustee personal financial disclosures
- Board self-evaluation / Board education policy
- Funding
- Separate investment policy statement for the 115 trust fund that is tailored to its liabilities
- Strategic planning, in coordination with the City
- Collection of claims in securities class actions

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- Succession planning, in cooperation with relevant City appointing authorities
  - Business continuity and resumption
  - Independent governance and benchmarking reviews
  - External communications by Board members
  - Due diligence and reporting for referral of service provider candidates by trustees, along with limits on candidate contacts with trustees during an RFP process
- 2.3 Reduce the size of each committee to three or five members to better utilize trustee time.
- 2.4 Adopt a consent agenda for approval of routine business and reports.
- 2.5 Conduct periodic board retreats for more in-depth discussion on key topics, conducting board self-evaluations and executive director evaluations, and trustee education.
- 2.6 Following implementation of the recommendations in this report, conduct a biennial self-evaluation process, potentially with external assistance; this process should help to inform educational priorities.
- 2.7 Define ongoing training requirements for Board members, including onboarding plan for new trustees and required fiduciary training; link training to board self-assessment findings and the calendar of Board agenda action items.
- 2.8 Formalize a CRS stakeholder communications plan that identifies key stakeholders, communications responsibilities, and messages and objectives.
- 2.9 Issue new system email accounts to be used by trustees for all CRS-related business.
- 2.10 Discuss with the Director and the investment consultant how reporting could be improved and executive summaries better utilized to enhance trustee understanding and insight.
- 2.11 Appoint a Board Audit Committee with oversight of internal and external audits to commission an independent financial audit and obtain internal audit services from the City Internal Audit Department and/or an independent firm; include oversight of enterprise performance and risk in the committee charter responsibilities.
- 3. Investment Program and Operations**
- 3.1 Develop a separate Statement of Investment Beliefs (SIB) to guide development and implementation of the strategic asset allocation.
- 3.2 Develop a liquidity policy as part of the Investment Policy Statement (IPS) to ensure that the cash needs of the organization are effectively and efficiently met.
- 3.3 Develop a separate IIPS for the 115 Trust (Health Care Trust) that reflects the unique liability structure of the 115 Trust.
- 3.4 Extend the time horizon for the strategic asset allocation to 3-5 years and only make changes to the target asset allocation as part of a comprehensive Asset Liability Study.
- 3.5 Include a more comprehensive rebalancing policy in the IPS that describes how rebalancing is linked to the Board's investment philosophy and what the process should be.

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- 3.6 Discuss with Marquette Associates how reporting might be improved through development of an introductory executive summary, with an exception reporting approach, to the quarterly reporting package focused on actual performance compared to the IPS.**

### **4. Pension Operations**

- 4.1 Clarify the Board's responsibilities and role (or lack thereof) in pension and benefits administration.**
- 4.2 Consider if pension staffing resources and capabilities should be improved through implementation of a member contact center telecommunications system.**
- 4.3 Develop a long-term plan with service, performance, and cost objectives, to ensure that member self-service, website redesign, and other improvements, are all developed and implemented in a coordinated manner and achieve desired results.**
- 4.4 Charter a pension administration cost and performance benchmarking report.**
- 4.5 Consult with its actuary and determine if an adjustment to the investment assumed rate of return should be recommended.**
- 4.6 Develop and adopt a formal actuarial and funding policy describing responsibilities and frequency of actuarial and asset/liability study processes and addressing investment, demographic and benefit risks.**

### **5. Administrative Operations**

- 5.1 Develop succession planning and implement a cross training program for staff to minimize key person risk and enhance staff development.**
- 5.2 Work with the City Administration and the Law Department to delegate authority to the CRS Board to engage external counsel to obtain more timely legal support or unique expertise when appropriate. See also Recommendation 1.3.**
- 5.3 Develop a long-term IT plan that identifies future needs.**
- 5.4 Work with the City Enterprise Technology Solutions (ETS) Department to ensure security is adequate and tested.**
- 5.5 Update the documented disaster recovery plan.**

### **6. Compliance**

- 6.1 Assign leadership, training, and monitoring responsibilities for compliance to ensure compliance with conflict of interest and ethics policies.**
- 6.2 Develop a repository of risk-ranked compliance requirements.**
- 6.3 Establish tracking mechanisms to identify and escalate non-compliance.**

## 1. Legal and Regulatory

### Scope of Review

#### 1.1 Funding policies and mechanisms

#### 1.2 Governance structure

- Relationship with City
- Board Composition
- Trustee qualifications and selection criteria
- Trustee indemnification

#### 1.3 Authorities

- Fiduciary responsibilities and authorities
- Oversight authorities
- Statutory authority/limitations
- Resource authorities (budget, staffing and compensation)

#### 1.4 Use of third-party service providers

- Custodian and selection of custodial bank
- Selection of external auditor
- Selection of external actuary
- Selection of outside counsel

#### 1.5 Board meeting requirements

- Transparency requirements (freedom of information and open meetings laws, contracting, reporting)

#### 1.6 Independent audits

#### 1.7 Legal investment requirements

- Investment limitations (prudent expert, prudent person, legal list)
- Non-economic investment requirements (in-state managers, minority and women-owned programs)

#### 1.8 Benefit plan provisions

- Plan participation requirements
- Member eligibility and benefit calculation requirements

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## Standards of Comparison and Findings

### 1.1 Funding policies and mechanisms

#### *Findings*

The CRS Board of Trustees recommends the annual employer contribution based upon the Actuarially Determined Contribution (ADC) and the recommendation of the system actuary. This is prevailing practice.

However, the City has consistently not contributed the full recommended amount. Among 15 participants in the FAS InGov® peer benchmarking database, 80 percent of the funds contribute the full ADC annually and only one other system has not made the full ADC contribution in any of the last five years. This is a lagging practice for CRS; It also exposes the City to increased future pension costs and exposes retirees to the risk that adequate funds will not be available to fully pay future pension benefits.

### 1.2 Governance structure

#### **Relationship with the City**

FAS conducted an analysis of a peer group of 20 county and municipal public retirement systems in the U.S. ranging in assets under management from \$1.2 billion to \$3.0 billion (see Appendix 1 for details). Peer practices provide a reference point for determining prudence of CRS practices. However, the duty of prudence is not a “one size fits all” principle and does not require blindly copying peers. Variations between pension funds (e.g., funding status, plan design, size, staffing, organizational design, authority granted by ordinance or statute, etc.) can require use of different practices.

#### *Findings*

Nonetheless, of most significance, the CRS legal structure is an outlier with respect to Executive Director (ED) and retirement system staff hiring, firing, and reporting structure. Among the peer group of 20 systems:

- CRS is one of three where the ED does not report directly to the Board; and
- CRS is one of four where the benefits function does not report to the Board (one is structured as an investment board).

While being a structural outlier is not automatically negative, it can indicate that authority and responsibilities are misaligned. In addition, where fiduciary functions are performed by officers other than the named fiduciary, it can also create confusion as to who is a fiduciary.

#### **Board Composition and Trustee Qualifications**

#### *Findings*

Compared to other integrated retirement systems, the CRS Board is typical in size, with 9 voting trustees compared with a median of 10 members. Two CRS trustees are required to have experience or qualifications in finance and investments, consistent with most peer funds. CRS elected and appointed trustee terms are staggered to improve continuity, also consistent with peer funds. We discuss this further below.

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CRS trustees serve four-year terms, the most prevalent length among peers. CRS has term limits of three consecutive or non-consecutive terms. It is unusual for a public pension fund in the U.S. to have term limits for its trustees. In our InGov® database, only two of fifteen boards besides CRS have trustee term limits: one limits service to two four-year terms, similar to CRS, and the other to three three-year terms. While term limits can assist in ensuring a board is continually refreshed with new members, it can also cause the board to lose productive, engaged members who could continue to contribute.

### **Trustee Indemnification**

CRS trustees are indemnified by statute for damages and lawsuits arising from fund business through commercial insurance, a prevailing peer practice. However, it appears that the City has not done a comprehensive analysis of whether all City officials who perform fiduciary functions for CRS are named insureds under the insurance and are adequately trained on related compliance duties.



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## 1.3 Authorities

### Fiduciary Responsibilities and Authorities

#### *Findings*

CRS operates under the prudent investor standard, a prevailing practice that could also be considered the leading practice. There are no legal lists of restricted investments that constrain the Board from making prudent investment decisions.

However, as noted above, it is not clear who has fiduciary responsibility for the retirement trust fund in addition to the Board of Trustees and the Director. For example, the CRS Director reports to the City Manager through the Finance Director. Prevailing practice is that the individual or body that the fiduciary chief executive of a pension system reports to would be seen as exercising fiduciary powers and also be treated as a fiduciary. Similar concerns about potential fiduciary status and corresponding liability exposure might also arise for the City Solicitor when exercising control over fiduciary matters regarding selection and compensation of System legal counsel. While FAS does not provide legal advice, we recommend these issues be given further consideration.

Overall, we found numerous cases of ambiguity or misalignment of authority that are inconsistent with the CRS Board of Trustees' fiduciary responsibilities. These include:

- Oversight authorities
- Statutory authority / limitations
- Resource Authorities (budget, staffing and compensation)
- Use of third-party service providers
  - Custodian and Selection of Custodial Bank
  - Selection of External Auditor
  - Selection of External Actuary
  - Selection of Outside Counsel
  - Independent audits

We have summarized these on the chart below using the legend described and provided explanations on the following pages:

#### **Summary of CRS Governance Authorities and Misalignments**

The following table indicates that there are significant limitations on the CRS Board's authority to make key decisions typically made by a fiduciary board. Prevailing practices at peer funds would have the CRS Board of Trustees designated with all the authorities listed in the chart.

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| AUTHORITIES  | CRS Board of Trustees | City         |         |            |     |                |         |              |
|--|-----------------------|--------------|---------|------------|-----|----------------|---------|--------------|
|  |                       | Department   |         |            |     |                | Elected |              |
|  |                       | City Manager | Finance | Purchasing | Law | Internal Audit | Mayor   | City Council |
| <b>CONDUCT</b>   |                       |              |         |            |     |                |         |              |
| Select the CRS Director                                | A                     |              |         |            |     |                |         |              |
| Evaluate Director performance                          | A                     |              |         |            |     |                |         |              |
| Select investment consultant                           | A                     |              |         |            |     |                |         |              |
| Select investment managers                             |                       |              |         |            |     |                |         |              |
| Select custodial bank                                  | A?                    |              |         |            |     |                |         |              |
| Select benefits providers                              | A                     |              |         |            |     |                |         |              |
| Select actuary   | A?                    |              |         |            |     |                |         |              |
| Select legal counsel                                   |                       |              |         |            |     |                |         |              |
| Select fiduciary counsel                               |                       |              |         |            |     |                |         |              |
| <b>SET</b>   |                       |              |         |            |     |                |         |              |
| Set actuarial assumptions                              |                       |              |         |            |     |                |         |              |
| Set assumed rate of return                             | C                     |              |         |            |     |                |         |              |
| Set investment policy/investment beliefs/risk appetite |                       |              |         |            |     |                |         |              |
| Set asset allocation                                   |                       |              |         |            |     |                |         |              |
| Set staffing levels                                    |                       |              |         |            |     |                |         |              |
| Set CRS Director compensation                          |                       |              |         |            |     |                |         |              |
| Set procurement policy                                 |                       |              |         |            |     |                |         |              |
| <b>APPROVE</b>   |                       |              |         |            |     |                |         |              |
| Approve capital / infrastructure spending              | A                     |              |         |            |     |                |         |              |
| Approve CRS operating budget                           |                       |              |         |            |     |                |         |              |
| Approve procurements                                   | A                     |              |         |            |     |                |         |              |
| <b>OVERSEE</b>   |                       |              |         |            |     |                |         |              |
| Investment Operations                                  |                       |              |         |            |     |                |         |              |
| Pension Operations                                     | A                     |              |         |            |     |                |         |              |
| <b>REASSURE/VERIFY</b>                                 |                       |              |         |            |     |                |         |              |
| Obtain external financial audits                       | NA                    |              |         |            |     |                |         |              |
| Obtain internal audits                                 |                       |              |         |            |     |                |         |              |
| Obtain fiduciary audits                                |                       |              |         |            |     |                |         |              |

**LEGEND**

|  |                                   |
|--|-----------------------------------|
|  | Fiduciary has final authority     |
|  | Unclear                           |
|  | Non-fiduciary has final authority |

- A – CRS Board provides advice to decision maker
- A? - Board provides advice with decision ambiguity
- C – Specified in the CSA
- V – Veto authority
- NA – Not applicable; not a current practice

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### Oversight Authorities

In most peer public retirement systems, the fiduciary board has authorities that match its responsibilities and allow the board to prudently provide direction and oversight to the ED and the System. Consequently, at peer funds, the system is adequately resourced, with appropriate in-house staff and infrastructure, and seeks external expert assistance and services as appropriate. Peer boards typically have the authority to approve hiring and compensation levels of key management employees, as well as budgets and major capital expenditures.

Although the CRS Board has apparent authority to designate the custodial bank, actuary and investment managers, process requirements include other signatories. In our opinion, a number of the Board of Trustees' authorities are not appropriately aligned with its fiduciary responsibilities and are all lagging practices that significantly limit the ability of the Board of Trustees to fulfill its fiduciary duties:

- The authorities retained by the City, such as: hiring, firing, and compensating the Director of CRS;
- Having all of CRS employees report through the Director to the City Finance Director as their ultimate appointing authority;
- Procedures that designate the City Manager or other officials as the contract signatory;
- The Finance Director approving selection of the investment consultant and the actuary; and
- Inability to control hiring of external legal counsel on matters where the Law Department has apparent conflicting interests (e.g., also advising other City officials regarding employer contributions, interpretation of authority on pension matters) or lacks appropriate expertise or the ability to respond in a timely manner.

### Statutory Authority/Limitations

In addition to the governing Ohio Statutes, the core legal structure for CRS is described in chapter 203 of the Cincinnati Municipal Code, the Collaborative Settlement Agreement (5-7-2015), the Collaborative Settlement Agreement Consent Decree (10-5-2015), and the Collaborative Settlement Agreement Agreed Order on Board reforms (4-14-2016). As a result of these multiple sets of codes and agreements, the CRS legal structure is more complex than most public retirement systems in the U.S. Trustees expressed difficulty in identifying relevant rules and codes and frustration with different interpretations of ambiguous or overlapping provisions by various stakeholders.

The CRS Governance Manual states in *4. Board Responsibilities, section s.*, "...the Board may: i. Adopt such mortality service and other tables as it shall consider necessary." Trustees stated that after the most recent actuarial experience study, the Board adopted new actuarial assumptions as recommended by the system's actuary, but the City declined to recognize the changes. This is an example of lack of agreement about the actual authorities of the CRS Board and raises questions about the Board's need for independent legal advice.

### Resource Authorities (budget, staffing and compensation)

CRS is required to utilize the City Office of Procurement policies and standard City procurement processes in the selection and contracting for all goods and services. The City policy was changed in the recent past 16 requiring all voting members of each selection committee to be City employees.

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Prevailing practice for a large majority of public retirement systems is that investment-related procurements are done under procedures established by the fiduciary to meet its fiduciary requirement and are exempt from standard government procurement procedures. Prevailing practice recognizes that the entire fiduciary board has associated legal duties that impose collective trustee responsibilities for making prudent procurement selections. This Cincinnati procurement process for CRS, as currently interpreted in the Request for Proposal/Qualification (RFP/Q) Manual, misaligns the authorities of the CRS Board and its members with their shared fiduciary responsibilities.

### 1.4 Use of third-party service providers

#### **Custodian and Selection of Custodial Bank**

Although the CRS Board sits as an advisor on an evaluation committee that is part of the procurement process, actual approval authority for selecting the CRS custodial bank is now exercised by the City Treasurer. At most peers, the Board of Trustees has the authority to select the custodial bank, although in a few cases it is the Treasurer or Controller. This is a critical function that affects a range of pension plan investment functions. This typically results in it being assigned to the entity designated as broadly responsible for overseeing plan investment activities.

