

**Proposal to the
Ohio Retirement Study Council
to Perform a
Fiduciary Performance Audit of the
Ohio Police & Fire Pension Fund**

June 29, 2021



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facilitate duplex printing.

FAS PROPOSAL TO CONDUCT A FIDUCIARY PERFORMANCE AUDIT OF OP&F

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I. PROPOSAL SUMMARY

A. Executive Summary

Each proposal shall provide a narrative summary of the proposal being submitted. This summary should identify all of the services and work products that are being offered in the proposal and should demonstrate the firm's understanding of the project.

Funston Advisory Services LLC (FAS) understands the purpose of this Fiduciary Performance Audit is to identify areas of strengths and weaknesses in the Ohio Police & Fire Pension Fund (OP&F), compare OP&F operations with best practices of other public pension plans, and make recommendations for improvement. FAS is very interested in conducting this review of behalf of the Ohio Retirement Study Council (ORSC) and believe we would be the best candidate for the role for five primary reasons:

1. **FAS is the most knowledgeable and experienced consulting firm capable of conducting this type of governance review.** We have completed fiduciary and operational reviews of the South Carolina Retirement System Investment Commission (twice), the South Carolina Public Employee Benefits Authority (twice), the New York City Bureau of Asset Management, The New York State Comptroller (Common Retirement Fund) (twice), and the School Employees Retirement System of Ohio (SERS). Each one of these reviews was comprehensive and very well received. The rate of implementation of our recommendations has been very high. Through these reviews, several of which included benchmarking with numerous other state public pension funds, we have developed a broad knowledgebase of leading, prevailing and lagging governance and operational practices (InGov®) that can be leveraged for this review of OP&F. We are currently working with other state retirement systems and have an up-to-date understanding of current issues and leading practices.
2. **We are independent and provide an unbiased perspective and recommendations.** Consulting on governance, strategy, risk and operations and providing education to retirement systems is our only business. We do not have any other lines of business that could potentially cause conflicts or even the appearance of conflicts. We can and do provide candid and independent advice. Our reports have the credibility the ORSC and OP&F are seeking to reassure stakeholders.
3. **The experience and expertise of our consultants are unmatched, and our advice is practical.** Our team members have deep and diverse experience in leading retirement organizations, providing fiduciary and investment counsel, managing the finance, accounting, operations and other support functions of a system, building risk management capabilities, and in providing strategic and operational advice to clients like OP&F. We understand the environment and constraints in which OP&F operates and, consequently, we will work together to develop integrated solutions and provide recommendations that are practical and, therefore, implementable.
4. **We deliver on our commitments.** We have never missed a deadline, nor have we failed to deliver what we promised with any client. In addition to having the capability and expertise, we take our commitment to professional standards very seriously and do what it takes to meet our client commitments with the highest degree of integrity.
5. **We understand the Ohio legislative environment and how to work with the ORSC.** In 2016-17, we completed a review of SERS of Ohio on behalf of the ORSC – our team understands the environment OP&F operates in and its challenges.

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As with the SERS fiduciary performance audit, Rick Funston will provide overall leadership and Randy Miller will again be the project manager. Keith Johnson and Reinhart Law will again provide fiduciary and other legal expertise. Steve Case, along with Rick and Randy, will lead the review of investment due diligence and other investment operations. Mike Gold, along with Randy, will lead the review of budgeting and expenses and compensation policies. Lisa Morris, who is familiar to you as the former Executive Director of SERS, will be part of this team and address Board governance, organizational structure and staffing, and Board reporting and oversight. Mike Gardner, assisted by Steve Harding, will lead the assessment of risk management and controls. Steve Ross, with assistance from Steve Harding, will review IT operations. The entire team will be involved in identifying opportunities for improvement and formulating recommendations.

We believe a five- to six-month duration for this review is reasonable and achievable and have developed our approach and workplan to complete the review in that time period. We would not see any significant benefit from a longer duration for this review.

We propose conducting this review in three phases as follows:

Phase 1: Data Gathering: Collect and review documents; complete an InGov® peer profile benchmarking report; complete an online self-assessment survey of Board members and executive staff; conduct the Opening Conference; and conduct internal and external interviews. This phase would require seven to nine weeks to complete;

Phase 2: Assessment/Analysis: Complete each of the six main work tasks. The tasks comprising this phase would require nine to eleven weeks to complete; and,

Phase 3: Final Report: Submit the final draft report; obtain OP&F executive and staff and ORSC feedback; incorporate feedback; submit final report; and conduct Closing Conference. This phase would require five to six weeks to complete.

Rick Funston will have overall responsibility for the project and its results. On a day-to-day basis, Randy Miller will be the primary contact person and project manager. We would also expect to have regular bi-weekly status update conference calls with the OP&F project liaison to ensure effective ongoing communication throughout the project. We will provide at least monthly written status reports to the ORSC as well as bi-weekly conference calls to review progress. As described later in the proposal, we also use a cloud-based collaboration tool which would enable ORSC to monitor progress in real time, if desired.

Prior to conducting the Opening Conference, the FAS team will review OP&F documents, enabling legislation and relevant statutes. We will provide OP&F staff with InGov® profile survey questionnaires and FAS will prepare an OP&F peer benchmarking profile report. We will also prepare and administer an online self-assessment survey completed by Board members and executive staff. We have found this to be very helpful in identifying potential issues and improvement opportunities and also in engaging the Board and executive team in the review process. Prior to arriving onsite for the Entrance Conference, we will also work with the OP&F contact person to schedule interviews.

We anticipate submitting the first draft final report within fifteen to sixteen weeks. The five- to six-week Phase 3 will allow adequate time for OP&F, and subsequently the ORSC, to review the document and provide responses to FAS. After incorporating the feedback, we will submit the final report and present a

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summary of the report in the Closing Conference. All time estimates are dependent upon timely cooperation from OP&F.

The final report will include: a description of the work performed; an executive summary; a description of leading practices used for comparison; findings and recommendations as to whether OP&F's practices are leading, prevailing or lagging; recommended priorities based on such factors as degree of difficulty, cost, and involvement of other parties; and specific and concrete proposals to achieve any improvements recommended in the report. The recommendations and proposals will be prioritized and provide the potential costs or benefits associated with implementation. The key findings, recommendations, and proposals will be organized in a manner that clearly identifies to whom they are primarily directed (e.g., the Legislature, OP&F Board, OP&F staff functions, and the ORSC).

We sincerely look forward to the opportunity to work with the ORSC and OP&F on this important assignment. You have our commitment that this will receive our highest attention and we will deliver a high quality and timely report.

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B. General Information

In addition to the summary, please provide all of the following general information:

- The firm's primary contact for ORSC staff use and, if different, for OP&F staff use during the audit, including the contact's address, telephone and e-mail address;

Randy Miller, Chief Operating Officer of FAS, will be the primary contact person for both the ORSC and OP&F. He can be contacted via email at rmiller@funstonadv.com or via telephone at (248) 250-1111.

- General ownership structure of the organization, including subsidiary and affiliated companies, and joint venture relationships;

FAS is and has been 100% owned by Rick Funston since its founding in 2010.

Rick Funston also owns two other entities: Board Smart LLC, which has been formed to provide a self-directed and self-paced Governance eLearning Resource for public retirement system trustees and executives; and, Board Insights LLC, which was formed to provide board portal customization services.

FAS does not have any equity positions in joint ventures; however, FAS does often work with other firms either as a prime contractor or as a subcontractor in order to include the appropriate experience and capabilities for a specific engagement. In this proposal, for example, we are including Reinhart Law as a subcontractor to address legal and governance topics.

- Information regarding any material change in the firm's structure or ownership within the last eighteen months, or any material change in ownership, staff, or structure currently under review or being contemplated by the firm;

No changes in ownership have occurred or are currently being contemplated.

- If available, a third-party assessment or report concerning client satisfaction and measures of the firm's strengths and weaknesses;

FAS has not been evaluated by a third-party firm for client satisfaction; however, we would urge you to contact our reference clients to discuss our work.

- Any material litigation which has been threatened against the firm or to which the firm is currently a party;

FAS is not now, nor has it ever been, party to any litigation.

- A list and brief description of litigation brought against the firm by existing or former clients over the last five years; and

FAS is not now, nor has it ever been, party to any litigation.

- A list of any professional relationships involving the 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. In the event that the firm has had any professional relationships involving

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the ORSC, the five Ohio public retirement systems, the State of Ohio, or its political subdivisions for the past five years, the firm shall provide a statement explaining why such relationships do not constitute a conflict of interest relative to performing the proposed review, or if necessary, an explanation of the actions that will be taken to ensure an independent review.

In March 2015, FAS was contracted by Ohio Police & Fire to conduct a Board workshop on leading practices in retirement system governance and the linkages between governance and strategy.

In August 2016, the ORSC selected FAS to conduct a fiduciary performance audit of SERS of Ohio. The review was initiated in September 2016 and completed in February 2017. A summary of the final report was presented to the ORSC during their May 2017 meeting. FAS has subsequently had follow-up conversations with representatives of the ORSC and SERS regarding our fiduciary performance audit recommendations.

Lisa Morris, former Executive Director of the School Employees Retirement System (SERS) of Ohio, retired from that position in 2016. She has had no professional relationships or other relationships with any of the entities listed or with any offices of the State of Ohio since her retirement. She has not attended any retirement system meetings nor retained any relationships with the ORSC or OP&F.

FAS has not identified any conflicts for this OP&F fiduciary performance audit assignment resulting from any of these relationships. To the contrary, we believe that these interactions and experience have informed the proposed FAS project team about the state retirement system environment in Ohio and the expectations of the ORSC for this type of assignment; all of this should provide a significant body of knowledge and experiences to support a successful engagement on behalf of the ORSC.

II. CAPABILITIES AND EXPERIENCE

A. Overview of Funston Advisory Services LLC (FAS)

Each proposal shall describe the firm's capabilities and recent experience (at least during the last five years) in performing fiduciary audits or studies of public employee retirement systems. The firm should include information on the types and sizes of public employee retirement systems for which past work has been performed, including whether the systems were defined benefit or defined contribution plans, the types and number of participating employers, number of participants, and other relevant indicators of plan type, size, and comparability to OP&F.

Funston Advisory Services LLC (FAS) was formed in 2010. The principals have been providing governance, strategy, risk advisory and education services since at least 1980. FAS works with a network of public pension retirement system experts who operate as independent subcontractors to FAS, including specialized firms, such as Reinhart Law, Olson Remcho Law, Meketa investment Group, and Cutter Associates. Each team member is a highly-experienced professional, with decades of consulting, legal and/or pension industry experience.

Funston Advisory Services is currently recognized as one of the nation's preeminent advisors to public retirement systems in the areas of governance, operations (including investment operations), compliance risk intelligence and education. We are distinguished by the caliber and experience of our team and the quality and pragmatism of our advice.

Our approach is based on leading practices and tempered with decades of practical experience based upon what actually works in specific circumstances. We also are completely independent; as we are not investment consultants, we have no conflicts in reviewing investment programs. We receive no revenue whatsoever from investment managers or investment consultants.

FAS has assisted a growing number of major public retirement systems and sovereign wealth funds in evaluating their fiduciary performance and identifying governance, regulatory, policy, and operational process improvement opportunities. We have also assisted funds in evaluating the requirements for establishing the capabilities for internal investment management. Our reviews typically result in a high level of acceptance of the results and extensive implementation of the recommendations.

Over the past five years, we have conducted a series of fiduciary and/or operational reviews with state, county and municipal retirement systems. All have at least one primary defined benefit plan and many also offer various defined contribution options. The following is a list of our retirement system engagements over the past ten years.

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Client	Current AUM \$B	Timeframe	Nature of Engagement
Indiana Public Retirement System (INPRS)	\$30.7	5/2021 - ongoing	Board Governance Policy and Effectiveness Review
Pennsylvania State Employees' Retirement System (SERS)	\$34.5	1/2021 – 6/2021	Board Self-Assessment and Fiduciary Review
Pennsylvania Public School Employees' Retirement System (PSERS)	\$64.2	11/2020 - ongoing	Board Governance Review
Fairfax County (VA) Retirement Systems	\$8.1	9/2020 - ongoing	Investment Operations Improvement
California Public Employees' Retirement System	\$376.9	1/2020 – ongoing	Improve Board and Committee Reporting
Milwaukee County Employees' Retirement System	\$1.7	6/2019 – 12/2019	Board Charter and Policy Implementation
Employees' Retirement System of the State of Hawaii	\$16.5	6/2019 – 10/2019	Governance Structure and Policy Review
South Carolina State Auditor – Public Employee Benefit Authority	\$38.5	5/2019 – 12/2019	Fiduciary Performance Audit
Delaware Public Employees' Retirement System	\$10.1	4/2019 – 9/2019	Board Self-Assessment
Wyoming Retirement System	\$9.1	10/2018 – 5/2019	Governance and Operational Review
Milwaukee County Employees' Retirement System	\$1.7	7/2018 – 11/2018	Governance Review
California Public Employees' Retirement System	\$376.9	6/2018 – 7/2019	Improving Executive Reporting to the Board
Maryland State Retirement and Pension System	\$52.4	6/2018 – 10/2018	Board Governance Policy Review
South Carolina State Auditor – Retirement System Investment Commission	\$38.5	5/2018 – 12/2018	Fiduciary Performance Audit
State Board of Administration of Florida	\$11.1	3/2018 – 5/2018	Defined Contribution Compliance Review
Montgomery County Public Schools	\$1.7	4/2018 – 9/2018	Investment Operations Review
Utah Retirement Systems	\$37.3	5/2018 – 9/2018	Investment Operations Review
State Board of Administration of Florida	\$174.7	9/2017 – 1/2018	Governance, Risk and Compliance Review
Maryland State Retirement and Pension System	\$52.4	6/2017 – 10/2017	Internal Asset Management Implementation Planning*
San Francisco Employees' Retirement System	\$29.3	1/2017 – 7/2017	Board Performance Evaluation
Texas State Auditor's Office – Teacher Retirement System of Texas	\$153.1	9/2016 – 12/2016	Real Assets Investment Program Review**

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Client	Current AUM \$B	Timeframe	Nature of Engagement
Ohio Retirement Study Council – School Employees Retirement System of Ohio	\$14.6	9/2016 – 2/2017	Fiduciary Performance Audit
Employees' Retirement System of Rhode Island	\$9.5	4/2016 – 7/2016	Board Governance Policy Manual
Los Angeles County Employee Retirement Association (LACERA)	\$57.1	1/2016 – 7/2017	Board and Committee Charter Development; Strategic Planning
New York State Comptroller – Common Retirement Fund	\$213.2	1/2016 – 6/2016	Fiduciary and Conflict of Interest Follow-up Review
Indiana Public Retirement System	\$34.8	11/2015 – 6/2016	Internal Asset Management Feasibility Study*
Utah Retirement Systems	\$37.3	10/2015 – 2/2016	Board Governance Review
Pennsylvania State Employees' Retirement System	\$32.6	1/2015 – 2/2016	Review of Board and Organizational Structure
New York City Comptroller – Bureau of Asset Management	\$200.8	6/2015 – 1/2016	Management and Operations Study and Best Practice Review
Trust Fund for the People of the Federated States of Micronesia	\$0.6	3/2015 – 6/2015	Financial and Fund Evaluation
South Carolina State Inspector General – Public Employee Benefit Authority	\$38.5	10/2014 – 1/2015	Fiduciary Performance Audit
South Carolina State Inspector General – Retirement System Investment Commission	\$38.5	12/2013 – 4/2014	Fiduciary Performance Audit
School Employees Retirement System of Ohio	\$14.6	1/2013 – 5/2013	Fiduciary Audit of Investment Operations
New York State Comptroller – Common Retirement Fund	\$213.2	8-2012 – 1/2013	Fiduciary and Conflict of Interest Review
Oregon Investment Council	\$81.3	12/2011 – 2/2012	Fiduciary Governance Review
California Public Employees' Retirement System (CalPERS)	\$376.9	3/2011 – 9/2011	Board Governance and Effectiveness
California Public Employees' Retirement System (CalPERS)	\$376.9	10/2010 – 5/2011	Stakeholder Relations Strategy
California Public Employees' Retirement System (CalPERS)	\$376.9	9/2010 – 10/2011	Start-up of Enterprise Risk Management Program

* Joint engagement with Cutter Associates

** Joint engagement with Meketa investment Group

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FAS has developed a Public Retirement System Leading Practices database, called InGov[®], which compares governance structure, policies and practices across key areas, including:

- Statutory governance and authorities
- Board composition and policies
- Pension plan funding and actuarial processes
- Board operations
- Board committees
- Board delegations
- Board use of third-party service providers
- Strategic planning
- Investment strategies and policies
- Investment operations
- Legal support
- Pension administration
- Insurance administration
- Enterprise administration
- Enterprise risk management
- Independent reinsurance
- Compliance and controls

The InGov[®] reports are based upon responses to over 300 survey questions and provide insights into peer policies and practices and how your system compares.

