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AUDITOR OF STATE

STATE OF OHIO

OHIO RETIREMENT
STUDY COUNCIL
PERFORMANCE AUDIT

SEPTEMBER 19, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

To the Members of the Ohio Retirement Study Council:

On May 23, 2002, members of the Ohio Retirement Study Council (ORSC) requested that the Auditor of State conduct a performance audit of the agency. Following discussions with Council members and staff at ORSC, three areas of focus were identified for review. Those areas were governance and management-council relationships, administrative business practices, and operational business practices. These areas were selected because they are important components of ORSC operations which support its mission of assisting in the development of sound public policy for Ohio's five statewide retirement systems.

The performance audit contains recommendations which, if implemented, could provide operational and business practice improvements. While the recommendations contained within the performance audit are resources intended to assist the agency in refining its operations, ORSC is also encouraged to assess overall operations and develop other recommendations independent of the performance audit.

An executive summary has been prepared which includes the project history, an overview of the agency, the purpose and objectives of the performance audit, and a summary of findings, commendations, and recommendations. This report has been provided to the staff at ORSC and its contents discussed with appropriate agency officials and management. ORSC has been encouraged to utilize the results of the performance audit as a resource in improving its overall operations and service delivery.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or the toll free number in Columbus, (800) 282-0370. This performance audit can also be obtained on-line through the Auditor of State's website at <http://www.auditor.state.oh.us/> by choosing the "On-Line Audit Search" option.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

September 19, 2002

Executive Summary

Project History

On May 23, 2002, two members of the Ohio Retirement Study Council (ORSC) requested that the Auditor of State of Ohio (AOS) conduct a performance audit of ORSC. The performance audit was designed to evaluate ORSC business practices, and obtain information on best practices for Retirement Study Councils.

ORSC Overview

Created in 1968, ORSC assists the state legislature, governor, and other public officials in the development of sound public pension policy on all matters relating to the benefits, funding, investment, and administration of Ohio's five statewide retirement systems. These systems include:

- Public Employees Retirement System (PERS) – covering all state and local government workers;
- State Teachers Retirement System (STRS) – covering teachers at public schools, colleges, and universities;
- School Employees Retirement System (SERS) – covering non-teaching school employees;
- Police and Fire Pension Fund (OP&F) – covering full-time police officers and fire fighters; and
- State Highway Patrol Retirement System (SHPRS) – covering state highway patrol officers.

ORSC was designed to operate outside the normal legislative political process. ORSC recommendations are based upon factual information and research, not the popularity of an idea or political pressure, as provided in *A Statement of Objectives and Policies* adopted by ORSC members in 1973. ORSC performs the following statutory duties as required by the Ohio Revised Code (ORC) § 171.04 and other statutes:

- Reviews all laws governing the public retirement systems and makes recommendations to the legislature on any changes it may find desirable with respect to benefits, sound financing of benefit costs, and prudent investment of funds (ORC §171.04(A));

- Reports to the governor and legislature on its evaluation and recommendations with respect to the operations of the public retirement systems and their funds (ORC §171.04(B));
- Studies all proposed changes to the public retirement laws and reports to the legislature on their probable costs, actuarial implications, and desirability as a matter of sound public policy (ORC §171.04(C));
- Reviews semiannually the policies, objectives, and criteria of the systems' investment programs (ORC §171.04(D));
- Conducts, at least once every ten years, an independent actuarial review of the annual actuarial valuations, and actuarial investigations prepared by each system every five years (ORC §171.04(E));
- Reviews the police and fire contribution rates and makes recommendations to the legislature for the proper financing of OP&F benefits (ORC §742.311); and
- Prepares an independent actuarial study every three years on the required employer supplemental contribution to be made on behalf of academic and administrative employees of higher education electing an alternative retirement plan (ORC §171.07).

ORSC also prepares various reports covering a wide range of retirement issues and serves as a pension information resource both within and outside Ohio. ORSC has established its own website (www.orsc.org) that is administered in-house and provides direct public access to all ORSC analyses, reports, and other pertinent information regarding the five state pension funds.

ORSC is an independent state agency and does not receive General Fund revenue or legislative appropriations. Each state pension fund is required to pay a percentage of annual ORSC expenses, determined by the ratio of its assets to the total assets of all five state pension funds.

ORSC is governed by a Council composed of 14 members. The nine voting members include three members of the House of Representatives appointed by the Speaker of the House, three members of the Ohio Senate appointed by the President of the Senate, and three gubernatorial appointees. Of the three members appointed by the Governor, one represents the State, another represents local governments, and the third represents public education institutions. Five executive directors of the State pension systems hold non-voting seats on the Council.

ORSC has a staff of 4.0 FTEs that includes the director, a staff attorney, a research attorney, and the executive assistant/payroll manager. The Council appoints the director to manage and direct the

duties of the staff. The director appoints such professional, technical, and clerical employees as are necessary. The ORSC also has the authority to employ or hire on a consulting basis such actuarial, legal, investment, or other technical services required for the performance of ORSC duties, as provided under ORC § 171.03(B).

Objectives & Methodology

AOS evaluated internal business practices and the relationship between ORSC and the Council. The following areas were examined:

- **Governance and Management**
An assessment of management reporting, planning, and the Council's oversight process, as well as the relationship between the Council and staff at ORSC.

- **Administrative Business Practices**
A review of job descriptions, performance evaluations, and policies and procedures particularly in the areas of hiring, compensation, and terminations; procurement for goods and services; and budgetary, travel and other internal controls.

- **Operational Business Practices**
An assessment of contract management and the actuary selection process.

The overall objectives of this performance audit were to review and analyze these areas in relation to industry standards and best practices in order to develop recommendations to enhance ORSC's overall operations. The methodology involved analyzing the selected areas, as well as obtaining and evaluating best practice information from like institutions and other standards that provided benchmarks and comparisons.

Conclusions and Recommendations

Overall, ORSC appears to be an effectively managed organization. However, there is currently an absence of formal policies and procedures in certain areas considered to be standard business practices. The agency could benefit from a number of formal policies and procedures that would enhance accountability through more regular documentation of decision making processes. The performance audit report contains 14 recommendations pertaining to ORSC members and staff. The following are the key recommendations:

- **ORSC members should be responsible for approving all consulting engagements prior to commencement of ORSC studies. ORSC staff should compile requests for studies, determine the scope and cost of such studies, and present the information to the Council for approval.**
- **ORSC staff should prepare monthly status reports to the Council requesting approval of potential projects and outlining the status of current projects. The reports should include information on the request or legislation that initiated the project, the actuarial firms being used, the cost and the timelines for completion.**
- **ORSC staff should develop a formal orientation program for all new Council (voting and non-voting) members and include the new members of all standing committees of both houses with primary responsibility for retirement legislation. This orientation program should be included in ORSC staff's policies and procedures, as well as ORSC's *Rules of Council* (bylaws).**
- **ORSC members should establish a policy and procedure detailing Council members' responsibilities. The *Rules of Council* should detail a member's responsibilities in terms of meeting attendance and oversight participation.**
- **ORSC staff should update and centralize all organizational policies and procedures into one manual. Updating policies and procedures should be a team effort, including input from staff and the director, as well as Council members, when necessary. This will help clearly define ORSC expectations. The director should take the necessary steps to ensure all personnel are aware of updates in ORSC policies.**
- **ORSC staff should develop, implement and monitor contracts for all consulting services. The relationship between ORSC and its primary actuary (Milliman USA) should be defined in contract. Furthermore, any additional studies or consulting**

work performed by the primary actuary should be defined in a letter of engagement. Studies undertaken by other actuaries should be performed under contract.

- **ORSC staff should establish formal procedures to regularly update contracts for actuarial services every five years. Any renewal options should be clearly defined and included in all contracts.**
- **ORCS staff should formally monitor all contracts through a regular review of the work performed by the vendor and the invoices provided by the vendor, to ensure completeness, accuracy, and compliance with contract terms. All reviews should be formally tracked and documented by ORSC staff.**

Comparative Statistics

When compared to other state retirement system oversight agencies, ORSC compares favorably. **Table 1-1** illustrates the comparison between ORSC and other state retirement oversight commissions.