#### **Selection of External Auditor**

Among the peer group of 20 similar scale county and municipal retirement systems, CRS is one of three that does not have a separate annual external financial audit. The Ohio State Auditor's Office conducts an annual audit of CRS and other City departments. The results are provided to the City in aggregate, with findings and recommendations for each department. The CRS Board receives results on an informational basis.

The CRS Board could select an external auditor to be able to provide a full independent audit report to provide reassurance to stakeholders, consistent with prevailing practice for peer funds. However, although the CRS Board could select an external auditor, the final decision authority for executing a contract would rest with the City Finance Director and City Manager through the City procurement process. The result is a potential misalignment of function with ultimate authority.

#### **Selection of External Actuary**

Although some members of the CRS Board sit on an evaluation committee that is part of the procurement process, actual approval authority for selecting the CRS actuary rests with the City Manager because the City Manager must approve all procurement contracts. CRS is the only system in the FAS InGov® database where the board of trustees does not have final approval of the actuary selection. Again, this is another misalignment of responsibility and authority that also creates ambiguities about who has exposure to fiduciary liability.

#### **Selection of Outside Counsel**

Unlike most of its peers, CRS lacks the authority to hire its own legal counsel on investment and fiduciary duty matters. That power is reserved for the City Solicitor. Given the dispersion of final decision authority throughout City government for issues that relate to management of the CRS, this presents some unique

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challenges. While FAS is not able to provide legal advice, we flag several issues that appear to merit independent legal review.

Regarding representation of CRS on issues which involve potential Law Department conflicts of interest (such as approval of the employer contribution, interpretation of ambiguous authority provisions, engagement/termination of the CRS Director and other fiduciaries, etc.), it is important to note that in many states a public pension plan lawyer's professional duties, when involved in representation on plan fiduciary matters, may run to the pension plan's participants as the ultimate client, rather than to the plan sponsor, governing board or final decisionmaker. Accordingly, the Law Department's analysis of potential conflicts when advising CRS may need to be done from a different perspective than is typical for other City departments represented by the Law Department. It might require the City Solicitor (e.g., when the Law Department has advised a different City client on the same issue) to create internal fire walls, retain independent counsel for CRS, or adopt a policy that establishes parameters for delegation of authority to CRS to select independent counsel. Furthermore, provision of legal advice to other City officials on the exercise of CRS fiduciary functions (whether or not those officials have been designated as CRS fiduciaries) might trigger an exception to the attorney-client privilege. That could potentially make some otherwise privileged communications (on matters like interpretation of ambiguous CRS authority or approval of employer contributions) between the Law Department and City Manager, Finance Director, Mayor or City Council open to access by pension fund participants or other plan fiduciaries.<sup>1</sup>

### 1.5 Board meeting requirements

CRS open meeting exceptions are set under state law and are more limited than most peers, only allowing executive session for personnel evaluations and litigation. Prevailing practice includes exceptions for:

- Information security/cybersecurity matters;
- Contract negotiations; and
- Disaster recovery/ business interruption.

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<sup>1</sup> For additional information on the issues flagged in this section, see:

Sections 1.7 and 1.13 of the Ohio Rules of Professional Conduct <http://conduct/>;

<https://www.supremecourt.ohio.gov/docs/LegalResources/Rules/professional/professional.pdf>;

Fiduciary Exception to Attorney-Client Privilege for ERISA Pension Plans;

[e0c3d892bb554b75c1a41204f4812b98.pdf](https://www.pillsburylaw.com/images/content/2/3/v2/2359/8549563D9FC83BE742E2C8D622B85648.pdf) ([azureedge.net](http://azureedge.net))

The Fiduciary Exception to the Attorney-Client Privilege;

<https://www.pillsburylaw.com/images/content/2/3/v2/2359/8549563D9FC83BE742E2C8D622B85648.pdf>

The Fiduciary Exception to Attorney-Client Privilege;

<https://www.plansponsor.com/the-fiduciary-exception-to-attorney-client-privilege/>

<https://prfirmppwwcdn0001.azureedge.net/azstgacctpwwct0001/uploads/e0c3d892bb554b75c1a41204f4812b98.pdf>

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### 1.6 Independent audits

Among the peer group of 20 similar scale county and municipal retirement systems, CRS is one of three that does not have a separate annual external financial audit. Prevailing practice is that financial audit results are included in the system's annual comprehensive financial report (ACFR). CRS financial results are included in the City's ACFR and the State audit reports any significant or material findings; however, CRS financial results are in Required Supplemental Information and are not reflected in the Auditor's Opinion.

### 1.7 Legal investment requirements

#### **Investment limitations (prudent expert, prudent person, legal list)**

There are no legal lists of restricted investments or related restrictions that appear to constrain the Board from making prudent investment decisions.

#### **Non-economic investment requirements (in-state managers, minority and women-owned programs)**

CRS has a Municipal Code preference for consideration of Cincinnati-based investment firms when prudent, which is an outlier provision compared to its peer group. However, there is also a prudence qualifier that avoids creation of fiduciary duty compliance issues.

### 1.8 Benefit plan provisions

#### **Plan Participation Requirement**

Plan participation in most peer systems is determined by the plan sponsor, often defined in statute or municipal code. CRS is consistent with this practice, with participation requirements articulated in the Cincinnati Municipal Code Title II – Boards, Commissions, Institutions, Chapter 203 Employees Retirement System, the Collaborative Settlement Agreement, and Pension Consent Decree of 2015.

#### **Member Eligibility and Benefit Calculation Requirements**

Similarly, eligibility and benefits calculation requirements are also typically defined in statute or municipal code. CRS is again consistent with peers; these are also defined in Title II Section 203, the Collaborative Settlement Agreement and Pension Consent Decree of 2015.

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### Legal and Regulatory Recommendations

#### CRS should:

- 1.1 **Improve definition and clarity of roles and authorities of:**
  - **The Board of trustees**
  - **Board chair**
  - **Individual trustees**
  - **City Council and Mayor**
  - **City Manager and City Finance Director**
  - **CRS Director**
- 1.2 **The City should expand Board of Trustees personnel authorities to align with the Board's responsibilities, for example, naming the CRS Director as a direct report to the Board, with authority to hire/fire, evaluate, and set compensation.**
- 1.3 **The City Solicitor should provide the Board of Trustees with independent external legal counsel or establish a policy and process that allows CRS to retain independent external counsel and/or hire internal CRS counsel to address potential conflicts of interest associated with the City Solicitor's representation of other clients on the same matter.**
- 1.4 **Confirm the Board's authority, as the named fiduciary, to contract with actuaries, investment consultants, investment managers, custodial banks, benefit providers, and legal counsel, all of which require unique pension and investment expertise.**
- 1.5 **The City Manager should allow CRS trustees who are not City employees to vote on CRS procurement decisions; the Board, as fiduciaries, should have final authority on those decisions.**
- 1.6 **If the CRS Board is not given authority to hire/fire/evaluate/compensate the Director, work with the City Manager to develop a Memorandum of Understanding that addresses the City Manager's role as a potential fiduciary and formalizes procedures where the Board and City Manager, Finance Director or other officers have overlapping responsibilities (e.g., setting goals for and evaluating the Executive Director); CRS may need to consider options for engagement of independent fiduciary legal counsel to assist with this initiative.**

## 2. Governance Framework

### Scope of review

#### 2.1 Conduct Business

- Role of board officers
- Board committee structure
- Board and committee charters
- Use of advisory boards
- Board self-assessment
- Board performance
- Board onboarding
- Continuing education
- Trustee time commitments
- Stakeholder communications

#### 2.2 Set Direction and Policy

- Powers reserved for the board
- Board policies
- Board focus on strategy

#### 2.3 Approve then Delegate

- Direct reports to the board
- Delegations to staff and third parties
- Management of/response to litigation

#### 2.4 Oversee Execution

- Access to information and reporting to the board
- Enterprise risk oversight

#### 2.5 Verify

- Independent reassurance



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## Standards of Comparison and Findings

### 2.1 Conduct Business

#### Role of Board Officers

In public retirement systems, leadership responsibilities usually lie primarily with the board chair and vice chair, board committee chairs, and the executive director. It is the responsibility of this leadership group to insist on maintaining good trustee and senior executive conduct.

Leading practice also includes the development of standard due diligence review questions that provide guidance for boards and committees when considering key decisions and recommended actions. Recurring board agenda items are scheduled in a board agenda calendar at leading practice public retirement systems to ensure items are not overlooked and issues are properly sequenced.

The board chair typically has seven major duties:

1. Preside over meetings, approve the agenda for those meetings, and maintain order in conducting the business of the board.
2. Oversee the setting of the system's strategic agenda and priorities.
3. Oversee board communications, information requests, and collaboration with the executive director.
4. Ensure the board receives adequate and appropriate materials in a timely fashion.
5. Monitor board performance and counsel board members.
6. Appoint and rotate terms of committee members and oversee board/committee coordination.
7. Act in coordination with the executive director as spokesperson for the board and as an ambassador to stakeholders.

The vice-chair, whether for the full board or a committee, acts as chair in the absence of the chair.

1. The vice-chair may lead selected board initiatives, at the discretion of the chair.
2. At some funds, where the vice-chair serves as chair-elect, the vice-chair prepares to eventually take on the role of chair.
3. Some funds also encourage selection of the vice-chair so as to provide balanced leadership representation across participant groups.

The prevailing practice is for a board to elect its chair from among sitting members, although in some instances the chair is appointed by the governor or another elected leader, or an ex officio member is the standing chair. When the board elects its chair, the prevailing practice is for all trustees to be eligible for nomination and election as chair or vice-chair/chair-elect.

#### *Findings*

CRS Board leadership appears to be effective, and most trustees state that the meetings are well run and collegial, and that they feel comfortable asking questions. The Board might benefit from developing a set of questions to always ask on specific topics, e.g., audit, investment, benefits.

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### Board Committee Structure

Well-functioning board committees can significantly enhance a board's efficiency and effectiveness. Each committee should have a strategic focus, as defined by its charter, and must be able to exercise important oversight functions. Insight is essential to both effective direction-setting and oversight.

Committees are empowered to research issues and options, obtain the advice and recommendations of staff and consultants, and make recommendations to the full board. Committees allow board members to exercise a greater level of decision due diligence than the board likely could as a whole.

It is not unusual for some trustees who are not committee members to regularly sit in meetings and participate in discussions, although usually they are not allowed to vote. While this can be helpful for individual trustees to educate themselves on issues, which is beneficial, it can sometimes be a sign that some trustees do not trust the due diligence and recommendations of the committees, which can be a cause for concern.

It is prevailing practice for the board chair, in consultation with each member, to select and appoint trustees to each committee, with the approval of the entire board. It is also prevailing practice for each newly appointed committee to elect its own chair and vice chair at their first meeting.

The committee structure should be aligned with the system functions and organization structure to facilitate:

- Effective comprehensive oversight of the system's vital functions (e.g., asset management, pension administration, health care, financial management, etc.), and
- Consistent and constructive committee-board, committee-staff, and committee-consultant interaction.

Boards of state retirement systems usually have no more than 6-7 standing committees; over 90% of these boards utilize committees. Smaller county and municipal systems in CRS' peer group often have 2-4 standing committees; up to half operate with no committees at all, but usually meet more frequently as a full board.

The most common standing committees are Investment and Audit (often including Risk). Nearly all large integrated public funds have these two committees, and about half of CRS' peer funds have an Investment Committee and 30% an Audit Committee. The next most prevalent among smaller funds are Board Governance; Finance and Administration; Personnel and Compensation; and Actuarial and Benefits. There are sometimes also committees that focus on disability/appeals or legislation, but these are not prevalent.

Committees should be structured to have a reasonably balanced workload, both from the standpoint that all committees should have significant responsibilities, and the assignments should result in a steady workload over time without ongoing excessive workload or long periods when the committee is not required to meet. Each committee should be as small as practical; a good rule of thumb is three to five members per committee (with an odd number to avoid tie votes), with the Investment Committee potentially having up to seven members.

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### *Findings*

CRS trustees generally believe the board committees are functioning well. There had been three standing committees: Investment; Governance; and Performance Evaluation, with two recurring ad hoc committees, Benefits and Elections. The Benefits Committee was recently designated as a fourth standing committee. This is generally consistent with peers.

“Committees of the whole” provide the illusion of delegation and defeat the purpose of appointing a committee; a committee of the whole is often an indication of the topic being too important/ sensitive for delegation or that there is a dysfunctional governance dynamic which should be recognized (e.g., lack of trust, micromanagement, need for added trustee expertise or training).

The CRS Investment Committee is a committee of the whole. While this is not unusual, in effect committee meetings are a portion of the full board meeting. The other committees all have seven members, meaning only two trustees are not members of each specific committee. As mentioned, committees are usually three to five members in size; CRS should consider streamlining the size of membership of each committee to use trustee time more effectively.

### **Board and Committee Charters**

Most public retirement systems have either bylaws, a board charter, or both. There is not a standard prevailing practice. Regardless of what it is called, the bylaws or board charter usually include such information as:

- Background, organizational purpose, and authorities
- Board composition and structure
- Code of conduct and ethics
- Role of the board and powers
- Meetings
- Board officers
- Duties and responsibilities of board members
- Delegations and reporting relationships
- Committee structure
- Board self-assessment process
- Board continuing education process

Committee charters should describe all key aspects of the committee’s governance and operations, including:

1. Purpose and authority (including officer elections)
2. Composition (including any required qualifications and staff liaisons)
3. Meeting frequency and process
4. Responsibilities
5. Reporting process to the full board
6. Self-evaluation requirements
7. Charter review and update frequency and history

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### *Findings*

Collectively, the CRS Governance Manual, most recently updated in December 2021, the CRS Rules of the Board of Trustees, most recently revised in October 2023, and the individual committee charters address nearly all the items mentioned above. Board and committee self-assessment are the only items not included in the CRS Board policies.

However, it would be helpful if these documents, as well as any relevant provisions from the CSA, were consolidated into a single Governance Policy Manual that was well organized and easy to navigate. This could also help address any overlaps or seeming inconsistencies between the CSA and other policies.

### **Use of Advisory Boards**

Most state public pension funds do not utilize advisory boards or committees, but rather rely on the expertise of the trustees, staff, and external advisors. Advisory boards or committees, where they do exist, are usually either a group of investment experts (e.g., Virginia Retirement System, Texas Employees' Retirement System) who advise on investment policy and/or specific investments, or they represent system members and annuitants and advise the board on related issues (e.g., Delaware Public Employees' Retirement System).

Among the twenty county and municipal systems in the CRS peer group, there are three examples of advisory boards who provide expert advice to the full board of trustees.

The Jacksonville Police and Fire Pension Plan has a Financial Investment and Advisory Committee whose duties are "to provide advice to the Jacksonville Police and Fire Pension Board of Trustees on: (1) Financial matters; (2) Actuarial practices and assumptions; (3) Investment strategy and policy; (4) The selection of outside financial services providers, including investment managers and advisors; and (5) Such other matters as requested by the Board." Jacksonville Police and Fire also has an Advisory Committee, consisting of active and retired members, who address retirement applications and special requests, distributions, and other member requests on behalf of the board.

The Denver Employees Retirement Plan has an Advisory Committee comprised of four active or retired members whose role is to present "to the Retirement Board suggestions and questions which are in the interest of the general membership of the Denver Employees Retirement Plan."

The Dallas Police and Fire Pension Fund has an Investment Advisory Committee (IAC) consisting of four trustees with extensive investment expertise and six outside investment professionals. According to board policy the majority of the IAC must be outside investment professionals. The IAC advises the board regarding the search and selection process for investment managers and other matters that the Board may request. It should be noted that the DP&F Pension Fund has a small internal investment staff consisting of a Chief Investment Officer plus two investment officers.