FAS has also developed a National Public Pension Policy Repository (N3PR) that contains governance and investment policies from over 80 U.S. state, county, and municipal public retirement systems. The policy repository is searchable and used to quickly identify existing policies at peer systems for comparison and identification of leading and prevailing practices.

FAS has developed an affiliated service called Board Smart, a self-directed and self-paced Governance eLearning Resource for public retirement system trustees and executives. It provides a Core Curriculum that currently includes over 30 “Talks” on subjects common to all public retirement systems that explains key concepts and provides practical examples, with links to curated materials and other resources. It also includes System-Specific links to each system’s legislation, bylaws, charters, and policies and to those of peers for fast and easy reference.

Numerous FAS team members contributed chapters to the handbook for trustees entitled “One of a Kind! A Practical Guide for 21st Century Public Pension Trustees,” that has been published by FAS. All areas of scope included in this fiduciary evaluation are addressed in the handbook at a level of detail appropriate for trustees.

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B. Recent Governance and Fiduciary Reviews

You may provide a sampling or summary description of the scope of these projects and non-proprietary key findings and recommendations.

The following are overviews of five fiduciary reviews FAS has performed for public retirement systems over the past five years. Reference contact information for each is provided in *Section IV*.

Employees' Retirement System of the State of Hawaii

The State of Hawaii Employees' Retirement System (HIERS) is governed by a fiduciary Board of Trustees and oversees \$14 billion in trust assets. Certain areas of administrative control are under the State Department of Budget and Finance. Budgets, compensation and hiring are subject to final approval by the State Legislature. ERS had significantly evolved and developed over recent years, including the creation of an internal investment office with a Chief Investment Officer and supporting professional investment staff to better implement a more complex investment portfolio approved by the Board.

The Board had also recently created an ad hoc Governance Committee. The Committee was reviewing current Board governance policies and practices to identify potential areas of improvement. The intent was to complete plans for governance changes by the end of fall 2019, prior to the retirement of several long-serving trustees.

In June 2019, Funston Advisory Services LLC (FAS) was asked to assist the ad hoc Governance Committee and the Executive Director. The goal was to identify priority governance improvement opportunities based upon leading policies and practices at peer public retirement systems.

The engagement was organized into two phases:

Phase 1: Development of a Preliminary Report

1. Review ERS governance policies, charters and practices
2. Develop ERS InGov® profile
3. Complete ERS Board and Executive 360° Governance Effectiveness Self-Assessment Survey
4. Conduct individual, anonymous telephone interviews
5. Analyze results and prepare and submit preliminary report for feedback

At the end of Phase 1, the preliminary report was distributed to the full Board for review.

Phase 2 included the following activities:

1. ERS Board and Executive review and provide feedback on preliminary findings, conclusions and recommendations
2. FAS follow up with ERS Board and discussion of feedback
3. Finalize findings, conclusions and recommendations
4. Develop implementation roadmap
5. Present final report and roadmap to the ERS Board

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The final report was discussed with the Board at their October 2019 meeting. The thirty-two recommendations included in the report were largely based on needed changes identified by the Board. FAS added some additional recommendations for the HIERS Board to consider based on our knowledge and experience with similar systems.

Wyoming Retirement System

Wyoming Retirement System (WRS) serves 650+ employers and 41,000 active members. WRS administers eight different pension plans and a 457(b) supplemental retirement savings plan.

WRS is governed by the Wyoming Retirement Board of Trustees consisting of the State Treasurer and ten other members appointed by the Governor and confirmed by the Senate. The Board employs an Executive Director who oversees a staff of about 40 employees. WRS manages approximately \$9.1 billion in assets.

FAS was selected by the Wyoming Retirement System (WRS) to conduct a governance and operational review that was initiated in October 2018. The purpose of the review was to ensure WRS' practices meet its fiduciary duties and to obtain an independent evaluation of six areas:

1. Legal and regulatory framework;
2. Governance framework;
3. Enterprise strategies and risks;
4. Investment operations;
5. Pension administration operations; and
6. Administrative operations.

The review focused on potential improvements regarding: 1) governance, investment and administrative policies and procedures; 2) resources associated with managing the system; and 3) functions, roles and responsibilities of the staff, investment managers and consultants. In most cases, we compared WRS' policies and practices to leading, prevailing and lagging practices at peer public retirement systems. The Board made it very clear that they wanted a constructive but critical review to identify practical improvement opportunities.

The final report was discussed with the Board at their May 2019 meeting. It included 88 prioritized recommendations for improvement that were subsequently assigned to either a Board committee or staff.

South Carolina Public Employee Benefit Authority

The South Carolina Public Employee Benefit Authority, which was created in 2012, is governed by an 11-member Board of Directors who supervises and directs the agency's functions. PEBA manages retirement plans for nearly 549,000 members and offers several insurance products/programs, including the State Health Plan, to more than 436,000 people. More than 850 employer groups participate in PEBA retirement and/or insurance benefits programs including state agencies, public colleges and universities, public school districts, as well as local subdivisions such as counties and municipalities.

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Funston Advisory Services LLC (FAS) was selected by the South Carolina Office of the State Auditor (OSA) to conduct the 2019 South Carolina Public Employee Benefit Authority (PEBA) fiduciary performance audit. FAS also completed the 2015 fiduciary performance audit of PEBA, which was conducted at the direction of the South Carolina State Inspector General.

The scope of the 2015 review included governance; policy review and development; organizational structure; communications with stakeholders; benefit administration; actuarial matters; legal compliance; customer service; record keeping and information security; cost of operations; and information systems technology. In total, 105 recommendations for improvement were identified. Responsibility for each recommendation was assigned and PEBA tracked progress on a regular basis.

The primary purpose of the 2019 audit was to evaluate the progress made in implementing the recommendations resulting from the 2015 fiduciary performance audit of PEBA and also identify any areas of weakness in current operational policies and practices. We assessed that 75 of the 105 recommendations were fully implemented and another 15 were substantially implemented. Seven recommendations were still in process, primarily due to dependencies on implementation of a new benefit administration system. Eight recommendations were not implemented.

The FAS project team reviewed documents and conducted interviews with PEBA trustees and staff and with key stakeholders, including retirees, investment advisors, vendors, employers, and others.

Ten recommendations were made to the General Assembly in the 2015 PEBA fiduciary performance audit. The FAS team provided testimony to a Senate subcommittee and to a special joint committee. The General Assembly ultimately enacted significant statutory changes through its 2017 Pension Reform legislation. With respect to PEBA, the reforms, which were signed into law in April 2017, addressed four of the legislative recommendations made in the 2014 fiduciary performance audit report. Changes included: clarification of fiduciary responsibilities; changing board member terms and making them staggered; repealing the requirement for the board to meet monthly; and streamlining the requirements for member death notifications.

The 2019 fiduciary performance audit identified 55 new recommendations for improvement. These recommendations were prioritized according to significance and urgency and included an analysis of potential costs or benefits associated with implementation. They were presented to and discussed with the PEBA Board at their November 2019 meeting. The final report can be found online at: https://www.peba.sc.gov/sites/default/files/2019_fiduciary_audit.pdf.

South Carolina Retirement System Investment Commission

The South Carolina Retirement System Investment Commission has exclusive authority for investing and managing all assets held in trust for the participants and beneficiaries of the five state defined benefit plans and currently manages about \$32 billion in assets.

Funston Advisory Services LLC (FAS) was selected by the South Carolina Office of the State Auditor (OSA) to conduct the 2018 South Carolina Retirement System Investment Commission (RSIC) fiduciary performance audit. FAS also completed the 2014 fiduciary performance audit of RSIC, which was conducted at the direction of the South Carolina State Inspector General.

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The scope of the 2014 review included governance; policy review and development; organizational structure; investment administration; legal compliance; and information technology. In total, 126 recommendations for improvement were identified. Responsibility for each recommendation was assigned and the Investment Commission tracked progress on a regular basis.

The primary purpose of the 2018 audit was to evaluate the progress made in implementing the recommendations resulting from the 2014 fiduciary performance audit of RSIC and also identify any areas of weakness in current operational policies and practices. We assessed that 110 of the 126 recommendations were fully implemented and another 9 were substantially implemented.

Eight recommendations were made to the General Assembly in the 2014 RSIC fiduciary performance audit. The FAS team provided testimony to a Senate subcommittee and to a special joint committee. The General Assembly ultimately enacted significant statutory changes through its 2017 Pension Reform legislation. With respect to RSIC, the reforms, which were signed into law in April 2017, addressed all but two of the legislative recommendations made in the 2014 fiduciary performance audit report. Changes included: designation of fiduciaries; setting of the assumed actuarial return; selection of external legal counsel; increasing the size of the Investment Commission, including adding an additional appointee who must be an active member of one of the defined benefit systems; and qualification criteria for commissioners. These improvements have been a major contributor to the ability of RSIC to continue to make strides in its governance and performance.

The FAS project team reviewed documents and conducted interviews with commissioners and staff, investment consultants, a sample of investment managers across asset classes, and the custodian, and with key stakeholders, including member and retiree organizations and legislative liaisons.

The 2018 fiduciary performance audit identified 52 new recommendations for improvement. These recommendations were prioritized according to significance and urgency and included an analysis of potential costs or benefits associated with implementation. They were presented to and discussed with the Investment Commission at their November 2018 meeting. The final report can be found online at: <https://osa.sc.gov/wp-content/uploads/2018/11/RSIC-Fiduciary-Performance-Audit-2018.pdf>.

School Employees Retirement System of Ohio

SERS of Ohio is a defined benefit public pension fund that provides pensions and access to health care coverage for the employees who serve the schools in a nonteaching position. In fiscal year 2016, SERS served 124,540 active, contributing members and 76,280 benefit recipients. The Fund currently has invested assets of over \$14 billion.

FAS conducted a fiduciary review of the investment-related operations of the School Employees Retirement System of Ohio (SERS) at the request of SERS in 2013. In 2016, FAS was engaged by the Ohio Retirement Study Council (ORSC) to conduct a fiduciary performance audit of the entire organization as part of the ORSC statutory mandate to conduct a fiduciary performance audit of each statewide system at least once every ten years.

The purpose of the 2016 Fiduciary Performance Audit chartered by the ORSC was to identify areas of strengths and weaknesses in SERS, compare SERS' operations with leading practices of other public

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pension plans, and make recommendations for improvement. Project work was initiated in September 2016 and the final report was submitted in February 2017. The FAS team presented the results to the ORSC at their meeting in May 2017.

There were six major areas reviewed as part of the Fiduciary Performance Audit as defined by the Request for Proposal:

1. Board Governance and Administration;
2. Organizational Structure and Staffing;
3. Investment Policy and Oversight;
4. Legal Compliance;
5. Risk Management and Controls; and,
6. IT Operations.

To complete our assessment and comparison to leading, prevailing and lagging practices, we reviewed over 200 SERS policies and procedures, internal and external reports, board and committee charters and reports to the Board. We conducted interviews with all trustees and over 30 SERS executives, as well as over 20 outside service providers, including the external auditor, the actuary, the investment consultants, 10 external asset managers, the securities lending agent, the custodial banks, the Treasurer of State staff, and IT consultants. In addition, we drew upon our prior experience and our benchmarking knowledge bases to reach our conclusions. Subsequent to the completion of the report, in April 2017, we also completed a post-implementation review of the new SMART (SERS Member and Retiree Tracking) system that went live in February 2017.

The 2016-17 review identified 79 recommendations for improvement. Included in these recommendations were three proposed legislative changes for the ORSC to consider relating to the open meetings statute, the requirement for favoring in-state brokers, and the designation of the Treasurer of State as the fund custodian.

The final report can be found online at: <http://www.orsc.org/Assets/Reports/1229.pdf>.

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C. Specific Areas of Experience

You should include other information you believe may be relevant in demonstrating your capabilities in performing the actuarial audit, including other professional experience and data processing capabilities. Please include your firm's experience and capability regarding all of the following:

- Reviewing internal trading and trade processing operations
- Reviewing internal operational and investment risk controls
- Reviewing external manager and advisor selection processes, fee structures, reporting, and oversight
- Reviewing investment accounting processes, performance computation processes, and custodial support
- Reviewing the staffing, structure, and employee satisfaction of investment organizations
- Reviewing incentive compensation programs for public investment organizations
- Conducting an asset/liability process study and developing an investment policy for a defined-benefit public pension plan

Reviewing internal trading and trade processing operations

The FAS fiduciary review of the New York City Bureau of Asset Management included a review of internal trading operations. In addition, FAS, working with Cutter Associates, performed a study for the Indiana Public Retirement System to evaluate feasibility of managing certain asset classes internally and, subsequently, we also developed an implementation plan for internal investment management, including trading operations, for the Maryland State Retirement and Pension System.

Mike Gold was previously Senior Managing Director and head of Asset Management Services for TIAA-CREF, where he managed all investment middle office operational functions for global equities, fixed income, commercial mortgages, real estate, private equity, and real assets. Concurrently, he led distribution operations for brokerage and mutual funds and directed the design and implementation of the division's capabilities in CRM, sales reporting, and content delivery for institutional and intermediary distribution channels.

Steve Harding was responsible for reviewing trading operations while directing internal audits for the New York State Common Retirement Fund as its internal auditor. His work included reviews of external managers' systems for compliance with the funds' investment policies and the manager mandates. He was on the forefront of establishing and strengthening automated and manual pre- and post-trade compliance routines. As the internal auditor, he was also responsible for reviewing trading operations that managed more than \$30 billion internally.

Additionally, Steve Harding evaluated internal trading and trade processing as part of the operational reviews of numerous public funds, including for example, the Los Angeles City Employees Retirement System, Teacher Retirement System of Texas (at the time \$74 billion internally managed), the Louisiana State Employees Retirement System (review of operations and controls of its internally managed S&P500 index portfolio), and the Ohio Public Employees Retirement System.

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Steve also brings several years of experience auditing and evaluating internal trading and trade processing operations of a publicly traded broker/dealer as its internal auditor, and also as its external auditor when he was a practicing CPA. During this period Steve was a member of the Securities Industry Association/Internal Audit Division (SIA/IAD) and Chairman of the New York State Society of CPAs Stockbrokerage Accounting Committee.

FAS also has experience in advising public pension funds that are currently externally managed but are planning to adopt internal trading. These planning engagements required FAS to understand all aspects of internal trading requirements, including system requirements, creating oversight reports, and staffing needs for front, middle and back office functions. We conducted planning engagements of this type for the Indiana Public Retirement System in 2016 and, more recently, the Maryland State Retirement System. Randy Miller and Keith Johnson were core members of those teams.

Reviewing internal operational and investment risk controls

FAS has reviewed internal operational and internal risk controls during our reviews of the New York State Common Retirement Fund, the School Employee Retirement System of Ohio, the South Carolina Retirement System Investment Commission, the New York City Bureau of Asset Management, and the Florida State Board of Administration.

