July 17, 2017

Honorable Members of the Los Angeles City Council
Water and Power Employees' Retirement Plan Board of Administration

As required under City Charter Section 1112, the Los Angeles City Controller, the Office of the Mayor, and the Los Angeles City Council jointly cause, once every five years, a management audit to be conducted of the pension and retirement systems by an independent qualified management auditing firm. The audit examines whether the pension or retirement system is operating in the most efficient and economical manner and evaluates the asset allocation of the system. The first Charter-mandated audit of the Water and Power Employees' Retirement Plan (WPERP) was issued on March 9, 2009 and contained 148 recommendations.

The Charter-mandated audits are comprehensive and require many months to complete. Representatives for the Mayor's Office, City Council and Controller's Office (Joint Administrators) identified 21 audit objectives to be addressed in the current management audit.

The attached "Report on the Management Audit of the Los Angeles City Water and Power Employees' Retirement Plan" addresses the audit objectives, and an assessment of the implementation status of the prior audit recommendations. This Final Report includes the following topics:

- Retirement payment processing;
- Compliance with Investment Policies;
- Consideration of administrative costs, investment costs, travel policy and costs and cost-sharing and consolidation with the City's other pension plans;
- Consideration of the cost-benefit of active versus passive investment management;
- Reasonableness of actuarial methods and validity of assumptions;

- The adequacy and reasonableness of WPERP's asset allocation and investment diversification to minimize the risk of loss and maximize the return rate;

- Governance and Fiduciary Responsibilities and adequacy of long-term financial planning;

- Benchmarking to the City's other pension plans and peers.

Attached to the Final Report is a response from WPERP which indicates they are in general agreement with the recommendations.

If you have any questions about the report, please contact Alfred Rodas, Director of Auditing, at (213) 978-7392 or at alfred.rodas@lacity.org.

Sincerely,

RON GALPERIN
City Controller

ERIC GARCETTI
Mayor

HERB J. WESSON, Jr.
City Council President
10th District

Enclosure

cc: Honorable Mike Feuer, City Attorney
Ana Guerrero, Chief of Staff, Office of the Mayor
Linda Le, Retirement Plan Manager, WPERP
Richard H. Llewellyn, Jr., Interim City Administrative Officer
Holly L. Wolcott, City Clerk
Sharon M. Tso, Chief Legislative Analyst
Independent City Auditors

July 6, 2017

Joint Administrators
c/o Office of the Controller
City of Los Angeles
200 N. Main Street, Suite 460
Los Angeles, CA 90012

ATTN: Mr. Alfred Rodas, CPA, CIA, CIG, CIGI, Director of Auditing
Ms. Cynthia Varela, Chief Internal Auditor

RE: Final Report - Management Audit of the Los Angeles Water and Power Employees' Retirement Plan

Dear Joint Administrators:

Aon Hewitt Investment Consulting is pleased to present the *Final Report - Management Audit of the Los Angeles Water and Power Employees' Retirement Plan*. The attached document is the result of hundreds of hours of work, culminating in our conclusion that overall, WPERP is generally operating in an efficient and economical manner. Notwithstanding, a number of areas were identified where we believe enhancements would be beneficial.

We thank everyone who worked on this important project for their time and hard work. We are honored to have the opportunity to serve the City of Los Angeles.

Sincerely,

Jeanna M. Cullins, Partner, Fiduciary Services Practice Leader
Aon Hewitt Investment Consulting, Inc.

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2017

Management Audit of the Los Angeles Water and Power Employees' Retirement Plan

Final Report to the Controller of the City of Los Angeles

For the Audit Scope Period July 1, 2010 to June 30, 2015

Fiduciary Services Practice

Aon Hewitt Investment Consulting, Inc.

3/22/2017

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Executive Summary

Introduction

The City of Los Angeles (the “City”) has three primary employee retirement systems of which the Water and Power Employees’ Retirement Plan (“WPERP”) is one. Unlike the Los Angeles City Employees’ Retirement System (“LACERS”) and Fire and Police Pension System (“LAFPP”) which are departments of the City of Los Angeles, the Los Angeles City Charter (the “City Charter”) established WPERP within the Department of Water and Power (the “DWP”). The WPERP is a single employer public employee retirement system whose main function is to provide pension, death and disability benefits to eligible employees of DWP.

The Water and Power Employees’ Retirement, Disability and Death Benefit Insurance Plan (the “Plan”) was adopted by resolution of the Board of Water and Power Commissioners (the “DWP Board”), becoming effective October 1, 1938. On September 6, 2006, the WPERP Board of Administration (the “WPERP Board”) approved the creation and establishment of the Retiree Health Benefits Fund (the “RHBF”) for purposes of funding the post-retirement benefits provided under the Retiree Health Benefits Plan adopted by resolution in 1986 by the DWP Board.

The City Charter grants responsibility and authority to the WPERP Board to administer and invest the assets of WPERP. WPERP consists of four distinct funds, each of which is a separate plan and independent trust of DWP: (1) the retirement plan (the “Retirement Plan”) is a single employer defined benefit pension plan; the (2) Death Benefit Fund and (3) RHBF[1] are each single employer defined benefit other post-employment benefits (“OPEB”) plans; the (4) Disability Fund exists for the payment of temporary disability and permanent and total disability of DWP employees and is not a pension plan nor an OPEB plan.

The Retirement Plan covers almost 9,400 DWP active employees. Benefits are based on a member’s pension tier, age, years of service, and average monthly salary. For the year ending July 1, 2015, 6,709 retired members and 2,134 beneficiaries were receiving total monthly benefits of $41,382,393. The average monthly retiree benefit amount paid was $5,212 for the year ending July 1, 2015.

[1] The WPERP Board has investment oversight only for the RHBF.

The City and its Joint Administrators[2] retained Aon Hewitt Investment Consulting ("AHIC") through a competitive bidding process to perform the management audit (the "Management Audit") of WPERP for the period covering fiscal years 2010 to 2015 (the "Review Period"). This Management Audit was conducted pursuant to City Charter Section 1112 which provides for a management audit to be conducted by an independent qualified firm to examine whether the WPERP is operating in the most efficient and economical manner. Although the DWP is the plan sponsor of WPERP, the City nevertheless has a legitimate interest in WPERP's operations and financial condition. This Management Audit is one of several mechanisms designed to allow the City to monitor the WPERP.

The Management Audit addresses each of the objectives outlined in the audit scope of work, including a status review of the recommendations from the prior Management Audit issued in 2009. The content of this report ("Report") supports our conclusion that overall, WPERP is generally operating in an efficient and economical manner. Areas where we believe WPERP would benefit from enhancements are identified and recommendations are provided.

This Executive Summary is an abridged version of the key findings, conclusions and recommendations contained in this Report. It is a high level summary and is not intended as a replacement for the full Report. A recommendation matrix that aggregates all the recommendations that appear in this Report can be found in the Appendix. We encourage readers to examine the detailed narrative.

OBJECTIVE 1. RETIREMENT PENSION PAYMENT PROCESSING

- **TIMELINESS OF BENEFITS**

  The California Constitution requires promptness in the payment of retirement benefits. Based upon the information we reviewed, we found that WPERP staff processed retirement benefit payments in a manner consistent with applicable legal and Retirement Plan requirements and in a timely manner. In our opinion, WPERP also implemented proper controls over payments and disbursements to and for retirees. WPERP could benefit from reviewing and updating the procedural documentation that supports the internal controls and governance environments, as well as the summary plan description documentation, and, to

[2] The Joint Administrators are composed of representatives of the City of Los Angeles' Mayor, City Council, and Controller.

the extent possible, automating any remaining functions that rely on manual processing.

We found several operational risk issues which carried forward from the 2009 Management Audit. WPERP relies upon a dispersed, versus aggregated system of written delegation between the Board and the Retirement Plan Manager. This complicates the Board's oversight of its delegation of authority. Additionally, we found no performance measures or standards for monitoring internal processing efficiency. WPERP does not participate in any benefits administration related peer benchmarking studies.

We recommend: Update and/or publish the summary plan description documentation for both Plan Tiers, document in one place the delegation of authority to the Retirement Plan Manager and establish a review cycle for it, develop a strategic plan that includes performance measures, establish retirement benefits processing standards for timeliness and quality, obtain pension administration benchmark data, periodically update benefits processing and internal controls procedural documentation, and continue to automate those remaining manually processed retirement benefits functions.

- **AVERAGE RETIREMENT COMPENSATION COMPARED TO PEERS**

The ultimate purpose of any retirement benefit is to contribute to an employer's overall ability to attract and retain talent; therefore, understanding how a retirement benefit compares to similarly situated peers can be one indication of whether the retirement benefit is in alignment with its intended purpose. To compare average retirement compensation paid, we selected seven public retirement system peers with general geographic proximity to WPERP, including LACERS, LAFPP and the Los Angeles County Employees' Retirement Association ("LACERA"). We found WPERP's average monthly retirement compensation was within range of its peers for all years during the scope period. It is moderately higher than the peer system average and median monthly retirement compensation paid. The year-over-year increase in WPERP's average monthly retirement compensation is also higher than peer systems for most years during the scope period. Narrowing our analysis among the three other Los Angeles area public retirement systems (i.e., LACERS, LAFPP and LACERA), we found that the WPERP average monthly retirement compensation paid clusters more closely to the high end for all years during the scope period.

- **ADMINISTRATIVE COSTS PAID FROM THE FUND FOR RETIREE HEALTH BENEFITS ALONGSIDE THAT OF LACERS AND LAFPP**

  How a public retirement system's health plan is administered can drive significant differences in cost. We found that the administration models vary significantly among WPERP, LACERS and LAFPP because of differences in legal authority granted, how and to whom day-to-day support duties are assigned, whether the active employees and retirees are pooled or separate, how plan rates and professional services are negotiated, and the availability of initiatives used to contain costs (e.g., wellness programs), among others. This structural difference impacts program expenses and caution should be used in drawing conclusions.

  Administrative costs for each system during the audit scope period, as expressed in basis points of total retiree health benefit fund assets managed by each retirement system, were approximately 9 basis points on average for WPERP, approximately 16 basis points on average for LACERS, and approximately 8 basis points on average for LAFPP. Total administrative expenses among all three funds were fairly consistent during the scope period.

  The average share of health care premiums paid during the scope period by WPERP, LACERS and LAFPP on behalf of each system's retirees to their health care plan providers in excess of the monthly subsidy amount are as follows: approximately $5.4 million for WPERP, approximately $11.1 million for LACERS, and approximately $20.4 million for LAFPP.

OBJECTIVE 2. MINIMIZE DWP CONTRIBUTIONS

To minimize contributions, there are three fundamental factors that should be taken into account: benefits, net investment earnings, and administrative expenses. The most significant driver of an employer's contribution is benefits (WPERP actuarial assumptions are addressed in Objective 3 of this Report). The next most significant factor that affects an employer's contribution is net investment earnings. The third factor that can influence an employer's contribution is administrative expenses.

After examining each of these three factors and underlying processes related to them, we believe WPERP's administration generally resulted in minimizing DWP contributions during the scope period. We set forth below the support for this conclusion and recommendations for enhancements.

- **Asset Allocation Process and Staffing**

  Asset allocation is viewed by many as the single most important factor to a fund's success over the long-term. Adequate staffing is also essential to the implementation of the asset allocation approved by a board.

  WPERP currently invests in the major asset classes that we would expect to find for a comparable plan. The process used by WPERP is sufficient to determine the appropriateness of its diversification and whether the risk of loss to the Plan is minimized and the expected return is maximized. WPERP routinely has an asset liability study, every three years, which is consistent with best practice. The last asset liability study was performed in 2015.

  WPERP has a lower number of investment staff professionals than the average public fund (10 at WPERP versus 13 for funds above $5 billion). Insufficient staffing can cause operational risk. WPERP does not mitigate this risk by relying on investment consultants as an extension of staff.

  We recommend: Determine the investment staffing types and levels that appropriately align with the activities and requirements of its investment program; and amend the investment policy to formalize the current practice of conducting an asset liability study at least every three to five years.

- **Portfolio Rebalancing**

  Rebalancing the portfolio is an important risk control measure that maintains a plan's target asset allocation (preferred level of risk exposure). When making policy decisions regarding rebalancing, investors must weigh the potential cost of rebalancing too frequently against the potentially higher tracking error associated with rebalancing too infrequently.

  WPERP's rebalancing process is generally appropriate. However, there are four areas that could be enhanced: (1) the rebalancing ranges are too wide; (2) the private equity asset class should be included within the equity rebalancing range; (3) rebalancing authority is currently within the purview of the WPERP Board rather than delegated to staff; (4) the time-based restriction on rebalancing introduces unnecessary risk to the portfolio.

  We recommend: Review the investment policy rebalancing ranges, include private equity within the equity rebalancing ranges, eliminate the time-based rebalancing restrictions, and delegate rebalancing activities.

- **Investment Performance**

  Over the 1-year and 3-year periods, WPERP produced strong investment results relative to its benchmark and peers. During the 5-year scope period WPERP slightly underperformed (-0.21%) at a somewhat higher level of volatility (+0.31%) than its benchmark and has produced risk adjusted results closer to the median.

  Attribution analyses assist pension funds in understanding the drivers of performance. We performed an analysis at the asset class level. Overall, WPERP's investment managers generally added value relative to their benchmarks during the scope period. However, the deviation of the asset allocation from the investment policy detracted from relative performance.

  We recommend: Include asset class attribution in the Board's quarterly reporting materials.

- **Expenses and Travel**

  Administrative Costs of Operating WPERP Compared to Budget - WPERP has been under budget for each year of the audit period. Actual expenses increased over the prior year; however, increases have not been material – the average increase for WPERP during the scope review period was 3%.

  Cost of Administering WPERP Compared to Peers - WPERP's actual administrative costs are significantly lower than its three local peer funds as well as a peer group of nationwide public pension funds. It also compares very favorably to its peers in terms of cost per member. Further, WPERP's administrative costs have been very stable for the audit period.

  Investment Costs - The fees paid to investment managers, the investment consultant, and the custodian bank are below peers. Existing managers have generally added relative performance over their benchmark net of fees; however, WPERP is incurring a fairly high level of expense in its investment transactions. The use of hedge fund of funds by WPERP is adding an additional level of fees - to the fund of funds manager and to the underlying managers selected to participate. This causes the reporting of actual expenses to be understated. Additionally, WPERP's quarterly investment performance reports provide gross of fee returns and not net of fee return information. This approach is not consistent with best practice. Analyzing performance on a net of fee basis provides for a true analysis of the efficacy of active management efforts, i.e., whether managers have added value and generated returns for the Plan after their fees have been paid. This is particularly important given the level of active management used by WPERP.

We recommend: Evaluate the risk, return, and cost tradeoffs associated with transitioning to a direct hedge fund portfolio; require the investment consultant to report all investment performance information to the Board net of all investment related fees; and conduct a thorough review of the Plan's trading costs and peer comparison to determine if the current relatively high level of trading expense is appropriate.

We also recommend, to the extent it is administratively feasible, that WPERP establish a process to gather and report to the Board the information on performance fees for private market investments and any soft costs for research and other services.

Travel Policy and Costs - WPERP follows the DWP practice of using the City Travel Policy and uses the annual budget as a means to approve its travel policy. Unlike its local peers and many other large public pension funds, it does not have its own travel policy. A travel and education policy is a best practice and was also recommended in the 2009 Management Audit.

WPERP's total travel costs are materially lower than its peers, with the exception of fiscal year 2015. Board members' travel is de minimis. An annual report of Board and Staff member travel is prepared and reviewed as part of the budget process. After reviewing each report during the scope period, we found that travel taken supported relevant purposes and that there is an informal travel procedure in place for Board and Staff travel. On its face, the informal process appears to be adequate to mitigate the likelihood of travel abuse. Ongoing education is imperative to empowering fiduciaries with the knowledge necessary to fulfill their duties. Staff travel is for both educational and due diligence purposes.

We recommend: The Board adopt a written travel and education policy.

- **Cost-Benefit of Active versus Passive Management**

It is widely accepted today by investment theorists and practitioners alike that the average traditional active equity manager underperforms the benchmark. Yet, the performance of WPERP's active managers has been generally successful over the long-term.

Throughout the audit scope period, WPERP employed a significantly lower level of passive management relative to large public fund peers. Conversely, its use of active management in the Domestic Equity asset class significantly exceeded that of public pension fund peers across all time periods within the audit scope. With regard to International Equity and Fixed Income, WPERP's allocation to actively managed strategies was within the range of peers across all time periods within the audit scope. WPERP Staff reported that it does not currently perform and present to the Board a formal active/passive analysis.

We recommend: Evaluate the potential benefits of passive management for Domestic Equity, International Equity, and Fixed Income asset classes; establish a review cycle for evaluating active versus passive management for traditional asset classes.

- **Cost Sharing and Consolidation**

WPERP has instituted a number of cost sharing vehicles. Examples include:, requiring that its investment managers provide price breaks if LACERS and/or LAFPP invest with the same manager within the same mandate; sharing the costs of external legal counsel used for alternative investments with LACERS and LAFPP; housing WPERP within the DWP building, and sharing legal costs and office space expenses for the attorneys assigned to it from the City Attorney's Office.

Other potential cost sharing vehicles that WPERP may want to explore include: disability investigations and medical professional services; accounting and actuarial services; and joint Board education and training programs.

The issue of cost savings related to consolidation has been addressed in the Management Audits for each of the three local pension systems since 2007. The Mayor and the City Council have asked each of the systems to weigh in on the merits and feasibility of consolidation. There are significant issues of law regarding whether consolidation would require not only a change to the City Charter, but more importantly, an amendment to the California Constitution.

The WPERP Board does not believe that consolidation is possible without a California Constitutional amendment. The differences in the benefit design among the three systems and the low cost structure WPERP already has in place are additional reasons that have been expressed against consolidation. In response to the Mayor and the City Council's requests for collaboration among the three pension systems, the WPERP Board has "directed staff to continue to effect efficiencies and cost savings in all areas possible through communication and coordination with LACERS and LAFPP with respect to services utilized by all three pension plans."

We created and analyzed a hypothetical scenario, using peer data as a proxy of the potential change in fees associated with consolidating the investment programs. The result to WPERP was actually a slight increase in total investment expenses. This is also the case for total consolidation. This is due to WPERP's current low level of investment and administrative fees.

To more accurately judge the feasibility and cost-benefit of consolidation, an in-depth study of the matter should be performed by the City. However, it would not be prudent to proceed with a study before the primary legal barrier associated with consolidation is resolved.

We recommend: The Mayor and City Council determine whether an amendment to the California Constitution would be required as a prerequisite to amending the City Charter to consolidate WPERP with the other City pension systems.

- **Compliance with Investment Objectives and Policies**

WPERP has complied with the City Charter requirements and best practice by adopting and keeping current its investment policy. Overall, the investment activities we observed appear to generally be in compliance with the investment policy and Charter with one exception. WPERP has not complied with the spirit of the requirement to annually provide a copy of its investment policy to the Mayor and City Council. It does, however, post it on its website.

We recommend: Annually deliver the investment policy to the Mayor and City Council as an informational item.

OBJECTIVE 3. ACTUARIAL ASSUMPTIONS

Our assessment considered the following three fundamental areas in evaluating the actuarial assumptions. We did not find any material issues, but there are opportunities to bring WPERP even more in line with best practices.

- **Reasonableness of Actuarial Method and Assumptions**

WPERP has been diligent in reviewing the appropriateness of its actuarial methodology and assumptions. Between 2010 and 2016, WPERP performed three actuarial experience studies, one every three years. This is more frequent than the City Charter requirement of every five years. The experience studies are performed by WPERP's enrolled actuary pursuant to Actuarial Standard Practice requirements. The purpose of an experience study is to assess the validity of the economic and non-economic assumptions used for the actuarial valuation, which is then used to determine DWP's annual contribution.

Since 2010, WPERP has accepted the actuary's recommendation and lowered its assumed investment rate of return three times: from 8% to 7.75% in 2010, 7.75% to 7.50 in 2013, and most recently from 7.50 to 7.25 in 2016. WPERP's actuarial assumed investment rate of 7.25% is below the median of peer plans reported in the NASRA 2017 Public Fund Survey of 127 large public retirement funds; more than one-half of the participating systems have an investment return assumption in the range of 7.00% to 7.50%. Another study, performed by R.V. Kuhns (the RVK Public Fund Universe Analysis for the period ending June 30, 2015), indicates that of the 62 participating respondents only 4 had assumed rates lower than 7.25% with the majority having 7.50%. A lower assumed rate requires DWP to contribute more to fund the pension liability. According to the same R.V. Kuhns study, WPERP had the 11th highest funded status (net assets as a percentage of the pension benefit obligation) of the participating pension funds.

There is considerable room for judgment regarding which assumptions are the correct ones to use, and expert opinions often differ even when a detailed independent analysis of the underlying data is conducted. It was not within the scope of this management audit to independently determine what we believe the actuarially assumed rate of return for WPERP should be at this time. Notwithstanding, overall, we found that the actuarial method and the assumptions used appear to be sound and reasonable.

- **Frequency and Rationale for Actuarial Method Changes**

  As noted above, actuarial experience studies have been performed every three years in recent years. The frequency of and rationale for changes to the actuarial assumptions and methods are reasonable and exceed the City Charter requirement of every five years.

- **Compliance with Actuarial Standards of Practice**

  Based on the information reviewed, Segal Consulting, the Board's actuary, is complying with the Actuarial Standards of Practice**.**

  We recommend: Review and consider updated mortality assumptions**;** continue to monitor the funding method, which currently uses a normal cost based on a level percentage of pay approach combined with a level dollar amortization of the unfunded liability, as it may be advantages to consider other alternatives such as having payments of both past and future service based on the same basis (a level percentage of pay basis); continue to monitor its current use of a 15-year amortization period for the unfunded actuarial accrued liability, which is consistent with the best practices of public funds, and consider whether the evolving practice of using average future working lifetime as a benchmark for the amortization period may be appropriate; consider the use of future benefit commencement dates involving multiple ages, rather than a single assumed retirement age, as the basis for retirement rates for terminated vested participants. We also recommend that WPERP adopt a written funding policy and review and develop metrics for volatility ratios.

OBJECTIVE 4. APPROPRIATNESS OF THE ASSET ALLOCATION PROCESS

We believe the process followed by WPERP to determine the long-term asset allocation targets is generally prudent and in-line with leading public pension plans. If the Board believes that the Staff has the skill to select managers and add excess returns over the benchmark, then the low level of passive management is appropriate. If not, then it should be revisited.

OBJECTIVE 5. GOVERNANCE AND FINANCIAL PLANNING

- **Legal Authority**

  There are conflicting opinions regarding the extent of the Board's authority with regard to the administration of WPERP. There are legal provisions, including the California Constitution, which grant plenary authority to the WPERP Board. Yet, based on the absence of specific language in the City Charter and conflicting legal opinions, the Board's ability to exercise its plenary authority has been challenged. The ambiguity should be resolved by amending the Plan Document and City Charter to better align with the California Constitution.

- **Deliberative Process**

  The minutes are vital evidence of the Board's deliberative process. There are multiple styles that can be used for purposes of drafting minutes. WPERP has moved to a style of more brevity. This approach is also used by other public funds. However, it is important to balance the need for transparency into the proceedings of a public entity with the need for fiduciaries to demonstrate that a prudent process has been followed along with the need to protect the sometimes sensitive issues discussed during meetings. We believe the scale tips in favor for more detail in the minutes that are currently provided, along with a review by legal counsel.

- **Understanding of Fiduciary Duties**

  Based upon our interviews, the Board and Staff appreciate the importance of their fiduciary duties and the need for ongoing education and new board member orientation. An informal process has been instituted by WPERP that reflects best practice; however, it should be established in a formal written board education and travel policy. Additionally, consideration should be given to whether a minimum number of hours of required educational training should be instituted. This is a practice a number of public funds have either voluntarily adopted through board policy or had statutorily imposed.

- **Clarity of Roles and Responsibilities and Delegations of Authority**

  WPERP Board members and Staff fundamentally understand their respective roles and responsibilities. However, a written document that clearly defines, in a unified manner, the collective duties and responsibilities of key parties involved in the administration of WPERP as well as delegations of authority would help to mitigate fiduciary and operational risks.

  We recommend: Resolve the conflict regarding the Board's authority to administer WPERP by amending the Plan Document to remove conflicting language and more clearly define the plenary authority of the Board; expand the level of detail in the Board's meeting minutes including identifying all meeting participants whether in person or remotely; enhance the timeliness of meeting minutes; include requirements in the travel and education policy (recommended earlier) that address new trustee orientation, ongoing education, the frequency of fiduciary training, and whether the requirements are compulsory or aspirational, and institute a fiduciary responsibility certification process.

  We also recommend developing and adopting a WPERP governance manual which clearly defines roles and responsibilities, includes committee charters, and written delegations of authority that identify the authority that DWP and the Board have retained and what has been delegated and to whom. Finally, we also recommend that an annual schedule be established for the Board to review its delegations.

- **Long-term Financial Planning**

  DWP and WPERP would benefit from a more formalized process which provides for periodic communications regarding the financial health of the WPERP trusts and the resulting potential impact of the employer contributions. Engaging in strategic planning, which includes long-term financial planning, is consistent with best practice and would benefit the WPERP Board. Strategic planning was previously recommended as part of the 2009 Management Audit of WPERP.

We recommend: Establish a more formalized process which provides for periodic communications between the DWP and WPERP regarding the financial health of the WPERP trust funds; engage in strategic planning, and include long-term financial planning as an objective of the strategic planning process.

OBJECTIVE 6. BENCHMARKING

WPERP practices, performance, and costs are benchmarked throughout this Report. For this Objective, we focused on WPERP's level of transparency regarding financial information and the comprehensiveness of its annual report.

- **Level of Transparency Regarding Access to Financial Information**

  Transparency regarding the finances (and decision-making) of a governmental entity is a fundamental tenant of "good governance". WPERP provides access to various types of financial information through its website, such as its summary of key financial information, entitled "Summary Annual Report". The Summary Annual Report is a very good high level snap shot of relevant financial information. However, WPERP does not produce a comprehensive "annual report" as the term is commonly defined.

  While WPERP has a significant amount of financial data on its website, the level of transparency to the data is much less than its local peers and many other large public funds. Improving the accessibility to website hyperlinks (shortcuts) is an effective, efficient means that WPERP could use to enhance transparency to financial information that is typically of common interest to stakeholders and the general public.

  Transparency to financial information referenced in the Board's minutes would also be enhanced through the use of shortcut links to the documents identified in the minutes rather than having to go to the agenda for the meeting to obtain the shortcut link. We acknowledge that some may view this approach as redundant. However, we believe that redundancy promotes transparency and user access.

We recommend: Create website shortcut links in the minutes to documents referenced there; and enhance accessibility to website links (shortcuts) to fundamental financial documents, such as the investment policy, investment performance reports, the financial statements, historical investment returns, history of fund expenses, and history of employer contributions.

- **Comprehensiveness of WPERP's Annual Report**
  WPERP does not produce a distinct publication that provides stakeholders with information regarding the operations and financial condition of the organization that would typically be found in the comprehensive annual financial report of a public pension fund. Notwithstanding, it appears that the DWP Board of Commissioners and the WPERP Board have both adopted GASB pension reporting requirements in practice.

  While the reports published on WPERP's website collectively meet the minimum requirements of GAAP and GASB Statement No. 67, they are not as comprehensive when compared to other public funds, including local peers and the other governmental utility peer used for purposes of comparison.

  We recommend: Update the Plan Document to provide that the WPERP Board's annual financial statement be consistent with applicable GASB requirements; revise the WPERP current "annual report" to be a more comprehensive, stand-alone document; and consider participating in the GFOA "Certificate of Achievement for Excellence in Financial Reporting" program or as an alternative, use the GFOA checklist as a tool to enhance the detail of the annual report and promote transparency, including for example, more granularity regarding the components that comprise administrative costs.

STATUS OF 2009 MANAGEMENT AUDIT RECOMMENDATIONS

There were a total of 148 recommendations included in the final report of the 2009 WPERP Management Audit. WPERP Staff reported that 66 recommendations (44.6%) were implemented and 38 recommendations (25.7%) had been partially implemented. There were 44 recommendations (29.7%) that had not been implemented.

Staff reported to us that 20 recommendations were either not applicable to its administrative or investment environment or not within the authority and control of the WPERP Board. We discussed our characterization of the implementation status of all of the prior report recommendations with Staff. There were only five recommendations that WPERP determined were completed that we found did not adequately address the underlying recommendation or the reason behind it. For more detail on the status of the 2009 Management Audit recommendations please see the Appendix.

ACKNOLWEDGEMENTS

We wish to thank the members of the WPERP Board for its time and the insights they shared during the individual interviews. We also thank the Staff for its assistance in providing materials and responding to numerous questions. Finally, we extend our gratitude to the public retirement system peers that graciously responded and expended valuable time in connection with our information requests.

DISCLAIMER

This Management Audit was limited to those topics listed in the Report. This was not an all-encompassing review of the entire WPERP operations. The opinions and recommendations expressed in this Report reflect the independent judgment of the Fiduciary Services Practice within Aon Hewitt Investment Consulting. No one associated with the City, DWP, the WPERP Board, or WPERP Staff attempted to unduly influence the findings, analyses, conclusions or recommendations in this Report.

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Final Report – Findings, Analysis, Conclusions and Recommendations

Objective 1: Retiree Pension Payment Processing

(a) Whether benefits have been provided to retirement participants as required by the WPERP and in a timely manner.

The issues we addressed for this objective included:

- Whether retirement benefit payments were processed in a manner consistent with legal requirements;
- Whether retirement benefits were timely; and,
- Whether WPERP has implemented proper controls over payments and disbursements to and for retirees.

To conduct our analysis, we requested and reviewed the documentation governing the operations of the Plan including applicable legal provisions, plan documents, summary plan descriptions, Board approved policies and WPERP staff ("Staff") developed procedures. We evaluated whether the documentation was generally consistent with respect to retirement benefit processing. Through interviews, Staff described the approach to processing retirement benefits and implementing controls. We evaluated Staff's descriptions in light of the documentation to gauge consistency with actual practice. We reviewed a random sample of case files to evaluate practical application of legal parameters and controls.

Findings and Analysis

Plan Governing Documentation

The authority, structure and format of WPERP's retirement benefits are set forth in the California Constitution[3] and City Charter. There are also various provisions within the City Administrative Code that apply to WPERP, primarily with regard to service credit reciprocity and retiree health subsidy amounts. Additionally, the DWP Board of Commissioners approved and the WPERP Board adopted a plan document entitled

[3] California Constitution, Article XVI Section 17. Los Angeles City Charter, Article 11, Sections 1100 – 1120 and 1180 – 1190.

"Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan"[4] (the "Plan Document").

The Constitution, City Charter, and City Administrative Code provisions are general in nature with respect to benefits. For example, they grant the Board with the authority to administer the Plan, collect benefits, establish an expectation for the prompt payment of benefits, and in some instances, delineate limits or parameters for specific benefits such as the retiree health subsidy.

The details regarding the Plan itself and how it is administered are contained in the Plan Document. This includes the following for both Tiers I and II: citations to the applicable City Charter provisions, the types of benefits offered, the parties involved in oversight and decision-making, eligibility requirements to qualify for the benefits, how benefits are calculated, and the various rights of members under the Plan, among other information. This use of a Plan Document to prescribe detailed information about the plan aligns more closely with a corporate pension fund than it does with a public pension fund.

WPERP has a Summary Plan Description ("SPD")[5] pertaining to Tier I of its Plan. It describes in plain language what the Plan provides, how it operates, and describes all the significant features of the Plan. The SPD, available via the WPERP website, is generally consistent with the applicable governing documents regarding retirement benefit processing.

The Government Finance Officers Association ("GFOA") recommends that all state and local government pension plans prepare an SPD that completely, accurately, and clearly describes the significant components of the pension plan for participants. In addition, the SPD should be reviewed and updated annually or when legal or legislative changes would affect plan members. Preparation and review of an SPD is considered a best practice.

The WPERP SPD for Tier I generally aligns with GFOA best practice; however, it has not been updated since April 2011. In addition, a new Tier II of the Plan went into effect on January 1, 2014. While, an SPD for Tier II had not been completed at the time interviews were conducted, we were subsequently informed by Staff that it was expected to be published by January 1, 2017.[6] In the interim, Staff produced a one-

[4] The plan document was last updated on January 2014.
[5] The SPD is dated April 2011.
[6] We were informed by Staff that the Tier 1 SPD was printed and distributed starting on Dec 28, 2016.

page Summary of Benefits and frequently asked questions piece for Tier II members through its website.

Benefits Related Board Policies

We also requested and reviewed benefits related Board policies that offer clarification of the Plan Document provisions. Any Board policies adopted are available through the WPERP website as attachments to the specific meeting agendas where they occurred. The language of the approved policy is then incorporated into the Plan Document, which is also available to members through the WPERP website. The Plan Document contains a complete reference of all amendments made to the plan throughout the years along with the specific number and date of the corresponding Board resolution that effected the change. This is consistent with best practice.

Written Delegations of Authority

The Plan Document generally authorizes the Board to delegate by resolution, among other functions, authority to the Retirement Plan Manager to pay retirement benefits; however, there is no distinct written document that aggregates the authority regarding benefits related matters that the Board has actually elected to retain and what it has delegated to the Retirement Plan Manager.

Best practices are for a governing body to clearly define and regularly review delegations of authority. If a board has provided a limited delegation to staff in a given area such as benefits processing and payment, a board-approved policy should specify the delegation parameters. Some systems satisfy this need by developing and executing a formal delegation of authority statement by the board and its general manager. Other boards delineate this same information through the use of charters for the board, its committees and the general manager. WPERP does not have a written statement of delegation or a charter for the Retirement Plan Manager.

The need for a formal delegation of authority from the Board to the Retirement Plan Manager was observed in the 2009 Management Audit and a recommendation to that effect was made. During the interview process, Staff reported to us that this recommendation had been implemented with a slight variation; the approach they used was to delineate delegation in individual Board approved policies rather than in one or more central documents. We believe that having a decentralized approach to delegation makes it challenging for the Board and external stakeholders to oversee and periodically regularly review delegations of authority and for Staff to implement the authority granted to it.

Desk Manuals
Staff reported having workflow process documentation and procedures for calculating and processing retirement benefits in “desk manuals”. We requested and reviewed samples of desk manual documentation. We found the documentation reviewed to be very comprehensive and sufficiently detailed. For example, they included step-by-step instruction for calculating the retirement benefit and its various underlying components as well as detailed checklists that are to accompany each member file during processing. Screen shots of the pension administration software used to calculate the benefit were also evident.

Performance Measures for Timeliness of Benefits
The California Constitution compels the Board to “…assure prompt delivery of benefits and related services…”.[7] We could find no evidence of specific timing parameters required by legal documents applicable to WPERP. We also could not find any evidence of Board approved performance measures for retirement benefit timeliness or quality. Notwithstanding, multiple Staff demonstrated an independent awareness of the need to timely process monthly retirement benefits and how they each individually contributed to the System’s ability to meet that standard. Staff reported during the interview process that the monthly retirement payroll has never been late.

Typically, metrics regarding delivery of benefits are established at a high level through a strategic plan and on an implementation basis through procedural documentation and position descriptions.

Staff indicated to us that they do not subscribe to any pension administration benchmarking service such as CEM, which is used by many other public retirement systems. They did not at any time during the scope period have a strategic plan, although it was reported as being on management’s project list. Staff further noted that, during the scope period, they were unable to develop performance metrics specific to each position because applicable collective bargaining issues restricted the separate assessment of individual employee performance.[8]

In the past, Staff has provided a quarterly workload indication report outlining transaction and processing volume to the Board, but, in consultation with the Board, shifted the frequency of the report to annual delivery. This was due to a lack of

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[7] California Constitution Article XVI, Section 17.
[8] Staff reported to us in November 2016 that the appropriate parties have been brought together to discuss the collective bargaining restrictions in this area, and that the employee union has accepted, in concept, the use of “comment cards” as a mechanism to implement more timely performance measurement.

resources to commit to producing the report. During this same time period, a new Tier of the plan was adopted and introduced. Staff reported to us that this generated a significant increase in retirement processing activity. Additionally, the Staff was implementing a new pension administration technology system.

The issues of timeliness, performance measurement and the need to have a strategic plan were also discussed within the 2009 Management Audit. We believe the observations and recommendations made regarding these matters continue to be appropriate. Upon inquiry, Staff reported that the strategic plan is on Staff's future project list. Although Staff believes that the organization is not yet ready to participate in a benchmarking study such as CEM due to lack of resources, we encourage participation in some form of benchmarking in order assist the Board in understanding how WPERP's pension administration compares to its peers. Finally, we were informed by Staff that progress has been made regarding resolution of the collective bargaining issues related to the development of some type of customer satisfaction survey.

Processing Documentation

Upon reviewing a sampling of processing documentation provided by the Staff, we found several areas that should be addressed. For example, some samples were significantly dated[9], other policies and procedures documentation had no version date, and still other documentation appeared to be unfinished or in draft form. While these issues may appear minor, they can create operational risk.[10]

We also reviewed Staff procedural documentation for consistency with governing documentation and with actual practice. Through the interview process, Staff exhibited a very comprehensive and thorough degree of knowledge regarding how specific retirement benefits were processed, the parties involved, different levels of approvals needed, and how duties were segregated among Staff to ensure consistency in internal controls. This description was generally consistent with the steps outlined in the sample procedural documentation.

Additionally, we asked Staff to describe what documentation guides processing for cases with exceptions or special circumstances, such as when there is an

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[9] The "Retirement Cheat Sheet" procedures documentation provided by Staff had a production date of December 18, 2009; the Refunds Manual had no date, unfinished text, and unanswered questions in multiple places.

[10] Operational risk, as defined by the COSO framework, is the risk of loss resulting from inadequate or failed business processes, people and systems or from external events. COSO, the Committee of Sponsoring Organizations of the Treadway Commission, is a joint initiative to combat corporate fraud that was established in the United States by five supporting industry organizations.

administrative interpretation of the City Attorney's opinion. Staff acknowledged that while the specific resolution is sent to all Staff involved, there is no central location where these types of processing notes are retained. Staff indicated that this would be beneficial to existing and newly hired benefits processing staff, and as such, an effort was begun in early 2016 to develop this with an estimated completion of mid-2017. Having such documentation is consistent with best practice; we encourage Staff to continue with its documentation development efforts.

Retirement Benefit Member File Review
In order to observe actual practice relative to retirement benefit processing, we requested and reviewed twenty-one (21) member files randomly selected by Staff for Tier I with varying types of retirement benefits processed and initiated during the scope period.[11] We evaluated each of the inputs involved in the calculation and gauged the reasonableness of the output given applicable legal Plan benefit provisions. We observed that the process as described by Staff and indicated by Plan provisions and procedural documentation generally translated through to each member case file. In addition, we found multiple layers (i.e., two, and in some cases three) of Staff review and validation of the inputs, the benefits calculation and the output. We also observed post-audit activity in the file. Staff further described using a monthly rotation methodology in connection with the regular quality control review and approval of member case files, however, we did not observe any control instructions which supported or compelled this rotation among the documentation samples we reviewed. Such documentation could mitigate operational risk.

Beyond their internal review of benefits processing, Staff reported to us that the external financial statement auditor routinely conducts a random sampling of member files as part of the annual financial audit engagement. Staff noted that WPERP has always had a clean audit and no recommendations have been made nor weaknesses uncovered by the external auditor. Additionally, Staff reported that the DWP financial statement auditor also randomly samples member files in connection with its annual audit of WPERP which has resulted in no reported issues.

Further, we requested any management letters[12] received by WPERP in connection with the financial statement audit for the audit scope period. Staff reported that they received two management letters for fiscal years ended 2012 and 2013. Based on our

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[11] Staff reported to us that no Tier II retirements were processed during the scope period ending June 30, 2015. Tier II was implemented on January 1, 2014.

[12] The management letter, also known as the internal control letter, is used to communicate the status of an entity's system of internal controls. It is typically the mechanism where the auditor details areas where a misstatement in the financial statements would likely occur.

review, the management letters presented an opportunity to strengthen internal controls and operating efficiency. The issues identified did not rise to the level of a material weakness as determined by the WPERP auditor and were not related to internal controls over retiree payments and disbursements.

We believe that the routine quality control activities and external audits provide a reasonable framework for error detection and review for proper segregation of duties. In addition to this regular quality control and audit activity, Staff reported that the WPERP consulting actuary provides the pension administration software data tables that are used to perform the majority[13] of the pension calculations. The consulting actuary also reviews the tables that are used in the separate pension calculation system that WPERP runs on a backup basis.

When significant data tables that impact a large percentage of the member population are updated, such as those used to calculate COLAs, multiple layers of Staff and approval review are required before the table is loaded, and extensive testing occurs before the tables go live in the system. We observed evidence of Staff review and approval of COLA tables in the documentation provided to us. These types of activities align with best practice in that they further support the veracity of the technical framework that supports the WPERP retirement benefit calculations and processing.

Process and Controls for Payments and Disbursements

We also requested and reviewed a sample of procedural documentation for payments and disbursements to retirees, including cash procedures and reconciliation, check printing, and processing the monthly retirement payroll. Here, too, the documentation we sampled was very detailed and comprehensive. For example, step-by-step instructions were delineated, various visual references were included, the names of specific personnel both intra-office and with the Controller's office, involved in completing a process were present, and instructions regarding the number of copies to be produced for internal files and the Controller's office were itemized. Notwithstanding, we observed a similar operational risk issue with this procedural documentation as with the benefits processing documentation previously referenced. The majority of samples we reviewed were dated by more than five years. Some updates had been made from time to time, but they were hand written and in some cases difficult to decipher.

[13] There are several functions that the WPERP pension administration software has the capability to process but are not yet in use by Staff. For example, Staff uses a Microsoft Access Database to calculate the tax basis on the additional annuity contributions; physical checks are printed by DWP payroll department and not the Retirement Office.

Evidence of internal controls was present in the procedural documentation both with regard to retirement benefits calculation and benefits payments and disbursements. The primary control noted was segregation of duties. Through the interview process, Staff could clearly articulate the controls in place over the payments and disbursements process; however, Staff reported that there is no summary control documentation which provides a comprehensive view of the controls in place by function (e.g., retirement benefits processing, benefits payments and disbursements) and the purpose of such controls (e.g., segregation of duties, detective, preventative). We believe that having such consolidated documentation would be beneficial to WPERP in managing its risk.

Conclusions

WPERP is in line with best practice by having a Summary Plan Description for Tier 1; however, it has not been updated in several years and at the time of the review similar documentation for Tier II of the Plan had not yet been published. WPERP has Board related policies that offer interpretation of specific provisions in the Plan Document; those are published and available through the WPERP website. This is consistent with best practice in terms of transparency on benefits matters.

There are several operational risk issues that carry forward from the 2009 Management Audit. Written delegations of authority between the Board and the Retirement Plan Manager are dispersed across various Board resolutions, rather than aggregated. Staff has not developed or implemented performance measures or standards to manage internal processing efficiency, nor does it participate in any benefits related peer benchmarking studies. Notwithstanding, the random sample of retirement benefit payments we reviewed appeared to have been processed in a manner consistent with applicable legal requirements and in a timely manner.

In our opinion, WPERP has implemented proper controls over payments and disbursements to and for retirees. While Staff is knowledgeable and aware of the internal controls as well as where Board decisions are necessary versus Staff's approval authority, WPERP could benefit from reviewing and updating the procedural documentation that supports the internal controls and governance environments. Further, although certain functions are still being manually supported by Staff, we understand that there is a timeline to bring those activities within the pension administration software. We encourage Staff to continue the timely implementation of these efforts as a way to further augment its control environment.

Recommendations

1. Update the Summary Plan Description documentation for Tier I.
2. Finalize and publish the SPD for Tier II.
3. Develop a statement of delegation or charter for the Board's approval, by resolution, that aggregates the authority has been delegated to the Retirement Plan Manager and identifies any authority that has been retained by the Board.
4. Establish a schedule for the Board to periodically review its delegation of authority to the Retirement Plan Manager.
5. Develop a strategic plan for the organization that includes high level performance measures.
6. To the extent permissible, establish performance measures for timeliness and quality for functions related to retirement benefits processing.
7. Explore different approaches to obtaining and comparing pension administration benchmark data as a way to further drive processing efficiency.
8. Establish and implement a formal schedule for periodically updating benefits processing procedural documentation.
9. Establish and implement a formal schedule for periodically updating payments and disbursements procedural documentation.
10. Develop a comprehensive risk/control matrix that addresses retirement processing and benefits payments and disbursements.
11. Continue to move forward in automating through the pension administration software those functions that are still manually processed.

