

**REQUEST FOR PROPOSALS FOR  
FIDUCIARY PERFORMANCE AUDIT OF  
THE OHIO HIGHWAY PATROL RETIREMENT SYSTEM  
ISSUED BY THE  
OHIO RETIREMENT STUDY COUNCIL**

**Ohio Retirement Study Council  
88 East Broad St., Suite 1175  
Columbus, OH 43215**

**ISSUE DATE: March 22, 2010**

## **I. INTRODUCTION**

### **A. Summary Statement**

Pursuant to R.C. §171.04(F)), the Ohio Retirement Study Council (ORSC) requests proposals from qualified consulting firms interested in performing a fiduciary performance audit of the Ohio State Highway Patrol Retirement System (hereinafter “the System”). The services being sought are specified in more detail in the next section of this RFP.

### **B. Bid Option**

You may bid on this proposed engagement as a whole only.

The ORSC reserves the right to select the most qualified firm to conduct these audits.

### **C. Closing Date for Receipt of Proposals**

Four copies of the proposal, including one unbound copy, must be submitted to Aristotle L. Hutras, Director, Ohio Retirement Study Council, 88 East Broad Street, Suite 1175, Columbus, Ohio 43215 no later than 5:00 p.m., EST, on April 19, 2010. Proposals received after the deadline will not be considered by the ORSC and will be returned to the proposer.

### **D. For More Information on RFP**

If your firm is interested in responding to this RFP and needs additional information to complete it, please write Aristotle L. Hutras, Director, Ohio Retirement Study Council, 88 East Broad Street, Suite 1175, Columbus, Ohio 43215; facsimile (614) 228-0118; e-mail [ahutras@ameritech.net](mailto:ahutras@ameritech.net). All questions and written answers will be shared with all other known interested parties.

### **E. Background**

The ORSC was created by the Ohio General Assembly in 1968, and is one of the oldest permanent pension oversight commissions in the nation. Its purpose is to advise and inform the state legislature on all matters relating to the benefits, funding, investment and operation of the five statewide retirement systems in Ohio: the Public Employees Retirement System (PERS), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), the Ohio Police and Fire Pension Fund (OP&F), and the Highway Patrol Retirement System (HPRS). The statutes governing the ORSC are found in Chapter 171 of the Ohio Revised Code.

The ORSC is charged with the following statutory duties:

1. Makes an impartial review from time to time of all laws governing the administration and financing of the retirement systems and makes recommendations to the legislature on any changes it finds desirable with respect to benefits, sound financing of benefit costs, and prudent investment of funds [R.C. §171.04(A)];
2. Reports annually to the governor and legislature on its evaluation and recommendations with respect to the operations of the retirement systems and their funds [R.C. §171.04(B)];
3. Studies all proposed changes to the retirement laws and reports to the legislature on their probable costs, actuarial implications and desirability as a matter of public policy [R.C. §171.04(C)];
4. Reviews semiannually the investment programs of the retirement systems [R.C. §171.04(D)];
5. Has prepared, at least once every ten years, an independent actuarial audit of the annual actuarial valuations and quinquennial actuarial experience studies of each retirement system [R.C. §171.04(E)];
6. Has conducted by an independent auditor at least once every ten years a fiduciary performance audit of each of the state retirement systems [R.C. §171.04(F)];
7. Reviews the adequacy of the police and fire contribution rates and makes recommendations to the legislature that it finds necessary for the proper financing of OP&F benefits [R.C. §742.311]; and
8. Prepares an independent actuarial study every three years on the required employer supplemental contributions to be made on behalf of eligible employees of public institutions of higher education electing an alternative retirement plan in lieu of the retirement systems [R.C. §171.07].