We have four team members with extensive experience in risk management and controls. Rick Funston was previously the National Practice Leader for Governance and Risk Oversight for Deloitte & Touche. Steve Ross was the global leader of Deloitte's Business Continuity Management practice and has been International President of ISACA (the Information Systems Audit and Control Association. Mike Gold's responsibilities during his tenure with TIAA-CREF included chairing the company's Operational Risk Management Committee. He also implemented many of the FAS recommendations at the New York City Bureau of Asset Management, including the establishment of an enterprise risk management monitoring program encapsulating investment, strategic, compliance, and operations risks and controls. Mike Gardner has been the VP of Internal Audit and Chief Risk Officer at two Fortune 500 Companies where he developed and implemented risk management capabilities. In addition, Mike has consulted with other organizations, including major utilities and research universities, to develop or enhance their risk management capabilities.

Reviewing ancillary investment functions such as cash management, securities lending, proxy voting, shareholder litigation, and regulatory reporting

Each of these areas was reviewed by FAS during our fiduciary reviews of the New York State Common Retirement Fund, the School Employees' Retirement System of Ohio, the South Carolina Retirement System Investment Commission, and the New York City Bureau of Asset Management.

For these engagements, Keith Johnson reviewed proxy voting and shareholder litigation. Keith and Tiffany Reeves at Reinhart Law both advise public pension fund clients and have published articles on proxy voting, shareholder litigation, regulatory reporting and securities lending matters.

Among the FAS recommendations Mike Gold implemented for the NYC Bureau of Asset Management were the reengineering and documentation of key internal investment processes, including asset

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allocation rebalancing, transition management, and cash management, (including remediating cash drag on the portfolio) and the definition and implementation of key performance metrics for critical counterparties, including the program's custodian and fund accountant, securities lending agent, and foreign exchange trading agent.

Steve Harding has performed internal audits of the listed ancillary functions for several large public funds (e.g., NYSLERS, LACERA, and COPERA). He has also conducted on-site audits at each of the major custody banks, and has reviewed the custody functions of several Columbus-based banks in audits of STRS, OPERS, and OP&F. While he was internal auditor at NYS Common Retirement Fund, Steve also conducted due diligence on the processes used to select domestic and global custodians. As a Director of Finance at IAM National Pension Fund, he negotiated the custody contract with State Street. Steve also audited the securities lending functions of Chase, State Street Bank & Trust, Northern Trust, and BNY/Mellon for several public pension funds and has provided litigation support in the bank custody area.

Reviewing external manager and advisor selection processes, fee structures, reporting, and oversight

These areas were within the scope of our reviews at the New York State Common Retirement Fund, the School Employees' Retirement System of Ohio, the South Carolina Retirement System Investment Commission, and the New York City Bureau of Asset Management.

For these reviews Randy Miller participated in the reviews of the external manager and advisor selection process reviews and fee negotiations and Keith Johnson reviewed investment mandate documentation, with a particular focus on private equity contracts, side letters and agreements.

Steve Harding performed an audit for OPERS in 2011 in response to a competitive RFP process to assist the Audit Department in benchmarking existing upfront and ongoing due diligence procedures and monitoring efforts for Real Estate, Private Equity and External Public Markets managers. In this example, OPERS desired to have an experienced and independent firm review its due diligence procedures and to benchmark them and receive suggestions for enhancement.

Steve Case has worked as an investment consultant with numerous plan sponsors, directly advising them on investment structure design, manager selection and monitoring across all asset classes. He is current in the competitive fee environment among the largest institutional investors and well versed in the best practices of external asset management due diligence and performance reporting.

Reviewing investment accounting processes, performance computation processes, and custodial support

Each of these areas was within the scope of our reviews at the New York State Common Retirement Fund, the School Employees' Retirement System of Ohio, the South Carolina Retirement System Investment Commission, and the New York City Bureau of Asset Management. Randy Miller led the review of custodial support during these reviews.

Steve Harding reviewed the then \$50 billion Teacher Retirement System of Texas newly-purchased investment performance and accounting system, known as Portfolio Accounting Management (PAM) software. He assessed the functionality of the system and its likely ability to perform the essential

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functions TRS needed, including whether the system could facilitate enhanced compliance monitoring, interfaces, control functions and management of data. He also assisted in the development of the Policies and Procedures Manual for the Investment Accounting Department. Steve reviewed accounting activities while employed by the New York State Common Retirement Fund and participated in the evaluation and selection of its investment accounting software application. As a CPA with a national firm accounting background, Steve had previously audited the financial statements and investment accounting activities of securities broker/dealers and other financial services entities. Over the past 12 years Steve has directed the statutory audit of the investment performance consultant for the Alaska Retirement Management Board (ARMB). Starting in 2010, then in 2014, and most recently in 2019, Steve and different teams of investment professionals reviewed the work of ARMB's consultants (Callan & Townsend). This included an evaluation of: (1) the format, content and frequency of the reports produced by Callan and Townsend; and (2) the methods, data and factors used in the calculations of the return and risk presented in these reports.

Keith Johnson and Tiffany Reeves at Reinhart Law have represented public pension funds in disputes with custodians over scope and quality of services. Reinhart regularly advises public pension funds on custodian contractual matters.

Reviewing the staffing, structure, and employee satisfaction of investment organizations

Each of these areas was within the scope of our reviews at the New York State Common Retirement Fund, the School Employees' Retirement System of Ohio, the South Carolina Retirement System Investment Commission, and the New York City Bureau of Asset Management. Randy Miller led the review of these areas for each of these projects.

Reviewing incentive compensation programs for public investment organizations

Many of our public retirement systems do not have incentive compensation programs either due to legislative restrictions or a philosophical belief that they are inappropriate. Having said that, we have reviewed overall compensation programs, typically in conjunction with an existing compensation study conducted by an independent third party, during several of our fiduciary reviews.

FAS completed reviews of the status of incentive compensation at the South Carolina Retirement System Investment Commission and SERS of Ohio. For the review of the Maryland State Retirement and Pension System, which was a road map for moving to more internal management of assets, the team developed a recommended incentive compensation program for all functions.

Conducting an asset/liability process study and developing an investment policy for a defined-benefit public pension plan

FAS does not conduct asset/liability studies and is not an investment advisor which provides financial advice and develops investment policy. However, we have reviewed the process by which asset/liability studies and investment policy are developed as part of the normal scope of our fiduciary reviews with the

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School Employees' Retirement System of Ohio and the South Carolina Retirement System Investment Commission. In addition, Lisa Morris oversaw the process as Executive Director of SERS of Ohio.

Steve Case, as an investment consulting partner with Mercer and RogersCasey, led numerous asset/liability studies for plan sponsors over 40 years including working on asset/liability reviews. He is very familiar with the concepts developed through the asset / liability review process and key assumption sensitivities during the reviews and ways to present and interpret outcomes.

Keith Johnson and Tiffany Reeves at Reinhart Law have assisted public pension fund clients in review and development of investment policy statements. This has included the State of Wisconsin Investment Board, Texas Teachers Retirement System, Milwaukee pension funds and other institutional investors.

III. STAFF QUALIFICATIONS

Each proposal shall, at a minimum, describe the qualifications of all management and lead professional personnel who will participate in the fiduciary audit. Each personnel description shall include: (1) a resume; (2) a summary of experience each has had in performing fiduciary audits or studies of public employee retirement systems; and (3) a management plan identifying the responsibilities each will have on the audit. Each proposal shall also include a description of the firm's procedures in the event that a key person assigned to this engagement leaves the firm during the engagement.

Each resume should include information on the current and past positions held with the firm, educational background, relevant credentials, and other relevant information to demonstrate the person's qualifications.

The experience summaries should include information on the types and sizes of public employee retirement systems for which the designated staff have completed work, including whether the systems were defined benefit or defined contribution plans, the types and number of participating employers, number of participants, and other relevant indicators of plan type, size, and comparability to OP&F. You may reference, rather than repeat, duplicative information provided in paragraph 4.2, Capabilities and Experience. The experience summaries also should describe the work performed and detail the roles and responsibilities that the individual staff had on the projects.

A. Proposed Project Team

FAS works with a network of public pension retirement system experts who operate as independent subcontractors to FAS, including specialized firms, such as Reinhart Law. Each team member is a highly-experienced professional, with decades of consulting, legal and/or pension industry experience. Our team has worked together on a series of high-profile governance assignments as described elsewhere in this proposal.

These engagements were unique assignments that required a customized approach and an in-depth understanding and review of governance structures and fiduciary responsibilities, critical decision-making processes, delegations of authority, investment operations, and accountabilities. The reviews frequently involved extensive benchmarking and original research to identify and describe leading and prevailing practices in a range of governance and operational areas.

Biographies of each team member proposed for this OP&F fiduciary performance audit are included below. Information regarding the types and sizes of public employee retirement systems for which proposed team members have completed work, including whether the systems were defined benefit or defined contribution plans, the types and number of participating employers, number of participants, and other relevant indicators of plan type, size, and comparability to OP&F can be found in *Section II. Capabilities and Experience*.

FAS has not had a project team member leave the firm during a project. However, in the event that a team member is not available to work on this project as planned for any reason, FAS project leadership will identify alternative approaches to completing the activities assigned to that person, including reassigning those tasks to other team members or bringing in a different team member from the FAS

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network. Those options will be discussed with the ORSC project liaison and we will mutually agree on the most appropriate course of action.

Rick Funston



Frederick (Rick) Funston is the Chief Executive Officer of Funston Advisory Services LLC, focusing on governance, strategy, operations, risk intelligence and education. In 2001, he created the concept of risk intelligence for both value creation and value protection. He is a frequent public speaker. Rick is the Principal Author of *Surviving and Thriving in Uncertainty: Creating the Risk Intelligent Enterprise*[®], published by John Wiley & Sons in April 2010. This book was specifically targeted to the governance and risk oversight needs of boards and executives in both public and private sectors. Most recently, he was the editor and a primary contributor to the recently-published *One of a Kind! A Practical Guide for 21st Century Public Pension Trustees*.

Rick has led most of the FAS reviews referenced in this proposal, including with the Pennsylvania Public School Employees' Retirement System (PSERS), Hawaii ERS, the Wyoming Retirement System, the Florida SBA, the San Francisco Public Employees' Retirement System, LACERA, Utah Retirement Systems, Indiana Public Retirement System, ERS of Rhode Island, Pennsylvania SERS, the New York City Bureau of Asset Management, South Carolina Retirement System Investment Commission, the New York State Common Retirement Fund, the Oregon Investment Council, and CalPERS.

He has provided board and executive education for CalPERS, the State Universities Retirement System of Illinois, Iowa Public Employees Retirement System, Fairfax County Retirement System, Indiana Public Retirement System, Maryland State Retirement and Pension System, and the Washington State and State of Wisconsin Investment Boards.

Rick left Deloitte & Touche LLP in May 2010 and formed Funston Advisory Services LLC. Prior to his departure, he was the National Practice leader for Deloitte's Governance and Risk Oversight Services. In that capacity, he served many of Deloitte's largest domestic and global clients and was responsible for the thought leadership that has underpinned Deloitte's globally pre-eminent position in risk intelligence.

He has over forty years' experience in both not-for-profit and for-profit sectors. Before joining Deloitte, Rick was the CEO of Continuous Improvement Services Inc. He began his career in the public sector consulting on strategy and operations, organization and leadership development, performance management, program evaluation and survey research.

Rick has been a guest lecturer at the Yale School of Management and Princeton University. He also served on the Board of Visitors for the Oakland University School of Business Administration from 2009-2011 and was an Adjunct Professor for the executive MBA program. He was awarded a B.A. from York University in Ontario and an M.S.W. from Tulane University.

Rick will be the overall project leader for this review and will support the Investment Policy and Oversight and Risk Management and Controls reviews.

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Randy Miller



Randall (Randy) W. Miller has been Chief Operating Officer of Funston Advisory Services LLC since its founding in 2010. He leads our InGov[®] public retirement system peer benchmarking practice. He has been a leader of our fiduciary and operations reviews and is an expert in public retirement system governance. He has co-authored a number of white papers on the topics of public pension fund governance, operations and risk and made contributions to *One of a Kind! A Practical Guide for 21st Century Public Pension Trustees*. He has extensive experience in planning and conducting complex reviews and improvement programs in large organizations.

Together with Rick Funston, Randy has co-led assignments with many major public retirement systems, including the Pennsylvania Public School Employees' Retirement System (PSERS), Hawaii ERS, the Wyoming Retirement System, Florida SBA, the San Francisco Public Employees' Retirement System, LACERA, Teachers Retirement System of Texas, Utah Retirement Systems, Indiana Public Retirement System, ERS of Rhode Island, Pennsylvania SERS, New York City Bureau of Asset Management, the South Carolina Public Employee Benefit Authority, the South Carolina Retirement System Investment Commission, SERS of Ohio, the New York State Common Retirement Fund, the Oregon Investment Council, and the California Public Employees' Retirement System (CalPERS). He has provided board and executive education for the Ohio Police & Fire Pension Fund and the Oregon College Saving Plan boards.

Randy was a consultant with Deloitte Consulting LLP from 1983 through February 2010, where he most recently led Mergers & Acquisitions Integration Services to manufacturing industry clients. He has significant international consulting experience, led Deloitte's Global Automotive Industry Consulting Practice, and was based in Germany with Deloitte from 1997-2003, where he led Deloitte Consulting DACH (Germany, Austria, and Switzerland) for two years. He specialized in planning and implementation of mergers, acquisitions and divestitures, market and supply chain strategy and cost reduction/operations improvements.

Randy has led a variety of benchmarking studies, including board governance, investment operations, overhead cost structure, information technology strategies, and business transformation strategies. Randy received an A.B. Degree from Dartmouth College with a major in Engineering Sciences. He also received a B.E. from the Thayer School of Engineering and an M.B.A. from the Amos Tuck School of Business, both also at Dartmouth.

Randy will be the project manager and liaison with the ORSC and OP&F for this review, will lead development of the InGov[®] peer benchmarking report and the self-assessment survey, and will also support activities in the sections on Board Governance and Administration, Organizational Structure and Staffing, Investment Policy and Oversight, and Information Technology Operations.

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Steve Case



Steve Case is an institutional investment expert, having worked as an investment consultant, plan sponsor and investment manager. He has provided investment advisory and solutions services to large plan sponsors, insurers, health care organizations, foundations, family offices and other asset pools across the globe for over 40 years. He has a particular focus on evaluating the institutional constraints that exist within client governance structures to assure investment mandates are appropriately implemented.

Steve has experience advising on and implementing digital, advisory and OCIO investment solutions with clients of all size and sophistication. He has wide-ranging experience working with large public retirement systems and sovereign wealth funds – having in the past worked as part of the investment consulting team serving Ohio PERS.

Steve began his investment career working with the AT&T pension fund and transitioned into a career path focused on advising institutional investors on all aspects of their investment process. He is recognized as a leading implementer of creative, forward thinking solutions that blend what is possible in the marketplace with what is possible at his clients. Until late 2020 Steve worked as a Partner for Mercer Investments, working with many of their most sophisticated clients for over a decade. He held prior investment roles at Evaluation Associates, RogersCasey, AXA/Equitable, Rockefeller Foundation and Putnam Investments. He established Steven C. Case CFA Consulting Inc in early 2021 and has accepted roles working as an advisor on governance issues during this year.

Steve earned his MBA from the Amos Tuck School at Dartmouth College and an AB from Occidental College in Los Angeles. He is a Certified Financial Analyst.

Steve will lead the Investment Policy and Oversight and support the Organization Structure and Staffing reviews.

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Mike Gardner



Michael (Mike) Gardner is a consultant who assists clients in developing and improving internal audit, risk management, and corporate governance activities. He is also an Associate Faculty member in Indiana University's Kelley School of Business, where he has taught a wide variety of courses in accounting, internal audit, risk management, and business ethics.

