

OHIO AUDITOR OF STATE
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Chairman Schuring, Vice-Chair Plummer, and members of the council, thank you for the opportunity to discuss some of the key items identified in our audit of the State Teachers Retirement System (STRS). Our audit was eagerly anticipated and received quite a bit of attention upon its release; I believe that our work will be helpful to this body, STRS, and the retired teachers as they work to establish an understanding of one another's expectations as it pertains to the retirement system.

I always like to start out talking about what we don't do in the Auditor's office. We don't audit individuals, we don't audit businesses, and we don't collect taxes. All we do is audit the 5,900 plus governmental entities across Ohio who handle tax dollars. This includes everyone from townships, cities, and counties to state colleges and universities. It is my office's duty to ensure that public funds are managed appropriately and spent in accordance with the law.

Our mission is to serve the interests of Ohio taxpayers by ensuring that their tax dollars are managed in an efficient, effective, and transparent manner. In short, we are the watchdog on those who spend government money.

That said, there is a distinction to be made between the type of audit before you today and the statutorily required audits that I mentioned a moment ago. Regular statutory audits are financial and compliance audits whose purpose is to render an opinion on financial statements and report on compliance and controls. A

special audit, in contrast, is designed to look in greater detail at the specific issue or information covered by the special audit.

Simply put, while the revised code requires regular audits of all public offices, this engagement did not fall under that category and was not required by statute. Instead, as auditor, I chose to complete this review as a special audit in the public interest.

HIGHLIGHTS FROM STRS AUDIT:

With that in mind, our work was initiated in response to complaints and concerns regarding mismanagement of the fund. It's important to stress that we found **NO** evidence of fraud, illegal acts, or data manipulation related to the \$90 billion held in trust by the State Teachers Retirement System. Furthermore, STRS' organizational structure, control environment, and operations are suitably designed and well-monitored, both internally and by independent experts. These experts help assure that STRS follows applicable reporting, investing and cash management laws along with professional standards, and best practices. Our conclusions are consistent with the findings of these independent firms.

I want to emphasize our team's diligent work in investigating every meaningful claim that was brought to our attention, including those claims that were raised late in the process. To that end, our agency retained an independent pension plan expert to assist in our investigation. You will find that the final audit systematically addresses nearly all of the complaints raised and the net result was that there was little evidence in support of the allegations.

The audit's executive summary goes into more detail regarding these findings and it lists several key conclusions including the following:

- Bonuses were awarded based on approved policies;
- Investment benchmarks were adopted with input from an independent benchmarking firm and are not unusually high or low compared to peers and;
- STRS' controls over private equity fees have been appropriately designed and implemented.

However, although our review did not find instances of fraud or illegal acts, we did identify several governance issues that should be addressed. For instance, we recommended that STRS, the Ohio Retirement Study Council (ORSC), and state lawmakers review pension system policies and related laws with the goal of improving the overall management of the funds. Such a review should include recommendations regarding bonus payments to staff and increasing transparency on investment strategies.

This last statement is imperative; a lack of transparency, whether actual or perceived, has spawned the distrust, misunderstandings, and accusations that made this special audit necessary.

Simply put, the State Teachers Retirement System, the Ohio Retirement Study Council, and state lawmakers should ensure that the funds are properly managed and investment results are fully disclosed.

A WAY FORWARD:

To regain the trust of the beneficiaries, several items recommended in our audit should be addressed by the Ohio Retirement Study Council and each pension system's statutory board.

These recommendations include the following three items. First, improved safeguards should be implemented to ensure that required actuarial reviews and fiduciary audits are conducted in a timely manner.

Second, it would be beneficial to revisit how or whether bonus payments are offered to investment staff.

Finally, STRS should strive to be as transparent as possible regarding the funds held in their trust. Reconsidering trade secret provisions that shield investment decisions from scrutiny would eliminate much of the distrust harbored by many beneficiaries toward STRS investment staff.

Thank you again for inviting me to share a quick overview of our special audit and I would welcome any questions at this time.