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Missouri State Auditor

Missouri Local Government Employees' Retirement System

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Missouri Local Government Employees' Retirement System (LAGERS)

Gifts and Travel Expenses
from Third Parties

The Board has not established a system for reporting and monitoring gifts and paid travel expenses accepted by Board members and employees. Without documentation, the acceptance of gifts and paid travel expenses is not transparent and cannot be monitored for compliance with the Board's ethics policy.

In the areas audited, the overall performance of this entity was **Good**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

All reports are available on our Web site: auditor.mo.gov

Missouri Local Government Employees' Retirement System

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NICOLE R. GALLOWAY, CPA **Missouri State Auditor**

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Board of Trustees
and
Keith Hughes, Executive Secretary
Missouri Local Government Employees' Retirement System
Jefferson City, Missouri

We have audited certain operations of the Missouri Local Government Employees' Retirement System as authorized under Chapter 29, RSMo. The system engaged Williams Keepers, LLC, Certified Public Accountants (CPAs), to audit the system's financial statements for the years ended June 30, 2014 and 2013. To minimize duplication of effort, we reviewed the reports and substantiating working papers of the CPA firm. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2014 and 2013. The objectives of our audit were to:

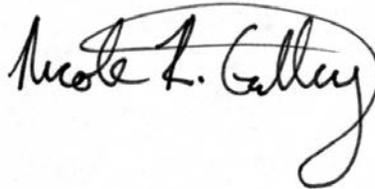
1. Evaluate the system's internal controls over significant management and financial functions.
2. Evaluate the system's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, contracts, and other pertinent documents; interviewing various personnel of the system, as well as certain external parties; testing selected transactions; and analyzing comparative data obtained from the system. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the system's management and was not subjected to the procedures applied in our audit of the system.

For the areas audited, we identified (1) no significant deficiencies in internal controls, (2) no significant noncompliance with legal provisions, and (3) a deficiency in management practices and procedures. The accompanying Management Advisory Report presents our finding arising from our audit of the Missouri Local Government Employees' Retirement System.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	John Luetkemeyer, CPA
Director of Audits:	Douglas J. Porting, CPA, CFE
Audit Manager:	Kim Spraggs, CPA
In-Charge Auditor:	James M. Applegate, MBA
Audit Staff:	Lavonda K. Murray, M.Acct.

Missouri Local Government Employees' Retirement System Management Advisory Report State Auditor's Findings

1. Gifts and Travel Expenses from Third Parties

The Board has not established a system for reporting and monitoring gifts and paid travel expenses accepted by Board members and employees.

LAGERS officials indicated, and our review of travel expenses confirmed, that employees periodically receive meals paid by investment managers while conducting visits to prospective investment managers or monitoring reviews of existing investment managers. Our review of some investment staff travel expenses found instances where certain meals were not claimed for overnight trips taken, and there was no documentation indicating how the meals were paid. In response to our inquiries, system employees indicated these meal expenses were paid by the investment managers.

In addition, the Chief Investment Officer indicated certain investment managers provide tickets to sporting events to him and his staff, based on availability. He indicated he had obtained tickets to a few events in the past 10 years; however, the receipt of these tickets was not documented.

The LAGERS' ethics policy provides that Board members and employees shall not, directly or indirectly, solicit, accept or receive any gift, whether in the form of money, service, loan, travel, gratuity, favor, honoraria, entertainment, hospitality, thing or promise, or in any other form, when it could reasonably be considered or perceived that the gift was intended to influence him or her in the performance of his or her official duties or was intended as a reward for any official action on his or her part. LAGERS officials indicated they do not believe the acceptance of meals or tickets to sporting events would influence any LAGERS decisions.

Without documentation, the acceptance of gifts and paid travel expenses is not transparent and cannot be monitored for compliance with the Board's ethics policy. The Board should establish a system for reporting and monitoring all gifts or other items received by Board members and employees from third parties. Records should document the name of the third party, their relationship to the system, expenses paid, the name of the recipient, the date, and the estimated value of the item received. These records should be periodically reviewed by the Board and staff to ensure such items are reasonable.

Recommendation

The Board of Trustees establish a system for reporting and monitoring gifts or other items of value accepted from third parties by Board members and employees.

