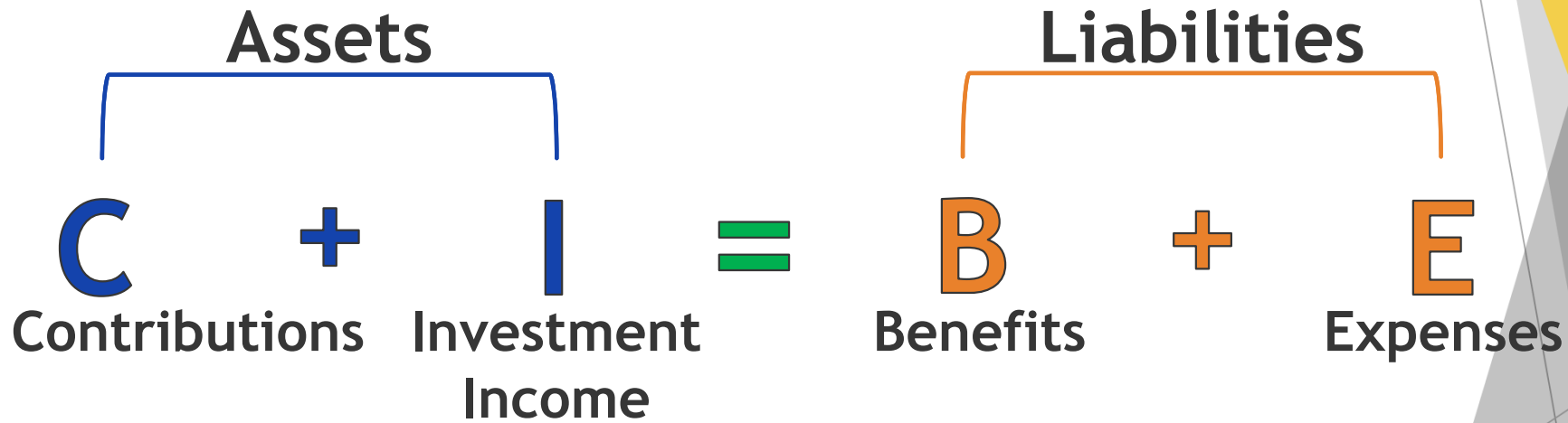


The Foundation Formula for Oversight



Missouri Department of Transportation and Highway Patrol Employees' Retirement System



**Financial Reporting, Audit,
Risk Management, Budget**

Jennifer Even, Chief Financial Officer

Updated April 1, 2021

Agenda Items

- ▶ Financial Reporting
 - ▶ GAAP / GASB
 - ▶ Annual Reports
- ▶ Audit
- ▶ Risk Management
 - ▶ Investments Risk / Operations Risk
 - ▶ Enterprise Risk Management (ERM)
- ▶ Budget
 - ▶ Operating Budget
 - ▶ Investment Fees and Expenses
 - ▶ Staff Compensation

▶ Financial Reporting

▶ GAAP (Generally Accepted Accounting Principles)

- ▶ Common set of accounting principles, standards, and procedures
- ▶ Improve financial reporting and transparency
- ▶ Ensure consistency in financial statements

▶ GASB (Governmental Accounting Standards Board)

- ▶ Independent, private-sector organization
- ▶ Establishes accounting and financial reporting standards
- ▶ Apply to state and local governments

Financial Statements must be prepared in conformity with U.S. GAAP and GASB standards in order to receive a clean audit opinion.

