



COUNTY EMPLOYEES' RETIREMENT FUND

TWO YEARS ENDED DECEMBER 31, 1998

**From The Office Of State Auditor
Claire McCaskill**

Report No. 99-116
December 7, 1999

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

December 1999

The following audit found the County Employee's Retirement Fund (CERF) Board of Directors did not solicit requests for proposals for an actuarial consulting service and plan design contract, nor for a legislative consulting contract.

The actuarial consulting service and plan design contract, dated October 30, 1998, indicated the consultant will charge a fixed fee not to exceed \$200,000. In addition, the CERF Board of Directors is currently negotiating a contract for additional services with the same consultant estimated to cost up to \$750,000.

The legislative consulting contract, dated December 18, 1998, indicated the consultant will charge an annual fee of \$30,000 plus reimbursement for reasonable and necessary expenses.

Without requesting proposals for such services, the CERF Board of Directors has not ensured it will receive these services at a fair price.

We recommend the CERF Board of Directors request proposals for all professional services. Requests for Proposals (RFP's) ensure the board is making every attempt to secure the best services available for a competitive price. Competitive bidding is a standard management practice understood by contractors and should be implemented.

YELLOW SHEET

COUNTY EMPLOYEES' RETIREMENT FUND

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CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Mel Carnahan, Governor
and
Board of Directors
and
Sarah J. Maxwell, Executive Director
County Employees' Retirement Fund
Jefferson City, Missouri 65102

The State Auditor is required by Section 50.1030.5, RSMo 1994, to audit the County Employees' Retirement Fund and the operations of the board. The Board of Directors engaged Evers and Company, Certified Public Accountants (CPAs), L.L.C., to perform annual audits of the fund's financial statements for the years ended December 31, 1998 and 1997. To satisfy our statutory obligation and minimize duplication of efforts, the State Auditor has used the work of the CPAs. We reviewed the reports and substantiating workpapers of the CPAs to satisfy ourselves as to the appropriateness of using their reports, and we accept them in partial fulfillment of our responsibility under Section 50.1030.5, RSMo 1994.

The objectives of our review were to:

1. Review certain financial activity and related procedures, and examine compliance with certain constitutional provisions, statutes, administrative rules, and attorney general's opinions, as we deemed necessary or appropriate in the circumstances.
2. Examine certain management practices.

Our review was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the fund's board minutes, various contracts, and other pertinent policies, and discussed various fund procedures with applicable personnel.

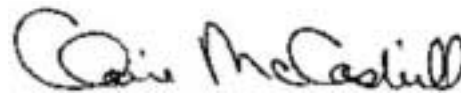
As part of our review, we assessed the fund's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance

on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation.

Our review was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This background information was obtained from the fund's management and was not subjected to the procedures applied in our review of the County Employees' Retirement Fund.

Our comments on internal controls, compliance with legal requirements, management practices, and related areas are presented in the accompanying Management Advisory Report.

A handwritten signature in dark ink, appearing to read "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

September 23, 1999 (fieldwork completion date)

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Recommendations

COUNTY EMPLOYEES' RETIREMENT FUND MANAGEMENT ADVISORY REPORT

In addition to our review of the reports and substantiating working papers of Evers and Company CPA's, L.L.C., we included those procedures which we considered necessary in the circumstances.

We reviewed probable compliance with certain constitutional provisions, statutes, administrative rules, and attorney general's opinions as we deemed necessary or appropriate. This review was not intended to provide assurance of full compliance with all regulatory provisions, and thus, did not include all regulatory provisions which may apply. Nevertheless, our review disclosed no conditions that represent significant violations.

During our review, we identified a certain management practice which we believe could be improved. Our review was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the finding presented in our report should not be considered as all-inclusive of areas where improvements may be needed.

The period of review for the purposes stated above included, but was not necessarily limited to, the two years ended December 31, 1998.

Professional Services Contracts

The County Employees' Retirement Fund (CERF) Board of Directors did not solicit requests for proposals for an actuarial consulting service and plan design contract or a legislative consulting contract. The actuarial consulting service and plan design contract, dated October 30, 1998, indicated the consultant will charge a fixed fee not to exceed \$200,000. In addition, the CERF Board of Directors is currently negotiating a contract for additional services with the same consultant estimated to cost up to \$750,000. The legislative consulting contract, dated December 18, 1998, indicated the consultant will charge an annual fee of \$30,000 plus reimbursement for reasonable and necessary expenses. Without requesting proposals for such services, the CERF Board of Directors has not ensured it will receive these services at a fair price.