(b) Determine the average retirement compensation paid to retirees and how the average retiree compensation paid compares to peers.

The ultimate purpose of any retirement benefit is to contribute to an employer's overall ability to attract and retain talent; therefore, understanding how a retirement benefit compares to similarly situated peers can be one indication of whether the retirement benefit is in alignment with its intended purpose. To gain a complete understanding, a full actuarial analysis should be performed.

For this objective we reviewed and compared one high level data point; the average retirement compensation paid by WPERP and a group of select public retirement system peers. We identified:

- The average monthly annuity benefit paid to a WPERP retiree for each year during the audit scope period; and,
- The average monthly annuity benefit paid to peer group retirees.

To compare average retirement compensation paid, we selected seven public retirement system peers with general geographic proximity to WPERP. It is important to emphasize that WPERP and its peers differ in a number of ways. First, WPERP is a single employer public retirement system serving employees of a municipal utility. Second, none of the peer systems is or should be expected to be an exact match for the DWP plan design, position classification structure or employee demographic. The degree to which there is similarity between DWP positions and those covered by other peer public retirement systems also varies.

For example, some of the peers administered a plan that covered multiple employee types (e.g., general city or county employees, safety employees, port authority employees, etc.) but none that supported the operations of a municipal utility. Other systems were more narrowly focused. For example, Los Angeles Fire and Police Pensions serve public safety employees only.

Findings and Analysis

For this analysis we identified through each peer system's publicly available annual actuarial valuation report the average monthly retirement compensation paid for each year during the scope period. We present the data and analysis on the following pages.

The following Table 1-1 depicts the average monthly retirement compensation paid to a WPERP retiree and the selected peers for each year during the audit scope period.

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Table 1-1. Average Monthly Retirement Benefit for WPERP and Selected Public Retirement System Peers[14]

Peer System[15]	2011	2012	2013	2014	2015
Los Angeles City Employees' Retirement System (LACERS)	$3,697	$3,804	$3,885	$3,936	$4,023
Los Angeles Fire and Police Pensions (LAFPP) – Safety Members	4,852	5,011	5,170	5,247	5,309
Los Angeles County Employees Retirement Association (LACERA)	3,589	3,693	3,801	3,847	3,881
San Diego County Employees' Retirement Association (SDCERA) – General Members	- -[16]	3,006	3,053	3,098	3,201
San Diego County Employees' Retirement Association (SDCERA) – Safety Members	5,042	5,129	5,121	5,150	5,339
San Diego City Employees' Retirement System (SDCERS) – General Members	3,327	3,402	3,488	3,548	3,608
San Diego City Employees' Retirement System (SDCERS) –Safety Members	5,673	5,799	5,915	6,041	6,129
Orange County Employees' Retirement System (OCERS) – General Members	2,714	2,836	2,924	2,991	3,103
Orange County Employees' Retirement System (OCERS) – Safety Members	5,297	5,516	5,679	5,914	5,974
San Bernardino County Employees' Retirement Association (SBCERA)	2,659	2,771	2,873	2,944	3,019
WPERP	**4,501**	**4,654**	**4,844**	**5,042**	**5,212**
Median Monthly Retirement Compensation Paid by Peer Systems	**4,099**	**3,804**	**3,885**	**3,936**	**4,023**
Average Monthly Retirement Compensation Paid[17] by Peer Systems	**4094**	**4097**	**4,191**	**4,272**	**4,359**

[14] Source: Data for selected peers can be found in the supplemental plan / membership information section of each system's actuarial valuation for the specific period covered. All actuarial valuations are publicly available through each peer system's website. Some systems break out average retirement benefit by general members and safety members. That data appears in the chart if it was available.

[15] LACERS, LAFPP and LACERA have been highlighted for ease of readability as Los Angeles area peers to WPERP.

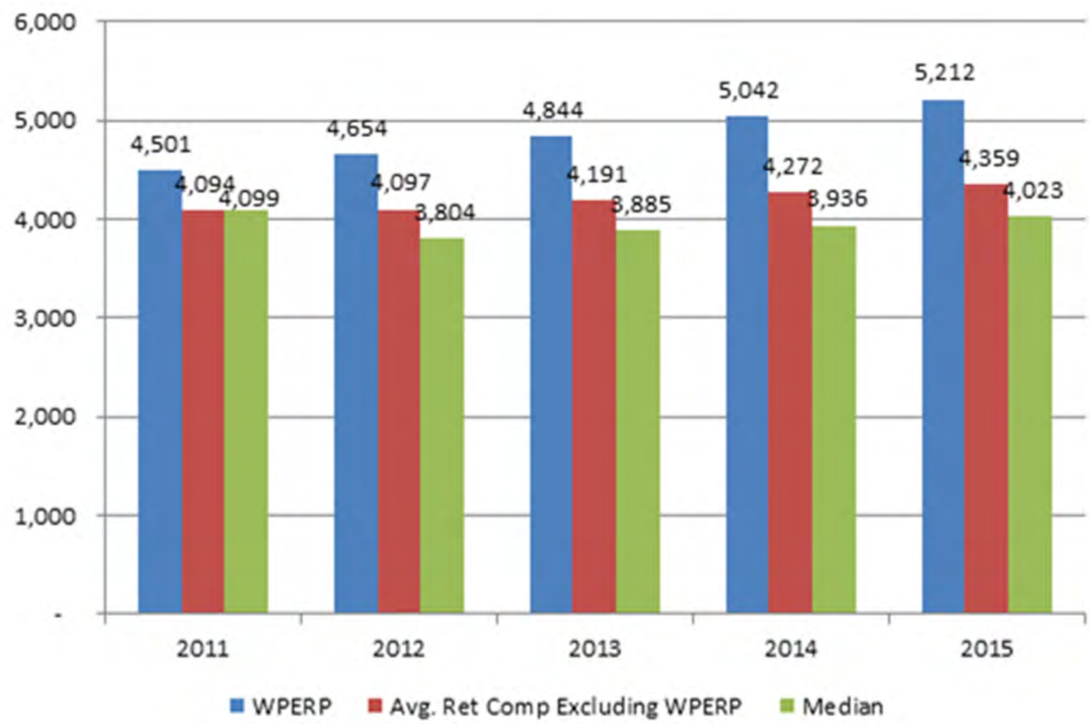
[16] Data not available for General Tier A.

[17] The WPERP average monthly retirement compensation paid has been excluded for purposes of calculating an average monthly retirement compensation paid by peer systems.

As Table 1-1 shows, WPERP does not have the highest average monthly retirement compensation, nor does it have the lowest. Narrowing our analysis among the three other Los Angeles area public retirement systems (i.e., LACERS, LAFPP and LACERA), we found that the WPERP average monthly retirement benefit paid clusters more closely to the high end for all years during the scope period, with LAFPP as the highest.

Using this same peer group, we also analyzed WPERP's average monthly retirement compensation paid in light of the average and median data for all peer systems. Chart 1-1 below illustrates the comparison.

Chart 1-1. WPERP Average Monthly Retirement Compensation Paid Versus Average and Median of Selected Public Retirement System Peers



As indicated in Chart 1-1, the WPERP average monthly retirement compensation paid for all years during the scope period is approximately 15% higher on average than that of the average for the peer systems. It is approximately 23% higher on average for all years during the scope period than the median average monthly retirement compensation paid. We also compared the year-over-year change in the average monthly retirement compensation paid for WPERP and the same selected peer systems. The following table delineates the comparison.

Table 1-2. Year-over-year Change in Average Monthly Retirement Benefit for WPERP and Select Public Retirement System Peers[18]

Peer System	YOY Change 11/12	YOY Change 12/13	YOY Change 13/14	YOY Change 14/15
Los Angeles City Employees' Retirement System (LACERS)	3%	2%	1%	2%
Los Angeles Fire and Police Pensions (LAFPP) – Safety Members	3%	3%	1%	1%
Los Angeles County Employees Retirement Association (LACERA)	3%	3%	1%	1%
San Diego County Employees' Retirement Association (SDCERA) – General Members[19]	NA	2%	1%	3%
San Diego County Employees' Retirement Association (SDCERA) – Safety Members	2%	0%	1%	4%
San Diego City Employees' Retirement System (SDCERS) – General Members	2%	2%	2%	2%
San Diego City Employees' Retirement System (SDCERS) –Safety Members	2%	2%	2%	1%
Orange County Employees' Retirement System (OCERS) – General Members	4%	3%	2%	4%
Orange County Employees' Retirement System (OCERS) – Safety Members	4%	3%	4%	1%
San Bernardino County Employees' Retirement Association (SBCERA)	4%	4%	2%	2%
WPERP	3%	4%	4%	3%
Average Peer Year-over-year Change[20]	**3%**	**2%**	**2%**	**2%**

As indicated in Table 1-2, the year-over-year increase in WPERP's average monthly retirement compensation paid is consistent and generally within range of the selected peer group. It is higher than the average peer year-over-year change in three of the four periods.

It is important to emphasize the limitations our analyses. Each plan has its own unique employee demographics, position classification and compensation structure, plan experience, benefit tiers, and requirements to qualify for normal or deferred retirement. Additionally, the members of some of the peer plans, generally public safety, do not participate in Social Security while other members may. This

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[18] Actuarial valuation reports are retrospective reports that present data from the prior plan year. To align with the audit scope period beginning July 1, 2010, we provide data from each system's valuation report on year-over-year change basis beginning with the 2011 plan year valuation report.

[19] Data not available for General Tier A.

[20] Due to the shift in reporting for SDCERA, the data point for the 11/12 plan year was not included in the average change calculation.

difference is significant in terms of plan design. For example, it is typical to see a higher normal service retirement benefit formula for members not eligible for Social Security than for members with Social Security coverage. Ultimately, this results in a higher average monthly retirement benefit for some peers where members do not have Social Security coverage.

Comparing average monthly retirement benefits paid among a group of public retirement systems does not address the efficacy or cost of a particular plan design, or determine whether one plan is more generous than another. It would be challenging to draw meaningful insights and firm conclusions from such an approach. Viewing the output without considering the inputs only offers a small glimpse of the overall picture. Full actuarial analysis should be undertaken to offer a more complete view.

Conclusions

WPERP's average monthly retirement compensation is within range of its peers for all years in the scope period. It is moderately higher than the peer system average and median monthly retirement compensation paid. The year-over-year increase in WPERP's average monthly retirement compensation is also higher than peer systems for most years during the scope period. Full actuarial analysis should be undertaken to understand the efficacy of the plan design in attracting and retaining DWP personnel.

Recommendations

None.

(c) Depict total retiree health benefit fund administrative costs paid from the fund and the shared cost paid by retirees alongside that of LACERS and LAFPP.

For this objective we identified several high level data points for WPERP, LACERS and LAFPP for each year during the audit scope period:

- The administrative cost associated with the retiree health benefit funds;
- The benefits amounts paid out of the retiree health benefit funds (aggregate subsidy amounts); and,
- The amounts paid by retirees for any health care related premiums in excess of subsidy limits that they are eligible for.

How a health plan is administered can drive significant differences in cost. Administration models vary among WPERP, LACERS and LAFPP because of differences in legal authority granted, how and to whom day-to-day support duties are assigned, whether the active employees and retirees are pooled or separate, how plan rates and professional services are negotiated, and the availability of initiatives used to contain costs (e.g., wellness programs), among others.

In this section, we have depicted administrative costs publicly reported by WPERP, LACERS and LAFPP in connection with the respective retiree health benefits funds they manage. It was not within our scope to compare the retiree health benefits administrative costs among the organizations. Deeper analysis across a broader set of data would be needed to do so.

Findings and Analysis

The WPERP Retirement Board has the fiduciary responsibility for investing the assets of the Retiree Health Benefits Fund ("RHBF") and administering payments from it while the DWP Board of Water and Power Commissioners ("DWP Board") has the responsibility to set the funding policy and funding levels of the RBHF. The DWP Board selects the health plans that are made available to retirees, and the DWP Health Plans Administration Office is responsible for the day-to-day administration of the health program. Retirees and active employees are pooled together for rate purposes.[21]

Retired members are eligible to receive a medical and dental subsidy based on their age and years of service at retirement. The retirees pay any health and dental plan premiums in excess of Department subsidy limits for which they are eligible.

We reviewed the actual administrative costs that WPERP allocated to the RHBF for each year during the scope period. The costs reflect a percentage of the total Retirement Office overhead and do not include investment management fees.[22] Staff reported to us that the Retirement Office has consistently used this approach to allocating administrative costs. During the scope period, we observed no deviation

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[21] This is different than the approach used by both LACERS and LAFPP, where retirees and active employees are not pooled together.

[22] Administrative cost for the Retirement Plan Office is defined as general operating expenses. It does not include professional investment management fees. The Retiree Health Benefit Fund's share of total assets at market value is used to determine the amount of investment related administrative cost allocated, for example custodial and consultant expenses. Non-investment related costs are determined based on the proportionate share of staff salary percentage allocated, which is approximately 8% of the total.

from the methodology. The Retirement Board has knowledge regarding the administrative cost allocated through its receipt of annual reports prepared by the WPERP external financial statement auditor.

Given the Retirement Office's limited role in administering the retiree health program, we requested and received from the DWP Health Plans Administration Office,[23] an estimate of DWP's expenses for each year during the audit scope period for administering the healthcare benefits program for retirees. This was in an attempt to provide a more complete picture of retiree healthcare administration. We found that retiree related administrative expenses are neither separately tracked nor charged by the Health Plans Administration Office to the RHBF. Rather, they are absorbed as part of the DWP budget for administering healthcare benefits for both active and retired employees.

To identify a total annual administrative cost for managing the retiree health program for each year during the scope period, we combined the actual cost allocated by the Retirement Office and the estimated cost identified by the DWP Health Plans Office. Both components and the total amounts are depicted in Table 1-3.

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[23] The DWP Health Plans Administration Office is separate from the WPERP and under the authority of the DWP Board of Commissioners.

Table 1-3. Total Annual Administrative Cost for the WPERP Retiree Health Benefits Fund (FY 2010 – 2015)

Expense	FY 2010-2011	FY 2011-2012	FY 2012 -2013	FY 2013-2014	FY 2014-2015
Retirement Office Allocation	$418,684	$411,850	$517,568	$500,125	$543,054
DWP Health Plans Administration Office Estimate[24]	$696,115	$759,020	$724,770	$910,826	$903,126
Total Estimated Administrative Cost	$1,114,799	$1,170,870	$1,242,338	$1,410,951	$1,446,180
Total Retiree Health Benefits Fund Assets[25]	$1,174,745,000	$1,225,780,000	$1,377,820,000	$1,612,148,000	$1,678,321,000
Total Estimated Administrative Cost as a Percentage of Total Assets	0.09%	0.10%	0.09%	0.09%	0.09%

[24] The DWP Health Plans Administration Office handles the administration of health benefits for both active employees and retirees. The administrative costs for retiree health benefits are not separately tracked; no study has been conducted to determine the actual time that DWP employees work on administering the health benefits for retirees. The figures provided are estimates based on the percentage that retirees represent in overall enrollments and applying that percentage to the DWP Health Plan Administration Office's budget. The budget figures are comprised of Directs (e.g. Labor/Overtime, Professional Services, Other Outside Services, Postal Services, Materials and Supplies), Services (e.g. Office Space, Industrial Graphics/Records Management), and Allocations (e.g. Employee Benefits).

[25] Source: Simpson & Simpson Auditor's Reports for years ending June 30, 2011 through 2015, WPERP website.

As Table 1-3 above indicates, the absolute value of total estimated administrative costs for the retiree health program increased during the audit scope period by approximately $331,000; however, when expressed as a percentage of total RHBF assets, administrative costs have been fairly consistent at approximately 9 basis points of total RHBF assets. WPERP's share of the cost in isolation is less than half of the total cost; approximately 3 basis points. During the audit scope period, the Retirement Office's expense allocation to the RHBF increased by approximately $124,000.

The model used by LACERS to administer the retiree health care program is distinctly different from the DWP/WPERP model. LACERS administers its own health care plans in its subsidy program; therefore the functions performed by LACERS staff and overseen by the Board of Trustees are broader than those performed by the WPERP. For example, LACERS has the responsibility to invest the assets of the Postemployment Health Care Fund ("PHCF"), administer payments from it, set the funding policy and funding levels, select the health plans that are made available to retirees, manage the plan's enrollment process, and handle the day-to-day administration of the health care program. The program has a retiree-only focus; no active employees are eligible to participate.

The following Table 1-4 presents administrative expense information reported[26] for the LACERS PHCF.

Table 1-4. Total Annual Administrative Cost for the LACERS Postemployment Health Care Fund (FY 2010-2015)

Expense	FY 2010-2011	FY 2011-2012	FY 2012 -2013	FY 2013-2014	FY 2014-2015
Administrative Expense	$2,786,000	$2,931,000	$3,197,000	$3,327,000	$3,932,000
Total Assets	$1,683,656,000	$1,657,079,000	$2,185,562,000	$2,309,461,000	$2,311,186,000
Administrative Cost as a Percentage Total Assets	0.17%	0.18%	0.15%	0.14%	0.17%

[26] LACERS Comprehensive Annual Reports for each of the fiscal years ending June 30, from 2011 to 2015.

As Table 1-4 indicates, the absolute value of total administrative costs for LACERS' PHCF increased during the audit scope period by approximately $1.146 million; however, when expressed as a percentage of total PHCF assets, administrative costs have been fairly consistent at approximately 16 basis points on average.

LAFPP uses an altogether different model than LACERS or DWP/WPERP does to administer the retiree health program. With respect to the LAFPP Health Subsidy Plan, the City and LAFPP administer health care plans, but the vast majority (over 99 percent) of active employees and retired members are enrolled in plans provided through several service organizations. In fact, the majority of retired Fire Department LAFPP members are enrolled in health care plans through the Los Angeles Firemen's Relief Association (LAFRA).[27]

Table 1-5 presents administrative expense information reported by LAFPP for its Health Subsidy Fund.

Table 1-5. Total Annual Administrative Cost for the LAFPP Health Subsidy Fund (FY 2010 – 2015)[28]

Expense	FY 2010-2011	FY 2011-2012	FY 2012 -2013	FY 2013-2014	FY 2014-2015
Administrative Expense	$781,000	$887,000	$845,000	$1,017,000	$1,364,000
Total Assets	$915,234,000	$1,032,706,000	$1,212,814,000	$1,440,348,000	$1,534,335,000
Administrative Cost as a Percentage Total Assets	0.09%	0.09%	0.07%	0.07%	0.09%

As Table 1-5 indicates, the absolute value of total administrative costs for the LAFPP Health Subsidy Fund increased during the audit scope period by approximately $583,000; however, when expressed as a percentage of total Health Subsidy Fund assets, administrative costs have been fairly consistent at approximately 8 basis points on average.

We also conducted a high-level, limited review of the amount of additional cost paid by WPERP, LACERS and LAFPP retirees in connection with the health plans available to them. To do so, we analyzed what premium amounts are paid by retirees in excess of the subsidy amounts paid by the respective plans. WPERP, LACERS and LAFPP all provide an option, at the election of the retiree, to deduct

[27] Report to the Board of Fire and Police Pension Commissioners, Subsidy Program Audit – Medical Plans Administered by the Los Angeles Firemen's Relief Association, April 19, 2012.
[28] LAFPP Comprehensive Annual Reports for each of the fiscal years ending June 30, from 2011 to 2015.

the excess amount from the retiree's monthly retirement check and forward it to the plan provider. It is important to note that examining this data alone may not reflect all of the out-of-pocket amounts paid by retirees.

Table 1-6 presents the total statutory benefits (subsidy amounts) paid by each of the three retiree health benefit funds.[29] Further, it delineates the additional amounts reported to us by WPERP, LACERS and LAFPP that are paid on behalf of the retirees' to their plan providers in excess of the monthly subsidy amount. Total premiums paid are the sum of total subsidy benefits paid from the funds plus additional amounts paid by retirees.

Table 1-6. Total Subsidy Benefits Paid by Health Subsidy Plan and Amounts Paid by Retirees in Excess of Plan Benefits – WPERP, LACERS and LAFPP (FY 2010/11 – FY 2014/15)

	FY 2010-2011	FY 2011-2012	FY 2012 -2013	FY 2013-2014	FY 2014-2015
WPERP Retiree Health Benefit Fund					
Total Subsidy Benefits Paid	$65,132,520	$64,220,586	$67,562,881	$74,105,548	$78,496,618
Total Amount Paid by Retirees in Excess of Subsidy Amounts[30]	*Data not available*	*Data not available*	$3,895,190	$5,663,448	$6,582,161
LACERS Postemployment Health Care Fund					
Total Subsidy Benefits Paid	$98,156,000	$91,437,000	$97,946,000	$101,628,000	$103,599,000
Total Amount Paid by Retirees in Excess of Amount Paid by Plan[31]	$10,940,000	$11,700,000	$10,990,000	$11,360,000	$10,480,000
LAFPP Health Subsidy Fund					
Total Subsidy Benefits Paid	$89,271,000	$93,536,000	$98,306,000	$104,371,000	$110,411,000
Total Amount Paid by Retirees in Excess of Amount Paid by Plan[32]	$20,370,205	$22,731,034	$22,066,460	$19,965,201	$16,637,881

[29] LACERS and LAFPP Comprehensive Annual Reports for each of the fiscal years ending June 30, from 2011 to 2015. WPERP Annual Audit Report (Simpson & Simpson) and Actuarial Valuation and Review (Segal Consulting) for each of the fiscal years ending June 30, from 2011 to 2015.

[30] Reflects information from the DWP Health Plans Office. It reflects premiums for both health and dental insurance plans. And that the data for the fiscal years of 2011 and 2012 was requested, but not supplied.

[31] Reflects estimates provided by LACERS of total annual insurance deductions for LACERS retirees and beneficiaries per calendar year.

[32] Reflects estimates provided by LAFPP of total annual insurance deductions for LAFPP retirees and beneficiaries per fiscal year.

Table 1-6 demonstrates that during the audit scope period, WPERP's total benefits paid increased by approximately $13.3 million (20.5%), LACERS total benefits paid increased by approximately $5.4 million (5.5%), and the total benefits paid by LAFPP increased by approximately $21.1 million (23.7%).

All three retirement systems provide retirees with the service of deducting any premium amounts in excess of the subsidy amount from the monthly retirement check and forwarding the amounts in aggregate to the providers. Table 1-6 depicts the activity associated by retirement system with that service for all years during the audit scope period.

Again, comparing the aggregate out-of-pocket premium costs among the three retirement systems is not an indication of plan management effectiveness or cost efficiency of plan design. While subsidy calculations are statutory and specific to each plan, there are also differences among the plans that drive cost. This includes, among other factors, type of plan offered (e.g., PPO, HMO, Medicare, Medicare Advantage, etc.) and plan utilization by the members. For example, it is generally expected that premium costs are higher for PPO plans than they are for HMO plans. A higher number of members participating in PPO plans will drive higher overall costs paid by a system's retirees.

Conclusions

The model used by DWP/WPERP to administer the retiree health care program is different than that used by LACERS and LAFPP. This structural difference impacts program expenses. WPERP allocates a percentage of its overall budget to supporting the administration of the Retiree Health Benefits Fund in addition to investment management fees. To observe a more complete, although not exact, picture of the total costs for administering health care for DWP retirees, Retirement Office administrative costs and DWP Health Plans Administration Office estimated costs can be combined.

Although the model used by DWP and the Retirement Office to support the retiree health care subsidy program is somewhat closer to that used by LAFPP than the model used by LACERS, it would be difficult to draw meaningful insights regarding the effectiveness of plan management or the efficiency of the plan designs by comparing the administrative costs of the retiree health subsidy programs or the share of the premium costs paid by retirees. A more detailed analysis of plan design, administration models, and cost containment strategies, among other factors, should be undertaken to perform such a comparison which was not within the scope of this management audit.

Recommendations

None.

Objective 2: Minimize DWP Contributions

Each of the subsections within this Objective is interconnected. Therefore, while we have addressed each subsection for purposes of responsiveness, we have noted multiple cross references where appropriate.

(a) Whether the administration of the Retirement Plan resulted in minimizing DWP contributions.

Findings and Analysis

The WPERP Board's Statement of Investment Objectives, Goals, and Guidelines, as well as the Los Angeles City Charter[33] set forth that the asset allocation policy should consider required contributions both upon selection and implementation. The AHIC team has reviewed the administration of WPERP to determine if contributions are being minimized.

Several primary drivers we reviewed in other areas of this Report impact the amount of contributions. They, along with the accompanying Objectives where our analyses and specific recommendations can be found are as follows:

1. The cost of benefits (Objectives 2-C and 3-A);
2. Administrative expenses (Objective 2-G); and
3. Net investment earnings (Objective 2-C).

Of these primary drivers, WPERP pension contributions are primarily driven by the cost of benefits and investment gains and losses. Administrative expenses only minimally drive the DWP contribution relative to the other elements. This is the case for most pension plans. Nonetheless, monitoring expenditures and seeking to maintain a reasonable level of administrative expense are part of the Board's fiduciary responsibility and can help to minimize the DWP contribution.

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[33] Los Angeles City Charter, Article 11, §1106 (d).

WPERP Staff provided AHIC with operating and administrative budgets for fiscal years 2010 through 2015. We also requested and reviewed the corresponding actuarial reports to garner a deeper understanding of the impact on the Plan associated with ongoing benefits.

Conclusions

To reasonably assess whether the administration of WPERP minimized DWP's contribution, we believe it is necessary to collectively examine the aggregate effect of three primary drivers: (1) the cost of benefits, (2) WPERP's administrative expenses, and (3) the success of the investment program. Based upon the mosaic of information presented throughout this Report, we believe the various processes associated with administering the Retirement Plan generally resulted in minimized DWP contributions during the audit scope period.

(b) Whether the Plan has adequate processes to account for significant costs to the Retirement Plan when the market returns are lower than anticipated while ensuring that the Plan Sponsor's contributions are sustainable.

Findings and Analysis

The AHIC team reviewed the Plan's processes to account for significant costs to the Retirement Plan when the market returns are lower than anticipated while ensuring that the Plan Sponsor's contributions are sustainable. Weighing the conflicting goals of minimizing long-term contributions through increased risk exposure against potential short-term investment losses associated with lower than anticipated market returns is a difficult decision for a board overseeing an investment program. The best opportunity to evaluate these tradeoffs is during an asset/liability study. Therefore, to draw conclusions as to whether the processes that WPERP uses are adequate, we requested from WPERP and reviewed the asset allocation and asset liability studies performed during the audit scope period, as well as other structural analyses performed.

We observed that the Board was provided with several asset liability studies during the audit scope period. These studies served as excellent tools which aided the Board in its evaluation of the relative tradeoffs associated with market risk and the DWP contributions. The inputs and outputs used in the analysis were consistent with our expectations. Specific analysis can be found in Objective 2-C of this report.

Conclusions

We found the asset/liability process used by WPERP to be sufficient and adequate. Specifically, it addressed scenarios where investment results were lower than anticipated, and evaluated the corresponding impact to Plan Sponsor contributions. In Objective 2-C of this Report, we evaluate the process used to establish the current Long-Term Asset Allocation Targets as set forth in the Board's Statement of Investment Objectives, Goals, and Guidelines, including the approach and inputs used in the most recent asset allocation study and asset/liability modeling conducted by WPERP. Specific findings, analysis, conclusions and recommendations can be found in that subsection.

(c) Whether the Plan's investments are diversified adequately in order to minimize the risk of loss and to maximize the return rate.

The issues we reviewed to draw conclusions regarding this Objective include:

- The process used to establish the current asset allocation as set forth in the investment policy statement, including the approach and inputs used in the most recent asset allocation study and asset/liability modeling study conducted by WPERP;
- Whether the estimate of expected returns, volatility (standard deviation), and assumed correlation of returns among asset classes and subclasses were reasonable;
- Whether the asset allocation took into consideration the WPERP's distinct actuarial characteristics, including statutory mandates, funding targets, time horizon, demographics, cash flow needs and near-term volatility levels;
- The process used to adjust the asset allocation (e.g. portfolio rebalancing), including who makes the determinations, criteria used and frequency of the adjustment;
- The appropriateness and sustainability of the adopted asset allocation and overall investment strategy taking into account WPERP's circumstances, staffing resources and other qualitative considerations;
- A comparison of WPERP's investment performance for the overall plan and the underlying investment, against Total Fund benchmark and other similar plans;
- A performance attribution analysis at the total fund level (impact of manager, asset class, benchmarks, allocation and cash flow effects on relative performance) and the asset class level (impact of each manager and benchmark on asset class performance;

- The reasonableness of the investment strategy by developing expected returns and risk ranges for the current asset allocation using Aon Hewitt Investment Consulting Capital Market Assumptions and the suitability of the asset allocation given WPERPs stated objectives; and,
- The overall investment portfolio risk/return characteristics of the WPERP, including possible new investment strategies if improvement is possible.

i. Asset Allocation Process and Staffing

Findings and Analysis

To evaluate the effectiveness of the asset allocation process utilized by WPERP, we reviewed WPERP's supporting policy documentation, long-term asset allocation targets, and asset liability study inputs and outputs including capital market assumptions and expected returns. We also reviewed at a high level, available WPERP staffing to support the investment program. Findings and analysis for each topic appear on the following pages. Conclusions and recommendations appear at the end of this subsection.

Policy Documentation

The Board's Statement of Investment Objectives, Goals, and Guidelines (the "Investment Policy") mandates that the WPERP asset allocation policy be predicated on a number of factors, including:

- A projection of actuarial assets, liabilities, benefit payments and required contributions;[34]
- Historical and expected long-term capital market risk/return behavior;
- An assessment of future economic conditions, including inflation and interest rate levels; and
- The current and projected funding status of the Plan.

We found that the Plan's asset allocation is consistent with the factors delineated above. The Policy does not, however, delineate a required timeframe for reviewing asset allocation or performing an asset/liability study. This is inconsistent with best practice. We typically recommend that an asset/liability analysis be performed every three to five years, or when circumstances of the plan change. During the interview process, Staff reported compliance in practice with this frequency. Based on our document review, we confirmed that the timing of the actual asset liability studies

[34] Los Angeles City Charter, Article 11, §1106 (d) also requires that the selected asset allocation policy consider contributions.

undertaken by WPERP is consistent with best practice, as asset liability studies were performed in 2002, 2007, 2011, and most recently in 2015.

Long-Term Asset Allocation Targets

Table 2-1 below depicts the WPERP long-term asset allocation targets adopted by the Board in 2011.[35] It also outlines the actual WPERP asset allocation as of June 30, 2015 relative to the 2011 long-term asset allocation targets.

Table 2-1 – WPERP 6/30/15 Actual Asset Allocation and 2011 Long-Term Target

	Market Value 6/30/2015	Allocation	Long Term Target[36]
Domestic Equity	$3,925,790,159	39.2%	33.0%
International Equity	$2,149,024,547	21.4%	21.0%
Fixed Income	$1,964,987,829	19.6%	24.0%
Real Return	$534,247,040	5.3%	6.0%
Real Estate	$392,920,102	3.9%	5.0%
Private Equity	$248,203,469	2.5%	5.0%
Covered Calls	$701,402,276	7.0%	5.0%
Cash Equivalents	$109,374,374	1.1%	1.0%
Total Fund	$10,025,949,797	100.0%	100.0%

The primary importance of asset allocation over other investment decisions is a generally accepted concept in finance theory and practice. Several well-known industry research papers have documented that asset allocation is the primary driver of the level of investment returns, and volatility of investment returns from year to year (though not necessarily returns relative to peers, which may be driven significantly by non-asset allocation factors such as active management results). AHIC's total fund risk model results consistently attribute 90% or more of total fund return volatility to asset allocation. WPERP's primary process for determining and affirming asset allocation is an asset liability study.

In 2015 WPERP performed an asset liability study to review and potentially reaffirm the long-term target asset allocation. As part of the asset liability study the Board was provided analysis intended to facilitate its evaluation of the relative tradeoffs associated with market risk. The analysis within the presentation included stochastic results for a 5, 10, and 20-year period for the actuarial funded ratio, market funded ratio, payout ratio (expected benefit payments/market value of assets), and DWP

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[35] The long-term target selected in conjunction with the 2015 asset liability process was not yet completed by the end of our audit scope period. Therefore, for purposes of analysis, we use the long-term target that was adopted by the Board on June 8, 2011, following the 2011 asset liability study.

[36] Source: Asset allocation data is from the 6/30/2015 WPERP Performance Report.

contributions. Each output was provided for multiple investment portfolios with varying levels of risk and return. Additionally, each stochastic item presented was shown with a spectrum of outcomes ranging from the 5th percentile "best scenario" to the 95th percentile "worst scenario".

The asset allocation process took into consideration WPERP's actuarial characteristics and demographics. The analysis also included stress testing associated with higher levels of market volatility and higher correlations between asset classes.

In addition to reviewing the work product generated by the investment consultant, we also interviewed WPERP Staff to obtain their description of the process used to determine asset allocation, its alignment with the analysis documentation, the Policy, and aggregated Plan data. Here again, our approach was to first focus on the adequacy of the process used by WPERP. We found that Staff's verbal description was consistent with the documentation we reviewed. We then compared the process to our expectations regarding standards of practice. As a result, we believe the asset allocation process performed during the 2015 asset liability study was sound.

Reasonableness of Capital Market Assumptions
The reasonableness of underlying capital market assumptions driving the asset liability study is critically important in ensuring that the study output reflects an unbiased prediction of the possible future range of outcomes. To gauge reasonableness, we first compare the assumptions used by WPERP investment consultant R.V. Kuhns to those used by our firm - AHIC. We then compare both assumption sets to that of a broader industry universe.

Table 2-2 presents a side-by-side view of AHIC's 30-and 10-year capital market assumptions with R.V. Kuhns' 20-year capital market assumptions as of June 30, 2015.

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Table 2-2 – AHIC and R.V. Kuhns Capital Market Assumptions

Capital Market Assumptions (6/30/2015)	AHIC (30 Years)		RVK (20 Years)		Difference	
	Return	Standard Deviation	Return	Standard Deviation	Return	Standard Deviation
Broad US Equity	6.7	18.4	7.1	17.8	-0.4	0.6
Broad International Equity	7.3	22.2	8.6	20.6	-1.3	1.6
Fixed Income	3.7	5.0	3.8	6.1	-0.1	-1.1
Covered Calls	5.8	7.7	5.1	11.9	0.7	-4.2
Real Estate	6.7	12.5	7.7	15.0	-1.0	-2.5
Private Equity	8.8	24.5	10.5	26.0	-1.7	-1.5
Real Return	4.6	5.2	5.1	7.3	-0.4	-2.1
Cash	2.8	1.5	2.3	3.0	0.6	-1.5

Capital Market Assumptions (6/30/2015)	AHIC (10 Years)		RVK (20 Years)		Difference	
	Return	Standard Deviation	Return	Standard Deviation	Return	Standard Deviation
Broad US Equity	6.6	17.9	7.1	17.8	-0.4	0.1
Broad International Equity	7.4	21.7	8.6	20.6	-1.2	1.1
Fixed Income	3.2	4.3	3.8	6.1	-0.6	-1.8
Covered Calls	5.8	7.7	5.1	11.9	0.7	-4.2
Real Estate	6.7	12.5	7.7	15.0	-1.0	-2.5
Private Equity	8.8	24.0	10.5	26.0	-1.7	-2.0
Real Return	4.0	5.0	5.1	7.3	-1.1	-2.3
Cash	2.1	1.0	2.3	3.0	-0.2	-2.0

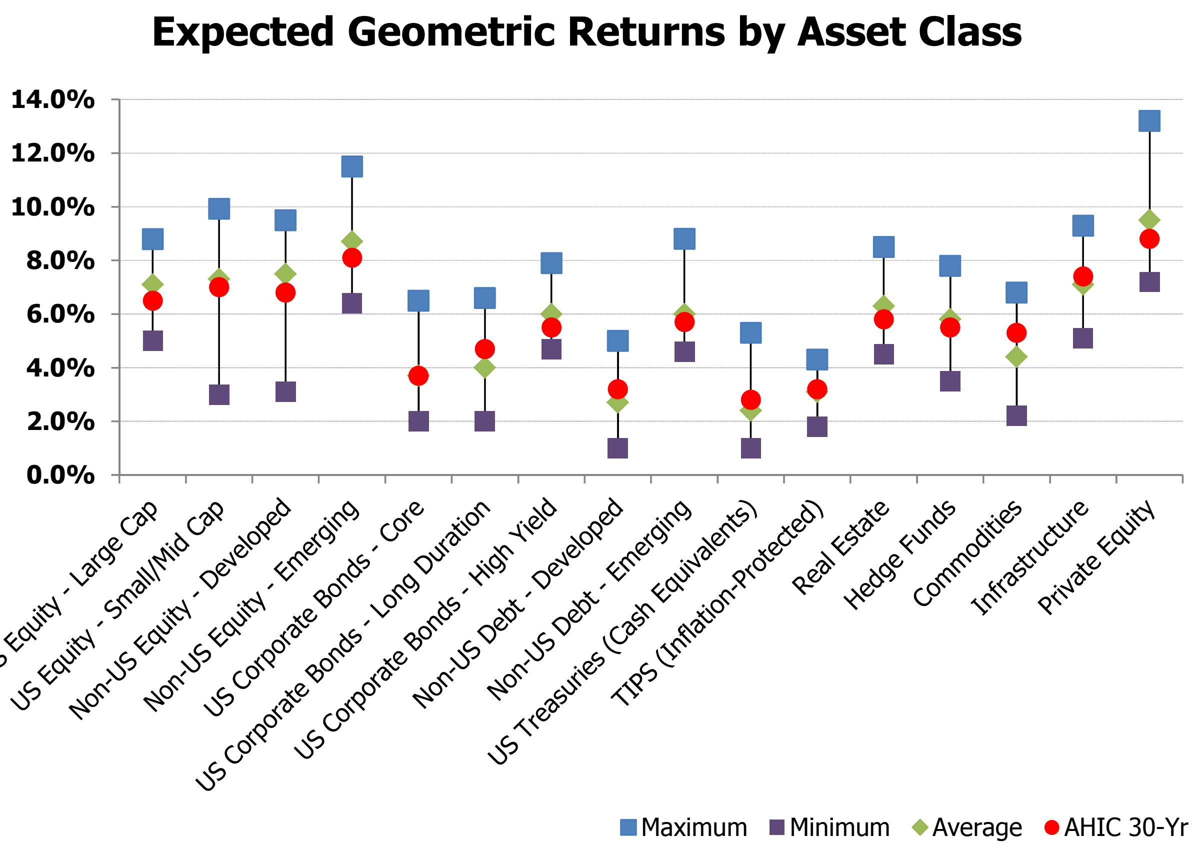
As indicated by the Table, both AHIC's 30 and 10-year capital market assumptions are slightly lower across the majority of all asset classes than those used by R.V. Kuhns' over a 20-year period.

We then compared R.V. Kuhns assumptions with that of a broader universe of investment advisors. Horizon Actuarial Services, LLC performs an annual survey of independent investment advisors' capital market assumptions. Twenty-nine investment advisors participated in the 2015 survey.[37] The results are intended to allow plan fiduciaries to understand how the capital market assumptions used in their analyses compare to peers. Expected returns of the survey are annualized over 10-20 years (geometric). Returns are blended, using 10-year assumptions

[37] Expected returns of the survey are annualized over 10-20 years (geometric). Returns are blended, using 10-year assumptions when 20-year assumptions are not available.

when 20-year assumptions are not available. Chart 2-1 depicts the results of the Horizon Actuarial Survey of 2015.[38]

Chart 2-1 – Horizon Capital Market Assumption Universe



The R.V. Kuhns' assumptions were not compared directly to the Horizon survey due to the differing aggregation of asset classes. Therefore, we use R.V. Kuhns' assumptions in relation to AHIC's assumptions as a proxy.

AHIC assumptions[39] appear somewhat more conservative than the median peer included in the 2015 Horizon Survey of capital market assumptions. The R.V Kuhns expected market returns are slightly higher than AHIC's. In general the R.V Kuhns expected market returns fall between AHIC's and the median peer. Because of this, we consider the R.V. Kuhns assumptions used by WPERP to be reasonable and in line with expectations of institutional investors. Further, we believe that the expected

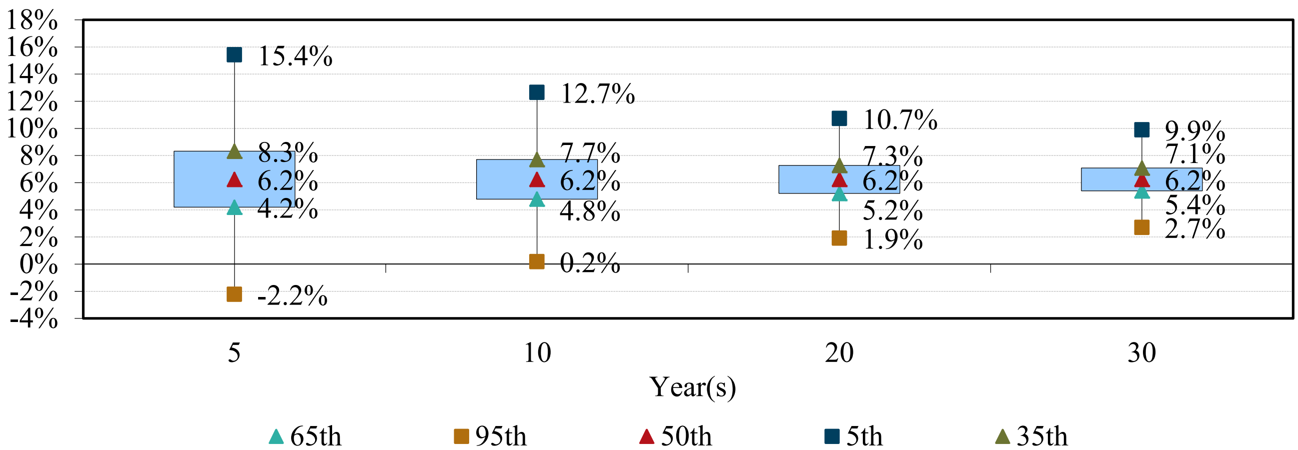
[38] Survey of Capital Market Assumptions 2015 Edition.

[39] AHIC expected market returns are annualized over 30-years.

returns, volatility, and correlation used by R.V. Kuhns within the most recent WPERP asset liability study to evaluate the policy asset allocation are reasonable.

Expected Return Assumption
To assess the reasonableness of WPERP's expected return assumption; we apply AHIC's current capital market assumptions (as of September 30, 2016) to the WPERP long-term asset allocation targets in place at the end of the scope period. Chart 2-2 illustrates WPERP's expected returns using the AHIC's capital market assumptions over 5, 10, 20, and 30-year periods.

Chart 2-2 – WPERP Expected Return Using AHIC's Capital Market Assumptions



The distribution on the far right of Chart 2-2 depicts the range of expected outcomes over a 30-year period. The top value of 9.9% represents the 5th percentile (Best-Case-Scenario). This means that there is a 95% chance that the 30-year annualized return will be less than 9.9%. Conversely, the bottom value represents the 95th percentile value (Worst-Case-Scenario). There is a 95% chance that the 30-year annualized return will be greater than 2.7%. The median expected return of 6.2%[40] is represented by the center value. Based upon this, our expected return for WPERP over a 30-year period is 6.2%. This is 0.4% lower than the expected return identified by WPERP and its investment consultant, R.V. Kuhns.

We also reviewed the probability of WPERP achieving the actuarially assumed rate of return at the end of the scope period (7.50%) and the reduced rate implemented following the end of the scope period (a 7.25% rate was adopted by the WPERP Board at the recommendation of its actuary following the June 30, 2015 experience study conducted by Segal Consulting and the actuarial audit conducted by Cheiron).

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[40] The AHIC capital market assumptions assume passive market returns, and active management skill (or lack of skill) can generate returns above (or below) the expected value.

We conducted the probability review using the AHIC capital market assumptions over a 5, 10, 20, and 30-year period. The analysis is provided in Table 2-3.

Table 2-3 – Probability of Achieving a 7.50% and 7.25% Return

	Probability of Achieving Return			
Return	**5-Years**	**10-Years**	**20-Years**	**30-Years**
7.50%	41%	37%	32%	28%
7.25%	43%	40%	35%	32%

As shown above, using the AHIC capital market assumptions there is approximately a 30% probability that the Plan will achieve its actuarially assumed rate of return over 30 years. Over shorter time periods the likelihood is higher due to the wider range of projected outcomes over those periods.