Mike recently led the effort to develop and implement an internal audit function for Citizens Energy Group, a diversified public utility in Indianapolis, Indiana. He also advised Citizens on enhancements to their enterprise risk management activity and development of a corporate compliance function.

Mike has over 40 years of experience in the areas of internal audit, enterprise risk management, and financial and accounting leadership. He has served as VP of Internal Audit and Chief Risk Officer at two Fortune 500 companies, Textron and Hillenbrand Industries, both international diversified manufacturing companies, where he led the development of the internal audit groups, as well as the development and implementation of enterprise risk management activities. He also served as the VP of Finance and IT for Hillenbrand's European operation. Mike also led the internal audit group at Indiana University and assisted in the development of the enterprise risk management activity.

Prior to these roles Mike was a Chief Audit Executive at Ameritech, one of the "Baby Bells" split off from AT&T. He also served as the Controller of one of Ameritech operating subsidiaries.

In all of these roles Mike has focused on the control frameworks and risk management capabilities of the operational, financial, and IT functions of the businesses.

Earlier in his career Mike was an internal auditor for Eli Lilly Pharmaceuticals. He began his career with Coopers & Lybrand, a legacy firm in what is now PriceWaterhouseCoopers (PWC). He has also held faculty positions at Indiana, Indiana State, and Butler Universities.

Mike earned his BA in Political Science and Economics and his MBA from Indiana University. He has completed doctoral level work in higher education administration from Indiana University, and the certificate in Business Leadership from the Wharton School of Business at the University of Pennsylvania. He is a Certified Public Accountant (CPA), Certified Internal Auditor (CIA), and Certified Information Systems Auditor (CISA).

Mike will lead the review of Risk Management and Controls and Information Technology Operations and support Investment Policy and Oversight.

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Michael Gold



Michael Gold has over 25 years of experience as an operations executive and management consultant to large asset management organizations. He possesses a consistent track record in applying innovative solutions to achieve best practices in operations, risk management, and investment compliance. He recently worked with FAS on an investment operations improvement assignment for the Fairfax County (VA) Retirement Systems.

Michael is currently the Managing Member of New Heights Solutions, LLC., a management consulting firm in the asset management and asset owner space. From 2016 - 2019, he consulted to the Bureau of Asset Management of the five New York City Retirement Systems, with combined assets of approximately \$200b in AUM. Over this time period, Michael has successfully delivered a number of transformational initiatives, which include:

- The establishment of an enterprise risk management monitoring program encapsulating investment, strategic, compliance, and operations risks and controls;
- The development of a middle office operating model, resulting in the effective remediation of fundamental risks and deficiencies;
- The creation of policies and practices for all major operational functions, establishing process ownership, end to end controls, and key metrics based on industry best practices;
- The proposed redesign of all periodic portfolio performance reports to the Trustees of the Retirement Systems and general public;
- The reengineering and documentation of key internal investment processes, including asset allocation rebalancing, transition management, and cash management, significantly reducing expenses, establishing high standards for performance, and remediating cash drag on the portfolio; and
- The definition and implementation of key performance metrics for critical counterparties, including the program's custodian and fund accountant, securities lending agent, and foreign exchange trading agent.

In 2015, Michael retired from TIAA-CREF, an industry leader in the defined contribution marketplace, after 22 years of service, where he held many senior management positions within asset management. As Senior Managing Director and head of Asset Management Services, he managed all investment middle office operational functions for global equities, fixed income, commercial mortgages, real estate, private equity, and real assets. Concurrently, he led distribution operations for brokerage and mutual funds and directed the design and implementation of the division's capabilities in CRM, sales reporting, and content delivery for institutional and intermediary distribution channels. During his tenure at TIAA-CREF, he also served as program manager of the corporation's ten-year strategic planning initiative. Previous leadership assignments included managing the firm's process excellence program, chairing the company's Operational Risk Management Committee, and serving as a Director on the company's investment advisors' boards. He also led many successful investment technology solutions implementation efforts.

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Michael is currently serving as a Trustee on the Stamford, Connecticut Firefighters Pension Fund Board, is Board President of the Stamford Jewish Community Center, and is a member of the Board of Directors of the Jewish Community Center Association. He is a graduate of the University of Massachusetts at Amherst, where he earned a Bachelor of Sciences and a Master of Sciences in Industrial Engineering and Operations Research.

Mike will lead the review of Organizational Structure and Staffing and support the Board Governance and Administration, Investment Policy and Oversight, and Risk Management and Controls reviews.

Steve Harding



Steven M. (Steve) Harding joined FAS in May 2017. He is a risk thought-leader with over thirty years of investment/pension audit and consulting experience. He has made practical recommendations which have helped over 50 of the largest public pensions and diverse investment organizations to implement leading practices across the U.S.

Most recently, Steve was Director of Finance and Accounting at the \$11 billion IAM National Pension Fund, 401(k) Plan (\$400 million), and Benefit Trust Fund (Medical, Vision, Dental). He was responsible for oversight of all aspects of finance, accounting, and financial reporting for the \$11 billion fund. Steve also headed his own consultancy firm, delivering risk management services primarily to public funds through their audit committees and internal auditors.

Prior to that, Steve was Managing Director at Independent Fiduciary Services (IFS), a registered investment adviser, where he ran the Operational Review side of the company. Steve was Assistant Director of Internal Audit at the New York State Common Retirement Fund where he managed financial, compliance and operational audits of the \$100+ billion fund. His experience includes both investments and benefits administration. After graduation, he worked for Coopers & Lybrand in Albany. He has also worked as Chief Audit Executive for a New York stock exchange member firm and public company where he held the Series 7 & 63 licenses, and has advised Board level finance, budget, audit and risk committees. Steve served for three years as an independent Audit Committee board member of the General Board of Pensions and Health Benefits of the United Methodist Church (now WesPath), the largest non-profit employee benefit plan in the U.S. with \$21 billion in assets.

Steve served as board member of the Foundation for Fiduciary Studies from 2003 to 2006. He has served as a special consultant to the Texas Municipal Retirement System Audit Committee and to the CalPERS Ad Hoc Risk Management Committee ERM initiative. He is a member of the American Institute of Certified Public Accountants and the Institute of Internal Auditors. Steve is an inactive CPA in New York.

Steve received his B.S. in Accounting from the University at Albany where he subsequently taught accounting subjects for ten years in the UAlbany School of Business graduate and executive MBA programs.

Steve will assist with the review of Risk Management and Controls and IT Operations.

FAS PROPOSAL TO CONDUCT A FIDUCIARY PERFORMANCE AUDIT OF OP&F

Keith Johnson



Keith L. Johnson is an attorney who has headed the Institutional Investor Legal Services team and is of counsel at Reinhart Boerner Van Deuren s.c. (Reinhart Law). Keith represents pension funds and institutional investors on fiduciary, investment, securities litigation and corporate governance program matters. He was program director of the Wisconsin International Corporate Governance Initiative at the University of Wisconsin Law School, while serving as an adjunct professor of law.

Keith and the Institutional Investor Services team from Reinhart Law have teamed with FAS since 2010 in performing the CalPERS governance review, the governance structure review for Pennsylvania SERS, the Office of the Oregon State Treasurer, two fiduciary and conflict of interest reviews of the New York State Common Retirement Fund, two fiduciary audits of SERS of Ohio, the South Carolina RSIC and PEBA fiduciary performance audits, our governance review at the Pennsylvania Public School Employees' Retirement System (PSERS), and our work with the Indiana Public Retirement System (INPRS) and the Maryland State Retirement and Pension System on planning for internal asset management.

Keith was formerly legal counsel to the State of Wisconsin Investment Board (SWIB), the ninth largest public pension fund in the United States, for more than 21 years, including almost seven as chief legal officer. In that capacity, he headed SWIB's fiduciary duty compliance, corporate governance, investment, legal services and securities litigation programs and was a member of SWIB's Risk Committee. He also served as a Board Member and President of the National Association of Public Pension Attorneys (NAPPA).

Keith regularly represents institutional investors in negotiation of investment manager and private market investment agreements and provides counsel on corporate governance, securities litigation, and fiduciary duty to many of the world's largest pension funds and institutional investors. He and the Institutional Investor Services team at Reinhart Law have provided investment, benefits, insurance, tax and fiduciary counsel services to a number of public pension funds, including CalPERS, the State of Wisconsin Investment Board, New York City Pension Funds, Texas Teachers Retirement System, Illinois Teachers' Retirement System, North Carolina State Treasurer, Connecticut State Treasurer, Kentucky Retirement Systems, Employees Retirement System of the State of Hawaii and Milwaukee City and County pension boards. He is co-editor of the Cambridge University Press Handbook of Institutional Investment and Fiduciary Duty.

Keith is a member of the State Bar of Wisconsin and the State Bar of Texas. He earned a J.D. degree from the University of Wisconsin Law School and a B.A. from the University of Wisconsin-Madison.

Keith, together with Tiffany Reeves, will lead Board Governance and Administration and Legal Compliance and support Investment Policy and Oversight.

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Lisa Morris



Lisa Morris has been a senior advisor to FAS since 2018 and most recently assisted in our governance review of the Pennsylvania Public School Employees' Retirement System (PSERS), our governance review and restructuring of the Milwaukee County Employees' Retirement System, and the Fiduciary Performance Audit of the South Carolina Public Employee Benefit Authority (PEBA). She retired as Executive Director of the School Employees Retirement System (SERS) of Ohio in 2016, an integrated public retirement system with nearly 240,000 active and retired members. Her public-sector career spans top leadership positions in multiple industry regulatory environments and public pensions. For the past two decades she has been known for her expertise in public pension governance and senior leadership.

As Deputy Executive Director of SERS of Ohio, Lisa was the chief operating officer of a \$12.8 billion fund and had responsibility for all programs and financial operations of the system. As the Executive Director of SERS, she developed key relationships with legislators and legislative committee staff, as well as with all stakeholders to advance two successful pension reform initiatives. SERS was one of the first systems in the country to pursue pension reform and implement important demographic corrections. Lisa has significant knowledge of public pension fund leading practices, and as Executive Director she attracted top-tier investment professionals; she saw SERS' performance advance to the top quartile for one, three and five years. Known as a progressive leader focused on leading practices fostered by a high-performance culture for employees and leaders, and as a champion for transparency and accountability, Lisa led SERS to national recognition and saw SERS become an employer of choice, attracting top performers in all areas.

Prior to joining the public pension world, Lisa spent several years as the Ohio Environmental Protection Agency's Clean Water Director, representing Ohio on the bi-national treaty negotiating team to protect the Great Lakes, and overseeing a large state-wide regulatory staff. Before becoming the Clean Water Director, she spent several years as the state of Ohio's chief mining and mine safety regulator responsible for all coal and mineral mining regulation. Lisa has extensive and varied experience at the leadership level in the public sector environment.

Lisa began her career in the private practice of law. She is an honors graduate of the College of Wooster and has a juris doctor from the Case Western Reserve University School of Law.

Lisa will support Board Governance and Administration, Organization Structure and Staffing, and Risk Management and Controls.

FAS PROPOSAL TO CONDUCT A FIDUCIARY PERFORMANCE AUDIT OF OP&F

Tiffany Reeves



Tiffany R. Reeves is a shareholder with Reinhart Boerner Van Deuren s.c. (Reinhart Law) in the Employee Benefits and Institutional Investor Services practices, having joined in 2017. She co-leads Reinhart’s fiduciary and governance services group and has worked with FAS since 2018, beginning with the FAS review of the South Carolina Public Employee Benefit Authority. Previously, Tiffany was Deputy Executive Director and Chief Legal Counsel at the Chicago Teachers' Pension Fund (CTPF). In her role as CTPF’s Chief Legal Counsel, Tiffany provided a full range legal services related to public and private market investments, custody and securities lending, general contract matters, and legislative, fiduciary, and governance matters. Most recently, as Deputy Executive Director, Tiffany functioned as the chief operating executive and was responsible for the investment, finance, technology, human resources, and legal departments.

Tiffany has extensive experience advising governmental and Taft-Hartley pension plans on all aspects of investments, fiduciary, tax, and operational matters. Her practice focuses primarily on representing and advising institutional investor clients in domestic and international private investments in transactions on an individual or commingled basis. Tiffany also advises public pension fund clients on fiduciary, governance, legislative, and general fund administration matters.

In addition to her experience working with employee benefits and institutional investor clients, Tiffany is an experienced employment attorney. Early in her career she worked extensively with labor union clients on collective bargaining and other labor issues, and with individual and class action plaintiffs in employment discrimination matters. She has more than 12 years of experience practicing law, and her experience as an operational executive and in-house counsel give her a unique perspective in analyzing client matters and ensuring that legal advice is both pragmatic and administratively feasible.

Tiffany is licensed to practice law in Wisconsin, Illinois and Texas. She received her J.D. from the University of Oregon School of Law; M.A. from Northwestern University; and B.A. from the University of Oregon.

Tiffany, together with Keith Johnson, will lead Board Governance and Administration and Legal Compliance and support Investment Policy and Oversight.

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Steve Ross



Steven (Steve) J. Ross is Executive Principal of Risk Masters International, which he founded in 2009. He holds certification as a Certified Information Systems Security Professional (CISSP) as well as a Master Business Continuity Professional (MBCP), a Certified Data Privacy Solutions Engineer (CDPSE) and a Certified Information Systems Auditor (CISA). Steve is a specialist in the field of information systems security and control, specializing in Information Security, Business Continuity Management, and IT Disaster Recovery Planning services. He has implemented Information Security and Business Continuity programs for numerous pension funds, banks, government agencies and industrial corporations. Prior to founding Risk Masters, Mr. Ross was a Director and global practice leader with Deloitte.

In consulting engagements, Steve specializes in planning, policy development, implementation, and standardization of Information Security and Business Continuity processes. In recent years, his focus has been on reliability, prevention, detection and recovery from the technical and business impact of cyberattacks and other devastating circumstances. His recent clients have included pension funds, including the California State Teachers Retirement System (CalSTRS) and TIAA, as well as financial institutions, service companies, defense contractors and government agencies.

Steve is editor of the multi-volume series, e-Commerce Security, and author of several of the books in the series, including e-Commerce Security: Business Continuity Management. He has recently published *Creating a Culture of Security*. Since 1998, Steve has regularly published the column, "Information Security Matters", in the ISACA Journal.

Steve will lead the review of Information Technology Operations and support Risk Management and Controls.

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B. Project Team Organization and Roles

The management plan should specify the roles and responsibilities that each of the management and professional staff will have on the fiduciary audit and include an estimated portion of the audit's time that will be spent by each on the audit and the individual's hourly billable rate.

Lead professionals included on the project team should, at a minimum, have performed a fiduciary audit or study of a public employee retirement system within the last two years.

The following chart indicates the roles of each individual, denoted by “L” for leader or “S” for support for each section, as well as the planned hours for each team member.

	A. Board Governance and Administration	B. Organizational Structure and Staffing	C. Investment Policy and Oversight	D. Legal Compliance	E. Risk Management and Controls	F. IT Operations	Project Oversight and Management	Planned Hours	Hourly Billing Rate (\$)
Steve Case		S	L					216	\$400
Rick Funston			S		S		L	120	\$500
Mike Gardner					L			112	\$400
Mike Gold	S	L	S					176	\$500
Steve Harding					S	S		48	\$400
Keith Johnson	L		S	S				104	\$500
Randy Miller	S	S	S			S	L	208	\$500
Lisa Morris	S	S			S			104	\$500
Tiffany Reeves	S		S	L				104	\$500
Steve Ross					S	L		176	\$500

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C. Professional Affiliations

Each proposal shall include the firm's affiliations with organizations that sponsor and support investment or fiduciary related research.

Funston Advisory Services LLC is an associate member of the National Association of State Retirement Administrators (NASRA).