Table 1-1: State Retirement System Oversight Agency Comparison (FY 2001-02)

States	Ohio	Minnesota	Missouri	Texas	Average
Year Formed	1968	1967	1983	1979	N/A
Total Number of Retirement Plans Monitored	5	9	5	9	8
Total Combined Assets (in billions)	\$135.0	\$42.5	\$41.0	\$160.0	\$81.2
FY 2002 Budget	\$659,583	\$265,000	\$168,987	\$273,000	\$235,662
Cost per Dollar Monitored	\$0.0053	\$0.0062	\$0.0041	\$0.0017	\$0.0040
Contracted Services¹ as a Percent of Total Budget	38.5%	88.3%	0%	19.0%	35.7%

Source: ORSC, Minnesota, Missouri, and Texas retirement administrations

¹ Contracted Services typically comprise predominately consulting and actuarial services

When assessing other state retirement system oversight commissions, ORSC monitors retirement plans with the second highest total combined assets, and ORSC ranks second highest in cost per dollar monitored, after Minnesota. As shown in **Table 1-1**, FY 2002 budgets fluctuate greatly and are based on the level of responsibility and functions performed within each retirement system. ORSC and the other states, such as Minnesota and Texas, act as oversight agencies between the retirement systems and the legislature. Other states, such as Massachusetts, Michigan and Virginia, have much larger staffs that not only perform in-house audits on all retirement systems, but also monitor each retirement plan within every government entity.

Ohio's higher cost per dollar monitored can be attributed to a slightly above average use of contracted services for actuarial and consulting studies on a broader range of issues than examined by the other state retirement system oversight commissions shown. Also, ORSC uses both in-house experts and consultants to perform its services. However, ORSC's annual budget includes amounts for consulting actuarial services, whereas Minnesota charges the cost of actuarial services directly to retirement system(s). The comparative states emphasize either in-house services or contracted services to perform their statutory duties.

Other state retirement system oversight commissions, such as Minnesota, Texas, Michigan and Missouri receive funding directly from their state legislatures. ORSC is one of only a few retirement system oversight commissions established for the purposes of operating independently from the legislature which, according to ORSC, provides a greater degree of political independence in safeguarding pension resources. ORSC's funding structure and emphasis on independence is occasionally used as a model for other states, with the most recent example being Virginia.

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Background

The Ohio Retirement Study Council (ORSC) was created to advise and inform the state legislature on all matters relating to the benefits, funding, investment, and administration of the five statewide retirement systems in Ohio. In addition, ORSC provides legislative oversight with respect to the Ohio Public Safety Officers Death Benefit Fund, a state-funded program providing death benefits to the survivors of law enforcement and public safety officers killed in the line of duty, and the Volunteer Fire Fighters' Dependents Fund, a program providing benefits to disabled volunteer firefighters and their survivors.

ORSC also works closely with each of the state retirement systems in developing legislation, gathering and disseminating State pension fund information, and responding to federal regulations. Furthermore, the Council monitors all federal legislation having an impact on governmental pension plans and ensures compliance with all federal regulation of such plans.

ORSC has a long-standing relationship with each of the major national associations dealing with public pension plans including: the Government Finance Officers Association, the National Association of State Retirement Administrators, and the National Conference of Public Employees Retirement Systems. In addition, ORSC is associated with the National Conference of State Legislatures (NCSL), and the current ORSC director is the legislative staff chair of the NCSL Labor and Workforce Development Committee, and an ex-officio member of the NCSL Executive Committee. These relationships allow ORSC staff to both share and gather information from other retirement systems around the country in order to develop a better understanding of pension legislation and its impact on pension systems in Ohio. Because of its institutional history with all five state retirement systems, ORSC is in a unique position to recommend measures that reflect consistent, sound principles of pension policy congruent with the long-term orientation required in managing and examining pension systems. ORSC also periodically uses actuarial analyses for review and recommendation of bills affecting the pension systems and other retirement benefits of public employees.

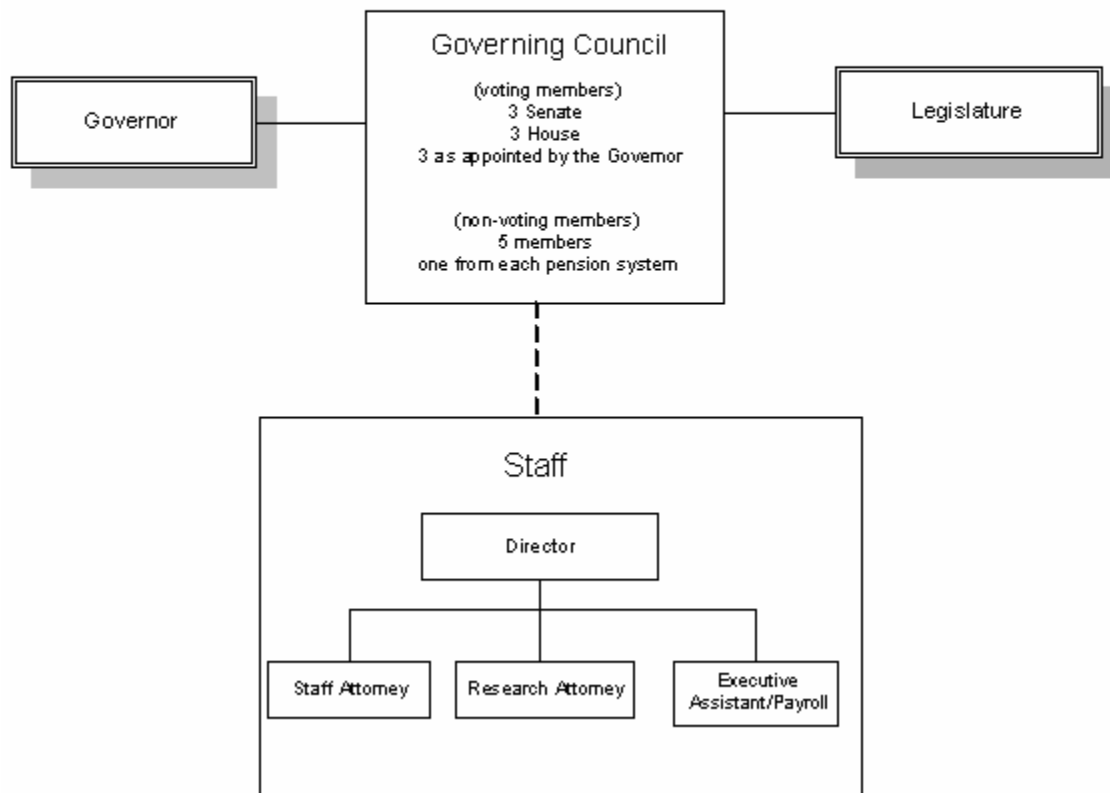
ORC § 117.11 requires a financial audit of the State of Ohio, including agencies such as ORSC, every two years. During the State audit, financial and internal control issues are examined and management reports are issued to each agency. In addition, the five retirement systems each have independent financial audits conducted on their respective pension funds.

Organization and Staffing

ORSC is composed of 14 Council members, as shown in **Chart 2-1**: 3 members of the House appointed by the Speaker; 3 members of the Senate appointed by the President; 3 members appointed by the Governor, 1 representing the state, another representing local governments, and the

third representing public education institutions; and the 5 executive directors of the state retirement systems, who are non-voting members. ORC § 171.01 stipulates that no more than two of the three House members, Senate members, or gubernatorial appointees may be of the same political party. Furthermore, according to ORC § 171.02, ORSC members are required to take and subscribe to an oath to perform the official duties of the ORSC honestly, faithfully and impartially. ORSC members serve without compensation, but are reimbursed for actual and necessary expenses incurred in the performance of their duties.

Chart 2-1: Ohio Retirement Study Council Organizational Chart



As shown in **Chart 2-1**, ORSC staff includes the director, staff attorney, research attorney, and the executive assistant/payroll. According to ORC § 171.03, Council may appoint a director to manage and direct the duties of ORSC staff. The director manages the daily operations of ORSC, and appoints such professional, technical, and clerical employees as are necessary.