Since the beginning of 2010, WPERP has performed three actuarial experience studies, one every three years. The Plan Document (Section II B) and the City Charter (Section 1190) required the WPERP Board to conduct actuarial experience studies every five years. The purpose of an experience study is to assess the validity of the economic and non-economic assumptions used for the actuarial valuation, which is then used to determine the DWP's annual contribution. The experience studies are performed by WPERP's enrolled actuary pursuant to Actuarial Standard Practice requirements. Each experience study has resulted in a recommendation from the Board's actuary to lower the assumed investment rate of return. The Board has accepted the actuary's recommendation and lowered its assumed investment rate each time: from 8% to 7.75% in 2010, from 7.75% to 7.50 in 2013 (although 7.25 was also recommended as an alternative for the Board consideration), and most recently from 7.50 to 7.25 in 2016 (a lower alternative rate was not recommended by the actuary). (See Table 2-4 below.)

Table 2-4 WPERP Historical Changes in Assumed Investment Rate

Period Covered by Experience Study	Date Study Submitted by Actuary	Recommendation Assumed Rate	Rate adopted by Board
7/1/2006 – 6/30/2009	**March 31, 2010**	**8.00 to 7.75**	**7.75**
7/1/2009 – 6/30-/2012	**April 17, 2013**	**7.75 to 7.50 or alternatively 7.25**	**7.50**
7/1/2012 - 6/30/2015	**May 23, 2016**	**7.50 to 7.25**	**7.25**

The assumed rate of return has a significant impact on the calculation of the plan sponsor's contribution. Lowering the rate means the plan sponsor's required contribution will increase. There is considerable room for judgment regarding which assumptions are the correct ones to use, and expert opinions often differ even when a detailed independent analysis of the underlying data is conducted. It was not within the scope of this project to independently determine what we believe the actuarially assumed rate of return for WPERP should be at this time. Notwithstanding, overall we found that the actuarial method and the assumptions used appear to be sound and reasonable.

The challenge in meeting or exceeding common expected return assumptions is not unique to WPERP. Many other public retirement systems have, and are actively discussing this same issue. Similar to WPERP, some have chosen to take action to reduce their expected return assumption. Although each plan is unique due to its design and member demographics, it is prudent to understand the return expectations used by the broader public retirement system community.

To further understand whether WPERP's expected rate of return assumption is reasonable, we reviewed it against data from the broader public pension industry. The National Association of State Retirement Administrators (NASRA), a highly regarded industry association for public retirement systems conducts an annual survey of 127 public funds that gathers data regarding the various assumptions used by plans, among other information. WPERP's actuarial assumed investment rate of 7.25% is below the median of peer plans reported in the NASRA 2017 Public Fund Survey of 127 large public retirement funds; more than one-half of the participating systems have an investment return assumption in the range of 7.00% to 7.50%.

Chart 2-3 below depicts the distribution of public pension fund expected return assumptions by calendar year ending 12/31/2015.

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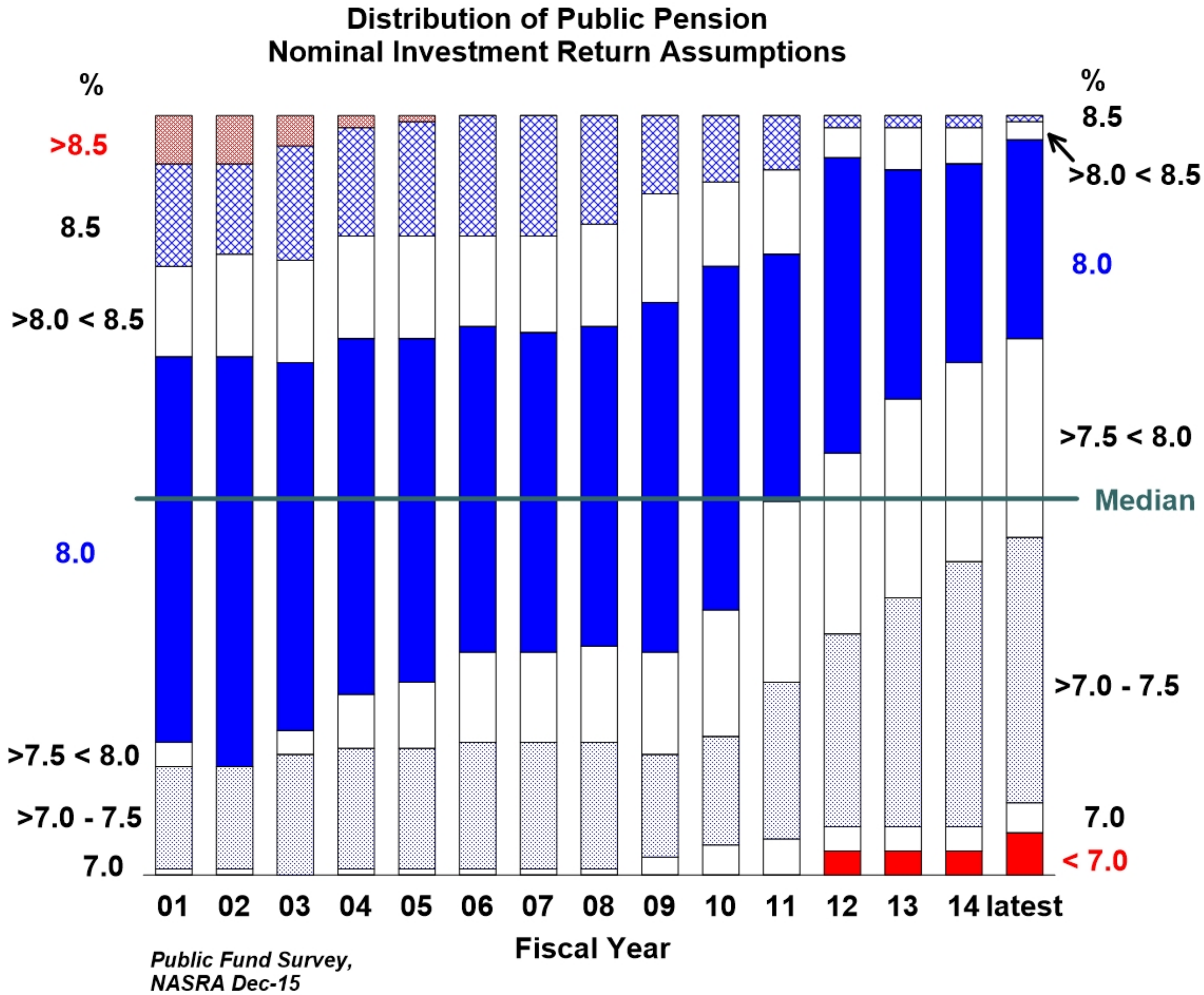
Chart 2-3 – Distribution of Public Pension Return Assumptions (2001 – 2014) – NASRA Public Funds Survey



As shown in the Chart 2-3 above, expected return assumptions for participating public funds have been falling during the period. Since 2012 the median public pension plan has fallen into the greater than 7.5% but less than 8.0% range and reached 7.55% in the most recent survey.

A study performed by R.V. Kuhns (the RVK Public Fund Universe Analysis, for the period ending June 30, 2015) reported that of the 62 participating respondents only 4 had assumed rates lower than 7.25% with the majority having 7.50%. According to the same R.V. Kuhns study, WPERP had the 11th highest funded status (net assets as a percentage of the pension benefit obligation) of the participating funds.

Portfolio Structure and External Manager and Staff Resourcing

At the end of the audit period the WPERP portfolio was approximately $10 billion in assets managed by 24 external investment managers, with 40 additional investments within the real estate and private equity portfolios. The WPERP investment team consists of ten individuals responsible for overseeing the portfolio. Activities supported by WPERP staff include performing investment manager and service provider due diligence, cash and asset allocation management, administrative functions, preparing for bi-monthly Board meetings, conducting ongoing oversight of portfolio compliance, topical analysis of investable markets, performing non-quarterly portfolio reviews (asset liability, asset allocation, and portfolio structure reviews), supporting Board continuing educational requirements, and engaging in traditional staff management responsibilities such as employee supervision and development.

It is to be expected that as the WPERP portfolio grows in asset size and the implementation structure becomes more complex, Staff size will need to be continually evaluated and monitored. During the interview process we learned that the lack of a deputy CIO and an executive assistant has resulted in the CIO's time being spent in areas of low impact. Understaffing, particularly for an executive level position such as a deputy CIO, can result in operational risk because it detracts from the ability of the CIO to optimally focus on the effectiveness of the investment program.

To further evaluate WPERP investment staffing against a broader set of peers,[41] we reviewed a well-known industry survey on investment staffing; the Greenwich Associates 2015 United States Institutional Investors Market Trends survey. It shows that among 115 public funds with assets greater than $5 billion, the average plan has 13 full-time equivalent ("FTE") positions including 7.5 selecting and supervising external managers and 5.5 performing investment administrative services.[42] Chart 2-4 compares WPERP investment FTEs to a group of peer public funds.

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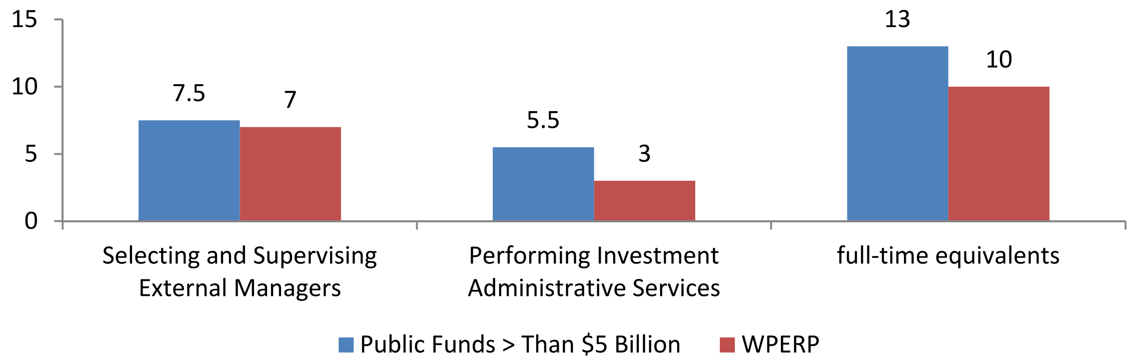
[41] Greenwich Associates 2015 United States Institutional Investors Market Trends survey, 115 Plans with assets greater than $5 billion.

[42] Investment administrative services are responsible for performance analysis and reporting.

Chart 2-4 – Full Time Equivalents of Peer Public Funds



Based upon information reported to us by WPERP, there are 7 staff selecting and supervising external managers and 3 performing investment administrative services. On relative terms, WPERP has a lower number of full-time equivalents performing similar functions than the average public fund.

Although data review is a piece of the analysis, it is not the only piece. This is because staffing levels across large public pension funds are not easily comparable. Further, it is not necessarily good or bad to be above or below the average. Each public fund is unique. We believe the staffing level of the plan should be commensurate with the structural complexity and needs of the investment program.

The level of staffing required to oversee an institutional investment program is a function of many variables. Some critical factors include, among others:

1. The complexity of the investment program:
   a. The use of active versus passive management
   b. The inclusion of alternative asset classes
2. The level of non-investment related administrative functions performed by staff.
3. The number of investment meetings held per period.
4. The level of due diligence performed by third-party vendors (i.e. the investment consultant) versus those performed by staff.

If the factors above are adjusted, the level of staff required to oversee a plan can be materially impacted. For example, if the Board believes Staff has the ability to identify investment strategies capable of producing excess returns net of fees, then using passive investments because of staffing constraints may not be viewed as prudent. We believe WPERP would be well-served by further evaluating each factor, taking into consideration the need to minimize DWP contributions.

Conclusions

Based upon our multiple analyses and review of the 2015 asset liability study we conclude that the process undertaken by WPERP was sufficient for it to determine the appropriateness of its diversification, and whether the risk of loss to the Plan was minimized and the expected return rate maximized.

The primary tool used by WPERP Staff to evaluate and set asset allocation is an asset liability study. Staff has a goal of performing an asset liability study every three years; however, the practice has not been codified in the Investment Policy. We have reviewed the asset liability study performed in 2015 and find the process to be in line with practices of other leading public pension funds. The 2015 study effectively evaluated the relative tradeoffs associated with market risk and DWP contributions, providing stochastic results for the actuarial funded ratio, market funded ratio, payout ratio, and DWP contributions.

We have also evaluated the capital market assumptions (expected returns, volatility, and correlation) underlying the 2015 asset liability study, comparing them to the AHIC assumptions as well as the Horizon Universe of independent investment advisors, and we find them to be reasonable. Utilizing the AHIC capital market assumptions and the current WPERP Long Term Target we expect the portfolio to return 6.2% per year for the next 30 years (50% probability). We expect that there is a 28% probability of achieving a 7.5% return and 32% probability of achieving a 7.25% return.

The Plan currently invests in the major asset classes that we would expect to find for a plan with similar circumstances. Given our current level of understanding of the Plan, we would not recommend any new investment strategies.

It is critically important for minimizing operational risk and consistent with good governance that the level of investment staff is commensurate with expectations and that staff is allocated in a manner to maximize utility to the plan. We believe that WPERP would benefit by undertaking an evaluation of the level and type of staffing resources needed to effectively and efficiently run the investment program.

Recommendations

12. Amend the Board Investment Policy to specify a minimum standard for performing an asset liability study at least every three to five years.

13. Evaluate the investment program; determine the desired functions to be performed by Investment Staff, and determine investment staffing types and levels that appropriately align with the activities and requirements of the WPERP investment program.

ii. Portfolio Rebalancing

Findings and Analysis

To evaluate the effectiveness of the portfolio rebalancing process utilized by WPERP, we reviewed WPERP's supporting policy documentation, and the structure of decision-making for portfolio rebalancing. Findings and analysis for each topic appear on the following pages. Conclusions and recommendations appear at the end of this subsection.

Policy Documentation
The Board's Investment Policy provides that the Board is responsible for final approval of all rebalancing recommendations. Additionally, the document states that the Board will monitor and assess the actual asset allocation versus policy quarterly and will rebalance as appropriate. Staff, with the assistance of the investment consultant, is responsible for monitoring the portfolios and making rebalancing recommendations to the Board. Staff is also responsible for implementing rebalances as directed by the Board.

The Investment Policy also provides detail for how the rebalancing process should be performed. Specifically, it provides the following;

- The Board, in consultation with its investment consultant, will set a target allocation and rebalancing range for each asset class and to the sub-asset class.
- Staff has responsibility for monitoring the portfolio's asset allocation relative to the target allocations and reporting to the Board if a rebalancing range is breached.
- Staff, in consultation with the investment consultant, will make a recommendation to rebalance back to the mid-point between range and the target allocation.
- Upon approval by the Board, Staff will implement the proposed rebalancing
- Between meetings the President shall determine whether a special meeting of the Board shall be called to approve a rebalancing action.

In addition to the requirement that the Board approve rebalancing, the Investment Policy states that "rebalancing will generally not occur more frequently than every three months". It also provides additional direction on the manner in which rebalancing should occur within asset classes.

The following Table 2-5 provides the rebalancing ranges of the high level asset classes outlined in the Investment Policy.[43]

Table 2-5 – WPERP Rebalancing Ranges[44]

Asset Class	Target (% of total portfolio)	Maximum (% of total portfolio)	Minimum (% of total portfolio)	Range +/-%
Equity	54.0	62.1	45.9	+/-15%
Domestic Equity	33.0	38.0	28.1	+/-15%
International Equity	21.0	25.2	16.8	+/-20%
Fixed Income	24.0	27.6	20.4	+/-15%
Private Equity	5.0	--	--	--
Real Return	6.0	--	--	--
Covered Calls	5.0	5.8	4.3	+/-15%
Real Estate	5.0	--	--	--
Cash	1.0	1.5	0.5	+/-50%
Total	**100**	**--**	**--**	**--**

Rebalancing is an important form of risk control. Since asset allocation drives investment results, material deviations from investment policy introduce risk that is undesirable unless the deviations are a deliberate part of a tactical asset allocation decision. Therefore, to minimize risk, investors should maintain actual allocations as close as possible to policy allocations (through sourcing and targeting of non-investment related cash flows, and rebalancing when necessary) subject to the transaction costs associated with rebalancing. In absence of tactical asset allocation, best practice calls for a disciplined rebalancing process with narrow ranges around policy targets. Our research suggests that narrow rebalancing ranges achieve the most efficient tradeoff between risk minimization and trading cost.

The WPERP rebalancing approach described in Investment Policy generally addresses the tradeoff of tracking error and trading costs, and clearly defines a

[43] Rebalancing ranges for sub-asset classes are also prescribed by Policy.
[44] From the Board's Policy.

prudent process for rebalancing. However, the rebalancing ranges are larger than we typically recommend. Rebalancing ranges of this size are usually associated with investment programs that are attempting to add excess returns through tactical asset allocation decisions. Staff specifically reported to us during the interview process that they are not making tactical asset allocation decisions. WPERP would benefit from performing a review of the rebalancing ranges, measuring the expected level of active risk and trading costs associated with various rebalancing ranges.

We also observed through our review of the Investment Policy that Private Equity investments had no specified rebalancing range. In addition, it is reflected as a standalone asset class, and is not included within the rebalancing range for Equity.[45] This is inconsistent with our expectations. The market risk associated with public and private equity is similar; therefore when addressing risk control and the appropriate maximum or minimum level of equity market risk within a portfolio, public and private equity should be aggregated.

Structure of Decision-making for Portfolio Rebalancing

The structure of decision-making for WPERP portfolio rebalancing is also notable. The current approach outlined by the Investment Policy assigns the Board with responsibility for monitoring, assessing, and making a final approval for all rebalancing recommendations. This is not consistent with best practice among other large public pension funds. Best practice is for boards to operate at a high policy level and delegate decision-making authority for implementation related responsibilities to staff. In such a structure, the Board approves the asset allocation targets, and ranges for each target, when it approves the investment policy. The investment staff is then responsible for monitoring the portfolio and has the authority to rebalance based upon the ranges and approach outlined in the board-approved investment policy. Rebalancing transactions are then reported to the board at the next regularly scheduled meeting as part of its review of the investment program.

Further, the WPERP Investment Policy language specifying that rebalancing will generally not occur more frequently than every three months is not in line with best practice. A significant change in the market that results in a rebalancing may be the beginning of an extended economic adjustment. In the course of another three months, such an economic event could take WPERP's allocation substantially out of its range and result in significant tracking error. Rebalancing whenever the actual allocation moves outside the range is a best practice. Establishing ranges that balance the costs and risks of rebalancing is a more appropriate mechanism to

[45] Equity currently consists of Domestic Equity and International Equity.

manage the costs and tracking error of the investment program than restricting rebalancing to once every three months.

Conclusions

WPERP's general rebalancing process as defined in the Board's Investment Policy is generally appropriate and sufficiently addresses the cost of rebalancing and the tracking error associated with maintaining an asset allocation that deviates from policy. However, the Investment Policy and overall approach to rebalancing would benefit from enhancement in four key areas. First, the rebalancing ranges are too wide and are excessively reducing the cost associated with rebalancing while materially increasing the level of expected tracking error. Secondly the Equity rebalancing range does not currently include the Private Equity asset class and it should. Thirdly, the decision-making approach for rebalancing and degree of delegation to staff is not in line with best practice among other large public pension fund peers. Finally, providing time-based restrictions on rebalancing activity can be counterproductive and introduces unnecessary risk to the portfolio.

Recommendations

14. Perform a review of the Investment Policy rebalancing ranges, measuring the expected level of active risk and trading costs associated with various rebalancing ranges.
15. Amend the Investment Policy to include Private Equity as a component within the Equity rebalancing range.
16. Consider delegating the authority to approve rebalancing, consistent with the Investment Policy, to Staff with subsequent reporting provided to the Board.
17. Eliminate the time-based rebalancing restrictions in the Investment Policy so that rebalancing can occur at any time that the cost benefit analysis is seen as beneficial.

iii. Investment Performance (Net of Investment Fees)

To evaluate WPERP's investment performance on a net of investment fees basis, we reviewed WPERP's Total Fund returns and peer rankings and attribution analysis performed by WPERP investment consultant R.V. Kuhns at the Total Plan level. We also performed attribution analysis at the asset class level to better understand drivers of investment performance. Findings and analysis for each topic appear on the following pages. Conclusions and recommendations appear at the end of this subsection.

WPERP's Total Fund returns and peer rankings as of June 30, 2015, for the 1, 3, and 5-year trailing periods are provided in the following Table 2-6. The peer rankings[46] are based on a universe of 82 public pension funds that have over $1 billion in assets.

Table 2-6 – WPERP Investment Returns – Total Fund (Net of Investment Fees)[47]

	Ending June 30, 2015					
	1 Year (%)	Rank	3 Year (%)	Rank	5 Year (%)	Rank
Total Fund Composite (Retirement)	**4.2**	**14**	**11.1**	**33**	**10.4**	**49**
Retirement Policy Benchmark[48]	*3.6*	*30*	*10.6*	*39*	*10.6*	*46*

As indicated by Table 2-6, WPERP's investment returns at the total fund level have outperformed the Retirement Policy benchmark in both the 1 and 3-year periods, and slightly underperformed over the 5-year period. WPERP's rank relative to peers is positive over the 1-year and 3-year period, and lesser so over the 5-year, ranking in the top quartile of all peers and in the top third of peers on a 1 and 3-year basis, respectively. WPERP is in line with the median of public pension funds over the 5-year period, meaning that nearly half of the peer group outperformed WPERP.

WPERP's returns and ranking relative to a peer universe for each asset class as of June 30, 2015, for the 1- 3 and 5-year trailing periods compared to its benchmarks is provided in Table 2-7. The benchmarks provided are outlined in the Board's Investment Policy.

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[46] A rank of 25 for a given manager indicates that manager outperformed 75% of other funds in that universe. "1" indicates the highest ranking, "99" the lowest.

[47] AHIC received WPERP and peer performance gross of fees and converted it to an estimate of net of fees returns.

[48] The Total Fund Benchmark as of June 30, 2015 was a weighted benchmark of the Long-Term Asset Allocation Targets specified in the Board's Statement of Investment Objectives, Goals and Guidelines.

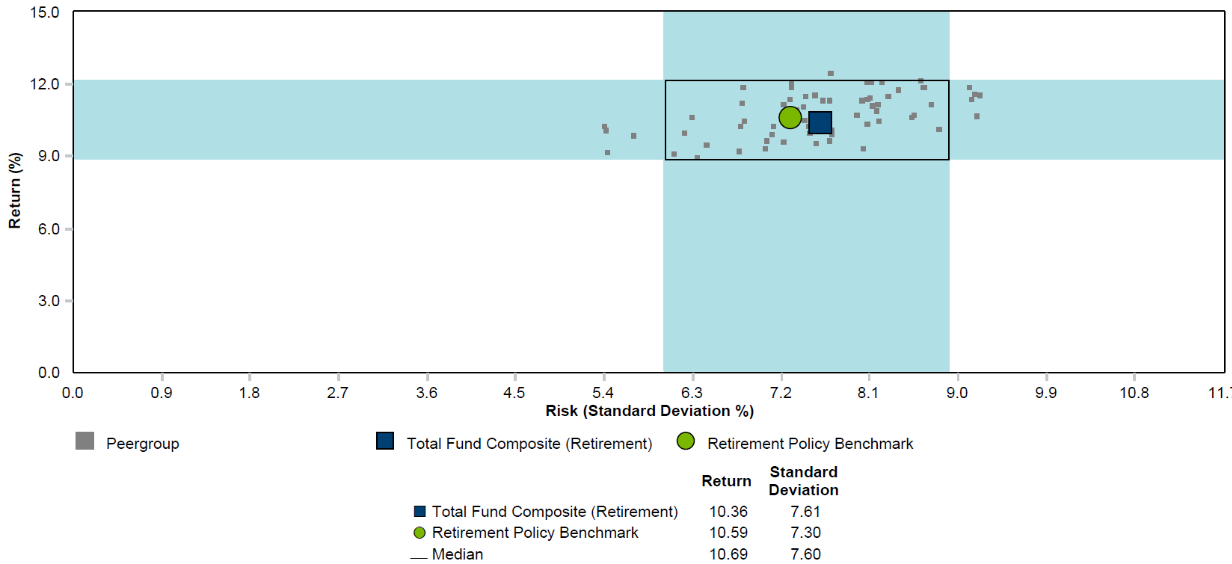
Table 2-7 – WPERP Investment Returns – Asset Class (Net of Investment Fees)

	Ending June 30, 2015					
	1 Year (%)	Rank	3 Year (%)	Rank	5 Year (%)	Rank
Domestic Equity Composite	**8.6**	**7**	**19.0**	**3**	**17.7**	**16**
Russell 3000 Index	*7.3*	*35*	*17.7*	*32*	*17.5*	*25*
International Equity Composite	**-2.6**	**33**	**11.2**	**37**	**7.8**	**91**
MSCI World ex USA IMI Index (Net)	*-5.0*	*91*	*9.8*	*78*	*8.0*	*90*
Fixed Income Composite	**2.6**	**16**	**3.1**	**42**	**4.7**	**51**
Barclays U.S. Universal Index	*1.6*	*42*	*2.3*	*62*	*3.8*	*80*
Real Return Composite	**-0.8**	**--**	**0.2**	**--**	**2.6**	**--**
CPI+300 bps	*3.3*	*--*	*3.9*	*--*	*3.6*	*--*
Covered Calls	**5.0**	**--**	**8.1**	**--**	**--**	**--**
CBOE S&P 500 BuyWrite Index	*3.6*	*--*	*7.6*	*--*	*--*	*--*
Private Equity Composite	**12.0**	**--**	**12.4**	**--**	**13.0**	**--**
Private Equity Benchmark	*15.7*	*--*	*19.9*	*--*	*18.0*	*--*
Real Estate Composite	**11.7**	**--**	**13.0**	**--**	**15.3**	**--**
NCREIF Property Index + 0.5% (1Q Lag)	*13.5*	*--*	*12.1*	*--*	*13.3*	*--*
Real Cash Composite	**0.8**	**--**	**0.5**	**--**	**0.5**	**--**
BofA Merrill Lynch 3 Month US T-Bill	*0.0*	*--*	*0.1*	*--*	*0.1*	*--*

As indicated by Table 2-7, WPERP has demonstrated positive investment returns versus the benchmarks across all applicable periods in Domestic Equity, Fixed Income, Real Cash and Covered Calls. Performance versus benchmark in International Equity, and Real Estate has been mixed. Investments in the real return and private equity asset classes have been sluggish across all periods. Over the following pages, we provide attribution analysis to identify the rationale for WPERP's performance.

Chart 2-5 represents the risk return profile of the WPERP (blue square) relative to its benchmark (green circle) and 82 peer public pension plans with assets greater than $1 billion (small grey dots). The bottom left corner represents low risk and low return. The top right corner represents high risk and high return. Therefore, the top left corner is preferred (higher return with lower risk). The shaded square in the center represents where 68% of peer portfolios fall in terms of risk and return.

Chart 2-5 – WPERP Risk Adjusted Investment Results (Net of Investment Fees Annualized Return vs. Annualized Standard Deviation 5 Years Ending 6/30/2015



As depicted by the Chart 2-5, the WPERP Policy benchmark has produced investment results in the top quartile of peers in risk adjusted terms. Notwithstanding, the Plan has slightly underperformed at a slightly higher level of volatility and has produced risk adjusted results closer to the median.

The quarterly performance reports provided to WPERP from its investment consultant, R.V. Kuhns, include Total Plan performance attribution information. Performance attribution is intended to allow the Board to better understand the causes of the difference between the Plan return and the benchmark return. Chart 2-6 below provides an excerpt of WPERP's Total Plan attribution as presented by R.V. Kuhns[49] on a net of investment fees basis for the five year period ending June 30, 2015.

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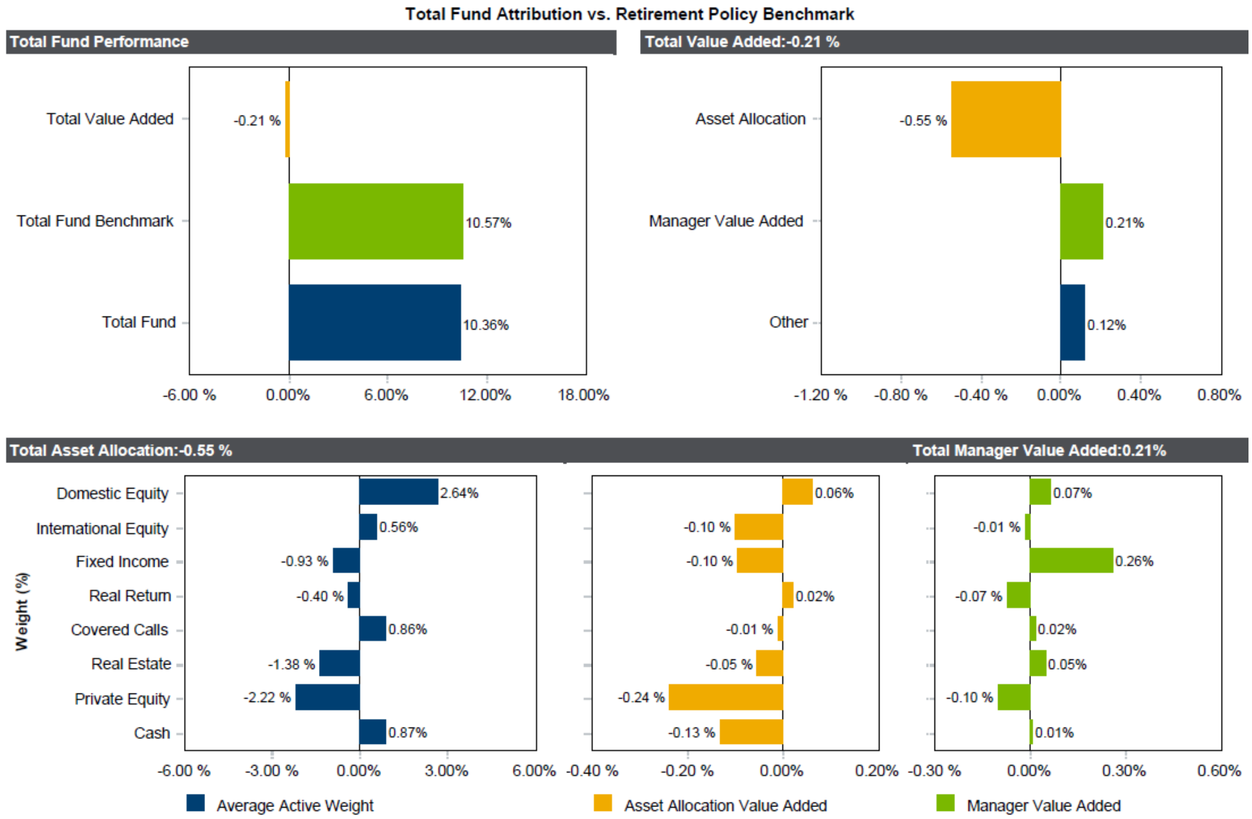
[49] WPERP Quarterly Performance Report from R.V. Kuhns for the period ended June 30, 2015.

Chart 2-6 – WPERP Total Plan Attribution (Net of Investment Fees) 5-Years ending 6/30/2015



The top left corner of Chart 2-6 depicts the annualized return of the Plan (10.36%), the return of the benchmark (10.57%), and the difference (-0.21%). Over the trailing 5-year period ending 6/30/2015 the Plan has underperformed the benchmark by 0.21% per year.

The top right corner attributes the 0.21% between Asset Allocation (the actual asset allocation being different than the benchmark -0.55%), Manager Value Added (the asset classes outperforming their benchmarks +0.21%), and other (the unexplained portion primarily attributable to the movement of assets intra-month +0.12%).

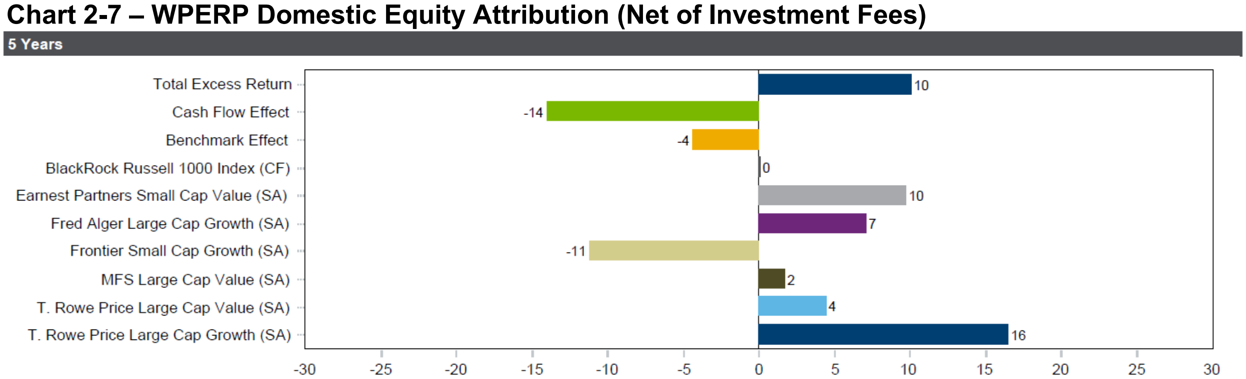
The bottom left corner of the attribution represents the average weighting difference during the period between the Plan and the benchmark. As shown the largest overweight during the period was to domestic equity (+2.64%) while the largest underweight was private equity (-2.22%). The middle segment in gold shows how the weighting differences impacted relative performance, these bars add together to equal the Asset Allocation Bar in the top right corner. The bottom right corner illustrates the impact of each asset class' relative performance on total Plan performance. These bars add together to equal the Manager Value Added Bar in the top right corner. The Fixed income component was the largest contributor to relative performance during the 5-year period, adding 0.26% per year of outperformance at the Plan level. The R.V. Kuhns reports we reviewed did not include attribution information at the asset class level. The WPERP Board would benefit from having regular access to this information.

To understand the drivers of performance, we performed attribution analyses at the asset class level. The following analytics provide asset class attribution for the domestic equity, international equity, and fixed income composites. The domestic equity and fixed income charts are for the trailing 5-year period ending 6/30/2015. The international equity attribution is for the period beginning on 2/1/2015 and ending on 6/30/2015, due to data availability.

Charts 2-7 through 2-9 attribute the outperformance and underperformance of the asset class to the various possible sources. The name of each source is provided next to each bar, and the amount of outperformance or underperformance attributable to each source is provided next to the bar, as follows:

- The Total Excess Return bar represents the return of the asset class less the benchmark for the period;
- The Cash Flow Effect illustrates the effects on asset class performance from the timing of cash contributions, withdrawals, and asset movements between accounts;
- The Benchmark effect illustrates the impact due to the underlying asset class managers not fully replicating the total asset class benchmark; and
- The manager bars represent each manager's relative impact on asset class performance.

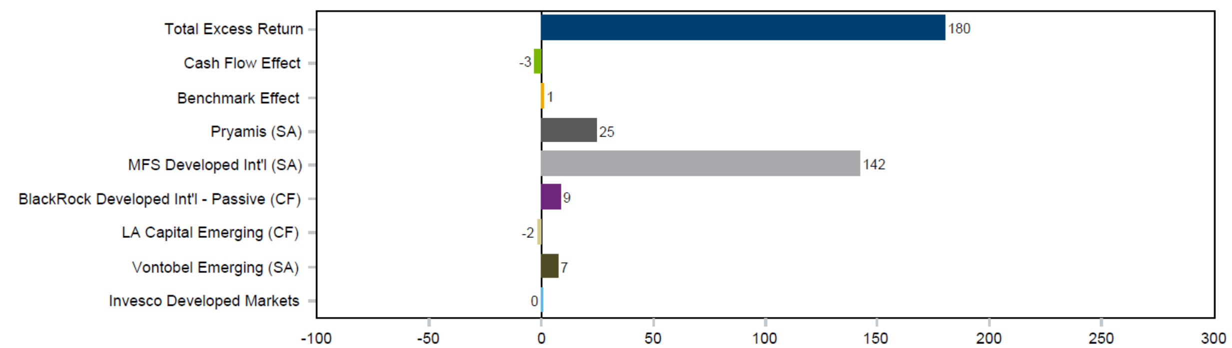
Chart 2-7 – WPERP Domestic Equity Attribution (Net of Investment Fees)



As shown above, the U.S. equity managers generally added to WPERP's investment results over the five year period ending June 2015. A negative benchmark effect, cash flow effect, and underperformance of Frontier Small Cap Growth offset some of the outperformance. Over the trailing 5-year period the Domestic Equity component outperformed its benchmark by 10 bps (0.10%) annualized.

Chart 2-8 – WPERP International Equity Attribution (Net of Investment Fees)

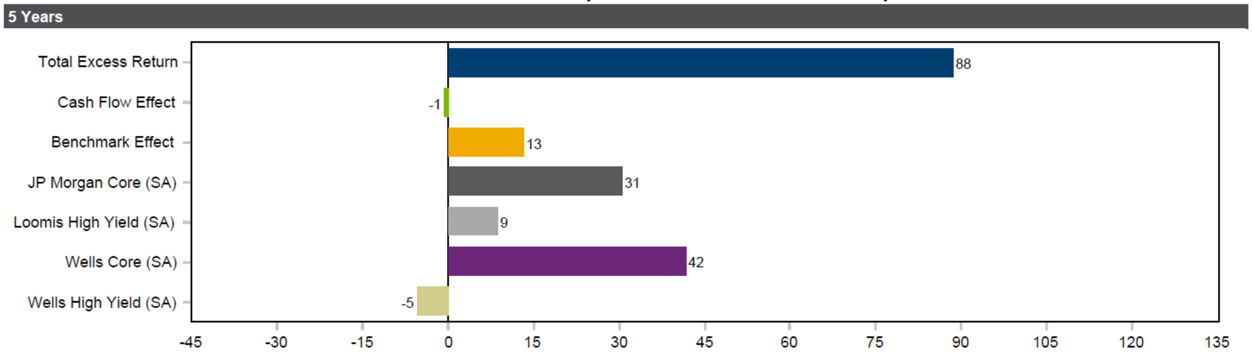
February 1, 2013 To June 30, 2015



Due to the unavailability of performance data for the full period, AHIC performed asset class attribution for the non-U.S. equity component from February 2013 through June of 2015. During the period evaluated, performance was fairly strong across investment strategies. The investment manager MFS was the largest contributor during the period adding 142 basis points of relative outperformance. Over the trailing period the International Equity component outperformed its benchmark by 180 bps (1.80%) annualized.

Chart 2-9 – WPERP Fixed Income Attribution (Net of Investment Fees)

5 Years



Relative performance of the fixed income managers during the scope period was strong. The investment strategy Wells High Yield was the only detractor during the period. The remaining managers were additive to relative performance. Over the trailing 5-year period the Fixed Income component outperformed its benchmark by 88 bps (0.88%) annualized.

Conclusions

In risk adjusted terms[50] during the 5-year scope period evaluated, the WPERP Total Fund benchmark has produced investment results in the top quartile of peers. However, the Plan has slightly underperformed (-0.21%) at a slightly higher level of volatility (+0.31%) than its benchmark and has produced risk adjusted results closer to the median.

In nominal terms, WPERP slightly underperformed its benchmark during the 5-year period net of investment fees (-0.21%). The Plan's investment managers generally added value relative to their benchmarks during the period, but the asset allocation deviating from the Investment Policy during the period detracted from relative performance. The timing of cash movements in and out of the Plan as well as between asset classes intra-month contributed to relative performance. Over the 1-year and 3-year periods, the Plan produced strong investment results relative to its benchmark and peers.

Recommendation

18. To assist the Board in evaluating the drivers of relative performance, include asset class attribution in the quarterly reporting materials.

(d) Whether the expenses of administering the Plan have been defrayed properly, including travel expenses related to Board travel activities.

The issues we reviewed for this objective include:

- Cost of administering WPERP and comparison of this cost to those of peer organizations;
- Identifying additional opportunities for cost sharing vehicles, including using City owned office space and aggregating assets for purposes of calculating fees for investment consultants and custodial services;

[50] The Sharpe Ratio is a measure for calculating risk-adjusted return, and this ratio is the industry standard for such calculations. It is the average return earned in excess of the risk-free rate per unit of volatility or total risk.

- Whether current Board approved travel policies, procedures and practices are in compliance with legal requirements; prevent or mitigate travel abuse; and are being followed by the Board and Staff;
- Whether current process compares favorably with other well run public retirement systems; and,
- Whether travel is taken for relevant Trustee education and in the interests of members and beneficiaries.

To conduct our analysis of this objective, our team first reviewed WPERP statutory requirements, the Plan Document, and financial documents regarding expenses, including those related to travel. Then we interviewed WPERP Board members and Staff, to understand their budget process, what current cost-sharing measures have been implemented by WPERP, and the travel procedures that have been implemented by the Plan.

To perform the costs comparison, a customized survey was prepared which requested information regarding administrative and investment expenses, travel costs and the travel policy and other information from the agreed upon peer group.[51] When funds did not provide the requested information, we sought to obtain it from their published annual reports. We consider each of the pension funds in the peer group to be well-run.

Findings and Analysis

The California Constitution and the City Charter require public funds to minimize employer contributions.[52] The duty to minimize contributions is however secondary to the pension fund's duty to its participants and their beneficiaries.

To minimize contributions, there are three fundamental factors that should be taken into account; benefits, administrative expenses, and net investment earnings. The most significant driver of the employer's contribution is benefits (i.e., the actuarial costs and liabilities associated with the benefit promises and the level of employee contributions are addressed in Objective 3). The next most significant factor that effects the employer's contribution is net investment earnings. The employer's contribution can go down if the investment earnings rise and increase as a result of investment losses (the performance of the WPERP investment program and its effect on the employer contribution is addressed as part of this Objective 2).

[51] The peer group took into account the type of organization, the asset size, membership size, geographic location, the type of employees covered, and the funds identified in the Scope of Work for this project.
[52] Article 16, Section 17 and Los Angeles City Charter, Article 11.

The third factor that can influence the employer's contribution is administrative expenses; however, particularly when compared to the other two factors, they have relatively little effect on the contribution. (*Administrative expenses are addressed below.)*

Administrative Costs of Operating WPERP Compared to Budget
Below is a chart that contains the proposed budget and actual administrative expenses for WPERP for fiscal years 2010 through 2015, the review period. The amounts do not include expenses related to investments.

Table 2-8 – Administrative Expense Budget & Actual Expenses for WPERP Administration for 2010-2015

Review Period Fiscal Year	Administrative Expense Budget	Actual Expenses	Difference Between Budget & Actual	Approx. Percentage over or under budget	Increase/ (Decrease) Expenses Over Prior Yr.	Percentage Increase Over the Prior Year
2010-2011	$8,188,499	$7,093,920[53]	($1.094,579)	-13%	$418,364	5.9%
2011-2012	$7,986,503	$6,651,701	($1,334,802)	-17%	($442,219)	-6.6%
2012-2013	$7,498,803	$6,699,473	($799,330)	-10.7%	$47,772	0.7%
2013-2014	$7,582,847	$7,185,488	(397,359)	-5.2%	$486,015	6.8%
2014-2015	$7,992,369	$7,839,670	(152,699)	-1.9%	$654,182	8.3%

The data presented in Table 2-8 shows that WPERP has been under budget for each year of the review period. Actual expenses increased over the prior year; however, increases have not been material – the average increase for WPERP during the review period was 3%. (*Travel costs are addressed separately later in this section*.)

Cost of Administering WPERP Compared to Peers
Table 2-9 compares the administrative costs of WPERP to the agreed upon peer group. We caution that the comparison of administrative costs provided in Table 2-8 should not be viewed as a true "apples to apples" comparison. Pension funds have distinct statutory obligations which they do not control. These requirements drive resource needs, which in turn drive costs. Goals and objectives regarding the level of services a board has elected to provide to their members, whether the board has

[53] Actual expenses for 2009-2010 was $6,675,556.

independent budgetary, personnel, and procurement authority and thus has control over its staffing, compensation, and technology needs, also may differ among the peers. These factors also impact costs. Most notably, the benefits structure and demographics of the peers are very different – fire and safety versus general employees, versus utility employees. Thus, a multiple-tiered public safety benefits structure, with different options available to its membership, a “high-touch” customer service philosophy and a low technology environment is likely to be much more expensive to administer than a plan with a single tier, minimal benefits options, and a state-of-the-art technology environment.