Keith Johnson is a member of the Council of Institutional Investors. He holds a Level 1 certification from the Sustainable Accounting Standards Board and has been active in the National Association of Public Pension Attorneys (NAPPA). Keith has also been a member of the Stanford Institutional Investor's Forum Committee on Fund Governance that developed Best Practice Principles in 2007 and supporting Model Governance Provisions in 2013.

Tiffany Reeves is also an active member of NAPPA and serves on NAPPA's Fiduciary Duty Working Group.

The FAS project team members proposed for this engagement have created the following "Talks" for the Board Smart eLearning trustee education platform:

Rick Funston

- Importance of Public Pension Benefits
- State of Public Pensions
- The Role of Committees
- The Role of the Chair and Vice Chairs
- Powers of the Fiduciary Board
- Role of the Fiduciary Board
- Operating in the Public Sector Fishbowl
- The Role of the Board in Oversight of Performance and Risk
- A Primer on Performance and Risk

Mike Gold

- Overseeing Investment Operations

Keith Johnson

- The Prudent Fiduciary

Randy Miller

- Public Pension Governance Structures
- Board Self-Evaluation
- The Board's Focus on Strategy

Lisa Morris:

- The Importance of Balance
- Evaluating the Executive Director (with Keith Bozarth)

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Tiffany Reeves

- Governance Policies

Steve Ross

- The Cyber Threat: What Board Members Should Know

Numerous FAS team members contributed chapters to the handbook for trustees entitled *“One of a Kind! A Practical Guide for 21st Century Public Pension Trustees,”* which was published by FAS. All areas of scope included in this fiduciary performance audit are addressed in the handbook at a level of detail appropriate for trustees.

In addition, FAS team members have also published numerous articles and other books and made presentations relating to public pension fund fiduciary responsibilities and governance. The most recent examples include:

- “Fiduciary Duty and Professional Responsibility Framework for Fund Policies,” presented by Keith Johnson, Tiffany Reeves, Randy Miller, Nick Zuiker, NAPPA Legal Education Conference webinar, June 24, 2021.
- “The Role of the Fiduciary Board,” presented by Rick Funston, NCPERS University, Trustee Educational Seminar (TEDS), June 8, 2021.
- “Insight Not Overload,” webinar presented by Funston Advisory Services and Board Smart, with participation by CalPERS and INPRS, May 20, 2021, available for viewing at <https://www.boardsmart.com/webinars>.
- “Commentary: 6 guiding principles for developing governance policies,” article written by Tiffany Reeves, *Pensions & Investments*, March 26, 2021, <https://www.pionline.com/industry-voices/commentary-6-guiding-principles-developing-governance-policies>.
- “How Public Retirement Systems are Responding to the COVID-19 Pandemic,” survey and interviews, August 2020, available for viewing at <https://www.boardsmart.com/covid-survey>.

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IV. REFERENCES

Each proposal must include a list of at least three organizations, but no more than five, that may be used as references for your work on fiduciary audits or studies. References may be contacted to determine the quality of the work performed, personnel assigned to the project, and contract adherence. The following should be included for the references listed:

- *Date of the fiduciary audit work;*
- *Name and address of client;*
- *Name and telephone number of individual in the client organization who is familiar with the work; and*
- *Description of the work performed.*

Employees' Retirement System of the State of Hawaii

Thom Williams, Executive Director
201 Merchant Street, Suite 1400
Honolulu, HI 96813
(808) 587-5380
thomas.williams@hawaii.gov

FAS was engaged by the State of Hawaii Employees' Retirement System (HIERS) in June 2019 to conduct a Governance Structure and Policy Review. Input was developed through four primary activities:

1. Comparing HIERS governance policies and practices to those of other U.S. public retirement systems;
2. A governance self-assessment survey completed by trustees and senior staff;
3. Individual telephone interviews with each trustee which discussed preliminary findings and recommendations; and
4. Reviews of the draft final report with the Governance Committee.

This review was completed in September 2019 and thirty-two recommendations were presented to the Board of Trustees at their October meeting. The Board, supported by the Governance Committee, is currently implementing changes based upon those recommendations. HIERS manages approximately \$16.5 billion in assets.

Wyoming Retirement System

Dave Swindell, Executive Director
6101 Yellowstone Avenue, Suite 500
Cheyenne, WY 82002
(307) 777-6109
david.swindell@wyo.gov

FAS was selected by the Wyoming Retirement System (WRS) to conduct a governance and operational review that was initiated in October 2018. The purpose of the review was to ensure WRS' practices meet

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its fiduciary duties and to obtain an independent evaluation of six areas: legal and regulatory framework; governance framework; enterprise strategies and risks; investment operations; pension administration operations; and administrative operations. The review focused on potential improvements regarding: 1) governance, investment and administrative policies and procedures; 2) resources associated with managing the system; and 3) functions, roles and responsibilities of the staff, investment managers and consultants. In most cases, we compared WRS' policies and practices to leading, prevailing and lagging practices at peer public retirement systems. The Board made it very clear that they wanted a constructive but critical review to identify practical improvement opportunities.

The review was completed in March 2019 and presented to the WRS Board at their May meeting. The report included 88 prioritized recommendations for improvement which were subsequently assigned to either a Board committee or staff. WRS manages approximately \$9.1 billion in assets.

South Carolina Public Employee Benefit Authority (PEBA)

George Kennedy, State Auditor
South Carolina Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201
(803) 832-8929
gkennedy@osa.sc.gov

Peggy Boykin, Executive Director
202 Arbor Lake Drive
Columbia, SC 29223
(803) 734-8117
pboykin@peba.sc.gov

FAS was selected by the South Carolina Office of the State Auditor (OSA) to conduct the 2019 South Carolina Public Employee Benefit Authority (PEBA) fiduciary performance audit. FAS also completed the 2015 fiduciary performance audit of PEBA, which was conducted at the direction of the South Carolina State Inspector General.

The primary purpose of the 2019 audit was to evaluate the progress made in implementing the recommendations resulting from the 2015 fiduciary performance audit of PEBA and also identify any areas of weakness in current operational policies and practices. The 2019 fiduciary performance audit identified 55 new recommendations for improvement. These recommendations were prioritized according to significance and urgency and included an analysis of potential costs or benefits associated with implementation. PEBA manages retirement plans for nearly 549,000 members and offers several insurance products/programs, including the State Health Plan, to more than 436,000 people.

Further references are available upon request.

V. METHODOLOGY, WORK PRODUCT, AND TIMELINE

Each proposal shall describe the proposed methodology for each element of the components listed in Section II, Scope of Audit. The description should include specific techniques that will be used, including anticipated sampling techniques and sizes, and proposed sources of data and information. You may propose alternative ways of addressing the elements of the audit's scope.

In describing the proposed methodology, also identify the type and level of assistance that you anticipate will be needed from the staff of OP&F, including assistance to understand the operations and records of OP&F and assistance to access, obtain, and analyze information needed for the audit. The description of the proposed methodology shall also identify meetings, interviews, programming support, space needs, etc., that you anticipate requiring from OP&F.

Each proposal shall also include one or more examples of work product(s) for fiduciary audits that may help to illustrate the proposed methodology and final work product.

Each proposal shall 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. This may be expressed as time after start of contract (i.e., "1 week after contract start date," "4 weeks after contract start date") rather than specific calendar dates.

The stated purpose of this fiduciary performance audit as stated in the RFP is: *The Contractor selected under this RFP (the Contractor) will review and critically evaluate the organizational design, structure, and practices of OP&F overall and of its investment program. The Contractor will identify areas of strengths and weaknesses in OP&F, compare OP&F operations with best practices of other public pension plans, and make recommendations for improvement.*

A. Methodology

Funston Advisory Services LLC has developed a fiduciary and governance review framework and methodology that we have used in similar assignments with other public retirement system clients (see *Section VI. Additional Information*).

For addressing an integrated retirement system such as OP&F, the FAS framework starts with the overall duties of the fiduciary and conceptually addresses three major questions:

- Are the plan fiduciaries effectively assessing plan liabilities, making reasonable assumptions for investment returns and risk, and adopting prudent investment strategies?
- What is the legal, governance and policy framework under which the plans operate and how does it compare to industry practices?
- How do fund practices, procedures and performance with respect to administrative operations, compliance, and controls compare to peers, taking into consideration its operating framework?

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We have used the FAS framework as a check for completeness of the scope of the RFP and for identifying recommended additions to ensure that any potential gaps are covered.

The approach that follows incorporates the FAS methodology into the structure defined in the RFP. The major work steps identified are:

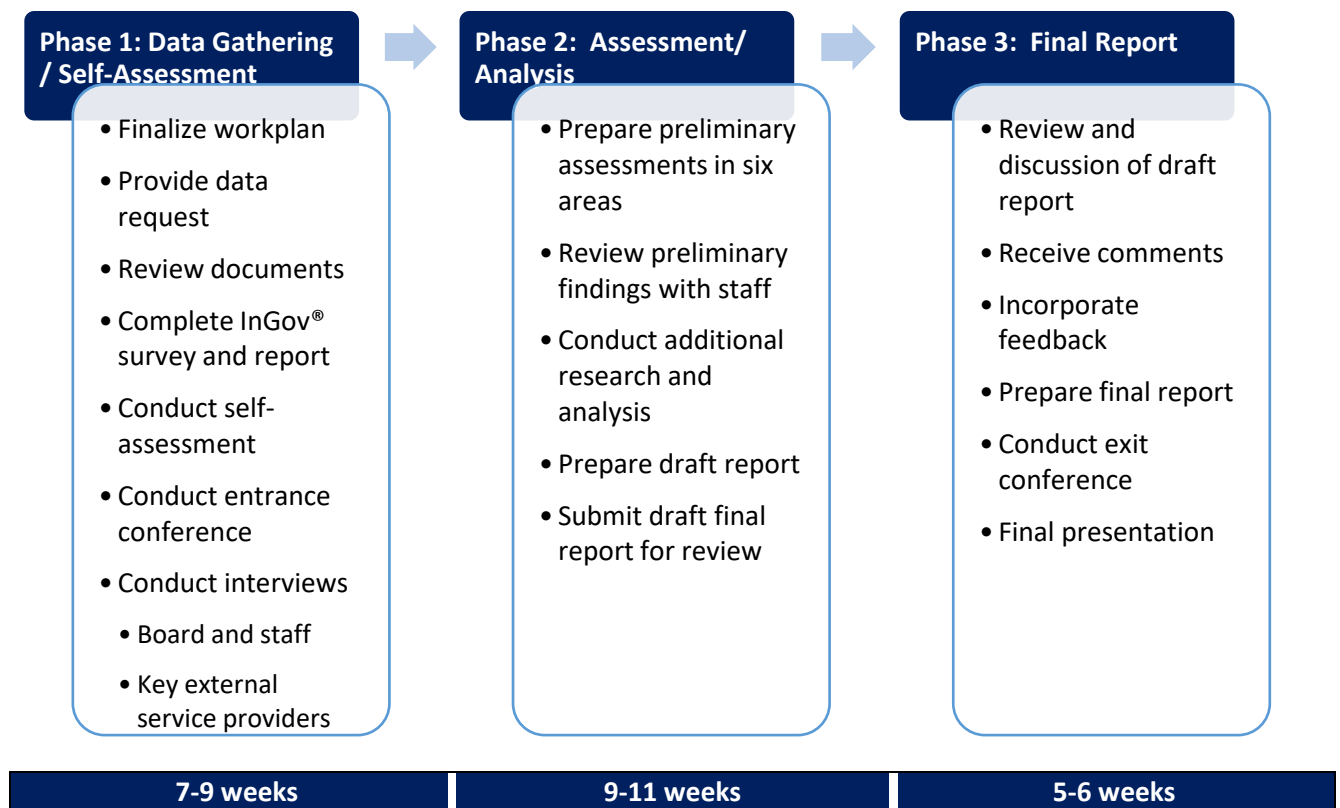
Phase 1: Data Gathering/Self-Assessment – Workplan Review and Approval, Data Collection, InGov® Report, Self-Assessment, Entrance Conference and Interviews

Phase 2: Assessment/Analysis

1. Board Governance and Administration
2. Organization Structure and Staffing
3. Investment Policy and Oversight
4. Legal Compliance
5. Risk Management and Controls
6. IT Operations

Phase 3: Final Report – Management Review, Final Report Submission and Exit Conference

We have organized the work steps into three sequential phases of effort as shown in the graphic below:



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Phase 1: Data Gathering

We will include a seven- to nine-week initial phase to complete initial data gathering. The first phase will include a review of OP&F documents, enabling legislation and relevant statutes, OP&F completion of an InGov® profile survey and FAS preparation of a peer profile benchmarking report.

We will also prepare and administer an online self-assessment survey completed by Board members and executive staff. We have found this to be very helpful in identifying potential issues and improvement opportunities and also in engaging the Board and executive team in the review process. As discussed later in *VIII. Cost information*, if the ORSC wishes to remove this from the scope to reduce the cost, FAS would agree to reduce the overall fee accordingly.

Informed by the document review, the InGov® peer benchmarking profile report, and the results of the self-assessment survey, the Entrance meeting will be conducted to introduce the FAS team, describe the fiduciary performance audit process, and any initial findings from the data gathering process.

The first phase will conclude with interviews with Board members, executive staff, key stakeholders, a sampling of external investment managers, the custodial banks, the investment consultants, the actuary, and the external auditor.

This will establish the initial data gathering and provide the basis for further analysis in Phase 2. A preliminary data request and interview list is included as *Appendix B* (to be modified when the workplan is reviewed and finalized).

Phase 2: Assessment/Analysis

After Phase 1, six workstreams will be conducted in parallel over the following nine to eleven weeks as described below:

A. BOARD GOVERNANCE AND ADMINISTRATION

The Contractor will perform a review of the governance structure of OP&F in terms of the make-up of its board and level of monitoring and oversight provided in its 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, this will include an analysis of:

- *Board trustee education, training, and their associated costs;*
- *Whether OP&F sufficiently delineates, communicates, and documents the lines of reporting and responsibility over staff responsibilities in general and in the investment program specifically and whether the role of the board and staff are clearly defined for both;*
- *The statutes and administrative rules under which OP&F operates to determine if the 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;*
- *Comparison of the governance provisions and practices to industry standards and best practices in comparable systems.*

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- *OP&F's budget process and its adherence to board approved budget;*
- *Written policies and procedures currently in place to monitor and guard against professional conflicts of interest;*
- *Succession planning for key positions;*
- *Administrative costs, including determining their appropriateness compared to comparable public systems; and*
- *Communication policies and procedures of OP&F between the board, its members, and its retirees.*

For the Board governance and administration review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- Ohio statutes and administrative rules governing OP&F
- OP&F governance policies, including charters, delegations, position descriptions, ethics and standards of behavior policies and communications policy
- OP&F Board education and training program and materials
- OP&F communications policies and plans
- Interviews with Board members, OP&F executive staff, and stakeholder groups
- InGov® - the FAS governance leading policies and practices knowledgebase, especially powers reserved for the board
- Most recent three OP&F annual operating budgets and financial and operating reports
- OP&F staff development and succession planning documentation
- Most recent CEM pension administration benchmarking report for OP&F

FAS has significant experience in reviewing the governance structure of public retirement systems and Board policies and practices. Using the information described above, the FAS team will:

1. Assess the overall OP&F governance structure, Board composition, and lines of reporting and compare with leading practices at peer state retirement systems in the U.S., with particular emphasis on investment governance
2. Review the policies and role of the Board vis-à-vis OP&F staff, advisors, and external managers
3. Evaluate oversight and monitoring activities
4. Review Board and staff processes for compliance with applicable laws, administrative rules and policies
5. Review conflict of interest policies and procedures and compare with leading practices
6. Compare OP&F Board authorities and performance with leading, prevailing and lagging practices at peer funds and identify if there are areas where the Board is unduly limited by regulations from fulfilling its fiduciary duties
7. Assess OP&F's budgeting and expense monitoring processes and its administrative costs and compare to peer retirement systems and leading practices
8. Compare OP&F's Board continuing education program with leading and prevailing practices at peer retirement systems
9. Review OP&F's stakeholder communications policies and plans and compare to leading practices

FAS team members leading this section will be Rick Funston, Mike Gold, Keith Johnson, Randy Miller, Lisa Morris and Tiffany Reeves.