Ohio's five statewide retirement systems have assets totaling approximately \$148.1 billion as of January 1, 2010 and provide retirement, disability and survivor coverage to approximately 1.7 million members, retirees and their beneficiaries. Additionally, all five retirement systems have discretionary authority to offer comprehensive hospital, medical and prescription drug coverage to retirees and their dependents. Participants in the retirement systems are **not** covered under Social Security with respect to such public employment.

Although the day-to-day management of the retirement systems is vested by statute in the individual boards, a majority of whose members are elected by the plan participants, the Ohio General Assembly has ultimate responsibility for the five state retirement systems,

all of which are created and governed by statute. It has a fiduciary responsibility not only to the plan participants but also to the taxpayers who support these systems to review periodically its policies to ensure that the level of benefits is equitable, the level of funding is adequate and the investment of funds is prudent. Given this tremendous responsibility, the Ohio General Assembly has relied upon the Ohio Retirement Study Council for over 40 years to provide the necessary advice and information to enable it to make informed decisions based on sound public policy regarding these important matters. Therefore, it is imperative that the ORSC has the necessary tools and information to perform these functions.

For additional information about the ORSC, please refer to our web site ([www.orsc.org](http://www.orsc.org)).

## **II. CONSULTING SERVICES SOUGHT**

HPRS is a statewide retirement system limited to state highway patrol troopers.

HPRS operates under the guidelines of Ohio Revised Code Chapter 5505. It is legally separate from and fiscally independent of state and local governments. HPRS is governed by a Retirement Board consisting of five employee members elected by the membership, two retiree members elected by service and disability retirees, two investment experts (one appointed by the Governor; one appointed jointly by the Speaker of the House and Senate President), the Treasurer of State's investment designee, and the Superintendent of the State Highway Patrol. Board members serve without compensation other than actual, necessary expenses. Internally, HPRS is managed by an executive director and employs eight additional full-time employees.

HPRS is funded through investments and contributions made by member employees and their employers. Employees contribute 10% of gross earnings, while employers contribute 26.5% of gross earnings.

Based on employee and employer data as of December 31, 2009, HPRS has 1,545 active members, including 135 members enrolled in the Deferred Retirement Option Plan, 3 terminated members entitled to receive a benefit in the future, and 1,371 retirees and beneficiaries currently receiving a benefit. As of December 31, 2009, HPRS had assets totaling approximately \$664 million, all of which are managed externally, except for two local commercial office buildings that are internally managed.

**Purpose:** Review and critically evaluate the organizational design, structure, and practices of the System overall and its investment program. Identify areas of strengths, weaknesses, and conformance with best practices of other public pension plans.

**Methodology:** Review and evaluate available data from the System and compare with similar data from other public funds and institutional investors, best practices, and published surveys chosen by the auditing firm. The review should include input from the System's membership when appropriate.

**Deliverables:** Provide monthly updates to ORSC. The final report must include, at a minimum, a description of the work performed; an executive summary; findings and recommendations, including an analysis, with respect to the work; specific and concrete proposals to achieve any improvements recommended in the report. The recommendations and proposals should be prioritized and, where feasible, include an analysis of potential costs or benefits associated with implementation. The key findings, recommendations, and proposals should be organized in a manner that clearly identifies to whom they are primarily directed (e.g., the Legislature, HPRS board, ORSC).

#### **A. Governance and Organizational Structure**

The contractor will perform a review of the governance and organizational structure of the System in terms of the make-up of its board, qualifications and adequacy of staff, and level of monitoring and oversight provided in policies, procedures, and practices. The contractor shall evaluate the adequacy of the policies concerning delineation of roles and responsibilities of the board, staff, investment managers, and others with administrative or oversight responsibilities.