▶ Financial Reporting

▶ GASB (Governmental Accounting Standards Board)

- ▶ Statement 67 - Financial Reporting for Pension Plans and Statement 68 - Accounting and Financial Reporting for Pensions

<https://www.mpers.org/wp-content/uploads/2019-White-Paper-GASB-67-68-Copy1.pdf>

<https://www.mpers.org/wp-content/uploads/GASB-67-68-FAQ.pdf>

- ▶ Net Pension Liability - Notes, RSI

- ▶ Statement 72 - Fair Value Measurement and Application

<https://www.mpers.org/wp-content/uploads/2019-White-Paper-GASB-72-1.pdf>

- ▶ Note 3(f) - hierarchy table and additional disclosures
- ▶ Leveling of assets
- ▶ Understanding this statement/misconceptions

▶ Financial Reporting

▶ Comprehensive Annual Financial Report (Annual Report)

<https://www.mpers.org/annual-reports/>

▶ Introductory Section

▶ Financial Section

- ▶ Audit opinion, financial statements, note disclosures, other information

▶ Investment Section

- ▶ Overview, performance, fair value of assets, expense schedule

▶ Actuarial Section

▶ Statistical Section

▶ Popular Annual Financial Report (Summary Annual Report)

<https://www.mpers.org/popular-annual-financial-reports/>

Annual Report has received GFOA's Certificate of Achievement of Excellence in Financial Reporting each year since 2005.

Summary Annual Report received GFOA's Award for Outstanding Achievement in Popular Annual Financial Reporting for the first three years the report was produced, fiscal years 2017-2019. (Awards for 2020 have not been announced.)

▶ Audit <https://www.mpers.org/about-mpers/audit-reports/>

▶ Audit Committee

- ▶ Established by the Board, by virtue of the Governance Policies
- ▶ Primary responsibility - interact with external audit firm and approve annual audited financial statements
- ▶ External audit firm hired by the Board

▶ Financial Audit

- ▶ Review of audited financial statements of investment managers
- ▶ Financial and investment data, internal controls, actuarial data
- ▶ Audit of IT controls
- ▶ Service providers - SOC reports
- ▶ Review by outside actuary
- ▶ Completed annually

▶ **Audit** <https://www.mpers.org/about-mpers/audit-reports/>

▶ **GASB 67/68 Audit**

▶ **State Auditor**

▶ Last state audit - October 2010

▶ **Actuarial audit**

▶ **Outside Audit Efforts**

▶ Pension administration system administrator (LRS) has SOC 2 audit

▶ Investment managers - audit of funds

▶ Custodian bank has SOC 1 audit

Service Organization Controls (SOC) Type 1 audit is designed to address internal controls over financial reporting. SOC Type 2 audit addresses controls that are relevant to a service organization's operations and compliance.

▶ Risk Management

- ▶ We are risk managers, not risk eliminators
- ▶ Investments risk
 - ▶ Want to be rewarded appropriately for risk taken
 - ▶ Refer to investment risk in terms of standard deviation of returns or “volatility.”
- ▶ Operations risk
 - ▶ Actuarial risk (collecting the wrong amount from our employers)
 - ▶ Misapplication of the law when administering benefits
 - ▶ Information technology (who has access to what?)
 - ▶ Small staff size (win the lottery and our benefits staff is gone)

▶ Risk Management

▶ MPERS Staff

- ▶ Experienced professional staff, well-versed in their roles, regularly participate in continuing education and conferences to stay on top of industry-related issues (staff biographies found on the MPERS website)

▶ Controls

- ▶ Internal controls
- ▶ Statutes govern the benefit structure
- ▶ Governance Policies and Board Rules
- ▶ Employee handbook and administrative procedures
- ▶ Independent actuarial firm prepares annual valuation
- ▶ Independent investment consultant

▶ Enterprise Risk Management

Enterprise risk management as defined by the Committee for Sponsoring Organizations (COSO), is a process, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

- ▶ MPERS does not have an internal auditor
- ▶ With staff size of 17, adding an internal auditor would be an outlier relative to our public pension peers:
 - ▶ MOSERS has 2 auditors for 85 staff
 - ▶ PSRS/PEERS has 2 auditors for 130 total staff
 - ▶ LAGERS has an internal auditor/compliance officer for 30 staff

▶ Enterprise Risk Management

▶ The MPERS' ERM Policy states:

- ▶ “MPERS will instigate an ERM program, including the creation of an ERM committee, to ensure that risks are monitored appropriately, embraced when it is to our advantage, and mitigated when necessary to achieve our objectives.”
- ▶ MPERS manages risk (does not mean eliminating risk)
- ▶ MPERS must accept risk to grow investment portfolio
- ▶ Risks that may negatively impact MPERS are mitigated to the extent possible

▶ Enterprise Risk Management

- ▶ Audit Committee receives quarterly updates on activities of Operations ERM Committee and Investments ERM Committee.
- ▶ Board receives annual update at November board meeting

The key takeaway for today is simply knowing that staff takes risk management seriously. MPERS' staff have taken steps to improve risk management which includes reports to the Board on ERM activities.