WE RECOMMEND the CERF Board of Directors request proposals for all professional services.

AUDITEE'S RESPONSE

The Board of the County Employees' Retirement Fund has sought advice from its legal counsel on several occasions as to whether it was required to solicit requests for proposals for professional services. Based on oral and written advice from its legal counsel, the board did not seek requests for proposals for its most recent actuarial and plan design services and its legislative consulting services. The board notes that there is no legal or statutory requirement that it seek bids for these professional services.

In the circumstances noted, the board determined that there were compelling reasons to contract for services without a request for proposal process. However, the board recognizes the value of conducting a bid or review process and will make a concerted effort to do so in the future as circumstances allow.

This report is intended for the information of the fund's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

STATISTICAL SECTION

History, Organization, and
Statistical Information

COUNTY EMPLOYEES' RETIREMENT FUND HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The County Employees' Retirement Fund (CERF) was created under an act of the 87th General Assembly, commenced operation on August 24, 1994, and is governed by Sections 50.1000 to 50.1200 of the Revised Statutes of Missouri. The CERF is a defined benefit plan providing retirement and death benefits to its members. The CERF is an agent multiple-employer, statewide public employee retirement plan for certain employees in each county of the state, except for any city not within a county and any county of the first classification having a charter form of government.

The responsibility for the operation and administration of the retirement fund is vested in the CERF Board of Directors, consisting of nine elected CERF members representing different, elective county offices. Board members are elected by the general membership of the Fund. As of December 31, 1998, the members of the Board of Directors were:

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Kay Murray	Chairperson	December 31, 2001
Dick Jones	Vice Chairperson	December 31, 1999
Rosemary Gannaway*	Member	December 31, 2000
Elaine Luck**	Member	December 31, 1998
Wayne Scharnhorst	Member	December 31, 2001
Fred Ward	Member	December 31, 2001
Bettie Johnson**	Member	December 31, 1998
Jerry Reynolds	Member	December 31, 2000
Frank Sifford**	Member	December 31, 1998

* Elected to complete the unexpired term of Sue Barr, effective January 1999.

** These members were elected to new four year terms expiring December 31, 2002.

Effective August 28, 1999, two additional directors who have "no beneficiary interest" in the fund will be appointed by the Governor with the advice and consent of the Senate. All members serve four year terms.

Sarah J. Maxwell has served as Executive Director since her appointment on February 26, 1998. The Executive Director coordinates the daily operations of the retirement fund and with the approval of the board, contracts for professional services needed to operate the system. Effective July 1, 1999, the board approved a plan to hire employees and begin performing some of the fund's administrative duties in-house.

The Board of Directors has appointed AON Consulting, of Atlanta, Georgia as actuarial and plan design consultants. As of December 31, 1998, the following investment managers held investments for the CERF: Boone County National Bank of Columbia, Missouri; Roxbury Capital Management of Santa Monica, California; and Brandes Investment Partners, L.L.P. of San Diego, California. Boone County National

Bank also serves as the fund's plan administrator and investment custodian manager. Asset Consulting Group, Inc. of St. Louis, Missouri serves as the fund's investment consultant. Brydon, Swearingen, and England P.C. of Jefferson City, Missouri serves as the fund's legal counsel. Madsen-Wright, Inc. of Jefferson City, Missouri serves as the fund's legislative consultant. Evers and Company, CPAs, L.L.C. of Jefferson City, Missouri serves as the fund's independent auditor.

As of December 31, 1998, there were 111 contributing employers to the fund which includes 8,733 active members, 551 terminated vested members, and 702 retired members and beneficiaries.

As of December 31, 1998, membership, required contributions, and benefits provided under the CERF are generally as follows:

Eligibility

Membership is provided for any county elective or appointive officer or employee who is hired and fired by the county and whose work and responsibilities are directed and controlled by the county and who is compensated directly from county funds whose position requires the actual performance of duties during not less than one thousand (1,000) hours per calendar year, except for any city not within a county and any county of the first classification having a charter form of government. Individuals who are specifically excluded from CERF include county prosecuting attorneys covered under the Prosecuting Attorneys and Circuit Attorneys Retirement System, circuit clerks and deputy circuit clerks covered under the Missouri State Employees Retirement System, and county sheriffs covered under the Sheriff's Retirement System.