Table 2-9 reflects that WPERP’s actual administrative costs are significantly lower than its three local peer funds. This was also the case for the prior 2009 Management Audit.[54]

In addition to looking at actual costs, in an effort to normalize the comparison somewhat, we used two established methods to examine the reasonableness of costs: we calculated (1) the ratio of total administrative expenses to asset size (the “basis point” cost); and (2) the “cost per member” (the ratio of administrative cost to the size of the membership). We caution the reader to keep the drivers of costs mentioned above in mind when reviewing Table 2-9.

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[54] The 2009 Management Audit did not include LACERA.

Table 2-9 – Peer Comparison of Administrative Expenses[55]

Fiscal/ Calendar Year	Peers	Asset Size	Membership	Actual Administrative Costs[56]	Cost Per Member	Basis Point Cost[57]
2015	WPERP	11,823,942,245	19,576	7,839,670	$400	7
	LACERS	14,124,706,000	48,334	19,878,000	$411	14
	LACERA	49,306,709,000	162,444	62,591,000	$385	13
	LAFPP	20,701,959,458	23,221	19,178,885	$825	9
	TVARS	6,833,382,000	35,029	5,598,000	$1,306	7
2014	WPERP	11,386,613,337	19,183	7,185,488	$375	6
	LACERS	13,935,772,000	47,572	15,765,000	$331	11
	LACERA	47,722,277,000	159,779	58,723,000	$367	12
	LAFPP	20,271,551,443	23,140	14,882,066	$643	7
	TVARS	7,528,213,000	35,819	6,604,000	$1,319	6
2013	WPERP	9,753,305,995	19,921	6,699,473	$336	7
	LACERS	11,922,538,000	47,602	16,549,000	$347	14
	LACERA	41,773,519,000	157,571	53,863,000	$341	13
	LAFPP	17,784,710,304	23,264	13,045,489	$560	7
	TVARS	7,237,068,000	36,386	5,891,000	$1,183	6
2012	WPERP	8,682,314,550	19,590	6,651,701	$340	8
	LACERS	10,595,701,000	47,948	15,926,000	$332	15
	LACERA	38,306,756,000	156,563	50,218,000	$320	13
	LAFPP	15,967,460,760	23,409	14,497,811	$619	9
	TVARS	7,016,303,000	36,590	5,639,000	$1,186	6
2011	WPERP	8,654,583,824	19,390	7,093,920	$366	8
	LACERS	10,693,604,000	48,269	16,018,000	$331	15
	LACERA	39,452,011,000	156,045	50,605,000	$324	13
	LAFPP	14,971,531,302	23,436	13,442,947	$573	9
	TVARS	6,552,833,000	36,598	5,671,000	$1,415	8

Table 2-9 illustrates that WPERP had the lowest or equivalent ratio of costs to assets (basis point cost) for each review period except for the fiscal years of 2012 and 2013, with an average basis point cost of 7.2 for the review period versus 10.4 for the peers. Using the basis point cost as the measure, WPERP compares very favorably to its peers. In terms of "costs per member", while WPERP was the lowest

[55] The information regarding membership and cost per member covers both active and retirees.

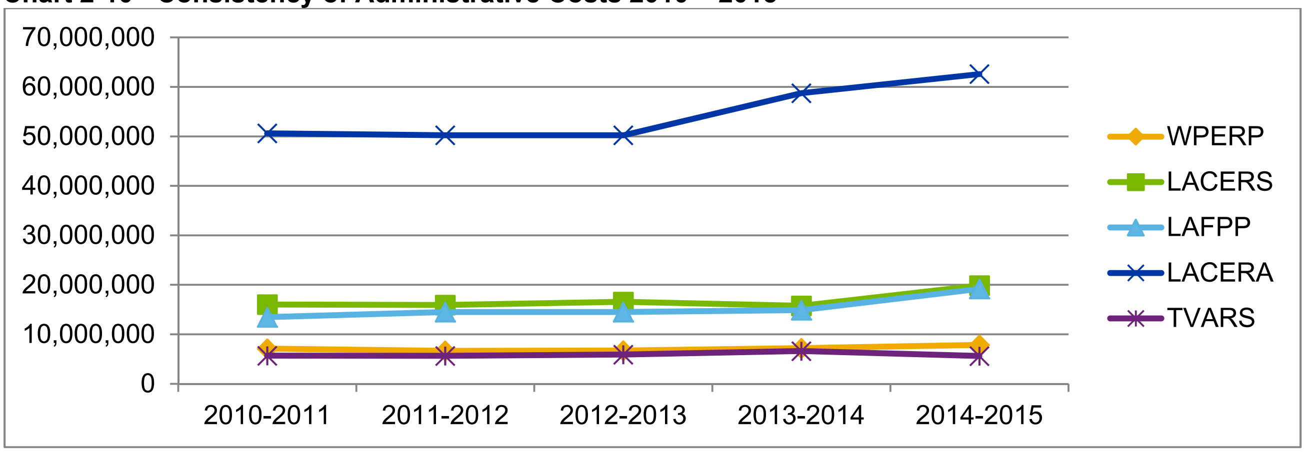
[56] Excludes investment management fees.

[57] Ratio of total administrative expenses to asset size.

for 2013, it typically ranked in the middle of the peer group. WPERP's average cost per member for the review period was $363.00 versus an average of $655.00 for the peer group.

As demonstrated in Chart 2-10, WPERP's administrative costs have been very stable for the review period. This was generally the case for most of the pension systems in the peer group; with one noted exception.

Chart 2-10 - Consistency of Administrative Costs 2010 – 2015



We then compared WPERP's administrative expenses using the 2015 R.V. Kuhns Peer Review Survey, as of June 30, 2015. WPERP did not fare as well in this comparison. The average in total administrative expenses[58] for funds between $10 and $20 billion was 4.92 basis points versus 5.5 for WPERP (we calculated 7 basis points for fiscal year 2015).[59] The same survey reported a 7.93 basis points average for funds between $5 and $10 billion. This suggests that funds with more assets achieve economies of scale. This reasoning is challenged however because the survey reported total administrative expenses of 5.32 basis for funds over $20 billion, reinforcing the subjective nature of comparative surveys.

In our opinion, there are several factors that impact WPERP's ability to minimize its costs:

- The WPERP Board and Staff appear to have a historical culture of cost conservatism. We found that WPERP delays performing certain tasks (e.g. the

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[58] 62 public funds provided administrative fee data for the R.V. Kuhns Peer Survey. Administrative expenses for purposes of the survey included costs related to general administration and includes internal investment staff, legal, and actuarial costs.
[59] The 2015 R.V. Kuhns Peer Survey reported 5.55 in administrative expenses for WPERP as of June 30, 2015, which is fiscal year 2015. We believe that the difference in the R.V. Kuhns versus the AHIC calculation is likely due to the differences in the data collection period and rounding.

creation of a governance manual, engaging in strategic planning, enhancements to its website) because it does not appear to have adequate resources to accomplish multiple projects in a timely manner. Consequently, non-priority items may take years to accomplish.

- WPERP uses a "'low-touch" philosophy – e.g., WPERP does not have a call center (although it does provide an on-line retirement calculator and retirement planning seminars), it has a minimalist website, and it does not currently conduct member satisfaction surveys, its annual report is understated, etc.
- Approximately 45% of WPERP's membership is retired. The retiree members tend to require less time in terms of customer service and therefore fewer staff is needed to provide them with services.

Cost Sharing Vehicles

Based on the information obtained during the interviews, we determined that WPERP currently has several cost-sharing measures in place with DWP, LACERS, and/or LAFPP. Cost sharing tools with DWP, include:

- Housing WPERP within the DWP building - this minimizes the cost for office space, physical security, telephones, and technology costs.
- Sharing legal costs and office space expenses of the staff from the City Attorney's Office used by WPERP with LACERS and LAFPP. Each pays for the City Attorney's services based on the actual work performed.[60]
- Sharing the costs of external legal counsel, related to the participation documents for alternative investments, with LACERS and LAFPP.
- Negotiation of price break in investment fees based on the aggregated amount of LA fund plan assets participating in the mandate with the investment manager (e.g., WPERP, LACEES, and LAFPP). Aggregation of assets results in a lower fee, for each of the pension funds investing with the same manager within the same mandate.

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[60] It is our understanding that previously an allocation formula.

Given the cost sharing vehicles already used by WPERP, the differences in the three City funds, and the low costs WPERP already realizes, implementing additional cost sharing opportunities would be challenging.

We acknowledge that the disability program of WPERP is very different from the LAFPP and LACERS programs. One notable difference is the fact that WPERP does not offer disability retirement. Even so, we are aware that some California County pension funds use cost-sharing for disability investigation services. This, along with medical professionals for disability related claims are areas that WPERP may want to explore with LACERS and LAFPP. Joint education and training sessions at the Board level may also be opportunities for cost sharing. Other possible areas where this topic has been raised include accounting, and actuarial services; however, we do not believe these are feasible options. These services are very plan-specific therefore we believe that the likelihood that economies of scale can be achieved is minimal.

As part of the expenses review, we were asked to examine the feasibility of cost sharing for purposes of investment consultant and custodial fees. Table 2-9 depicts WPERP's expenses related to custodial and investment consulting services relative to the 2015 R.V. Kuhns' universe of public funds.

Table 2-10 – WPERP Custodial & Investment Consulting Expenses Relative to Peers (bps) (6/30/2015)

Investment Expenses	WPERP	Under $500 Million	$500mm - $1 Billion	$1 - $5 Billion	$5 - $10 Billion	$10 - $20 Billion	Over $20 Billion
Custodial	0.43	2.09	3.21	1.58	0.59	0.67	0.30
Investment Consulting	0.57	2.59	1.91	1.72	0.84	1.56	0.44
Total Expenses	**1.00**	**4.68**	**5.12**	**3.30**	**1.43**	**2.23**	**0.74**

*62 of 79 funds provided fee data for this time period

Source: R.V. Kuhns 2015 Peer Survey

Relative to a nation-wide peer group[61] of public funds between $10 and $20 billion, WPERP's fees for custodial and investment consulting services are very low.

Table 2-11 compares WPERP's investment consulting services expenses relative to the LACERS and LAFPP. (*Custodial costs are not separately broken out in the CAFR for LAFPP or LACERS.*[62] *Consequently, we could not do a comparison for this service*.) We found that WPERP does not consistently have the lowest fees among the three LA pension funds. WPERP changed its investment consultant in

[61] The peer universe included many of the California County pension Funds (37Act Funds).

[62] The information was also not provided in the survey response.

fiscal year 2015. They now use the same general investment consultant as LAFPP. Yet, WPERP investment consulting fees are higher than LAFPP. This supports our assertion that investment consulting services are pension fund specific.

WPERP also recently changed its custodian. As a result, all three City of Los Angeles pension funds have the same custodian bank. We believe that it is very likely that the distinction of having all three City of Los Angeles funds as clients was a motivating factor in the custody bank's fee negotiations with WPERP.

Table 2-11 WPERP I Custodial and Investment Consulting Expenses Relative to Other LA Funds

Fiscal	WPERP vs. Other LA Funds	Asset Size	Investment Consultant Costs (bps)	Investment Consultant Costs
2015	WPERP	$11,823,942,245	0.7	**$821,674**
	LACERS	$14,124,706,000	0.9	**$1,313,000**
	LAFPP	$20,701,959,458	0.3	**$649,988**
2014	WPERP	$11,386,613,337	0.7	**$744,682**
	LACERS	$13,935,772,000	1.0	**$1,443,000**
	LAFPP	$20,271,551,443	0.3	**$667,923**
2013	WPERP	$9,753,305,995	0.8	**$744,682**
	LACERS	$11,922,538,000	1.3	**$1,549,000**
	LAFPP	$17,784,710,304	0.4	**$755,783**
2012	WPERP	$8,682,314,550	0.9	**$747,672**
	LACERS	$10,595,701,000	1.5	**$1,570,000**
	LAFPP	$15,967,460,760	0.4	**$600,000**
2011	WPERP	$8,654,583,824	0.9	**$782,709**
	LACERS	$10,693,604,000	1.5	**$1,629,000**
	LAFPP	$14,997,531,302	0.5	**$800,316**

* - Fees were not separately identified in the CAFR

Travel Policy and Costs

We reviewed applicable statutory travel requirements and Board approved policies and procedures. These included the travel requirements set forth in Chapter 5 of the Los Angeles Administrative Code[63] and the City Travel Policy, which incorporates Chapter 5, Article 4 of the Los Angeles Administrative Code.

[63] Los Angeles Administrative Code, Chapter 5, Reimbursement for Certain Expenses Incurred by City Employees

DWP adheres to the City Travel Policy. WPERP follows the DWP practice. According to the City Travel Policy, unless otherwise stated in the Board's adopted policy, the General Manager approves staff's travel.[64] This is the practice. We were informed that WPERP's Travel Policy is approved each year in the budget document. WPERP does not have a separate travel policy.

A written travel policy is a vital governance document. It provides a guideline and process for allowable travel and business expenses for board members or staff. The policy should set forth: the board's philosophy regarding travel; the process for requesting and approving travel; under what circumstances travel is or is not appropriate; recommended educational opportunities; restricted activities or limitations (e.g., first class travel, payment for liquor, travel with spouses, etc.); and specify what forms and documentation are required for purposes of reimbursement. Having a travel policy in place assists an organization in preventing or mitigating travel abuse. It also assists the board and staff in not breaching their fiduciary duty regarding use of plan assets. We are aware of a number of public funds that model their travel policy to align with the requirements of applicable statutory requirements and the plan sponsor's policy. Yet, they adopt their own policy that is typically more detailed and customized to the travel activities of a pension fund.

As Table 2-12 reflects, all the peers have adopted a board travel policy.

Table 2-12 – Board Adopted Travel Policies

Peer	Board Adopted Travel Policy	
	Yes	No
City of Los Angeles Department of Water and Power Employees Retirement Plan		X
Los Angeles County Employees' Retirement Association	X	
Los Angeles Fire and Police Pension	X	
Los Angeles City Employees' Retirement System	X	
Tennessee Valley Authority Retirement System	X	

[64] City Travel Policy, page 7

The need for a travel policy and its content was addressed in the 2009 Management Audit Report. As noted in the *Status of WPERP 2009 Management Audit Recommendations* matrix (see the Appendix) Staff reported that this recommendation was partially implemented. We found that while the Board has not adopted a written, distinct travel policy, there is an informal travel process in place. The absence of a distinct board adopted travel policy does not compare favorably to the standards of practice of other well run public retirement systems.

The Los Angeles Administrative Code[65] requires that a board authorize by resolution authority to certify travel expenditures. While the applicability of the Administrative Code to WPERP has been questioned in light of the plenary authority granted by Proposition 162 (Article 16, Section 17, of the CA Constitution), WPERP nevertheless follows its requirements. We did not find any specific discussion in the minutes or board resolutions authorizing travel (we did however see discussion regarding travel procedures). As noted earlier, WPERP uses the annual budget process, to establish its travel policy for the year which includes a list of approved conferences. WPERP does approve the budget by resolution. Therefore, as long as WPERP board members and Staff do not exceed the approved travel budget they will likely be viewed as in compliance with the Administrative Code.

We did observe that WPERP maintains detailed reports documenting who travels, the purpose of the travel, and the amount of the travel. The interviews indicated that a Travel Report, is provided to the Board annually as part of the budget process. A list of suggested educational opportunities is also provided to the Board with the proposed budget for travel. The practice of preparing an annual Travel and Education Report that summarizes Board member travel for the year and compiling a list of recommended educational opportunities is consistent with best practices.

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[65] Division 4, Chapter 5, Article 4 of the Los Angeles Administrative Code.

The following Table 2-13 summarizes Board members travel for the audit scope period.

Table 2-13 – Board Member Conference Attendance per Fiscal Year

Fiscal Year	# of Board Members Traveling during the Year	Purpose for Travel	Conference Location	Total Board Member Travel Costs
2010-2011	1	Educational Conference on Hedge Funds	CA	$4,063
2011-2012	1	Educational Conference on Portfolio Concepts & Management Training, Wharton School	PA	$5,859
2012-2013	1	Educational Conference on Hedge Funds, Real Estate & other Alternative Investments	CA	$4,447
2013-2014	1	Annual Employee Benefits Conference of the International Foundation of Employee Benefit Plans (IFEBP) – *Benefits Conference*[66]	NV	$3,363
2014-2015	3 (2 members traveled twice)	Educational Conferences • Stanford University - Principles of Pension Management • IFEBP Annual Conference • CalPERS Training	CA, MA	$20,808

Table 2-14 presents and compares the data we were able to gather regarding travel costs. As we cautioned in the comparisons regarding administrative expenses, the reader should not review the travel cost information in a vacuum; factors such as the Board's philosophy regarding travel, the composition and expertise of the Board and Staff, whether or not conference fees were waived in exchange for speaker services, and the calculation period, should be considered among other things.

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[66] The actual report to the WPERP Board did not specify the conference. We obtained the information from WPERP Staff.

Table 2-14 Travel Costs Comparison

Year	WPERP vs. Peers	Total Travel Costs	Board member Travel Costs	Staff Travel Costs
2015	WPERP	$53,229	$20,810	**$32,413**
	LACERS	$45,000[67]	*	*
	LACERA	$781,066[68]	$257,342	$523,724
	LAFPP	$76,184	$24,454	$51,730
	TVARS	$45,313	$4,551	$40,762
2014	WPERP	$24,207	$3,363	$20,844
	LACERS	$60,000[69]	*	*
	LACERA	$826,192[70]	$288,512	$537,680
	LAFPP	$128,358	$43,017	$85,341
	TVARS	$54,344	$6,414	$47,930
2013	WPERP	$31,594	$4,448	$27,146
	LACERS	$75,000[71]	*	*
	LACERA	$520,137[72]	$190,180	$329,957
	LAFPP	$55,340	$27,519	$27,821
	TVARS	$46,945	$5,113	$41,832
2012	WPERP	$8,296	$5,859	$2,437
	LACERS	$64,000[73]	*	*
	LACERA	$485,077[74]	$188,098	$296,979
	LAFPP	$79,531	$31,943	$47,588
	TVARS	$53,926	$6,663	$47,263
2011	WPERP	$23,096	$4,063	$19,033
	LACERS	$82,000[75]	*	*
	LACERA	$404,245[76]	$193,233	$211,012
	LAFPP	$104,163	$62,143	$42,020
	TVARS	$59,194	$7,769	$51,425

*** -** LACERS did not provide a breakdown of travel costs.

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[67] Source: LACERS CAFR, for the fiscal year ended June 30, 2015, Educational and Due Diligence Travel, Retirement and Postemployment Healthcare Plans.

[68] Source: LACERA Fiscal Year 2014-2015 Travel Expense Summary which includes Board and Staff Expenses.

[69] Source: LACERS CAFR, for the fiscal year ended June 30, 2014, Educational and Due Diligence Travel, Retirement and Postemployment Healthcare Plans.

[70] Source: LACERA Fiscal Year 2013-2014 Travel Expense Summary which includes Board and Staff Expenses.

[71] Source: LACERS CAFR, for the fiscal year ended June 30, 2013, Educational and Due Diligence Travel, Retirement and Postemployment Healthcare Plans.

[72] Source: LACERA Fiscal Year 2012-2013 Travel Expense Summary which includes Board and Staff Expenses.

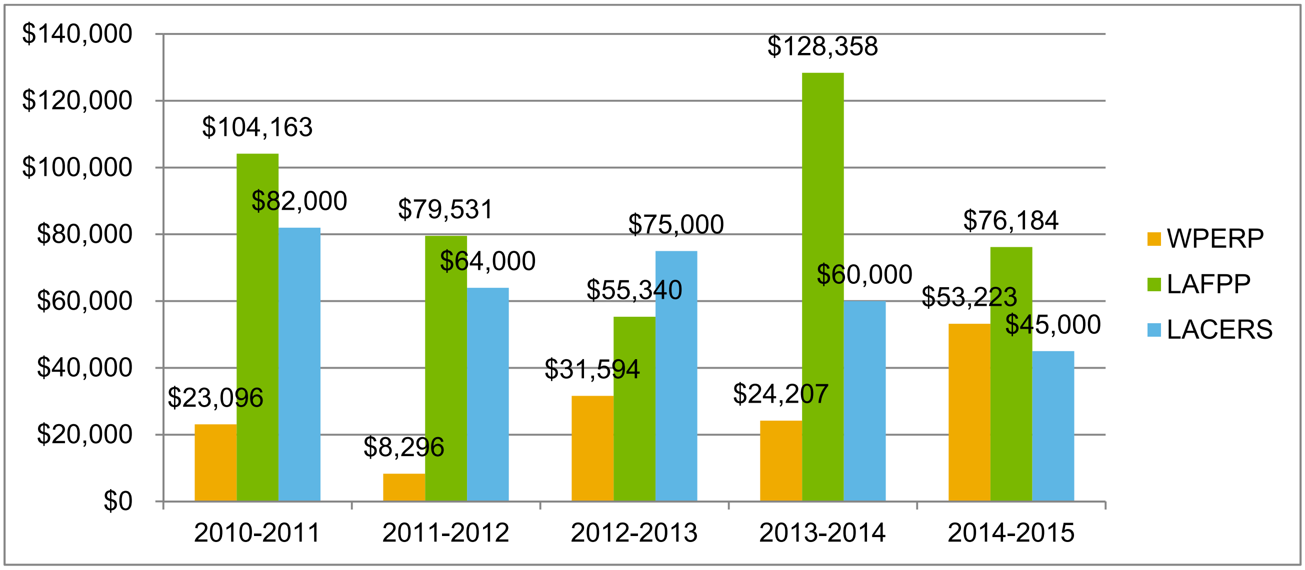
[73] Source: LACERS CAFR, for the fiscal year ended June 30, 2012, Educational and Due Diligence Travel, Retirement and Postemployment Healthcare Plans.

[74] Source: LACERA Fiscal Year 2011-2012 Travel Expense Summary which includes Board and Staff Expenses.

[75] Source: LACERS CAFR, for the fiscal year ended June 30, 2011, Retirement and Postemployment Healthcare Plans.

[76] Source: LACERA Fiscal Year 2010-2011 Travel Expense Summary which includes Board and Staff Expenses.

Chart 2- 11 – Comparison of Travel Costs Trends among Local Pension Funds



Ongoing education is imperative to empowering fiduciaries with the knowledge necessary to fulfill their duties. They cannot blindly rely on the experts they retain. Instead, they must be able to understand and questions the advice they receive. Thus, travel and related costs for attending educational conferences are legitimate expenses for WPERP as long as the costs are reasonable and the conferences provide a sufficient level of education to foster the Board members' ability to carry out their fiduciary responsibilities. The fiduciary "duty of prudence" requires fiduciaries to be aware of what like enterprises with like aims are doing in the administration of the pension fund. Attendance at educational conferences is a means for them to obtain the knowledge they need.

Table 2-14 and Chart 2-11 clearly reflect that WPERP's total travel costs are materially lower than its peers,[77] the exception is 2015. This is also the case for Board member travel. Most of WPERP's travel costs are attributable to Staff travel. This is to be expected since WPERP Staff travel is not limited to educational travel; it also includes investment-related due diligence visits. Most of Staff's travel costs are attributable to due diligence visits.

During interviews, it was clear that WPERP Board members and Staff were very sensitive to the risks of travel abuse. It is important that the WPERP Board balance the potential headline risk with the legitimate need to participate in ongoing education.

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[77] We were not able to determine the details regarding the drivers of the significantly levels of travel costs for LACERA.

Conclusions

Administrative Expenses and Travel
Compared to independent third party survey data and a customized peer group survey, WPERP's overall administrative expenses are very low. This is also the case for travel expenses. While WPERP is to be commended for its low administrative expenses, we are concerned that a possible consequence is inadequate staffing levels. This may account for its inability to effectively implement needed governance and operational enhancements.

The information obtained during the review supports the conclusion that travel taken is for relevant purposes and that there is an informal travel procedure in place for Board and Staff travel. On its face, the informal process appears to be adequate to mitigate the likelihood of travel abuse. The risk is largely diminished by the fact that travel by WPERP Board members is typically de minimis (See Table 2-13). As Board member travel increases, the need for a more formal, systematic process is heightened.

It is a best practice to have a travel and education policy. The absence of a separate WPERP travel policy does not compare favorable to the standards of practice of other well-run public retirement systems or the WPERP customized peer group. Rather than using the budget process as its travel policy, we concur with the 2009 Management Audit recommendation and believe that WPERP would benefit from the adoption of a distinct travel policy that formalizes the process it uses for the approval and reporting of travel. A distinction in the policy between staff travel for educational purposes and travel for due diligence purposes is a feature that may also be helpful.

Cost-sharing vehicles
WPERP is already using a number of cost-sharing tools. The use of disability investigation services and medical professionals for disability-related claims, and joint board education and training sessions are three additional areas where cost sharing may be feasible. We do not believe actuarial services, accounting services, investment consulting, or custodial services are viable cost sharing options. However, the firms that provide those services may find value in the prestige of working with multiple City of Los Angeles funds. Consequently, to achieve that goal, they may offer a discount in the fee negotiation.

Recommendation

19. Adopt a written Travel and Education Policy that outlines allowable travel and business expenses for a Board member and Staff, including but not limited to the following: procedures for the request and approval process for travel; a distinction between staff educational and due diligence travel; limitations on permissible expenses; and the documentation that must be submitted.

(e) Whether investment activities and plans are in compliance with established investment objectives and policies for the Plan, and that investment managers' performance is evaluated periodically (i.e. over a market cycle of three to five years). What actions has the Plan taken to remove poor performing investment managers?

To draw conclusions for this objective we assessed the following:

- Mandated statutory investment requirements, followed by an evaluation of the WPERP's Policy[78]; and,
- The frequency of WPERP investment manager performance evaluations and actions taken.

Findings and Analysis

The Charter[79] outlines the authority granted to each City pension and retirement board. Areas addressed include system administration, control over the assets of the plan, a specification that the prudent person fiduciary standard applies, requirements to diversify, adopting an investment policy statement that meets certain parameters and guidelines for reporting to oversight bodies, and hiring an independent firm to evaluate the investment program performance, among other duties.

Analysis regarding WPERP's compliance with various established objectives and provisions of the Charter are addressed throughout this Report. The Charter[80] provides specific parameters for the City of Los Angeles public pension fund investment policy statements. Those include the following:

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[78] WPERP Board Statement of Investment Objectives, Goals and Guidelines.
[79] Los Angeles City Charter Article XI §1106 (d)
[80] Los Angeles City Charter Article XI §1106(d)

- The board of each pension and retirement system shall adopt a statement of investment objectives and policies for the system;
- The statement shall include at least the desired rate of return and acceptable levels of risk for each asset class, asset allocation goals, guidelines for the delegation of authority, and information of the types of reports to be used to evaluate investment performance; and
- At least annually, the board shall review the statement and change or reaffirm it after each annual review, and then the board shall forward the statement to the Mayor and Council for informational purposes.

The WPERP Board adopted its Investment Policy on February 26, 2003. The Investment Policy has subsequently been revised 51 times with the most recent revision occurring March 26th, 2014.[81] Staff reported to us during the interview process that most of the revisions have been minor adjustments and corrections. Staff revisits the substantive provisions of the Investment Policy once per year with the Board. Although Staff informed us that the most recent version of the Investment Policy is, and has been during the audit scope period, available through the WPERP website, the Board has not sent separate, direct notification to the Mayor and Council as required by the Charter.

With respect to the sufficiency of the Investment Policy, the March 26, 2014 document includes a desired rate of return and acceptable levels of risk for each asset class. It also includes the Long-Term Asset Allocation Targets and detailed information regarding the authority of the Board, Staff, and the investment consultant. The document also includes significant detail regarding ongoing monitoring activities. These ongoing monitoring activities include evaluating performance on a quarterly basis, placing poorly performing managers on watch according to specified criteria, and evaluating those managers to inform further Board action. Based upon our documentation review and Staff information supplied through the interview process, the substance of WPERP's Investment Policy appears reasonable, particularly as it relates to the frequency with which investment performance is monitored. Further, WPERP's actions have been generally consistent with the process as specified by the Investment Policy. The Board is receiving quarterly performance reports from its investment consultant and WPERP maintains a comprehensive watch list of managers. During the audit scope period, we observed that several non-U.S. equity investment managers were removed from the portfolio.

[81] The most recent review did not occur within 12 months of the previous review because it was delayed due to a change in the Board's general consultant and Staff's desire to re-evaluate the document with the new consultant.

Conclusions

WPERP has complied with Charter requirements and best practice by adopting and keeping current its Investment Policy. Although March 2014 was the last formal review date of the Investment Policy during the audit scope period, this was due to a delay in the change of the Board's general investment consultant and Staff's desire to reevaluate with the new consultant. The Investment Policy components address the parameters set forth in the Charter, and those which address performance evaluation are sufficiently detailed. WPERP periodically evaluates investment managers' performance and poorly performing managers are placed on watch. During the audit scope period, several non-U.S. equity managers were removed from the portfolio.

Overall, the investment activities we observed appear to generally be in compliance with the Investment Policy and Charter with one exception. WPERP has not complied with the spirit of the requirement to annually provide a copy of its Investment Policy to the Mayor and Council. While the Investment Policy has been available via the WPERP website for the duration of the scope period, the Board would benefit from annually sending specific notification to the Mayor and Council with a hyperlink to the Investment Policy.

Recommendation

20. Annually deliver the Investment Policy to the Mayor and Council as an informational item.

(f) Assess the adequacy of the Plan's evaluation of the ongoing cost-benefits associated with participation in actively managed funds as compared to passively managed funds.

The issues we reviewed for this Objective include:

- The current level of active versus passively managed funds employed in various asset classes and the associated cost in comparison to comparable public funds; and
- Any formal cost benefits analyses performed by WPERP of active versus passive fund management.

Findings and Analysis

The following Table 2-15 shows the split between active and passive management within the traditional asset classes for the five fiscal years ending June 30, 2015.

Table 2-15 – Active vs. Passive Allocation by Traditional Asset Class – 5-Year Period Ending 6/30/15

2015	Domestic Equity		International Equity		Fixed Income	
Passive	$1,096,060,407	27.9%	$551,444,811	25.7%	--	0.0%
Active	$2,829,729,752	72.1%	$1,597,579,736	74.3%	$1,964,987,829	100.0%
2014	**Domestic Equity**		**International Equity**		**Fixed Income**	
Passive	$1,070,969,230	29.3%	$579,014,222	26.3%	--	0.0%
Active	$2,586,113,718	70.7%	$1,619,034,134	73.7%	$1,973,687,314	100.0%
2013	**Domestic Equity**		**International Equity**		**Fixed Income**	
Passive	$770,343,763	25.4%	$446,721,435	24.6%	--	0.0%
Active	$2,259,603,145	74.6%	$1,366,208,821	75.4%	$1,988,223,538	100.0%
2012	**Domestic Equity**		**International Equity**		**Fixed Income**	
Passive	$726,189,087	28.4%	--	0.0%	--	0.0%
Active	$1,827,637,423	71.6%	$1,163,519,693	100.0%	$2,037,502,570	100.0%
2011	**Domestic Equity**		**International Equity**		**Fixed Income**	
Passive	$721,525,029	26.6%	--	0.0%	--	0.0%
Active	$1,989,716,919	73.4%	$1,572,479,168	100.0%	$2,304,105,816	100.0%

As indicated by Table 2-15, the split between active and passive management has been relatively consistent over the five-year period in Domestic Equity and Fixed Income. International Equity began the period as a 100% active management approach and over the 5-year period shifted to approximately 26% passively managed.

A distinct, quantifiable difference between passive and actively managed strategies is fees. Table 2-16 depicts the passive and active management fees for WPERP for the five fiscal years ending June 30, 2015. The fees are shown in dollar amounts and basis points.[82]

Table 2-16 – WPERP Active & Passive Investment Management Fees for the 5-Year Period Ending 6/30/2015

2015	Domestic Equity		International Equity		Fixed Income	
Passive	$92,924	1 bps	$154,405	3 bps	--	
Active	$10,010,899	35 bps	$6,383,802	40 bps	$2,764,778	14 bps
2014	**Domestic Equity**		**International Equity**		**Fixed Income**	
Passive	$91,010	1 bps	$162,124	3 bps	--	
Active	$9,203,145	36 bps	$6,613,994	41 bps	$2,798,061	14 bps
2013	**Domestic Equity**		**International Equity**		**Fixed Income**	
Passive	$68,071	1 bps	$125,082	3 bps	--	
Active	$8,084,488	36 bps	$5,622,793	41 bps	$2,974,902	15 bps
2012	**Domestic Equity**		**International Equity**		**Fixed Income**	
Passive	$65,017	1 bps	--		--	
Active	$6,846,486	37 bps	$3,217,064	28 bps	$3,169,838	15 bps
2011	**Domestic Equity**		**International Equity**		**Fixed Income**	
Passive	$64,507	1 bps	--		--	
Active	$7,555,492	38 bps	$6,977,020	44 bps	$3,392,839	15 bps

As indicated in Table 2-16, active management fees for Domestic Equity ranged from 35 to 38 basis points over the 5-year period, and slightly decreased. Fees for passively managed strategies were significantly lower and stayed constant at 1 basis point. Active management fees in International Equity were also fairly consistent with fees falling in 2012 during the transition, and slightly decreasing over

[82] 1.00% equals 100 basis points or bps.

the 5-year period. Fees for passively managed strategies were also significantly lower and consistent at 3 basis points. Within the Fixed Income asset class, active management fees held constant at approximately 15 basis points, nudging slightly below that by the end of the 5-year period.

Next, Table 2-17 shows the percentage of asset class assets passively managed for WPERP alongside of peer public pension funds with assets greater than $5 billion.

Table 2-17 – Active & Passive Allocation versus Public Pension Fund Peers with over $5 Billion in Assets (2012 – 2015)[83]

	Peers	WPERP	Peers	WPERP	Peers	WPERP
2015	**Domestic Equity**		**International Equity**		**Fixed Income**	
Passive	62.3%	27.9%	27.9%	25.7%	1.3%	0.0%
Active	37.7%	72.1%	72.1%	74.3%	98.7%	100.0%
2014	**Domestic Equity**		**International Equity**		**Fixed Income**	
Passive	58.1%	29.3%	23.1%	26.3%	0.9%	0.0%
Active	41.9%	70.7%	76.9%	73.7%	99.1%	100.0%
2013	**Domestic Equity**		**International Equity**		**Fixed Income**	
Passive	43.8%	25.4%	18.9%	24.6%	12.1%	0.0%
Active	56.2%	74.6%	81.1%	75.4%	87.9%	100.0%
2012	**Domestic Equity**		**International Equity**		**Fixed Income**	
Passive	39.0%	28.4%	18.0%	0.0%	--	0.0%
Active	61.0%	71.6%	82.0%	100.0%	--	100.0%

*Active allocations of peers were calculated based off of reported passive values

As indicated by Table 2-17, WPERP's use of active management in the Domestic Equity asset class significantly exceeded that of public pension fund peers across all time periods. In International Equity and Fixed Income, WPERP's allocation to actively managed strategies was within range of peers across all time periods.

[83] Greenwich Associates 2015 United States Institutional Investors Market Trends Survey

We next reviewed the process and frequency by which the WPERP Board reviews and considers the active/passive policy decision. During the interview process, WPERP Staff reported that it does not currently perform and present to the Board a formal active/passive analysis. In August 2011, the legacy investment consultant performed a structure review of the International Equity asset class. The structure review included analysis on the ongoing cost-benefits associated with participation in actively managed International Equity funds as compared to passive International Equity funds. There were no similar reviews performed for Domestic Equity or Fixed Income asset classes during the audit scope period.

It is widely accepted today by investment theorists and practitioners alike that the average traditional active equity manager underperforms the benchmark. Since active managers and index funds together represent the market, together they must earn the return of the market. The higher fees and trading costs involved with active management drag down the average return. Therefore, success with active management is dependent on proactively identifying the best managers through careful research.

AHIC research shows less than two percent of active equity managers have demonstrated statistically significant evidence of skill to earn excess returns over an appropriate benchmark, net of fees.[84] WPERP has a significant portion of its assets dedicated to active management strategies. WPERP would benefit from conducting a formal review of the potential benefits of passive management strategies across all of the traditional asset classes.

Conclusions

Throughout the audit scope period, WPERP employed a significantly lower level of passive management relative to large public fund peers. This is true particularly in the Domestic Equity asset class, the largest asset class in the Plan. As expected, the fees associated with passive management have been significantly lower than fees associated with active management. Through its legacy consultant, WPERP performed a structural review of the International Equity asset class; however, no formal reviews were conducted of any of the other traditional asset classes.

[84] AHIC Conviction in Equity Investing Research Paper, 2012.

Recommendations

21. Evaluate the potential benefits of passive management for Domestic Equity, International Equity, and Fixed Income asset classes.
22. Establish a review cycle for evaluating active versus passive management for traditional asset classes.

(g) Whether the Retirement Plan adequately evaluates investment performance with costs to ensure costs are minimized.

To draw conclusions for this Objective we performed the following activities:

- Reviewed investment performance both at the Total Fund level and at the underlying asset class and manager levels to determine the relative roles and value-added of existing managers;
- Undertook a total cost analysis of the current manager line up and identified the investment management and custody fees charged relative to the type of assets involved;
- Compared the fees of investment managers, investment consultants and custodial banks to industry standards;
- Examined fee structures in aggregate and for investment management fees by asset class and investment strategy to confirm that managers are reporting performance net of fees and expenses; and
- Explored the feasibility of consolidating investment consultants and custodial services with other City retirement funds and determined whether savings can be realized from the consolidation or combined negotiations.

Our findings and analysis for each activity appear on the following pages, with conclusions and recommendations at the end of this subsection.

Findings and Analysis

We reviewed quarterly investment program performance reports provided by the WPERP investment consultant, R.V. Kuhns, for all years during the audit scope period. The reports provided to the Board delineate gross of fee investment return information for WPERP, but do not include net of fee return information.

The following Table 2-18 highlights the differences between the gross and net returns of WPERP's Total Plan and asset classes.

Table 2-18 – WPERP Asset Class (Gross vs. Net) Returns

	Performance(%)		
	1 Year	3 Years	5 Years
Total Fund Composite (Gross)	**4.51**	**11.43**	**10.67**
Total Fund Composite (Net)	4.17	11.11	10.36
Difference	*0.34*	*0.32*	*0.31*
Domestic Equity Composite (Gross)	**8.83**	**19.32**	**17.99**
Domestic Equity Composite (Net)	8.56	19.01	17.68
Difference	*0.27*	*0.31*	*0.31*
International Equity Composite (Gross)	**-2.26**	**11.60**	**8.26**
International Equity Composite (Net)	-2.56	11.20	7.84
Difference	*0.30*	*0.40*	*0.42*
Fixed Income Composite (Gross)	**2.70**	**3.25**	**4.85**
Fixed Income Composite (Net)	2.55	3.09	4.69
Difference	*0.15*	*0.16*	*0.16*
Real Return Composite (Gross)	**-0.34**	**0.52**	**2.88**
Real Return Composite (Net)	-0.77	0.21	2.55
Difference	*0.43*	*0.31*	*0.33*
Covered Calls Composite (Gross)	**5.44**	**8.44**	
Covered Calls Composite (Net)	5.01	8.11	
Difference	*0.43*	*0.33*	
Private Equity Composite (Gross)	**13.50**	**13.75**	**14.34**
Private Equity Composite (Net)	11.97	12.36	13.01
Difference	*1.53*	*1.39*	*1.33*
Real Estate Composite (Gross)	**12.79**	**14.09**	**16.35**
Real Estate Composite (Net)	11.68	13.03	15.30
Difference	*1.11*	*1.06*	*1.05*

As indicated by Table 2-18, the net of fees performance for the 1-year period ranges from .2% to 1.5% lower than gross performance. The comparison also demonstrates where fees have been relatively constant over the 5-year period and where they have increased. Real Return (hedge funds), Covered Calls and Private Equity asset classes all saw slight increases in management fees in recent years on a percentage basis, while International Equity management fees decreased slightly.

We then evaluated the absolute investment fees paid by WPERP. Table 2-19 depicts the total investment management fees paid by WPERP for the five fiscal years ending June 30, 2015.

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Table 2-19 – Total Investment Management Fees (Calendar Year 2011 – 2015)[85]

Asset Class	2015	2014	2013	2012	2011
Global Equity	$ 20,750	$ 19,623	$ 19,571	$ 16,113	$ 12,885
Fixed Income	2,511	3,737	3,768	4,638	4,130
Total Traditional	$ 23,261	$ 23,360	$ 23,339	$ 20,751	$ 17,015
Commodities	701	773	198	0	0
Real Estate	4,099	2,001	4,056	2,938	2,076
Other Real Assets	96	1,180	0	0	0
Hedge Funds - Fund of Funds	6,059	5,621	1,619	853	939
Diversified Private Equity	7,449	6,653	4,619	4,087	3,378
Total Alternatives	$ 18,404	$ 16,228	$ 10,492	$ 7,878	$ 6,393
Total Asset Management Fee *	$ 41,664	$ 39,586	$ 33,831	$ 28,632	$ 23,406

*Values exclude private asset performance fees

As indicated by the Table 2-19, the fees depicted for the Hedge Fund component are understated due to the investment programs use of hedge fund of funds. This type of investment mandate has two levels of fees – to the fund of funds manager and to the underlying managers selected to participate in the fund. The information supplied by WPERP Staff only includes the fees paid to the fund of funds manager.

AHIC does not typically recommend the use of hedge fund of funds to large investment programs due to the relatively high level of fees. WPERP would benefit from re-evaluating the risk, return, and cost tradeoffs associated with transitioning to a direct hedge fund portfolio. This change would remove the additional layer of fees but may increase demand on Staff and/or the Board's investment consultant.

We also performed analyses to understand how WPERP's active management fees compared to peer public pension funds. Table 2-20 below displays the active management fees in basis points paid by WPERP relative to other public pension funds with assets greater than $5 billion.

Table 2-20– Active Management Fees Relative to Peers (6/30/2015)

	WPERP (bps)	Public Funds > $5 Billion (bps)[86]
Domestic Equity	35	37
International Equity	40	40
Fixed Income	14	22

As demonstrated by the Table 2-20, WPERP's fees for active management in Domestic Equity is slightly lower than peers. The management fees that WPERP

[85] CEM Benchmarking Report 2011-2015.
[86] Greenwich Associates 2015 United States Institutional Investors Market Trends Survey.

pays for actively managed International Equity funds is in line with the peer universe. The active management fees WPERP pays in Fixed Income are significantly lower than that of the peer group (approximately 60%).

A net of fee comparison of investment managers relative to their benchmark and peer universe can help a board understand the level of active management success within a plan. Table 2-21 outlines the net returns of WPERP's traditional managers relative to their respective benchmarks and peers. Outperformance relative to the benchmark is highlighted in green, and underperformance is highlighted in red. Rankings lower than 50 are better than the median in the peer universe.