Auditee's Response

The Board of Trustees will take the recommendations regarding changes to the ethics policy into consideration during the normal policy review process.

Missouri Local Government Employees' Retirement System Organization and Statistical Information

The Missouri Local Government Employees' Retirement System (LAGERS) was created under an act of the General Assembly, commenced actual operations on April 1, 1968, and is governed by Sections 70.600 to 70.755, RSMo.

The LAGERS is an agent multiple-employer, defined benefit retirement system for employees of participating local governments. The system provides retirement, survivor, and disability benefits to its members. The LAGERS offers various contributory and/or non-contributory plan options, with varying benefit levels, from which participating employers select to provide to their employees.

As of June 30, 2014, there were 663 participating political subdivisions in the system with 33,383 active members, 5,966 terminated-vested members, and 18,872 retired members and beneficiaries.

Board of Trustees

The responsibility for the operation and administration of the retirement system is vested in the LAGERS Board of Trustees. The Board consists of three trustees who are LAGERS members, and are elected by LAGERS members; three trustees, elected by the participating political subdivisions, who are either elected or appointed officials of employers and who are not LAGERS members; and one citizen trustee appointed by the Governor, who is neither a LAGERS member nor a member of the governing body of any participating political subdivision. All members serve 4-year terms. As of June 30, 2014, the members of the Board of Trustees were:

Name and Title	Membership	Term Expires
J. Robert Ashcroft, Chairperson	Employer Trustee	December 31, 2017
Barry Hovis, ¹ Vice Chairperson	Member Trustee	December 31, 2014
Kathy Barszczak	Member Trustee	December 31, 2016
Arby Todd	Member Trustee	December 31, 2017
Frank Buck ²	Employer Trustee	December 31, 2016
Paul Thomson, PhD ³	Employer Trustee	December 31, 2014
Vacant	Citizen Trustee	

¹ Joan Jadali was elected to a term beginning January 1, 2015, replacing Barry Hovis.

² Frank Buck was elected Vice Chairperson effective January 1, 2015.

³ Barry McCullough was elected to a term beginning January 1, 2015, replacing Paul Thomson.

⁴The Citizen Trustee position has been vacant since April 2012.

Executive Staff

Keith Hughes has served as the Executive Secretary since January 1, 2011. The Executive Secretary coordinates the daily operation of the system, contracts for professional services with approval of the Board, and advises the Board on all matters pertaining to the system. At June 30, 2014, the system had 26 employees, including the Executive Secretary. The



Missouri Local Government Employees' Retirement System Organization and Statistical Information

executive staff and their annual compensation as of June 30, 2014, were as follows:

Name and Title	Annual Compensation
Keith Hughes, Executive Secretary ¹	\$254,200
Brian Collett, Chief Investment Officer ²	330,000
Robert Wilson, Assistant Executive Secretary - Member Services	123,500

¹ The Executive Secretary's employment contract, effective July 1, 2013, provides for annual cost-of-living increases at July 1, equal to those provided to LAGERS staff retirees, as determined by the Board of Trustees, plus 1 percent, and a \$4,200 annual vehicle allowance. The compensation amount listed above includes this allowance. The Executive Secretary received cost-of-living increases of \$6,500 in July 2014 and \$3,335 in July 2015, for an annual compensation of \$264,035 as of July 2015.

² The Chief Investment Officer's employment contract, effective July 1, 2013, provides for annual cost-of-living increases at October 1, equal to those provided LAGERS retirees, as determined by the Board of Trustees; and Annual Merit Increases (AMI), effective October 1, if LAGERS' 1-year annual return is greater than the assumed rate of return net of fees. The AMI is awarded as a permanent salary increase. The AMI ranges from 0 to 10 percent, and is based on the average of LAGERS' 3-year and 5-year excess returns net of fees. The Chief Investment Officer received cost-of-living increases of \$5,940 in July 2014 and \$7,766 in July 2015 and AMI of \$33,594 in October 2014, for an annual compensation of \$377,300 as of July 2015.

Additional information regarding the system's plan provisions and benefits, assets, investments, financial activities, consultants, and actuarial valuations is included in various documents and reports which are available on the system's website (www.molagers.org).