

MEMORANDUM

TO: All Retirement Boards

FROM: John W. Parsons, Esq., Executive Director

RE: Administrative Reminders

DATE: January 24, 2019

In the past, PERAC has sent an annual memo to the Retirement Boards that reviews points which the Commission would like to emphasize regarding asset management. This year, we are expanding the subject matter to focus on issues that cover a wide variety of retirement board activities. It is hoped that Boards will consider these comments as helpful.

Section 23B/Contract Expiration

(see PERAC Memo #18/2015 “Section 54 of Chapter 46 of the Acts of 2015”)

April 2019 will mark the term limit for many existing relationships, as Section 23B requires a new search for the service after seven years. Boards should review the existing time frames for these contracts and institute a program to conduct and complete searches before the new deadline.

Cash Books

(see PERAC Regulations 840 CMR 4.00 and PERAC Memo #15/2015 “Retroactive Changes to Cash Book Entries” – note this Memo reviews issues beyond the reference in the title)

Retirement boards are reminded of their duty to submit accurate cash books to PERAC on a timely basis. Accounting standards require that transactions be accurately identified and properly classified. The parties to whom payments are made or from whom payments are received must be identified and various transactions must be classified in the proper accounts.

Complete Cash Books include Cash Receipts, Cash Disbursements, Trial Balances, and Adjusting Journal Entries. Cash Books must be provided to PERAC within four weeks of the close of the month. PERAC is unable to perform the monthly standard accounting/investment analysis with only the Cash Receipts and Cash Disbursements Reports. PERAC recognizes that there is generally a lag between the end of the quarter and the receipt of the investment manager



MEMORANDUM - Page Two

TO: All Retirement Boards
FROM: John W. Parsons, Esq., Executive Director
RE: Administrative Reminders
DATE: February 26, 2019

statements for the alternative investments. In these circumstances, use the prior quarter's management statement with cash in and cash out for the current quarter to balance.

Monthly Financial Reporting to Board

A complete financial package must be provided to the Board on a monthly basis. Each month, the Board administrator must prepare a packet which consists of the following items: Cash Reconciliations, including bank statements, Trial Balance, Cash Receipts, Cash Disbursements, Adjusting Journal Entries, Budget to Actual Expense Comparison (if not monthly, quarterly), and Cash Flow Forecast. This process will assist the Board members in the exercise of their fiduciary responsibilities. It will also help to determine that Board policy is implemented and adhered to. A notation should be made in the minutes indicating that the documents have been presented to the Retirement Board.

Vendor Selection

(see "Procurement Process for Accounting, Legal & Investment Services" presentation material on PERAC Web Page "2017 Fall MACRS Conference"; and PERAC Memo #32/2018 "Procurement")

The competitive process mandated by Section 23B and the fiduciary duty owed by the retirement board to system members and beneficiaries requires that RFP's and notices relative to the search insure the broadest response from potential service providers possible. Restrictions on participation, such as not accepting submissions from service providers that are not active in the Massachusetts public pension fund arena, are violations of that statute and that duty. In grading the responses, points may be awarded for such experience however; that criteria must not be a barrier to entry.

Child Support Enforcement

(see PERAC Memo #19/1998 "Chapter 64 of the Acts of 1998")

Prior to releasing the member's accumulated deductions, pursuant to G.L. c. 32, § 11 (1)(c), Board staff must confirm whether the member has any outstanding child support obligations with the Department of Revenue ("DOR").

Management Fees/Monitoring

(see "Investment Fees – The Hidden Mark-up Scheme" PERAC Web Page – Compliance & Investments Unit Educational Material)

In many investment relationships, fees paid to managers are directly withdrawn from the value of the invested funds. These fees must be disclosed for authorization by the Board and reflected in the general ledger. They must be reported on Schedule 7 of the Annual Statement which requires

MEMORANDUM - Page Three

TO: All Retirement Boards
FROM: John W. Parsons, Esq., Executive Director
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DATE: February 26, 2019

the disclosure of these fees. Failing to do so distorts the actual costs associated with the investments of the system. It is an element of the Board's fiduciary responsibility to review all management fees, including ones withdrawn directly from the value of the funds invested, to ensure that all fees are being determined based upon the contractual agreement between the Board and the manager. The source reports of the specific manager have been found to be a more reliable basis for the accounting entries than the reports provided by the custodian.