Table 2-21 – WPERP Traditional Managers (Net) Returns

	Ending June 30, 2015					
	1 Year (%)	Rank	3 Year (%)	Rank	5 Year (%)	Rank
Domestic Equity Composite	**8.6**	**7**	**19.0**	**3**	**17.7**	**16**
Russell 3000 Index	*7.3*	*35*	*17.7*	*32*	*17.5*	*25*
MFS Large Cap Value	**7.4**	**19**	**18.2**	**38**	**16.6**	**40**
Russell 1000 Value Index	*4.1*	*54*	*17.3*	*46*	*16.5*	*42*
T. Rowe Price Large Cap Value	**4.2**	**54**	**18.6**	**33**	**16.7**	**37**
Russell 1000 Value Index	*4.1*	*54*	*17.3*	*46*	*16.5*	*42*
BlackRock Russell 1000 Index	**7.4**	**46**	**17.8**	**41**	**17.6**	**35**
Russell 1000 Index	*7.4*	*46*	*17.7*	*42*	*17.6*	*35*
Fred Alger Large Cap Growth	**12.6**	**28**	**20.2**	**16**	**19.1**	**23**
Russell 1000 Growth Index	*10.6*	*51*	*18.0*	*47*	*18.6*	*32*
T. Rowe Price Large Cap Growth	**11.5**	**40**	**20.8**	**11**	**19.5**	**15**
Russell 1000 Growth Index	*10.6*	*51*	*18.0*	*47*	*18.6*	*32*
Earnest Partners Small Cap Value	**8.9**	**5**	**19.9**	**17**	**17.3**	**29**
Russell 2000 Value Index	*0.8*	*68*	*15.5*	*69*	*14.8*	*71*
Frontier Small Cap Growth	**9.7**	**52**	**18.8**	**52**	**16.7**	**81**
Russell 2000 Growth Index	*12.3*	*32*	*20.1*	*36*	*19.3*	*41*

	Ending June 30, 2015					
	1 Year (%)	Rank	3 Year (%)	Rank	5 Year (%)	Rank
International Equity Composite	**-2.6**	**33**	**11.2**	**37**	**7.8**	**91**
MSCI World ex USA IMI Index (Net)	*-5.0*	*91*	*9.8*	*78*	*8.0*	*90*
BlackRock Developed Int'l - Passive	**-4.8**	**66**				
MSCI World ex USA IMI Index (Net)	*-5.1*	*69*				
MFS Developed Int'l	**0.7**	**24**				
MSCI World ex USA IMI Index (Net)	*-5.1*	*69*				
Pyramis	**-3.0**	**53**	**12.5**	**38**	**10.5**	**35**
MSCI World ex USA IMI Index (Net)	*-5.1*	*69*	*11.5*	*49*	*9.2*	*53*
LA Capital Emerging	**-3.3**	**33**				
MSCI Emerging Markets IMI (Net)	*-4.4*	*43*				
Vontobel Emerging	**-3.2**	**32**				
MSCI Emerging Markets IMI (Net)	*-4.4*	*43*				
Fixed Income Composite	**2.6**	**16**	**3.1**	**42**	**4.7**	**51**
Barclays U.S. Universal Index	*1.6*	*42*	*2.3*	*62*	*3.8*	*80*
JP Morgan Core	**2.9**	**3**	**2.5**	**27**	**4.0**	**26**
Barclays Aggregate Index	*1.9*	*39*	*1.8*	*63*	*3.3*	*72*
Wells Core	**2.5**	**7**	**2.5**	**25**	**4.3**	**18**
Barclays Aggregate Index	*1.9*	*39*	*1.8*	*63*	*3.3*	*72*
Loomis High Yield	**0.9**	**26**	**9.2**	**4**	**10.2**	**3**
Barclays U.S. High Yield - 2% Issuer Cap	*-0.4*	*57*	*6.8*	*35*	*8.6*	*30*
Wells High Yield	**1.9**	**19**	**6.3**	**77**	**7.7**	**85**
Barclays U.S. High Yield - 2% Issuer Cap	*-0.4*	*68*	*6.8*	*57*	*8.6*	*55*

The performance of WPERP's active managers has been generally successful over the long term. Over the trailing 5-year period, the Domestic Equity asset class outperformed its benchmark by 0.2% net of fees. In other words, after taking the increased management fees into account, WPERS's actively-managed Domestic Equity investments resulted in a return 0.2% higher than if it had obtained the benchmark returns through a passive investment in the index. Similarly, WPERP's actively-managed Fixed Income investments also outperformed the benchmark, returning 1.1% more, net of fees than the benchmark over the trailing 5-year period. In contrast, WPERP's actively-managed International Equity asset class underperformed the benchmark by 0.2% net of fees.

Table 2-22 compares the net returns of WPERP's total plan relative to its peer group (public funds greater than $1 billion in assets) for the 1, 3 and 5-year periods.

Table 2-22– WPERP Total Fund Returns and Rankings for the Year Ending 6/30/15

	Ending June 30, 2015					
	1 Year (%)	Rank	3 Year (%)	Rank	5 Year (%)	Rank
Total Fund Composite (Retirement)	**4.2**	**14**	**11.1**	**33**	**10.4**	**49**
Retirement Policy Benchmark	*3.6*	*30*	*10.6*	*39*	*10.6*	*46*

Over the trailing 1 and 3-year periods WPERP produced strong nominal performance relative to the benchmark and peers. Over the trailing 5-year period the Plan underperformed by approximately 20 bps, and was slightly below median in the peer universe.

As part of our review of fees, we then reviewed the transaction cost analyses performed for WPERP during the scope period. Zeno Consulting Group performed six such reviews during the period. Table 2-23 below provides the results for aggregate trading costs for WPERP relative to the Zeno peer group by quarter.

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Table 2-23 – WPERP Trading Cost Peer Results – Total Plan

Zeno Consulting Group Report Card - Total Plan Cost Relative To Peers[87]		
Date	**Overall Execution Efficiency**	**Brokerage Cost Efficiency**
6/30/2015	4th Quartile	4th Quartile
3/31/2015	4th Quartile	4th Quartile
12/31/2014	4th Quartile	4th Quartile
9/30/2014	4th Quartile	4th Quartile
6/30/2014	4th Quartile	4th Quartile
3/31/2014	4th Quartile	4th Quartile
12/31/2013	4th Quartile	4th Quartile
9/30/2013	4th Quartile	4th Quartile
6/30/2013	4th Quartile	4th Quartile
3/31/2013	4th Quartile	4th Quartile
12/31/2012	4th Quartile	4th Quartile
9/30/2012	3rd Quartile	3rd Quartile
6/30/2012	3rd Quartile	3rd Quartile
3/31/2012	3rd Quartile	4th Quartile
12/31/2011	3rd Quartile	4th Quartile
9/30/2011	3rd Quartile	4th Quartile
6/30/2011	3rd Quartile	4th Quartile
3/31/2011	2nd Quartile	2nd Quartile
12/31/2010	3rd Quartile	2nd Quartile
9/30/2010	3rd Quartile	3rd Quartile

Based upon the analysis, WPERP is incurring a fairly high level of expense in its investment transactions relative to the peer group being evaluated. WPERP would benefit from performing a thorough review of the Plan's trading costs and the peer group utilized to determine if the current relatively high level of expense is appropriate.

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[87] Zeno Consulting Group Sponsor Monitor, six reports from the following periods: 2nd quarter 2015, 4th quarter 2010-2014.

Our next step was to review the breakdown of total WPERP expenses. Table 2-24 depicts the total expenses of WPERP broken down between administrative and investment related expenses relative to the R.V. Kuhns' universe as reported by the Plan's investment consultant, R.V. Kuhns.

Table 2-24 – WPERP Total Fund Expenses Relative to Peers[88] (bps) (6/30/2015)

Administrative Expenses	WPERP	Under $500 Million	$500mm - $1 Billion	$1 - $5 Billion	$5 - $10 Billion	$10 - $20 Billion	Over $20 Billion
Internal Inv. Div. Staff	0.00	1.16	0.00	1.83	0.68	0.71	1.56
Actuary	0.14	2.43	1.28	0.56	0.26	0.15	0.09
Legal	0.24	1.61	0.46	0.94	0.48	0.24	0.17
Consultant	0.00	0.18	0.14	0.24	0.42	0.11	0.11
Audit	0.09	0.91	0.62	0.20	0.10	0.15	0.05
Other Professional	0.38	0.02	1.49	0.25	0.41	0.16	0.56
General Administrative	4.71	10.67	11.19	7.84	5.58	3.39	2.77
Total Administrative Expenses	5.55	16.98	15.19	11.85	7.93	4.92	5.32

Investment Expenses	WPERP	Under $500 Million	$500mm - $1 Billion	$1 - $5 Billion	$5 - $10 Billion	$10 - $20 Billion	Over $20 Billion
Custodial	0.43	2.09	3.21	1.58	0.59	0.67	0.30
Investment Consulting	0.57	2.59	1.91	1.72	0.84	1.56	0.44
Domestic Equity	10.06	1.52	10.38	7.14	6.79	4.82	2.55
International Equity	6.51	1.80	8.93	7.74	7.83	6.83	4.58
Fixed Income	2.73	3.70	5.76	5.34	4.86	3.21	3.00
Real Estate	5.54	3.60	5.36	5.55	8.45	5.65	7.08
Other Investment Management	3.79	8.42	5.00	4.48	3.52	7.18	6.42
Total Investment Expenses (ex. Alt Inv)	29.62	23.72	40.55	33.56	32.88	29.91	24.38
Alternative Investments	7.42	8.10	6.80	9.83	16.20	10.44	15.65
Total Investment Expenses	37.03	31.82	47.35	43.39	49.08	40.35	40.03
Total Expenses	**42.59**	**48.80**	**62.53**	**55.25**	**57.01**	**45.28**	**45.34**

*62 of 79 funds provided fee data for this time period

WPERP's total administrative expenses are slightly greater than peer plans with $10 to $20 billion in assets, but lower than plans with $5 to $10 billion in assets. Total investment expenses are less than both peer groups, primarily due to the lower costs associated with the alternative investments. Usage of fund of funds by WPERP or its peers will impact the fees, as the values reported in Table 2-24 only reflect a single layer of fees.

[88] R.V. Kuhns Public Fund Universe Analysis, period ending June 30, 2015.

We then reviewed WPERP's expenses for oversight, custodial and other investment program costs. Table 2-25 below shows the oversight, custodial and other costs of WPERP reported by CEM Benchmarking Inc.[89]

Table 2-25 – WPERP Oversight, Custodial and Other Investment Costs – 2014 CEM Investment Benchmarking Analysis

Oversight, custodial and other costs	WPERP	U.S. median	U.S. average
Oversight	0.9 bps	1.5 bps	1.8 bps
Custodial	0.3 bps	0.9 bps	1.2 bps
Consulting, performance measurement	0.7 bps	0.5 bps	1.0 bps
Audit	0.1 bps	0.1 bps	0.2 bps
Other	0.2 bps	0.1 bps	0.7 bps
Total	**2.3 bps**	**4.3 bps**	**4.8 bps**

As depicted in prior tables, Tables 2-24 and 2-25, WPERP has a competitive fee structure across investment related and administrative expenses. In our experience working with sophisticated institutional investors, there tends to be a fee trend related to the size of an investment portfolio. As shown earlier in Table 2-24, smaller institutional investment programs tend to have lower complexity investment programs with relatively low fee levels. As Plan asset sizes grow, fees tend to grow due to the higher use of alternative investments and portfolio complexity. As investment programs reach the large end of the spectrum we tend to see total expenses begin to decline due to economies of scale.

We believe there is almost always fee benefits associated with consolidating assets and relationships. However, the larger the level of assets held by each entity, the smaller the marginal benefit of aggregating the pools. This is also demonstrated in the RV Kuhns peer data in prior Table 2-24.

Conclusions

WPERP fees paid to investment managers, investment consultants, and the custodian bank are below peers. Additionally, the existing managers have generally added relative performance over their benchmark net of fees.

[89] Cost Effectiveness Measurement (CEM) Benchmarking Inc. is a Canadian company that specializes in aggregating and distributing expense data, both for investment and non-investment administration functions, from global public pension funds. It is widely regarded as an industry standard resource among U.S. public pension funds.

The quarterly reports supplied by the WPERP investment consultant provide gross of fee investment return information for WPERP, but do not include net of fee return information. This is inconsistent with best practice.

WPERP, LACERS and LAFPP have made attempts to use their collective asset size and scale to negotiate certain investment fee reductions. The Board should consider the total return impact of any changes of this type, as while they may be useful in minimizing expenses they may be counterproductive in meeting the investment objectives of the plan and minimizing plan sponsor contributions.

Recommendations

23. Evaluate the risk, return, and cost tradeoffs associated with transitioning to a direct hedge fund portfolio.
24. Require the investment consultant to report all investment performance information to the Board net of all investment related fees.
25. Conduct a thorough review of the Plan’s trading cost and the peer comparison to determine if the current relatively high level of trading expense is appropriate.

(h) Determine amounts paid in investment management fees directly and indirectly (retirement plan receives investment earnings net of fees to investment managers).

The activities we performed for this Objective included:

- Identify the roster of external managers used by WPERP and any internally managed strategies; and
- Determine amounts paid in management fees by manager, by asset class including direct asset based fees, performance fees for private market investments and any soft costs for research and other services.

Findings and Analysis

The following Table 2-26 provides the roster of external managers used by WPERP at the end of the scope period, June 30, 2015. There were 88 external managers in total.

Table 2-26 – WPERP Roster of External Managers as of 06/30/15

Plan Managers	Private Equity Manager	Real Estate Managers
BlackRock Russell 1000 Index	Apollo VIII	AG Core Plus III
Wells Core	Ares IV	Almanac VI
JP Morgan Core	ARES Special Situation IV	BREP Europe IV
Fred Alger Large Cap Growth	Audax III V	BREP VII
T. Rowe Price Large Cap Growth	Clayton, Dubilier & Rice IX	Bristol Value II
MFS Large Cap Value	Crestview Partners III	CBRE RE Strat 5
T. Rowe Price Large Cap Value	EnCap VIII	Dimensional Global REIT
MFS Developed Int'l	EnCap IX	DRA G&I VIII
Pyramis	EnCap X	DRA VII
BlackRock Developed Int'l - Passive	Fisher Lynch II	Heitman REIT
Gateway - Active	HRJ Special Opp II	Invesco Core Realty
Gateway - Passive	Landmark XIII	JPM Strategic
WAMCO	Landmark XIV	Lone Star RE II
Vontobel Emerging	Landmark XV	Lone Star VII
LA Capital Emerging	Lexington VI	Mesa West II
Frontier Small Cap Growth	Lexington VII	Mesa West III
Earnest Partners Small Cap Value	Oaktree PF V	PCCP First Mtg II
Cash Equivalents	Silver Lake IV	PRISA I
Loomis High Yield	Vista IV	PRISA II
Wells High Yield	Vista V	Torchlight IV
GAM Divergent		
MS Convergent		
Invesco Commodity		
Hancock Timberland		

Table 2-27 shows the total investment management fees paid by WPERP for the five fiscal years ending June 30, 2015.

Table 2-27 Total Investment Management

Asset Class	2015	2014	2013	2012	2011
Global Equity	$ 20,750	$ 19,623	$ 19,571	$ 16,113	$ 12,885
Fixed Income	2,511	3,737	3,768	4,638	4,130
Total Traditional	$ 23,261	$ 23,360	$ 23,339	$ 20,751	$ 17,015
Commodities	701	773	198	0	0
Real Estate	4,099	2,001	4,056	2,938	2,076
Other Real Assets	96	1,180	0	0	0
Hedge Funds - Fund of Funds	6,059	5,621	1,619	853	939
Diversified Private Equity	7,449	6,653	4,619	4,087	3,378
Total Alternatives	$ 18,404	$ 16,228	$ 10,492	$ 7,878	$ 6,393
Total Asset Management Fee *	$ 41,664	$ 39,586	$ 33,831	$ 28,632	$ 23,406

*Values exclude private asset performance fees

Fees (Calendar Year 2011 – 2015)[90] [91]

Total investment management fees for traditional asset classes have increased over the period by $6.2 million. Total fees for alternative investments had a more significant increase in fees, increasing by approximately $12 million.

We were unable to determine indirect and performance based fees, as the information was unavailable. Staff reported that it does not have such data. California enacted Assembly Bill 2833, signed into law in September 2016, on disclosures by public retirement funds such as WPERP. The new law requires that California public pension plans obtain and disclose information about private fund fees and expenses well beyond current norms.[92]

Conclusions

The analysis in this section provides the roster of managers utilized within the Plan as of 6/30/2015, the end of the audit scope period, as well as the total investment management fees paid by fiscal year for the last five year period ending 06/30/2015. Management fees reflected do not include performance fees for private market investments and any soft costs for research and other services because such data was not available from WPERP Staff.

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[90] CEM Benchmarking Report 2011-2015.

[91] Also appears in the analysis earlier in this Report as Table 2-11.

[92] Poe, Alexandra, "New California Fee Law Points to the High Road," *Pensions and Investments,* October 31, 2016. http://www.pionline.com/article/20161031/PRINT/310319988/new-california-fee-law-points-to-the-high-road.

Recommendation

26. Establish a process to gather and report to the Board the information on performance fees for private market investments and any soft costs for research and other services, to the extent it is administratively feasible.

(i) Determine the cost savings that may be achieved through consolidation of the Retirement Plan with the City's other pension plans (LACERS and LAFPP).

Findings and Analysis

The issue of consolidation is one that a number of public funds have grappled. A few examples of states and local governments that have considered the issue include **Indiana** (Indiana Public Employees and Indiana Teachers -2011)**, Colorado** (Denver Public Schools merged into COPERA -2009), **Missouri** (MOSERS and MPERS), **Pennsylvania** (consolidation of the investment functions for more than 3,200 local government pension plans), **Minnesota**, **Omaha** (consolidation of Omaha Public Schools into NPERS) and **New York City** (consolidation of the investment functions of the 5 New York City Retirement Systems). More often than not, consolidation proposals do not proceed.

The typical arguments in favor of pension system consolidation are: (1) economies of scale in pension administration; (2) economies of scale in asset management; (3) to improve oversight; and (4) to assist labor force mobility.[93] The typical argument against pension systems consolidation are: (1) it can result in fragmentation of the pension systems and produce heterogeneous benefit levels; (2) it can create an incentive for plan sponsors to transfer the costs of some workers to other employers; and (3) it can lead to diseconomies of scale.[94]

There are a variety of barriers that cause consolidation proposals to fail. The three most common are legal issues, union opposition, and the desire of the current governing boards to maintain their autonomy. The primary driver behind consolidation is the reduction of duplication and in turn costs due to economies of scale. In our experience, most proposals are not implemented because the barriers cannot be overcome.

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93 The Consolidation of State-Administered Public Pension Systems in U.S. States, David S.T. Matkin and Gang Chen, Journal of Public Budgeting, Accounting & Financial Management, Winter 2015.
94 Id.

The issue of cost savings related to consolidation has been a subject for consideration in the Management Audits for each of three local pension funds since 2007. The prior 2009 Management Audit of WPERP recommended that the City "should consider, through appropriate legislative and administrative processes, consolidation of all aspects of WPERP's benefits administration and investment program". The estimated cost savings, of approximately $16.9 million per year, was primarily attributable to investment management fees ($14,111,000). A similar recommendation was made in the 2007 management audits of LACERS and LAFPP. In response to the 2007 management audits, a legal opinion was obtained by LAFPP from external fiduciary counsel which opined that a City Charter change would not be enough to bring about consolidation and that a statewide constitutional change to Article 17 (Proposition 162) would be necessary.[95]

Since 2007, the Mayor and the City Council asked each of the Los Angeles City pension systems to weigh in on the merits and feasibility of the recommendations regarding consolidation. In 2008, the Office of the City Administrative Officer ("CAO") issued a letter to the Mayor[96] which identified a variety of obstacles that could prevent implementation of consolidation. On January 29, 2010, the City Council introduced a Motion (09-1860-S1), which was referred to Audit and the Governmental Efficiency Committee. It asked the City's three pension systems to initiate discussions relative to administrative consolidation. WPERP responded to the City Council and the Audit and Governmental Efficiency Committee in June, 2010[97], indicating that the WPERP Board had "directed staff to continue to effect efficiencies and cost savings in all areas possible through communication and coordination with LACERS and LAFPP with respect to services utilized by all three pension plans". LACERS responded by creating an ad hoc efficiency committee "to review in depth potential cost efficiencies through collaboration with other Pension Systems"[98] and noted that it had been working with the City's other pension systems to find ways to work collaboratively. In May, 2010 the LAFPP Board instructed its staff to find opportunities that would create efficiencies through collaboration with LACERS and WPERP. [99]

As noted earlier, we found that WPERP has instituted a number of cost sharing vehicles. In the investment industry, fees are based on assets under management;

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95 July 24, 2008 letter from Morrison and Forester LLP in reference the consolidation proposals.
96 December 23, 2008 Memo from Raymond P. Ciranna, Interim City Administrative Officer to the Office of the Mayor on the subject of LAFPPS and LACERS- Management Audit Recommendations.
97 June 23, 2010 letter to the City Council from WPERP Board on the Subject of Council File 09-1860-S – Proposed Administrative Consolidation of the Pension Systems.
98 May 11, 2010 LACERS internal Report to Ad Hoc Committee on Efficiency.
99 Source: LACERS internal Report to Ad Hoc Committee on Efficiency.

therefore, as the assets under management increase incremental dollars are managed at a lower cost. WPERP takes advantage of this economy of scale approach by, requiring that its vendors provide price breaks if LACERS and/or LAFPP invest with the same manager within the same mandate. When this is the case, fees are based on the cumulative asset amount, rather than WPERP's individual assets being managed.

Investment fees were the primary driver of cost savings in the estimate provided in the 2009 Management Audit.[100] With the investment manager cost sharing arrangement currently in place, we believe that the potential benefits of consolidation have been reduced, since WPERP is already benefitting from broader scale by collaborating with LAFPP and LACERS.

Consistent with the scope of review for this management audit, we created a hypothetical high level consolidation scenario. As a proxy of the potential change in investment-related fees associated with consolidation of the investment program portion of the three systems, we used the peer expense data from Table 2-28 below.

Table 2-28 (excerpted from Table 2-23)

Investment Expenses	WPERP	Under $500 Million	$500mm - $1 Billion	$1 - $5 Billion	$5 - $10 Billion	$10 - $20 Billion	Over $20 Billion
Custodial	0.43	2.09	3.21	1.58	0.59	0.67	0.30
Investment Consulting	0.57	2.59	1.91	1.72	0.84	1.56	0.44
Domestic Equity	10.06	1.52	10.38	7.14	6.79	4.82	2.55
International Equity	6.51	1.80	8.93	7.74	7.83	6.83	4.58
Fixed Income	2.73	3.70	5.76	5.34	4.86	3.21	3.00
Real Estate	5.54	3.60	5.36	5.55	8.45	5.65	7.08
Other Investment Management	3.79	8.42	5.00	4.48	3.52	7.18	6.42
Total Investment Expenses (ex. Alt Inv)	29.62	23.72	40.55	33.56	32.88	29.91	24.38
Alternative Investments	7.42	8.10	6.80	9.83	16.20	10.44	15.65
Total Investment Expenses	37.03	31.82	47.35	43.39	49.08	40.35	40.03

*62 of 79 funds provided fee data for this time period

WPERP currently manages approximately $12 billion in assets. Consolidation of the three pension systems would result in an entity with approximately $47 billion in assets. Thus, this scenario results in a slight increase in total expense. This is because WPERP has lower fees; the investment program currently operates at approximately 37.05 basis points and already has investment fee cost sharing with the other City pension systems imbedded into its investment fees, as well as several other cost sharing vehicles discussed earlier in this Report.

[100] Table 2j-I of the 2009 Management Audit of WPERP, issued March 9, 2009.

Consolidation of both investments and benefits administration would have a similar result. WPERP total expenses, as reported previously in Table 2-24, are 42.6 basis points while the average public fund with assets greater than $20 billion operates at 45.3 basis points. We caution however, that this approach is a simplistic method to evaluate a very complicated issue, and does not account for the specific circumstances of each City retirement system. Costs cannot be viewed in a vacuum; one should consider not just what was paid but also what was earned relative to what was paid. We believe it is likely that there would be minimal fee reduction associated with consolidating investment consultants and custodial services among the three City retirement systems.

Further, if consolidation were possible, there are a variety of issues that would have to be considered. Examples of just a few issues that would need to be analyzed include: (1) differences in investment beliefs; (2) differences in asset allocation policies; (3) differences in investment implementation style; (4) the internal staff structure and the expertise required; (5) investment portfolio transaction costs to effect the consolidation; (5) the differences in benefit programs and structures; (6) the differences in funding policies; and (7) the liabilities of each system and their projected growth.

The WPERP Board should consider the total return impact of any changes of this type, as while they may be useful in minimizing expenses, they may be counterproductive in meeting the investment objectives of the Plan and minimizing plan sponsor contributions.

Conclusions

The fact that outside fiduciary counsel to the LAFPP Board has advised that consolidation could not take place without a change to the California Constitution and the City’s Charter creates significant issues of law. Notwithstanding, WPERP has been diligent in responding to requests for the Mayor and City Counsel to explore ways to collaborate with the other City pension systems to reduce investment-related costs where possible.

When using peer data as a proxy of the potential change in fees associated with consolidating the City retirement systems, the result to WPERP is actually a slight increase in total expense, due to its current low level of fees.

To more accurately judge the feasibility and cost-benefit of consolidation an in-depth study of the matter should be performed by the City. However, we do not believe it would be prudent to proceed with a study before the primary legal barrier associated with consolidation is resolved, specifically whether an amendment to the California Constitution would be required.

Recommendation

27. Determine whether an amendment to the California Constitution would be required as a prerequisite to amending the City Charter to consolidate WPERP with the other Los Angeles City retirement systems.

Objective 3: Actuarial Assumptions

The issues we reviewed for this objective include:

- The reasonableness of WPERP's actuarial method and assumptions;
- The frequency of and rationale for changes to WPERP's actuarial methods; and,
- Whether WPERP's actuary followed the actuarial standards of practice.

Findings and Analysis

Reasonableness of Actuarial Method and Assumptions
The funded status of the Plan and, therefore, the amount of contributions needed to sustain the Plan, are a direct result of the Board's decisions on which actuarial methodology to use and the actuarial assumptions. WPERP uses the Entry Age Normal actuarial method to value the assets and liabilities of the fund. This method allocates costs over a member's working career as a level percentage of their pay and, therefore, results in less volatile costs for the governmental sponsors of the Plan. The Entry Age Normal method is also the method mandated for pension accounting disclosures under Government Accounting Standards Board (GASB) Statement 67 and GASB Statement 68.

The actuarial assumptions impacting the costs of the Plan include both economic and demographic assumptions. The current economic assumptions are: investment return assumption of 7.50%, inflation assumption of 3.25%, and salary increase assumption of 4.75% to 10.00%, which depends on each participant's years of service.

The key demographic assumptions relate to mortality, retirement, and withdrawal rates. Mortality is based upon the "RP-2000 Combined Healthy Mortality Table"[101] (separate for males and females) set back one year for healthy members, disability retirees and all beneficiaries, and projected to 2020 with Scale AA. Further projection to 2030 with Scale AA is used as a provision for future mortality improvement. The retirement rate assumptions range from 3% to 30% for ages 55 to 74 for Tier 1, and from 0% to 25% for ages 55 to 69 for Tier 2. The retirement rate assumption is 100% at age 75 for Tier 1 and age 70 for Tier 2. Withdrawal rates range from 9% for less than 1 year of service down to 1% for 11 or more years of service.

WPERP uses a five-year smoothing period for unrecognized asset returns (either gains or losses). Actuarial gains and losses are recognized over a fifteen year period.

Frequency and Rationale for Actuarial Method Changes

We found that actuarial experience studies have been performed every three years in recent years. The 2010 and 2013 studies performed by Segal were used to evaluate changes during the period under review. We understand that another study is being performed in 2016.[102]

As noted earlier, WPERP uses the Entry Age Normal method in its actuarial valuations. Actuarial valuations and experience studies performed by Segal during the past five years show no reason and made no recommendation to change from this method. We concur.

Economic actuarial assumptions, specifically the investment return rate, inflation rate, and salary rates were reconsidered most recently in 2013, based upon Segal's experience study. As a result, the investment return rate was lowered from 7.75% to 7.50%, the inflation rate was lowered from 3.50% to 3.25%, and the salary increase assumption was lowered from a range of 5.35% to 10.50% down to a range of 4.75% to 10.00%, which depends on each participant's years of service. These changes were recommended by the actuary based upon recent experience and expected future economic conditions.

The demographic assumptions were reconsidered in 2013 based upon Segal's experience study. This study analyzed the period July 1, 2009 through June 30,

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[101] RP-2000 mortality tables are developed by the Society of Actuaries (Retirement Plans Experience Committee)

[102] We were informed by Staff that the actuarial study for the Retirement Fund was presented to the WPERP Board on September 28, 2016.

2012. As a result, WPERP adjusted the setback period for the RP 2000 Mortality Tables, and incorporated projected mortality beyond the base year to reflect both recent and future improvement of life expectancy for its membership. Other demographic assumptions were also adjusted, such as retirement and termination rates to reflect more recent experience.

The economic and demographic assumption changes made by WPERP reflected the findings and recommendations of its actuary.

Compliance with Actuarial Standards of Practice
The WPERP actuaries, as a Fellow and an Associate of the Society of Actuaries, are required to follow the Actuarial Standards of Practice. In the cover letter to the WPERP actuarial valuation, the actuaries from Segal state, “This report was prepared in accordance with generally accepted actuarial standards and practices….” The letter further states that, “We are Members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein”.

The Entry Age Normal actuarial method used by WPERP is not only common among public retirement systems, it is also appropriate for WPERP because it is based upon a predictable and level percentage of pay for members, and it dampens volatility for the governmental plan sponsors. In our opinion, it is a sound method to use for an ongoing public plan. The Entry Age Normal actuarial method is used by about 80% of the public retirement systems in the United States.[103] LACERS, LAFPP, and LACERA, members of the customized peer group used for this Management Audit, all use the Entry Age Normal funding method in their actuarial valuations.

As noted earlier, WPERP uses a five-year smoothing period for unrecognized asset returns (either gains or losses). Asset smoothing is a legitimate actuarial practice and is used by a majority of large public funds. The rationale for smoothing is that unusually high or low investment returns should be viewed in the context of a plan that is intended to be in place indefinitely. Without smoothing, other generations of public employees may either be paying too much or too little for the benefits they receive. The National Conference on Public Employee Retirement Systems (NCPERS) produced a study in 2015 (based on responses from 179 governmental

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[103] “Public Fund Survey” (National Association of State Retirement Administrators and National Council on Teacher Retirement, 2012)

entities that showed the average smoothing period for the respondents was five years). This was also the most commonly used period. LACERS and LAFPP use a seven year smoothing period and LACERA uses a five year period. In addition, the Government Financial Officers Association published a paper in 2013 suggesting a five year period as a good practice.

For WPERP, unfunded actuarial liabilities are amortized over 15 year periods subsequent to the valuation in which first recognized. The Board can adopt a resolution to use a different period up to 30 years for a plan amendment or to change the assumptions or method. The NCPERS survey referenced above documented an average amortization period of 25 years currently and indicated this was a decrease in the average period of 0.7 years from the prior year. Thirty years was the most commonly used period. The amortization policy should relate to the individual entity's participant demographics and ability to manage cost volatility. LACERS and LAFPP use tiered policies with some sources of change being amortized over as long as 30 years while others were amortized over shorter periods (down to 5 years at a minimum). LACERA uses a 30 year amortization period.

The primary economic assumptions are the investment return, inflation and salary increases. These should not change very often. They are intended to be long term assumptions and the best estimate of what the rates will be for the next 30+ years. When economic conditions change significantly, it is wise to revisit and perhaps revise the assumptions. The majority of the larger public retirement systems have reviewed their economic assumptions in the past few years and many of them modified the assumptions accordingly.

It is important to analyze each economic assumption separately and also in relation to each other since there must be some consistency and the spreads among them are as relevant as the rates themselves. In particular, the spread between investment return and inflation represents the expected real return assumption. The salary increase assumption, which is composed of inflation, across the board salary increases, and merit/longevity increases based on service, must be reasonable.

With regard to the demographic assumptions, it is best practice to review these every three to five years. In the case of WPERP, the actuary performed experience studies in 2010 and 2013, for the purpose of reviewing and reporting on demographic assumptions. The recommended changes in mortality assumptions were to use the RP-2000 Combined Healthy Mortality Table (separate for males and females) set back one year, with projection to 2030 with Scale AA to account for recent and future mortality improvement. This appears reasonable because it reflects the recent experience of WPERP in terms of comparing actual versus the expected number of deaths. Evolving best practice for mortality projections involve consideration of updated improvement scales that reflect both gender and year of birth, which should be considered in the next review of assumptions.

We found that the frequency of and rationale for changes to the actuarial assumptions and methods are reasonable. In analyzing whether the actuary followed Actuarial Standards of Practice, we considered the following which are relevant to this audit:

- Actuarial Standard of Practice No. 4: Measuring Pension Plan Costs or Contributions.
- Actuarial Standard of Practice No. 27: Selection of Economic Assumptions for Measuring Pension Obligations.
- Actuarial Standard of Practice No. 35: Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations.
- Actuarial Standard of Practice No. 44: Selection and Use of Asset Valuation Methods for Pension Valuations.

All of the Actuarial Standards of Practice listed above were developed by the Pension Committee of the Actuarial Standards Board and available from the American Academy of Actuaries. From our review of the last five annual actuarial valuation reports and the triennial actuarial experience studies issued by Segal for WPERP, it is our finding that they comply with these standards. The 2013 actuarial experience study of Segal for WPERP has the following elements of best practices:

- The study was done to compare actual experience for the 2009 to 2012 period versus the expected experience under the current assumptions.
- Based on the study's results and expected near term experience, the actuary made recommendations to change the current assumptions.
- The study used three years of recent experience in order to obtain more data points that can increase the statistical reliability of results and to smooth out fluctuations that may occur from one year to the next.
- The actuary also calculated the year-to-year changes in experience to check for any trend that may be developing in the later years.
- The recommended changes in mortality assumptions were recommended based on a comparison of the actual number of deaths versus the expected number of deaths while providing some margin for future mortality improvements.

- The review of the retirement rate assumptions incorporated the following relevant factors: deferred vested members entitled to future pensions, percentage of married retirees, and age differences of retiree spouses.
- Based on recent experience of termination/withdrawal rates, the actuary recommended a change in the termination/withdrawal rate assumptions.
- For the merit and promotional salary increase assumption, the actuary recommended a reduction in the inflationary, promotional, and merit increase rates.

Conclusions

WPERP has been diligent in reviewing the appropriateness of its actuarial methodology and assumptions. They appear to be sound and reasonable. Based on our review we believe that Segal is complying with the Actuarial Standards of Practice. Industry "white papers" such as The Conference of Consulting Actuaries Public Plans Community's Actuarial Funding Policies and Practices for Public Pension Plans, issued in 2014, and the California Actuarial Advisory Panel's Actuarial Funding Policies and Practices for Public Pension and OPEB Plans and Level Cost Allocation Model, issued in 2015, should be referenced in consideration of the Plan's actuarial methods and assumptions, including the determination of appropriate funding and amortization methods.

Recommendations

28. Review and consider updated mortality assumptions, including projected improvement scales that reflect both gender and year of birth, which is the evolving best practice for mortality assumptions.
29. Continue to monitor the funding method, which uses a Normal Cost based on a level percentage of pay approach combined with a level dollar amortization of the unfunded liability. While such method is not necessarily inappropriate, there may be advantages to considering other alternatives such as having payments of both past and future service based on the same basis (a level percentage of pay basis). We understand a review has been performed in the past.
30. Continue to monitor the amortization period for unfunded actuarial accrued liability – currently 15 years. Best practices in the past have been for public retirement systems to complete their amortization of unfunded liabilities in no more than 15 to 20 years, although an evolving practice is to use average future working lifetime as a benchmark for the amortization period. However, it is common for funding levels and contribution policies to vary widely among public retirement systems.

31. Review of retirement rates for terminated vested participants, which are based on a single assumed retirement age. A more robust model of future benefit commencement dates involving multiple ages may be appropriate.
32. Documentation of an official funding policy. The valuation report makes reference to a funding policy but the actual policy is not documented as such. GASB 67 and 68 make reference to the establishment of an official entity specific funding policy in order to substantiate the discount rate computation.
33. Review and development of metrics for volatility ratios, including potential consequences or likelihood of a negative event and how that event would impact WPERP.

Objective 4: Asset Allocation

(a) Evaluate the adequacy and reasonableness of the manner in which Retirement Plan's assets are allocated.

Our findings and analysis for this objective align with that depicted under Objective 2-c. Here, we leverage that analysis to opine on the appropriateness of the WPERP asset allocation.

Conclusions

The primary tool used by WPERP Staff to evaluate and set asset allocation is an asset liability study. This is consistent with best practice. Staff has a stated goal of performing an asset liability study every three years. We have reviewed the asset liability study performed in 2015 and find the process used to determine asset allocation to be in line with practices of other leading public pension funds. We have also reviewed the underlying capital market assumptions and find them to be in line with AHIC and peers.

Utilizing the AHIC capital market assumptions and the Plan's current long-term target we expect the portfolio to return 6.2% per year over the next 30 years.[104] We expect that there is a 28% probability of achieving a 7.5% return and 32% probability of achieving a 7.25% return over the period.

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[104] The AHIC capital market assumptions assume passive market returns, and active management skill (or lack of skill) can generate returns above (or below) the expected value.

The asset allocation is implemented using a relatively low level of passive management. During the period evaluated this was beneficial to relative performance and increased the likelihood that the Plan meets its objectives over long term, but achieving excess returns consistently over time is a high hurdle.

The asset allocation is implemented with relatively large ranges around the policy targets. These ranges, and the actual portfolio weights deviating from policy, have resulted in underperformance greater than the level of value added by the investment managers.

We believe the process followed to determine the long-term asset allocation targets is generally prudent and in-line with leading public pension plans. The low level of passive management is appropriate if the Board maintains its conviction in Staff to identify managers with sufficient skill to add excess returns over an appropriate benchmark.

Recommendations

None.

Objective 5: Governance and Financial Planning

(a) Whether plan fiduciaries are properly fulfilling their responsibilities, as related to the Retirement Plan.

For this objective we addressed the following:

- The statutory provisions defining WPERP's specific fiduciary responsibilities; and,
- Whether WPERP fiduciaries (i.e., Board members and key management staff with discretion over the assets) are fulfilling their responsibilities by:
  - reviewing board minutes to determine the prudence of the deliberative process for key actions taken.
  - interviewing board members, key staff, and consultants to determine their understanding of fiduciary duties, and.
  - reviewing governance documents adopted to determine whether roles and responsibilities are clearly defined and whether delegations have been properly made and monitored.

To conduct our analysis, we requested and reviewed legal documentation defining WPERP's specific fiduciary responsibilities, meeting minutes, and other documents governing the operations of the WPERP; including the Plan Document, Board approved policies, and procedures developed by Staff, as well as legal opinions from the City Attorney's Office and external legal counsel. We then used the interview process to evaluate the knowledge and understanding WPERP Board members and key Staff possessed regarding these documents; specifically whether there was a clear understanding and documentation of applicable fiduciary concepts, the extent of the WPERP Board's level of autonomy, roles and responsibilities, and delegations of authority.

<u>Findings and Analysis</u>

Governing Legal Documentation

The definitive fiduciary responsibilities applicable to WPERP fiduciaries are contained in Art. XVI, §17 of the California Constitution (Proposition 162). This California Constitutional provision makes it clear that WPERP has plenary authority, subject to stringent fiduciary standards, for the investment of assets and administration of the System.

The California Constitutional mandate of exclusive authority and control and rigorous fiduciary standards, applicable to retirement systems, found in Art. XVI, §17 are paralleled in Article 11 of the Los Angeles City Charter.[105] While both grant plenary powers to the WPERP Board, the extent of that authority has been called into question and interpreted in several legal opinions by the City Attorney's Office and external legal counsel. For example, unlike LAFPP and LACERS, it appears that the WPERP Board may not have authority to independently:

- **Approve its budget** *(There are conflicting interpretations as to whether or not the Board of Commissioner must approve the WPERP budget or whether it is submitted for "informational purposes" only.[106] During interviews, the prevailing view was that the Board of Commissioner approved the budget. The budget is reviewed by the Department's Financial Services Organization in the Budget Office. The WPERP budget is included as a component of the overall DWP*

[105] Los Angeles City Charter, Article 11, Sections 1100 – 1120 and 1180 – 1190.

[106] See, August 18, 2009 legal opinion from Klausner & Klausner which concluded that WPERP does have the authority versus May 12, 2010 Confidential Communication from the City Attorney's Office. A waiver of confidentiality was requested by WPERP staff and reported in the Board's minutes.

budget. The DWP Board of Commissioners approves the DWP Budget, which includes an appropriation for the Retirement, Disability and Death Benefit Plan. City Charter Section 684 requires DWP to transmit its preliminary budget for informational purposes only to City Council).

- **Create staffing positions within the Retirement Office** (*Staffing requests are part of the budget process. Therefore, it appears that this authority is also within the purview of the DWP Board of Commissioners*).
- **Set the level of Retirement Office Staff compensation** (*It is our understanding that City Council approval is required. Although the Plan Document, Section IIIA. 5, states that the WPERP Board has the authority to pay the compensation of all employees and any other expenses necessarily incurred in the administration of this Plan*).
- **Select external legal counsel** (*Approval for external legal counsel must be obtained from the City Attorney's Office. This belief is supported by information contained in the Board minutes).*
- **Appoint the Retirement Manager** (*During interviews the prevailing view was that the DWP General Manager appoints the Retirement Manager. This opinion is supported by information contained in the Board's minutes which discuss the process for selection of the Retirement Manager. However, the Plan Document Section III.A.5 appears to grant the appointment authority to the WPERP Board*).

Authority for the tasks identified above is not clear". Key points for determining a retirement systems' level of autonomy are: the level of independence regarding budgetary authority; procurement authority; and personnel authority, including the ability to select, evaluate, compensate and terminate its staff. The need for fiduciaries to have autonomy regarding each of these functions is a well-recognized governance tenet[107] consistent with best practices. We acknowledge however that it is still not the common practice when viewed within the context of the industry as a whole.

Issues regarding ambiguity of WPERP's budgetary authority, and authority to appoint the Retirement Plan Manager were among the governance issues raised in the 2009 Management Audit. Several recommendations were provided. The WPERP Board has taken the position that the changes identified require legislation and therefore are not within their purview. We acknowledge the challenges and risks in making

[107] See the notes to the Uniform Management of Public Employee Retirement Systems Act (UMPERSA) for the rationale regarding the need for independence. It states that pension fund fiduciaries "…..should be endowed with more independence than other agents of the state or other state employees, because in exercising that independence the trustees are subject to a more extensive and stringent set of fiduciary obligations than other agents of the state or other state employees".

legislative changes, particularly any type of Charter changes. Notwithstanding, we encourage the WPERP Board and the City to work together to employ these governance best practices.

The WPERP Board's Deliberative Process

We used WPERP's meeting minutes and the interview process to assess the WPERP Board's deliberative process. We reviewed meeting minutes for the review period. Meeting minutes (Board and committee) are archived for the last 14 years on the WPERP website - March 2002 through October, 2016. Agendas for meetings are also archived on the WPERP website - June 9, 2010 to the present. The agendas typically have "quick links" to the meeting materials; however, the meeting minutes do not. There are occasions when the agenda does not include links to prior minutes. Significant information is presented on the website associated with the Board's deliberative process. However, only a reader who is familiar with how information is organized would know to look at the agenda to find supporting materials. (*The impact on transparency of WPERP's website is discussed in Objective 6.)*

Board members are judged by the prudence of their process. Therefore, written documentation, such as the minutes and written reports, is essential to demonstrating that the WPERP Board acted prudently. The deliberative process the Board engages in at board meetings is also evidence of whether or not basic fiduciary duties of prudence and loyalty are understood and being followed.

WPERP's minutes should serve as proof of the deliberative process. As the official record of the Board's proceedings, they should identify key actions taken and summarize issues and materials considered by a board as part of its decision-making process. When minutes do not fulfill this function, a board runs the risk of not having the ability to demonstrate that a prudent process was followed.

Ideally, at a minimum, minutes should:

- Identify those present at the meeting,
- Provide a record of the subjects addressed, the decisions made, and how members voted,
- Note any Board member dissent or recusals and the reasons where appropriate,
- Offer guidance for future board action,
- Serve as a valuable source of contemporaneous evidence in regulatory or judicial proceedings, and
- Reduce misunderstanding as to the intent of the board.

According to WPERP's Plan Document, the secretary, who is designated by the Board, is responsible for keeping a record of the proceedings and transactions of the Board.[108] This includes listing the names of the Board members present at the meeting and the outcome of votes that are taken. We found that WPERP adheres to these requirements.

We found that minutes are taken for regular, special, and committee meetings. In reviewing the minutes, we noted that a standardized format is used. The meeting minutes list the names of meeting attendees, their titles, as well as those who were absent. There is a section in the minutes for public comments that were received. The minutes also included the approval of previous board minutes, items discussed, and reports from Staff and consultants, along with any resulting resolution. The minutes contained who made the motion to approve the resolution, who seconded the motion, and the vote. These practices are consistent with best practices. According to those we interviewed, although at least one of the attorneys assigned to WPERP from the City Attorney's Office typically attends board and committee meetings, they do not review or provide input on the minutes. The review of meeting minutes by legal counsel is a practice we often observe.

The minutes we reviewed generally reflect that Board members ask appropriate questions during the meetings to which the Staff or consultants respond. There are, however, occasions when key decisions were made or important information is represented and the minutes do not show that a deliberative process was engaged in. A few examples include the hiring or extensions of service providers, such as the custodian bank, acceptance of the quarterly investment reports, and audit report observations and recommendations. While it is likely that a prudent process was followed, the minutes are silent. There are times when the minutes are vague, indicating only that "background was provided". Very brief summaries related to the matters considered would enhance the usefulness of the minutes and validate the prudence of the process.