County Contributions

Funding is provided in accordance with Section 50.1020, RSMo Cum Supp. 1998. In all counties except counties of the first class having a charter form of government and any city not within a county, the retirement fund will receive a portion of delinquent property tax penalties, late assessment penalties, a portion of recording document fees, a portion of merchants licenses, and any interest derived from the collection and investment of any part of the penalties and fees.

Employee Contributions

In all counties except counties of the first class having a charter form of government and any city not within a county, the retirement fund will receive a 2 percent payroll deduction from the compensation of all covered county employees who are not members of the Local Government Employees' Retirement System (LAGERS). Employees who qualify for membership in LAGERS are not subject to any payroll deductions in connection with their membership in the CERF.

Fund Retirement Benefits

Fund retirement benefits are payable to members who have terminated covered employment and who have met certain eligibility requirements.

NORMAL RETIREMENT

A member may retire under the standard formula with full benefits at age sixty-two with eight or more years of creditable service. There is no early retirement option.

Fund retirement benefits for members not belonging to LAGERS are 1.5 percent of Average Final Compensation (AFC), times years of creditable service, to a maximum of 50 percent of AFC. Fund retirement benefits for LAGERS members are 1 percent of AFC, times years of creditable service. AFC is the average for the highest two years of compensation.

PAYMENT OPTIONS

A retiring member may elect to receive a life income annuity and receive full benefit with no survivor option, or married members may elect one of the three (50 percent, 75 percent, or 100 percent) joint-and-survivor options to provide survivor benefit coverage in varying degrees after the retiree's death. Under the joint-and-survivor options, the member would receive a lesser monthly payment (with members electing the 100 percent option receiving less than members electing 75 percent and members electing 75 percent receiving less than members electing 50 percent) during his or her lifetime than if they choose the single life annuity. However, after the retiree's death, the surviving spouse will continue to receive a benefit for their lifetime in the amount of the percentage elected by the member times the monthly payment the retiree received. All benefit payments terminate upon the death of the surviving spouse.

Cost-of-Living Adjustments

All retired members are eligible for an annual post-retirement cost-of-living adjustment (COLA) provided they are presently drawing a retirement benefit and have not waived their right to receive the COLA increase. The adjustment, approved annually by the Board of Directors, may increase retirement benefits by up to two percent per year, based on the increase in the Consumer Price Index and subject to a maximum lifetime increase of fifty percent of the initial benefit.

Opt Out Provision

Any county employee may elect in writing to opt out of the retirement system.

Termination of Employment

Members who terminate membership, other than by death, prior to attaining eight years of membership service will receive a refund of payroll contributions, unless the member elects upon termination to purchase

prior service which, when combined with membership service, would total eight years or more. Members who terminate membership, other than by death, after attaining eight years of membership service shall not receive a refund of payroll contributions upon termination, but shall be vested in the system.

Death Benefit

Active members are eligible to receive a \$10,000 death benefit if they are actively employed by the county or on recognized medical leave. The benefit will be paid to beneficiaries named by the member or to default beneficiaries if none are named.

Survivor's Benefits

If a member is fully vested, dies prior to retirement, and has made an election to purchase prior service, the surviving spouse, if married for at least two years prior to the member's death, may apply to receive a fifty percent joint and survivor annuity commencing the first day of the month following the member's death if the member was sixty-two or older or beginning the first day of the month following the date the member would have attained age sixty-two had the member lived. Alternatively, if the member was not age sixty-two or older at the time of death, the surviving spouse may elect to receive a benefit which is the actuarial equivalent of the fifty percent joint and survivor annuity, reduced for early commencement, beginning on the first day of the month following the date of the member's death.

Special Consultants

A person who was a full-time employee and ended county employment between January 1, 1990, and August 27, 1994, and had eight or more years in which they completed not less than one thousand hours of service, may apply for a retirement benefit from CERF as a special consultant. Special consultants may draw an annuity based on one percent (LAGERS) or one and one-half percent (Non-LAGERS) of their average final compensation times years of creditable service. A buyback of two or three percent of their average final compensation times the number of years purchased, accordingly, must be completed in order to draw an annuity. Special Consultants must make at least a fifty percent lump sum purchase of their prior service prior to receiving a benefit, with the option of paying the other fifty percent in full at the time they begin drawing an annuity or through monthly deductions from the benefit not to exceed four years.