### *Findings*

CRS does not currently utilize an advisory board, consistent with most peers. Although an expert investment advisory committee could potentially be helpful, given that CRS does not have an internal investment staff, relies extensively on its investment consultant, and has not found it easy to attract investment experts to its Board, appointment of an advisory board is not recommended at this time.

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### Board Performance

#### Agenda Setting

Setting the agenda is a strategic decision that essentially determines how the board and executive will spend their limited time. Prevailing practice is for Board meeting agenda content, development, and documentation to be the responsibility of the board chair and the executive director (ED) primarily. Individual board members, through the chair, should have the opportunity to suggest agenda items. In the case of committees, the committee chair and appropriate staff liaison collaborate to set the agenda, often with input from the ED if the ED is not the committee's staff liaison. Unfortunately, agenda setting is too often seen as an administrative rather than a strategic decision.

Oversight can be most efficiently addressed using exception-based reporting. Oversight is a key role of committees rather than the full board, with each committee escalating important exceptions to the board, as appropriate. This should free up time for the board's time to be focused on policy decisions ("set" or "approve") vs. oversight or informational items.

Leading practice is to organize and prioritize meeting agendas by powers reserved, i.e., conduct (e.g., ED evaluation, board self-assessment), then set policy items, then recurring approvals, (e.g., familiarity with due diligence processes, then oversight (performance monitoring) and finally verification of the reliability of information and advice.

To be leading, the board should spend its time in robust discussion about strategic issues and policies and effective delegations and not get bogged down in the details of monitoring of day-to-day investment performance and operations. The details should be readily available, but they should not be the board's focus. In addition, the board should have an effective source of independent reassurance such that they can rely on management reports and the system of controls.

#### *Findings*

The CRS agenda-setting process is consistent with prevailing practice. The Director drafts an initial agenda, sends it to the Board Chair and Vice Chair, along with the minutes from the prior meeting, and subsequently has a call to discuss and finalize the agenda before it is sent out.

At CRS, much of the oversight work is carried out by the Board committees, which allows the full Board to focus on longer-term issues, consistent with leading practice.

#### **Legislative updates**

The board chair and ED should collaborate on agenda setting and be in regular contact between meetings.

As they arise, legislative updates are typically discussed with the board chair and presented by the ED. The ED should be in regular contact with the chair on legislative matters so there should be no surprises. Generally, the ED should take no action or speak on legislative issues (other than providing factual information about the system) without being guided by defined responsibilities and the input of the board or board chair.

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### *Findings*

The CRS Director advises the Board of upcoming legislative items being considered by City Council via email and prepares the item for discussion at the next Board meetings. Sometimes the Board may raise an issue and the staff takes it to the City. CRS has generally considered this process to be effective. The CRS Board Chair and Vice Chair also follow Council agendas.

### **Consent Agendas**

A consent agenda is a board meeting practice that groups routine business and reports into one agenda item. A consent agenda can be approved in one action, rather than filing motions on each item separately. Using a consent agenda is a standard peer practice that can save boards anywhere from a few minutes to a half hour. A consent agenda moves routine items along quickly so that the board has time for discussing more important issues. Consent agendas are a helpful efficiency tool for items which require board approval but do not usually require active board or committee discussion, such as approval of meeting minutes. Items may be removed from the consent agenda and moved to the regular calendar at the request of any trustee. Attention to Open Meetings Act compliance must be included in design and use of consent agendas.

### *Findings*

The CRS Board does not currently utilize consent agendas but should consider if their use could improve Board efficiency. Instituting a consent agenda for recurring administrative approvals (e.g., approval of minutes, travel expenses) and other items that are not expected to require Board discussion could potentially help streamline meetings and allow more time for priority discussion topics.

### **Meeting Frequency**

Peer system boards usually meet either approximately 10-12 times annually or 4-6 times. There is no dominant peer practice. With increasing delegation to staff, however, there has been a trend over the past decade for some boards that had been meeting monthly to meet less frequently. For example, CalPERS has recently moved from regular monthly meetings to every other month, with special meetings as required. Boards that have not delegated manager selection typically meet more frequently, often as frequently as monthly (and sometimes more often on an hoc basis when needed to consider an investment in a time-limited opportunity).

### *Findings*

As shown in the table below, CRS meets more frequently, monthly, but has shorter meetings, at two hours. As a result, the time spent in meetings by the CRS Board is consistent with the average of this InGov® peer group at 24 hours annually.

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| FAS InGov® Data   | Average | Minimum | Maximum | Median | CRS |
|---|---------|---------|---------|--------|-----|
| On average over the past two years, how many times has your Board met annually as a full Board? | 8.2     | 4       | 13      | 7      | 12  |
| What is the average duration of a regular full Board meeting, in hours?                         | 3.1     | 1       | 7       | 3      | 2   |

### Board Retreats

It is prevailing practice for the board to conduct periodic retreats for more in-depth discussion, typically at least once annually. Topics addressed at retreats often include: asset/liability management and/or asset allocation; strategic planning and long-term agenda setting; investment program reviews; project reviews (e.g., IT, facilities, etc.) or other program reviews (e.g., health care, insurance, long-term care, etc.); legislative agenda; board governance topics, e.g., review charters, policies, etc.; board self-assessment and performance discussion; board continuing education program planning; executive director / CEO or other Board direct report evaluations; and outside speakers on various topics as part of continuing education.

#### *Findings*

The CRS Board does not conduct an annual retreat but could consider if an annual meeting focused on discussing strategy, board performance, continuing education, and other longer-term topics could be helpful.

### Committees

At large public retirement systems, most board members spend more time in committee meetings than in full board meetings, as the committees play an important role in due diligence on policy decisions and providing ongoing oversight of the system. As a result, full board meetings typically last 2 to 5 hours at most systems.

Committees typically do the bulk of the work of the board, so it is important to ensure committees are effective. For example, based upon a FAS benchmarking study of large public retirement systems, a typical trustee, on average, spent 74 hours per year in committee meetings of which he or she was a member, versus 43 hours annually in full board meetings.

In the FAS InGov® peer benchmarking database of 18 public retirement systems ranging from large to small, the average time spent in full board meetings is 25 hours annually and also 25 hours in committee meetings.

#### *Findings*

CRS only spends about 14 hours in committee meetings each year.

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### Public Meetings

Increasingly, public sessions of board meetings are live streamed on the internet to provide access to stakeholders; video recordings of meetings are available on the system website for maximum transparency. Public meeting documents are made available on the website when they are provided to trustees and are retained as archive files available to the public.

#### *Findings*

CRS practices are consistent with these prevailing practices.

### Board Self-Evaluation

Good governance includes a focus on continuous improvement. It is also a fiduciary duty to stay up-to-date and develop competencies. With most public retirement boards, this includes a regular self-evaluation process, typically either annually or biennially. Board self-evaluations are common practice at public corporations. For example, all companies listed on the NYSE are required to conduct an annual board self-evaluation.

An effective self-evaluation process focuses on identifying and fixing problems, develops buy-in for changes, and develops a roadmap for continuous improvement. Although many boards simply obtain feedback regarding full board performance, leading practice is to also obtain input on each individual committee as well. Some boards with a well-established self-evaluation process also include an upward evaluation component, where the senior leadership team provides input on board performance.

At a minimum, a senior staff member, typically the CEO or the general counsel, is the primary liaison with the board self-evaluation leader, usually the board chair or governance committee chair. If the self-evaluation is conducted without external facilitation, this senior staff person is typically the facilitator. If an external facilitator is engaged, the senior staff person will usually assist the board in the facilitator's selection and engage with the facilitator on behalf of the board.

Most self-evaluation processes include an initial survey questionnaire that trustees (and sometimes senior staff) are asked to complete. Areas of focus typically include basic requirements such as fulfillment of fiduciary responsibilities, leadership effectiveness, board and committee meeting effectiveness, board communications, and interactions with staff and third-party providers. If there are known issues or areas of concern that may have triggered the initiation of a self-evaluation process, such as perceived poor board performance or stakeholder criticism, questions addressing those specific areas should certainly also be included.

The self-evaluation survey will also include questions linked to the strategic and operational plans of the system, executive succession planning, and, assuming the timing can be supportive of the Executive Director performance evaluation, the Executive Director's goals and performance to understand the views of the trustees regarding his performance.

Finally, the self-evaluation process should help identify subject areas that should be addressed through onboarding and continuing education and provide a direct linkage to the board's onboarding and continuing education program.



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### *Findings*

The current practice at CRS is to discuss whether the Board's objectives are being met during the Director's annual evaluation process. This is appropriate and results in a Board discussion of its performance. However, a more deliberate, structured self-evaluation process that identifies specific Board performance improvement opportunities as well as trustee education needs could lead to more actionable and impactful results.

### **Board Onboarding**

At most retirement systems, onboarding is typically a one-time event (2-6 hours) of "meet and greet" presentations and review of a thick policy manual, often without much context. However, while legal duties of trustees apply from day one, it takes time for most trustees to get up-to-speed on what are often novel responsibilities. New trustees have immediate, individual learning needs that may require more than traditional onboarding, even if it is supplemented with external conferences. Most trustees describe the process of learning basics of their role as overwhelming and like "drinking from a fire hose."

The initial onboarding experience should be considered as only part of the first year of a trustee's continuing education program. Training takes place within a paced, targeted, and customized process intended to bring the new trustee up to speed as quickly as possible and address each trustee's unique needs in a more understandable way.

The onboarding materials should orient the new trustee to the retirement system as a public entity (e.g., governing legislation; open meetings and public records laws; fiduciary duties; powers reserved for the Board and powers delegated; the employer's roles; pension plan design and rules; the retirement system organization and staff; Board and committee structure and operations; ethics and standards of conduct; Board policies; key external service providers).

The onboarding process should also utilize materials from the core continuing education program, as appropriate, to address an individual new trustee's requirements or needs. Each trustee will bring their own skill set to the position, and not all trustees will always need the same training.

In recognition of the wide range of learning needs that most new trustees will have, a board might consider a more significant number of required hours for training in the initial year, or alternatively, the first two years. A longer onboarding process with an individualized plan can most easily be tailored to each trustee's individual needs.

### *Findings*

Onboarding has been minimal for new trustees over the past few years. Newer trustees identified improving onboarding as a high priority need.

### **Continuing Education**

Continuing education and exposure to pension industry context and practices is an essential part of equipping trustees to fulfill their fiduciary duties. Fiduciaries need to understand peer practices and stay current with evolving changes.

It is a leading practice for a board education program to be designed for the specific system and to address a variety of trustee knowledge and skills-building needs. A leading practice program typically includes

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both new trustee onboarding and trustee continuing education.

The core component of trustee continuing education, which is a standard offering for the full Board, should cover the fundamental responsibilities of each trustee, including key Board decisions and oversight duties. For example, a core curriculum would typically include basic understanding of fiduciary duties; pension fundamentals; actuarial concepts, investment governance and oversight; benefits governance; administrative oversight; independent reassurance; and other pension governance functions.

While the core continuing education program should be part of the initial trustee onboarding within the first year, it should also be folded into periodic “refresher” training sessions every several years in full Board or online training sessions. The core training materials should also be readily accessible to all trustees as reference materials, ideally through an online digital Board portal.

Core continuing education also typically includes on-site training by key service providers, such as the actuary and investment consultants, as well as expert internal staff. Timing of training sessions is also a consideration. For example, sessions which review the role and characteristics of each asset class in the fund’s portfolio, or a potential new asset class, could be scheduled prior to deliberations on updating the investment policy or asset allocation. The timing of specific education could be scheduled on the Board’s annual calendar to coincide with important Board deliberation topics throughout the year.

Advanced education might be provided as a “menu” of possible training sessions from which a trustee could choose to meet relevant individual interests or address skill gaps (for example, perhaps board chair skills development or cyber security). Some training might be most efficiently provided through external programs such as conferences, webinars, online learning, or other venues and media.

Elective training will often include an extensive selection of investment-related offerings to help trustees cope with the changing and increasing complexities of modern institutional portfolios. Trustee education should offer opportunities to enhance understanding of all aspects of the retirement system’s governance, policies, and programs. The Board (or the Governance Committee) should work with staff to develop an education program that fits the needs of trustees and the system.

An effective trustee education program develops individual trustee education plans and tracks trustee education program participation and completion rates. Compliance with training plans should be reported back to the Board. Education programs should also provide a mechanism for trustees to give feedback to the system based on their perceptions of the effectiveness of attended outside programs. This would help to inform other trustees and could include recommendations on which programs are worth attending. Trustee evaluations and reporting on education to the full Board can be an important part of an effective education program.

A leading practice trustee education program can include a number of planning elements and other features, including:

1. Individualized learning plans and calendars for each trustee.
2. Established expectations for hours and topics of continuing education, with attendance tracking and reporting back to the board
3. Mentoring, with each new trustee assigned to an experienced trustee mentor. An executive staff member might also be assigned.
4. Curriculum identified and organized by subject area, using a variety of programs and sources to

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ensure exposure to the full range of peer and evolving practices and diverse perspectives:

- a. Internally delivered education sessions incorporated into meeting agendas
- b. Annual retreats or special meetings that feature education
- c. External, in-person conferences
- d. Staff, service provider and third-party presenters
- e. External virtual conferences
- f. Online training

### *Findings*

CRS does not currently have a structured trustee continuing education program. Trustees reported spending, on average, about 8 hours over the past year on continuing education, with a maximum of 12 hours for one trustee. Most trustees identified continuing education as a high priority need and expressed support for developing a structured program.

### **Trustee Time Commitments**

On average, the CRS trustees report spending about 125 hours per year on CRS business, including Board and committee meetings, continuing education, and other activities. As with most public retirement system boards, the range of time spent varies significantly, with the Board and committee chairs generally spending more time than the other trustees.

### *Findings*

CRS trustee time commitments appear to be consistent with practices at peer funds. However, there are opportunities for several trustees to be more engaged in Board activities based upon reported time spent.

### **Stakeholder Communications**

As a fiduciary, the board has an obligation to provide accurate reports to its fund beneficiaries and employers on plan status and performance, as well as submit statutorily required statement of funds reports to participants, financial statements and various other reports to participants, legislative oversight bodies and the public. In addition, accurate stakeholder understanding of pension fund issues is critical to maintaining support for practices that deliver participants' retirement security, as well as for the plan's sustainability and success. All stakeholder groups should be included in access to information and dialogue, generally through the director and senior staff.

A board policy commonly establishes communications roles for trustees and staff to ensure interactions with stakeholders (including media and legislators) are appropriate and that the information provided is accurate and consistent. The director is normally the designated spokesperson for most matters.

The board chair is usually the spokesperson for matters involving board decisions and situations where it is inappropriate for the director to speak on behalf of the board. Board policy typically directs that other trustees speak on behalf of the board only when authorized to do so by the board. If an individual trustee is compelled to comment on a board matter, it is important to be clear whether the trustee is voicing a personal opinion or speaking for the board.

Peers' policies commonly require trustees to inform the director if they are contacted by the media, elected officials, vendors, or other stakeholders. Such a policy enables the board and leadership to have

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a more complete picture of matters that interest stakeholders, to provide timely and consistent responses, and develop important messages.

In a public retirement system, it is important to engage key stakeholders such as beneficiaries, active members, retirees, and the legislature in the strategic planning process, both in the formulation of the plan and in its communication. This is especially important for crisis communications (e.g., in the event of a cyber security breach, unexpectedly large investment loss or office damage from a weather event). Transparency and consistent messaging are important.

Trustees are typically instructed to not provide specific advice regarding the rights or benefits to which an individual fund participant may be entitled. They also should not have access to individual member information nor divulge information about individual participants in the fund or other confidential matters they may encounter as they carry out their responsibilities. Generally, trustees do not have access to any individual member account information, nor should they ask to access such information, though aggregated information may be included in reports.

Prior to engaging in external communications on sensitive issues, the director is usually expected to consult with the board or board chair, as circumstances allow. Some policies require that the board or board chair review press releases before they are disseminated to ensure that they accurately reflect the board's views. Other funds have delegated this function but expect the board to be updated in real time.

