



Memorandum

TO: City Council

FROM: Mayor Chuck Reed
Councilmember Pete Constant

**SUBJECT: AUDIT OF RETIREMENT
SERVICES TRAVEL EXPENSES**

DATE: September 26, 2008

Approved

Chuck Reed

Date

9/26/08

RECOMMENDATION

That the City Council:

1. Adopt all recommendations contained in the City Auditor's Audit of Retirement Services Travel Expenses.
2. Direct the City Manager to incorporate into the boards and commission analysis recommendations on restructuring the boards of the Federated and Police Retirement Boards to add independent Board Members with financial and investment expertise for Council consideration. This process should include outreach to affected stakeholders.

BACKGROUND

The findings of the August 27, 2008 Audit of Retirement Services Travel Expenses by the City Auditor indicate the need for revised procedures and controls, but also highlight the need for change within the Boards. Additional expertise on the Boards would also help address the causes of some of the audit findings, as many travel expenses were driven by attendance at investment related conferences or due diligence visits to financial experts.

Restructuring the Retirement Board will help address other issues of concern. While contributions to the retirement plans are made by both employees and the City, only the City acts as final guarantor of all benefits paid by the Plan. The ultimate guarantee of the Plan's ability to pay the agreed-upon benefits means that a key stakeholder in the fiscal health of the Plan is the citizens of San José.

The residents benefit from having members with the expertise required for the complex issues present in the administration and governance of the Plan. The combination of the highly technical rules for pension administration and the complexities of actuarial science requires highly experienced Board Members to effectively govern the plan. Trustees with relevant experience will have a background in maximizing return and minimizing risk, as well as, developing asset allocation and asset protection strategies. Additional expertise on the Boards could also provide increased knowledge of best practices in both investment strategy and benefit operations.

While some may argue that the purpose of the Board Member is to set policy and that the technical aspects are handled by trained professionals, lack of understanding of the finer points of administration means that a Board Member may be unable to ask meaningful policy questions.

For these reasons we believe the City and the beneficiaries would be better served by a Board that includes qualified professionals.