

Appropriation Question: (Senator Corey Brown) requested an explanation regarding Tab 11, Page 3, which stated: "The Governor recommended an increase of \$2,800 for professional auditing services. In FY 2006, SDRS had an auditing budget of \$47,500. Since that time, increases of \$75,000 in FY 2007, \$6,020 in FY 2008 and \$2,000 in FY 2010 have been approved. The total amount approved for audit services totals \$130,520. The requested total need for auditing services for Fy 2011 is \$107,500"

SDRS Response: SDRS has found that the confusion in the LRC Budget Briefing Document is primarily due to a coding error that SDRS made in the FY 2007 budget. At that time, SDRS incorrectly incorporated \$75,000 within the Auditing service account number 5204320. This money was for the Quadrennial Independent Investment Report as required by SDCL 3-12-118 and was subsequently removed from the audit line item. SDRS failed to recognize that this correction made in FY 2007 would resurface in our February 3, 2010 budget hearing regarding our fiscal year 2011 budget request. The issue was further complicated because three other transactions were made to this line item in recent years.

To fully explain, we provide you with the following detail of events beginning with Fiscal Year 2006 through our requested Fiscal Year 2011 budget request.

Fiscal Year	Sub Object Acct #	Budget Consolidation	Budget Adjustments	Requested Increase	Approved Budget
2006	5204320	\$0	\$0	\$0	\$47,500
*2007	5204320	\$0	\$0	\$75,000	\$122,500
*2007	5204320	\$0	\$0	-\$75,000	\$47,500

*At the time the fiscal year 2007 budget request was prepared in October 2005, SDRS inadvertently included the \$75,000 request for the Quadrennial Independent Investment Report on the Investment Performance in the audit sub object of the budget. SDRS did not discover this coding error prior to the SDRS FY 2007 budget hearing, but SDRS discovered it prior to the FY2007 budget load in June 2006. The \$75,000 was removed from the Audit sub object of 5204320 and placed in the Quadrennial sub object of 5204133.

2008	5204320	\$0	\$0	\$6,020	\$53,520
*2008	5204320	\$13,380	\$0	\$0	\$66,900

*For FY 2008, SDRS consolidated the independent budgets of the Supplemental Retirement Plan (SRP) and the Special Pay Plan (SPP) into one overall budget with SDRS. The amounts consolidated for audit were \$12,042 for SRP and \$1,338 for SPP. The total budget consolidation for the audit line item was \$13,380. The \$6,020 was the approved inflationary increase for the audit sub object. The consolidation was not included in the FY 2011 analysis.

2009	5204320	\$0	\$0	\$0	\$66,900
2010	5204320	\$0	\$0	\$2,000	\$68,900
*2010	5204320	\$0	\$35,800	\$0	\$104,700

*For the FY2010 budget, SDRS expanded its audit scope to include the required procedures for non-marketable investments and alternative investment standards and investment reviews as required by AICPA. This required an amendment to the audit contract (FY2008) and additional funding for auditing services. SDRS made adjustments within contractual services of \$35,800 from PR & Advertising Consultant (sub object #5204110) to Audit (sub object #5204320) to cover the expanded audit requirements. The \$2,000 was the approved inflationary increase for the audit sub object.

2011	5204320	\$0	\$0	\$2,800	\$107,500
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The \$2,800 is the requested inflationary increase based on the provisions of the audit contract.

South Dakota Retirement System

LRC Request
February 8, 2010

LRC Request: Could you please provide a similar analysis of the 5204133 sub object for the Quadrennial review? Please include the budgeted amounts with the corresponding amounts expended each year (2007 – 2011).

SDRS Response: SDRS requested \$75,000 in Other Consulting expenditure authority for FY 2007 for the Quadrennial Independent Investment Report as required in SDCL 3-12-118. SDCL 3-12-118 states: *The Board of Trustees shall retain the services of an independent contractor, not involved in the investment process, to make a report to the board not less than every four years on the investment performance results of the assets of the retirement funds. The report shall include, but not be limited to, the investment for the the total portfolio and each major investment category thereof; a comparison of the investment return on the common stocks in the portfolio to market indices in general use and to the results achieved by other institutional investors of pension funds; and an appraisal of the success of the management of the actively traded bond portfolio, including a comparison of the return on the bonds in the portfolio, to the bond indices in general use and a quantitative estimate of the aggregate gains or losses arising out of the portfolio transactions, both current exchanges and those that have to be worked out over time by a series of trades.*

Along with the Quadrennial Independent Investment Report, the Board of Trustees must complete other special projects related to funding, strategic planning and benefit administration on an ongoing basis. The Board has maintained the other consulting special funding for such projects. An outline of the budget, expenditures and consulting services is shown below.

Other Consulting (sub object 5204133)

Fiscal Year	Budget	Expenditure	Other contracted services
2007	\$75,000	\$75,000	(Quadrennial Report)
2008	\$75,000	\$27,474	(Strategic Benefit Planning and Review of Long-term Benefit Goals)
2009	\$75,000	\$40,339	(Review of Long-Term Benefit Goals and Objectives, Strategic Benefit Planning and Benefit Corrective Actions)
2010*	\$75,000	\$38,322	(Financial Review, Benefit Corrective Actions and Review of Long-term Benefit Goals)
2011	\$75,000	\$75,000	(Quadrennial Report - estimated)

* Other consulting services (through January 2010)