In addition, trustees should each have a system-specific email account. There are several reasons for this: first, to clarify the capacity in which they are communicating (especially if they wear "multiple hats"); secondly, to keep personal and public accounts separate. Are they speaking as a trustee, a private citizen, a legislator, law enforcement officer or in their official HPRS capacity? Public retirement systems may receive public requests for access to information and trustees may have their email accounts, if used for official business, included in such litigation discovery or public records requests. For these reasons, the prevailing practice is for the system to provide system-dedicated email accounts for trustees to be used only for system business.

### *Findings*

Current CRS communications with stakeholders appear to be adequate, although there may be an opportunity to improve communications with retirees. Although there is a Member Communications Policy, there is not a documented plan for communications that indicates who are key stakeholders, who is responsible for primary communications, what are communications objectives, and what are the rules and guidelines.

The CRS trustees who are not City employees utilize their personal or business email accounts for CRS business. For the reasons described above, each CRS trustee should be provided with a CRS email account for use on system business.

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## 2.2 Set Direction and Policy

### **Powers Reserved for the Board**

The Powers Reserved for the CRS Board of Trustees include those powers granted by the plan sponsor that are expressly reserved for the Board and not delegated by the Board to the Director or a third party. Powers reserved can be considered one of five types:

1. Conduct the business of the Board of Trustees
2. Set direction and policy
3. Approve key decisions and prudently delegate execution
4. Oversee execution of Board direction within policy
5. Obtain independent verification of the reliability of reports received and issued

As discussed in *1.3 Authorities*, the powers delegated to the CRS Board by the plan sponsor are significantly more limited than prevailing practice at peer municipal public pension funds. The CRS Board does not have final authority to: select the CRS Director and evaluate Director performance; select the investment consultant; select the custodial bank; select benefits providers; select the actuary; select legal or fiduciary counsel; approve staffing levels or CRS Director compensation; set procurement policy; approve capital spending; or charter internal audits. These are all usually the responsibility of the fiduciary board of a system.

### *Findings*

Within the constraints of its authorities, the CRS Board appears to generally utilize its powers reserved effectively. However, as cited earlier in this report, there should be more clarity about those authorities and responsibilities of the Board vis-à-vis City officials and agencies.

### **Board Policies**

Policy setting is one of the key powers reserved for a board. A comprehensive set of governance policies provides consistency and guidance to the board and staff, establishing clear limits or standards to be met in the execution and implementation of board-approved objectives.

In establishing policies, it is important that trustees periodically benchmark their governance practices against that of their peers. Peer benchmarking requires ongoing education regarding evolving practices. This can be accomplished through structured board training and education programs. Peer benchmarking also requires fiduciaries to actively seek the advice of consultants, counsel and/or other experts who have access to such information. Reviewing and analyzing peer practices can assist fiduciaries in determining not only how their fund or system's governance practices align against their peers, but in identifying gaps and strengthening the system's governance practices and policies.

A prevailing practice among pension funds is to establish a governance policy framework and compile governance policies in a governance policy manual. The governance policy manual is a central repository for all of the board's governance documents and should be user-friendly, since it is an important resource for the board, staff, professional service providers, participants, and stakeholders.

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### *Findings*

As mentioned, the core governance functions of CRS are contained in chapter 203 of the Cincinnati Municipal Code, the Collaborative Settlement Agreement (5-7-2015), the Collaborative Settlement Agreement Consent Decree (10-5-2015), the Collaborative Settlement Agreement Agreed Order (on Board reforms 4-14-2016), the CRS Governance Manual, CRS Board Rules, Article XV of the Cincinnati Administrative Code, CRS Board Policies and CRS Committee Charters.

FAS reviewed current CRS Board policies and compared them to peer funds and practices. Our overall determination is that CRS governance policies are comprehensive and, with a few exceptions, appear to be both appropriate and consistent with prevailing practice amongst peer funds. Nevertheless, even when consistent with peer practices, there can be opportunities to improve policies and practices. FAS recommendations have been developed with that perspective in mind.

In many instances, these documents contain overlapping provisions related to governance which are not always consistent. The end result is a large and complex set of CRS governance provisions, which presents a daunting challenge to trustees, staff and stakeholders. FAS believes that consolidation of the various CRS governance provisions into an updated CRS Governance Manual could bring greater clarity to CRS governance matters and improve CRS effectiveness.

### **Board Focus on Strategy**

Setting the strategy of the system is a critical board responsibility. A robust strategic plan results from thinking strategically about the future and what the organization must do to successfully adapt to a rapidly changing environment. It starts with defining the system's challenges and opportunities, including a realistic assessment of the system's strengths and weaknesses.

A strategic plan is more than a project list and a timeline or a budget. The purpose of the plan is to develop a common understanding of the capabilities the system will require to become more resilient and agile and then develop a plan to deploy those capabilities towards a commonly-understood set of goals. Requisite capabilities (such as people and organization, policies and processes, systems and information for decision-making, facilities, software and equipment) should be defined as key metrics, all of which focus the system on desired strategic outcomes.

As a trust established for current and future beneficiaries, a public retirement board has the responsibility to think and act in consideration of long-term implications. The strategic plan should provide a practical roadmap for at least the next three to five years. It should describe the system's vision and mission, its strategic priorities, guiding principles and specific, measurable goals or outcomes to be achieved. It can take a year or more to fully develop a shared understanding, acceptance and commitment to the plan.

The strategic plan serves as the yardstick by which to measure actual performance compared to expected performance. The strategic plan should guide everything from agenda and policy setting to performance evaluations. It can also be an important tool for keeping the City Council and Mayor informed about capabilities the system plans to develop, the expected resources required, and why.

A leading practice amongst boards is to keep plan participants and other stakeholders reasonably well informed and engaged. As the complexity of benefit structures and investment strategies increases and funding status remains fragile, retirement systems need strong and clear policies for communicating with

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stakeholders as a matter of good governance. The Covid-19 pandemic powerfully underscored the need for retirement systems to find the most effective methods to interact with their stakeholders, especially during times of crisis.

### *Findings*

CRS has a formal strategic plan that was updated in January 2023. The plan includes a mission statement, eight goals for the Board, and seven strategic objectives and eleven ongoing objectives, with responsibilities assigned. The strategic plan also includes objectives for each of the four standing Board committees, helping ensure that committee goals and activities are coordinated with the broader goals of the Board and the system. This could be considered a leading practice.

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### 2.3 Approve then Delegate

#### **Direct Reports to the Board**

There are several forms of governance models for public retirement systems in use in the U.S. today. The most common structure is an integrated investment and pension administration organization with a single fiduciary board. Under this structure, the Executive Director or CEO is responsible for the entire organization and reports to a board that has authority for investments and pension administration and delegates specified powers and responsibilities to external service providers and to staff through the CEO. The majority of public pension funds in the U.S. utilize this structure.

#### *Findings*

CRS is an outlier because the CRS Director does not report to the Board, but rather to the City Finance Director. The CRS Board only has an advisory role with respect to hiring, firing, evaluation and compensation for the Director. We consider this a lagging practice that results in the Board having minimal authority to direct and oversee the operations for which they have fiduciary responsibility.

#### **Delegations to Staff and Third Parties**

A high-performing public retirement system should have a strong focus on providing high-quality services to its members. The Board should be regularly updated with respect to pension operations performance and, in particular, when there are service issues that may require board direction and support.

#### *Findings*

The CRS Governance Manual states that “The purpose of the CRS is to provide benefits as specified by the CSA and CMC. These benefits are managed by the Board, but the City Council has exclusive authority to add or alter benefits not protected under the CSA under the authority of CMC 203. The Board governs the CRS by establishing policy, while the City of Cincinnati, CRS Department management and employees are responsible for implementing that policy and managing day-to-day operations.” This statement charges the Board with responsibility for the performance of pension operations, but directs that City employees who are not under the direction of the Board will manage those pension operations. This is another misalignment of responsibility and authority under the current legal structure.

#### **Management of/Response to Litigation**

Internal and external legal counsel play vital roles in helping retirement systems to manage risk, conduct legal diligence, ensure compliance with applicable laws/rules/regulations, support fiduciary oversight, and partner and support business units in implementing board policies and administering benefits.

The size of and internal expertise within legal departments at retirement systems can vary greatly depending on the size of the system, total staff, the complexity of its operations, and whether or not investments are managed internally. Similar size public retirement systems without significant internal investment management typically have an internal or external general counsel and rely heavily on outside legal counsel with subject matter expertise in areas relevant to the system’s operations (e.g., benefits, investments, litigation, etc.).

In a survey conducted by FAS, 93% of public pension plans reported that their general counsel was appointed by and reported to the executive director. Nevertheless, the position nearly always has “dotted



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line” reporting obligations to the board whenever legal compliance, legal staff conflicts of interest are present, or board fiduciary obligations to the fund and its beneficiaries are involved. The general counsel usually attends all board and most committee meetings as the board’s advisor and primary counsel on pension law.

It is a prevailing practice for public pension funds to engage outside litigation, tax, and investment counsel, as well as other outside legal experts when circumstances require specific legal expertise. It is also a leading practice to engage independent fiduciary counsel, typically selected by the board with general counsel participation, who represents the board, but whose ultimate legal obligation is to the system and its participants. Fiduciary counsel can often be used to provide counsel to the board on matters where the general counsel has a conflict. In addition, outside fiduciary counsel typically advises the boards of multiple systems and has a broad understanding of peer practices. Fiduciary counsel may also assist with fiduciary and governance training.

In states where the Attorney General or City Solicitor maintains control over public pension fund engagement of outside legal counsel, prevailing practice is for public pension funds to be granted authority either by statute or delegation from the Attorney General/Solicitor to hire outside legal counsel.

### *Findings*

For CRS, a representative from the City Law Department acts as general counsel on an ongoing basis. CRS does not have any internal legal staff. If the Law Department does not have the expertise and/or the capacity to timely respond to CRS’ needs, the City will sometimes engage external counsel on behalf of CRS; however, neither the CRS Board nor Director have authority to hire counsel directly.

Among the twenty peer county and municipal public pension systems in the peer group we analyzed, CRS appears to be the only one that does not have the authority to either hire internal counsel or engage external counsel on its own behalf. We consider this a lagging practice for CRS.

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### 2.4 Oversee Execution

#### **Access to information and reporting to the board**

Overall, management's reports should be structured so that information is easily accessed. Information is clear and accurate, and the Board annually, at a minimum, has the ability to discuss staff and third-party reporting and to ensure that it meets the needs of the Board.

Prevailing practice is at least a week in advance of each Board or committee meeting, materials are provided to each trustee electronically through a Board portal. Initial materials are provided at least a week in advance of the meeting; any subsequent modifications to reports, which are infrequent, are uploaded to the portal with a notification to each trustee about the nature of the changes.

For key strategic or policy decisions, the board is presented with the range of options available, the related pros and cons of each option, and management's recommendation. It is a leading practice to have a systematic process for engaging the board and its committees in identifying and evaluating policy options.

For oversight of system operations, exception-based reporting (sometimes called "dashboards" or scorecards) is utilized to highlight when any goals are not being met, with the ability of the to drill-down into details as desired.

All reports are as free from jargon as possible, and terms are well explained. Reports are discussed in a manner that is comfortable for Trustees to ask fundamental questions to support Board understanding. All conclusions are clearly stated in plain language, whether in oral discussion or in written reports.

It is the Executive Director's responsibility to understand the needs of the Board and to understand the expectations of staff and third parties. Reporting on matters of importance are part of the Board's annual calendar and the Board knows when to expect certain information and presentations. This annual scheduling cascades to the schedules for committee work and contracting with third parties for annual audits and reviews. A standard board calendar enables the Board to ask for certain education or supplementary information in advance of important presentations and votes.

#### *Findings*

Several trustees stated that the reports the Board receives are voluminous and need to have better executive summaries to provide an overview of what is in the detail and what matters. Exception reporting is used in monitoring of the asset allocation and budget performance but could be enhanced to include other aspects of performance such as investment manager performance versus targets and member services metrics.

#### **Enterprise Risk Oversight**

Various governmental regulatory and self-regulatory bodies have promulgated internal control standards and guidance that comprise internal control frameworks. Public pension systems have taken the standards and guidance and frameworks and established policies and practices to create appropriate enterprise risk management structures. An effective internal control framework can be designed to reduce the risk of asset loss and help ensure that information is complete and accurate, financial statements are reliable, and operations are conducted in accordance with the provisions of applicable laws and regulations.

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An effective system of internal control within the appropriate framework helps to protect the organization in two ways:

- By minimizing opportunities for unintentional errors or intentional fraud that may harm the organization. Preventive controls, which are designed to discourage errors or fraud, help accomplish this objective.
- By discovering small errors before they become big problems. Detective controls are designed to identify an error or fraud after it has occurred.

Internal control is a process effected by management and other personnel and overseen by those charged with governance. Internal control is designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting. The organization's policies, procedures, organizational design, and physical security are all part of the internal control process. The following are some general characteristics of satisfactory internal control over financial reporting:

- Policies and procedures provide for appropriate segregation of duties to reduce the likelihood that deliberate fraud can occur.
- Personnel are qualified to perform their assigned responsibilities.
- Sound practices are followed by personnel in performing their duties and functions.
- A system that ensures proper authorization and recording procedures for financial transactions.

### *Findings*

The CRS Pension Gold system includes built-in internal controls that alert staff to numerous items including but not limited to: duplicate payments in the same period; benefits being paid to deceased payees; and benefits being issues to active employees. These controls are consistent with prevailing practice among peers.

We are not aware of any current role played by the CRS Board in oversight of enterprise risk. This is an area that could benefit from a more integrated governance structure and more clarity on roles and responsibilities in the organization. Formation of a Board Audit Committee that includes responsibility for enterprise risk oversight, a typical practice at peer systems, could provide a focal point for the Board in this area.

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### 2.5 Verify

#### Independent Reassurance

##### *Findings*

The CRS Board has considered creating an Audit Committee, although to date there has been no separate independent financial audit of the System and no internal audits conducted for many years.

As mentioned earlier in this report, in the CRS peer group of 20 systems, all of the peers except two others have an annual financial audit of the system performed and included in their annual comprehensive financial report (ACFR). Having an audit could provide the Board with reassurance that valuations and financial controls are appropriate, and could also reassure stakeholders.

While internal audits are provided by the City Internal Audit Department, our understanding is that there have been no internal audits specifically of CRS operations performed by the City since 2015.

The annual financial statement audit conducted by the Ohio State Auditor includes auditing of the CRS Trust Fund and retirement and OPEB contributions, and related details are included in supplementary information in the City's ACFR. However, this is not a full audit of CRS and may not provide the basis for a separate CRS ACFR as issued by most peer funds.

Having an audit committee that would have responsibility for both external and internal audit planning could provide a focus to either request that the City Internal Auditor review certain CRS operations and/or internal controls based upon a risk assessment. If the City Auditor's Office does not have the relevant experience to address those areas, the Board could engage an outside internal auditor. This is a common occurrence with public retirement systems due to the specialized knowledge required.

We recommend that CRS proceed in creating an Audit Committee with the intention of improving independent reassurance through both external and internal audits.