Specifically, the contractor shall evaluate:

1. whether the System sufficiently delineates, communicates, and documents the lines of reporting and responsibility over the investment program and whether the role of the Board and staff are clearly defined; i.e., what actions staff may take independently and what actions require Board approval;
2. the System's use of external consultants and investment managers, including their responsibilities, fiduciary status, knowledge and experience, scope of work, fees, and potential conflicts of interest;
3. the statutes and administrative rules under which the System operates to determine if board and staff comply with applicable statutes and rules as well as whether the statutes and administrative rules are sufficient to allow the board and staff to meet their responsibilities;
4. written policies and procedures currently in place to monitor and guard against professional conflicts of interest;
5. trustee education, training, and all associated costs;
6. staffing size, qualifications, roles, compensation, performance evaluations, and comparison with other similar size public institutions, including whether compensation levels are sufficient to facilitate the System's ability to attract and retain qualified pension fund professionals;

7. the reasonableness of the System's practices and costs in isolation and compared to best practices of peers;
8. communication policies and procedures of the System between the Board, its members, and its retirees; and
9. comparison of the governance provisions and practices to industry standards and best practices in comparable systems.

**B. Investment Policy**

The contractor will perform a review of the System's investment policy, including the following:

1. whether the System's investment policy reflects its financial and actuarial characteristics, established investment goals and risk tolerances, including, for example, the impact on annual employee and employer contributions, unfunded ratio, rates of return, etc.;
2. review the investment policy statement for adequacy and compare it to industry best practices.
3. whether the System's policy specifies to what extent the basis for particular investment decisions should be articulated in writing by the Board or System's staff;
4. the extent to which the System observes its formal written investment policies and procedures, and identify what, if any, practical problems have resulted either on a systematic or isolated (but significant) basis;
5. how often and by what process the Board and/or staff reviews the System's written policies, guidelines, and procedures;
6. whether the System's investment policy is compatible with the most recent asset/liability study;
7. whether due consideration is given to Ohio-based businesses to provide investment related services;
8. whether the System's due diligence provisions are included in their investment policies and whether they are consistent with best practices;

9. examine investment risk factors. Attention should be focused on the types, levels, and appropriateness of risks in the investment portfolios and overall funds as well as any internal controls; and
10. whether the benchmarks used for traditional and alternative investments are reasonable, appropriate, and consistent with best practices and comparable peer funds.

### **C. Asset Allocation**

Evaluate how the asset allocation ties to the Investment Policy Statement; evaluate the current structure of the investment program; consider the adequacy of the mechanisms and decision-making processes utilized for setting, periodically reviewing, and rebalancing the asset allocation; determine if the present allocation targets are reasonable and suited to the purpose of the System; identify possible additional asset classes or types that may assist in enhancing longer term expected return and/or reducing expected risk; and assess the reasonableness of the methodology, inputs and assumptions for risk/return and correlation used to determine the System's asset allocation. Determine whether the Board is aware of the risks associated with the asset allocation they have adopted. Please suggest asset allocation modifications reasonably designed to enhance returns.

### **D. Management Structure**

Evaluate the System's current investment management structures and costs. The review process will consider the advantages and disadvantages of various styles of investment management, including active versus passive, internal versus external, higher or lower levels of risk in various investment classes and the appropriate number and types of external managers. Evaluate the scope of work and performance of current external investment managers, including the external investment management structure, the use of investment advisors, and other external decision-making processes.

### **E. Implementation/Selection of Service Providers**

Analyze how investment service providers are selected, including the transparency in the decision-making process, whether specific criteria and procedures govern the selection process, whether they are actually observed in the selection process, and whether there is adequate documentation of the manager selection process.

Analyze the System's process for measuring, evaluating and controlling transaction costs as well as the System's use of soft dollars (including, but not limited to, any trips, money, software, etc., received by Board members or staff from vendors), directed brokerage and commission recapture (if any), and compare to other funds as well as public or private

third party industry surveys. Evaluate the basis and methodology for the compensation of external investment managers and advisors and payments to others, if any.

Evaluate the System's relationship with their custodian, including the custodian's breadth of services, technological planning and capability to address the System's needs (present and future), their structure and level of fees, cash management and analytical services. Review the custody model used by the Treasurer of State as custodian of financial assets for the System and evaluate the oversight provided as compared against other public systems and best practices.