We were informed during the interview process that previous minutes were more detailed. We randomly reviewed additional minutes prior to the review period and generally agree with this observation. It is our understanding that heightened scrutiny led to concerns regarding what level of detail is necessary. Some argue that abbreviated minutes are sufficient and are willing to accept the risk of having to prove that their decision-making was prudent.

[108] Water and Power Employees' Retirement, Disability, and Death Benefit Insurance Plan, Section IIIA.

It was the consensus of those interviewed that the minutes are adequate and sufficiently reflect the Board's deliberative process. Further, materials referred to in the minutes can usually be found on the website. In addition, information obtained from the interview indicates that recorded meetings are placed on CDs and Board members as well as members may request a copy of the CD.

Understanding of Fiduciary Duties by Plan Fiduciaries
Fiduciary responsibilities are considered the highest duty imposed by law.[109] The moment an individual becomes a WPERP Board member, they assume all of the responsibilities and potential liabilities imposed by the California Constitution and the Los Angeles City Charter. This is also the case for WPERP staff members that are considered fiduciaries. The three key fiduciary duties are the duty of loyalty, the duty of prudence, and the duty to diversify.[110] Without a clear understanding of these responsibilities, governance problems can occur. The risk is increased when one or more Board members may not be independent, may have a conflict of interest, or may not be performing their fiduciary duties solely for the benefit of members, retirees, and beneficiaries.[111]

Requiring fiduciary education and training for board members and staff is essential to prompting understanding and mitigating fiduciary and governance risk. At the time of the 2009 Management Audit, WPERP did not have a formal orientation or educational training program for new or current Board members. Fiduciary training did occur[112]; but, it was not part of a systematic process. Further, there was no written education policy. The 2009 Management Audit Report provided numerous recommendations regarding the need for a travel and education policy, compulsory education requirements, an annual on-site retreat, etc. Some of these recommendations have been implemented in part, others are on WPERP's "to do" list. (*See the "Status of Prior Recommendations Matrix" in the Appendix of this Report.*)

Trustees, on a regular basis, should obtain education that provides and improves core competencies, and that assists them in remaining current with regard to their evolving obligations as fiduciaries.[113] Since the 2009 Management Audit Report, we found that WPERP has instituted a new Board member orientation process. It includes an

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[109] See, e.g., Ben-Israel v. Valcare Medical, 78 CPR (3d) 94, 1997.
[110] Article XVI, Section 17 and Section 17 (a) (b) (c) and (d).
[111] Operational Risks of Defined Benefit and Related Plans and Controls to Mitigate those Risks, July 2003, pg. 4.
[112] See May 20, 2000 memo from the Assistant City Attorney Retirement Benefit Division to the WPERP Board entitled "*What it means to be a Trustee: A Brief Introduction into the World of Fiduciary Duty*" and the November 5, 2008 presentation to WPERP by Joseph Wyatt of Morrison & Foerster, LLP entitled "*A 2008-2009 Look At The Old Fiduciary Responsibilities of WPERP Trustees: What's New For These Fiduciaries to Watch Out For These Days?*"
[113] Clapman Report 2.0, Model Governance Provisions to Support Pension Fund Best Practice Principles, 2013.

orientation materials checklist that identifies key resources necessary to assist a new Board member in becoming familiar with WPERP. It also calls for one of the representatives assigned to WPERP from the City Attorney's Office to meet with new Board members prior to their first meeting to discuss the importance of their fiduciary duties. Further, a comprehensive fiduciary and ethics training presentation was delivered to the WPERP Board on May 28, 2015.[114]

We were informed that fiduciary training is planned to be part of a biannual 2 to 3 hour training session. Ideally, fiduciary training should be provided on an annual basis. Further, although historically Board member travel to external educational conference has been de minimis, it increased marginally in 2015. We believe this may be due to a greater desire and appreciation of the benefits of ongoing education. At least one Board member indicated that the external training they attended included fiduciary training. Notwithstanding, as noted earlier, the Board has not adopted a written document that memorializes its educational requirements and practices.

We found no fiduciary responsibility or ongoing educational training requirements for WPERP staff. It is our understanding that imposing compulsory ongoing educational requirement of WPERP staff could pose collective bargaining issues. Nonetheless, key management and investment staff members do attend the on-site fiduciary training sessions and some attend off-site educational conference.

We used the interview process to assess whether Board members and key Staff understand their fiduciary duties. We asked specific questions designed to test their knowledge level of fiduciary principles. Also, we obtained feedback from representatives from the City Attorney's office. Overall, we found that the Board members and Staff we spoke with had a reasonable grasp of the importance of their fiduciary responsibilities. We believe that more routine training will heighten their awareness.

Clearly Defined Roles and Responsibilities

Governance is the structure, manner and process by which a board exercises its authority and control. A "good governance" structure defines the roles of the different parties that participate in the decision-making and operations processes of a system.

It is a best practice to have key roles and responsibilities reduced to writing in governance documents, such as bylaws, the investment policy statement, committee

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[114] See, "2015 Fiduciary and Ethics Overview for WPERP Trustees" by Ashely Dunning, Partner, Co-Chair of Public Pensions and Investment Practice Group, Nossaman, LLP.

charters, and/or a roles and responsibilities matrix. It is also a best practice to have the governance documents housed in a useful governance manual that is periodically reassessed. Doing so will:

- Assist a Board in meeting their fiduciary responsibilities by making it easier to operate in a manner that is consistent with the duty of loyalty and duty of prudence,
- Help to minimize the risk of fiduciary breaches,
- Establish expectations and protocols; thus making accountability clear, a tenant of “good governance”,
- Serve to promote transparency, another tenant of “good governance”, and
- Serve to institutionalize current practice.

To evaluate whether the roles and responsibilities of the WPERP Board and Staff are clearly defined, we requested and reviewed documents governing the operations of the WPERP, including the City Charter, the Plan Document, the Statement of Investment Objectives, Goals and Guidelines, and legal opinions interpreting the Board’s authority. We also interviewed the Board and WPERP Staff, and the attorneys assigned to WPERP from the City Attorney’s Office.

The City Charter grants authority to the Board to adopt any rules, regulations or forms that are necessary to carry out its administration of the system or the assets under its control.[115] Thus, we believe it is clear that the Board has the authority to draft and adopt governance policies and committee charters.

The City Charter and the Plan Document broadly outline the roles and responsibilities of the WPERP Board. Both documents lack needed specificity. We found that the Statement of Investment Objectives, Goals and Guidelines sets forth the responsibilities of the Board, Investment Staff, and the Consultant(s) concerning the investment program. However, we did not find a document that clearly defines, in a unified manner, the collective duties and responsibilities of key parties involved in the administration of WPERP.

This need for the development of governance documentation which clearly defines the specific authority of the key parties involved in the administration of WPERP was observed in the 2009 Management Audit Report. A governance statement and committee charters were recommended. We were informed that Staff intends to develop a governance manual in the near-term. However, it does not appear to be a priority. This is understandable since it is the consensus of the Board members and

[115] City of Los Angeles Charter, Section 1106(f).

Staff that they have a clear understanding of their roles and responsibilities. Further, Staff reported that they are fully trained on the duties they perform; have procedural documentation and calendars to address daily, weekly, monthly and annual duties and responsibilities; and desk manuals.[116]

WPERP Board's Delegations and Monitoring

While the Board is the ultimate fiduciary, there is an expectation that it will delegate some of its authority. Delegation is consistent with the fiduciary duty of prudence. The failure to delegate could result in a breach of fiduciary duty. Delegation can also enhance the effectiveness and efficiency of the Board's management of the pension fund. However, delegation is not abdication; prudent oversight and monitoring of a delegation are required.

Chart 5-1 depicts delegation trends we have observed at U.S. public pension boards. To perform our analysis of whether delegations have been properly made and monitored, we requested and reviewed documents governing the operations of the Plan. Once again we reviewed the City Charter, Plan Document and the Statement of Investment Objectives, Goals and Guidelines, legal opinion interpreting the Board's authority and the WPERP minutes. We then used the interview process to test our initial findings and conclusions.

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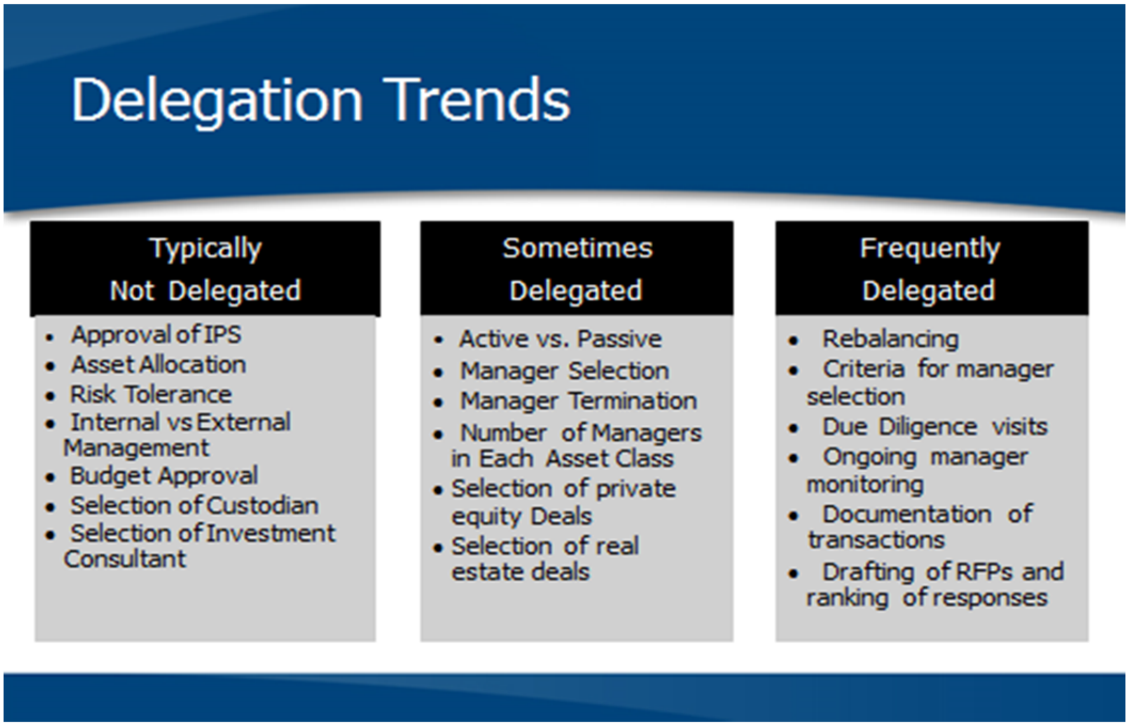
[116] This procedural documentation is outlined in Objective 1.

Chart 5-1 Delegation Trends of Public Pension Funds



According to the Plan document, the WPERP Board may delegate, by resolution, all or any of the following:

- Authority to a committee of the Board to make findings of fact in the administration of benefits under the Plan and authorize payment in accordance with the Retirement, Disability and Death Benefit provisions of the Plan.
- Authority to a committee of the Board, its authority to purchase, sell and exchange securities, and vote the proxies of the stocks in its portfolio, provided that said resolution is adopted by not less than four (4) affirmative votes, including the vote of at least one duly elected member of the Board.
- Authority to the Retirement Plan Manager to pay moneys from the Retirement Fund, the Disability Fund, and the Death Benefit Fund to persons who meet the eligibility and qualification requirements set forth in this Plan between the Funds and the authority to draw and authenticate demands for the payment of budgeted administrative expenses from the Funds.
- Authority to the Retirement Plan Manager to draw and authenticate payments.

We found that delegations had been made and in most cases it appears that they have been generally documented. However, the documentation evidencing delegations by the DWP Board of Commissioners, the WPERP Board, or by the Retirement Manager is not presented in a unified in manner.

The 2009 Management Audit Report observed the need for documentation regarding delegations of authority and included recommendations to address it. Staff reported that it has addressed the delegation recommendation using a variation in the suggested approach. Instead of using one document, WPERP elected to use multiple policies and related documents to set forth the parameters of its delegations.

Equally important is the monitoring of the duties that have been delegated. Thus, the WPERP Board should understand and regularly monitor the authority it has delegated to staff; including for example the performance of investment managers, compliance with investment policy and guidelines, the accuracy and timeliness of benefit payments, customer service and member satisfaction, and the status of any independent audit findings regarding management.

The Plan Document requires the committees of the Board and the Retirement Plan Manager to monthly report to the Board regarding actions taken associated with delegated authority. Based on the interview process, we do not believe that WPERP Board members are aware of this requirement. Notwithstanding, the Board Agenda typically includes a Retirement Manager Report and Committee reports if a committee has met.

We were informed that it is expected that the Board's external auditor will notify the Board regarding whether Staff is in compliance with the Board mandates and delegations of authority. This is a common misperception of the role of the external auditor. The annual financial audit is not a replacement for an internal audit function. The external auditor typically performs a very limited review of internal controls. Its focus is on internal controls over the finance of WPERP, not its operations. The need for internal controls is much broader than just financial controls; it extends to benefits administration, technology support functions, and even board governance.

The Board has an audit committee, but again, its focus is on WPERP's finances, not operations. Additionally Staff reported that the DWP performs internal auditing functions and can perform internal audits of the WPERP. A number of public funds outsource the internal audit function to a separate audit firm.

Conclusions

There are conflicting opinions regarding the extent of the Board‘s authority with regard to the administration of WPERP. There are legal provisions, including the State Constitution, which grants plenary authority to WPERP. Yet, it does not appear that the Board has the ability to exercise its plenary authority over its budget, the appointment of its Retirement Plan Manager, or the establishment of staffing and compensation levels. This ambiguity should be resolved.

The minutes are vital evidence of the Board’s deliberative process. There are multiple styles that can be used for purposes of drafting minutes. WPERP has moved to a style of more brevity. This approach is used by other public funds. However, it is important to balance the need for transparency into the proceedings of a public entity, and the need for fiduciaries to demonstrate that a prudent process, with the need to protect the sometimes sensitive issues discussed during meetings. We believe the scale tips in favor for more detail, with a review by legal counsel.

The Board and Staff appreciate the importance of their fiduciary duties and the need for ongoing education and new board member orientation. While an informal process has been instituted, to reflect best practice, it should be established in a formal written board education and travel policy. Consideration should be given to whether the policy should include a minimum number of required hours of training.

While we believe that the DWP Board of Commissioners and its General Manager, the WPERP Board, and Staff fundamentally understand their respective roles and responsibilities, there is a need for greater clarity not only for those involved in the administration of the plan, but also for its stakeholders. The absence of a document that clearly defines, in a unified manner, the collective duties and responsibilities of key parties involved in the administration of WPERP as well as delegations of authority would help to mitigate fiduciary and operational risks.

Recommendations

34. Resolve the conflict regarding the Board’s authority to administer WPERP by amending the Plan Document to remove conflicts language and more clearly define the plenary authority of the Board.
35. Expand the level of detail in the Board’s meeting minutes, including identifying all meeting participants whether in person or remotely, and including links to meeting minutes.

36. Strive to enhance the timeliness of meeting minutes preparation.
37. Establish a Board Education Policy that includes requirements regarding new trustee orientation, ongoing education, the frequency of fiduciary training, and whether the requirements are compulsory or aspirational.
38. If the Board determines that education should be compulsory, then consider instituting a fiduciary responsibility certification process (which including subject matter testing) so Board members and key management staff can demonstrate their understanding of fiduciary responsibilities.
39. Develop and adopt a WPERP governance manual which clearly defines roles and responsibilities and aggregates governance policies in one location.
40. Develop and adopt committee charters for each committee that includes the role and responsibility of each committee.
41. Develop a statement of delegation or charter for the Board's approval that consolidates the authority that has been delegated to the Retirement Plan Manager and what has been retained by the Board – From Objective 1.
42. Establish an annual schedule for the Board to review its delegation of authority to the Retirement Plan Manager – From Objective 1.

(b) Whether the Retirement Plan has adequate procedures for long-term financial planning to enable appropriate financial strategies and decisions to be made timely by the pension system management and its plan sponsor.

To address this objective we examined the following:

- Discussions that may have occurred with the Plan Sponsor, DWP, regarding the long-term financial condition of DWP;
- Whether there are any existing policy or procedural requirements that facilitate long-term financial planning;
- Whether the Board analyzes investment earnings and their impact on future plan sponsor contributions; and,
- Key WPERP documents, including actuarial experience studies, asset liability studies, actuarial audit reports, and annual actuarial valuation reports to determine the sufficiency with which the Board receives data to inform its long-term financial planning decisions.

Findings and Analysis

Long-Term Financial Planning Discussions

Based on information reported to us during the interview process, we found that there has typically not been well established formal discussions among the Board, Staff or its legal counsel regarding the need to speak with the Plan Sponsor from time to time (i.e., the Department of Water and Power Board of Commissioners) about long-term financial planning. Notwithstanding, several interviewees stated that there have been discussions among the WPERP Board and Staff in terms of Plan costs, decision-making regarding expenditures, and the effect on the required employer contribution. There is, however, not a consistent or formalized long-term financial planning process.

Procedures that Facilitate Long-term Financial Planning

There is currently no policy or procedure that requires or facilitates long-term financial planning, including for example, a written funding policy (the need for a formalized, written funding policy is addressed in Objective 3 of this Report). The value of a strategic plan was recommended as part of the 2009 Management Audit of WPERP. In reviewing the status of the 2009 recommendations, we learned that the Board is open to engaging in strategic planning and doing so is on Management's "to do" list. We were informed that WPERP intends is to include the strategic plan as part of governance consulting services procurement.

Engaging in strategic planning is consistent with best practice. Long-term financial planning is typically considered as part of the strategic planning process. We are aware of public pension funds that have stated strategic goals and/or objectives that include for example maximizing value and minimize costs benefit programs, and achieving satisfactory long-term risk adjusted investment returns.[117]

Information in Key WPERP Documents and Analysis of Investment Earnings and their Impact on Future Plan Sponsor Contributions

The WPERP Board receives significant financial information that facilitates its ability to analyze the effect of investment earnings and expenses on future Plan Sponsor contributions. For example, the annual actuarial valuation enables the Board to track the funding level and determine the resulting required employer contribution. The WPERP actuary also regularly performs actuarial experience studies which assist the Board in determining whether the actuarial assumptions underlying the valuations are still viable. If the assumptions are no longer defensible, then the Board can make any needed changes. The investment performance reports allow the WPERP Board and Staff to assess the effect of performance fluctuations on plan assets. Collectively, these

[117] See for example the LACERS Strategic Plan.

tools provide the Board with the necessary information to determine the financial health of the Funds, apprise the Plan Sponsor of the impact on future contributions, and evaluate what is in the long-term best interest of the beneficiaries and participates.

Conclusions

The Plan Sponsor and WPERP would benefit from a more formalized process which provides for periodic communications regarding the financial health of the WPERP Funds and the resulting potential impact of the employer contributions. Engaging in strategic planning, which includes long-term financial planning, is consistent with best practice and would benefit the WPERP Board.

Recommendations

43. Establish a more formalized process which provides for periodic communications between the Plan Sponsor and WPERP regarding the financial health of the WPERP Funds.
44. Include long-term financial planning as an objective of the strategic process.
45. In Objective 3 we address the need for a written funding policy.

Objective 6: Benchmarking

(a) Benchmark the Retirement Plan's strategies and results to a comparable peer group (City's other pension plans, and other public and private sector utility pension plans) and identify best practices and key success factors.

Benchmarking of WPERP to peers, either nation-wide and/or a customized peer group is provided throughout the Report.

(b) Evaluate the level of transparency in comparison to peer group (City's other pension plans, and other public and private sector utility pension plans) for providing access to financial information to the public.

To address this objective we performed the following analysis:

- Compared the types and frequency of publically available financial information provided by WPERP to that provided by the agreed upon peer group; and,
- Identified any gaps in WPERP financial information and reporting relative to peers, and where appropriate, made recommendations for enhancement.

We limited our review to the transparency of financial information and did not address transparency of governance or retirement materials such as minutes (Minutes are addressed in Objective 5), summary plan descriptions (SPD are addressed in Objective 1) or member information.

For this Objective, we used the same customized peer group for purposes of comparing transparency of financial information and the adequacy of the annual report.

Findings and Analysis

Transparency regarding the finances (and decision-making) of a governmental entity is a fundamental tenant of "good governance". Transparency is synonymous with the term "open access". It is a necessary counter-weight, along with accountability, to the independence pension fund boards require in order to fulfill their fiduciary responsibility in an unfettered manner. Open access to financial information is a means to apprise stakeholders and all interested parties of a public fund's level of fiscal health. It also helps to mitigate the level of public distrust in their operations. Many public funds use their websites as a primary conduit to provide public access to financial information. It is an effective, efficient transparency tool. Another heavily used transparency tool is a comprehensive annual report (*which is discussed in the next section of this objective*).

California is known for being a state whose laws (e.g. the Brown Act)[118] promote a very high level of transparency and open access. WPERP provides access to various types of financial information through its website. The following publications, which contain financial information, were published on WPERP's website during the audit scope period 2010 through 2015. With the exception of item nine, WPERP refers to these documents as "annual reports". WPERP produces a summary of key information contained in these reports, entitled "Summary Annual Report", which is published on the WPERP website. It is a very good high level snap shot of relevant financial information. They do not, however, produce an "annual report" as it is commonly defined – a comprehensive distinct publication that provides stakeholders with information regarding

[118] The Brown Act is contained in section 54950 et seq. of the California Government Code.

the operations and financial condition of the organization. (*The annual report is addressed in more detail in the next subsection of this Report*):

(1) The WPERP annual report summary, which was provided for each year of the review period;

(2) The Independent Auditor's Report (prepared by Simpson and Simpson for each year of the audit scope period), which WPERP uses to present a significant amount of financial material, and refers to as its annual report, including but not limited to:

  (a) Financial highlights,
  (b) The financial statement,
  (c) Financial analysis of the fiduciary net position and changes in the net position for each WPERP Fund,
  (d) A summary of significant accounting policies,
  (e) The asset allocation for the applicable year,
  (f) The current fiscal year value of investments versus the prior fiscal year values by asset class,
  (g) The rate of return of the current fiscal year versus the prior year,
  (h) The credit risk of certain investments,
  (i) Interest rate risk of certain investments,
  (j) Foreign currency risk of certain investments,
  (k) Information regarding derivatives,
  (l) Securities lending information,
  (m) Information regarding reserves,
  (n) A schedule of employer contributions for the prior ten year period,
  (o) Schedule of funding progress for the current year and prior five years, and
  (p) A schedule of revenues by source and type for a ten year period;

(3) Actuarial valuations and reviews prepared by Segal Consulting (for each year of the audit scope period);

(4) The Governmental Accounting Standards (GAS) 67 Actuarial Valuation as of June 30, 2015, prepared by Segal Consulting, which contains various required disclosures in compliance with GASB No. 67;

(5) The Governmental Accounting Standards (GAS) 67 Actuarial Valuation as of June 30, 2015 regarding the Death Benefit Fund prepared by Segal Consulting, which contains various required disclosures in compliance with GASB No. 67;

(6) Three Disability Fund reviews, prepared by Segal Consulting, as of July 1, 2013, July 1, 2014, and July 1, 2015;

(7) Three Death Benefit Fund reviews prepared by Segal Consulting, as of July 1, 2013, July 1, 2014, and July 1, 2014;

(8) Two actuarial experience studies, prepared by Segal Consulting, for the periods July 1, 2009 through June 30, 2012 and July 1, 2012 through June 30, 2015; and,
(9) The WPERP Statement of Investment Objectives, Goals, and Guidelines.

There is a significant amount of financial information contained in the publications presented on the WPERP website. However, WPERP's level of transparency is lessened relative to peers because a reader must parse through each publication to determine whether the financial information of interest is actually provided. Most other large pension funds generate a comprehensive annual report (CAFR) and provide it in hard copy as well as publish it on their websites. It is typically searchable. This allows stakeholders and interested parties to use one primary document to obtain information regarding the pension fund's financial condition and operations.

It is a common practice for public funds to use "shortcut" links to access financial data that may be of common interest to stakeholders and the general public. WPERP uses shortcut links in its meeting agendas, but not in its meeting minutes. It would be helpful to have links in both the agendas and the minutes. All of WPERP's local peers use shortcuts links to financial data within their websites. Some also use them to direct a reader to financial data referenced in the minutes.

Examples of financial information where shortcuts are often used include: historical investment returns, investment performance reports, asset allocation, the investment policy statement, history of employer contributions, history of assumed versus the actual rates of return, fund expenses (administrative and investments identified separately) funded ratio, top portfolio holdings, financial statements, actuarial valuations, the comprehensive annual financial report (CAFR). These shortcuts are often provided in multiple web locations based upon how a website's visitors typically navigate the site.

Conclusions

While WPERP has a significant amount of financial data on its website, the level of transparency to the data is much less than its local peers and many or large public funds. Improving the accessibility to website links (shortcuts) is an effective, efficient means that WPERP could use to enhance transparency to financial information that is typically of common interest to stakeholders, and the general public.

Transparency to financial information referenced in the Board's minutes would also be enhanced through the use of shortcut links to the documents identified in the minutes rather than having to go to the agenda for the meeting to obtain the shortcut link. We acknowledge that some may view this approach as redundant. However, we believe that redundancy promotes transparency and user access. The use of shortcut links is consistent with common pension fund industry practice and the practices of the WPERP peer group.

Recommendations

46. Create website shortcut links in the minutes to documents referenced there.
47. Enhance accessibility to website links (shortcuts) to fundamental financial documents, such as the investment policy, investment performance reports, the financial statements, historical investment returns, history of fund expenses, and history of employer contributions. This will promote transparency and make the website more user- friendly.

(c) Whether the Retirement Plan's annual financial reports are comprehensive and comparable to peer group (City's other pension plans, and other public and private sector utility pension plans).

The issues we addressed for this objective included:

a) The comprehensiveness of WPERP's annual financial reports, specifically

   i. whether the reports contain applicable board-promulgated or industry regulatory (e.g. GASB) mandated elements;
   ii. how WPERP's annual financial reports compare to its peers (e.g. local and other US public pension funds; and,
   iii. how WPERP's annual financial reports compare to industry best practice, including GFOA standards for excellence in financial reporting; and

b) Whether WPERP's financial reports have changed materially during the audit scope period in terms of the type and depth of information offered.

To assess this objective, we reviewed WPERP's annual financial report publications for the audit scope period. We also interviewed WPERP staff regarding the content, accessibility and availability of its financial reports. We then reviewed the financial reports of other local pension funds (e.g. LACERS, LAFPP, and LACERA) as well as a select group of other California public pension funds.

Findings and Analysis

Review of Annual Report Requirements

The general purpose of an annual report is to provide information about changes in an organization's financial position (e.g. the assets and liabilities) and the performance of an organization that may be useful to a wide range of users, including for example the governing board, the plan sponsor, oversight entities, stakeholders, credit rating agencies, and the general public. Ideally, financial reports should provide transparency and accountability into and for an organization's operations.

The Governmental Accounting Standards Board ("GASB") establishes generally accepted accounting principles ("GAAP") for state and local pension funds. Specifically, it established minimum accounting and financial reporting requirements regarding how costs and obligations are calculated, measured, and reported. In June 2012, GASB approved Statement No. 67[119] and Statement No. 68.[120] The Statements replace several prior Statements[121] and are designed to improve "the decision-usefulness of reported information and to increase the transparency, consistency, and comparability of pension information across governments".[122]

- Statement No. 67 defines how public pension funds must report their finances and affects financial reporting for years ended June 30, 2014 or later. For example, it is designed to better align the recognition of pension expense with the period in which the related benefits are earned, in effect accelerating expense recognition.
- Statement No. 68 defines how state and local governments must report their pension finances and affects years ended June 30, 2015 or later.

The annual financial statement and required supplementary information of the Los Angeles Department of Water and Power (DWP) are presented as part of the Independent Auditors' Report (the "Report"). It includes information related to pensions and other postemployment benefits. The DWP Report indicates that separate financial

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[119] GASB No. 67, "*Financial Reporting for Pension Plans*", which addresses financial reporting for state and local government pension plans.

[120] GASB No. 68, "*Accounting and Financial Reporting for Pensions", which establishes new accounting and financial reporting requirements for governments that provide employee benefits*.

[121] Statement No. 67 replaces the requirements of Statement No. 25 (*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*) for most public employee pension plans. Statement No. 68 replaces the requirements of Statement No. 27 (*Accounting for Pensions by State and Local Governmental Employers)* for most government employers. The Statements also replace Statement No. 50.

[122] "*New GASB Pension Statements to Bring about Major Improvements in Financial Reporting"*, Governmental Accounting Standards Board, December 2013.

statements are issued by the WPERP Board and can be obtained from the WPERP Offices.

The Plan Document governing the WPERP Board sets forth requirements regarding the content of WPERP's annual report. The Plan Document specifies that an annual financial statement covering the Retirement Plan's fiscal year of operation is to be prepared and filed with the DWP Board of Commissioners within 60 days after the end of the applicable year.

To comply with the requirements of the Plan Document, the WPERP annual report should include: (1) a statement of assets at the beginning of the year, (2) all income received and disbursements made during the year, (3) the balance of assets on hand at the end of the period, (4) a statement of all liabilities at the end of the applicable fiscal year and surplus over all liabilities, and (5) investment exhibits showing the transactions during the year and the profit or loss from underwriting and investments during the year. It does not reference GASB or generally accepted accounting principles for governmental pension funds.

Segal Consulting, the WPERP Board's actuary, prepares a report that presents the information necessary for WPERP to comply with the requirements of GASB Statement No. 67. The report includes the following components: (1) the net pension liability, (2) the schedule of changes in the net pension liability, (3) the schedule of employer contributions, and (4) projections of the pension plans fiduciary net position for use in the calculation of the discount rate. This practice started with the 2014 annual report. Prior to then, for the other periods in the audit scope, Segal also provided WPERP with GASB critical information to aid WPERP in its financial reporting, including historical comparisons of the required contributions versus actual contributions and information regarding the funded ratio.

We reviewed the audit report prepared each year during the review period by Simpson & Simpson, WPERP's external financial auditors. The reports contained WPERP's audited financial statements, as well as WPERP's supplementary information required pursuant to generally accepted accounting principles. The reports make it clear that the supplementary information is unaudited and not required to be a part of the financial statement. This is the same approach used by DWP. Specifically, for each of the years during the audit scope period the Simpson & Simpson independent audit report includes the following: the financial statements, WPERP's management discussion and analysis, disclosure notes to the financial statement, and required supplementary information. For 2014 and 2015, WPERP's financial statement reporting changed to be consistent with the requirements of GASB Statement No. 67.

As noted earlier, WPERP publishes a Summary Annual Report on its website. It is a high level snap shot of relevant financial information. It includes (1) a chart showing the change in plan net assets over the last six years, (2) the investment return for the year, (3) the market value of the Funds, and (4) the change in the DWP's contribution as a percentage of payroll for the year. As previously mentioned, both the Simpson & Simpson report and the Segal Report are published on WPERP's website. Accordingly, notwithstanding the reporting format used, we find WPERP discloses information necessary to meet the minimum requirements of GAAP and GASB Statement No. 67. We are not aware of any other comparable public retirement systems that use this approach for the presentation of their annual report. Rather, we find that most large public funds publish a stand-alone comprehensive annual report document. The independent auditor's report and actuarial information are included as two elements of a comprehensive annual report in addition to much more detailed information regarding the retirement system's operations.[123]

Material Changes to Financial Statements and Supplementary Information

The GASB No. 67 requirements introduced material changes to the way pension costs and obligations are reported. The modifications include, but are not limited to, enhanced note disclosures, improved supplementary information requirements, recognition of pension expenses within the period in which the related benefits are earned, and the better comparability of reporting due to the attribution method used to determine the total pension liability. The financial reports have materially changed for years after 2014. WPERP is aware of the necessary changes. WPERP's actuary prepares a report that provides the information necessary for WPERP to comply with the requirements of GASB Statement No. 67.

Comparison of the Comprehensiveness of WPERP's Financial Statements to Peers and Industry Best Practice Standards

The Government Finance Officers Association (GFOA) encourages public pension funds to go beyond the minimum required standards and prepare a comprehensive annual report (CAFR) that is more detailed and meets the requirements of their "Certificate of Achievement for Excellence in Financial Reporting" program (the "GFOA Certificate").

To receive the GFOA Certificate a public pension plan must be GAAP compliant even if it is not statutorily required. The GFOA Certificate program is a means to help public funds ensure that they have comprehensive financial reports which comply with

[123] The elements typically included by comparable public retirement systems as part of a comprehensive annual financial report (CAFR), are discussed later in this section of our Report.

evolving standards, it promotes consistency in content and reporting format, and is typically viewed as a “good housekeeping seal of approval” by the credit rating agencies. We view the GFOA Certificate as a best practice. There is a minimal cost for participating in the GFOA Certificate program. For those public pension funds that do not want to incur the cost and/or take the time required to participate, the application is publicly available and can be used during the CAFR preparation process as a best practice checklist.

Almost 200 public employee benefit systems obtain the GFOA Certificate each year[124] and most of the participants have done so for many years, including many of the California employee benefit funds – 27 for the fiscal year ending 2014 and 26 for the fiscal year ending 2013.[125]

WPERP does not participate in the GFOA Certificate program. However, two of WPERP’s local peers have consistently participated and been awarded the GFOA Certificate - Los Angeles Employees Retirement System (LACERS) and Los Angeles County Employees Retirement System (LACERA). While the third local peer, Los Angeles Fire and Police (LAFPP), appears to have not participated in the GFOA Certificate program, at least for years during the audit scope period, its annual report is very comprehensive and in several aspects contains more information than some of the pension funds that routinely obtain the award. The peer pension funds, as is the case for the majority of public pension funds of WPERP’s asset size or larger, issue stand-alone annual reports which are more comprehensive than the WPERP annual report.

In addition to the minimum GAAP and GASB No. 67 financial reporting requirements, we believe the following are examples of details that, while not compulsory, add to the comprehensiveness of a public pension fund’s annual report and promote transparency:

- A letter of transmittal which highlights key accomplishments for the year, a description of the plan(s), a summary of investments, and key investment activities, etc.,
- Identification of the board members,
- An organization chart,
- An outline of investment policies, including asset allocation targets,

[124] 4,181 organizations (pension plans, municipalities, investment pools, etc.) were awarded the Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended 2014.

[125] Examples of CA funds that have received the GFOA certificate include: Los Angeles Employees Retirement System (16); Los Angeles County Employees Retirement Association (25); Orange County Employees Retirement System (20); San Jose Federated City Employees' Retirement System and San Jose Police and Fire (15); San Diego City Employees' Retirement System (11); San Diego County Employees Retirement Association (18): Kern County Employees’ Retirement Association (16); California Public Employees' Retirement System (19); and California State Teachers' Retirement System (19). The number in the parenthesis reflects the number of years they have received the GFOA Certificate.

- A chart that shows changes in the asset mix,
- A chart reflecting the assumed rate versus, the actual rate of return for a ten year period,
- A chart that shows growth in assets for a ten year period,
- A chart that presents the total fund return for each year of the last ten year period,
- The fair market value of the largest holdings,
- The names of all service providers (i.e., investment managers, consultants, custodian bank, actuary, auditors, special project consultants, etc.),
- Information regarding proxy voting (since proxies are considered a plan asset),
- Expenses – including pension and benefit expenses, investment management expense, and administrative expense, (detailed separately not reported collectively),
- Pending litigation, and
- Membership statistics over the most recent ten year period, including number of active members, number of retired, statistics by benefit type, and average monthly retirement compensation, etc.

A number of the items identified above are either not part of the information or the detail is not as thorough (e.g. the period of comparison used is more abbreviated - two years versus ten years, expenses are not detailed, etc.)

Conclusions

While it appears that the DWP Board of Commissioners and the WPERP Board have both adopted GASB pension reporting requirements in practice, the annual report requirements in the Plan Document should be updated to align with these requirements.

While the reports published on WPERP's website collectively meet the minimum requirements of GAAP and GASB Statement No. 67, they are not as comprehensive when compared to other public funds, including local peers and the other governmental utility peer used.

Recommendations

48. Update the Plan Document to provide that the WPERP Board's annual financial statement be consistent with applicable GASB requirements.
49. Revise the WPERP current "annual report" to be a more comprehensive, stand-alone, document.

50. Consider participating in the GFOA Certificate of Achievement for Excellence in Financial Reporting” program or as an alternative use the GFOA checklist as a tool to enhance the detail of the annual report and promote transparency, including for example, more granularity regarding the components that comprise administrative costs.

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Appendix

Appendix A

WPERP Draft Management Audit Report Recommendations
For Audit Scope Period of July 1, 2010 through June 30, 2015

Number	WPERP Draft Management Audit Report Recommendations	Page Number
1	Update the Summary Plan Description documentation for Tier I. (Obj. 1a)	25
2	Finalize and publish the SPD for Tier II. (Obj. 1a)	25
3	Develop a statement of delegation or charter for the Board's approval, by resolution, that aggregates the authority has been delegated to the Retirement Plan Manager and identifies any authority that has been retained by the Board. (Obj. 1a)	25
4	Establish a schedule for the Board to periodically review its delegation of authority to the Retirement Plan Manager. (Obj. 1a)	25
5	Develop a strategic plan for the organization that includes high level performance measures. (Obj. 1a)	25
6	To the extent permissible, establish performance measures for timeliness and quality for functions related to retirement benefits processing. (Obj. 1a)	25
7	Explore different approaches to obtaining and comparing pension administration benchmark data as a way to further drive processing efficiency. (Obj. 1a)	25
8	Establish and implement a formal schedule for periodically updating benefits processing procedural documentation. (Obj. 1a)	25
9	Establish and implement a formal schedule for periodically updating payments and disbursements procedural documentation. (Obj. 1a)	25
10	Develop a comprehensive risk/control matrix that addresses retirement processing and benefits payments and disbursements. (Obj. 1a)	25
11	Continue to move forward in automating through the pension administration software those functions that are still manually processed. (Obj. 1a)	25
12	Amend the Board Investment Policy to specify a minimum standard for performing an asset liability study at least every three to five years. (Obj. 2c)	52
13	Evaluate the investment program; determine the desired functions to be performed by Investment Staff, and determine investment staffing types and levels that appropriately align with the activities and requirements of the WPERP investment program. (Obj. 2c)	53
14	Perform a review of the Investment Policy rebalancing ranges, measuring the expected level of active risk and trading costs associated with various rebalancing ranges. (Obj. 2c)	56

Number	WPERP Draft Management Audit Report Recommendations	Page Number
15	Amend the Investment Policy to include Private Equity as a component within the Equity rebalancing range. (Obj. 2c)	56
16	Consider delegating the authority to approve rebalancing, consistent with the Investment Policy, to Staff with subsequent reporting provided to the Board. (Obj. 2c)	56
17	Eliminate the time-based rebalancing restrictions in the Investment Policy so that rebalancing can occur at any time that the cost benefit analysis is seen as beneficial. (Obj. 2c)	56
18	To assist the Board in evaluating the drivers of relative performance, include asset class attribution in the quarterly reporting materials. (Obj. 2c)	63
19	Adopt a written Travel and Education Policy that outlines allowable travel and business expenses for a Board member and Staff, including but not limited to the following: procedures for the request and approval process for travel; a distinction between staff educational and due diligence travel; limitations on permissible expenses; and the documentation that must be submitted. (Obj. 2d)	78
20	Annually deliver the Investment Policy to the Mayor and Council as an informational item. (Obj. 2e)	80
21	Evaluate the potential benefits of passive management for Domestic Equity, International Equity, and Fixed Income asset classes. (Obj. 2f)	85
22	Establish a review cycle for evaluating active versus passive management for traditional asset classes. (Obj. 2f)	85
23	Evaluate the risk, return, and cost tradeoffs associated with transitioning to a direct hedge fund portfolio. (Obj. 2g)	94
24	Require the investment consultant to report all investment performance information to the Board net of all investment related fees. (Obj. 2g)	94
25	Conduct a thorough review of the Plan's trading cost and the peer comparison to determine if the current relatively high level of trading expense is appropriate. (Obj. 2g)	94
26	Establish a process to gather and report to the Board the information on performance fees for private market investments and any soft costs for research and other services, to the extent it is administratively feasible. (Obj. 2h)	97
27	Determine whether an amendment to the California Constitution would be required as a prerequisite to amending the City Charter to consolidate WPERP with the other Los Angeles City retirement systems. (Obj. 2i)	101
28	Review and consider updated mortality assumptions, including projected improvement scales that reflect both gender and year of birth, which is the evolving best practice for mortality assumptions. (Obj. 3)	106
29	Continue to monitor the funding method, which uses a Normal Cost based on a level percentage of pay approach combined with a level dollar amortization of the unfunded liability. While such method is not necessarily inappropriate, there may be advantages to considering other alternatives such as having payments	106

Number	WPERP Draft Management Audit Report Recommendations	Page Number
	of both past and future service based on the same basis (a level percentage of pay basis). We understand a review has been performed in the past. (Obj. 3)	
30	Continue to monitor the amortization period for unfunded actuarial accrued liability – currently 15 years. Best practices in the past have been for public retirement systems to complete their amortization of unfunded liabilities in no more than 15 to 20 years, although an evolving practice is to use average future working lifetime as a benchmark for the amortization period. However, it is common for funding levels and contribution policies to vary widely among public retirement systems. (Obj. 3)	106
31	Review of retirement rates for terminated vested participants, which are based on a single assumed retirement age. A more robust model of future benefit commencement dates involving multiple ages may be appropriate. (Obj. 3)	107
32	Documentation of an official funding policy. The valuation report makes reference to a funding policy but the actual policy is not documented as such. GASB 67 and 68 make reference to the establishment of an official entity specific funding policy in order to substantiate the discount rate computation. (Obj. 3)	107
33	Review and development of metrics for volatility ratios, including potential consequences or likelihood of a negative event and how that event would impact WPERP. (Obj. 3)	107
34	Resolve the conflict regarding the Board's authority to administer WPERP by amending the Plan Document to remove conflicts language and more clearly define the plenary authority of the Board. (Obj. 5a)	119
35	Expand the level of detail in the Board's meeting minutes, including identifying all meeting participants whether in person or remotely, and including links to meeting minutes. (Obj. 5a)	119
36	Strive to enhance the timeliness of meeting minutes preparation. (Obj. 5a)	120
37	Establish a Board Education Policy that includes requirements regarding new trustee orientation, ongoing education, the frequency of fiduciary training, and whether the requirements are compulsory or aspirational. (Obj. 5a)	120
38	If the Board determines that education should be compulsory, then consider instituting a fiduciary responsibility certification process (which including subject matter testing) so Board members and key management staff can demonstrate their understanding of fiduciary responsibilities. (Obj. 5a)	120
39	Develop and adopt a WPERP governance manual which clearly defines roles and responsibilities and aggregates governance policies in one location. (Obj. 5a)	120
40	Develop and adopt committee charters for each committee that includes the role and responsibility of each committee. (Obj. 5a)	120
41	Develop a statement of delegation or charter for the Board's approval that consolidates the authority that has been delegated to the Retirement Plan	120

Number	WPERP Draft Management Audit Report Recommendations	Page Number
	Manager and what has been retained by the Board – From Objective 1 (Obj. 5a)	
42	Establish an annual schedule for the Board to review its delegation of authority to the Retirement Plan Manager –From Objective 1 (Obj. 5a)	120
43	Establish a more formalized process which provides for periodic communications between the Plan Sponsor and WPERP regarding the financial health of the WPERP Funds. (Obj. 5b)	122
44	Include long-term financial planning as an objective of the strategic process. (Obj. 5b)	122
45	In Objective 3 we address the need for a written funding policy. (Obj. 5b)	122
46	Create website shortcut links in the minutes to documents referenced there. (Obj. 6b)	126
47	Enhance accessibility to website links (shortcuts) to fundamental financial documents, such as the investment policy, investment performance reports, the financial statements, historical investment returns, history of fund expenses, and history of employer contributions. This will promote transparency and make the website more user-friendly. (Obj. 6b)	126
48	Update the Plan Document to provide that the WPERP Board's annual financial statement be consistent with applicable GASB requirements. (Obj. 6c)	131
49	Revise the WPERP current "annual report" to be a more comprehensive, stand-alone, document. (Obj. 6c)	131
50	Consider participating in the GFOA Certificate of Achievement for Excellence in Financial Reporting" program or as an alternative use the GFOA checklist as a tool to enhance the detail of the annual report and promote transparency, including for example more granularity regarding the components that comprise administrative costs. (Obj. 6c)	132

APPENDIX B

STATUS of WPERP 2009 MANAGEMENT AUDIT RECOMMENDATIONS MATRIX

Item No.	Recommendations	Status of Implementation
Task 1a – Governance Standards		
	Budgetary Authority	
1	So as not to conflict with the Board's plenary authority, WPERP, supported by the Department of Water and Power, should seek, through legislation, an amendment to Section 1106 of the City Charter to add the establishment and final approval of the budget as one of the specific powers and duties of the WPERP Board. In the interim, we recommend that the Board of Administration seek clarification and document that the Department of Administration's budget is submitted to DWP solely for "information" purposes and may not be modified.	Not implemented – requires legislation, which is not within the purview of the Board.
	Personnel Authority	
2	The Retirement Plan, supported by the Department of Water and Power, should seek through appropriate legislative processes, an amendment to the City Charter to, at a minimum, authorize the pension board to have ultimate decision-making authority (1) to appoint the Retirement Plan Manager and Retirement Plan staff; (2) to terminate the Retirement Plan Administrator; and (3) to set the Retirement Plan Manager's compensation at the level it deems appropriate, and set the pay schedule for the retirement Plan's staff.	Not implemented – requires legislation; which is not within the purview of the Board.