Revenues and Expenditures

Pursuant to ORC § 171.05, ORSC is required to ascertain each pension system's assets for purposes of determining its proportionate share of the Council's annual budget. The retirement systems are asked by the ORSC to certify in writing their net assets on January 1st of each year to ensure consistent reporting among the five systems. ORSC bills each retirement system on a quarterly basis, based on the proportion shown in **Table 2-1**. **Table 2-1** presents the actual revenues for FY 2000-01 and FY 2001-02 for ORSC.

Table 2-1: Retirement Systems' Revenue Contributions FY 2001 - 02

Retirement Systems	FY 2000-01	Percentage	FY 2001-02	Percentage	Average Percentage
PERS	\$295,760	43.4%	\$289,852	43.9%	43.7%
STRS	\$290,671	42.7%	\$277,557	42.1%	42.3%
OP&F	\$47,940	7.0%	\$46,171	7.0%	7.0%
SERS	\$43,923	6.4%	\$42,915	6.5%	6.5%
SHPRS	\$3,210	0.5%	\$3,086	0.5%	0.5%
Total	\$681,504	100.0%	\$659,581	100.0%	100.0%

Source: ORSC

As illustrated in **Table 2-1**, ORSC's revenues are derived proportionately from each of the five retirement systems. The funding portions are based on the total assets of each retirement system. However, if ORSC does not expend the entire amount requested from the retirement systems during the fiscal year, the balance is deducted from the next fiscal year's total amount due.

ORC § 171.05 requires the ORSC budget be approved annually by June 30th. ORSC rules provide that:

“Council shall adopt annually a budget containing several line items. The budget shall constitute authorization for the director to incur obligations in accordance therewith, except that the director may increase spending levels for specific line items without obtaining approval of the Council as long as the overall spending level authorized by the council is not exceeded.” (Section VII (2))

The director estimates the budgetary needs in late March for the coming fiscal year. These expenses include: personnel salaries, PERS employer contributions, medical insurance, capital expenses, travel expenses, office expenses, contract services, publications, organizational dues and audits. The director then distributes a copy of the proposed estimated budget to each member of the Council to

review prior to the June Council meeting. The proposed budget is presented at the ORSC meeting in June, which provides an additional opportunity for voting and non-voting council members to ask questions or to seek further clarification. Quarterly reports of ORSC revenues and expenditures are provided to all ORSC members for review.

Table 2-2 presents the actual expenditures for FY 2000-01 and FY 2001-02 for ORSC and the budgeted amounts for FY 2002-03.

Table 2-2: ORSC Expenditures

Organizational Code Description	FY 2000-01 Actual	FY 2001-02 Actual	% Change FY 2000-01 to FY 2001-02	FY 2002-03 Budgeted	%Change FY 2001-02 to FY 2002-03
Salaries/Wages	\$242,940	\$253,926	4.3%	\$281,089	9.7%
Benefits	\$26,142	\$34,151	23.5%	\$37,866	9.8%
Insurance	\$21,415	\$24,803	13.7%	\$29,248	15.2%
Capital Expenses	\$9,185	\$0	(100.0)%	\$6,500	100.0%
Travel	\$5,378	\$7,390	27.2%	\$7,000	(5.3)%
Communications	\$7,906	\$7,047	(11.0)%	\$9,500	25.8%
Office Expenses	\$11,960	\$7,056	(41.0)%	\$11,000	35.9%
Rent/Utilities	\$49,171	\$50,383	2.4%	\$51,845	2.8%
Contract Services	\$252,196	\$182,459	(27.7)%	\$254,000	28.2%
Publications	\$7,546	\$8,046	6.2%	\$9,750	17.5%
Organization Dues	\$3,060	\$5,080	40.0%	\$5,200	2.3%
Audits (AOS)	\$0	\$0	0.0%	\$9,325	100.0%
Total Operational Costs	\$636,899	\$580,341	(8.9)%	\$712,323	18.5%

Source: ORSC expenditure reports for FY 2000-01, 2001-02, and budget report for 2002-03

Over the two fiscal years, ORSC has expended an average of \$609,000 per year. **Table 2-2** shows a decrease in overall actual expenditures of almost 9 percent between FY 2000-01 and FY 2001-02, and the FY 2002-03 budget is approximately 15 percent higher than the FY 2000-01 and FY 2001-

02 average. ORSC members adopted the same operating budget for FY 2001-02 and FY 2002-03. In FY 2001-02 the actual expenditures were lower than the budgeted amount for that year, and the remaining balance was deducted from the FY 2002-03 portion of the state retirement systems' funding contributions.

Explanations for some of the significant changes (greater or less than five percent) in the current operating budget include the following:

An increase in Salaries and Wages for FY 2001-02 actual and FY 2002-03 budget: The 4 percent increase in salaries was the result of an annual salary increase. The 10 percent increase in FY 2002-03 was attributed to anticipated costs for an additional employee and a cost-of-living increase for existing staff. At the time of reporting, the additional employee had not been hired. The addition of 1.0 FTE to the ORSC staff is planned to allow succession planning within the agency.

An increase in Fringe Benefits for FY 2001-02 actual and FY 2002-03 budget: FY 2000-01 reflects an unusual year as ORSC benefited from a temporary PERS roll-back. ORSC paid only half their employer shares in FY 2000-01 because PERS was over-funded. The increase of 23.4 percent in FY 2001-02 reflects a return to standard PERS costs. The 9.8 percent for the FY 2002-03 was budgeted to cover the costs of one additional employee, as well as a three percent cost-of-living increase for existing staff.

An increase in Insurance for FY 2001-02 actual and FY 2002-03 budget: The 13.6 percent increase in insurance was due to an increase in worker compensation, health, life and dental premiums. The increase of 15.2 percent for the FY 2002-03 was budgeted to accommodate rate increases and for the additional staff member

An increase in Travel for FY 2001-02 actual and decrease in FY2002-03 budget: The 27.2 percent increase in travel for the FY 2001-02 reflects an increased amount of mileage reimbursements (\$0.34 per mile) paid to Council members for retirement system meetings and monthly ORSC meetings because they reside outside of the Columbus area, and are performing non-legislative duties by serving on the Council. The **administrative business practices** section of this report contains additional analysis of travel expenditures.

A decrease in Capital Expenses for FY 2001-02 actual and an increase in FY 2002-03 budget: Capital expenses include all fixed asset purchases over \$500. Capital expenses in FY 2000-01 reflect the purchase of two laptop computers and a bookcase. No such purchases were made in FY 2001-02. However, ORSC plans to spend \$6,500 on capital expenses in FY 2002-03 on computer and fax machine upgrades.

A decrease in Communications for FY 2001-02 actual and an increase in the FY 2002-03 budget: An 11 percent decrease in communications in FY 2000-01 was due to the procurement of more cost effective phone service plans from Ameritech, AT&T wireless and America Online. The 26 percent increase in communication costs in FY 2002-03 is a result of an upgrade in the phone systems.

A decrease in Office Expenses for FY 2001-02 actual and an increase in FY 2002-03 budget: A decrease in office expenses from FY 2000-01 was due to a reduction in office supply purchases. The 36 percent increase in office expenses is a result of postage increase and the purchasing of bulk paper, property insurance increase, copy machine upgrades and other miscellaneous office supplies.