## **F. Review and Control Procedures**

Evaluate whether there are adequate and effective internal controls in place to ensure compliance with the adopted standards, policies, and procedures for managing investment and fiduciary risk. Controls over payments should be analyzed for effectiveness in ensuring accuracy and compliance with fee schedules. Evaluate the risk management process by analyzing, as appropriate, the essential components of its internal control structure. These components include, but are not limited to, risk identification, risk analysis, segregation of duties, availability of information, timeliness, accessibility and accuracy of information, policy manuals, supervision and review, audits (external and internal), and training and planning. A review of this task area should also encompass an assessment of whether the pension fund utilizes a holistic view of risk management.

The contractor will evaluate:

1. total fund and each asset class relative to benchmark and peers;
2. the process used to determine and measure investment performance, including how performance data is collected and verified, whether the process satisfactorily addresses conflicts in valuation, how performance is calculated and reported, whether (on a spot check basis) such calculation and reporting is consistent with Chartered Financial Analyst (CFA) Institute standards and the timeliness of reporting, as well as the frequency and detail of the measurement process;
3. the adequacy of the current investment accounting process and determine whether it is consistent with the basic functionalities of an effective and efficient investment accounting system;
4. whether the Board has the necessary authority and resources to monitor the System's investments optimally;
5. the sufficiency of the information used to support the System's consideration of investment issues;

6. whether the nature and scope of the Systems' performance reports are technically sound and practically useful, including the adequacy of the benchmarks used to assess investment performance, the utility of the current reporting method(s) and formats;
7. the sufficiency of investment manager guidelines, including the criteria for each particular type of manager, the adequacy of written controls over risk and expense, prohibited activities, permissible level of cash, etc. and the sufficiency of the processes in place to monitor compliance with such controls;
8. appropriateness of board and staff controls, procedures, and capabilities regularly review and monitor the performance of the investments and the practices of investment managers, as well as ensuring compliance with polices;
9. how effectively and efficiently the System uses its regular investment consultants, including identifying the functions the consultant is expected to perform, any conflicts of interest that may impair the consultant's objectivity, whether the consultants' current performance is consistent with the System's expectations as well as with their contracts and any written procedures governing the consultants' functions;
10. sufficiency of the nature, scope, and frequency of the regular reports and how they compare with industry standard and best practices; and
11. how the standards used by the System to monitor its investments compare to those of other comparable public employee retirement systems.

### **III. PROPOSAL REQUIREMENTS**

Please provide responses to the following information requests. Your responses should be labeled to correspond with the outline structure used in this section. Responses will be evaluated, in part, on an organization's ability to communicate clearly and succinctly. In your response, please adhere to the specified page limits.

#### **A. General Information and Understanding of Project** **Page Limit: 10 Pages**

1. Please provide your firm's primary contact on this engagement:
  - a. Firm Name
  - b. Contact's Name
  - c. Contact's Title
  - d. Contact's Address
  - e. Contact's Phone and Facsimile numbers

- f. Contact's email address
2. Please provide a list of your firm's domestic office locations and identify which location will be assigned this project.
3. Please describe the ownership structure of your organization, including subsidiary and affiliated companies, and joint venture relationships.
4. Has your firm undergone any material change in its structure or ownership within the last eighteen months? Is any material change in ownership, staff, or structure currently under review or being contemplated?
5. Please list the major revenue sources of your firm by category, displaying the percent of total revenue for each of the last three years.
6. Please list the current number of employees employed by your firm for each category shown in (A.5.) above.
7. If available, please provide a report, study, or assessment of your firm, prepared by an unbiased independent third-party source, concerning client satisfaction and measures of your firm's strengths and weaknesses vis-à-vis your key competitors.
8. Please provide your most recent statement of financial position, to include an annual income statement and balance sheet.
9. Please describe any material litigation to which your firm is currently a party.
10. Please provide a list and describe litigation brought against your firm by existing or former clients and staff over the last five years.
11. Please provide a statement that no officer, member, associate of, or consultant to ORSC has any known personal or pecuniary interest, direct or indirect, in this contract or in the proceeds thereof. The firm should also list and describe its professional relationship involving ORSC, the five Ohio public retirement systems, the State of Ohio, or its political subdivisions for the past five years, together with a statement explaining why such relationships do not constitute a conflict of interest relative to performing the proposed review.
12. Please describe in detail your organization's understanding of the services requested by ORSC under this engagement.

