

Ohio Retirement Study Council
Subcommittee for Auditor of State Referral Letter
30 East Broad Street, 2nd Floor
Columbus, Ohio 43215

Minutes
November 9, 2023

The meeting was called to order by Chairman Montgomery at approximately 9:04 a.m. in Room 017, the Ohio Statehouse, Columbus, Ohio.

The following members attended the meeting:

Members

Adam Bird
Mary Lightbody
Ed Montgomery, Chairman

Non-Voting Members

Scott Helkowski, Attorney General
William Neville, STRS

Absent

Staff

Jeff Bernard
Bethany Rhodes
Alex Strickmaker

With a quorum present, the meeting was called to order at 9:04 a.m. Chairman Montgomery opened the meeting for discussion on the Auditor of State Referral Letter Staff Memo.

Representative Lightbody thanked the Chairman for the opportunity to discuss the memo and thanked staff for the energy put into the report. She then asked if there is a timeline for when Ohio's public pensions will implement the new SEC standardized reporting rules for private funds, as mentioned in item two of the memo. Mr. Bernard outlined when the reporting rules were established and explained that it will be a little over a year before there is a better sense of how the rules will be implemented. Representative Lightbody followed up asking if there is a way for ORSC or STRS staff to give an approximation as to what this will look like. Mr. Bernard stated that STRS already does fee validation and that the SEC process will take time. Director Neville also spoke to the fee validation services used by STRS. He further stated that STRS will continue to work to provide transparency for fees that will exceed the new SEC requirements.

Representative Lightbody asked what types of legislative changes would be recommended regarding item two. Mr. Bernard cautioned against legislative change at this time as it could conflict with the new SEC guidance and would effectively create two separate reporting structures. Representative Lightbody stated that the best course of

action may be for the General Assembly to take note of the outcomes under the new reporting structure and revisit it once there is a better sense of what the new reporting rules provide.

Representative Lightbody then provided updates on the closing of the childcare center under item three and commented on its closing. Director Neville spoke to the wrapping up of the center's operations.

Representative Lightbody then asked about Ohio's Percent for Art Legislation under item four. She asked for clarification as to whether STRS receives state funds, and if not, why it should follow that policy. Mr. Bernard stated that the approach of the entire memo was to evaluate whether STRS has engaged in a wrongful misuse of funds through a fiduciary framework. Staff used this policy to evaluate whether the cost of art at STRS was unusual. While STRS is not subject to the policy, staff did not believe the art cost was unusual, especially in light of this policy. Representative Lightbody followed up stating that she appreciates the art and the building but suggested that it may be beneficial for STRS to sell the art and replace it with artwork created by students and teachers. Director Neville stated that all major pieces of art were selected before 2000. He stated that the art was selected by a group in consultation with the board and that a majority of the art was created by teachers and students. Representative Lightbody followed up stating that it is worth making that fact known and that a rotating art exhibit with art created by teachers and students could also be a consideration.

Representative Lightbody then spoke to item five and stated that the complaint was not a concern that she had ever heard of before. Mr. Strickmaker stated that this complaint was an anonymous complaint and that the default plan for a plan participant is set in statute. STRS is following the statute and any change would be a policy decision for the legislature. Representative Lightbody stated that she is glad that the default is for members to be placed in the defined benefit plan and spoke to the benefits of it.

Representative Lightbody then asked if international travel as discussed in item six is the norm and asked for more information on that piece. Mr. Strickmaker stated that the complaints specifically referenced international travel for due diligence, and in light of the federal guidance outlined in the memo, international travel for due diligence is the norm. Representative Lightbody stated that she was simply looking for more information as to what the travel looked like.

Representative Lightbody then asked for clarification on how STRS balances the costs associated with the memo, staff bonuses, and a COLA. Director Neville reiterated that only investment staff receive a performance based incentive (PBI) at STRS and that there are no subjective criteria used. Staff receive a PBI based on performance relative to benchmarks set by the STRS Board. He further spoke to the results achieved by the investment staff and the savings that are realized by handling investments internally. He spoke to his understanding of public perception of the PBI program and stated that STRS members are well served by investment staff. Representative Lightbody thanked Director Neville for his explanation and stated that she is grateful for the work of

investment staff. She further stated that she would like to publicly applaud them for their work.

Representative Bird asked where the Ohio's Percent for Art policy originated. Mr. Bernard stated that it is found under ORC 3379.10. Representative Bird followed up to ask if staff knew when this was put into place. Mr. Bernard stated that he could look into when it was put into law but that it had been in law for some time. Representative Bird stated that a requirement to spend one percent of funds on art is surprising to him.

Representative Bird then asked for the reasoning behind the closing of the childcare center. Director Neville provided the historical context behind the operation of the center. He stated that the center has not been able to maintain the enrollment numbers necessary to continue operations since the Covid-19 pandemic. Representative Bird followed up asking whether the center was free for STRS employees. Director Neville stated that it is not free for STRS employees and has never been free. He then provided the tuition costs for the center.

Representative Bird then asked for more context as to the cost totals found in the appendix of the report. Mr. Bernard explained that this was a running total of the costs associated with the complaints found in the report. Representative Bird then asked if the appendix reflects a multi-year loss despite the center charging tuition. Mr. Bernard stated that this is correct. Representative Bird then asked if the cafeteria losses represent a multi-year loss and if STRS employees pay for the food at the cafeteria. Director Neville stated that this is correct and that employees do pay for the food. He further stated that prices have been raised to adjust for food cost inflation. Representative Bird followed up asking if it is correct that the losses occur despite people paying for the food. Mr. Bernard stated that this is correct.

Representative Bird then asked for the reasoning behind the justification of travel expenses. Mr. Strickmaker stated that the travel expenses are in line with the travel expenses of other systems. He provided that the purpose of the report was to determine if any of the complaint items constituted fraud, theft, or misuse of funds, and there was nothing unusual regarding the travel costs as a percentage of operating budget. when compared to the other retirement systems. He stated that STRS has travel costs that are below the average of the other retirement systems.

Representative Bird stated that while the total cost of these items may be a small amount in comparison to the total STRS budget, he can understand the concerns of STRS members. He then asked whether the items referenced in the report are subject to the approval of the STRS Board. Director Neville stated that the board approves the items at the budgetary level.

Chairman Montgomery asked for details on the lawsuit referenced in item seven. Mr. Strickmaker stated that this lawsuit was in regard to Humana's response to the STRS' request for proposals to provide retiree medical benefits for STRS. He stated that the

lawsuit was dismissed on September 21, 2023. Director Neville further added that the dismissal was a voluntary dismissal on the part of Humana.

Representative Lightbody then asked for clarification on what the total figure in the appendix was in reference to. Mr. Strickmaker stated that it was the total cost of all items referenced in the report.

Representative Bird asked staff to provide a concluding thought for the report. Director Rhodes stated that the report was geared to provide subcommittee members the information necessary to aid in the members' development of a conclusion. Representative Bird asked for clarification that the report does not indicate fraud or misuse of funds but does show a total for expenditures approved by the STRS Board through the budget process. Director Rhodes stated that this is correct.

Representative Lightbody moved that the report be approved and copies be sent to the members of the House Pensions committee, the Ohio House Speaker, and the Ohio Senate President. Representative Bird seconded the motion. The motion passed unanimously.

Representative Bird asked if the report would be shared in the full ORSC meeting. Chairman Montgomery stated that it would.

The meeting adjourned at approximately 9:44 a.m.

Date Approved

Ed Montgomery, Chair

Bethany Rhodes, Secretary