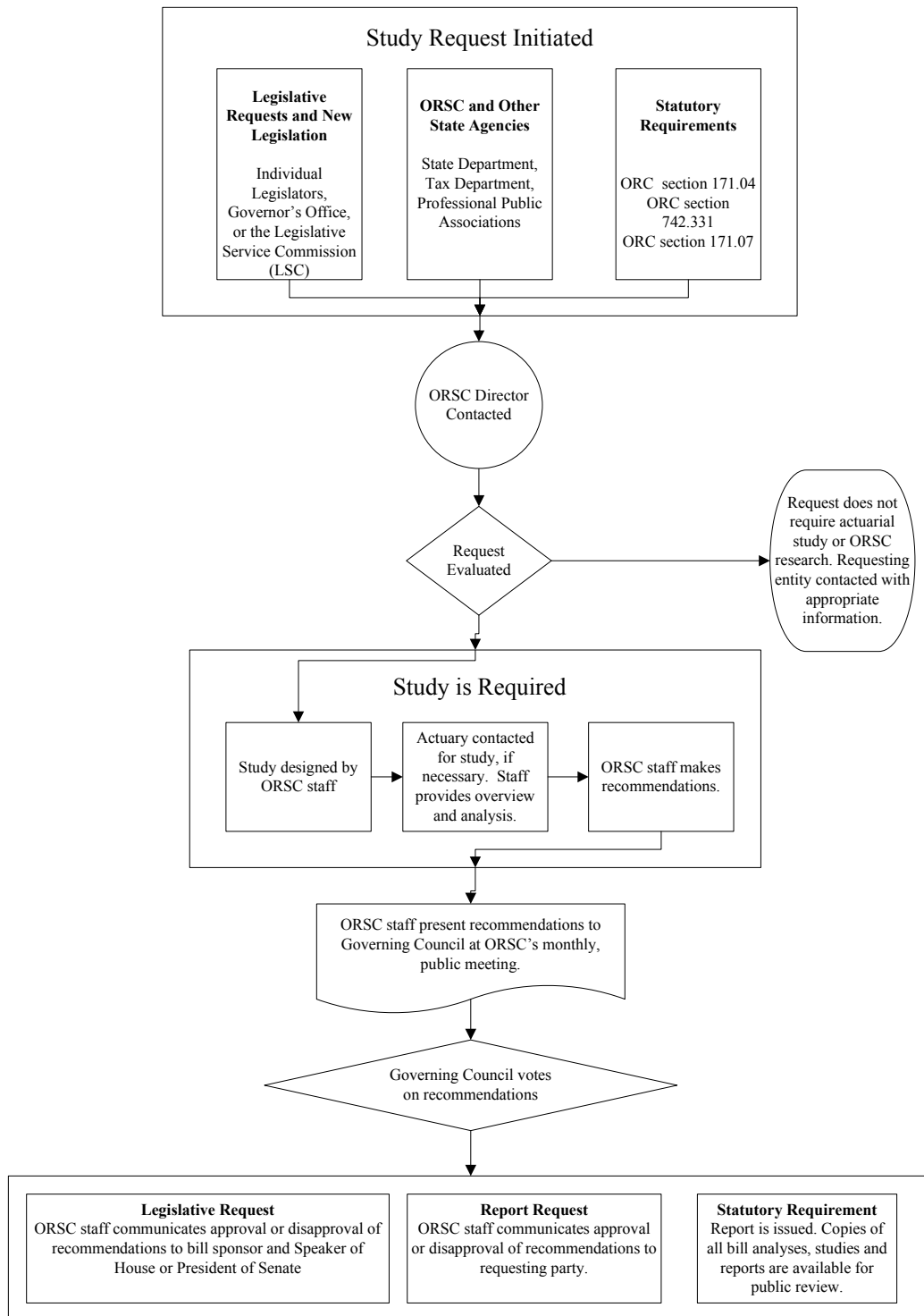
A decrease in Contract Services for FY 2001-02 actual and an increase in FY 2002-03 budget: The 27.6 percent decrease in contracted services resulted from a reduction in actuarial projects and a reduction in fax machine and copy machine repair services. The increase in the budget for FY 2002-03 reflects estimated cost of planned actuarial studies with a contingency for unplanned studies. Director estimated that approximately 24 percent of contracted services are planned, statutorily driven projects (about \$60,000). The contingency for unplanned studies comprises approximately 76 percent (or \$164,000) of the contracted services line-item.

An increase in Organizational Dues for FY 2001-02 actual: The 40 percent increase in organizational dues was due to an increase in several association membership fees. These fees are expected to stay relatively constant into FY 2002-03.

Summary of Operations

Chart 2-2 illustrates the process by which ORSC receives requests for projects, determines which projects require actuarial studies, selects its recommendations, and communicates its recommendations to the requesting party.

Chart 2-2: ORSC Project Lifecycle



As shown in **Chart 2-2**, projects and actuarial studies undertaken by ORSC are identified and selected through various means: legislative requests; through the Governing Council; professional associations; the Legislative Service Commission (LSC) or directly from new legislation; requests from other state agencies; or through statutory requirements. ORSC also undertakes studies of specific retirement and health care issues as a result of legislative mandates and requests. The director receives the request and determines if the matter requires an actuarial study to address the issues in the request, or if it could be studied by ORSC staff. In many cases, the issues identified require only a brief answer from ORSC staff and do not require the services of ORSC's actuary.

If an actuarial study is undertaken, ORSC staff design the project and identify its scope based on their expertise. The ORSC staff presents the conclusions of the study to the Governing Council. Based on the actuarial study, ORSC staff provides a complete analysis of the content, policy implications and fiscal impact of such legislation, and make specific recommendations to the Governing Council. However, in many cases, this is the first exposure Council members may have to the study. The current decision making process lacks sufficient involvement by ORSC members during the project planning and selection process (see **Recommendation 1**).

At the termination of a study, the Council is required to make recommendations based on study results. The Governing Council is then responsible for presenting the recommendations of the actuarial study to the General Assembly. At least five affirmative votes are required for the Council to take action on specific recommendations. Council actions are reported to the state legislature, which usually follows ORSC's recommendations.

ORSC maintains effective communication with several state agencies, such as the LSC and the Attorney General's Office. ORSC provides LSC with pertinent retirement system information or language for legislative amendments, as needed. The Attorney General's Office represents ORSC as its lawyer, offering formal and informal opinions regarding pension legislation, on an as-needed basis. The Attorney General obtains analyses of pension legislation from ORSC when necessary.

All proposed internal rules, policies and procedures are submitted to ORSC members for review and adoption. They are then reviewed and approved by the Council before adoption by ORSC staff. This process ensures that all policies used in the ORSC have been thoroughly researched and reviewed before they are put into practice.

More information on ORSC policies and procedures is found in the **administrative business practices** section of this report.

Recommendations

Governance & Management Council Relationship

- 1. ORSC members should be responsible for approving all consulting engagements prior to commencement of ORSC studies. ORSC staff should compile requests for studies, determine the scope and cost of such studies, and present the information to the Council for approval.**

The ORSC is granted the power to conduct reviews of the impact of all laws governing the public retirement systems (ORC § 171.04(A)) and any changes to the laws (ORC § 171.04(C)). Currently, the decision making process prior to the commencement of ORSC studies does not involve both Council members and ORSC staff. Prior to 2001, the ORSC director and the ORSC Chair or Vice-Chair would meet informally on at least a weekly basis to receive updates pertinent issues regarding pension legislation, the retirement systems, and requested studies. The ORSC staff is available to meet with all ORSC members, which allows Council members to be involved in preliminary decision making. However, since 2001 the informal meetings have not occurred, and there is no formal reporting that takes place. A formal reporting process should ensure members are involved in the decision making process, especially in regards to studies and special projects.

To obtain approval for special projects from the Council, ORSC staff should provide a summary of the following project aspects as a component of the monthly report (see **Recommendation 2**):

- The reason the project is required;
- The scope of the project;
- The cost of the project;
- Project timelines, milestones and completion dates; and
- The methods that will be used to monitor the project.

The Council should formally vote on project requests at the time they are presented. However, the proposals should be forwarded to the Council by ORSC staff at least one week prior to the meeting. The inclusion of the Council in the decision making process will heighten ORSC accountability, increase ORSC Council member involvement in the development of recommendations, and potentially improve the coordination of studies.

2. **ORSC staff should prepare monthly status reports to the Council requesting approval for potential projects and outlining the status of current projects. The reports should include information on the request or legislation that initiated the project, the actuarial firms being used, the cost and the timelines for completion. The director of ORSC should present the status report to the Council and be available to answer any questions Council members may have. This type of report will help the Council better understand the workload of ORSC and its level of mission achievement. These monthly reports should be compiled into an annual report of ORSC activities and made available to Council members, staff and the public.**

Communication between the Council and staff at ORSC about projects and actuarial studies is not consistent or sufficient to adequately inform the Council of ORSC's workload and level of mission achievement. As a governing body, it is essential for the Council to have adequate decision making information, particularly about the type and volume of work conducted by its agency. The ORSC past practice of reporting to the Council about project matters on an informal basis did not result in documentation of what was presented or discussed. The only documentation currently provided to ORSC members are quarterly expenditure reports listing each line item of the budget, including actuarial studies. However, this data does not communicate pending studies or the status of current projects.