▶ Budget

- ▶ Annual operating budget prepared April/May
- ▶ Reviewed by Budget Committee
- ▶ Final budget presented to Board in June for approval
- ▶ Operating budget does not include investment and manager fees and expenses

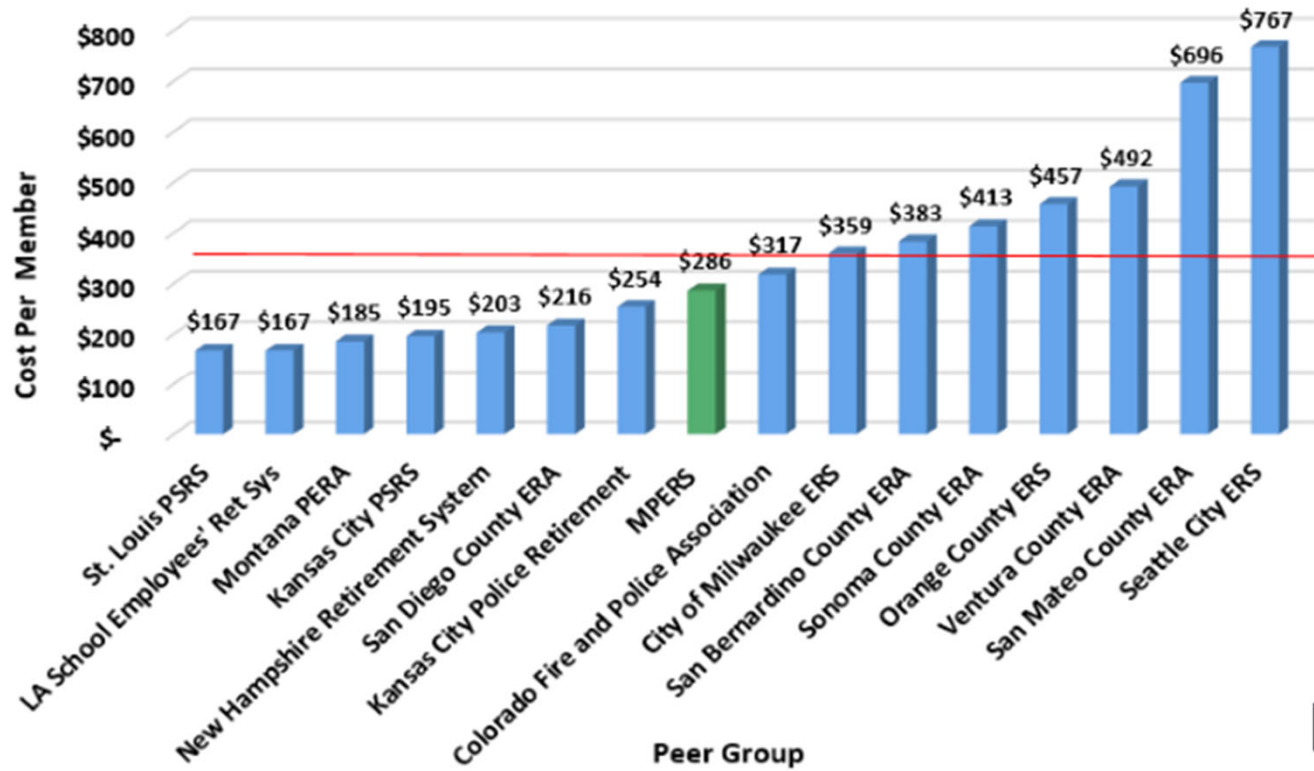
► Approved Operating Budget available on Trustees' page with login

