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December 6, 2018

AUDITOR’S REPORT

The Audit Services Division’s policy, as authorized by D.R.M.C. § 20-276, indicates our responsibility to monitor and follow up on recommendations to ensure that findings are being addressed through appropriate corrective action and to aid us in planning future engagements.

In our follow-up effort for the Investment Program Evaluation completed by Ellwood Associates and issued November 16, 2017, we determined that the Denver Employees Retirement Plan has implemented two of the three recommendations made in the consultant’s evaluation report. The Denver Employees Retirement Plan had disagreed with the third recommendation. The November 2017 evaluation report can be found online at www.denverauditor.org/auditservices/audit-reports.

The follow-up report includes a detailed implementation status update for each recommendation. Although we did not update the status of the recommendation that the Denver Employees Retirement Plan disagreed with, it is included in the status update section as a reference.

This concludes the follow-up work related to this evaluation. I would like to express our sincere appreciation to you and the Denver Employees Retirement Plan personnel who assisted us throughout the evaluation and follow-up process. If you have any questions, please feel free to contact me at 720-913-5000 or Dawn Wiseman, Internal Audit Manager, at 720-913-5069.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
RECOMMENDATION STATUS OF IMPLEMENTATION

FINDING 1: Investment Policy Analysis

Recommendation

1.1 **Review and Update Investment Policy** - Ellwood recommends staff complete a full review of the Investment Policy for the Retirement Plan Board, with a focus on elimination of outdated language, on confirmation of procedures being used to verify stated guidelines and on uniformity in the formats of the investment manager guidelines in the schedules, on integration of the Mosaic recommendations if approved, and on standardization of benchmark measurement criteria.

Status: Implemented

Action Taken

The Investment Policy modifications as recommended by Ellwood were made in two revisions of the policy and approved by the Denver Employees Retirement Plan Board. The first revision was presented and approved in November 2017, with the second revision approved in February 2018.

The revisions addressed:

- Outdated language;
- The confirmation of procedures used to verify stated guidelines and uniformity in the formats of investment manager guidelines in the schedules;
- The integration of the Mosaic Governance Advisors, LLC recommendations; and
- The standardization of benchmark measurement criteria.

This was verified through the examination of the two revisions of the policy. Additionally, a review of the November 2017 and February 2018 board minutes confirmed the approval of the changes to the policy.
**Finding 2: Investment Procedures Analysis**

**Recommendation**

2.1 **Include Mosaic Governance Advisors, LLC New Documentation Requirements** - Adding new documentation recommended by Mosaic for duties and delegations will improve the overall procedures for the investment of the assets. The new documents address procedures that are not currently addressed in the Investment Policy. If approved by the board, it is recommended that the Mosaic language be integrated into the Investment Policy.

**Status: Implemented**

**Action Taken**

Denver Employees Retirement Plan management revised the policy to integrate Mosaic recommendations on duties and delegations from the board to the investment staff regarding procedures on investment assets. The additional guidance was also verified by reviewing the modifications to the policy and corroborated by reviewing the approval in the board minutes.

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**Finding 3: Investment Performance Analysis**

**Recommendation**

3.1 **Use Net Fee Comparison** - DERP measures their performance against peers on a gross of fee basis while the assumed return objective, per the Investment Policy, is measured net of fees. Ellwood recommends inclusion of a net of fee comparison relative to peers.

**Status: Not Implemented (Disagreed)**

**Action Taken**

Plan management indicated that changing to a net-of-fee measurement and comparison is generally preferred but have determined that would incur additional expenses for a limited benefit, citing challenges in data availability and integrity. A change in service providers has enabled net-of-fee comparisons with peers, and plan managers have chosen to continue with their current methodology for measuring performance.
Conclusion

We found that the Denver Employees Retirement Plan has implemented two of the three recommendations and adequately mitigated the risk identified with those two recommendations offered during the original evaluation. Although retirement plan managers disagreed with the third recommendation, they have made changes that mirror the essence of the change suggested by Ellwood. As a result, we conclude our follow-up effort related to the Denver Employees Retirement Plan Investment Program Evaluation and may revisit the risk associated with the third recommendation in future evaluations.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Denver Employees Retirement Plan for their cooperation during our follow-up effort and their dedicated public service.
Office of the Auditor

The Auditor of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver’s government.

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