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### Recommendations

#### CRS should:

- 2.1 **Aggregate and organize the Board policies from all sources into a Board Governance Manual with online access and links to underlying document provisions; include the mission statement, goals, trustee responsibilities, committee charters and the Code of Ethics.**
- 2.2 **Develop new policies or formalize current policies and practices for:**
  - **Trustee personal financial disclosures**
  - **Board self-evaluation / Board education policy**
  - **Funding**
  - **Separate investment policy statement for the 115 trust fund that is tailored to its liabilities**
  - **Strategic planning, in coordination with the City**
  - **Collection of claims in securities class actions**
  - **Succession planning, in cooperation with relevant City appointing authorities**
  - **Business continuity and resumption**
  - **Independent governance and benchmarking reviews**
  - **External communications by Board members**
  - **Due diligence and reporting for referral of service provider candidates by trustees, along with limits on candidate contacts with trustees during an RFP process**
- 2.3 **Reduce the size of each committee to three or five members to better utilize trustee time.**
- 2.4 **Adopt a consent agenda for approval of routine business and reports.**
- 2.5 **Conduct periodic board retreats for more in-depth discussion on key topics, conducting board self-evaluations and executive director evaluations, and trustee education.**
- 2.6 **Following implementation of the recommendations in this report, conduct a biennial self-evaluation process, potentially with external assistance; this process should help to inform educational priorities.**
- 2.7 **Define ongoing training requirements for Board members, including onboarding plan for new trustees and required fiduciary training; link training to board self-assessment findings and the calendar of Board agenda action items.**
- 2.8 **Formalize a CRS stakeholder communications plan that identifies key stakeholders, communications responsibilities, and messages and objectives.**
- 2.9 **Issue new system email accounts to be used by trustees for all CRS-related business.**
- 2.10 **Discuss with the Director and the investment consultant how reporting could be improved and executive summaries better utilized to enhance trustee understanding and insight.**
- 2.11 **Appoint a Board Audit Committee with oversight of internal and external audits to commission an independent financial audit and obtain internal audit services from the City Internal Audit Department and/or an independent firm; include oversight of enterprise performance and risk in the committee charter responsibilities.**

## 3. Investment Program and Operations

### Scope of review

#### 3.1 Investment Policies

- Investment policies
- Setting of the strategic asset allocation
- Investment decision-making and authorities
- Selection of benchmarks
- Rebalancing
- Liquidity management

#### 3.2 Investment Management Tools

#### 3.3 Investment Reporting to the Board

#### 3.4 Investment Operations

- Middle- and back-office operations
- Selection and oversight of third-party investment advisors
- Investment manager due diligence and oversight
- Investment risk management

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### Standards of Comparison and Findings

CRS manages the investment program primarily through an outsourced Chief Investment Officer (OCIO) arrangement with Marquette Associates. The CRS Board approves the asset allocation and hiring and termination of external managers but relies extensively on Marquette and its research and due diligence capabilities. This is a typical model for a public fund with the scale of CRS.

### 3.1 Investment Policies

#### Investment Policies

Good governance practices include creation and documentation of a formal decision-making process that guides the establishment and implementation of investment policies following fiduciary standards and take into account the culture of the sponsoring organization. The formality and accountability that derives from good governance practices, including the development and adoption of clear and comprehensive policies (and compliance with such policies), is essential to demonstrating prudence. The twin duties of prudence and conduct combine to create the core fiduciary responsibilities for those charged with overseeing the investment of retirement assets.

#### Statement of Investment Beliefs

A Statement of Investment Beliefs (SIB), written and adopted by the Board, is frequently developed as a separate document although occasionally incorporated into the Investment Policy Statement (IPS). The outcome of this exercise is generally used as a basis for understanding the various implementation policies utilized by the staff and consultants and outlined in the IPS. In the SIB, the Board agrees to the general philosophies that guide consultants and the staff when implementing the investment portfolio.

For example, beliefs about the ability to attract and retain in-house investment talent, market efficiency, risk philosophies appropriate for the participant population and the culture of the organization, active vs. passive management and the ability to attract and manage active managers, internal management vs. external management, and approach to Environmental, Social and Governance (ESG) factors.

The discussion when developing the SIB should assist in establishing appropriate investment time horizons, fee philosophy, sensitivity to external influences such as; liquidity constraints; legislatively induced changes; publicity impact on Board actions; and stakeholder interests. The SIB provides a guide for use by the staff and consultants when implementing the investment portfolio and provides guidance to the Board and external stakeholders when reviewing results.

#### Investment Policy Statement

An Investment Policy Statement (IPS) is typically the overarching document that summarizes and documents the intended policies and procedures for the management and operations of a fund's investment program and is consistent with the philosophies established in the SIB. It is meant to document guidelines that will be followed yet not be formulaic by requiring actions when the Board determines circumstances may not warrant action.

It should be reviewed and approved by the ultimate fiduciary for the Plan – the Board in the case of CRS –

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and kept current, reflecting input from all aspects of the sponsoring organization and service providers assisting the staff/Board. In situations where a formal SIB does not exist, the IPS establishes, in accordance with appropriate Laws, Rules and Regulations, the desired approach the Board intends to follow to ensure both the payment of benefits and maintenance of fiscal soundness of the Plan.

If a system has responsibility for managing different types of investment pools, for example, in addition to a defined benefit plan, also pools that fund health care or other insurance benefits, each type of pool should have its own Investment Policy Statement that reflects the underlying liability structure of that pool specifically.

### *Findings*

Relying extensively on Marquette Associates, the investment consultant, in development of its investment policies, CRS appears to generally utilize prevailing practice processes in developing its investment policies and Investment Policy Statement is consistent with similar scale peer plans.

The CRS IPS generally follows several CFA Institute guidelines<sup>2</sup> for investment policy statements and:

1. Defines the system and objectives;
2. Focuses on the governance of the plan defining roles and responsibilities of responsible parties;
3. Establishes investment return and risk objectives with a discussion of objectives for each asset class;
4. Describes the asset allocation development process and rebalancing procedures; and
5. Describes the process and requirements for investment manager selection and monitoring.

The CRS Board does not have a Statement of Investment beliefs, but should consider developing one prior to the next Asset Liability Study.

Additionally, the Board could consider developing a liquidity policy that considers the cashflow needs of the system and the pacing plan for alternative assets to ensure that liquidity needs are effectively and efficiently addressed. CRS has made significant investments in illiquid funds such as private equity, private real estate, infrastructure, and opportunistic fixed income that result in meaningful liquidity constraints. The policy should include maximum allocations to illiquid asset categories and a discussion of expectations of incoming liquidity and disbursements for the CRS pension plan.

Finally, the assets of the 115 Trust (the Health Care Trust) are managed on a commingled basis with those of the defined benefit plan. Since the pension trust and the health care trust have fundamentally different underlying liability streams they must support, the 115 Trust should have its own IPS and strategic asset allocation.

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<sup>2</sup> CFA Institute, "ELEMENTS OF AN INVESTMENT POLICY STATEMENT FOR INSTITUTIONAL INVESTORS," 2010 (available online at: <https://www.cfainstitute.org/-/media/documents/article/position-paper/investment-policy-statement-institutional-investors.ashx>)



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### Setting the Strategic Asset Allocation

The IPS typically documents the conclusions reached following an asset-liability study (ALS). An ALS is conducted to consider both potential opportunities from an investment perspective while taking into account the unique liability circumstances of the Pension Plan. The ALS takes a multi-year (typically 5 years) investment horizon and is performed with the assistance of third-party consultants and actuaries.

The asset side of this study considers the current investment portfolio, anticipated asset class assumptions for returns and risks and correlations between asset classes, and anticipated risk-adjusted alpha potential, and considers the operational ability to implement desired changes over the Plan's implementation horizon.

Potential asset allocations are then tested against the unique liability characteristics of the plan, with an analysis of possible changes in the expected actuarial return assumption, expected contribution policies, possible variations in expected contributions, possible changes in benefit formulas, demographic assumptions, or other critical assumptions. The Board and staff frequently incorporate education sessions on capital market return assumptions, investment concepts incorporated in strategic asset allocation portfolios, actuarial concepts, and risk management during the process of performing these studies.

Although the strategic asset allocation policy may be revisited to examine progress towards meeting long-term goals and to consider whether the assumptions and conditions extant at the point of adoption are still valid, rapid changes to the strategic asset allocation policy established during the ALS would only occur under exceptional circumstances. Ranges of possible outcomes are presented and considered. Rebalancing to maintain asset allocation targets within acceptable ranges is generally set as an intended policy unless extraordinary circumstances are encountered and discussed with the Board.

The Board actively participates in the establishment of strategic asset allocation targets through the ALS. This participation allows the Board to consider expectations for the future economic environment, reach consensus on its views of the potential capital market assumptions (expected risk/return/correlation) of various asset classes, develop an understanding of key actuarial characteristics and expected outcomes, consider all implicit issues such as economic leverage, transparency, fee levels, liquidity, and whether the Board has reason to believe its staff, consultant, and managers have the resources and skills required to implement the expected goals coming out of the ALS analysis.

When significant asset allocation changes are suggested, the process typically includes implementation schedules, approved by the Board, that outline expectations for the investment office to move to the new asset allocation over time. The process and frequency for reporting on investment strategies and the portfolio risk management program should be defined and documented in the IPS.

### *Findings*

CRS policies and practices for the development of the strategic asset allocation are generally consistent with prevailing practice, with the investment consultant assisting the Board. One lagging practice by CRS is that in recent years there have been annual changes to the strategic asset allocation. As an institutional investor with a long-term time horizon, most public pension funds only change their strategic asset allocation as part of a comprehensive Asset Liability Study conducted no more frequently than every three years, and more typically every four or five years.

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### Investment Decision-Making and Authorities

A well-governed investment program should have well-structured, thoughtful, documented decision-making processes. Investment policies should clearly describe the data, processes and determinations that are involved in conducting due diligence. Clarity of standards and practices is essential to ensure prudence and consistency in the implementation of the investment program. This also guides documentation of due diligence and provides assurance to the board, system members and stakeholders that appropriate investment decisions are being made. Compliance, audit and other reassurance functions provide comfort that prudent policies are being followed.

Investment sourcing processes should be linked to identified investment needs, and portfolio fit assessment should be both qualitative and quantitative. Policies should clearly define operational due diligence requirements and responsibilities vis-à-vis staff and consultants. The Board should be properly aware of current due diligence processes utilized for each portfolio.

There are organizational checks and balances that provide effective controls and minimize the potential for single point-of-failure decision making.

Actual due diligence procedures match the written policies in the IPS and in other relevant documentation. Deviations are documented and escalation procedures in place for approvals or rejections.

#### *Findings*

As mentioned earlier, the CRS Board has been authorized to make all investment-related decisions within the requirements of the prudent investor standard, a prevailing peer practice.

Marquette Associates operates as the investment staff and CRS relies extensively on Marquette's sourcing and due diligence processes for investments. The Director has a role as a check and balance, but the Board relies primarily on Marquette.

The IPS describes the key criteria that prospective investment managers must meet to be considered, but does not include due diligence processes or checklists. It is assumed that Marquette has these policies; they should be reviewed periodically with the CRS Board as part of ongoing investment continuing education.

### Selection of Benchmarks

There should be performance benchmarks appropriate to each asset class and investment strategy. The Total Fund benchmark should allow for a build up from the asset classes, which should incorporate the weighting scheme for the underlying strategies and managers. Performance should be monitored regularly at the strategy, asset class and total fund level by both the Board and the staff. The staff should also regularly monitor performance at the individual manager level.

#### *Findings*

CRS has appropriate performance benchmarks for every portfolio and for all asset classes. There are appropriate performance benchmarks for the entire fund that benchmarks return relative to the market. The benchmarks are explicitly approved by the Board as part of setting the asset allocation.

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### Rebalancing

A written rebalancing policy should specify the criteria for rebalancing and procedures to faithfully implement that rebalancing policy and should be reasonably designed to achieve the approved asset allocation. There should be adequate processes in place to monitor actual asset allocation so as to be able to recognize the need to rebalance in a timely manner.

Rebalancing responsibilities, processes, and provisions should be well defined. Rebalancing decisions should be well-documented, with files that are reflective of the processes and actions undertaken and the reason for those actions. The actual process of rebalancing should be risk-based, sophisticated, and consistent with the investment philosophy of the fund overall.

#### *Findings*

The CRS IPS includes a statement that “The Board of Trustees, with the assistance of the investment consultant, will review the asset allocation of the System on a regular basis and adjust the portfolio to comply with the guidelines.” It further states that “The Retirement System Finance staff will monitor the asset allocation structure of the portfolio and attempt to stay within the ranges allowed for each asset category. The Finance staff, with advice from the investment consultant, will develop and implement a plan of action to rebalance when necessary. The Board of Trustees is to be notified within 24 hours.”

In general, the IPS policy addresses rebalancing adequately. It could potentially be enhanced with a more comprehensive definition of the process and how rebalancing is linked to an overall investment philosophy.

### Liquidity Management

The IPS should include a Board approved policy on liquidity management. This could include, for example, maximum allocations to illiquid asset categories and a discussion of expectations of incoming liquidity and disbursements for the pension plan. Liquidity analyses should include projected cash flow build up from net flows from private markets plus contributions and benefit payments assumptions.

#### *Findings*

The CRS IPS addresses liquidity as part of rebalancing. In practice, Finance, the CRS Director, and Marquette Associates discuss cash needs and make rebalancing decisions to facilitate adequate liquidity based upon the direction of the CRS Director.

A more formal liquidity policy could provide more structured guidelines for liquidity planning.

## CRS Governance Review Final Report

### 3.2 Investment Management Tools

Most systems similar in scale to CRS rely extensively on their investment consultant and custodian to provide appropriate investment management tools. These include, for example, portfolio reporting; portfolio modeling and stress testing; performance attribution; risk analytics and reporting; order management; compliance monitoring; fund accounting; and capital call management.

#### *Findings*

Since Marquette Associates functions as the CRS outsourced CIO, CRS also relies on them to operate the tools and provide appropriate reporting and analysis to the Board. This is a prevailing practice.

### 3.3 Investment Reporting to the Board

The IPS should allocate responsibility for monitoring investment performance at Board, staff and consultant levels. Monitoring by the Board should be frequent enough and detailed enough to be timely and provide complete information on critical issues yet should emphasize the oversight and policy roles of the Board and not be used as part of an investment decision-making process.

Monitoring reports should include whether portfolio, asset class and total fund performance are within expectations with regard to both performance and risk. Outliers should be explained, and, where appropriate, action plans detailed to the senior investment staff and/or Board, as appropriate.

#### *Findings*

The quarterly investment reports provided by Marquette Associates are consistent with prevailing practice at peer funds. However, several trustees expressed that the reporting is voluminous and that an executive summary that would focus on highlights and exceptions as an introduction to the details would be helpful in navigating through the reporting package.

### 3.4 Investment Operations

#### **Middle- and Back-Office Operations**

Larger public retirement systems have internal accounting and investment operations to provide a robust financial function with investment middle office (e.g., capital calls, liquidity management, counterparty risk) and back office (e.g., investment accounting, valuation, performance reporting) capabilities.

#### *Findings*

For smaller systems with limited internal staff that rely on an external CIO, similar to CRS, the custodial bank, in coordination with the investment advisor, typically provide these middle- and back-office services. CRS relies extensively on its custodian and investment advisor, similar to peers, and this appears to work effectively for CRS.

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### **Selection and Oversight of Third-Party Investment Advisors**

Prevailing practice at peer funds is for the selection of external consultants and advisors to the board to be assigned to the appropriate board committee. While staff should assist the board and facilitate the process, it should be clear that the board votes and has the final decision and that the advisors are advisors to the board.

#### *Findings*

The CRS investment advisors, Marquette Associates, report to the Board through the Investment Committee, and it is apparent that the CRS Board is the direct client, as appropriate. However, the selection of the investment consultant, as with all the CRS procurements, is conducted by a selection committee where most Board members cannot vote, and the selection is ultimately subject to final approval by the City's Finance Director. Although it has not yet created an apparent problem, this is a lagging practice.

### **Investment Manager Due Diligence and Oversight**

All investment decisions should be documented to the extent necessary for an observer to understand what information and analyses the decision maker had at the time, and the rationale for and appropriateness of the investment. This is a central function for demonstrating compliance with fiduciary duties.

In addition, investment policies should clearly describe the data, processes and determinations that are involved in conducting due diligence. Clarity of standards and practices is essential to ensure prudence and consistency in the implementation of the investment program. This also guides documentation of due diligence and provides assurance to the board, system members and stakeholders that appropriate investment decisions are being made. Compliance, audit and other reassurance functions provide comfort that prudent policies are being followed.