**B. Firm Qualifications**

**Page Limit: 10 Pages**

1. Please provide a narrative that supports why your firm believes that it is qualified to undertake the proposed engagement.
2. Please provide a complete list of engagements that your firm has been involved in that were similar in nature to the scope of this proposed engagement in the past five years. Such listing should provide, where possible, the name, address, and phone number of the client and key contact, the asset base of the client, and a summary description of the scope of the project and key findings and recommendations.
3. If available, please provide an actual comprehensive operational review report prepared by your firm for a paying client. As appropriate, names and other sensitive information should be lined-out.

4. Please describe your firm's experience and capability in reviewing internal trading and trade processing operations.
5. Please describe your firm's experience and capability in reviewing internal operational and investment risk controls.
6. Please describe your firm's experience and capability in reviewing ancillary investment functions such as cash management, securities lending, proxy voting, shareholder litigation, and regulatory reporting.
7. Please describe your firm's experience and capability in reviewing external manager and advisor selection processes, fee structures, reporting, and oversight.
8. Please describe your firm's experience and capability in reviewing investment accounting processes, performance computation processes, and custodial support.
9. Please describe your firm's experience and capability in reviewing the staffing, structure, and employee satisfaction of investment organizations.
10. Please describe your firm's experience and capability in reviewing incentive compensation programs for public investment organizations.
11. Please describe your firm's experience and capability in conducting an asset/liability study and developing investment policy for a defined-benefit public pension plan

**C. Assigned Staff Qualifications**  
**Page Limit: 8 Pages**

1. Please provide a narrative describing the educational background and work experience of individuals that you propose to assign to this engagement. Such narrative should include:
  - a. Employee name, title, and billable hourly rate
  - b. Proposed position on this engagement (lead person, support, specialist, etc.)
  - c. The month and year that the employee began working for your organization
  - d. Employee work history since leaving college
  - e. Degrees and certifications earned
  - f. Organizational affiliations and positions held
  - g. Client relationships assigned to employee
2. Please describe your firm's procedures in the event that a key person assigned to this engagement leaves your firm during the engagement.

**D. References**  
**Page Limit: 5 Pages**

1. Please provide five (5) client references, two of whom are preferably defined-benefit public pension plans or oversight agencies with respect to the same, who have hired your firm in the recent past to conduct a review similar in nature to this proposed engagement. Please include the following information:
  - a. Client name
  - b. Client asset base

- c. Client type (public pension plan, corporate pension plan, mutual fund, endowment, foundation, other)
- d. Key contact name
- e. Key contact address
- f. Key contact phone number
- g. Beginning and end-date of engagement

**E. Resources**

**Page Limit: 3 Pages**

1. Please list the number of personnel in your firm, categorized according to the following schedule. Your total number of employees should agree with the figure provided in section A.6.

**Employment Headcount at End of Most Recent Year  
PROFESSIONAL STAFF  
COUNT**

Lead Consultants

Consultants

Analysts

Marketing / Sales Professionals

Statisticians

Client Service Professionals

Technology Specialists

Other Professional

**Total Professional Staff**

**Total Support Staff**

**Total Employment**

2. Please list your firm's affiliations with organizations that sponsor and support investment-related research, such as the American Institute of Certified Public Accountants (AICPA), CFA Institute, National Council of Real Estate Investment Fiduciaries (NCREIF) and others.