Budget Category	FY18 YTD Actual	FY19 YTD Actual	FY20 Final Budget	FY20 YTD Actuals	FY21 Final Budget	FY20 YTD % Spent	FY20-FY21 Budget \$ Change	FY20-FY21 Budget % Change
Administrative Expenses								
1 Salary/Benefits	\$1,864,585	\$2,000,072	\$2,254,831	\$2,023,781	\$2,241,131	89.75%	(\$13,700)	-0.61%
2 Professional Services	276,450	278,525	304,330	312,293	346,580	102.62%	42,250	13.88%
3 Meeting/Travel/Education	19,266	23,029	30,000	17,088	30,000	56.96%	0	0.00%
4 Member Education	10,751	9,220	14,580	4,219	15,780	28.94%	1,200	8.23%
5 Office Supplies	2,845	7,111	6,000	4,183	6,000	69.72%	0	0.00%
6 Printing/Postage	32,661	27,203	32,500	24,348	29,900	74.92%	(2,600)	-8.00%
7 Membership Dues/Subscriptions	13,323	16,262	20,477	20,519	21,592	100.21%	1,115	5.45%
8 Utilities	38,241	34,776	40,220	30,562	35,925	75.99%	(4,295)	-10.68%
9 Building Expenses/Maintenance	33,884	61,810	44,960	39,822	41,910	88.57%	(3,050)	-6.78%
10 Rental/Lease	7,792	8,075	8,550	10,096	8,550	118.08%	0	0.00%
11 Equipment/Furniture	5,989	4,174	8,400	4,671	8,400	55.61%	0	0.00%
12 Information Technology	306,395	326,918	266,320	248,215	280,570	93.20%	14,250	5.35%
Administrative sub-total	\$2,612,182	\$2,797,175	\$3,031,168	\$2,739,797	\$3,066,338	90.39%	\$35,170	1.16%
Investment Expenses								
13 Salary/Benefits	1,597,586	1,126,417	1,832,876	1,172,017	1,995,481	63.94%	162,605	8.87%
14 Investment Services	588,176	624,635	642,720	635,443	648,942	98.87%	6,222	0.97%
15 Meeting/Travel/Education	58,275	55,491	58,350	40,771	58,350	69.87%	0	0.00%
16 Direct Operating Expenses	42,750	45,244	43,840	42,471	43,840	96.88%	0	0.00%
Investment sub-total	\$2,286,787	\$1,851,787	\$2,577,786	\$1,890,702	\$2,746,613	73.35%	\$168,827	6.55%
TOTALS	\$4,898,969	\$4,648,962	\$5,608,954	\$4,630,499	\$5,812,951	82.56%	\$203,997	3.64%