Item No.	Recommendations	Status of Implementation
3	We recommend that the Retirement Plan seek authorization to obtain one or more exempt positions, at a minimum for the Retirement Plan Manager and the CIO positions, to afford the Plan more flexibility in attracting and retaining qualified investment professionals.	Not implemented – requires legislation; which is not within the purview of the Board.
	Open Meetings Law	
4	The Department of Water and Power, supported by the Retirement Plan, should seek through appropriate legislative processes, an amendment to the Brown Act to explicitly exclude from its coverage, individual or specific investments (e.g., information related to private equity investments, information that could result in front running, etc.) so that this legal interpretation will be embedded permanently in law.	Implemented - AB 382 exempted “alternative investments” from the Brown Act’s disclosure requirements. Brings the Brown Act into conformance with the California Public Records Act.
TASK 1B – FIDUCIARY LIABILITY INSURANCE		
1	The City Attorney directly or through an appropriate expert should evaluate and opine on the extent the indemnity clause applies to protect the Board of Administration and staff in situations of fiduciary breach and other situations applicable to matters covered by the professional liability policies.	Implemented – indemnification clause updated; after being reviewed by external counsel and Water and Power Risk Management.
2	The Department’s insurance staff should confer with WPERP investment staff and the City Attorney to evaluate the desired level of both indemnified and insured protection to be afforded by the various external non-manager fiduciaries, the cost of added protection in terms of fees or other factors, and decide in each case whether to amend existing requirements by specifying levels or methods to determine levels.	Not implemented – Board believes that existing insurance requirements are appropriate.
3	The Department’s insurance staff, City attorney, and possibly the insurance broker and/or others should hold a closed training session for Board members to educate them on the totality of protections and exposures applicable to their service to WPERP, including clear descriptions when and how protection is limited.	Implemented – Training session held 8/27/2014.

Item No.	Recommendations	Status of Implementation
TASK 2A – BOARD GOVERNANCE – POLICIES, PRACTICES & PROCEDURES		
1	We recommend that the Board of Administration support legislation requiring that one or more of the Board members be a person with investment, finance or accounting expertise.	Not implemented – requires legislation; which is not within the purview of the Board.
2	We recommend that the Board consider the advisability of seeking legislative authority to allow ex officio members to designate a representative to attend board meetings in their stead, if and when necessary.	Not implemented – requires legislation; which is not within the purview of the Board.
3	The Board should evaluate the Retirement Plan Manager annually and adopt a formal evaluation process that sets forth the process, guidelines and criteria that will be used by the Board in its annual review and evaluation of the Retirement Plan Manager.	Implemented – MOU provides that Retirement Plan Manager reports to the Board and General Manager (GM). Board Chair and GM perform evaluation.
4	The Board of Administration should institutionalize a board self-evaluation process and commit to performing a board self-evaluation annually. We encourage full board participation in the self-evaluation process. The Board of Administration should conduct the board self-evaluation immediately prior to conducting its annual review of the Retirement Plan Manager.	Not implemented - Board does not agree that it should
	Board Meetings	
5	The WPERP Board should consider holding an annual off-site board meeting(s) to discuss long-range issues that affect and have an impact on the pension fund, to discuss strategic planning initiatives and to review and discuss any other issues that the Board deems appropriate. In addition, the Board should include educational training sessions at the annual off-site meeting(s).	Partially implemented - in progress: Board held training retreat in May 2015. The elected to use the Board Room rather than going off-site. They plan to use a 2-year cycle for retreats. Board is open to strategic planning and it is on the "to do" list.

	Board Committees	
6	We recommend that the Board of Administration create charters describing the roles and responsibilities for each of its three committees and any committees established in the future so that the Board's expectations are documented and clearly understood by committee members. We also recommend the committees report to the Board monthly as required by the plan documents.	Partially implemented: No activity has occurred yet but, on Management's "to do" list.
	Board Delegations	
7	The Board should create one or more formal delegations of authority to the Retirement Plan Manager. The delegation should include, at a minimum, responsibility for: (1) managing the day-to-day administration of the pension fund;(2) employing, supervising, monitoring, and evaluating senior managers and staff, as delegated, (3) providing services to beneficiaries; (4) budgeting; (5) governmental affairs/media relations; and (6) employee training and development.	Implemented: however, rather than one document, Staff has reported to us that they included the delegations in policies and related documents.
8	We recommend that all committee recommendations be reported to the Board in the form of a formal motion or resolution. We further recommend that each committee charter contain a requirement that all committee recommendations to the Board be done through formal motion or resolution.	Implemented
	Governance Documentation	
9	We recommend that the Board revisit the work done by Cortex (assuming it is documented) and, to the extent appropriate, use those materials as a starting point for developing written documentation to form a comprehensive governance framework.	Partially implemented: No activity has occurred yet but, on Management's "to do list
10	We recommend that the Board of Administration, with the assistance of staff and the consultants, if necessary, develop a Governance Statement for the Plan. The Governance Statement should be a detailed document that clearly defines the specific authority, roles and responsibilities of and among the Board of Administration, the Water and Power Board of Commissioners, and the General Manager of the Department of Water and Power and describe who has authority over whom and who is responsible for what and when. The Governance Statement should identify the roles and responsibilities of key staff (including the Chief Investment Officer and the pension fund's portfolio managers) and the pension fund's service providers (including the general investment	Partially implemented: No activity has occurred yet but, on Management's "to do" list.

	consultant and legal counsel). The Governance Statement should also incorporate goals and objectives for the Retirement Plan Manager, which will add clarity to the role of the Retirement Plan Manager among the Board, the staff and the Department of Water and Power. Finally, the Governance Statement should include written delegations and limitations of authority, which we discuss in more detail in Section 2a.3. Board Delegations.	
11	Once the Governance Document is completed, we recommend that the Board hold a general educational training session on its governance policies, procedures and practices.	Partially implemented: No activity has occurred yet but, on Management's "to do" list.
12	We recommend that the Board, in conjunction with the City Attorney and/or fiduciary counsel, (1) collect and review all of the Board of Administration's' investment-related governance policies and procedures; (2) adopt a Standard Operating Procedures Manual that consolidates in a single location, the fund's internal investment-related policies, procedures, determine what revisions need to be made and revise the documents accordingly; (3) determine where new policies are required, and (4) develop appropriate new policies and procedures.	Implemented: WPERP's investment-related policies are compiled in its Statement of Investment Objectives, Goals, and Guidelines (it is similar to an Investment Policy Statement "IPS", but more comprehensive).
13	To facilitate monitoring and oversight of the Board's investment-related policies and procedures, the Board's Governance Policies should include the dates of adoption, provisions for review of each policy or procedure, with frequency of review dates (e.g., this policy shall be reviewed no less than every three years) and include the dates of any subsequent amendments of the Policies.	Partially implemented: Based upon investment policies reviewed during the scope period, we observed that revision dates were identified in the preface rather than in an appendix to the document; however, one cannot determine when a particular section was amended. A specific frequency of review for each policy has not been identified. Staff reported to us that this recommendation was subsequently implemented in the last investment policy statement revision that recently occurred outside of the audit scope period in August 2015.

14	We recommend that the CIO (or designee) develop day-to-day functional position descriptions for each investment position. Functional position descriptions that describe in detail the daily, weekly, monthly and annual duties and responsibilities of each member of the retirement system staff will increase job efficiency and accountability. The current civil service “duties” statements can be used as a starting point for this process.	Not implemented: Staff reported to us that the recommendation is not practical due to the dynamic nature of its operations. Instead, they have chosen to address daily, weekly, monthly and annual duties and responsibilities in procedural documentation, calendars (monthly, annual calendars) and desk manuals.
	The Strategic Plan	
15	The Board of Administration should develop and adopt a Strategic Plan that covers the fund’s goals and objectives for the one year, three year and five year periods, at a minimum. Also, among other things, the Strategic Plan should include a mission statement, the Board’s set of core values, the Board’s goals and objectives and timelines for completion of its goals and objectives. In addition, annual strategic plans should be developed for each asset class. In response to our draft report, staff indicated that short and medium term goals have been developed.	Partially implemented: No activity has occurred yet but, on Management’s “to do” list. A strategic plan will be part of the governance consulting services that Staff intends to procure.
	Travel and Education	
16	The Board should ask the City Attorney to update the May 10, 2000 memorandum and distribute it to the Board members.	Partially implemented. The City Attorney has been asked to update the memo entitled “What it Means to Be a Trustee; A brief Introduction into the World of Fiduciary Duty”. However, the City Attorney has not done so.
17	We recommend that staff work with the City Attorney (and outside counsel, if appropriate) to develop a “new member” orientation handbook. At a minimum, the handbook should include relevant laws, rules and regulations relating to the pension fund; relevant board policies and procedures, including the proposed Ethics Policy; Board Charters and Delegations; the budget and the Annual Report. Key staff and the City Attorney should also set aside time to meet with new board members and address any questions they may have regarding membership on the board.	Implemented; There is a “New Board Member Orientation Materials Checklist” which includes the minimum recommended items.

18	The Board should periodically hold compulsory educational sessions (for current and new trustees) for the purpose of becoming more knowledgeable about the governing documents applicable to the administration of the pension fund and the investment of pension fund assets, including but not limited to the provisions of Proposition 162, the City Charter, as amended, the Brown Act, the Board's Investment Policy Statement, and any reporting and disclosure requirement applicable to the Board. In response to our draft report, staff indicates that some training is provided by the consultant and the retirement plan manager and that fiduciary training is provided.	Implemented: a biannual 2 to 3 hour training session is planned. The last session was held in May 2015.
19	We recommend that staff work with the City Attorney and fiduciary counsel to develop a formal new member and a formal continuing education program for board members. The program should include a fiduciary training component. In response to our draft report, staff indicates that Board members have a training schedule and budget.	Implemented: materials identified in the new board member orientation checklist are provided to a new board member. Members of senior management (e.g., the Retirement Plan Manager, the CIO, etc.) and the head of the City Attorney's Retirement Benefits Division then meet with the new member.
20	The Board should direct staff to develop, in conjunction with the Board's general investment consultant, more educational seminars on investment strategies and products and risk management, as directed by the Board. In response to our draft report, staff indicates that educational seminars on investment strategies and products and risk management are provided to the Board; however, as noted above, the Board is not satisfied with the current level of training and we recommend that the educational program be enhanced.	Partially implemented: educational opportunities are offered to the Board members. However, some members continue to express a desire for more.
21	We recommend that the Board of Administration adopt a Travel and Education Policy that includes written travel guidelines and approval requirements, which is consistent with best practices. The policy also should include provisions for conference pre-approval and Board of Administration members should be required to present a report regarding the subject matter of the conference following attendance. To facilitate the ability to monitor the Board's and staff compliance with the rules regarding travel, and the members' ability to select appropriate conferences for their knowledge level, the Board of Administration should prepare a list of "pre-approved" conferences and identify the educational level of the conference (e.g., fundamental, intermediate, advanced).	Partially implemented: the Retirement Board does not have a separate travel and education policy. It does however utilize DWP's travel policy and approval process. A list of suggested conferences is provided as part of the budget process.

22	We recommend that the Board require that staff prepare an annual Travel and Education Report for the Board of Administration's review that summarizes Board member travel for the year. The Travel and Education Report should include: the number of board member(s) and staff that attended, the names of the attendees, and the total amount of expenses incurred in connection with participation at each conference. We recommend that the Board also consider limiting the number of conferences an individual trustee can attend in a given year and allowing members to attend more than the maximum number of conferences only with the approval of the Board. The current report entitled "Management Audit: Board Members' Attendance to Investment Seminars and Conferences and Educational Presentations – September 2006–March 2008 is a good starting point and should be broadened to include the costs (including fees and expenses) associated with each conference. As mentioned earlier, all costs relating to attendance and participation in conferences and seminars should be pre-approved by the Board. (Costs and fees could also be recorded in a separate document, such as a board resolution.) We also recommend that the staff prepare an annual report of Board and staff attendance at educational seminars, conferences and internal/external presentations for the Board's review.	Implemented: a report is prepared annually and provided to the Board as part of the budget process.
23	We recommend that the City Attorney provide clarity on the issue of when and under what circumstances a Board of Administration member may accept reimbursement of travel and related expenses from a third party. Following resolution of this issue, reimbursement provisions should be incorporated into the Travel Policy. The Board should make the establishment of a policy addressing the permissibility and specific criteria associated with third party payment (or reimbursement) of Board member and staff travel a priority. It is our understanding that this issue is under review by the City Attorney.	Not implemented - WPERP utilizes the Ethics Policy administered through the City's Ethics Commission. There is not a separate Travel and Education Policy uniquely tailored to issues that may be faced by retirement board members and staff, although the retirement board approves board member and staff travel for education, conferences and due diligence activities, among others. The plan utilizes the City's travel policy. Staff reported to us that they are not aware of whether this issue was or is under review by the City Attorney. The City Attorney's office could find no indication that this issue was under review by its attorneys assigned to WPERP or through its conflicts and ethics group.

24	The Education and Travel Policy should require investment professionals to participate in both internal and external continuing education and training relevant to their particular area or an area in which they may be crossed trained. We also encourage retirement system staff to maximize internal training and sharing of information through, for example, brown bag lunch sessions and attendance at approved conferences or programs.	Not implemented - WPERP uses the DWP Travel Policy. There is no continuing educational requirement in the policy for investment professionals (or other professionals) because Management believes imposing such requirements would violate the MOU.
25	The Education and Training Policy should clarify what educational opportunities are available to retirement system staff and the reimbursement policy.	Partially implemented - There is a list of educational opportunities, provided annually as part of the budget process. However, there is not a separate WPERP Education and Travel Policy
26	The Board of Administration should review the Staff Education and Travel Policy in light of Recommendations 17-25 above.	Not implemented: there is not a separate WPERP Education and Travel Policy for staff.
	Ethics	
27	We recommend that the Board adopt a formal, tailored Ethics Policy and ensure that both board members and staff receive Ethics training relating to the new Policy. (This training should be in addition to any training that is done in connection with the City's Ethics Code.) The Ethics Policy should describe Board member and staff relationships and/or actions that may give rise to actual or perceived conflicts of interest. The Policy should also clarify the legal and regulatory framework in which the Board is operating with respect to conflicts of interest, starting with the Political Reform Act of 1974 and the Government Code and related regulations; define and clarify terms used in the Policy, clearly delineate prohibited activities; include annual reporting and disclosure requirements; and include an oversight and monitoring protocol.	Partially implemented: the training provided by external legal counsel contained an ethics component. However, the Board has not adopted its own uniquely tailored Ethics Policy; rather, it follows the relies on the City's Ethics Rules and Regulations

28	The Board of Administration should, with the assistance of the City Attorney, develop a comprehensive conflict of interest and disclosure policy for its service providers and incorporate an annual certification requirement into the policy.1 The Board of Administration may also wish to clarify in the policy whether the City's lobbying laws apply to service providers.	Partially implemented: annual certifications are being performed. Development for requirements for service providers RFP/RFI's is on Management's "to do" list.
29	With respect to the conflict of interest and disclosure policy for service providers, we recommend that the Pension Board require that consultants disclose, at a minimum, any personal or business relationships with members of the Board or administrative staff of the retirement system; and personal or business relationships (monetary or otherwise) with the fund's managers or consultants. The Policy should also require that consultants disclose in the RFP or other solicitation any payments for placement services to any person, firm or entity with respect to the contracting opportunity. These requirements are a very good starting point for a more comprehensive policy.	Partially implemented - The Board adopted a Placement Agent Disclosure Policy. However, it has not adopted a questionnaire designed to identify potential conflicts of interest.
	Securities Litigation	
30	The Board of Administration should establish a formal written securities litigation policy that memorializes the Board's philosophy and policy considerations regarding all aspects of the securities litigation case review, evaluation and ongoing monitoring of potential cases. The policy should include procedures for filing proofs of claim, monitoring securities litigation claims, and managing the claims collection process, which should include periodic auditing of claims collections. Finally, the policy should also include a protocol for determining whether or not to opt out of a securities litigation case.	Not implemented - The Board has not adopted a securities litigation policy.
TASK 2B – ORGANIZATIONAL STRUCTURE		
1	WPERP benefits management should identify roles and assign responsibility for establishing appropriate procedures within for protecting the privacy and security of member records and data. If the role currently exists, communicate to the organization, along with current policy on privacy and security.	Implemented - New hires are required to sign a certification regarding privacy and security requirements. Upon termination an employee is again required to execute a certification.
2	WPERP benefits management should identify roles and assign responsibility for monitoring and ensuring compliance with regulations and laws that apply to WPERP (such as data privacy and protection). If the role currently exists, communicate to the organization.	Implemented - New hires are required to sign a certification regarding privacy and security requirements. Upon termination an employee is again required to

		execute a certification.
3	WPERP benefits management should identify roles and assign responsibility for the development, regular revision and maintenance of a business continuity plan for WPERP. If the role currently exists, communicate to the organization.	Partially implemented - A disaster recovery plan has been adopted. Management is working on a business continuity plan.
4	WPERP benefits management should consider establishing a Call Center as a single contact point for members if call volume justifies it.	Not implemented - The Board does not believe that the volume justifies the required resources.
5	WPERP benefits management should ensure that the consultant engaged to revise workflows has a scope that includes reviewing the organizational structure and work distribution that will maximize efficiency and service levels post PENFAX implementation.	Implementation is ongoing. Reorganization has been carried out.
6	WPERP benefits management should continue to evolve the web site as a source of benefit, counseling, and self-service resources	Implementation is ongoing. Improvements have been instituted.
TASK 2C – ORGANIZATIONAL EFFICIENCY AND EFFECTIVENESS		
	Indicators of Highly Performing Operations	
1	Management should develop an assessment tool for measuring the effectiveness of group, individual, and self-service counseling tools.	Partially implemented - Personnel rules do not allow the performance of individuals to be separately assessed. Overall seminar evaluations are being performed. Conducting customer satisfaction surveys is on management's "to do" list.

2	Management should consider developing "Important Fact" checklists for use in counseling sessions to alert members in writing of the potential impact of specific decisions they are making that can impact their benefits or the benefits of their survivors or partners to minimize member confusion. Maintain a signed copy of the checklist in the member's file.	Implemented - There is a checklist of items that are to be discussed with members during counseling. The member signs the checklist verifying they have been informed regarding each item and the executed document in maintained in the members file.
3	Management should clarify the status of the PENFAX implementation, including who will have responsibility for end user training and support responsibilities, and communicate current project to the organization.	Implemented
4	Management should establish transaction cost and other performance metrics to measure organizational efficiency.	Partially implemented – WPERP employs a work load indication report
5	Management should consider subscribing to CEM Administrative Benchmark Data to acquire comparative efficiency data.	Not implemented: WPERP does not believe they are ready for CEM
6	Management should establish internal and member based instruments for assessing quality of service delivery, and monitor and track trends over time	Not implemented – but member satisfaction is on Management's "to do" list. However, they are not currently allowed to assess employee performance in terms of quality of service delivery.
7	Management should establish service delivery metrics and track and monitor service delivery performance over time, including department and individual efficiency and error rates in order to improve benefits administration efficiency and effectiveness.	Not implemented – Management cannot currently evaluate employee performance related to service delivery, but is exploring how to develop a process to address customer satisfaction without being viewed as an employee performance evaluation.
8	Management should assign a strong project manager to the process documentation project; set firm deadlines; and bring this project to completion. This will help WPERP capture institutional knowledge and provide a baseline for maintaining stable operations.	Partially implemented: WPERP assigned a project manager in January 2016 to the process documentation project. The project will start next year.

9	Management should develop a long term staffing plan that identifies likely retirement dates of key personnel, and institutes a program to capture the institutional knowledge of these long-term employees.	Partially implemented: WPERP relies on the succession plan of DWP; however, the Retirement Office does not have a distinct succession plan for key management.
10	Management should develop a formal cross-training program to ensure that there is a designated backup employee with the skills and training to fill any critical gaps caused by normal or unexpected turnover or absences to the extent that this would not conflict with MOU provisions.	Partially implemented: Cross-training is done for investment staff. MOU requires a bid plan for other non-investment staff employees.
11	Management should establish formal goals and measures and metrics for each section that will capture the timeliness, accuracy, cost, and resource utilization for each key service provided.	Implemented: to the extent permitted by the MOU.
12	Management should review whether PENFAX will fill the role of a department wide case/transaction tracking system to track status, manage time to completion and backlogs, and minimize the number of places/systems where member data is stored and consider a supplemental tracking system if appropriate.	Not implemented - Management has indicated that PENFAX was not created to perform these functions. Management has however retained a vendor to scan and electronically store files in one location.
13	Management should prepare a department wide inventory of ad hoc spreadsheets, databases, and manual tracking systems and logs and review for backup, security and access control, and develop a plan for minimizing the number of ad hoc systems required for benefits administration. Ensure that each system is documented and backed up, and develop life cycle management plans where appropriate.	Implemented
14	Management should develop a business continuity plan for benefits administration and the systems that support it with a regular update schedule, and communicate roles, responsibilities, and communications methods to all employees.	Partially implemented
15	Management should develop a physical and electronic data security plan for benefits administration and member data.	Partially implemented
16	Management should develop a specific privacy protection plan and processes to ensure that WPERP complies with applicable HIPAA and other privacy regulations.	Implemented - The City Attorney's office opined in 2011 that WPERP is not a "covered entity" under HIPAA or its

		regulations. WPERP, please provide us your documented privacy protection plan and process, including any forms that employees are required to execute upon entry and exit.
17	Management should consider conducting an end to end review of benefits administration processes upon completing the current process documentation process to identify opportunities for improving efficiency and effectiveness.	Implemented - Management is reviewing benefits administration processes for Tier 1 as it designs processes for Tier 2 administration, and making adjustments to improve effectiveness and efficiency as warranted.
18	Management should establish an internal quality assurance process that includes both internal self- assessment and external (i.e., internal audit) assessment of each section's functions.	Partially implemented: to the extent possible, given the parameters in the MOU related to employee performance evaluations.
19	Management should establish performance goals and metrics for each Section Head that include both transactions-based and long term project goals and metrics, and develop a system of accountability that encourages completing both short term and long term goals.	Implemented: management indicates that work load indicators are used to the extent permitted given the parameters in the MOU. Management tracks monthly. Results are reported to the Board annually.
20	Management should consider the addition of two to three staff positions that can provide long term project support to the sections for projects such as process documentation, scanning, and development of training programs.	Implemented- Several positions have been added.
21	Management should consider establishing a first level call center to handle routine inquiries from members. (This recommendation has also been noted under Organization Structure and is repeated here because of its potential impact on efficiency and effectiveness.)	Not implemented - The Board does not believe that the current volume justifies the required resources. (See also 2b recommendation 4)

TASK 2D – STAFF ADEQUACY		
1	Management should evaluate the active employee count needed to effectively process current work volumes and determine a “minimum filled” position count needed to operate effectively.	Implemented - Carried out through annual performance resolution (APR).
2	Management should consider establishing a Benefits Specialist or similar position to provide a career track within the Department to assist in retaining seasoned employees.	Implemented
3	Management should consider developing a multi-year projection of expected transaction workloads to develop a long term staffing plan, based on examining age and time in service of current active members to estimate future workloads.	Partially implemented: an annual staffing plan is included in the budget. However, a long-term plan based on expected transactions has not been developed.
4	Management should consider developing a contingency plan for covering the duties of section heads and other key benefits administration personnel during temporary vacancies or while replacements are being recruited.	Partially implemented. Staff reported that operating within the current Memorandum of Understanding (MOU) for their staff civil service classifications; WPERP ensures there is adequate cross training and redundancy to account for temporary vacancies. Under various MOUs, WPERP also has opportunities to rotate lower level staff through the supervisory or higher level positions in order to have coverage and to gain experience and knowledge.
5	Management should consider creating “bench” positions of one to two benefits specialists, senior clerk typists, and other positions that typically have vacancies so that you will have “swing” personnel on staff to fill vacancies as they occur or support sections during peak demand or special transaction project periods.	Not implemented: Management reported to us that the current MOU does not permit this type of activity.

TASK 2E – USE AND SUFFICIENCY OF RESOURCES		
1	Management should consider developing formal skills and knowledge based training programs for new hires with a design objective to reduce the time from hire to effectiveness.	Implemented: a more robust employee orientation has been developed to the extent allowed by the MOU.
2	Management should consider establishing training in duties and processes of multiple sections for select employees to increase WPERP flexibility in assigning personnel across section boundaries to help in backlog or special project situations.	Implemented: to the extent possible given bid plan personnel requirements in MOU, which does not permit for cross-training of most employees.
3	Management should clarify roles, responsibilities, and duties required of benefits administration personnel in the event of a business disruption and ensure personnel are aware of how communications will occur in such an event.	Partially implemented: emergency call list, and call tree have been developed. Creation of a disaster recovery plan is on Management's "to do" list.
TASK 2F – USE OF INVESTMENT CONSULTANTS AND PROVISION OF CONTRACTUAL SERVICES		
1	The Board should consider expanding PCA's contract to include specific, periodic review, analysis and advice on the quality and effectiveness of, and if appropriate, selection of securities lending services; and brokerage services (e.g., assistance with commission recapture programs, trade execution measurement services, etc.).	Not implemented – these functions are performed by investment staff.
2	The Board should include an annual or bi-annual asset allocation review as a specific task in the consultant's contract.	Partially implemented – asset allocation review included as a specific task in the consultant's contract; however, WPERP Board and staff believe it is more appropriate to conduct asset allocation within the context of asset/liability studies performed every 3 to 5 years.
3	The Board should clarify the investment consultant's involvement in the compliance monitoring process in their contract and in the IPS.	Not implemented – Management reported that the Board is comfortable with the scope of work for the consultant.

	Best Practices and Consulting Services	
4	The Board should review WPERP's retainer consultant at regular intervals (e.g., annually) through a formalized process on its timeliness, depth of research, understandability of their material, and their overall availability.	Not implemented – the investment consultant is reviewed by staff. The investment consultant, like other service providers, is reviewed every three years. On-site reviews of the investment consultant are also done every three years. WPERP does not believe that the consultant should be reviewed annually.
5	The Board should organize and document its periodic review of the consultant to include checking all contractual deliverables and services to ensure that the consultant performed on all requirements.	Implemented – while the investment consultant is not reviewed annually, there is a periodic review that includes checking deliverables and services provided.
	Consultant Conflicts of Interest	
6	The Board should include the requirement that the consultant submit, at least annually, a certification regarding conflicts of interest, and that the consultant must provide notification as soon as a conflict arises.	Partially implemented – WPERP relies on Form ADV and Form 700 to identify conflicts of interest. It has not developed a disclosure form uniquely designed for investment consultants
	Role of the Private Equity Consultant	
7	The Board should continue to employ a private equity specialist to provide a comprehensive range of alternative investments advisory services.	Implemented
	Role of the Real Estate Consultant	
8	The Board should continue to employ a real estate specialist to assist the Board and staff with developing and implementing the real estate portfolio.	Implemented

TASK 2G – USE OF LEGAL COUNSEL		
	Adequacy of Legal Resources	
1	The Board of Administration should seek authority to hire its own internal legal counsel, who should report to the Pension Fund Manager. The autonomy we contemplate would include the authority to decide to use the City Attorney for certain issues that do not raise potential conflicts, and as to which familiarity with California law would render reliance on the City Attorney prudent.	Not implemented – requires legislation which is not within the purview of the Board.
2	Prior to hiring its own attorney, the Board should evaluate the responsibilities and legal skill sets required and then evaluate the economics of hiring an in-house lawyer versus the shared expense cost of maintaining the current arrangement.	Not implemented – the Board does not have authority over retention of attorneys.
3	If the Board hires its own attorney, the Board should establish in its Governance Documents the scope and limits of that attorney's authority, as well as the relationship between any in-house attorneys the Board of Administration may hire and the City Attorney's Office.	Not implemented – the Board does not have authority over retention of attorneys.
4	The Board should work with the City Attorney to develop and institutionalize, in advance, a process that will be invoked in the event a potential conflict of interest arises.	Partially implemented – a process does exist; but it is not within the control of the Board.
5	The Board and staff should request a meeting with the City Attorney's Office to discuss how to enhance the overall effectiveness of the services delivered by the City Attorney's Office	Implemented – the Board has a City Attorney evaluation policy.
6	The Board should seek the cooperation of the City Attorney's Office to establish procedures to ensure that the Board plays an integral role in determining the number of attorneys and the level of expertise of attorneys assigned to provide legal support to the pension fund.	Implemented – the Board participates in the selection process.
7	Under the current structure, the Board of Administration should have more autonomy in determining when there is a need for outside legal assistance and, if a need arises, the Board should be allowed to participate in the process for selecting a law firm(s) to provide those services.	Partially implemented – the Board does not have autonomy; but, they do provide input regarding the expertise needed and they participate in the process to select external legal counsel.

8	The Board of Administration and the City Attorney should execute a formal memorandum of understanding which specifically identifies the process for selecting and terminating outside counsel. This process should also be incorporated into the Board's Governance Documents.	Partially implemented – there is not a MOU. The contract provides guidance and WPERP's intent is to document the selection process in the governance document which is on Management's "to do" list.
9	If the current structure is maintained, the Board's Governance Policies should be revised to clearly define the role and responsibilities of the City Attorney assigned to the Board of Administration.	Not implemented – WPERP believes legislation would be required and it is not within their purview.
10	The Board should direct the City Attorney to develop a model investment contract to improve efficiency and streamline the contract review process. A number of public pension funds make use of model contracts for this very reason.	Implemented – WPERP has standard contractual terms that are used as a starting point for all service provider contracts
11	The Board should conduct a legal compliance review with the City Attorney's Office. Alternatively, the Board of Administration should consider establishing an internal compliance function and hire a staff to perform such responsibilities.	Implemented - External expert counsel (on an as needed basis) reviews all investment manager contracts – public and private markets. Staff completely revamped the contract template through external counsel in 2013. Each investment officer is responsible for his or her own mandates and reviews what is "market" with respect to contract provisions at the time they are sourcing mandates. Staff reported to us that they rely on interactions with City attorney and external counsel with respect to compliance review.
TASK 2H – SKILL SETS AND POSITION DESCRIPTIONS		
1	Management should develop job descriptions to communicate specific job duties and responsibilities to employees. The descriptions should also, at a minimum, contain the skills, knowledge, and abilities included in classification requirements.	Implemented – Management reported that it uses the broad job class and Duties Description Record as the outer parameters of the position, which includes specific duties. More detailed job duties and responsibilities have been

		captured through calendars (monthly, annual), desk manuals and procedural documentation.
2	Management should develop and conduct annual performance evaluations to identify and assess staff contributions and to discuss employee development needs and opportunities.	Implemented - to the extent possible in light of applicable personnel requirements.
TASK 2I– SPAN OF CONTROL		
	Benefits	
1	Management should consider reducing the number of direct reports reporting to the Retirement Plan Manager. Typical retirement organizations have only the Assistant Retirement Plan Managers (plus, possibly, an administrative assistant) reporting to the Retirement Plan Manager to maximize the RPM's ability to focus on long term and strategic issues. (However the current reporting ratio is not excessive.)	Not implemented – the Retirement Plan Manager continues to have 4 direct reports given the established DWP salary structure.
2	Management should consider an organization structure that has the existing Assistant Retirement Plan Manager Positions assume some of the direct report responsibilities currently reporting to the Retirement Plan Manager if the incumbents have the required skills to assume those responsibilities. This will enable the Retirement Plan Manager to focus more on strategic and long term issues.	Not implemented – the Retirement Plan Manager continues to have 4 direct reports given the established DWP salary structure. Reporting relationships cannot be shifted to the Assistant.
3	Management should consider establishing a formal or informal team structure within sections when their size approaches a 1:10 or greater supervisor: staff ratio.	Not implemented – Management has indicated the Office is too small for this recommendation to be effective or efficient.
TASK 2J– OPPORTUNITIES FOR ENHANCED EFFICIENCY AND EFFECTIVENESS		
1	With the primary objective of creating cost savings through new economies of scale, the City should consider, through appropriate legislative and administrative processes, consolidation of all aspects of WPERP's benefits administration and investment program into LACERS. Consistent with our prior management audit reports on LACERS and LAFPPS, the City and the Departments should ultimately consider combining the investment and benefits programs of all three pension Departments to maximize the	Not Implemented – The Board does not support this recommendation. It believes the three pension Departments are too different.

	savings from efficiencies and economies of scale.	
TASK AREA 3: INVESTMENT PROGRAM		
Task 3b – Appropriateness of Investment Performance Benchmarks		
1	Going forward, if WPERP decides to make any changes to its asset class benchmarks, a subsequent change should be made to the Total Fund Policy Index as well.	Implemented
Task 3c– Asset Allocation, Diversification, Risk and Return		
1	The Board should consider adopting the requirement to conduct a complete asset liability study every five to ten years and formally review asset allocation annually, with asset allocation studies conducted as needed. Additionally, WPERP does not participate in the R.V. Kuhns Public Fund Universe Analysis Report. The Board should consider providing data on the Plan to RV Kuhns in order to participate in this valuable analytical tool. There is no cost.	Partially implemented – WPERP participates in the RVK Survey; it also conducts asset liability studies every 3 to 5 years. However, WPERP does not formally review the asset allocation annually, because it does not believe that it would be prudent to do so.
	Awareness of Risks	
2	The Board should continue to ensure that its members have access to and are satisfied with ongoing training on investment issues such as asset allocation and risk metrics.	Implemented – Management indicated that board training on investment issues is provided on an ongoing bases.
3	The Board should consider working with the General Consultant to develop and implement an annual risk budget for the Total Fund and each asset class.	Not implemented – WPERP does not use risk budgeting. They prefer to use a traditional asset / liability approach.
Task 3d: Asset Allocation Process and Re-Balancing Process		
1	WPERP should consider adopting a SMART Rebalancing® strategy to rebalance the asset allocation.	Not implemented – Management rebalances at least annually.

Task 3e: Investment Policy Statement (IPS) and Guidelines		
	WPERP Investment Policy Statement	
1	We recommend that the Board consider rearranging the IPS so that it flows more clearly.	Implemented – Management reported to us that the Statement of Investment Objectives, Goals, and Guidelines has been revised approximately 30 times since the 2009 Management Audit. It was significantly updated in April 2014, and is currently undergoing another significant reorganization.
	WPERP Mission and Purpose Statement	
2	We recommend that the Board include a distinct section on the mission and purpose of WPERP.	Not implemented: However, there is a section in the IPS that specifies the goals of the WPERP investment program.
	Total Plan Investment Objectives	
3	The Board should include in the IPS "meeting or exceeding the actuarial rate over the long-term" as an additional long-term investment objective.	Partially implemented – the language is not stated as an overall objective of the WPERP investment program; however, several asset class policies (e.g., hedge funds, commodities, timberland, real estate, and private equity) include comparable language.
4	The Board should include in the IPS an objective "to achieve total returns in excess of the policy index" as an additional long-term investment objective.	Not implemented – the language is not stated as an overall objective of the WPERP investment program.

	Risk Tolerance and Liquidity Needs	
5	The Board should insert a discussion on risk in the IPS to describe and clarify the Board's risk tolerance, including reference to the WPERP's time horizon, liquidity needs, etc.	Not implemented: however, there is language which speaks to the Board's risk tolerance.
6	The IPS should acknowledge WPERP's level of risk with some discussion of how its risk level was developed, and include specific guidelines on how to identify and measure risk.	Not implemented
7	The Board should consider developing a detailed practical risk management policy/procedure document.	Not implemented – WPERP does not have a distinct risk management policy; there is language related to how risk is managed within the investment program.
	Identification of Roles and Responsibilities	
8	Roles and responsibilities for key parties (e.g., Board, staff, and various service providers) should be more completely documented in a separate section in the Investment Policy Statement.	Partially implemented – there is not a distinct section of the IPS that addresses roles and responsibilities for key parties generally. Instead, WPERP has elected to include sections in the investment policies for most, but not all, asset classes (hedge funds, real return, real estate, and private equity) that specify designated responsibilities and tasks for key parties.
	Asset Allocation	
9	The Board should specify in the Investment Policy Statement the timeframe for performing analysis and executing a new asset allocation and/or asset liability study (e.g., review asset allocation annually and conduct a formal study at least every five years).	Not implemented – although it is expressly stated that the IPS is to be reviewed annually (in January), there is no specific mention of the timing of asset allocation or an asset/liability study.

	Rebalancing	
10	The Board should conform the rebalancing language in the asset allocation and rebalancing sections of the IPS.	Implemented
	Evaluation of Investment Performance	
11	The Board should consider designating an Asset Allocation Benchmark as an additional Total Plan evaluation tool and document the Policy Benchmark and Asset Allocation Benchmark in the IPS.	Not implemented: The document includes what the policy target is for asset allocation purposes, and explains how it will change over time. However, it does not expressly include language indicating that this is the Total Fund benchmark that WPERP will work to outperform.
Selection and Termination of Investment Managers		
12	The Board should outline the critical manager selection items in the manager search policy in the IPS or create a separate manager search policy document and reference it in the IPS.	Implemented
	Guidelines	
13	The Board should develop custom guidelines for each applicable investment manager or account.	Implemented
Other Investment Related Policies		
	Proxy Voting Policy	
14	The Board should specify in the IPS which party has been delegated the responsibility of voting proxies and how they will be monitored.	Implemented
	Securities Lending Policy	
15	The Board should include a discussion of securities lending in the IPS, including the broad parameters of the program.	Implemented

	a. Brokerage Policy	
16	WPERP should expand the IPS to include a section on brokerage and trading and define how transactions costs such as brokerage commissions should be monitored.	Not implemented: WPERP uses a transaction cost analysis service provider. However, there are not guidelines which address the process to monitor transaction costs. Staff also reported that no trading is performed internally.
TASK 3F – COMPLIANCE WITH INVESTMENT GUIDELINES AND MONITORING		
1	WPERP's IPS should reference a written policy for monitoring investment manager guideline compliance. The policy should specify all of the procedures, including identifying responsible parties and detailing a method to document monitoring activity.	Implemented
	Investment Manager Guidelines	
2	The Board should, with assistance from its Consultant, develop individual investment manager guidelines for each of its portfolios. Additionally, manager guidelines should explicitly state the fiduciary standard of care and to include proxy voting policy direction. Language pertaining to GIPS standards and volatility should also be considered in the investment manager guidelines.	Implemented
TASK 3G – INVESTMENT MANAGEMENT STRUCTURE		
	Fixed Income Structure	
1	WPERP should consider allocating a portion of the core fixed income to a core "plus" mandate.	Implemented- The investment portfolio included an allocation to core "plus" until the WPERP investment consultant advised the Board to shift to a new safety/global credit "barbell" framework in May 2013.

	Real Estate	
2	WPERP should discuss with Courtland the pros and cons of investing in core, value add, and opportunistic real estate. WPERP should discuss with Courtland the possibility of direct investments and publicly traded REITS in both the US and International markets.	Implemented
	Use of Active vs. Passive	
3	WPERP should consider indexing a portion of their international equity allocation when conducting their next international equity asset class review.	Implemented; WPERP has an allocation to passive international equity.
TASK 3H – CUSTODY RELATIONSHIPS AND FEES		
1	Management should perform a comprehensive evaluation of the guidelines, risks, and returns of the currently utilized STIF and of the regularly available alternatives, including separately managed accounts using custom guidelines, in order to allow the Board to reaffirm or modify its selection of the cash investment vehicle.	Implemented – WPERP did an extensive review of STF. During the audit scope period, WPERP changed its custody relationship from BNY to Northern Trust.
2	The selected fund or funds should be formally designated in an amendment to the custody contract, with the investment restrictions and guidelines attached. In addition, a formal policy should be developed defining and specifying authority to changes the STIF vehicle in response to significant changes in money markets and their commensurate risks.	Implemented
3	We recommend that WPERP undertake a review of all contractual custody services available and evaluate whether and how they are being or may be used, adjusting policies and/or the contract accordingly.	Implemented – Services reviewed in 2014 during custodian search. Management believes that they have an excellent custodial bank contract.
4	We recommend WPERP review with its custodian the status and accessibility of data from earlier Bank of New York records and ascertain the process that is pursued to scour both current and archived records in securities class action settlement situations.	Implemented – WPERP indicated that this activity transpired during its transition to Northern Trust.

TASK 3I – SECURITIES LENDING PROGRAM AND FEES		
1	We recommend WPERP staff and/or its consultant review the guidelines, returns, liquidity, and other risks of the various pooled collateral funds offered by Mellon relative to the volume and volatility of securities on loan such that WPERP can make an affirmative decision how much collateral investment risk they want to take.	Implemented
2	WPERP staff should review the history of compliance violations and revise the scope and frequency of monitoring consistent with cost effectiveness. The procedure should be expanded to provide a mechanism and timing for reporting serious violations to management and the Board and to take appropriate corrective action.	Implemented – WPERP Management indicates that has a comprehensive compliance monitoring system
3	WPERP staff should consider the value and cost of limited and full participation in the Astec program.	Not implemented
TASK AREA 4: BENEFITS ADMINISTRATION		
Task 4a – Actuarial Methods		
1	Although, as mentioned above, the pension plan is considered well-funded at 92%, WPERP should continue to commission the experience studies every three years to justify the assumptions. In addition, WPERP needs to make sure they continue making the required contributions so funded levels remain at an accepted percent The required contribution amount is specified in the Plan and will be annually determined by actuarial valuations. A minimum required contribution is also specified in the Plan at 110 percent of employee contributions, although the annual required contribution amounts are expected to remain well above the minimum contribution amounts in the future, because of the current funded status and actuarial methods being used.	Implemented
TASK 4B – BENEFIT PAYMENT TESTING		
1	WPERP staff should scan in member data to reduce paper use. Benefit calculations should be automated to the extent possible.	Partially implemented – scan project is underway .

TASK 4C – DISABILITY SECTION		
1	Management should consider ways to back up the staff in the Disability/Death Section, given the limited staff resources. For example, WPERP could cross train employees in other sections to substitute for unplanned absences and position vacancies.	Implemented – to the extent possible given personnel rules.
2	Management should establish specific matrices to begin assessing the efficiency and productivity of the Disability/Death Section.	Implemented
3	Management should explore the feasibility of automating disability payments as part of future enhancements to the new pension system coming online.	Implemented
4	Management should adopt a privacy/safe policy which deals with disclosure of protected employee information.	Implemented
5	Management should establish an orientation program to train the Benefit Committee on how to assess the materials contained in the disability packages provided them.	Implemented – Board members trained; it only hear appeals
6	Management should review and potentially consider revising the current PTD standard and/or extend the time for extended disability.	Not implemented – Legislation would be required.
7	Management should consider printing all death payment checks rather than utilizing DWP's Accounts Payable Unit in the future.	Partially implemented: No activity has occurred yet but, on Management's "to do" list.
8	Management should consider increasing the size of the Disability staff.	Implemented – 3 positions added, 2 of which are part-time

TASK 4D – REASONABLENESS OF CALCULATIONS AND ACTUARIAL METHODS USED FOR PROJECTING FUTURE RETIREE HEALTH BENEFITS[126]		
	Summary of Experience Study	
1	Data on marital status at retirement and age difference of spouses should be examined to see if changes need to be made to OPEB valuation. This can be a more significant factor in an OPEB valuation than in a retirement valuation.	Partially implemented
2	WPERP should consider a mortality table reflecting expected future improvements in longevity such as a generational mortality table that "automatically" projects future improvement.	Partially implemented
	Experience Study with Regard to Health-Specific Assumptions	
3	We recommend that the Department considers the impact of a higher trend scenario on the cost of the plan. For example, changing the first year trend rate to 10.0%, grading down to an ultimate rate of 5.5% in 15 years would result in an increase in liabilities and cost.	Not implemented. Segal has taken the IFS recommendation under advisement.
	Summary of Actuarial Valuation Report	
4	For development of the Annual Required Contribution, we recommend the WPERP use the time period that closely matches the timing of actual contributions paid.	Implemented
5	Clarify the remaining amortization period on page 10 of the report. The label describing the 30-year amortization can be confusing.	Implemented
6	Exhibit III, Summary of Plan Provision section of the report, should include a description of the Part B premium benefit.	Implemented
7	Future actuarial valuation reports should show (as regards page 11 of the 2006 report) covered dependents separately from retirees and surviving spouses.	Implemented

[126] The Internal Audit Division of the Office of the Controller has requested a response from the Health Plans Administration Office regarding the recommendations within this Task 4D. The Health Plans Administration Office provided a response on 9/1/2016. For more detail on the status of these recommendations, please see Document B of the Appendix.