Due diligence processes and standards should be well documented for investment fit, investment due diligence, and operational due diligence. Due diligence activities and reports and investment memos should be retained electronically to document strategy and processes, with investment decisions and rationale well-documented and files are reflective of the processes and actions undertaken.

The Investment Committee should periodically (e.g., biennially/triennially) review strategic and decision-making documentation formats from time-to-time to enable assessment/suggestions as to their fiduciary/communication effectiveness.

#### *Findings*

The CRS Investment Policy Statement includes a section on investment manager selection that includes a description of minimum requirements each manager must meet. There is also a section that describes a monitoring process and progressive ratings that can lead to manager termination. There are also guidelines and restrictions articulated for individual asset classes. These are all consistent with prevailing peer practices.

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The CRS Board approves all manager selections and participates in finalist presentations. As a result, they receive the results of the consultant due diligence and are part of the due diligence process. This is consistent with peers who utilize an outsourced CIO firm.

### **Investment Risk Management**

There should be adequate methods and resources to measure quantitative risk, to monitor qualitative risk, and to detect risk that is out of tolerance. There should be working escalation policies when/if such out-of-tolerance risk occurs. There should be periodic (at least quarterly) reports on investment risk to the Board.

A leading practice investment risk management program includes a dedicated investment analytical system that models risk. Internal audit periodically reviews investment risk management processes and verifies that the processes remain functional. Liquidity projections include buffers for unexpected private equity cash flows.

### *Findings*

CRS relies on Marquette Associates to provide investment risk information and reporting to the Board and does not have any in-house risk modeling tools. Marquette has been very responsive to questions from the Board. There could be an opportunity for the CRS to have more discussion with Marquette about investment risk management and more robust risk reporting.

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### Recommendations

#### CRS should:

- 3.1 Develop a separate Statement of Investment Beliefs (SIB) to guide development and implementation of the strategic asset allocation.**
- 3.2 Develop a liquidity policy as part of the Investment Policy Statement (IPS) to ensure that the cash needs of the organization are effectively and efficiently met.**
- 3.3 Develop a separate PS for the 115 Trust (Health Care Trust) that reflects the unique liability structure of the 115 Trust.**
- 3.4 Extend the time horizon for the strategic asset allocation to 3-5 years and only make changes to the target asset allocation as part of a comprehensive Asset Liability Study.**
- 3.5 Include a more comprehensive rebalancing policy in the IPS that describes how rebalancing is linked to the Board's investment philosophy and what the process should be.**
- 3.6 Discuss with Marquette Associates how reporting might be improved through development of an introductory executive summary, with an exception reporting approach, to the quarterly reporting package focused on actual performance compared to the IPS.**

## 4. Pension Operations

### Scope of review

#### 4.1 Member Services

- Member contact center
- Member self-service opportunities
- New member enrollment
- Regular payment processing
- Member service metrics

#### 4.2 Member data management and data security

#### 4.3 Member education and communication

- Member statements and pension reporting

#### 4.4 Exception Handling

- Adjustments and exception handling
- Dispute resolution and appeals handling
- Service credit handling

#### 4.5 Third party provider compliance monitoring

#### 4.6 Actuarial reporting practices and valuations



## CRS Governance Review Final Report

### Standards of Comparison and Findings

#### 4.1 Member Services

##### **Member Contact Center**

A member contact center is typically the primary customer service resource for members, retirees and employers when the website is insufficient to accommodate their needs. Contact centers handle calls on a tiered basis, depending upon the nature of the member need and level of complexity.

Often, a high percentage of calls with basic questions can be handled with automated responses without the assistance of a contact center representative. Remaining calls are fielded by first level counselors with standard scripts for answering questions. Finally, more complex calls are referred to second level counselors with more experience and advanced training.

Characteristics of an efficient, effective contact center often include:

- Self-service and menu options (with minimal layers);
- Identification of incoming member through his/her phone number;
- Automated link to member records, including prior calls and correspondence;
- Help system with scripts for counselors;
- Wait time tracking;
- Integration with email for follow-up; and,
- Integration with workflow system to track follow-up status.

Typical contact center support includes retirement counseling and assistance in making calculations; often there is a busy period for retirements which requires anticipating additional staffing requirements. Leading practice performance is to average 20 seconds or less for a member to reach a knowledgeable person. Cross-training of contact center counselors is ongoing and provides staffing flexibility and career advancement opportunities. Contact center counselors have access to a variety of information systems including imaging and an automated retirement system.

##### *Findings*

CRS Trustees stated that in the past, there were some concerns that phone calls from members went into voicemail and that there were a small number of member situations that were difficult to get resolved in a timely manner. However, members now generally speak with a CRS representative on an initial call, and there have not been recent significant member service issues reported.

CRS has a staff of seven member services employees. CRS does not utilize a formal call center for member service contacts. Current call volumes range from approximately 40 per day to over 100 daily during peak times such as the annual enrollment periods and the beginning of the calendar year.

Prior to CRS being assigned responsibility for retiree health care benefits administration in 2012, member and retiree calls were much less frequent, estimated at perhaps 10 per day. As call volumes grew, mostly related to health care questions, CRS added one staff person and was able to handle the increased volumes. However, telecommunications capabilities were not upgraded, resulting in significant inefficiencies, the occasional inability to directly answer calls, and callers sometimes being redirected into voice mail.

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Although call statistics are not maintained as there is minimal automation, CRS staff estimates that the majority of calls are related to retiree health insurance, and that 95% of those calls need to be referred to a third-party vendor. Although newsletters and other retiree communications attempts to educate retirees to call the vendors directly, the impact has been minimal.

CRS does not have the basic telecommunications system capabilities found in most public retirement systems. As mentioned, one basic feature of a contact center telecommunications system is a self-service menu that provides initial options to the caller. If CRS had this feature, the majority of calls to CRS could be directly re-routed to the appropriate third-party vendor. This would likely significantly increase retiree satisfaction by ensuring that every call was quickly answered and eliminating the need to be told to make another call to a different number.

Additionally, current CRS member and retiree case files are manually maintained. Contact center telecommunications systems typically have built-in capabilities to identify incoming calls and immediately link them to automated case files that include member records and prior interactions. As a result, service levels and staff efficiency can both be significantly improved.

CRS should consider if obtaining a contact center telecommunications system could be a cost-effective way to improve both service levels and efficiency and cost effectiveness.

### **Member Self-Service Opportunities**

At most public retirement systems, employer and member service systems have extensive self-validation and reconciliation capabilities to maintain data integrity without significant manual intervention. Public retirement systems generally are implementing substantial member self-service capabilities on their website. These typically include: interactive online planning tool with pension calculator linked to the member's actual data; access to salary and service credit data; online forms completion, including online retirement application; online registration for counseling sessions; online updates to personal information, including banking information; and online member statements.

The strategic plan should include a focus on maintaining and improving levels of member service. This usually includes a focus on having a customer service system that provides a platform to make ongoing member service improvements.

### *Findings*

CRS has a retirement benefits administration system called Pension Gold that includes a portal called Member Direct. Member Direct capabilities include online member statements, calculations of pension estimates, ability to update beneficiaries, ability to print out forms (mostly fillable), and ability to make online changes of address. These are many of the prevailing practice capabilities found at other retirement systems.

Currently, Member Direct is only available to active members, and 60 percent of active members utilize the Member Direct portal. CRS intends to make the portal available to retirees within the next four months. This would be a significant enhancement if high participation rates can be achieved. One disadvantage of Member Direct is that it is a separate portal not available through the CRS website, which is run by the City.

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CRS intends to redesign its website sometime over the next few years, with the collaboration of the City, who owns and operates the website. The CRS strategic plan should establish an overall long-term plan for a coordinated transition and ensure that the City is aware of the needs of CRS for its website.

### **New Member Enrollment**

New employees joining one of the employers supported by a public retirement system are typically enrolled through the employer's onboarding process. The process is usually administered by the Human Resources function and includes providing the information required to register the employee as a new active member in the retirement system. This information is then transmitted to the retirement system and the new employee is added to the system's active members.

#### *Findings*

For CRS, each City Department's HR function collects new employee information and sends it over to CRS for processing, part of the onboarding process for each new employee. This is consistent with prevailing peer practice.

### **Regular Payment Processing**

Paying pensions on time is a critical component for all retirement systems. A well-functioning system ensures that all regular payments are paid on time to the correct annuitants. Leading practice is to make all payments paperless, which is also the most cost-effective. Ideally payment advices are provided online; systems that still send paper advices comply with a member's request not to send payment advices.

For new retirees, annuity pension inception should be paid without an interruption of cash flow greater than one month between the final pay check and the first pension check for normal retirements. Typically, the initial payments are based upon estimates in order to not miss a payment and finalized payment calculations that can sometimes require 2-3 months to be completed. Leading practice is for a majority of annuity pension inceptions to be initiated online. To ensure the integrity of member data, members are required to submit proof of birth and driver's license with a retirement application.

#### *Findings*

CRS handles annuitant payment processes and has converted all but 70 payments to electronic ACH payments. These are deposited through payments from CRS' bank, Fifth Third. The 70 non-ACH paper check payments are processed by the City Treasury department.

CRS processes the initial benefit payment within 60 days of the employee's retirement date. However, new retirees typically do not have an interruption in cash flow. On the date of retirement, the employee has one remaining "regular" paycheck that is due from the City of Cincinnati (issued for last paid hours immediately preceding retirement) that is usually issued within 10 to 14 days following retirement. Two weeks after that paycheck, the employee receives a lump sum payout of any remaining vacation, sick and compensatory time balances from the City of Cincinnati. There is usually less than 30 days remaining until the first pension benefit payment.

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### Member Service Metrics

To ensure that it is meeting its objectives, the system should have identified metrics that measure the effectiveness of key retirement administration processes and put in place monitoring and reporting that provides feedback to staff and allows management to understand how well the system is performing and where it can and should improve. The overall cost effectiveness of benefits operations should also be monitored and compared to peers of similar scale.

Key member services processes that are typically measured and monitored, according to CEM Benchmarking, include:

- On-time payment performance
- Pension inception without a cash flow interruption
- Disability turnaround time
- Call center outcomes
- Call center wait time
- Percentage of members counseled
- Percentage of members attending presentations
- Satisfaction with website capabilities

In addition, members and annuitants should be surveyed on a regular basis, particularly those which have had direct interaction with the system, such as newly retired members, members who have called the customer service center, members who have attended counseling sessions or presentations, or members who have made purchases or withdrawals. The survey data is an integral part of the system's member service performance management processes, and reports should be regularly received by operating management. In addition, the Board should receive periodic reports on member satisfaction, typically quarterly.

### *Findings*

Trustees stated that in the past, there were some concerns that phone calls from members went into voicemail and that there were a small number of member situations that were difficult to get resolved in a timely manner. However, members now generally speak with a CRS representative on an initial call, and there have not been recent significant member service issues.

CRS staff is now regularly briefing the Board on pension operations and working to improve reporting. However, if the Board believes changes should be made it is not clear they have any authority to direct changes.

CRS does not collect metrics in many areas due to extensive manual processes and does not have peer benchmarking information to gauge how its performance compares to other systems. Although FAS benchmarking indicates that overall CRS staffing is consistent with peers of similar scale, there is limited information to indicate the overall service and cost effectiveness of CRS' pension operations. Prevailing practice with larger funds is to participate in annual or periodic benchmarking studies to gain an understanding of how performance compares and identify the highest priority improvement opportunities.

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### 4.2 Member data management and data security

Larger public retirement systems typically have a Data Management function to administer the use of data and a Database Administration function to control the use of electronic databases. These functions evaluate and categorize data according to sensitivity, privacy, and classification. The Data Management functions put processes in place to minimize or eliminate data duplication. Key data is identified and there is an adequately resourced data management function. Data management policies and processes are documented and effectively implemented.

It is important to have procedures and practices in place to protect personally identifiable information (PII) from unauthorized access, use, modification and disclosure. Measures should be in place for secure disposal of computerized/electronic records and devices containing computerized/electronic records. There should be protection against unauthorized access to or use of PII of consumers, employees and former employees.

The system should obtain written agreement with vendors to whom they disclose PII, and vendors should implement and maintain reasonable security processes and practices to protect the PII from unauthorized access, use, modification and disclosure.

#### *Findings*

The pension administration system utilized by CRS is Pension Gold, which is a cloud-based system hosted by LRS and licensed for use by CRS staff. LRS hosts the system and provides data security. LRS' auditor conducts control audits of LRS and has prepared SOC 2 reports which have been provided to CRS. The City Enterprise Technology Solutions (ETS) Department provides firewalls and penetration testing for CRS for the local network and any on-site systems. The CRS IT group provides desktop support and requests customization of the Pension Gold system as part of ongoing improvements. For a system of CRS' size and scale, these practices are typical.

### 4.3 Member education and communication

#### **Member Statements and Pension Reporting**

Up-to-date, accurate member statements provide one of the best opportunities for a system to communicate the value of the retirement benefit to members. Prevailing practice is to provide annual statements to members that are mailed directly to their homes, or by email notifying members that the statement is available online for members with a known active email address. Statements typically provide information such as service credits, pensionable earnings, historical summary of salary and service credit earned each year, refund value as of statement date, and estimate of future pension entitlement.

#### *Findings*

CRS stopped providing paper annual statements to members because the information is available online in the Member Direct portal. Additionally, CRS redesigned the monthly advice for retirees that receive direct deposit payments a few years ago to include a significant amount of additional information. This resulted in a reduction in calls to CRS by 20%. CRS' use of online statements only, with a notice sent directly to members, could be considered a leading practice.

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### 4.4 Exception Handling

#### **Adjustments and Exception Handling**

Adjustments and exception handling for retirement benefits should be extremely limited by compliance and contractual rules. When exceptions do occur, they should be clearly documented and controlled.

#### *Findings*

CRS has a formal process for addressing exceptions called a Request for Legal Services (RLS) that is handled by the City Law Department. When appropriate, the situation will be presented to the CRS Board, sometimes for information purposes only; often the City Manager's office will also be informed.

#### **Dispute Resolution and Appeals Handling**

Prevailing practice with public retirement systems is to have a hierarchy of decision processes and checks and balances in reviewing disability claims and appeals, as this is the nature of the appeals process. Often, disability appeals are handled by an administrative law judge. If a member files an appeal, the system legal staff typically handles the response, sometimes with the assistance of a consultant.

Each state is somewhat different in the procedural requirements for handling disability reviews and appeals, but funds generally have some kind type or medical review or medical advisory board that reviews and then recommends to staff for acceptance or denial based on the medical documentation and legal requirements. Legal staff guide the process and compliance with legal standards unique to the system and the state's administrative procedures requirements.

In some states, if a settlement is not reached the appeal will again go to a judge for resolution. In other states, the system's fiduciary board has final jurisdiction. Handling of disability reviews and appeals is also a more-frequent board approval activity at systems where the board is involved. Although this process can vary dramatically from one system to another, it typically follows a set of standard procedures and protocols to ensure compliance with all rules and regulations and fair outcomes.

#### *Findings*

CRS has an appeals handling process that is consistent with many peer systems. CRS has a Medical Director who makes medical determinations and recommendations and presents them to the CRS Board. The Board then accepts the recommendations or occasionally does not approve. In 2023 there were two disability applications recommended for approval and both of them were approved. The appeals process can require up to six months for resolution, which is not uncommon among peer funds. Members can file an appeal with the court as a last resort.

#### **Service Credit Handling**

The primary metric for customer service regarding service credit handling is being able to complete a purchase on a timely basis, as measured from the date of first request to providing a written service credit purchase cost. This includes receiving a written estimate, ideally within a day, and being able to complete the purchase in less than two weeks.

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### *Findings*

Depending upon the nature of the request, service credit calculations are handled either by CRS staff or the system's actuary. Depending on the type of service being purchased, cost statements are typically available within 10 days consistent with prevailing peer practice. Cost statements provided by the Actuary may take longer to provide.