ORSC staff should prepare a monthly status report to inform ORSC members of potential projects and the status of studies currently underway. In developing a monthly report, ORSC should include the following:

- Requested projects, including;
 - Actuary,
 - Timeline,
 - Estimated ORSC staff hour investment, and
 - Anticipated scope and costs.
- Updates on projects in process;
- Preliminary recommendations on concluded studies; and
- Budget to actual expenditure data.

In the annual report should be a compilation of the monthly reports, and should include:

- A brief description of the ORSC and pertinent ORC sections;
- Financial and operating statistics (expenditures and staff)
- ORSC mission;
- An overview of each of the five Ohio retirement systems;

- A list of all actuarial firms available for pension fund studies, which system employs each and general qualifications;
- A description of the actuarial firm employed by ORSC, its function, and a history of employment including payment history;
- Actuarial studies in process and what they cover;
- Completed studies;
- Study impact; and
- Areas which may be considered for future actuarial studies.

By regularly providing Council members with this type of information, ORSC can enhance the communication and information sharing between Council members and ORSC staff, and ensure ORSC members are informed of ORSC research and studies.

3. **ORSC staff should develop a formal orientation program for all new Council (voting and non-voting) members and include the new members of all standing committees of both houses with primary responsibility for retirement legislation. This orientation program should be included in ORSC staff's policies and procedures, as well as ORSC's *Rules of Council* (bylaws).**

Often new Council members are not familiar with ORSC history, or routine procedures and processes. ORSC staff does not provide a formal orientation program to regularly assist new members in learning key information required to serve effectively as a Council member. A formal process is one that is clearly defined in policies and procedures, or bylaws, and is consistently applied according to the defined policies and procedures.

There are no policies within ORSC bylaws that require all new Council members to take part in a formal orientation process. The director meets informally with all new ORSC members and provides them with a copy of *Pension Information Resource*. This publication contains the most current information on the five retirement systems, history of benefit changes in the public employees' retirement systems of Ohio, benefits provided by Ohio's public retirement systems, comparative tables of the five pension systems, pension profiles and legislation affecting the operations of all pension systems. The director also makes a presentation at the beginning of each legislative session to ORSC's Governing Council and to the standing committees of both houses with primary responsibility for retirement legislation. The presentation includes an explanation of the functions of ORSC, recently enacted retirement legislation and other background information and outstanding retirement issues that are likely to come before the legislature. Furthermore, ORSC staff present information regarding ORSC and the retirement systems at the Legislative Services Commission's orientation for all new legislators. ORSC also has a website that includes the organization's purpose, recently released studies and the Council bylaws. Nevertheless, ORSC has not

compiled its written policies and procedures (see **Recommendation 8**). The ORSC members' bylaws also are not compiled in a comprehensive manner and a detailed formal orientation program for new ORSC Governing Council members has not been implemented.

The purpose of the Council is to advise and inform the state legislature on all matters relating to the benefits, funding, investment and administration of the five retirement systems in Ohio. Pensions are an increasingly complex subject requiring a degree of expertise and demanding continuous supervision and attention. ORSC members are continually changing due to term limitations. Thirty-one voting council members and 13 non-voting council members have passed through ORSC since 1990, or a total of 44 new members in the past 12 years. Legislative turnover prevents many State committees, such as ORSC, from establishing the institutional memory necessary for continuity within ORSC Governing Council membership.

New ORSC members may be appointed at various times throughout the year. The Governor appoints individuals to serve a three-year term, or the unexpired term of his or her predecessor each year, typically sometime in August. Appointments made by the Speaker of the House and the President of the Senate generally occur by March. Therefore, ORSC members may join the Council at different intervals throughout the year.

Both Massachusetts and Texas have established an annual, formal orientation program for all new council or commission members. Texas' orientation program is sponsored by the Governor and consists of half day training on retirement system laws, organizational policies, council bylaws and other organizational processes.

ORSC staff should develop a formal orientation program for all members, voting or non-voting and standing committees with responsibility for retirement legislation, such as the House Retirement & Aging Committee and the Senate Pension Subcommittee. The orientation program should be incorporated into the ORSC members' *Rules of Council* (bylaws) and should include, but should not be limited to, the following topics:

- Background information on ORSC, including goals and objectives;
- Travel policies;
- Recent pension reforms recommended by ORSC and enacted by the General Assembly;
- Review of *A Pension Information Resource*;
- Pending public retirement issues;
- Management staff responsibilities and operational duties;
- Review of all *Rules of Council* (bylaws), including the importance of attending meetings for a quorum, and other Roberts Rules of Order;

- ORC sections 145.22, 171, 742.14, 742.331, 3307.20, 3309.21 and 5505.12;
- Actuarial contracts and consultation services (see **Recommendation 13** in the **operational business practices** section of this report).

These topics should assist in defining the responsibilities of the ORSC members under existing law, *Rules of Council*, and ORSC policy and procedure (see **Recommendation 2**). The orientation should occur on an annual basis, or as new members join the Council, and ORSC staff should document when the orientation occurred, as well as any feedback from orientation participants on how it could be improved or enhanced.

4. ORSC members should establish a policy and procedure detailing Council members' responsibilities. The *Rules of Council* should detail a member's responsibilities in terms of meeting attendance and oversight participation.

The Rules of the Ohio Retirement Study Council adopted December 12, 1979 (as amended through June 20, 2001) do not contain any provisions detailing the responsibilities of individual Council members, and therefore it cannot ascertain if a member is performing his or her duties according to their oath of office. ORC § 171.02 states, "The council shall adopt rules of the conduct of its business and the election of its officers" . . . and that "Each member of the council, before entering upon the member's official duties shall take and subscribe to an oath of office, to uphold the constitution and laws of the United States and this state and to perform the duties of the office honestly, faithfully, and impartially."

The Council as a whole has defined duties as detailed in ORC § 171.04; however the ORC does not describe the duties of individual members. Furthermore, the Rules of Council do not state an individual's responsibility in attending Council meetings where the decisions to take action on the prescribed duties in ORC § 171.04 occur. The only participation requirement for meetings under the Rules of Council involves meeting quorum, which states "A majority of the council constitutes a quorum and no action shall be taken by the council unless approved by at least five voting members (ORC § 171.02)."

The Rules of Council also state under its 'Procedure' section, "Except as otherwise specified by these rules, the proceedings of the council shall be governed by Robert's Rules of Order."

Robert's Rules of Order defines a quorum as "an assembly is such a number as must be present in order that business can be legally transacted." However, the *Rules of Council* do not make mention about member attendance, tardiness or early departure from meetings. Furthermore, the Council bylaws do not mention a period of notification in the event a member cannot attend a meeting. Without such provisions, there is a chance of delayed decision making in instances where quorum may not be met. The ORC and the ORSC oath of office both refer to the duties of the office of an ORSC member, however, the *Rules of Council* do not detail what those duties are for an individual Council member. ORSC

members should create additional language to include in the Rules of Council and vote to update the Rules to describe members' individual responsibilities to ORSC in regards to attendance in order to fulfill statutory duties and to make decisions regarding the oversight of Ohio's public pension systems.

5. **ORSC members should develop a formal evaluation process for the director who is appointed by the Council, in accordance with the ORC § 171.03. Annual evaluations of the director should be included as a responsibility in the *Rules of Council*.**

ORSC members do not have policies in its *Rules of Council* for evaluating the director. There is no formal written evaluation by the Governing Council of the director's duties and responsibilities. As a result, there is no formal link to the director's pay increases or to organizational or personal goals. An annual evaluation of the director should be conducted prior to submission of the budget in June, by the Council as a whole, or by a committee of Council members, to provide the director with feedback on areas necessary for personal and organizational improvement. The director's evaluation should incorporate responsibilities relating to ORC § 171 and ORC § 742.311.

Annual goals and expectations should also be included in the evaluation process. The Council should establish expectations for the director at the beginning of each fiscal year. Attainment of the stated expectations should be come the basis for the director's evaluation at the conclusion of the fiscal year.

The chairman of the Minnesota retirement commission evaluates the executive director on an annual basis prior to the approval of any pay increases. The chairman's evaluation of the executive director is conducted in a private session. The executive director's evaluation consists of performance in judgment and initiatives, job knowledge, professional image and external relationships, work quality, reliability, adaptability and cooperativeness.

The **administrative business practices** section of this report contains additional recommendations for employee evaluations.