All management fees must be disclosed on Schedule 7 of the PERAC Annual Statement. These fees must be included on a warrant for ratification by the Board at its next regularly scheduled meeting. The Expense Fund should reflect the direct costs of the operation and activities of the retirement system.

The Board has a fiduciary responsibility to review management fees and compare them to the rates agreed to in their contract with the investment manager. A periodic review of the management fees is an essential component to fulfilling their fiduciary duties.

Investment Management Fees/Accounting

(see PERAC Memo #36/2014 "Accounting for Investment Related Fees"; "Annual Statement Changes in Store for 2018" PERAC Web Page – Audit Unit Educational Materials)

Fees must be recorded in the General Ledger (GL) account #5304. All managers/funds must be listed on Schedule 7 and the management fees paid must also be included.

The accounting of investments must be reviewed in detail to ensure that all management fees are properly recorded in the GL. The Retirement Board should not "net" management fees for accounting purposes, but should record gross income and management fees for each investment. In addition, Schedule 7 should include all investments.

Board Minutes

(see "Monthly Meetings and Records" presentation material on PERAC Web Page "PERAC 2017 Educational Seminar Handouts")

The official record of the actions of a Retirement Board is detailed in the Minutes of their regular and executive session meetings. All records of Board Meeting minutes and Executive Session minutes must be maintained as a permanent record. There must be written minutes for every Board meeting which are approved by the Board members at the next meeting.

The Board must comply with the Open Meeting Law of the Commonwealth, as described in G.L. c. 30A, §§ 18-25, and 940 CMR 29.00. The format for recording the minutes must completely reflect the actions taken and decisions made during the meeting.

MEMORANDUM - Page Four

TO: All Retirement Boards
FROM: John W. Parsons, Esq., Executive Director
RE: Administrative Reminders
DATE: February 26, 2019

Board Minutes/Remote Participation

(see “Remote Participation” on PERAC Web Page – Audit Unit Educational Materials, G.L. c. 30A)

After adopting remote participation, a Board must follow appropriate roll call protocol and the guidelines promulgated by the Attorney General of the Commonwealth. The individual(s) that participated remotely must be noted in the minutes.

Board Minutes/ Executive Session

(see “Monthly Meetings and Records” presentation material on PERAC Web Page “PERAC 2017 Educational Seminar Handouts”)

The Board is required to record the minutes of executive sessions in accordance with 840 CMR 6.12 and 10.12(3)(e), and G.L. c. 32, § 20(5).

The Board minutes must reflect it convened in Executive Session by recording the required roll call vote, stating the purpose for the executive session, and indicating whether or not the Board would reconvene in open session.

Public bodies are not required to disclose the minutes, notes, or other materials used in an executive session if the disclosure of these records may defeat the lawful purposes of the executive session. Once disclosure would no longer defeat the purposes of the executive session, however, minutes and other records from that executive session must be disclosed unless they fall within an exemption to the Public Records Law, G.L. c. 4, § 7, cl. 26, or the attorney-client privilege applies. Public bodies are also required to periodically review their executive session minutes to determine whether continued non-disclosure is warranted. These determinations must be included in the minutes of the body’s next meeting. A public body must respond to a request to inspect or copy executive session minutes within ten days of the request. If the public body has determined, prior to the request, that the requested executive session minutes may be released, it must make those minutes available to the requestor at that time. If the body previously determined that executive session minutes should remain confidential because publication would defeat the lawful purposes of the executive session, it should respond by stating the reason the minutes continue to be withheld. And if, at the time of a request, the public body has not conducted a review of the minutes to determine whether continued nondisclosure is warranted, the body must perform such a review and release the minutes, if appropriate, no later than its next meeting or within 30 days, whichever occurs first. In such circumstances, the body should still respond to the request within ten days, notifying the requestor that it is conducting this review.

MEMORANDUM - Page Five

TO: All Retirement Boards
FROM: John W. Parsons, Esq., Executive Director
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Refunds

(see “Refunds to Members Who Voluntarily Terminate Service” presentation material on PERAC Web Page “Audit Unit Educational Materials”)

There appears to be some confusion as to the interest rate to be used in cases where a member has transferred in from another system and is then eligible for a refund with 3% interest. In some cases when the refunds were issued, the amounts from the prior systems included interest at the rate in §22(6) (b), rather than the 3% required by §11(1)(a). In cases involving a transfer, the member’s Annuity Savings Fund history should be requested from the other system so that 3% interest can be applied for the entire career.

We hope this guidance assists the Boards and staff in the daily administration of the retirement system.