#### 4.5 Third party provider compliance monitoring

Public pension systems are often required to comply with purchasing standards and requirements of the plan sponsor such as the state, county or municipal government. Nonetheless, purchasing policies and procedures should be designed to provide a single purchasing policy and process with centralized monitoring of completeness and compliance throughout the contracting process.

For third party provider compliance monitoring, it is critical to have defined responsibilities for monitoring vendor performance and that that individual or department periodically compares it to the contract terms.

### *Findings*

CRS generally monitors compliance on both a monthly and an annual basis. CRS staff have monthly calls with health care vendors, assisted by an outside consultant. Staff meets bi-weekly with LRS, the Pension Gold vendor, and discusses any potential issues that arise. These practices are consistent with peers.

#### 4.6 Actuarial reporting practices and valuations

Leading actuarial practices for public retirement systems include:

- The Board of Trustees has authority to set all actuarial assumptions for the system based upon the advice of an independent external actuary.
- Formal, written actuarial policy describing responsibilities and frequency of actuarial and asset/liability study processes, including:
  - Updating the asset/liability study every three to five years;
  - Conducting an actuarial experience study at least every five years;
  - Reviewing actuarial experience annually; and,
  - An independent actuarial review at least every five years.
- Formal, written funding policy that addresses investment, demographic and benefit risks and recognizes tradeoffs between mitigating contribution volatility and recognizing gains and losses over a reasonable period and includes:
  - Actuarial cost method and assumptions;
  - Asset valuation method;
  - Amortization method; and,
  - Funding target.
- Trustees periodically receive actuarial training and refresher sessions as part of continuing education.

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### *Findings*

The CRS Board of Trustees does not have the authority to revise the assumed rate of return as the assumed rate of return is fixed at 7.5 percent in the Collaborative Settlement Agreement (CSA) of 2015. This is a lagging practice, as the assumed rate of return should be periodically evaluated and adjusted, as appropriate, if market conditions and anticipated market returns change. For example, according to a recent study by the National Association of State Retirement Administrators (NASRA)<sup>3</sup>, in fiscal year 2015, the median nominal public pension investment return assumption was 7.5 percent, but in fiscal year 2023 the median was 7.0 percent, the result of most systems having made adjustments. Among 131 state plans in the NASRA research group, 81 percent had reduced their assumed investment rate of return from FY 2018 to FY 2023. CRS should revisit the assumed rate of return with the actuary and determine if an adjustment to the rate in the CSA should be recommended.

The CRS Board has proposed a funding approach to the City but it has not been adopted. CRS should have a formal funding policy.

The CRS Board reviews actuarial practices and assumptions at least annually with its actuary, a prevailing peer practice.

### Recommendations

CRS should:

- 4.1 Clarify the Board's responsibilities and role (or lack thereof) in pension and benefits administration.**
- 4.2 Consider if pension staffing resources and capabilities should be improved through implementation of a member contact center telecommunications system.**
- 4.3 Develop a long-term plan with service, performance, and cost objectives, to ensure that member self-service, website redesign, and other improvements, are all developed and implemented in a coordinated manner and achieve desired results.**
- 4.4 Charter a pension administration cost and performance benchmarking report.**
- 4.5 Consult with its actuary and determine if an adjustment to the investment assumed rate of return should be recommended.**
- 4.6 Develop and adopt a formal actuarial and funding policy describing responsibilities and frequency of actuarial and asset/liability study processes and addressing investment, demographic and benefit risks.**

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<sup>3</sup> NASRA ISSUE BRIEF: Public Pension Plan Investment Return Assumptions, March 2023.



## 5. Administrative Operations

### Scope of review

#### 5.1 Policies and procedures documentation and review

#### 5.2 Accounting and Budgeting

- Investment accounting, performance reporting and fund valuation
- Financial accounting operations and reporting
- Planning, budgeting and performance reporting

#### 5.3 Human Resources

- Recruitment, hiring and organizational development
- Employee training and development
- Succession planning
- Human resources administration

#### 5.4 Legal

#### 5.5 IT

- Information systems planning, governance and support
- IT security

#### 5.6 Facilities management and support

#### 5.7 Business resumption

#### 5.8 Procurement

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### Standards of Comparison and Findings

#### 5.1 Policies and procedures documentation and review

It is prevalent for board committee chairs to work with staff to identify policy development and review priorities for the next cycle. Leading practice is for the committee policy agenda and activities to be linked to an overall board policy agenda. The committee reviews and approves the agenda for recommendation to and approval by the board.

##### *Findings*

CRS does not have a multi-year board policy agenda or committee agendas. CRS generally has fairly comprehensive policy and procedures documentation. The Board, collaboratively with the Director and staff, has been engaged in identifying potential policy gaps and developing new policies to fill those gaps. However, as stated elsewhere in this report, CRS could benefit from an overall Governance Policy Manual that incorporates all the policies, including those defined in municipal code, the CSA and Consent Decree, and by Board policy.

#### 5.2 Accounting and Budgeting

##### **Investment Accounting, Performance Reporting and Fund Valuation**

Leading practice for investment accounting includes:

- An effective system of internal control which helps protect the organization by:
  - Minimizing opportunities for unintentional errors or intentional fraud through preventive controls (e.g., separation of duties); and,
  - Using detective controls to discover small errors before they become big problems (e.g., reconciliation processes).
- Clearly-articulated responsibilities among all parties (e.g., internal accounting staff, custodian bank, investment staff); these responsibilities should also include documented desk procedures.
- Accounting staff qualified in investments who receive ongoing technical training for accounting staff to stay current with changing standards and regulations.
- The investment accounting group should be able to download the general ledger accounting data from the custodian each month after the data has been finalized and audited.

Leading practice for performance reporting includes:

- Regular monitoring at the asset class, strategy and total fund level by both the Board and staff;
- Performance data is presented to trustees and committees that begin with summary formats that facilitate policy oversight of key results and actionable issues; and,
- Staff regularly monitor performance at the individual manager level as well.

Leading practice for fund valuation includes:

- Accounting for each private market account should be current with the year-end date (many report a quarter in arrears) and documents from the manager, international accounting standard

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differences, as well as due-diligence reports be reviewed for discrepancies before the value for the financial statements is finalized; and,

- Final year-end statements for investments can be prepared, depending upon the assets held by the entity, by the second month after year end or shortly thereafter.

### *Findings*

The CRS investment accounting, performance reporting, and fund valuation processes are largely performed by the custodial bank, BNY Mellon, and the investment consultant, Marquette Associates. This is consistent with peer practice at similar scale peer funds.

### **Financial Accounting Operations and Reporting**

For financial operations and reporting, well-governed public retirement systems have an adequate accounting system that is the repository of all accounting transaction information and provides effective accounting reports, providing various journals and ledgers that are appropriate to the needs of the System.

The accounting and investment operations should be adequately staffed, whether through internal or external resources, to provide robust financial function with investment middle office (e.g., capital calls, liquidity management, counterparty risk) and back office (e.g., investment accounting, valuation, performance reporting) capabilities. There should be effective internal controls and segregation of duties, as well as opportunities for key person backup, cross-training, and career development. Securities prices provided by the custodian should be from independent sources. Annual external audits should result in unmodified opinions.

### *Findings*

The CRS Finance Manager and staff are responsible for financial and accounting operations and reporting. This appears to operate effectively and be adequately staffed.

Capital calls are received by CRS directly from managers and are forwarded to Marquette Associated for verification and payment. Although this is often the responsibility of the custodial bank, with investment operations outsourced to Marquette this appears to be appropriate for CRS and provides a check and balance.

### **Planning, Budgeting and Performance Reporting**

Since a significant portion of the administrative costs of a retirement system are personnel related, prevailing practice is to budget and monitor staffing headcount by department. Costs in a number of operational areas in a public retirement system can be driven by volume of activity – for example, costs related to processing new retirees, or costs related to updating member files to conform to rule changes. An effective budgeting process identifies those costs which are primarily fixed and not sensitive to changes in activity levels and those costs which are significantly subject to fluctuation. For those costs which are activity-level dependent, the budget assumptions should specifically include the anticipated volumes which drive costs so that any variance, either over or under budget, can be readily understood.

### *Findings*

The CRS Finance Manager and staff are responsible for planning, budgeting, and performance reporting. This appears to operate effectively and be adequately staffed. Budget reports are provided quarterly to the Board.

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### 5.3 Human Resources

#### Recruitment, Hiring and Organizational Development

An effective organization structure facilitates overall organization performance. When assessing the organizational structure of a public retirement system, key considerations include:

- Clarity of lines of reporting and responsibilities with appropriate spans of control;
- Appropriate assignment of responsibilities to operating departments to facilitate development of capabilities and coordination of work;
- Ability of support functions, combined with external service providers, to effectively serve operating departments;
- Delegation and segregation of duties from a control standpoint, where appropriate; and,
- Facilitation of information flow in support of internal and external communications requirements.

When evaluating the staffing and capabilities of a public retirement system and comparing to peer systems, it is important to understand any differences in services provided to members and annuitants, use of third-party providers vs. internal staffing, scale of operations, and any other areas which may not directly compare. Taking those factors into consideration, comparisons to peer retirement systems typically provide an indication of the appropriateness of a system's level of staffing. The capabilities of a system should be aligned with the services offered, regardless of whether they are internally staffed or from a third-party provider.

#### Employee Training and Development

Leading practices for staff training and continuing education policies within public retirement systems include:

- A staff training policy which requires minimum annual levels of training
  - Mandatory for all employees (e.g., fiduciary, compliance, information security)
  - Department specific (e.g., investments, IT, member services)
  - Role-specific (e.g., leadership training for managers and directors)
- Training roles and responsibilities
- New employee orientation requirements
- Types of acceptable training (e.g., on-the-job training, on-site training classes, self-study including online training available through other state agencies, external training programs)
- Employee reimbursement policy for external training
- Tuition reimbursement policy
- Professional certification expense reimbursement policy

A well-executed employee training program should include a comprehensive training plan and program for the organization which identifies training needs and monitors participation at the individual level. Typically, the Human Resources (HR) department will have a central leadership and coordinating role in providing training which is common across the organization, and each department head has a lead role for department-specific training, with support from HR.

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### *Findings*

CRS Human Resources handles most CRS requirements, working within the City policies and processes and utilizing City information systems. Recruitment and hiring utilizes the City's intake processes, for examples, but are conducted by the Director and staff. Employee training and development are also a staff responsibility.

In general, human resources works effectively for CRS, although recruiting can sometimes take more time to complete than is desirable.

### **Succession Planning**

Selecting, evaluating, and preparing for the succession of the executive director (ED) are among the most important functions of a fiduciary board. It is through the executive director that the board's direction and policies are executed, and organizational leadership and public presence are demonstrated.

The importance of the ED's position and the reporting and working relationship with the board cannot be overstated. It is to the ED that a board first looks for implementation, and that individual is the single point of executive accountability as the most senior officer of the system.

### *Findings*

The current working relationship with the Director and the Board of Trustees appears to be effective and positive, with mutual respect. Although the Board is only an advisor in the evaluation and compensation setting processes, there do not appear to be any current issues.

As there has been turnover in the Director position over the past few years, the Board and City Manager have demonstrated the ability to fill the open position on an effective and timely basis. However, there is not a formal succession plan for the Director position.

### **Human Resources Administration**

Characteristics of an organization with effective human resources policies and practices include:

- The organization structure and management span of control is appropriate for a retirement system of CRS's scale, lines of authority are clear, and it appears to function effectively.
- The Chief Financial Officer (CFO) reports directly to the ED.
- There is a position description for each staff member that describes general and position-specific requirements.
- The system periodically conducts or participates in independent compensation studies and utilizes the results to improve its compensation structure and ranges.
- Recruitment and hiring practices are effective; open positions and time-to-fill are monitored, and open positions are filled in a timely manner.
- There is an effective employee performance management system linked to the compensation system.
- There is a practice for obtaining employee-level input regarding professional satisfaction and retention issues.

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HR staff resources should focus on:

- Hiring issues.
- Skills gaps.
- Job rotation and backup capabilities.
- Staff/positions with retirement eligibility.
- Succession planning and talent review.
- A tuition reimbursement program is available to all staff to encourage professional development.

### *Findings*

Overall human resources administration processes for CRS are the responsibility of City Human Resources.

## 5.4 Legal

Internal and external legal counsel play vital roles in helping retirement systems to manage risk, conduct legal diligence, ensure compliance with applicable laws/rules/regulations, support fiduciary oversight, and partner and support business units in implementing board policies and administering benefits.

The size of and internal expertise within legal departments at retirement systems can vary greatly depending on assets and members of the system, total staff, the complexity of its operations, and whether or not investments are managed internally. Similar size public retirement systems without significant internal investment management typically have an internal or external general counsel and rely heavily on outside legal counsel with subject matter expertise in areas relevant to the system's operations (e.g., benefits, investments, litigation, etc.).

At some funds, the compliance function is also supervised by the legal office. The general counsel is typically hired and supervised by the executive director (with input from the board) and serves as primary counsel for the executive director, staff, and board, with ultimate legal obligations to the system.

In a survey conducted by FAS, 93% of public pension plans reported that their general counsel was appointed by and reported to the executive director. Nevertheless, the position nearly always has "dotted line" reporting obligations to the board whenever legal compliance, legal staff conflicts of interest are present, or board fiduciary obligations to the fund and its beneficiaries are involved. The general counsel usually attends all board and most committee meetings as the board's advisor and primary counsel on pension law.

It is a prevailing practice for public pension funds to engage outside litigation, tax, and investment counsel, as well as other outside legal experts when circumstances require specific legal expertise. It is also a leading practice to engage independent fiduciary counsel, typically selected by the board with general counsel participation, who represents the board, but whose ultimate legal obligation is to the system. Fiduciary counsel can often be used to provide counsel to the board on matters where the general counsel (or the Attorney General, Corporation Counsel or City Solicitor) has a conflict. In addition, outside fiduciary counsel typically advises the boards of multiple systems and has a broad understanding of peer practices. Fiduciary counsel may also assist with fiduciary and governance training.

While the Attorney General, or Corporation Counsel/City Solicitor in the case of municipalities, maintains

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control over public pension fund engagement of outside legal counsel in some jurisdictions, prevailing practice is for public pension funds to be granted authority either by statute or delegation from the Attorney General to hire outside legal counsel.

### *Findings*

As mentioned earlier, CRS relies on the City Solicitor and City Law Department for its legal support. The City Law Department has an assigned attorney who consistently works with and supports CRS. When specific expertise is required that is not resident within the City Law Department, external counsel is engaged by the City Law Department on behalf of CRS.

As a general rule, this arrangement has worked adequately. However, there have been two ongoing issues that could be addressed by delegating the CRS Board of Trustees with authority to engage external counsel:

- Responses from the Law Department often take much longer than CRS trustees and staff believe is acceptable; and
- When there is a potential conflict of interest between the City or Law Department and the System, there is no independent legal advice available to CRS. [See related discussion in section 1.4, above, of potential issues raised by this dynamic.]

## 5.5 IT

### **Information Systems Planning, Governance and Support**

In a well-governed public retirement system, there is clarity of authority and responsibilities in achieving the System's missions, goals, and objectives. Moreover, there is a consistent approach to the governance of information technology (IT), integrated and aligned with the overall approach to governance within the System. IT decisions are made in line with the System's strategies, objectives and desired values. To that end, IT-related processes are overseen effectively and transparently, including governance involvement by the Board of Trustees.

IT projects should be based on enterprise goals and other design factors. The roles and responsibilities for IT project and portfolio management, and the required skills and competencies to achieve relevant management objectives, should be well defined and communicated. The portfolio of application systems should be consistent with the needs of the business.

There should be a Data Management function to administer the use of data and a Database Administration function to control the use of electronic databases. These functions evaluate and categorize data according to sensitivity, privacy, and classification. The Data Management functions put processes in place to minimize or eliminate data duplication. There should be processes in place to ensure segregation of duties regarding the use of program data, reconciliations are performed in a timely and complete manner, and variances are identified and rectified in a timely manner.