► Mid-year Budget Update - provided in January

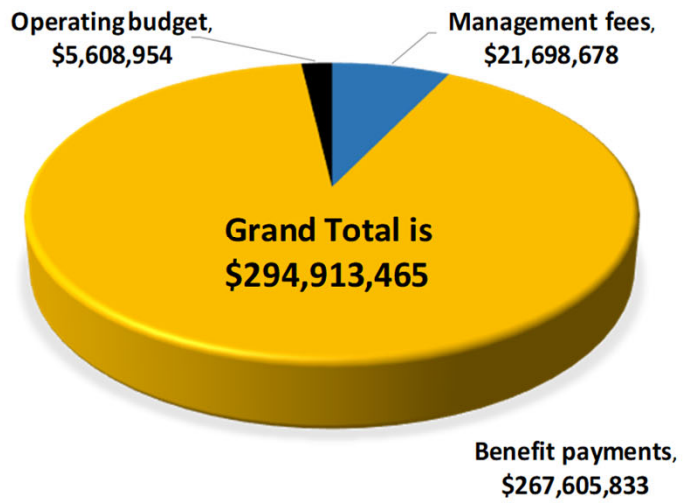
<u>Budget Category</u>	<u>FY19 YTD Actual</u>	<u>FY20 YTD Actual</u>	<u>FY21 Final Budget</u>	<u>FY21 YTD Actuals</u>	<u>FY21 YTD % Spent</u>
Administrative Expenses					
1 Salary/Benefits	\$2,000,072	\$2,023,781	\$2,241,131	\$1,053,543	47.01%
2 Professional Services	278,525	312,293	346,580	217,260	62.69%
3 Meeting/Travel/Education	23,029	17,088	30,000	2,029	6.76%
4 Member Education	9,220	4,219	15,780	173	1.10%
5 Office Supplies	7,111	4,183	6,000	746	12.43%
6 Printing/Postage	27,203	24,348	29,900	7,383	24.69%
7 Membership Dues/Subscriptions	16,262	20,519	21,592	13,141	60.86%
8 Utilities	34,776	30,562	35,925	12,385	34.47%
9 Building Expenses/Maintenance	61,810	39,822	41,910	10,834	25.85%
10 Rental/Lease	8,075	10,096	8,550	3,955	46.26%
11 Equipment/Furniture	4,174	4,671	8,400	1,394	16.60%
12 Information Technology	326,918	248,215	280,570	227,306	81.02%
Administrative sub-total	\$2,797,175	\$2,739,797	\$3,066,338	\$1,550,149	50.55%
Investment Expenses					
13 Salary/Benefits	1,126,417	1,172,017	1,995,481	647,633	32.45%
14 Investment Services	624,635	635,443	648,942	272,593	42.01%
15 Meeting/Travel/Education	55,491	40,771	58,350	2,936	5.03%
16 Direct Operating Expenses	45,244	42,471	43,840	17,600	40.15%
Investment sub-total	\$1,851,787	\$1,890,702	\$2,746,613	\$940,762	34.25%
TOTALS	\$4,648,962	\$4,630,499	\$5,812,951	\$2,490,911	42.85%