Administrative Business Practices

6. **ORSC's director and staff should review and update job descriptions on an annual basis.**

Currently, ORSC job descriptions are updated on an as-needed basis. Though job descriptions are mostly accurate and reflect actual duties, none specifically mention contract monitoring as a priority. Contract monitoring is merely implied in the design and management functions for research projects. Job descriptions should indicate specific responsibilities associated with monitoring outside vendor contracts. The **operational**

business practices section of this report has more information regarding contract monitoring.

The Society for Human Resource Management recommends job descriptions be reviewed and updated annually. Up-to-date job descriptions foster a greater understanding of duties and responsibilities, and can be used by employees as a reference in performance evaluations. Implementing annual job description reviews will add formality to the process, while ensuring the accuracy of ORSC job duties.

7. The director of ORSC should implement the Ohio Performance Review System (OPRS) manual, from Ohio Department of Administrative Services (ODAS), as a means of conducting formalized, internal staff and director performance evaluations.

ORSC performance evaluations are informal and not strongly linked to merit-based pay increases and organizational or personal goals. Each June, prior to submission of the budget, the director and staff fill out evaluation forms. This two-page form, based on State Teachers Retirement System (STRS) evaluations, measures employee effectiveness, professional knowledge, and professionalism on a scale of 1 to 5, with 1 being “unsatisfactory.” The director is subject to an additional category: leadership. These criteria are not well defined and difficult to measure, as they do not address specific job duties. Additionally, current forms leave minimal space for written feedback.

As evaluation forms are completed by the director, they are forwarded to staff for review and comment. The same process exists for staff evaluations of the director. There is no formal interview process for the discussion of comments. The director files completed evaluation forms in the appropriate personnel file.

According to ORSC staff, performance evaluations are informal because the open relationships between staff allow for ongoing performance feedback. The director has an open-door policy and individuals are comfortable discussing performance issues as they arise. The open-door policy has a positive impact on morale. However, a more formal process should be used to effectively document performance and justify pay increases.

The OPRS manual, prepared and made available by ODAS, offers a process designed to assist agencies in evaluating employee performance. Though ORSC does not fall under the jurisdiction of ODAS, this manual could benefit any government organization in the planning, monitoring, evaluation, and development of employee performance. OPRS calls for:

- Establishing specific, measurable performance goals that correlate directly with job duties;

- Observing and documenting employee performance over a period of time, at least once a year; and
- Conducting a private, face-to-face conference to review the performance evaluation, approximately 60 days prior to the date of a pay increase.

Additionally, OPRS contains highly detailed instructions and timelines, which assist in the establishment of organizational and personal goals, objectives, and improvement opportunities. OPRS performance evaluations use a target-based rating system, whereby performance is measured as being above, on, or below target, which is more detailed, and less arbitrary than ORSC's numeric rating system. OPRS also allows more room for written feedback. This is important in establishing a formal connection between employee performance, job duties, set objectives, and pay increases. Using OPRS will provide ORSC with adequate, goal-oriented feedback, enhancing the efficiency of job performance.

The **governance & management council relationship** section of this report makes additional recommendations for Council evaluations of the director.

- 8. ORSC staff should update and centralize all organizational policies and procedures into one manual. Updating policies and procedures should be a team effort, including input from staff and the director, as well as Council members, when necessary. This will help clearly define ORSC expectations. The director should take the necessary steps to ensure all personnel are aware of updates in ORSC policies.**

Current ORSC policies and procedures may diminish accountability and increase the risk of legal liability to the organization since important elements are absent and outdated. Specifically, ORSC's travel policy and the procedures manual have not been substantially updated since 1988 and 1997, respectively. ORSC policies and procedures also fail to consider the following important elements, as identified in the *HR Manager's Legal Reporter*:

- Sexual harassment;
- Discrimination (e.g., Americans with Disabilities Act) and the Equal Employment Opportunity Act;
- Telephone usage;
- Workers' compensation;
- Emergency / safety protocol;
- Dress code;
- Smoking;
- Office equipment usage;

- Internet usage;
- Performance evaluations;
- Business ethics (e.g., privacy, confidentiality, conflicts of interest);
- Drug and alcohol restrictions;
- Leave (e.g., sick, vacation, personal, military or jury duty); and
- Employee signature acknowledging having read and understood all policies.

When these elements have been addressed, ORSC should combine all policies and procedures, including travel and hiring/firing, into one, centralized manual. According to the policy development administrator for ODAS Human Resources Division, centralized policies allow for the following:

- Easy distribution of policies to all staff;
- Improved tools for the orientation of new employees; and
- Increased protection from legal liability.

The director should take the following steps to ensure all personnel are aware of updates in ORSC policy:

- Inform all ORSC personnel of policy decisions;
- Post notices (send e-mails) of impending changes;
- Centralize policies into one manual and issue to all staff;
- Issue new policies to all personnel *prior* to the date they take effect;
- Indicate that changes in policy supercede all previous agreements;
- Require staff to sign an acknowledgement that they have read and understand all policies; and
- Review and update policies on an annual basis.

An up-to-date, centralized policy manual will enhance communication of ORSC expectations to all personnel. Policy manuals ensure employees are treated equally, while providing protection against various forms of legal liability and instruction on organizational expectations.

- 9. ORSC's director and staff should update, and ORSC members should approve, ORSC travel policy to include elements established by the Ohio Office of Budget and Management (OBM), and the General Assembly. When identified elements from the**

various policies are combined, ORSC will have a strong, clearly defined travel policy, which ensures fiscal accountability.

Adopted in January 1988, the ORSC travel policy is outdated, does not adequately quantify expectations and reimbursement limitations are not defined. The predominant standard for all expenses incurred while traveling is that they be reasonable and accompanied by a receipt. There are no limits established for lodging and transportation costs, and there is no prohibition on the reimbursement of alcohol. Additionally, as of June 30, 2002, ORSC is nearly 6 percent over its FY 2001-02 requested travel budget. **Table 3-1** is a summary of ORSC travel expense data.

Table 3-1: ORSC Travel Expenses FY 1999-00 to 2002-03

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03
Amount Requested	\$5,616	\$6,000	\$7,000	\$7,000
Percent Change from Previous Year	N/A ¹	7%	17%	0%
Actual Expenses	\$4,638	\$5,378	\$7,390	\$8,905 ²
Percent Change from Previous Year	N/A	14%	27%	21% ³
Percent Over (Under) Budget	(17)%	(10)%	6%	21%

Source: ORSC budget and expenditure reports, FY 1999-00 through FY 2002-03

¹ FY 1998-99 figures not analyzed.

² Projected by adding the average percent change from the previous year (20.5 percent) to FY 2001-02 actual expenses.

³ Projected amount.

Since FY 1999-00, annual ORSC budget requests for travel increased approximately 20 percent. Additionally, actual travel expenses increased approximately 37 percent between FY 1999-00 and FY 2001-02. ORSC average annual increase in actual travel expenses is approximately 21 percent. If actual travel expenses remain constant, ORSC will exceed its FY 2002-03 requested budget by 21 percent.

Travel expenses incurred at ORSC cover both ORSC members as well as staff. The travel expenditures will fluctuate depending on the geographical residence of ORSC members traveling to and from meetings. Appointed members who reside in more distant areas in Ohio than their predecessors will cause travel expenses to increase. Furthermore, travel expenditures are impacted by the number of ORSC meetings held during the year.

ORSC is not funded through the Ohio General Assembly, but through the five Ohio retirement pension systems. As a result, ORSC has based its travel policy format on those of the retirement pension systems. ORSC's travel policy does not ensure fiscal accountability since there are few defined limits of expense, and the policy is not updated in a timely manner. **Table 3-2** compares travel policy elements of current ORSC policy, OBM and Ohio General Assembly.