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B. ORGANIZATIONAL STRUCTURE AND STAFFING

The Contractor will perform a review of the overall organizational structure of OP&F and its capacity and effectiveness in implementing the policy and assignments delineated by the OP&F Board and management. Specifically, this will include an analysis of:

- *Staffing size, hiring procedures, staff qualifications, roles, compensation, performance evaluation requirements, and an analysis of these factors compared to other similar size public pensions;*
- *Adequacy of process to evaluate and improve customer/member satisfaction;*
- *Whether compensation levels are sufficient to facilitate OP&F's ability to attract and retain qualified pension fund professionals; and*
- *Monitoring and maintaining staff qualifications and continuing education requirements.*

For the organization staffing and structure review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- OP&F human resources policies and procedures
- OP&F staffing reports, including hiring, termination, vacancy and retirement eligibility
- OP&F position descriptions
- OP&F employee evaluation policies and procedures
- Internal OP&F employee satisfaction survey results
- OP&F member service reports
- Most recent CEM pension administration benchmarking report for OP&F
- Most recent independent compensation study conducted for OP&F
- Interviews with OP&F executives and staff, including the Director of Human Resources
- OP&F employee continuing education and training program materials
- FAS InGov® knowledgebase of retirement system staffing

FAS has performed similar reviews at other public retirement systems. We will rely upon existing compensation studies in evaluating the OP&F compensation structure and will also rely upon existing OP&F and CEM pension administration reports in evaluating member satisfaction. This engagement will not include a new compensation or administration study. Using the information described above, the FAS team will:

1. Assess the organization structure, staffing and capabilities of OP&F as compared to peer retirement systems
2. Review human resources policies and practices and compare to leading practices
3. Assess staff qualifications and hiring and evaluation processes
4. Evaluate OP&F compensation policies and structure
5. Assess OP&F processes for monitoring, measuring and improving member satisfaction
6. Review OP&F staff training and continuing education policies and program and compare to peer retirement systems

FAS team members leading this section will be Steve Case, Mike Gold, Randy Miller and Lisa Morris.

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C. INVESTMENT POLICY AND OVERSIGHT

a. Investment policy. The Contractor will perform an evaluation of the board investment policy and procedure. The Contractor will:

- *Review the process by which the investment policy is adopted and compare that process to best practices;*
- *Review the investment policy statement and compare it to industry best practices;*
- *Determine whether OP&F investment policy includes all critical elements, acknowledging an understanding of OP&F's financial and actuarial characteristics, and in accordance with established investment and funding goals, and risk tolerances;*
- *Evaluate whether the asset allocation is tied to the investment policy statement;*
- *Evaluate whether OP&F investment policy is compatible with the most recent asset/liability study and five-year experience review;*
- *Evaluate the adequacy of the mechanisms and decision-making processes utilized for setting, periodically reviewing, and rebalancing the asset allocation;*
- *Evaluate whether OP&F policy specifies to what extent the basis for particular investment decisions should be articulated in writing by the Board or OP&F staff;*
- *Evaluate the extent to which OP&F 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; and*
- *Evaluate how often and by what process the board or staff reviews OP&F's written policies, guidelines, and procedures.*

For the investment policy review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- OP&F current Investment Policy Statement (IPS) and most recent prior two versions
- Interviews with OP&F investment staff
- Interview with the general investment consultant and specialty consultants
- Interviews with at least ten investment managers from a variety of asset classes, focusing on the most recently hired (to understand the current processes) and those with the largest allocations (for risk management reasons)
- Interview with the OP&F actuary
- FAS investment policy and operations knowledgebase
- OP&F annual investment reports for past three years
- OP&F most recent asset-liability study
- OP&F most recent five-year experience review
- OP&F rebalancing reports from past three years
- OP&F Board minutes from past three years

We will utilize the knowledge of our team members and the FAS knowledgebase to assess the contents of the IPS. The FAS team will review the IPS, the asset-liability study, investment reports and rebalancing reports to evaluate consistency of investment staff actions with policies. Using the information described above, the FAS team will:

1. Assess how the IPS is developed and updated and compare to leading and prevailing practices

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2. Review the content of the IPS and compare to peer leading practices
3. Assess consistency between the IPS and the asset allocation, the asset/liability study, and the most recent five-year experience study
4. Review mechanisms and decision-making processes for periodically reviewing and rebalancing the asset allocation
5. Evaluate OP&F policies and practices for documentation of investment decisions
6. Assess OP&F compliance with documented investment policies and procedures and identify any issues
7. Review OP&F Board and staff policies and processes for periodic review and updating or investment policies, guidelines and procedures

This review of the investment policy will be an assessment of governance policies and processes and comparisons to peers but does not include an assessment of the asset allocation, a forensic review, an audit of the financial statements or a compliance inspection or audit.

FAS team members leading this section will be Steve Case, Keith Johnson, Randy Miller, and Tiffany Reeves.

b. Investment oversight and review. *The contractor will perform an evaluation of the oversight and control of investments. The contractor will:*

- *Evaluate the appropriateness of board and staff controls, procedures, and capabilities to regularly review and monitor the performance of the investments and the practices of investment managers, as well as ensuring compliance with policies;*
- *Evaluate OP&F's process for measuring, evaluating, and controlling transaction costs, directed brokerage and commission recapture (if any), and compare the process to other funds as well as public or private third party industry surveys.*
- *Evaluate the process used to determine and measure investment performance, including how performance data is collected and verified and selection of appropriate benchmarks;*
- *Evaluate the basis and methodology for the compensation of external investment managers and advisors and payments to others, if any;*
- *Evaluate the written policies and procedures currently in place to monitor and guard against professional conflicts of interest; and*
- *Analyze how investment managers are selected, including the transparency in the decision-making process, due diligence provisions, 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 selection process.*

For the investment oversight review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- Investment compliance reports
- Interviews with OP&F investment staff, investment accounting staff, financial staff who calculate investment manager fees, compliance officer, external managers, and the investment consultants
- Trade execution analysis reports

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- Most recent CEM investment benchmarking report
- Investment performance reports from the general consultant and custodial bank
- OP&F staff investment reports to the Board
- External manager fee calculations and reports
- OP&F conflict of interest policies and procedures for external managers
- External manager compliance reports
- OP&F investment due diligence policies and procedures
- OP&F manager files (at least ten investment managers from a variety of asset classes, focusing on the most recently hired and those with the largest allocations)

The FAS team will rely upon existing investment performance reports, transaction execution analysis reports, and the CEM investment report to evaluate overall investment performance and level of manager and brokerage fees. We will evaluate policies and processes for developing the manager pipeline, selection, due diligence and monitoring of external managers based upon interviews with internal OP&F staff, investment consultants, and external managers and transaction file documentation. Using the information described above, the FAS team will:

1. Assess OP&F controls, procedures and capabilities for investment oversight, performance monitoring, and manager compliance
2. Assess OP&F processes for monitoring and controlling transaction costs and compare to leading practices
3. Assess processes by which OP&F selects performance benchmarks and monitors and measures performance
4. Evaluate external manager compensation and payment processes and compare to peers
5. Assess external manager conflict of interest policies and compliance procedures and compare to leading practices
6. Review OP&F's investment manager due diligence and selection policies, practices and documentation and compare to leading practices

This section will be led by Steve Case, Mike Gold, Keith Johnson, Tiffany Reeves, and Randy Miller.

c. Investment and fiduciary risk. *The contractor will perform an evaluation of the awareness of risk and management of risk in investments. The contractor will:*

- *Evaluate the processes by which the board is aware of the risks associated with the asset allocation they have adopted; and*
- *Examine investment risk factors. Attention should be on the types, levels, and appropriateness of risks in the investment portfolios and overall funds as well as any internal controls in place at OP&F to ensure compliance with the adopted standards, policies and procedure for managing investment and fiduciary risk. This examination should include a comparison to best practices.*

For the investment and fiduciary risk review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- Investment risk reports and analyses provided to the OP&F Board over the past three years

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- Investment compliance reports from the past three years
- Interviews with the OP&F Board, investment staff and investment consultants, including asset class consultants
- FAS team member experience and the FAS investment operations knowledgebase

For the assessment of OP&F investment and fiduciary risk, we will rely on interviews with Board members, investment consultants, and investment staff to assess the process through which investment risk has been discussed and evaluated when setting the asset allocation. We will also utilize the investment risk reports and analyses prepared over the past three years and compare the OP&F risk policies and procedures to leading practices. Using the information described above, the FAS team will:

1. Evaluate how the Board assesses risk during the asset allocation process
2. Evaluate how OP&F identifies and controls investment and fiduciary risk and compare to leading practices

This section will be led by Steve Case and Rick Funston.

***d. Custodian policy.** The Contractor will evaluate OP&F's relationship with its custodial bank, including the custodial bank's breadth of services, technological planning and capability to address OP&F's needs, the bank's structure and level of fees, cash management and analytical services, and the ability of OP&F to have oversight over custodial functions. The Contractor will also review the custody model used by the Ohio Treasurer of State as custodian of financial assets for OP&F and evaluate the oversight provided as compared against other public systems and best practices.*

For the custodian policy review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- The contract and service level agreement with OP&F's custodial banks
- Most recent custodial bank RFPs
- OP&F custody fee data for the past three years
- Interviews with OP&F staff, the custodial bank staff and Treasurer of State staff
- FAS project team experience and the FAS custody knowledgebase

For the assessment of the custodial bank services received by OP&F, we will identify the services provided by the custodial bank and compare them to services typically provided by custodial banks to peer funds. We will compare the level of custody fees to those of peers based upon the FAS knowledgebase and the CEM investment report. FAS has examined custody models used in other states and has information to assess the model in use by OP&F. Using the information described above, the FAS team will:

Evaluate the OP&F relationship with its custodial bank and compare to peers

1. Compare the breadth and quality of services provided by the custodial bank to OP&F and level of fees paid with peer retirement systems
2. Evaluate the Ohio custody model and custodial bank oversight structure and compare to peer public retirement systems

This section will be led by Mike Gold and Randy Miller.

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D. LEGAL COMPLIANCE

The Contractor will evaluate the adequacy of OP&F's legal compliance with applicable state and federal laws and regulations. The evaluation will include an analysis of:

- *Legal compliance and adherence to IRS regulations;*
- *Adequacy of internal and external counsel;*
- *Adequacy of ethics training, disclosure, and monitoring of compliance; and*
- *Board and staff compliance with legal requirements.*

For the legal compliance review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- OP&F IRS filings over the past three years
- Most recent IRS Determination Letter
- Investment compliance checklists
- OP&F transaction legal due diligence processes and standard contract clauses
- List with description of external legal services obtained over the past three years
- Ethics training materials used by OP&F
- OP&F compliance reports for Board members and staff
- Interviews with OP&F legal, compliance and investment staffs
- OP&F project team experience and the FAS knowledgebase

For the internal and external legal services assessment, the FAS team will utilize interviews with internal counsel and the investment staff and peer information on level of legal staffing and external fees. We will assess the adequacy of legal services over the past three years. Using the information described above, the FAS team will:

1. Review communications with the IRS to identify potential compliance deficiencies
2. Review the process by which OP&F monitors compliance with IRS requirements and responds to compliance issues
3. Assess legal services in comparison to peers over the past three years
4. Review the ethics training and compliance programs, as well as compliance reporting processes, and compare them to leading practices
5. Review transaction compliance checklists for each asset class and review a sample of transactions for compliance with guidelines and legal requirements

This section will be led by Keith Johnson and Tiffany Reeves.

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E. RISK MANAGEMENT AND CONTROLS

The Contractor will evaluate the risk review and control procedures of OP&F. The Contractor will also evaluate the OP&F management process by analyzing, as appropriate, the essential components of its internal control structure. These components include segregation of duties, availability of information, timeliness, accessibility, and accuracy of information, policy manuals, supervision and review, audits, 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 evaluation will include an analysis of:

- The adequacy of financial controls and integrity of financial statements. This should include an analysis of the purchasing policy and adherence to that policy;*
- The adequacy of the current accounting process;*
- The appropriateness and utility of regular reports provided to the Board and management, and how that reporting compares to industry standards and best practices;*
- Sufficiency of internal and external audit procedures; and*
- Adequacy of record-keeping system.*

For the risk management and controls review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- OP&F risk policies and procedures
- OP&F audit plans and reviews prepared by internal audit or third parties
- OP&F procurement policy and procedures
- Description of accounting processes
- Recent external audit reports, including any management letters
- Recent internal audit reports
- Recent internal audit Quality Assessment Review (QAR)
- Internal audit self-assessment reports
- Operational risk reports
- Record-keeping policies, procedures and systems
- Interviews with OP&F Audit Committee members, Executive Director, head of Risk Management, Director of Internal Audit, Director of Finance and staff, and the external auditor
- FAS project team experience and the FAS risk and reporting knowledgebase

For the assessment of OP&F's risk management and controls, the team will evaluate the overall risk assessment approach (inputs, methodology, outputs), control procedures related to risk (relevancy), and internal control structure (design, effectiveness, sustainability through training and planning). We will also review and assess the purchasing policy, including vendor selection, evaluation and monitoring and compare to leading practices.

In conformance with the Institute of Internal Auditors' (IIA) International Professional Practices Framework, the FAS team will assess the sufficiency of internal audit procedures. We will review the accounting policies and procedures and the preparation and approval of financial statements and compare to leading practices at peers and also evaluate the processes used to oversee and conduct the

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external audit. Finally, we will review the OP&F record-keeping policies, processes and systems and compare them to leading practices.

Using the information described above, the FAS team will:

1. Assess the essential components of the OP&F internal control structure and the adequacy of financial controls
2. Assess the process through which financial statements are created and their integrity
3. Assess OP&F's purchasing policies and practices and procedures for compliance with those policies
4. Assess current OP&F accounting processes
5. Evaluate the utility of standard reports to the Board and management and compare to leading practices
6. Assess internal audit capabilities and procedures
7. Assess the external auditor selection process and services provided by the external auditor
8. Evaluate OP&F record-keeping system

This section will be led by Mike Gardner, Rick Funston, Steve Harding, and Lisa Morris.

F. INFORMATION TECHNOLOGY (IT) OPERATIONS

The Contractor will evaluate the control, accuracy, and integrity of the OP&F IT system. This should include a review of OP&F data integrity; security and confidentiality of its records system; contingency and continuity planning; and incident management system. The Contractor will evaluate the overall risk level for OP&F's IT operations.

The analysis will include an analysis of:

- *The quality of processes and controls for the organization and management of IT operations and governance; IT project and portfolio management; data management; application development and maintenance; local area network infrastructure; security; business continuity plan and disaster recovery; and*
- *Areas of high risk and OP&F's mitigating controls for those defined high-risk areas. The analysis will compare the OP&F's control structure with IT industry best practices.*

For the IT operations review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- OP&F IT governance processes
- OP&F IT strategy and delivery framework
- OP&F IT disaster recovery and business continuity policies and procedures
- OP&F IT planning documents (strategic, operational, network, data security, etc.)
- OP&F applications systems portfolio
- OP&F technology platforms and service catalog
- OP&F IT service management standards
- Description of OP&F program management functions

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- OP&F IT service level standards and reports
- OP&F cost of ownership of IT services and IT budget allocation
- OP&F IT operations and systems risk assessments
- Documentation for OP&F IT projects
- OP&F disaster recovery and business continuity plans
- IT and security incident policies, procedures, and outage reports
- Interviews with the Director of Information Technology (and staff, as required), the Executive Director, Director of Member Operations
- FAS project team experience and the FAS IT knowledgebase

The FAS team will assess OP&F's overall IT governance structure, policies and procedures and project management policies, procedures and capabilities. We will also evaluate the overall systems and data infrastructure. We will review and assess key IT risks and evaluate mitigation controls currently in place.