► Cost Per Member

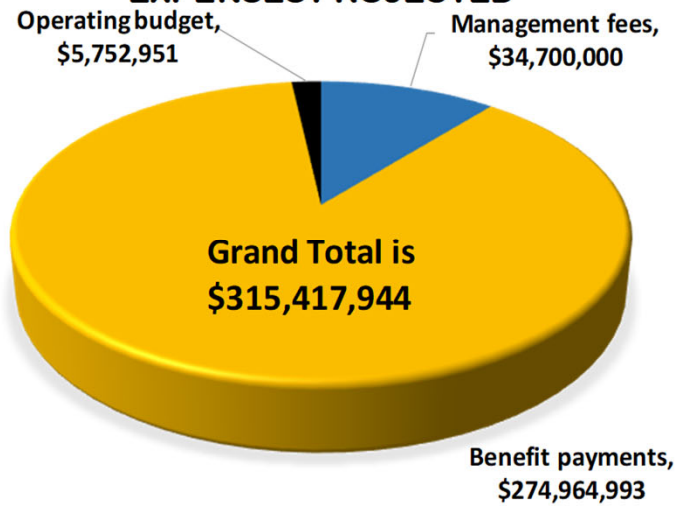


► Expenses

LAST FISCAL YEAR (FY20) EXPENSES

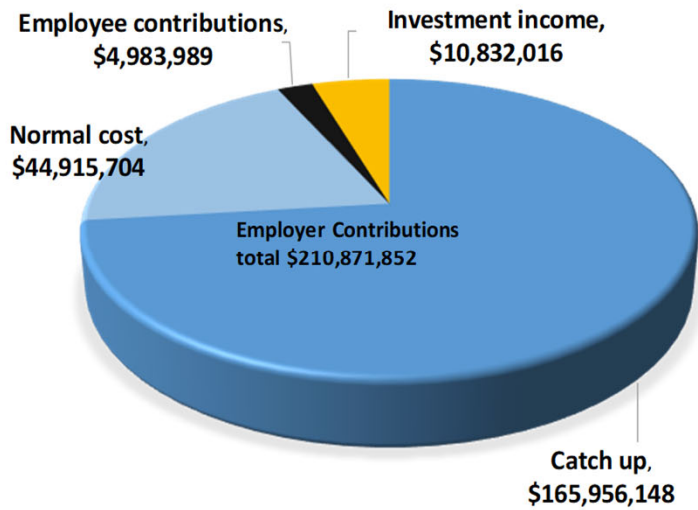


CURRENT FISCAL YEAR (FY21) EXPENSES PROJECTED

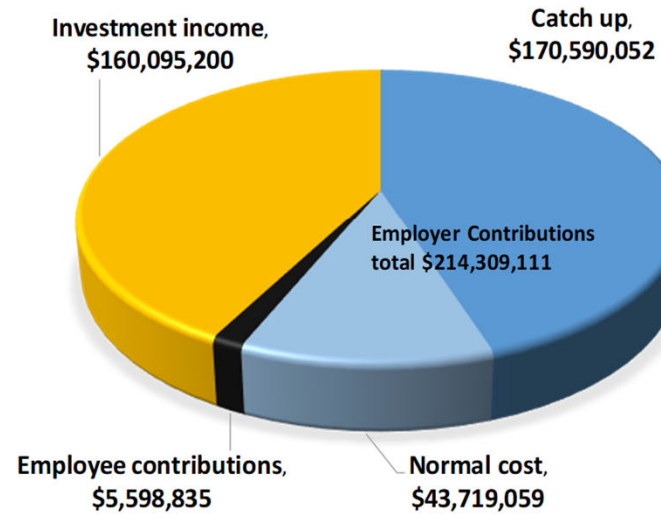


► Income

LAST FISCAL YEAR (FY20) INCOME



CURRENT FISCAL YEAR (FY21) INCOME PROJECTED



▶ Staff Compensation

▶ Objectives

- ▶ Sufficient to attract and retain capable staff
- ▶ Provide incentives for outstanding performance
- ▶ Competitive with the marketplace
- ▶ Not affected by state's compensation decisions

▶ Staff Compensation

▶ Investments

- ▶ Incentive compensation
- ▶ Five-year rolling return
- ▶ Must add value above benchmarks

▶ Operations

- ▶ Annual performance pool
- ▶ Performance and goal driven

▶ Cost-of-living adjustment

▶ Executive Director retention incentive

▶ CIO contract

► Staff Compensation

Position	Average	Salary Range			Market
	Annual Base	Minimum	Midpoint	Maximum	Compa-Ratio
Senior Administrative Assistant	\$42,799	\$33,637	\$39,524	\$45,410	108.28%
Senior Account Technician (3)	\$48,469	\$40,864	\$48,016	\$55,166	100.94%
Benefit Specialist	\$55,242	\$46,136	\$54,210	\$62,283	101.90%
Communications Specialist	\$60,611	\$51,205	\$60,166	\$69,126	100.74%
Senior Benefit Specialist	\$66,925	\$52,559	\$61,756	\$70,954	108.37%
Senior Executive Assistant	\$67,046	\$52,887	\$62,142	\$71,397	107.89%
Benefit Audit Specialist	\$71,100	\$56,031	\$65,836	\$75,642	108.00%
Assistant Chief Financial Officer	\$68,490	\$59,814	\$71,777	\$83,740	95.42%
Investment Analyst (2)	\$64,000	\$61,243	\$73,492	\$85,741	87.08%
Chief Financial Officer	\$145,449	\$109,066	\$141,786	\$174,505	102.58%
Assistant Executive Director/General Counsel	\$151,815	\$122,099	\$158,729	\$195,358	95.64%
Manager of Investments	\$151,102	\$125,575	\$163,247	\$200,920	92.56%
Chief Investment Officer	\$376,700				
Excutive Director	\$241,867				

CBIZ COMPENSATION CONSULTING

► Questions ?