Table 3-2: ORSC, OBM, and General Assembly Travel Policy Comparison

Travel Criteria	ORSC Policy	OBM	Ohio General Assembly
Mileage	\$0.34/mile (adopted 7/2001 from IRS rate)	\$0.30/mile for privately owned car	\$0.30/mile
Lodging/ Telephone	<ul style="list-style-type: none"> Reasonable. All calls of ORSC business and one personal call to residence or another ORSC staff person are reimbursable. 	<ul style="list-style-type: none"> Receipts required. \$15/night at private dwelling No more than \$75+taxes per calendar day for in-state commercial. Out-of-state commercial, out-of-US lodging, telephone use, laundry, postage, and dry cleaning must be reasonable. 	<ul style="list-style-type: none"> Receipts required. House: <ul style="list-style-type: none"> No more than \$70 + taxes per calendar day. Senate: <ul style="list-style-type: none"> Actual, reasonable lodging costs. Telephone calls must be reasonable and related to business.
Meals	<ul style="list-style-type: none"> Reasonable and necessary (not to exceed \$40 per day). Avoid room service. If business guests are fed, this must be reported with reasonable detail. 	<ul style="list-style-type: none"> In-state: <ul style="list-style-type: none"> \$40 maximum/day (only \$30 max/day if no receipt is provided). Out-of-state: <ul style="list-style-type: none"> \$60 maximum/day (only \$30 max/day if no receipt is provided). Outside U.S. <ul style="list-style-type: none"> \$75 max/calendar day (with receipts) *Gratuities cannot exceed 15 percent. 	<ul style="list-style-type: none"> House: <ul style="list-style-type: none"> \$35/day maximum for days both preceded and followed by in-state overnight stay. (\$60 max/day for out-of-state). Senate: <ul style="list-style-type: none"> \$60/day maximum for days both preceded and followed by overnight stay. Gratuities cannot exceed 15 percent.
Transportation	<ul style="list-style-type: none"> Airline tickets must be at coach or economy rates. Parking must be reasonable. Rental cars may be reimbursed only if no other transportation is available. 	<ul style="list-style-type: none"> Airfare must be lowest available price. Parking > \$1 must have receipt. Rental cars reimbursed only if most economical option available. 	<ul style="list-style-type: none"> Receipts required. Airfare must be pre-approved and necessary, at the lowest possible rate. Taxi and parking must be reasonable. Car rental must be pre-approved and most economical option.
Conferences	<ul style="list-style-type: none"> ORSC Chair shall make a decision based upon fair distribution of the privilege of travel. 	<ul style="list-style-type: none"> Receipts required for any expense > \$1 Reasonable conference lodging reimbursable only if occurs 30 miles from residence and headquarters. 	<ul style="list-style-type: none"> Must be pre-approved and receipts are required. If meals are provided, traveler will not be reimbursed for meals purchased elsewhere.
Prohibitions (Non-reimbursable Expenses)	<ul style="list-style-type: none"> Entertainment not reimbursable. (<i>Alcoholic beverages not mentioned.</i>) 	<ul style="list-style-type: none"> Entertainment Alcohol Lodging or meals (except conference meals) within 45 miles of both headquarters and residence Lodging or meals (except conference meals) within County of headquarters Conference lodging within 30 miles of both residence and headquarters 	<ul style="list-style-type: none"> Lodging and meals can only be reimbursed if one travels 45+ miles from residence Alcohol Costs incurred by spouse Entertainment Transportation & meals already provided by a conference (no double-dipping) Personal phone calls
Other	<ul style="list-style-type: none"> Any expense \$25+ must be accompanied by a receipt. 	N/A	<ul style="list-style-type: none"> All travel requests must be approved by House Speaker or Senate President prior to departure. The House requires a travel expense report be filed (with all receipts) within 45 days of return.

Source: ORSC Travel Policy as of January 12, 1988, OBM (Effective July 1, 2002), Ohio House of Representatives and Ohio Senate

An analysis of the various policies shown in **Table 3-2** indicate several changes for ORSC members to consider when updating its travel policy. ORSC should define reasonable with expense caps in the various travel categories, using OBM and the General Assembly as examples. Although ORSC defines mileage reimbursement amounts based on the current Internal Revenue Service established rate, and has a daily meal allowance not to exceed \$40, all other costs are must be reasonable and any expense \$25 or over must be accompanied by a receipt. ORSC does not define lodging and parking limits, nor does it have specific prohibitions.

Updating current ORSC travel policy to include these elements will establish clear limits for the reimbursement of expenses, provide an adequate definition of *reasonable*, and help prevent future budget over-runs.

Operational Business Practices

- 10. ORSC staff should develop, implement and monitor contracts for all consulting services. The relationship between ORSC and its primary actuary (Milliman USA) should be defined in a contract. Furthermore, any additional studies or consulting work performed by the primary actuary should be defined in a letter of engagement. Studies undertaken by other actuaries should be performed under contract.**

ORSC has used Milliman USA as its primary actuary since 1990. When ORSC originally hired Milliamn USA, a letter of engagement was developed and signed by both parties. However, the letter of engagement has not been updated since inception and is not used on a regular basis to monitor services. Also, ORSC has used Milliman USA to perform studies outside of the scope of the regular contract. In these instances, the director has called Milliman and requested services but has not developed or signed a letter of engagement for the services provided.

Clear contract terms are important so vendors know exactly what is expected of them and can provide services accordingly. Contract terms also provide the cornerstone for vendor evaluation. In a situation like that faced by ORSC, where there is essentially a sole source for actuarial services, it is particularly important to ensure the vendor cannot place ORSC in a compromising situation. For instance, if Milliman USA had raised its rates substantially in the past 10 years, ORSC could have been forced to pay the higher rate because it would not have been able to replace the vendor and nothing existed in the contract holding rates at a steady level or placed a limit on the amount rates could be raised.

For all consulting and actuarial studies, ORSC should require a singed contract between ORSC and the vendor. ORSC should develop expectations for the primary actuary and any other consultants hired. These expectations should be included as a component of the contract. Contracts should be implemented for the primary actuary on a five-year basis with

an opportunity to review and renew the contract at the conclusion of the five year period. All other studies should be under short term contract with either the primary actuary or another consulting service. The short term contract, or letter of agreement, should contain the scope of the services to be provided, the hourly cost for such services and the anticipated total project cost, as well as timelines for reporting and completion.

According to the GFOA publication, *A Guide for Selecting Pension Actuarial Consultants*, the RFP, or other selection criteria, should contain the following elements:

- Specify the products expected, or ask proposers to describe what they intend to provide and to submit a work plan that includes the timetable and estimated staff-hours required;
- State the documentation needs of the plan with respect to billing (e.g. hourly rates);
- Solicit information about the firm's ability to provide time-sensitive responses;
- Indicate standing requirements, such as whether and how often the actuary must attend board and staff meetings, and what the actuary is expected to address there;
- Ask about issues that the proposer has special knowledge about, and would be willing to offer; and
- Identify the types of concerns and exceptions significant to the pension funds.

The primary contract between ORSC and its actuary should contain ORSC expectations of the vendor, the hourly cost for services, the qualifications of staff providing the services, the term of the contract, responsiveness and any standing requirements of the actuary, such as the number of board meetings the actuary must attend each year. In addition, ORSC staff should ensure all contracts for actuarial services contain provisions for sub-contracting, assigned staff continuity and any other caveats designed to protect ORSC

By using contracts for all primary and secondary consulting relationships, ORSC will be able to improve its project control and ensure the services provided meet the needs of the ORSC.

11. ORSC staff should establish formal procedures to regularly update contracts for actuarial services every five years. Any renewal options should be clearly defined and included in all contracts.

Since Milliman USA was hired, rates charged by the firm have only increased once. ORSC staff views the agreement with Milliman USA as more of a retainer, since services are generally only required on an as-needed basis. Because of these ongoing requirements, ORSC has not set a termination date for the contract. Although the actuarial business lends itself to keeping vendors for a long period of time, it is important to review the terms of any agreement on a regular basis to ensure ORSC is receiving what it needs from the vendor.

According to the GFOA publication, *A Guide for Selecting Pension Actuarial Consultants*, pension plan administrators typically prefer that selections of actuaries occur only at planned intervals. Therefore, plan administrators seek reasonable assurance the vendor will remain in business and be eligible to do this work for the period of the agreement. The actuarial firm's longevity and financial position may be considered, as well as its ability to meet its obligation fairly and competently.

Recently, OP&F signed a new contract with the Segal Company to provide it with actuarial services. This contract will have a three year initial term. After this, it will have an automatic renewal every two years, unless one of the parties indicates differently. By structuring the contract in this manner, OP&F can keep the same actuary for as long as necessary, but ensures the contract reflects current needs and that both parties can terminate the contract if necessary.