Task Area 5: Administration		
Task 5b – Appropriateness of Administrative Costs		
1	The current cost of WPERP's administrative expense in raw dollars is well below the average for similar sized funds and should be reviewed by the Board in conjunction with a plan to review its quality of service and areas for service improvements.	Not implemented

Appendix C - Glossary of Terms

Terms defined in this glossary appear for quick reference and convenience, and do not supersede specific meanings as they may be used and defined in any applicable law, or the WPERP Plan Document.

Active Management
A type of investment management style where a portfolio manager makes proactively buys and sells securities in an effort to maximize returns against a specific benchmark.

Actuarial Accrued Liability
Total accumulated cost to fund pension benefits arising from service in all prior years.

Actuarial Cost Method
Technique used to assign or allocate, in a systematic and consistent manner, the expected cost of a pension plan for a group of participants to the years of service linked to that cost.

Actuarial Valuation
The study of probable amounts of future pension benefits and the necessary amount of contributions to fund those benefits.

Actuary
A professional statistician trained in the technical and mathematical aspects of insurance, pension and related fields. The actuary estimates how much money must be contributed to a pension fund each year in order to support the benefits that will become payable in the future.

Asset Allocation
A stage of the investment process which is concerned with selecting (1) the key asset classes into which funds can be invested and (2) the amount of money to be invested in each class in a manner consistent with the objectives and risk tolerance of the program.

Asset/Liability Modeling
A projection of a retirement plan's financial situation by making assumptions concerning the future such as demographic trends, effects of inflation, and anticipated return on investments.

Asset Class
A distinct market segment for investing. For example, stocks (equities), bonds (fixed income), real estate, private equity, and cash equivalents are considered to be separate

asset classes. Sub-asset classes within equities can include small- or large-capitalization stocks, and within fixed income can include long- or short-duration bonds.

Attribution Analysis
A tool used by institutional investors to analyze investment performance by visually depicting the relative drivers of performance.

Basis Point (bp)
One-hundredth of a percentage point. (.01%)

Benchmark
An objective standard against which investment performance and/or trading execution can be measured and evaluated. For example, the Standard and Poor's (S&P) 500 Stock Index.

CAFR
Comprehensive Annual Financial Report

Capital Market Assumptions
Projections of future returns for the various asset classes.

Due Diligence
The careful investigation necessary to ensure that all material information pertinent to an issue has been identified and disclosed before a decision is made. The term originated in securities law, but is now generally used in all investment and financial matters.

Expected Return
A best, data driven estimate of what investment returns might be over some future time period.

Fiduciary
Any person who (1) exercises any discretionary authority or control over the management of a plan, (2) exercises any authority or control concerning the disposition of plan assets or (3) has any discretionary authority or responsibility in the administration of the plan. Fiduciary status extends not only to those persons named in law as having express authority and responsibility in the plan's investment or management but also covers those persons who undertake to exercise any discretion or control over the plan regardless of their formal title.

Fiduciary Risk
The risk that may arise in connection with a trustee or other fiduciary not performing their duties or achieving the best value with relation to the best interest of the plan members or beneficiaries.

Fixed Income
A security that pays a fixed rate of return, and usually refers to a government, corporate, or municipal bond.

Governance
The policies and processes by which an entity is directed and controlled, and the monitoring of their proper implementation by the entity's governing body.

Index Fund
A passively managed portfolio designed and controlled to mirror the performance of a certain index, such as the S&P 500. By definition, such funds should perform within a few basis points of the index they are tracking.

Investment Manager
An individual or organization that provides investment management services, for a fee, on a fully discretionary or nondiscretionary basis.

Investment Policy ("Statement of Investment Objectives, Goals, and Guidelines" for WPERP)
A written document that sets forth the investment goals of the organization, its risk tolerance, asset allocation, due diligence processes, benchmarks, frequency of performance measurement, and roles and responsibilities.

Normal Cost
That portion of the actuarial present value of benefits assigned to a particular year in respect to an individual participant or the plan as a whole.

Mortality Tables
In actuarial science, a mortality table is a table that shows the rate of deaths occurring in a defined population during a selected time interval, or survival from birth to any given age. Statistics included in the mortality table show the probability a person's death before their next birthday, based on their age. The Pension Protection Act of 2006 directed the IRS to publish mortality tables for private sector funding calculations. Currently, these IRS tables are based on the RP-2000 mortality table, which was constructed by the Society of Actuaries with data from over 100 private pension plans for the period 1990-1994. Any mortality improvements are then applied to the table to bring them current. Unlike the private sector, public sector plans are not required to use

a specific mortality table. While there are a wide variety of approaches used, a large number of public plans use the RP-2000 as their base table.

Operational Risk
Operational risk, as defined by the COSO framework, is the risk of loss resulting from inadequate or failed business processes, people and systems or from external events. COSO, the Committee of Sponsoring Organizations of the Treadway Commission, is a joint initiative to combat corporate fraud that was established in the United States by five supporting organizations including the Institute of Management Accountants (IMA), the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), and the Financial Executives International (FEI).

Passive Management
A type of investment management style where the portfolio manager oversees a fixed portfolio structured to match the performance of a particular segment of the market.

Proxy
A written authorization given by a shareholder to someone else to vote his or her shares at a stockholder's annual or special meeting.

Proxy Voting
The act of shareholders of a corporation authorizing a specific vote on their behalf at corporate meetings. Such proxies normally pertain to election of the board of directors or to various resolutions submitted for shareholders' approval.

Prudence
Exercising skill and good judgment in the use of resources and exhibiting caution and circumspection as to potential risks

Rebalancing
Buying or selling securities that have changed values in order to restore their designated proportion to an investment portfolio's asset allocation targets.

Securities Lending
A practice whereby owners of securities, such as a public retirement system, either directly or indirectly lend their securities to primarily brokerage firms for a fee, and against which either cash, securities, or a letter of credit is pledged to protect the lender. Securities are borrowed to cover fails of deliveries, cover short sales, provide proper denominations, and enable brokerage firms to engage in arbitrage trading activities.

Summary Plan Description (SPD)
An easy-to-read written statement describing the primary provisions, features, rights and benefits of a retirement plan.

Target Asset Allocation
The asset allocation adopted for a particular investment portfolio.

Tracking Error
A divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark resulting in an unexpected profit or loss.

Transaction Costs
The cost of executing a particular investment purchase or sale. Transaction Costs are comprised of three parts: (1) the actual dollars paid to the broker in commissions; (2) the market impact - i.e., the impact that a manager's trade has on the market price for the stock; and, (3) the opportunity cost that is the result of not executing the trade instantaneously.

Trustee
A person who has fiduciary responsibility over financial aspects of a trust. In the case of a public pension plan it includes the receipt, disbursement, and investment of plan contributions.

Unfunded Actuarial Accrued Liability
The portion of the actuarial accrued liability not offset by existing plan assets.

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Appendix D - Documents Reviewed

AHIC submitted a detailed document request. The documents listed below were provided by Staff in response to the document request and in response to follow-up request. Each was reviewed by AHIC along with the WPERP website to obtain information.

Section 1 - General Information

- California Statues and Constitutional Provisions
  - Article XI Pension and Retirement Systems
- Water and Power Employee's Retirement Plan
- Summary Plan Description (2011)
- 2009 IFS WPERP Report
- List of Board Members

A- Retiree Payments & Disability Pension Processing

- Brochures and Publications available through the WPERP website
- Newsletters published by WPERP during the audit scope period
- Benefits Administration Control Document (Cert., Face Sheet)
- Managerial Reports within the fiscal years 2010-2015
- Cert Checklist
- Disability Policies and Procedures
- Average Annual Retirement Compensation for Retirees for fiscal years 2010-2015
- IPS Recap (2010-2015)
- Payment Production
- Resolution No. 185, Establishment of Fund to Expedite Corrective and Remedial Payments
- Procedures for printing checks
- Instructions for preparing invoice collectible for health premiums
- Workload Stats Board Reports (Q4 2014, 2013)
- Disability payments audit
- Verification of COLA increase memos (2011, 2012, 2013, 2014, 2015)
- Desk Manual Documentation Samples
  - PAS.Bene_Death.Report of Death (Funds 121, 123, 141 and 151)
  - PAS.DB.Process Death Benefit with NO Continuance (Funds 120 and 122)
  - PAS. DB.Report of Death (Funds 120 and 122)
  - PAS.Roll.Add Continuance (Funds 121 and 123)

  - PAS.Roll.Cancel Payee (Fund 151)
  - PAS.Roll.Cancel Payee (Funds 120 and 122)
  - PAS.Roll.Process Death Benefit with NO Continuance (Funds 121, 123, and 141)
  - PAS.Supv.Approve Payment
  - Penfax.Roll.Process Retirement
  - Retirement Flow Chart
  - List of Acceptable Documents as Proofs (rev 6-18-15)

- 21 Member Case Files initiated during the audit scope period that contained various characteristics we requested; files randomly selected by WPERP Staff
- Demand Transmittal
- IPS Recap (Sep. 2013, Nov. 2012, June 2014, July 2015)
- RAP Recap April 2011
- WPERP accounting/monthly retirement roll calendar – June 2015
- 2012 WPERP Management Letter
- 2013 WPERP Management Letter
- Allocation of administrative expenses among funds
- Estimates of retiree healthcare administrative costs for each year during the scope period
- Retiree Health Benefits Option Guide
- Letter from Segal Consulting regarding the retiree health related recommendations from the 2009 IFS Management Audit

B- Minimizing DWP Contributions

- Operating Budgets for fiscal years 2010-2015
- Benefits Administration Budget and Actual Expenses for fiscal years 2010-2015
- Total Administration Expenses for fiscal years 2010-2015
- Travel Expenses for fiscal years 2010-2015
- Details of Each Trustee Trips
- Investment Section Back-up Schedule
- WPERP Organizational Chart for fiscal years 2015-2016
- Contact List-Key Service Providers
- Contracts – Investment Consultants, Custodians
- Structural Reviews, Passive vs. Active
- Investment Mangers Details and Fees
- Quarterly and Monthly Investment Reports (July 1, 2010 – June 30, 2015)
- Total Fund Monthly Benchmark Compensation (July 1, 2010 – June 30, 2015)
- Asset Class Monthly Return, Benchmark Compensation & Monthly Returns
- Mgr. Selection & Monitoring Policies and Procedures for Public & Private Mtks.
- DDQ's Manager Performance Evaluation Samples

- Watch List and Criteria
- Manager Hire & Termination (Sample Memos & Reports)
- Transaction Cost Analyses
- Sample RFP for Manager Searches 2015 Emerging Markets RFP
- Due Diligence Reports
- Account Schematic
- Monthly Custody Report Package (July 1, 2010-June 30, 2015)
- Asset Allocation Study, Capital Market Assumptions
- A/L Study
- City Travel Policy
- WPERP Financial Statements
- Investment Guidelines (2011-2014)

<u>C – Actuarial</u>

- Annual Actuarial Valuation Report for Fiscal Years 2010 – 2015
- Actuarial Experience Studies for Fiscal Years 2010-2015
- Actuarial Audit Reports for Fiscal Years 2010-2015
- Other Materials Provided by WPERP's Actuary to the Board (2010-2015
- Actuarial Experience July 1, 2009 to June 20, 2012
- LADWP – 6-30-2009 Experience Study
- WPERP – July 1, 2012 through June 30, 2015 Actuarial Experience Study

<u>D- Asset Allocation</u>

- Mgr. Selection & Monitoring Policies & Procedures for Public & Private Mkts.
- Asset Allocation and Asset Liability Studies (July 1, 2010 – June 30, 2015)
- Capital Market Assumptions
- Asset Allocation & Process for Setting the Allocation (July 1, 2010-June 30, 2015)
- Estimates (Expected Returns, Volatility & Assumed Correlation)

<u>E-Governance & Financial Planning</u>

- Investments Operational & Governance Policies
- Disability Operational & Governance Policies
- Operational Procedures Manual – Investments Section

- Operational Procedures Manual - Disabilities Section
- Operational Procedures Manual - Membership Section
- Operational Procedures Manual - Retirement & Death Section
- Board Members Orientation Materials – Compensation Terms, Expertise and Contact Information
- Educational Materials on Fiduciary Responsibilities Provided to Board or Staff
- Legal Interpretations of Plan Documents
- Summary of Relevant Litigation
- Board Meeting Minutes for July 1, 2010

F- Benchmarking

- RVK and CEM Surveys
- Website Map
- Annual Member Statement (2010-2015)
- Financial Statements and Supplementary Information
- Annual Report Summary
- Data Mailer messages
- Peer CAFRS

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Appendix E - Interviewees

For this review, AHIC interviewed the following individuals:

<u>WPERP Board Members and Committee Members</u>

LaTanya Bogin – Board Member

Marcie Edwards – Board Member, General Manager of DWP (during scope period)

Timothy Hemming – Retiree Board Member

Mario Ignacio – Board Member, Assistant CFO & Treasurer

Barry Poole – Vice President Retirement Board

<u>WPERP Staff</u>

Grace Adajar – Investment Officer

Monette Carranceja – Assistant Retirement Plan Manger

Will Feng – Chief Accountant

Sonia Lajas – Principal Clerk Utility

Linda Le – Retirement Plan Manager

Alex Lee- Investment Officer

Carlo Manjikian – Investment Officer

Brad Moe - Utility Administrator II

Riza Mulawin – Management Analyst

Christian Munoz – Management Analyst

M F Sandoval – Management Analyst

Ravi Sharma – Investment Officer

Scott Vargas – Investment Officer

Jeremy Wolfson – Chief Investment Officer

Office of the City Attorney, Retirement Benefits Division

Alan Manning – Assistant City Attorney

James Napier – Deputy City Attorney

DWP, Health Plans Administration Office

Pamela Howard – Human Resources

Laurel Ogata - Manager, Employee Health and Benefits

APPENDIX F

Water & Power Employees' Retirement Plan Response

Water and Power Employees' Retirement Plan

June 20, 2017

The Honorable Ron Galperin
City Controller
Room 300, City Hall East
200 N. Main Street
Los Angeles, CA 90012

Dear Mr. Galperin:

Subject: Revised Final Draft Report of the Management Audit of the Los Angeles Water and Power Employees' Retirement Plan

Thank you for the opportunity to meet with your staff and the staff of Aon Hewitt Investment Consulting, Inc. (Aon), to discuss our responses to the draft report of the "Management Audit of the Los Angeles Water and Power Employees' Retirement Plan (Plan)". The exit interview was productive and provided an opportunity for us to discuss the recommendations in detail and our responses to those recommendations.

The Plan has previously provided a response to all 50 recommendations in our letter to you, dated April 27, 2017 (attached). In consideration of your time, we will not renew those responses, but ask instead that you and the readers refer to our previous letter and attachments, which we will unmark as confidential.

If you have any additional questions, please do not hesitate to call me at (213) 367-1689.

Sincerely,

L Le

Linda P. Le
Retirement Plan Manager

LPL:mea
Enclosures
By Email
c/enc: Ted Bardacke, Joint Administrator, Mayor's Office
Karen Kalfayen, Joint Administrator, Chief Legislative Analyst
Alfred Rodas, Office of the Controller, Director of Auditing
Cynthia Varela, Office of the Controller, Chief Internal Auditor
Jeanna Cullins, Aon Hewitt Investment Consulting, Inc.
Javier Romero, President, Board of Administration
Barry Poole, Vice President, Board of Administration

WATER AND POWER EMPLOYEES RETIREMENT, DISABILITY AND DEATH BENEFIT INSURANCE PLAN
111 NORTH HOPE STREET • ROOM 357 • LOS ANGELES, CALIFORNIA 90012 • (213) 367-1712 • FAX (213) 367-1891

Water and Power
Employees' Retirement Plan

LINDA P. LE
RETIREMENT PLAN MANAGER

MONETTE CARRANCEJA
ASSISTANT RETIREMENT PLAN MANAGER

KATIE S. ZORDILLA
ASSISTANT RETIREMENT PLAN MANAGER

JEREMY WOLFSON
CHIEF INVESTMENT OFFICER

April 27, 2017

CONFIDENTIAL

The Honorable Ron Galperin
City Controller
Room 300, City Hall East
200 N. Main Street
Los Angeles, CA 90012

Dear Mr. Galperin:

Subject: Management Audit of the Los Angeles Water and Power Employees' Retirement Plan

Thank you for the opportunity to respond to the draft report of the "Management Audit of the Los Angeles Water and Power Employees' Retirement Plan (Plan)." We thank you, your staff, and the staff of Aon Hewitt Investment Consulting, Inc. (Aon), for the professionalism and diligence shown during the audit process.

Aon noted many positive highlights in the administration of the Plan:

- The Plan had proper controls over payments and disbursements, and provided timely payments to members and beneficiaries.
- The administration of the Plan resulted in minimizing the Los Angeles Department of Water and Power's (LADWP) contributions.
- The Plan produced strong investment results relative to its benchmark and peers.
- The Plan's administrative expenses were significantly lower than its local peer funds, as well as peer group of nationwide public pension funds.
- The Plan's investment fees paid to investment managers, consultants, and custodian bank are below peers.

- The Plan has been diligent in reviewing the appropriateness of its actuarial methodology and assumptions, conducting experience studies every three years, exceeding the City Charter requirement of every five years.

- The Retirement Board and staff appreciate the importance of their fiduciary duties and the need for ongoing education and new board member orientation.

Although the report highlighted many positives about the administration of the Plan, there were recommendations for improvement. We generally agree with the recommendations and have actively addressed them prior to and during the audit. As of the publication of this report over 25% of the recommendations have been fully addressed by staff, or are in progress of being addressed (11 of 50 are complete, 3 are in progress).

Please see our responses to the recommendations enclosed.

Sincerely,

L Le

Linda P. Le
Retirement Plan Manager

LPL:mea
Enclosures
By Email
c/enc: Ted Bardacke, Joint Administrator, Mayor's Office
Karen Kalfayen, Joint Administrator, Chief Legislative Analyst
Alfred Rodas, Office of the Controller, Director of Auditing
Javier Romero, President, Board of Administration
Barry Poole, Vice President, Board of Administration

MANAGEMENT AUDIT 2017
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
RESPONSES TO RECOMMENDATIONS

Recommendation #1: Update the Summary Plan Description documentation for Tier 1.

Response: Staff completed the update in December 2016. The Summary Plan Description (SPD) for Tier 1 is distributed to our members via our website, in seminars/classes, and at outreach programs. It is also available upon request in our office. Notifications were sent to active Department employees and announced at the Retirement Board meeting.

The SPD for Tier 1 is available at the below website link:
http://retirement.ladwp.com/image/Summary%20Plan%20Description%202016%20-%20T1.pdf

Recommendation #2: Finalize and publish the SPD for Tier 2.

Response: Staff finalized the document in January 2017 and created new classes specific for Tier 2 members. The SPD for Tier 2 is distributed to our members via our website, in seminars/classes, and at outreach programs. It is also available upon request in our office. Notifications were sent to active Department employees and announced at the Retirement Board meeting.

The SPD for Tier 2 is available at the below website link:
http://retirement.ladwp.com/image/Summary%20Plan%20Description%202016%20-%20T2.pdf

Recommendation #3: Develop a statement of delegation or charter for the Board's approval, by resolution, that aggregates the authority has been delegated to the Retirement Plan Manager and identifies any authority that been retained by the Board.

Response: Work on the governance document, board rules, travel policy, delegation of authority, strategic plan, benchmarking, and other governing documents for the Plan are among our priorities; however, with our limited staff, ensuring compliance with legal requirements, completing our website and Penfax project, education of our members regarding impact of Tier 2 and suspension of reciprocity, and ensuring transfer of complex knowledge through staff training and desk manuals will remain higher priorities.

Recommendation #4: Establish a schedule for the Board to periodically review its delegation of authority to the Retirement Plan Manager.

Response: Staff will complete this alongside Recommendation #3.

Recommendation #5: Develop a strategic plan for the organization that includes high level performance measure.

Response: See Recommendation #3.

Recommendation #6: To the extent permissible, establish performance measures for timeliness and quality for functions related to retirement benefits processing.

Response: As noted in the report, there are established legal and fiduciary requirements imposed on the Plan for timeliness and quality as they relate to retirement benefits processing. The Plan's internal process provides several checkpoints to ensure that these requirements are met. In addition, staff prepares annual and monthly calendars of deadlines to ensure timely processing of benefit payments. There are no noted violations of the requirements during the audit period, nor outside of the audit period, attesting to the Retirement Board and staff's continued commitment to Plan participants and their beneficiaries over all other duties.

Samples of the calendars are attached.

Recommendation #7: Explore different approaches to obtaining and comparing pension administration benchmark data as a way to further drive processing efficiency. (Obj. 1a)

Response: As noted in the report, the Plan's administrative expenses were significantly lower than its local peer funds, as well as peer group of nationwide public pension funds, while the Plan maintained proper controls over payments and disbursements, and provided timely payments to its members and beneficiaries. However, staff agrees that benchmarking is an important management tool and will prioritize its completion within our limited staffing, alongside the other recommendations provided by Aon (see Recommendation #3).

Recommendation #8: Establish and implement a formal schedule for periodically updating benefits processing procedural documentation. (Obj. 1a)

Response: See Recommendation #3.

Recommendation #9: Establish and implement a formal schedule for periodically updating payments and disbursements procedural documentation. (Obj. 1a)

Response: Staff has updated the payments processing procedure as of February 2017. The document will be reviewed annually going forward.

Recommendation #10: Develop a comprehensive risk/control matrix that addresses retirement processing and benefits payments and disbursements. (Obj. 1a)

Response: See Recommendation #3.

Recommendation #11: Continue to move forward to automating through the pension administration software those functions that are still manually processed. (Obj. 1a)

Response: One of the Plan's ongoing priorities is to complete work on the Penfax system and to update our website. Several improvements have been completed prior to and during the audit, such as the Retirement Information System, which provides self-service member information, ad-hoc payment processing, and Tier 2 purchases. Staff time and contractor service will continue to be dedicated to completing both projects.

Recommendation #12: Amend the Board Investment Policy to specify a minimum standard for performing an asset liability study at least every three to five years. (Obj. 2c)

Response: Staff will complete this alongside Recommendation #3 and within the governance document instead of the Investment Policy Statement.

Recommendation #13: Evaluate the investment program; determine the desired functions to be performed by Investment Staff, and determine investment staffing types and levels that appropriately align with the activities and requirements of the WPERP investment program. (Obj. 2c)

Response: The Retirement Board reviews and approves the staffing level required by the Plan based on the recommendation of staff. The current staffing level is commensurate with the structural complexity of the current investment program.

What's not noted in the study and is more important in a peer comparison to the Plan, is the compensation level. The Plan's management and investment staffs are compensated at levels much lower than their counterparts in the local peer funds, while maintaining the same level of responsibilities. Since the plenary authority of the Retirement Board does not extend to salary setting and/or selection of Plan employees, the Retirement Board is unable to address this issue and has been unable to have this issue addressed by Department management, despite several studies showing the inequity.

Recommendation #14: Perform a review of the Investment Policy rebalancing ranges, measuring the expected level of active risk and trading costs associated with various rebalancing ranges. (Obj. 2c)

Response: The overall volatility of the portfolio is reviewed on a regular basis with staff, the Retirement Board's consultants, and the Retirement Board. Consistent with our standing practice, staff will again review the ranges with the Retirement Board at our periodic review of the Investment Policy and our next asset/liability, asset/allocation studies, which are completed every three years.

Recommendation #15: Amend the Investment Policy to include Private Equity as a component within the Equity rebalancing range. (Obj. 2c)

Response: Private Equity targets are determined through the Retirement Board's asset/liability and asset/allocation studies. Given the long-term nature, cash flow controlled by the general partner, and lack of liquidity in private equity investments, rebalancing to a specific policy target would be operationally complex, and could increase overall portfolio risk. Therefore, the portfolio could be rebalanced with other more liquid asset classes and still maintain overall compliance with the Retirement Board's approved level of risk.

Recommendation #16: Consider delegating the authority to approve rebalancing, consistent with the Investment Policy, to Staff with subsequent reporting provided to the Board. (Obj. 2c)

Response: The Retirement Board has the ultimate authority to delegate the level of discretion to staff. Should the Retirement Board choose to do so, staff is willing and capable of providing discretionary rebalancing of the portfolio within policy limits and ranges.

Recommendation #17: Eliminate the time-based rebalancing restrictions in the Investment Policy so that rebalancing can occur at any time that the cost benefit analysis is seen as beneficial. (Obj. 2c)

Response: Again, the Retirement Board has the ultimate authority to delegate the responsibility to staff. Should the Retirement Board choose to do so, staff is willing and capable of performing the duties. Providing more flexibility in the rebalancing process to address current market conditions, the Retirement Board's risk tolerance, and the Retirement Board's adopted investment policy ranges could help reduce overall portfolio risk; however, the Retirement Board must balance its oversight responsibilities against the level of authority that it delegates to staff.

Recommendation #18: To assist the Board in evaluating the drivers of relative performance, include asset class attribution in the quarterly reporting materials. (Obj. 2c)

Response: This can be explored with the Retirement Board's consultant to determine their capabilities of providing this data on a regular basis, to determine what administrative costs would be involved, and if there would be any increase in fees due to the scope of the existing consulting contract.

Recommendation #19: Adopt a written Travel and Education Policy that outlines allowable travel and business expenses for a Board member and Staff, including but not limited to the following: procedures for the request and approval process for travel; a distinction between staff educational and due diligence travel; limitations on permissible expenses; and the documentation that must be submitted. (Obj. 2d)

Response: See Recommendation #3.

Recommendation #20: Annually deliver the Investment Policy to the Mayor and Council as an informational item. (Obj. 2e)

Response: The Investment Policy Statement is currently published on our website with all noted revisions indexed in the document and highlighted in our Retirement Board agenda item; however, we understand the City Charter requirement and will ensure compliance in the future.

Recommendation #21: Evaluate the potential benefits of passive management for Domestic Equity, International Equity, and Fixed Income asset classes. (Obj. 2f)

Response: This recommendation is not consistent with the current investment policy adopted by the Retirement Board. Passive/Active analysis is already conducted as part of the Retirement Board's Asset Class Structural Reviews that take place every two to three years.

Recommendation #22: Establish a review cycle for evaluating active versus passive management for traditional asset classes. (Obj. 2f)

Response: See Recommendation #21.

Recommendation #23: Evaluate the risk, return, and cost tradeoffs associated with transitioning to a direct hedge fund portfolio. (Obj. 2g)

Response: The additional resources necessary for a direct hedge fund portfolio are incompatible with the staffing level and low administrative costs maintained by the Retirement Plan Office and the Retirement Board; however, there are trade-offs which may make it worthwhile to explore as a possible option with the Retirement Board, subsequent to the Retirement Board's action on a hedge fund-of-one search that took place in April 2017.

Recommendation #24: Require the investment consultant to report all investment performance information to the Board net of all investment related fees. (Obj. 2g)

Response: The quarterly investment performance report from R.V. Kuhns, the Retirement Board's investment consultant, was changed to reflect investment performance net of fees, beginning March 2016.

A sample of the quarterly report is available at the below website link:
http://retirement.ladwp.com/AgendaItems/20170308%20Item%2015.pdf

Recommendation #25: Conduct a thorough review of the Plan's trading cost to determine if the current relatively high level of trading expense is appropriate. (Obj. 2g)

Response: The report that was provided to Aon from the Retirement Board's Trading Cost Analysis consultant, Zeno, is consistent with best practices and best execution across the equity portfolio. The aggregate numbers reported in the audit, were the result of Zeno's comparison with their client base that are not representative of the public pension plan asset allocation, and more specifically, the Plan's asset allocation. When compared to the universe of investment managers (also in the report details) the results are more consistent in the first, second, and third quartiles. Further, regular discussions between staff and the investment managers on understanding and lowering trading costs in the pursuit of best execution is already imbedded in our process.

Recommendation #26: Establish a process to gather and report to the Board the information on performance fees for private market investments and any soft costs for research and other services, to the extent it is administratively feasible. (Obj. 2h)

Response: Fee transparency in reporting to the Retirement Board private market investments is now a legal requirement passed by the California State Legislature in Assembly Bill 2833. Staff is currently working on complying with the new law and reporting the results to the Retirement Board. Research costs are more difficult to determine, however, staff has regular conversations with investment managers in relation to trading costs and best execution. See Recommendation #25.

Recommendation #27: Determine whether an amendment to the California Constitution would be required as a prerequisite to amending the City Charter to consolidate WPERP with the other Los Angeles City retirement systems. (Obj. 2i)

Response: Pursuing an amendment to the California Constitution or City Charter is inconsistent with the findings in the report. While there are many arguments against consolidation, such as different boards, benefits, and plan sponsors, there is one primary driver for consolidation, which is cost savings. As noted in the report, a hypothetical consolidation of all three plans would result in an increase in the investment and administrative fees to the Plan since it currently has lower fees overall. In addition, the Plan has already instituted cost sharing vehicles in its investments, such as instituting an economy of scale approach, requiring its investment managers to provide price breaks if LACERS and LAFPP invest with the same manager within the same mandate.

Recommendation #28: Review and consider updated mortality assumptions, including projected improvement scales that reflect both gender and year of birth, which is the evolving best practice for mortality assumptions.

Response: Consistent with our standing practice to conduct an experience study every three years, the study for the period of July 1, 2012 through June 30, 2015, was completed and presented to the Retirement Board at its Regular meeting on June 22, 2016. Based on the study's results, the Plan's actuary recommended to change the mortality assumption to a Headcount Weighted RP-2014 – Generational approach, as well as several other changes to the assumptions. The Retirement Board reviewed the recommendations and approved all changes.

The actuarial assumptions are available at the below website link:
http://retirement.ladwp.com/image/WPERP%20%20July%201,%202012%20through%20June%2030,%202015%20Actuarial%20Experience%20Study_CL....pdf

Recommendation #29: Review of the funding method, which uses a Normal Cost based on a level percentage of pay approach combined with a level dollar amortization of the unfunded liability. It may be appropriate to have payments of both past and future service based on the same basis (a level percentage of pay basis). (Obj. 3)

Response: Although many public sector plans utilize the level percentage of pay basis for both Normal Cost and unfunded liability payments, the Retirement Board continues to demonstrate its fiduciary and fiscal responsibility by utilizing the level dollar amortization of the unfunded accrued actuarial liability (UAAL). The Retirement Board's funding policy pays down the UAAL at a level rate, rather than paying a lower amount up front with higher payments at the end (level percentage of pay basis), resulting in savings on interest for the Plan's sponsor. It also allows the Plan to maintain a level and higher funding ratio throughout the amortization period without changing the anticipated 100% funding date.

Recommendation #30: Review of amortization period for UAAL – currently 15 years. Best practices in the past have been for public retirement systems to complete their amortization of unfunded liabilities in no more than 15 to 20 years, although an evolving practice is to use average future working lifetime as a benchmark for the amortization period. However, it is common for funding levels and contribution policies to vary widely among public retirement systems.

Response: The Plan is following current best practice and is on the conservative side of the current best practice range of 15 to 20 years. Consistent with the Retirement Board's fiduciary and fiscal responsibility, the Retirement Board's funding policy balances intergenerational equity while managing employer contribution volatility. Simply using the average future working lifetime would further decrease the amortization period, which would increase contribution volatility in a manner inconsistent with the Retirement Board's fiduciary and fiscal responsibilities to the Plan, its sponsor and its members.

Recommendation #31: Review of retirement rates for terminated vested participants, which are based on a single assumed retirement age. A more robust model of future benefit commencement dates involving multiple ages may be appropriate.

Response: The actuarial accrued liability (AAL) for terminated vested participants as of the June 30, 2016, valuation is $209 million of a total $12.3 billion, accounting for 1.7 percent of the total AAL. A more robust model may appear to provide more accuracy; however, the pool of vested retirement is small for Tier 1 and zero for Tier 2, thus, the data is not available to create such a model. Further, the additional administrative expense required to adopt such a model is inconsistent with the Retirement Board's fiscal responsibility when the information will likely be immaterial to the overall valuation.

Recommendation #32: Documentation of an official funding policy. The valuation report makes reference to a funding policy but the actual policy is not documented as such. GASB 67 and 68 makes reference to the establishment of an official entity specific funding policy in order to substantiate the discount rate computation. (Obj. 3)

Response: See Recommendation #3.

Recommendation #33: Review and development of metrics for volatility ratios, including potential consequences or likelihood of a negative event and how that event would impact WPERP. (Obj. 3)

Response: Demonstrating sensitivity to investment volatility and its impact on the required contribution and the Plan's funded ratio, the Retirement Board and staff remain diligent in reviewing the results of our valuations, which include changes to the Asset Volatility Ratio and the Liability Volatility Ratio. In addition, the Retirement Board and the Department have conducted studies to gauge the impact of a lower than expected investment return, and have factored those results in its forecasting. As assets continue to grow and the Plan's population continues to mature, further increasing the Plan's volatility ratios, staff will work with our actuary and investment consultants to develop additional information for the Retirement Board and the Plan sponsor.

Recommendation #34: Resolve the conflict regarding the Board's authority to administer WPERP by amending the Plan Document to remove conflict language and more clearly define the plenary authority of the Board. (Obj. 5a)

Response: As noted in the report, there are conflicting opinions on the extent of the Retirement Board's plenary authority with regard to administration of the Plan; therefore, these conflicting opinions must be resolved prior to pursuing any Plan amendments since DWP's Board of Commissioners approve all Plan amendments.

Recommendation #35: Expand the level of detail in the Board's meeting minutes, including identifying all meeting participants whether in person or remotely, and including website links to meeting minutes. (Obj. 5a)

Response: The minutes currently provide details on all staff present and any speakers physically present or reporting remotely. The Retirement Board's web page provides website links to the meeting minutes, agendas, and reports. However, staff is continuing work on our website to provide additional improvements based on Aon's recommendation and input from our members, and to make the website more user friendly.

Recommendation #36: Strive to enhance the timeliness of meeting minutes preparation. (Obj. 5a)

Response: Consistently since February 2015, meeting minutes are prepared and presented to the Retirement Board for approval at the following Retirement Board meeting. There is currently no backlog on our minutes.

Recommendation #37: Establish a Board Education Policy that includes requirements regarding new trustee orientation, on-going education, the frequency of fiduciary training, and whether the requirements are compulsory or aspirational. (Obj. 5a)

Response: As noted in the report, the Retirement Board and staff appreciate the importance of their fiduciary duties and the need for ongoing education and new board member orientation. The Plan requires all new Retirement Board members to attend an orientation training, which includes a one-on-one training with the City Attorney's Office on fiduciary responsibilities and the Brown Act. Additionally the Plan conducts an all-day Retirement Board training every three to five years to address a variety of topics, including fiduciary responsibilities, actuarial concepts, and investment overview. The last training was completed on May 28, 2015. In addition, the Retirement Board receives ad-hoc training, as needed, on matters of interest during the regular Retirement Board meeting. However, staff agrees that a documented education policy is an important management tool and will prioritize its completion within our limited staffing, alongside the other recommendations provided by Aon (see Recommendation #3).

The new Retirement Board member orientation checklist and the agenda for the all-day training session are attached.

Recommendation #38: If the Board determines that education should be compulsory, then consider instituting a fiduciary responsibility certification process (including subject matter testing) so Board members and key management staff can demonstrate their understanding of fiduciary responsibilities. (Obj. 5a)

Response: See Recommendation #37.

Recommendation #39: Develop and adopt a WPERP governance manual which clearly defines roles and responsibilities and aggregates governance policies in one location. (Obj. 5a)

Response: See Recommendation #3.

Recommendation #40: Develop and adopt committee charters for each committee that includes the role and responsibility of each committee. (Obj. 5a)

Response: See Recommendation #3.

Recommendation #41: Develop a statement of delegation of charter for the Board's approval that consolidates the authority that has been delegated to the Retirement Plan Manager and what has been retained by the Board. (Obj. 5a)

Response: See Recommendation #3.

Recommendation #42: Establish an annual schedule for the Board to review its delegation of authority to the Retirement Plan Manager. (Obj. 5a)

Response: See Recommendation #4.

Recommendation #43: Establish a formalized process which provides for periodic communications between the Plan Sponsor and WPERP regarding the financial health of the WPERP Funds. (Obj. 5b)

Response: Formalized communications with the Department regarding the financial health of the Plan already exists in several processes. Department officials, namely the General Manager, Chief Accounting Employee, and a member of the Board of Commissioners, are ex-officio members of the Retirement Board. In addition, staff provides a variety of information to the Department on an annual basis to be incorporated into the personnel and budget requests, including the funding requirements, funding ratio, future funding forecasts, investment expenses, Annual Personnel Resolution, and administrative budget. Through a formal process, the information is then reported to the General Manager and the DWP's Board of Commissioners for inclusion with the Department's budget and personnel requirements.

In addition, the Retirement Plan Manager is scheduled to provide an overview of the Plan to the DWP's Board of Commissioners in May 2017.

Recommendation #44: Include long-term financial planning as an objective of the strategic process. (Obj. 5b)

Response: See Recommendation #3.

Recommendation #45: In Objective 3, we address the need for a written funding policy. (Obj. 5b)

Response: See Recommendation #3.

Recommendation #46: Create website shortcut website links in the minutes to documents referenced there. (Obj. 6b)

Response: See Recommendation #11.

Recommendation #47: Create website shortcut website links to fundamental financial documents, such as the Investment Policy Statement, investment performance reports, the 0financial statements, historical investment returns, history of fund expenses, and history of employer contributions. (Obj. 6b)

Response: Our website already provides shortcut website links to the Investment Policy Statement, annual reports separated by year, which includes our investment performance, financial statements, historical investment returns, fund expenses, and employer contributions. However, staff is continuing work on our website to provide additional improvements based on Aon's recommendation and input from our members, and to make the website more user friendly.

The above mentioned documents are available at the below website link: http://retirement.ladwp.com/publications.htm.

Recommendation #48: Update the Plan Document to provide that the WPERP Board's annual financial statement be consistent with applicable GASB requirements. (Obj. 6c)

Response: Both staff and the Plan's external auditor are cognizant of and continually have been compliant with GASB standards. As an additional assurance, general provisions requiring the Retirement Board's annual financial statement to be compliant with GASB standards may be a future Plan amendment if recommended by the Retirement Board and approved by the DWP's Board of Commissioners.

Recommendation #49: Revise the WPERP current "annual report" to be more comprehensive, stand-alone document. (Obj. 6c)

Response: Staff will review best practice for inclusion of additional information in the Summary Annual Report (SAR) or directly on our website as we make improvements to it. Any revisions to the SAR must be reviewed and approved by the Retirement Board.

Recommendation #50: Consider participating in the GFOA Certificate of Achievement for Excellence in Financial Reporting program or as an alternative use the GFOA checklist as a tool to enhance the detail of the annual report and promote transparency, including for example more granularity regarding the components that comprise administrative costs. (Obj. 6c)

Response: See Recommendation #49.

Check Date	Check Mailing Date	Data Mailer Mailing Date	Target Date to Transmit Credit Union File	Drop-dead Date to Transmit Credit Union File
January 3, 2017	12/31/2016	12/28/2016	12/27/2016	12/30/2016
February 1, 2017	1/31/2017	1/27/2017	1/26/2017	1/30/2017
March 1, 2017	2/28/2017	2/24/2017	2/23/2017	2/27/2017
March 31, 2017	3/30/2017	3/28/2017	3/27/2017	3/29/2017
May 1, 2017	4/28/2017	4/26/2017	4/25/2017	4/27/2017
June 1, 2017	5/31/2017	5/26/2017	5/25/2017	5/30/2017
June 30, 2017	6/29/2017	6/27/2017	6/26/2017	6/28/2017
August 1, 2017	7/31/2017	7/27/2017	7/26/2017	7/28/2017
September 1, 2017	8/31/2017	8/29/2017	8/28/2017	8/30/2017
September 29, 2017	9/28/2017	9/26/2017	9/25/2017	9/27/2017
November 1, 2017	10/31/2017	10/27/2017	10/26/2017	10/30/2017
December 1, 2017	11/30/2017	11/28/2017	11/27/2017	11/29/2017

Recommendation #6

IPS Schedule

April 2017

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
						1
2	3	4	5	6 Pre-Note Mailing Cut-Off	7	8
9	10 LACEA CD Due	11 $	12	13	14	15
16	17 All divisions finish data entry in IPS by 12:00 pm IPS will be locked down @ 12:00 pm	18 RPO staff will generate & make reports available to review for all divisions	19 All divisions respond if results from reports are correct, or if MINOR changes are needed by 10:00 am	20 -Accounting Reconciles & Produces Production Run	21 -Print Checks w/Controller -Generate Production Reports -Data Mailer to Print Shop	22
23	24 MED-B Production Run & Ck Prt	25 $ ACH Forms to Office of Finance	26 Data Mailer Mailed	27	28 Checks Mailed	29
30	Notes: Check Date 05/01/17					

New Board Member Orientation Materials Checklist

Hard Copies	
1	Report from the City Attorney's Office dated May 12, 2010, entitled, *"Authority to Determine Staffing Levels for the Retirement Office of the Water and Power Employees' Retirement Plan"*
2	Memorandum from Klausner & Kaufman, P.A., dated August 18, 2009, regarding the plenary authority of the Retirement Board to administer the Retirement Plan and determine the budget, including staffing levels
3	Materials from Fiduciary training provided to the WPERP Board Members on November 5, 2008
4	Memorandum from the City Attorney's Office dated May 10, 2000, entitled, *"What it Means to be a Trustee: A Brief Introduction into the World of Fiduciary Duty"*
5	Retirement Board Resolution No. 03-09, dated September 18, 2002, adopting the first asset allocation structure for the Retirement Plan portfolio
6	Retirement Board Resolution No. 08-76, dated April 2, 2008, with respect to revisions to the asset allocation structure and transition plan
7	Retirement Board Resolution No. 09-88, dated April 1, 2009, with respect to implementation changes to the transition plan for the new asset allocation structure
8	Retirement Board Resolution No. 11-03, dated July 14, 2010, with respect to implementation changes to the transition plan for the new asset allocation structure
9	Retirement Board Resolution No. 11-96, dated June 22, 2011, with respect to revisions to the asset allocation structure and asset allocation targets
10	Retirement Board Resolution No. 11-97, dated June 22, 2011, with respect to implementation of a new evolving investment policy allocation schedule
11	Annual Approved Retirement Office Budgets for Fiscal Years 2014-2015 and 2015-2016
WPERP Online Copies (http://retirement.ladwp.com/publications.htm)	
	Retirement Plan (complete copy)
	Audited Annual Statements as of June 30, 2014
	Actuarial Valuation as of July 1, 2014
	Actuarial Experience Study covering July 1, 2009 through June 30, 2012

Water and Power Employees' Retirement Plan

2015 Educational Session - May 28, 2015

Schedule

7:45 to 8:15	Check-in and Continental Breakfast
8:15 to 8:30	Welcome
8:30 to 9:30	**Asset/Liability Studies 101**
9:30 to 9:45	Break
9:45 to 10:30	**Capital Market Assumptions**
10:30 to 10:45	Break
10:45 to 11:45	**Investment Manager Evaluation**
11:45 to 12:45	Lunch
12:45 to 1:45	**2015 Fiduciary and Ethics Overview**
1:45 to 2:00	Break
2:00 to 3:00	**2015 Fiduciary and Ethics Overview, Continued**
3:00 to 3:10	Optional Break
3:10 to 4:30	**Pension Funding and Actuarial Evaluations**