Using the information described above, the FAS team will:

- Assess OP&F's overall IT governance structure, policies, procedures and control structure
- Review the OP&F technology infrastructure and applications portfolio along with the service catalog
- Assess the organizational structure of OP&F IT to support the ongoing performance of the fund operations
- Assess OP&F's project management policies, procedures and capabilities
- Evaluate OP&F's systems and data infrastructure
- Evaluate OP&F data integrity, confidentiality and security policies and practices and compare to industry leading practices
- Review the cyber security capabilities of OP&F's operations and systems, including the technology environment delivering applications and data
- Review the OP&F disaster recovery and business continuity planning policies, plan and practices and compare them to leading practices
- Review major IT projects underway, including the status and related risks
- Review OP&F's incident management and reporting system
- Assess risks associated with OP&F IT operations
- Prepare impact analyses of the recommended changes with suggestions for alternatives

This section will be led by Steve Ross, Steve Harding, and Randy Miller.

As each of these six areas are being analyzed and preliminary assessments are being developed, the FAS project team will review preliminary results and have follow-up discussions with OP&F staff throughout Phase 2 to ensure we have appropriately understood and interpreted the information provided to us. At the conclusion of Phase 2, the FAS project team will prepare a draft final report to be provided to ORSC and OP&F for their review.

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Phase 3: Final Report

We will conclude the fiduciary performance audit with a five- to six-week process to review and refine the final report with OP&F and the ORSC to ensure accuracy of findings and practicality of recommendations. We have found this to be an important part of the process that greatly increases the likelihood of acceptance by the client and results in a high level of implementation. We would also expect to work with OP&F leadership to identify appropriate priorities and timeframes to expect to implement the recommendations, as well as a high-level assessment of resources required. The contents of the final report are described below under *Deliverables*.

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B. How FAS Proposes to Work with the ORSC and OP&F

We believe it is important to have clear accountability for consultant results and defined protocols for client-consultant communications. As such, Rick Funston will have overall responsibility for the project and its results. On a day-to-day basis, Randy Miller will be the primary contact person and project manager.

We would expect to have a day-to-day liaison on a part-time basis at the ORSC and also expect OP&F to appoint a project liaison to work with the FAS project manager part-time on a day-to-day basis. We would keep the ORSC liaison apprised of the progress of the review on a weekly basis and, if we encounter any issues in obtaining information or scheduling interviews, would request assistance.

The OP&F project liaison would be responsible for obtaining and uploading documents in response to the FAS request, obtaining responses to the InGov® benchmarking profile questionnaire, and assisting in scheduling meetings and interviews. We utilize a secure, cloud-based collaboration tool for OP&F to upload documents to be available to the FAS project team.

We propose working initially with the ORSC and OP&F project liaisons to develop clear communications protocols regarding interview requests and scheduling, document requests, follow-up discussions, and scheduling of meetings. This should help ensure effective and efficient use of ORSC and OP&F executive and staff time and avoid redundant or confusing requests. We would also expect to have regular weekly status update conference calls with the OP&F project liaison, and the ORSC liaison, if desired, to ensure effective ongoing communication throughout the project. We will provide a formal monthly progress report to the ORSC advising on overall project status and any potential issues that have been identified.

Prior to conducting the Opening Conference, the FAS team will prepare a document request (a preliminary draft is included in *Appendix B*, as previously mentioned) and allow several weeks for the OP&F staff to respond. We assume that most documents, including investment manager contracts and related due diligence materials, will be available electronically, can be uploaded to a secure tool. As mentioned earlier, this will include the detailed InGov® system profile questionnaire to provide information about OP&F's structure, policies and procedures. We will also work with the OP&F liaison to schedule interviews.

After a period of four-to-five weeks to perform an initial review of the documents provided, develop the InGov® profile report, and conduct the governance self-assessment with the Board and senior executives, we expect to have most of the FAS team on site for the Opening Conference and to:

1. Introduce ORSC and OP&F executives and staff to the FAS team members;
2. Discuss project timing and ensure a clear understanding of project plans and protocols;
3. Review results of the InGov® profile and self-assessment;
4. Conduct interviews; and
5. Follow up on further data collection requirements.

Subsequent to these activities, we would envision on-site work in Columbus to be on an as-needed basis for follow-up interviews or reviewing preliminary observations with OP&F executives and staff. We would have all or part of the FAS team on-site to participate in the Closing Conference. Many of the follow-up discussions and interviews can be conducted as telephone conversations. Our experience is that this is an efficient and cost-effective working style for this type of review.

For the Closing Conference, we will present a PowerPoint summary document of our findings and recommendations. The full final report will be provided in advance of the Closing Conference.

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C. Deliverables

As requested, FAS will provide monthly status updates and weekly phone calls to the ORSC and propose that the progress report submission include a conference call, or face-to-face meeting if appropriate, to discuss status and provide an opportunity for both the ORSC and FAS teams to ask questions and discuss issues.

The final report will be in a Word document format and include:

- A description of the work performed;
- An executive summary (including an overall opinion of the areas of strengths and weaknesses in OP&F and an overall comparison of OP&F operations with best practices of other public pension plans);
- Specific findings, comparisons to leading and prevailing peer practices, and recommendations for improvement, including priorities; and
- Specific and concrete proposals to achieve any improvements recommended in the report.

The recommendations and proposals will be prioritized and provide the potential costs or benefits associated with implementation.

The key findings, recommendations, and proposals will be organized in a manner that clearly identifies to whom they are primarily directed (e.g., the Legislature, OP&F Board, and ORSC). This is consistent with our normal approach for this type of review, and we have found that it results in a very high level of adoption of our recommendations.

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D. Timeline

We believe this fiduciary performance audit can be completed within five to six months. Our GANTT chart style workplan, included as *Appendix D*, indicates the expected duration necessary for each task area.

The FAS team will be prepared to begin the engagement after we are selected within two weeks of finalizing the contract.

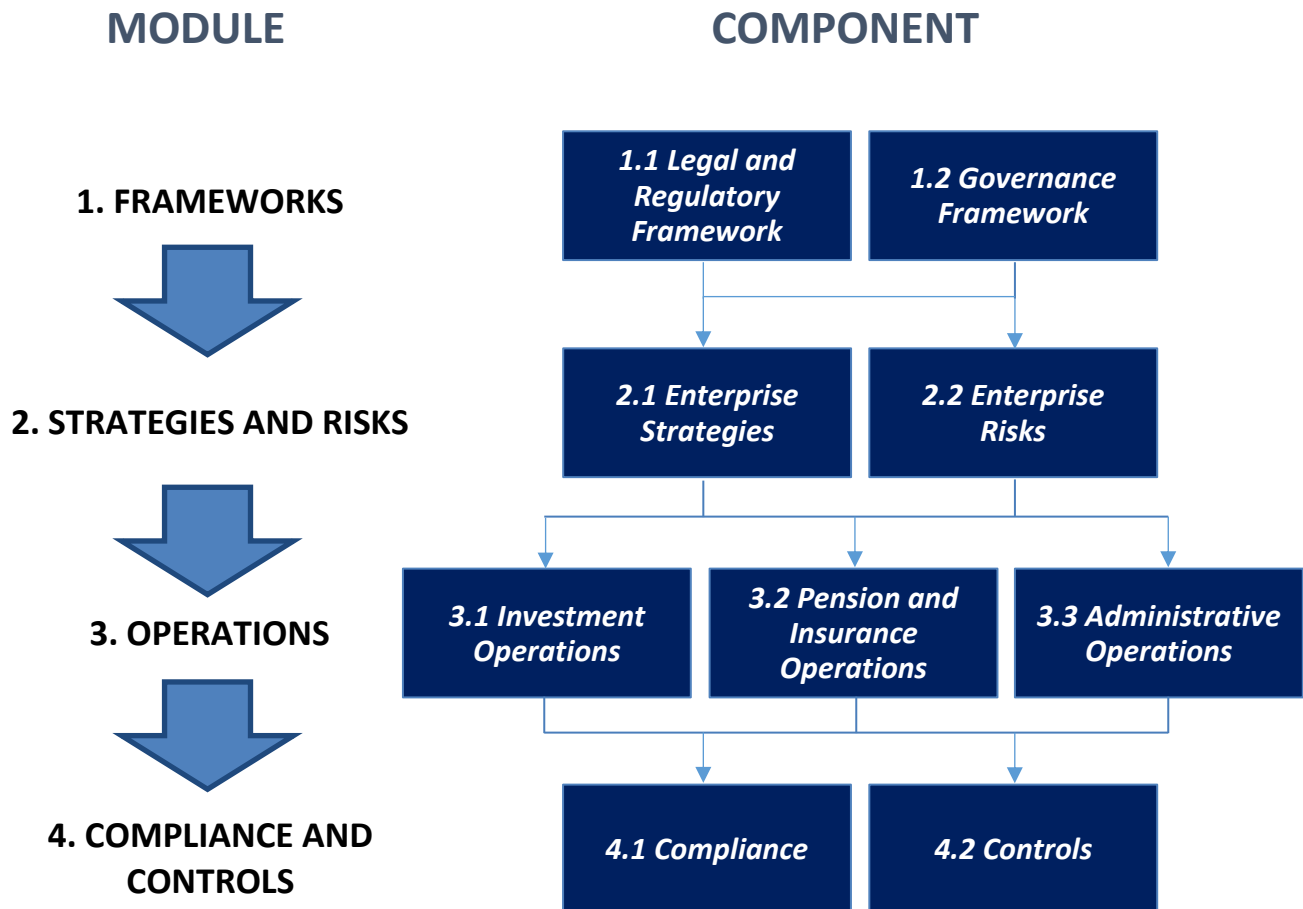
VI. ADDITIONAL INFORMATION

Each proposal shall include any additional information that might be helpful to gain an understanding of the proposal. This may include diagrams, excerpts from reports, or other explanatory documentation that would clarify and/or substantiate the proposal. Any material included here should be specifically referenced elsewhere in the proposal.

A. The FAS Fiduciary Audit Methodology

Funston Advisory Services LLC (FAS) has developed a fiduciary performance review methodology that evaluates a retirement system’s governance, strategy, risk and compliance policies and practices. The methodology, indicated in the graphic below, is comprehensive and adaptable to each specific assignment (see appendix for topics included in each major area). Our approach to fiduciary reviews is “One size fits one,” but it is important to utilize a consistent methodology to identify leading, prevailing, and lagging policies and practices.

The FAS Fiduciary Review Methodology



VII. GLOSSARY

Each proposal shall provide a glossary of all abbreviations, acronyms, and technical terms used to describe the services or products proposed. This glossary should be provided even if the terms are described or defined when first used in the proposal response.

ARMB – Alaska Retirement Management Board

BA – Bachelor of Arts

CalPERS – California Public Employees’ Retirement System

CalSTRS – California State Teachers’ Retirement System

CDPSE – Certified Data Privacy Solutions Engineer

CEM – Cost Effectiveness Management Inc.

CEO – Chief Executive Officer

CIA – Certified Internal Auditor

CISA – Certified Information Systems Auditor

CISSP – Certified Information Systems Security Professional

COO – Chief Operating Officer

COPERA – Colorado Public Employees’ Retirement System

CPA – Certified Public Accountant

CRM – Customer Relationship Management

ERM – Enterprise Risk Management

ERS – Employees’ Retirement System

FAS – Funston Advisory Services LLC

HIERS – Employees’ Retirement System of the State of Hawaii

IAM – International Association of Machinists

ISACA – Information Systems Audit and Control Association

IT – Information Technology

IPS – Investment Policy Statement

JD – Juris Doctor

LACERA – Los Angeles County Employees Retirement Association

LACERS – Los Angeles City Employee’ Retirement System

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LLC – Limited Liability Company

MA – Master of Arts

MBA – Master of Business Administration

MBCP – Master Business Continuity Professional

MSW – Master of Social Work

NAPPA – National Association of Public Pension Attorneys

NASRA – National Association of Public Retirement Administrators

NYC BAM – New York City Bureau of Asset Management

NYS CRF – New York State Common Retirement Fund

NYSLERS – New York State Local Employees’ Retirement System

OCIO – Outsourced Chief Investment Officer

OP&F – Ohio Police & Fire Pension Fund

OPERS – Ohio Public Employees’ Retirement System

ORSC – Ohio Retirement Study Council

PAM – Portfolio Accounting Management

PCAOB – Public Company Accounting Oversight Board

PEBA – South Carolina Public Employee Benefit Authority

PSERS – Pennsylvania Public School Employees’ Retirement System

QAR – Quality Assessment Review

RFP – Request for Proposal

RSIC – South Carolina Retirement System Investment Commission

SBA – Florida State Board of Administration

SERS – School Employees Retirement System

SIA/IAD – Securities Industry Association/Internal Audit Division

STRS – State Teachers Retirement System of Ohio

SWIB – State of Wisconsin Investment Board

TEDS – Trustee Educational Seminar

TRS – Teacher Retirement System of Texas

WRS – Wyoming Retirement System

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VIII. COST INFORMATION

The pricing summary should include a breakdown of costs per element, including personnel costs (including hourly rates and estimated hours for professional and clerical staff assigned to the audit); travel and lodging; data processing costs; materials; and any other potential costs. The cost estimates in the pricing summary must include all necessary charges to conduct the audit and must be a “not to exceed” figure.

	A. Board Governance and Administration	B. Organizational Structure and Staffing	C. Investment Policy and Oversight	D. Legal Compliance	E. Risk Management and Controls	F. IT Operations	Project Oversight and Management	Total Hours
Steve Case		12	204					216
Rick Funston	8		24		24		64	120
Mike Gardner					112			112
Mike Gold	24	72	80					176
Steve Harding					32	16		48
Keith Johnson	40		24	40				104
Randy Miller	28	20	56			16	96	208
Lisa Morris	36	36			32			104
Tiffany Reeves	32		40	32				104
Steve Ross						120		176
Total								1368

	Hours	Blended Rate	Total
Professional fees	1368	\$472.51	\$646,400
Travel and lodging			\$29,400
Materials and other costs			\$4,000
Total			\$679,800

As referenced in section V. A. *Methodology*, if the ORSC desires to reduce the overall cost by eliminating the online self-assessment survey of Board members and executive staff, this would reduce the overall cost by \$16,000.

IX. Appendix A – FAS Knowledgebase

FAS has completed eight leading practices benchmarking studies over the past ten years and continually adds to the knowledgebase with each new assignment. These studies were all completed by FAS team members and include development of surveys and collection of data from selected pension fund peer groups, data validation and analysis, preparation of final reports, and follow-up discussions and webinars with participants.