The Minnesota Legislative Commission on Pensions and Retirement contract with Milliman USA has the following provisions:

- A term of four years;
- A restriction on sub-contracting actuarial work to another party;
- A requirement that all books and financial records be made available to the state auditor for review;
- Stipulations on which staff are assigned and that no staffing changes can be made without permission;
- The number of copies for statutorily required reports as well as who should receive them; and
- Reference to the established actuarial standards with which the firm must comply.

These provisions represent standard contract language and provide the Commission with assurance that work is performed by qualified staff in accordance with established standards and the expected product will be delivered. By adopting both the Minnesota and OP&F examples into its contracts, ORSC have a greater degree of protection under its contract with the vendor than is currently available through the informal retainer used to engage the services of Milliman USA.

- 12. ORCS staff should formally monitor all contracts through a regular review of the work performed by the vendor and the invoices provided by the vendor, to ensure completeness, accuracy, and compliance with contract terms. All reviews should be formally tracked and documented by ORSC staff.**

ORSC staff does not formally track vendors to determine whether they are in compliance with the parameters of projects and studies, and other expectations. Furthermore, there is no documentation of the expectations of Milliman USA on special projects or how Milliman USA met the expectations in completing the projects. Current monitoring efforts consist of monthly reviews made prior to any payment to ensure charges are appropriate and consistent with the contract. However, these reviews are not formally documented. Without an up-to-date primary contract and short-term contracts for projects and consulting services, it is difficult for ORSC staff to determine if Milliman USA is performing according to its expectations.

It is important that all ORSC contracts be formally monitored to ensure services are rendered in the most economical and beneficial fashion possible. Formal monitoring should include both the primary contract with the actuary and any short-term contracts governing special projects and studies. Industry and public contract management standards state monitoring is best accomplished through frequent communication with the vendor and should be summarized in periodic status reports. The status reports should indicate whether the vendor is meeting established expectations as detailed in contracts. While it appears ORSC staff is in frequent communication with Milliman USA, there is no formal status report or other documentation prepared regarding vendor performance.

By implementing formal monitoring procedures, linking these responsibilities to job descriptions, and formally documenting all monitoring efforts, ORSC staff can ensure services are delivered on time and in an economical fashion. In addition, should questions regarding vendor selection or performance be raised in the future, ORSC staff will have ample documentation on which to base and, if necessary, defend decisions.

13. **ORSC staff should implement a process to regularly solicit a request for qualifications (RFQ) from all eligible actuarial firms in order to ensure all potential candidates for actuary services are kept on file. The RFQ process should be undertaken approximately once every five years to coincide with the review of the current actuarial contract.**

ORSC does not keep on file a running list of available and qualified actuarial firms. Companies providing actuary services for large government pension funds are somewhat limited, according to ORSC staff and other state retirement study commissions. Currently, there are five nationally recognized firms qualified to provide this type of actuarial analysis. Several of these firms are already employed by Ohio retirement systems. **Table 3-3** shows which Ohio systems employ each of the available actuarial firms along with their employment by other state retirement study commissions.

Table 3-3: Actuarial Firms Employed by Ohio Retirement Systems and ORSC

Actuarial Firm	Ohio Employer	National Retirement Study Commission Actuarial Firms
Milliman USA	ORSC	<ul style="list-style-type: none"> • Minnesota Legislative Commission on Pension and Retirement, • The Texas Pension Review Commission • Florida Division of Retirement • Pennsylvania Public Retirement Commission
William M. Mercer	ORSC	Virginia Joint Legislative Audit and Review Commission: Retirement System Oversight Authority
Segal Company	Ohio Police and Fire (OP&F)	Texas Teacher Retirement System
Gabriel, Roeder, Smith and Company	<ul style="list-style-type: none"> • School Employees (SERS) • Public Employees (PERS) • Highway Patrol (SHPRS) 	<ul style="list-style-type: none"> • Missouri Joint Commission on Public Employee Retirement, • Michigan Public Employees Retirement Commission
Buck Consultants	State Teachers (STRS)	

Source: ORSC staff interviews.

In 1990, ORSC released a request for proposals and received three responses. From these, Milliman USA was selected to provide actuarial services for the Council. This selection was based on the proposals submitted and the qualifications of the firm; however, there was no formal documentation of the selection process. Most qualified firms were excluded from contention because they were already employed by another Ohio retirement system, and to work for ORSC would have created a conflict of interest.

Milliman USA has remained employed by ORSC as its main actuary since it was hired in 1990. ORSC staff indicate this long-term relationship is very beneficial, since it provides the actuary with a good historical base from which to work. Most importantly it allows the firm to build a substantial database of the demographic information used to make specific inferences on a particular retirement system

In addition to the limited number of qualified firms, many firms also choose not to provide actuarial services for governmental entities because of the liability involved. The Ohio Police and Fire Retirement System recently changed actuaries to the Segal Company because its former actuary, Wyatt Worldwide, decided to discontinue provision of government pension fund actuarial review. Such reluctance stems from situations where an actuary firm could be liable if it misrepresents the liabilities and assets of a retirement system. This reluctance further limits the number of qualified firms and, combined with factors mentioned previously, creates a sole source situation where very few firms exist that can provide the services ORSC requires.

Agencies seeking consultants for highly specialized work should use a RFQ process to ascertain the qualifications of consultants in a selected area of expertise. Actuarial services for public retirement systems are an excellent example of an appropriate use of RFQ's. RFQ's can be used to develop a database of interested and qualified consultants for future reference. According to the Government Finance Officers' Association (GFOA) publication, *A Guide for Selecting Pension Actuarial Consultants: Writing RFPs and Evaluating Proposals*, membership in professional associations, such as the Society of Actuaries, the Conference of Consulting Actuaries, and the American Academy of Actuaries may be used as an indicator of experience and qualifications of the actuary. The actuarial firm may be judged by its experience and client references. The firm's depth—back up staffing, financial resources, quality of team available—is also important. Furthermore, the firm's experience with public employee retirement systems (including knowledge of Governmental Accounting Standards Board requirements) is essential.

Furthermore, ORC § 145.01(YY) provides a definition of “actuary,” which ORSC should use when issuing a RFQ. “Actuary” is defined to mean “an individual who satisfies all of the following requirements: (1) Is a member of the American Academy of Actuaries; (2) Is an associate or fellow of the Society of Actuaries; (3) Has a minimum of five years experience in providing actuarial services to public retirement plans. It is essential that these qualifications are incorporated into a RFQ. Finally, ORSC should ensure that any respondents to an RFQ have not served as an actuary for the Ohio pension systems in the past five years.

By implementing a process whereby RFQ's are solicited from potential vendors on a regular basis, ORSC will accomplish the following:

- Maintain a database of all potential and qualified vendors;
- Ensure qualifications for current vendors are kept up to date and readily available; and
- Provide an ongoing justification for vendor selection.

ORSC staff should use the RFQ process to ensure all possible firms are represented and considered when actuarial services are needed. ORSC should coordinate the RFQ process with any contract updates. The information gathered during the RFQ process can be used to evaluate the relationship between ORSC and its current actuary in the areas of services provided, staff qualifications and hourly rates.

- 14. ORSC should establish formal qualifications to be used to assess and select actuary services. The formal qualifications should encompass issues like the qualifications of the firm and its employees, and its standing within professional organizations.**

ORSC has not established procedures on which to base selection of consultancy services, since new vendors are rarely required. In spite of such low turnover in actuarial services, it is important that ORSC develop and employ sound selection criteria for all actuarial choices.

Criteria should include the experience of the actuary, the qualifications of its staff members and managing partners, its prior and current clientele (to determine if any conflicts of interest exist). The scope and breadth of services should also be considered to determine if the actuary will be able to provide services to ORSC for special projects. Recommendations of other clients should be considered, particularly in areas of deliverables. Finally, ORSC should ensure all contracts contain provisions to terminate the contract if the expectations of ORSC are not met or qualifications of the vendor fail to meet ORSC requirements.

Developing a list of qualifications for all actuarial firms and consultants will help ORSC identify qualified vendors. Maintaining requirements for vendors will also reduce potential responsibility on the part of ORSC in hiring an under-qualified party to conduct ORSC studies.