### *Findings*

Similar to many municipal public retirement systems, CRS relies on the City ETS Department to provide its IT network, governance over IT purchases, email security and telecommunications services, including network security and firewalls. A small in-house CRS IT staff are responsible for local desktop support,

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trouble shooting, and designing change recommendations to the cloud-based Pension Gold application used by CRS. The CRS IT staff also provides assistance in strategic planning for technology needs for the Retirement System.

IT planning and governance for CRS requires cooperation between City ETS and CRS, particularly for networks and servers, on-premise systems or equipment. For example, City ETS is responsible for the telecommunications system, and a new contact center telecommunications system specifically for CRS would need to be approved by the City ETS Department.

The Pension Gold system relies on data provided by the City's Cincinnati Human Resources Information System (CHRIS) which maintains human resources data and payroll data for all City of Cincinnati employees. CRS staff interfaces with ETS, City HR, and City Payroll staff on a daily basis regarding data issues and programming changes that could affect data processing within the Pension Gold system.

CRS should develop a long-term IT plan to ensure that it has a coordinated plan for future upgrades as well as continuous improvements. It should start by articulating the functionality needed to best meet future requirements.

### IT Security

There should be an Information Security function that ensures processes in place that result in:

- Only authorized individuals have access to databases required for their job functions.
- Access permissions are revoked or revised when an individual is transferred or terminated.
- Access credentials are validated whenever an individual attempts to access program records.

The requirement for the confidentiality of the program's records should be incorporated in program policy.

Finally, there should be a plan for recovering IT systems and data within the requirements of the business as well as a plan for continuity of the business in the event of an IT disruption. These plans are based on a thorough understanding of the needs of the business. They are tested and maintained on a regular basis.

### *Findings*

Overall network security for CRS is managed by the City ETS Department, including user access to City applications.

For the pension application, which is provided through the cloud-based Pension Gold system, security is managed by LRS, the software vendor and network host of the system. Any user access changes to Pension Gold are managed exclusively by CRS. As mentioned earlier, CRS receives SOC 2 audit reports from LRS regarding security and controls.

## 5.6 Facilities management and support

The primary objective of facilities management is to efficiently provide a comfortable, functional, and safe office environment for system employees. A well run program includes timely maintenance and capital upgrades, as appropriate, building services (e.g., HVAC, electrical and lighting, fire safety), and cost effectiveness.



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### *Findings*

CRS maintains offices in a City-owned building and does not have a direct role in facilities management. Services provided by the City are reported to be adequate.

### 5.7 Business resumption

Leading practice is to have a business resiliency program addressing business continuity, disaster recovery, and incident response. This would include a plan for recovering IT systems and data within the requirements of the business as well as a plan for continuity of the business in the event of an IT disruption. These plans are based on a thorough understanding of the needs of the business. They are tested and maintained on a regular basis.

For incident management, an organizational unit should be in place to respond promptly and thoroughly to reported incidents, with incident management policies, procedures and reporting requirements that address cyber incidents and other disruptions to IT operations and breaches of program policy (e.g., privacy breaches).

### *Findings*

As mentioned earlier, CRS utilizes several outside parties to administer and process retirement benefits, including LRS, the City's Treasury Division, and ETS. The LRS-supported Pension Gold is accessed through an online portal, Member Direct, and LRS maintains the data with real-time backup. In the event of a disaster affecting the City, staff would be able to process benefits using the Pension Gold software remotely. CRS staff maintains a list of responsible parties in the event of an emergency.

CRS backs up data on a weekly basis and stores the backups on offsite servers as arranged by ETS. The City Treasury Division processes ACH checks and advices for pensioners and authorizes the transfer of funds to Fifth Third Bank to provide monthly pension payments. Paper checks to non-ACH annuitants are processed by CRS staff and could be managed remotely in case of business disruption. CRS has a written disaster recovery plan but it is outdated and could be more comprehensive.

### 5.8 Procurement

Public pension systems are often required to comply with purchasing standards and requirements of the plan sponsor such as the state, county or municipal government. Nonetheless, purchasing policies and procedures should be designed to provide a single purchasing policy and process with centralized monitoring of completeness and compliance throughout the contracting process.

The standards promulgated by the plan sponsoring government may represent leading practice for purchasing. However, aspects of the purchasing and procurement activities of public pension systems are often not anticipated in the operations of the plan sponsor and therefore require the system to modify the application of such rules and regulations to enhance internal control and provide for effective and efficient procurement while also considering the fiduciary requirement to expend system resources for the exclusive benefit of plan members and beneficiaries.

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### *Findings*

CRS is similar to many peer systems in utilizing the City's standard procurement policy and process. However, as mentioned earlier in this report, it is highly unusual for the Board of Trustees to not have final authority for selecting advisors and other service providers for functions where it has fiduciary authority. We are not aware of any similar circumstance with another public retirement system.

### Recommendations

#### **CRS should:**

- 5.1 Develop succession planning and implement a cross training program for staff to minimize key person risk and enhance staff development.**
- 5.2 Work with the City Administration and the Law Department to delegate authority to the CRS Board to engage external counsel to obtain more timely legal support or unique expertise when appropriate. See also Recommendation 1.3.**
- 5.3 Develop a long-term IT plan that identifies future needs.**
- 5.4 Work with the City Enterprise Technology Solutions (ETS) Department to ensure security is adequate and tested.**
- 5.5 Update the documented disaster recovery plan.**

### 6. Compliance

#### Scope of review

##### 6.1 Compliance

- Ethics compliance
- Compliance with laws and regulations
- Policy compliance and compliance with delegations
- Board and/or committee operations compliance to charters and policies
- Contractual compliance
- Trust and custody compliance
- Compliance with open meeting laws and disclosure and FOIA compliance
- Compliance with documentation management policies

#### Standards of Comparison and Findings

At some funds, the compliance function is supervised by the legal office. The general counsel is typically hired and supervised by the executive director (with input from the board) and serves as primary counsel for the executive director, staff, and board, with ultimate legal obligations to the system.

##### *Findings*

As CRS does not have internal legal counsel, and the City Law Department provides all legal services, the Law Department is responsible for monitoring CRS compliance effectiveness. Although there have not been any significant recent incidents where non-compliance was identified, it is not clear that there has been a systematic identification of key compliance requirements and, consequently, that they are being actively monitored.

#### **Ethics Compliance**

Prevailing practice at peer public retirement systems is to have conflict of interest policy and a separate code of ethics or code of conduct. Typically, there are also state statutory requirements and often ethics disclosure and reporting requirements.

A code of ethics, along with a standards of conduct policy, will typically include guidance on board confidentiality, conflicts of interest, financial disclosures and/or statement of economic interests, insider trading and material non-public information, whistleblower process, referral of investment opportunities and service provider candidates, and undue influence.

Training in these important topics for trustees is generally included during an initial onboarding process and then on an annual basis to ensure that it remains fresh in the minds of each trustee. To the extent that any policy changes are made, these are communicated immediately as they take effect.

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Monitoring of board compliance with statutes and policies is often monitored by a state ethics commission or panel, or sometimes by the State Auditor. In other cases, boards self-monitor. It is important that there is a monitoring and reporting process in place to ensure that ethics and conduct standards are adhered to.

### *Findings*

CRS trustees and staff are subject to the City's ethics code; there is not a separate ethics code for the CRS Board. We understand the City Law Department is responsible for monitoring ethics compliance at CRS.

In the Governance Manual, 4. Board Responsibilities, section r., requires the CRS Board to "report to Council annually on... vi. Compliance with conflict of interest and ethics policies." Compliance with conflicts of interest and ethics have not been mentioned in the annual reports to the Council for the past three years, and it is not clear if there have been explicit processes for monitoring compliance.

### **Compliance with Laws and Regulations**

Public pension plans like CRS are typically considered governmental plans under Section 414(d) of the Internal Revenue Code and receive favorable tax treatment as a qualified employee retirement plan under Section 401(a) of the Code. Other laws may also confer tax exemption, such as IRC section 501(a) or implied statutory immunity. It is important for CRS to ensure it meets the applicable tax qualification requirements to avoid exposing the plan employer and participants to payment of unnecessary taxes.

### *Findings*

Based upon our review, our understanding is that the City Law Department is responsible for ensuring that CRS remains in compliance with the Internal Revenue Code and has retained outside tax counsel for CRS.

### **Policy Compliance and Compliance with Delegations**

### *Findings*

The CRS Board and Director are responsible for compliance with CRS policies and delegations, with assistance from the City Law Department. There have not been recent identified issues of non-compliance identified.

### **Board and/or Committee Operations Compliance to Charters and Policies**

Board compliance oversight obligations extend beyond investment approvals to include compliance with standards of conduct, conflicts of interest, travel cost reimbursements, statutory mandates and other matters. While many peers combine compliance with internal audit, leading practice is to keep the two functions separated in order to preserve independence of the internal auditor, who may also be responsible for auditing compliance. When not combined with internal audit, peers vary on where the compliance function reports, with some reporting to the executive director, general counsel, audit committee or elsewhere. In any event, compliance responsibilities should be delineated and assigned.

### *Findings*

Based upon our review, we understand that the City Law Department is responsible for ensuring that CRS remains in compliance with its charters and policies.

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### **Contractual Compliance**

Fiduciary duty requires that funds exercise prudence in both selection, instruction and oversight of agents when delegating duties to staff, outside managers and other agents. This includes monitoring compliance with associated contracts and policies.

#### *Findings*

CRS staff monitor contracts on a regular basis and have standard reporting due dates. There have not been identified issues with contractual non-compliance in recent years.

### **Trust and Custody Compliance**

#### *Findings*

The CRS Finance group manages the relationship with the custodial bank and is responsible for monitoring performance and compliance with contractual requirements.

### **Compliance with Open Meeting Laws**

At most public retirement systems, the General Counsel participates in all Board meetings and advises the Chair on proper procedure and compliance with open meeting law requirements, as well as any other fiduciary duties, as appropriate.

#### *Findings*

An assigned member of the City Solicitor's Office serves as legal counsel to CRS and its Board and typically participates in all meetings and ensures Board compliance with open meeting requirements.

### **Disclosure and FOIA Compliance and Compliance with Documentation Management Policies**

#### *Findings*

The City Law Department is responsible for receiving and processing all FOIA requests. It is also responsible for ensuring that document management practices are in compliance with policy.

## Recommendations

### **CRS should:**

- 6.1 Assign leadership, training, and monitoring responsibilities for compliance to ensure compliance with conflict of interest and ethics policies.**
- 6.2 Develop a repository of risk-ranked compliance requirements.**
- 6.3 Establish tracking mechanisms to identify and escalate non-compliance.**

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### Appendix 1 – Peer Benchmarking Analysis

| Peer Public Funds - County and Municipal   | Executive Director Reports Directly to Board | Benefits Reports to the Board | Independent Financial Audit | Total Staff     | Investment Staff | DB AUM (\$Bils) | # of Mgrs | # of Funds       | # of Inv Cons | External Counsel | General Consultant(s)   |
|--|--|-------------------------------|-----------------------------|-----------------|------------------|-----------------|-----------|------------------|---------------|------------------|-------------------------|
| <b>Full Outsourced CIO Model - 7 Systems (35%)</b>   |  |                               |                             |                 |                  |                 |           |                  |               |                  |                         |
| Marin County (CA) Employees' Retirement Association  | Yes  | Yes                           | Yes                         | 16              | 0                | \$ 3.0          | 21        | 31               | 1             | 2                | Callan                  |
| Jacksonville Police & Fire Pension Fund  | Yes  | Yes                           | Yes                         | 8               | 0                | \$ 2.5          | 21        | 21 <sup>1/</sup> | 1             | 1                | RVK                     |
| Policemen's Annuity and Benefit Fund of Chicago  | Yes  | Yes                           | Yes                         | 19              | 0                | \$ 2.5          | 23        | 57               | 1             | 2                | NEPC                    |
| Tulare County Employees' Retirement Association  | Yes  | Yes                           | Yes                         | 14              | 0                | \$ 1.9          | 26        | 42               | 1             | 2                | Verus                   |
| Retirement Trust for Chicago Transit Authority Employees   | Yes  | Yes                           | Yes                         | 10              | 0                | \$ 1.9          | 25        | 31               | 1             | 2                | Marquette               |
| El Paso (TX) Firemen & Policemen's Pension Fund  | Yes  | Yes                           | Yes                         | 10              | 0                | \$ 1.8          | 24        | 99               | 2             | 1                | AndCo/ Meketa           |
| Milwaukee County Employees' Retirement System  | No   | No                            | No                          | NA              | 0                | \$ 1.7          | 23        | 25               | 1             | 1                | Marquette               |
| <b>CIO Oversight Model - 6 Systems (30%)</b>   |  |                               |                             |                 |                  |                 |           |                  |               |                  |                         |
| Educational Employees' Supplementary Retirement System of Fairfax County (VA)  | Yes  | Yes                           | Yes                         | 27              | 1 <sup>3/</sup>  | \$ 2.5          | 67        | 67               | 2             | 3                | Segal Marco/ Meketa     |
| Cincinnati (OH) Retirement System  | No   | No                            | No                          | 14              | 1 <sup>3/</sup>  | \$ 2.2          | 22        | 36               | 1             | 2                | Marquette               |
| Stanislaus County (CA) Employees' Retirement Association   | Yes  | Yes                           | Yes                         | 14              | 1                | \$ 2.5          | 34        | 42               | 2             | 5 <sup>4/</sup>  | Verus/ NEPC             |
| Baltimore City Employees' Retirement System  | Yes  | Yes                           | Yes                         | 29              | 1 <sup>2/</sup>  | \$ 2.1          | 39        | 43               | 2             | Int. (2)         | Marquette/ Meketa       |
| Tacoma (WA) Employees' Retirement System   | Yes  | Yes                           | Yes                         | 8               | 1 <sup>2/</sup>  | \$ 2.1          | 16        | 20               | 1             | 1                | Wilshire                |
| <b>CIO with Internal Staffing Model - 7 Systems (35%)</b>  |  |                               |                             |                 |                  |                 |           |                  |               |                  |                         |
| Municipal Employees' Annuity and Benefit Fund of Chicago   | Yes  | Yes                           | Yes                         | 38              | 4                | \$ 3.0          | 40        | 57               | 1             | 1                | Marquette               |
| City of Austin (TX) Employees' Retirement System   | Yes  | Yes                           | Yes                         | 24              | 4                | \$ 3.0          | 18        | 41               | 1             | 3                | RVK                     |
| Arlington County (VA) Employees' Retirement System   | Yes  | No                            | Yes                         | 4 <sup>5/</sup> | 2                | \$ 2.8          | 24        | 40               | 2             | 0                | Windmark/ Franklin Park |
| Denver Employees' Retirement Plan  | Yes  | Yes                           | Yes                         | 20              | 2                | \$ 2.7          | 41        | NA               | 1             | Int.             | Meketa                  |
| Fort Worth (TX) Employees' Retirement Fund   | Yes  | Yes                           | Yes                         | 19              | 4                | \$ 2.7          | 28        | 82               | 2             | Int. + 3         | Verus/ Aksia            |
| Dallas Police & Fire Pension System  | Yes  | Yes                           | Yes                         | 20              | 3                | \$ 1.9          | 29        | 31               | 2             | Int.             | Meketa/ Albourne        |
| Hartford (CT) Municipal Employees' Retirement Fund   | No   | No                            | No                          | 9               | 3                | \$ 1.2          | 30        | 65               | 2             | Yes              | NEPC/ Meketa            |
| <b>Total Peer Group</b>  |  |                               |                             |                 |                  |                 |           |                  |               |                  |                         |
| <sup>1/</sup> No private equity or hedge fund investments<br><sup>2/</sup> Executive Director is CIO who oversees an investment officer<br><sup>3/</sup> Executive Director is CIO who directly supports the Board<br><sup>4/</sup> Open position to hire internal General Counsel<br><sup>5/</sup> Benefits administration is provided by Arlington County Human Resources Department |  |                               |                             |                 |                  |                 |           |                  |               |                  |                         |