3. Please describe your firm’s investment research expenditures, resources, and activities. Please list relatively recent original research articles prepared by members of your organization that have been published in finance and investment-related journals and periodicals.
4. Please describe your firm’s investment-related technology expenditures, expertise and capabilities. Such description should discuss your firm’s knowledge and familiarity with PC network hardware and software, investment accounting software, security and risk analysis software, investment operations software, trading platforms, and internet and intranet applications for investments.

**F. Timeline**

Provide an estimated date that the final report will be submitted and the projected timeline or the anticipated work requirements and milestone dates to reach that date.

**G. Fees and Sample Contract**

**Page Limit: Bid Option and Fees – 2 pages, Contract – 10 Pages**

1. Please provide a detailed, itemized fee schedule for all elements and requirements to fulfill this engagement. Fee schedules should include a maximum cap per category. The estimated cost for each major category enumerated in “Consulting Services Sought” should be separately shown. Please include a breakdown of travel costs, including the anticipated number of trips, the number of employees on each trip, and the length of each stay.
2. Please provide a sample contract that your firm proposes to use if selected for this engagement.

**IV. EVALUATION OF PROPOSAL**

Proposals will be evaluated across the categories listed in Section III of this RFP using a scoring system that will total 100 points. Incomplete or insufficient answers to proposal requirements may cause a reduction in points awarded. An ORSC Subcommittee and ORSC staff will preliminarily evaluate and score the responses, and provide a recommendation to the ORSC. The ORSC will award the project through its evaluation of the responses, in conjunction with the Subcommittee’s recommendation and subsequent interviews by the Council as a whole.

The following table provides a listing of the major categories of evaluation, and the relative importance of each category:

|                          |           |
|--------------------------|-----------|
| Understanding of Project | 15 points |
| Firm Qualifications      | 25 points |

|                               |                   |
|-------------------------------|-------------------|
| Assigned Staff Qualifications | 30 points         |
| References                    | 10 points         |
| Resources                     | 15 points         |
| Cost <sup>1</sup>             | 5 points          |
| <b>Total Possible Score</b>   | <b>100 points</b> |

Your firm’s proposed fee structure for this engagement will be evaluated in conjunction with your response to this RFP and will be compared against cost estimates provided in competing proposals.

## **VI. TERMS OF THE PROPOSAL**

The ORSC reserves the right to accept or reject any or all proposals and to negotiate the terms of any contract that may result from the proposal. Any contract resulting from this RFP shall be governed by and in accordance with the laws of Ohio. Before any work can commence under the initial contract, final approval must be given by the ORSC.

In evaluating the proposals, cost will not be the sole factor. The ORSC reserves the right to request additional information from the responding firms after the proposal receiving date and deadline for submission of the RFP. All proposals submitted shall become the property of the ORSC and shall not be subject to public inspection until the negotiation process is concluded either by award of a contract or at the discretion of the ORSC. All proposals will be subject to Ohio Open Records provisions upon completion of the search process. Those firms wishing to be considered must complete the proposal as outlined above. Failure to comply with or failure to complete any part of the proposal may result in rejection of the entire proposal.

Responding firms selected as finalists may be required to appear before the ORSC, at their own expense, for an interview prior to awarding the contract. Dates for interview will be determined by the advisory subcommittee of the ORSC. The ORSC specifically reserves the right to vary all provisions set forth herein at any time prior to execution of a contract when the ORSC deems it to be in the best interest of the ORSC. The ORSC is not responsible for any costs incurred by the responding firms prior to the execution of the contract.

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<sup>1</sup> A firm shall receive points based on cost by dividing the lowest bid by that firm’s bid, and multiplying the quotient by the maximum number of points available. Points will be deducted if the cost does not follow the requirements imposed by section III.G. of the RFP.