The FAS InGov® Public Pension Fund Leading Practices database includes information on over 300 factors in the following topical areas:

1. System Overview
 - Organization name and contact information
 - Governing jurisdictions
 - Type of organization and governance structure
 - Plan sponsor programs offered
 - Type and number of benefit programs
 - Number of members and annuitants
 - Number of health care subscribers
 - Number of employers served
 - Number of employees
 - Current annual budget by function
2. Statutory Governance and Authorities
 - Governing legislation
 - Fiduciary duties
 - Fiduciary investing standard
 - Open meetings requirements
 - Trustee liability
 - Authorities delegated to the board (budgets, staffing, compensation, outside providers)
 - Procurement authorities
 - External counsel authorities
 - Legal custodian
3. Board Composition and Policies
 - Board composition (ex officio, appointed, elected)
 - Appointing authorities
 - Trustee removal policy
 - Board experience or certification requirements
 - Terms
 - Age limits
 - Board compliance monitoring
 - Board member compensation
 - Board policies
 - Board charters, minutes and policies and public availability
 - Board self-assessment policy and practices
 - Board onboarding and continuing education

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4. Pension Plan Funding and Actuarial Processes
 - Funding ratio
 - Funding policy
 - Funding over past five years vs. ARC
 - Board training in actuarial processes
 - Actuarial expert support and studies
 - Actuarial cost method
 - Actuarial smoothing policy
 - Unfunded liability amortization policies
 - Asset/liability study frequency
5. Board Operations
 - Board agenda setting and management
 - Meeting frequency and duration
 - Board retreats
 - Board member time commitments
 - Staff support time
 - Board meeting streaming and recording
 - Public comments in Board meetings
 - Board minutes preparation
 - Board reporting package
 - Use of reporting templates
 - Use of exception reporting
 - Report review and sunseting
 - Use of electronic Board portal
6. Board Committees
 - Committee structure
 - Committee membership
 - Committee meeting frequency and duration
 - Qualification requirements
 - Committee agenda setting
 - Committee reporting back to full Board
 - Responsibility for enterprise risk
7. Board Delegations
 - Disability reviews and appeals
 - Executive positions
 - Executive reports to the Board
 - Direct report evaluation process
 - Direct report succession planning process
 - Review of administrative rules
 - Powers reserved policy
 - Delegation policy
 - Delegations for proxy voting, corporate actions, proposed legislation
 - Spending delegations
8. Board Use of Third-Party Service Providers

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- Topics for which the Board utilizes third-party assistance
 - Use of an independent external auditor
 - Use of actuarial consultants
 - Use of compensation consultants
 - Use of third-party benchmarking consultants
 - Board assessment of third-party advisors
9. Strategic Planning
- Strategic plan development process and responsibilities
 - Frequency of strategic plan updating
 - Strategic planning scope and topics
 - Strategic plan implementation monitoring and reporting
10. Investment Strategies and Policies
- Development of investment beliefs
 - Development of Investment Policy Statement
 - Investment policies and review frequency
 - Development of asset allocation
 - Capital market assumptions
 - Investment performance benchmarks
 - Assets under management by fund
 - Asset class profile (allocations, active vs. passive, internal management)
 - External and internal mandates by asset class
 - Investment decision-making roles
 - Investment reporting to the Board
 - Investment public disclosures
 - Environmental, Social and Governance (ESG) program and oversight
 - Use of investment consultants
 - Investment fee reporting
 - Investment cost management
11. Investment Operations
- Investment staff deployment
 - Internal investment program management
 - Internal investment committee and composition
 - Investment decision-making timing
 - Manager searches and hiring
 - Manager due diligence and monitoring
 - Rebalancing
 - Investment risk management
 - Proxy voting
 - Investment office staffing and compensation
 - Investment staff training
 - Securities lending
 - Custodial services
 - Foreign exchange
 - Broker-dealer selection and management
 - Transition management

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12. Legal Support

- Types of legal support used and source (e.g., inhouse, AG's office, external)
- Internal legal staff
- Legal support fees and approvals
- Use of external counsel

13. Pension Administration

- Pension administration organization
- Pension administration performance reporting to the Board
- Member education
- Employer training
- Staff member service training
- Deferred compensation plan administration

14. Insurance Administration

- Third-party vs. self-insured for major programs
- Insurance administration performance reporting to the Board
- Health insurance program benchmarking
- Shared pension and health insurance functions
- Use of health care consultants
- Board authority for health insurance innovations
- Wellness and other innovation programs

15. Enterprise Administration

- Sources of administrative support for:
 - Investment accounting
 - Human resources
 - Information technology
 - Procurement
- Staff succession planning
- Administrative policies
- Business resumption
- Cyber security
- Employee orientation
- Communications plan

16. Enterprise Risk Management

- Board oversight responsibility for enterprise risk
- Board definition of risk tolerance and triggers for exception reporting
- Enterprise risk policies and types of risks addressed
- Executives and staff risk responsibilities
- Risk reporting
- Use of key performance and key risk indicators (KPIs/KRIs)
- Risk escalation policies and criteria
- Enterprise risk management (ERM) framework and plan
- ERM policies and frequency of updating
- ERM program and roles
- ERM responsibilities

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- ERM linkages to other functions
- Risk assessments
- Vendor risk management
- Review of System and Organization Controls (SOC) reports from key vendors
- Control environment surveys
- Incident management
- Risk training

17. Independent Reassurance

- Internal audit charter
- Internal audit organization and reporting relationships
- Use of risk assessments
- Internal audit planning
- Internal audit quality assurance
- Role of Audit Committee
- Internal audit reports
- Internal audit standards
- External reviews of the system

18. Compliance and Controls

- Compliance organization and reporting relationships
- Compliance activities, training, and controls
- Finance and accounting organization and reporting
- Finance and accounting controls framework and key controls
- IT organization and reporting
- IT controls framework and key controls
- Employer compliance
- Investment compliance tracking
- Frequency of investment compliance testing
- Private market documentation compliance tracking
- Segregation of duties
- Cash transfer approvals
- Investment accounting staff training
- Financial statement sign-offs

X. Appendix B – Preliminary Data Request

- A. Board Governance and Administration
 - 1. Ohio statutes governing OP&F
 - 2. OP&F governance policies, including charters, delegations, position descriptions, ethics and standards of behavior policies and communications policy
 - 3. OP&F Board education and training program and materials
 - 4. Most recent three OP&F annual operating budgets and financial and operating reports
 - 5. OP&F staff development and succession planning documentation
 - 6. Most recent CEM pension administration benchmarking report for OP&F, if available
- B. Organization Structure and Staffing
 - 7. OP&F organization charts
 - 8. OP&F human resources policies and procedures
 - 9. OP&F staffing reports, including hiring, termination, vacancy and retirement eligibility
 - 10. OP&F position descriptions
 - 11. OP&F employee evaluation policies and procedures
 - 12. Internal OP&F employee satisfaction survey results
 - 13. OP&F member service reports
 - 14. Most recent CEM pension administration benchmarking report for OP&F (common with A.)
 - 15. Most recent independent compensation study conducted for OP&F
 - 16. OP&F employee continuing education and training program materials
- C. Investment Policy and Oversight
 - 17. OP&F current Investment Policy Statement (IPS) and most recent prior two versions
 - 18. OP&F annual investment reports for past three years
 - 19. OP&F most recent asset-liability study
 - 20. OP&F most recent five-year experience review
 - 21. OP&F rebalancing reports from past three years
 - 22. OP&F Board minutes from past three years
 - 23. Investment compliance reports
 - 24. Trade execution analysis reports
 - 25. Most recent CEM investment benchmarking report
 - 26. Investment performance reports from the general consultant and custodial bank
 - 27. OP&F staff investment reports to the Board
 - 28. Due diligence standards and procedures
 - 29. Private market contract templates
 - 30. Manager fee reporting requirements
 - 31. External manager fee calculations and reports
 - 32. OP&F conflict of interest policies and procedures for external managers
 - 33. External manager compliance reports
 - 34. OP&F investment due diligence policies and procedures
 - 35. OP&F transaction standard legal clauses
 - 36. Risk reports and analyses provided to the OP&F Board over the past three years
 - 37. Investment compliance reports from the past three years

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38. The contract and service level agreement with OP&F'S custodial bank
39. Most recent custodial bank RFP
40. OP&F custody fee data for the past three years
41. Most recent securities lending RFP and current contracts
42. Most recent foreign exchange RFP and current contracts
- D. Legal Compliance
 43. OP&F IRS communications over the past three years
 44. Most recent IRS Determination Letter
 45. Investment compliance checklists
 46. OP&F transaction standard legal clauses (common with C)
 47. List with description of external legal services obtained over the past three years
 48. Ethics training materials used by OP&F
 49. OP&F compliance reports for Board members and staff
- E. Risk Management and Controls
 50. OP&F risk policies and procedures
 51. OP&F control plans and reviews prepared by internal audit or third parties
 52. OP&F procurement policy and procedures
 53. Description of accounting processes
 54. External audit reports for prior three years, including any management letters
 55. Operational risk reports
 56. Record-keeping policies, procedures and systems
- F. IT Operations
 57. OP&F IT governance processes
 58. OP&F IT strategy and delivery framework
 59. OP&F IT, data and business continuity policies and procedures
 60. OP&F IT planning documents (strategic, operational, network, data security, etc.)
 61. OP&F applications systems portfolio and application map
 62. OP&F technology platforms and service catalog
 63. OP&F IT service management standards
 64. Description of OP&F program management functions
 65. OP&F IT service level standards and reports
 66. OP&F cost of ownership of IT services and IT budget allocation
 67. OP&F IT risk assessment
 68. Documentation for OP&F IT projects
 69. OP&F disaster recovery and business continuity plans
 70. IT and security incident and outage reports

XI. Appendix C – Preliminary Interview List

1. Each OP&F Board member
2. OP&F executive staff
 - a. Executive Director
 - b. Deputy Executive Director
 - c. Chief Investment Officer
 - d. General Counsel
 - e. Chief Audit Executive/Privacy and Ethics Officer
 - f. Director of Business and Technology Solutions and staff
 - g. Director of Member Services
 - h. Director of Human Resources
 - i. Director of Communications
 - j. Investment staff asset class managers
 - k. Investment risk manager
 - l. Head of Compliance
 - m. Head of Risk Management
 - n. Head of Finance
 - o. Investment accounting staff
 - p. Financial staff who calculate investment manager fees
 - q. Head of Government Relations
3. Key stakeholder groups (active member associations, retiree associations, etc.)
4. General investment consultant
5. Asset class consultants
6. Investment managers (at least ten investment managers from a variety of asset classes, focusing on the most recently hired and those with the largest allocations)
7. OP&F actuary
8. OP&F custodial banks staffs
9. Treasurer of State staff (those who interact with OP&F regarding custodial bank matters)
10. OP&F external auditor

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XII. Appendix D – Workplan and Timeline

FAS Activities	Project Week																						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
Phase 1: Data Gathering / Self-Assessment																							
1. Finalize the workplan	█	█																					
2. Collect and review documents		█	█	█	█																		
3. OP&F complete InGov® profile survey		█	█	█	█																		
4. Conduct trustee and senior executive self-assessment survey		█	█	█	█																		
4. Prepare for entrance meeting and interviews				█	█																		
5. Conduct entrance meeting						█																	
6. Conduct interviews with OP&F Board and staff						█																	
7. Conduct external service provider interviews						█	█	█															
Phase 2: Assessment																							
A. Board Governance and Administration																							
1. Board trustee education, training, and their associated costs																							
2. Whether OP&F sufficiently delineates, communicates, and documents the lines of reporting and responsibility over staff responsibilities in general and in the investment program specifically and whether the role of the Board and staff are clearly defined for both																							

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FAS Activities	Project Week																						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
3. The statutes and administrative rules under which OP&F operates to determine if the 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. Comparison of the governance provisions and practices to industry standards and best practices in comparable systems																							
5. OP&F budget process and its adherence to Board approved budget																							
6. Written policies and procedures currently in place to monitor and guard against professional conflicts of interest																							
7. Succession planning for key positions																							
8. Administrative costs, including determining their appropriateness compared to comparable public systems																							
9. Communication policies and procedures of OP&F between the Board, its members, and its retirees																							
B. Organizational Structure and Staffing																							
1. Staffing size, hiring procedures, staff qualifications, roles, compensation, performance evaluation requirements, and an analysis of these factors compared to other similar size public pensions																							

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FAS Activities	Project Week																						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
2. Adequacy of process to evaluate and improve customer/member satisfaction																							
3. Whether compensation levels are sufficient to facilitate OP&F's ability to attract and retain qualified pension fund professionals																							
4. Monitoring and maintaining staff qualifications and continuing education requirements																							
C. Investment Policy and Oversight																							
a. Investment policy																							
1. Review the process by which the investment policy is adopted and compare that process to best practices																							
2. Review the investment policy statement and compare it to industry best practices																							
3. Determine whether OP&F investment policy includes all critical elements, acknowledging an understanding of OP&F's financial and actuarial characteristics, and in accordance with established investment and funding goals, and risk tolerances																							
4. Evaluate whether the asset allocation is tied to the investment policy statement																							
5. Evaluate whether OP&F investment policy is compatible with the most recent asset/liability study and five-year experience review																							

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FAS Activities	Project Week																						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
6. Evaluate the adequacy of the mechanisms and decision-making processes utilized for setting, periodically reviewing, and rebalancing the asset allocation																							
7. Evaluate whether OP&F policy specifies to what extent the basis for particular investment decisions should be articulated in writing by the Board or OP&F staff																							
8. Evaluate the extent to which OP&F 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																							
9. Evaluate how often and by what process the Board or staff reviews OP&F's written policies, guidelines, and procedures																							
b. Investment oversight and review																							
10. Evaluate the appropriateness of Board and staff controls, procedures, and capabilities to regularly review and monitor the performance of the investments and the practices of investment managers, as well as ensuring compliance with policies																							
11. Evaluate OP&F's process for measuring, evaluating, and controlling transaction costs, directed brokerage and commission recapture (if any), and compare the process to other funds as well																							

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FAS Activities	Project Week																						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
as public or private third party industry surveys																							
12. Evaluate the process used to determine and measure investment performance, including how performance data is collected and verified and selection of appropriate benchmarks																							
13. Evaluate the basis and methodology for the compensation of external investment managers and advisors and payments to others, if any																							
14. Evaluate the written policies and procedures currently in place to monitor and guard against professional conflicts of interest																							
15. Analyze how investment managers are selected, including the transparency in the decision-making process, due diligence provisions, 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 selection process																							
c. Investment and fiduciary risk																							
16. Evaluate the processes by which the Board is aware of the risks associated with the asset allocation they have adopted																							

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FAS Activities	Project Week																						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
17. Examine investment risk factors. Attention should be on the types, levels, and appropriateness of risks in the investment portfolios and overall funds as well as any internal controls in place at OP&F to ensure compliance with the adopted standards, policies and procedure for managing investment and fiduciary risk. This examination should include a comparison to best practices.																							
d. Custodian policy																							
18. Evaluate the custodial bank's breadth of services, technological planning and capability to address OP&F's needs																							
19. Evaluate the bank's structure and level of fees																							
20. Evaluate the custodial bank's cash management and analytical services																							
21. Evaluate the ability of OP&F to have oversight over custodial functions																							
22. Review the custody model used by the Ohio Treasurer of State as custodian of financial assets for OP&F and evaluate the oversight provided as compared against other public systems and best practices																							
D. Legal Compliance																							
1. Legal compliance and adherence to IRS regulations																							
2. Adequacy of internal and external counsel																							

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FAS Activities	Project Week																						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
3. Adequacy of ethics training, disclosure, and monitoring of compliance																							
4. Board and staff compliance with legal requirements																							
E. Risk Management and Controls																							
1. The adequacy of financial controls and integrity of financial statements. This should include an analysis of the purchasing policy and adherence to that policy.																							
2. The adequacy of the current accounting process																							
3. The appropriateness and utility of regular reports provided to the Board and management, and how that reporting compares to industry standards and best practices																							
4. Sufficiency of internal and external audit procedures																							
5. Adequacy of record-keeping system																							
F. IT Operations																							
1. Review of OP&F data integrity																							
2. Review of OP&F security and confidentiality of its records system																							
3. Contingency and business continuity planning																							
4. Incident management policies, procedures, and reporting system																							

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FAS Activities	Project Week																						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
5. The quality of processes and controls for the organization and management of IT operations and governance; IT project and portfolio management; data management; application development and maintenance; local area network infrastructure; security; business continuity plan and disaster recovery																							
6. Areas of high risk and OP&F's mitigating controls for those defined high-risk areas. The analysis will compare the OP&F's control structure with IT industry best practices.																							
Phase 3: Final Report																							
1. Submit complete final draft report for ORSC and OP&F review																							
2. Obtain feedback from ORSC and OP&F and revise report, as appropriate																							
3. Submit second draft final report to ORSC and OP&F																							
4. Submit final report to ORSC and SERS and conduct Closing Conference																							