Purchase of Prior Service

Service prior to August 28, 1994, may be purchased to apply toward a retirement benefit. Any member with less than eight years of membership service must make a purchase of prior service in order to draw an annuity.

Senate Bill No. 467

Senate Bill No. 467, effective January 1, 2000, makes various changes to the CERF. Major changes resulting from enactment of Senate Bill No. 467 include:

OPT OUT PROVISION

County employees who are members on January 1, 2000 and county employees who are hired after January 1, 2000 shall no longer be permitted to opt out of the retirement system.

FUND RETIREMENT BENEFITS

The normal annuity of a retired member who is not a member of LAGERS shall be a monthly benefit equal to the greater of twenty-four dollars multiplied by years of creditable service (up to a maximum of twenty-five years), or an amount determined according to a new formula taking into account the member's monthly primary Social Security benefit.

A member who terminates with at least eight years of creditable service may elect to receive a normal annuity from the fund after reaching age fifty-five. However, the normal annuity shall be reduced by four-tenths of one percent for each month the commencement date of the annuity precedes age sixty-two, and an additional three-tenths of one percent for each month the commencement date of the annuity precedes age sixty.

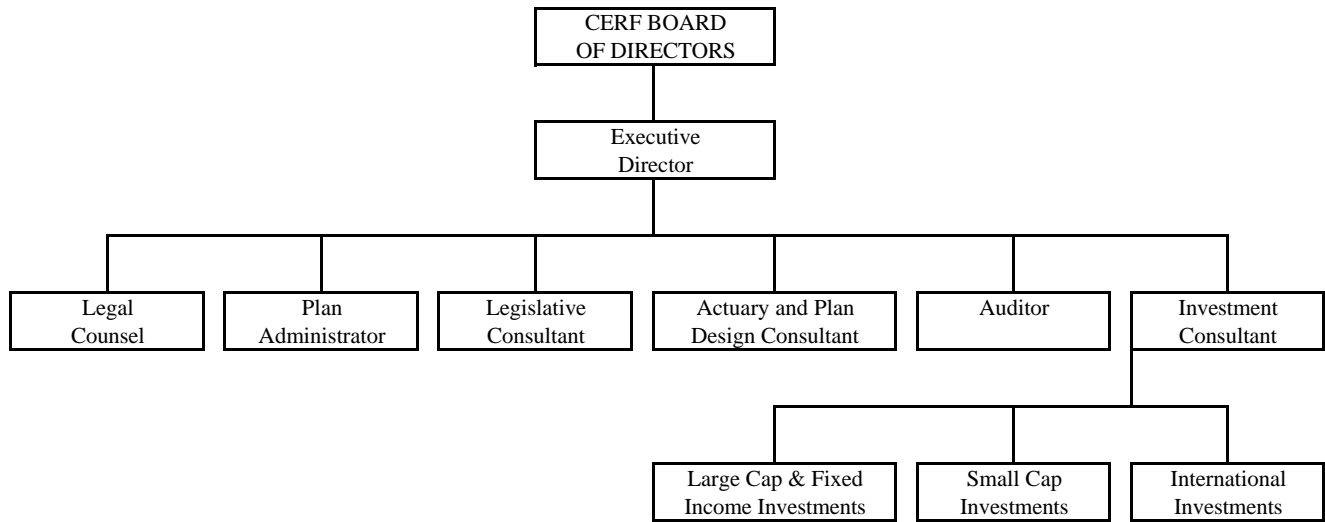
DEFINED CONTRIBUTION PROGRAM

Effective with calendar years ending after January 1, 2000, the board shall, if actuarially feasible, make contributions to defined contribution accounts established on behalf of members of the retirement system. The board's contribution shall be made from certain revenue sources only if it is determined that the entire amount of such revenues need not be contributed to the defined benefit retirement system in order to keep such retirement system actuarially sound.

Employees who are not a members of LAGERS shall make contributions of seven-tenths of one percent of their compensation to defined contribution accounts established on each employee's behalf.

Members are eligible to receive a distribution from their defined contribution account as soon as administratively feasible following termination of employment, or may choose to receive the account balance at a later time. The account balance shall be paid in a single sum.

COUNTY EMPLOYEES' RETIREMENT FUND
ORGANIZATION CHART
DECEMBER 31, 1998



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