

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

AGREED UPON PROCEDURES

AS OF DECEMBER 31, 2003

PREPARED BY: KPMG LLP



**Auditor of State
Betty Montgomery**

Board of Trustees
Ohio Public Employees Retirement System
Columbus, Ohio

We have reviewed the Independent Accountants' Report on Applying Agreed Upon Procedures in evaluating the Information Technology request for proposal process and awarding of contracts of the Ohio Public Employees Retirement System, Franklin County, as of December 31, 2003. The report was prepared by KPMG LLP. Although the Auditor of State did not perform the engagement, based upon this review, we have accepted this report.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Public Employees Retirement System is responsible for the Information Technology request for proposal process and awarding of contracts.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 19, 2004

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Independent Accountants' Report on Applying Agreed-Upon Procedures

The Management
Ohio Public Employee Retirement System (OPERS) and
The Auditor of the State of Ohio:

We have performed the procedures enumerated below, which were agreed to by Management of Ohio Public Employee Retirement System (OPERS) and Auditor of the State of Ohio, solely to assist you in evaluating the "Information Technology (IT) request for proposal (RFP) process and awarding of contracts of OPERS" as of December 31, 2003. OPERS is responsible for the IT RFP process and awarding of contracts. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below, or the related "OPERS management response," either for the purpose for which this report has been requested or for any other purpose.

Purchasing Policy

Verify that an OPERS policy exists, is documented, and articulates procedures to be followed for purchases of supplies or services.

Inspected a copy of the OPERS Purchasing Policy, noting the policy articulates procedures to be followed for purchases of supplies or services.

Verify that the Purchasing Policy has been posted on the OPERS intranet web site (address: [http://: persint/](http://persint/)) for all employees to access and read.

Reviewed the Purchasing Policy on OPERS Intranet web site.

Verify that the OPERS Purchasing Policy was communicated to OPERS employees by OPERS financial executives.

Noted the Purchasing Policy was communicated to OPERS employees by OPERS financial executives through e-mail.

Confirm the Purchasing Policy articulates when a request for proposal must be issued for the procurement of products or services.

Inspected a copy of the OPERS Purchasing Policy, noting the policy articulates when a request for proposal must be issued to a minimum number of vendors for the procurement of products or services.





Confirm that the Purchasing Policy articulates exception-handling procedures when the minimum number of request for proposals cannot be issued.

Inspected a copy of the OPERS Purchasing Policy, noting the policy articulates exception-handling procedures when the minimum number of request for proposals cannot be issued.

Confirm the policy articulates who is authorized to issue a request for proposal.

Inspected a copy of the OPERS Purchasing Policy, noting the policy articulates who is authorized to issue a request for proposal.

Confirm that the policy articulates that the Director- Finance must approve all non-travel related expenses in excess of \$25,000.

Inspected a copy of the OPERS Purchasing Policy, noting the policy articulates that the Director of Finance must approve all non-travel related expenses in excess of \$25,000.

Budgeting

Validate that the "Capital Budget" section of the annual budget document identifies procedures for purchasing and capitalizing expenditures.

Inspected the 2002 Annual Budget, noting the "Capital Budget" section of the annual budget document identified the Capital Projects, General Office Equipment Capital Items, Total Proposed Capital Budget, project descriptions and associated costs.

Inspected the 2003 Annual Budget, noting the "Capital Budget" section identified Capital Budget Policy, Capital Project Policy, Capital Budget Process, the Capital Projects, General Office Equipment Capital Items, Approved Capital Projects, Capital Budget, and 2003 Information Systems Projects with project descriptions and associated costs.

Validate that the OPERS capital budget, including IT projects, is presented to, reviewed, and approved by the OPERS Board on at least an annual basis.

Inspected a copy of the Board Minutes, noting the OPERS Board approved the 2002 and 2003 capital budgets.

Validate that the "Purchasing and Competitive Selection Policy" and/or the "Budget Policies and Procedures" identifies procedures for purchasing and capitalizing expenditures (or specifically quote policy).

Inspected a copy of OPERS Budget Policies and Procedures, noting the policy identifies procedures for purchasing and capitalizing expenditures.

Select ten IT projects initiated in 2002 and/or 2003 whose total cost was in excess of \$500,000 and review invoices for proper approval and expense/capitalization categorization under OPERS purchasing procedures as documented in the "Purchasing and Competitive Selection Policy" and the "Budget Policies and Procedures".

Selected a sample of ten IT projects initiated in 2002 and/or 2003 and reviewed the associated invoices, noting proper approvals and expense/capitalization categorizations were obtained and utilized according to OPERS purchasing procedures.



Responses to RFP's/Awarding Contracts

For the following IT projects performed between 2002 and 2003 in which total fees paid to contractors exceeded \$500,000 (per query of the OPERS Great Plains Accounts Payable system) the following procedures will be performed regarding receiving bids and issuing contracts:

IT Projects: Refunds Rewrite (Refunds Processing System)
COLD/Imaging Workflow Software (Software Purchase)
Savings Changes for Defined Contribution Plan Implementation
Employer Web Reporting (eESC) Phase II and III
Enhancement to eMBS and Internal Benefit Estimate Calculator (IBEC)
EMBS DC Plan Choice Calculator
EESC Enhancement - ACH
Member Account Web - (eMBS)
MP & Law Annual Statements (Member Statement System Enhancements)
Enhancement to Investment Intranet (Rate per Hour Project)
Enhancement to eESC, eMBS and Savings (Rate per Hour Project)

For the eleven projects that were selected, complete documentation files were not available for all of the criteria enumerated below. See the number of documentation files that were received for each criterion in parenthesis prior to the explanation of work performed.

Confirm that requirements for system functionality were developed in conjunction with the appropriate user department and were approved by a member of management from that user department prior to the request for proposal being issued.

(1 received) Inspected the business requirements and noted that they were developed in conjunction with the user group. The business requirements were in draft form and did not include a documented approval (signoff) from a member of management from the respective user department prior to the request for proposal being issued.

OPERS Management's Response: *OPERS uses a collaborative approach to developing business requirements in which IT typically develops draft business requirements and users provide feedback in handwritten and verbal form. This allows version control of the Request For Proposal (RFP) being written. During this time period, OPERS policy did not require such documentation of user input be maintained; consequently it was not available for this review. OPERS' policy has been changed to require that such documentation be maintained.*

(5 received) Inspected documentation indicating end user involvement in developing requirements prior to the request for proposal and noted the documentation did not include documented approvals (signoff) from a member of management from the respective user department prior to the request for proposal being issued.

OPERS Management's Response: *Once the project team develops and agrees to the business requirements, IT translates the user requirements into a draft RFP. The users review the RFP and approve the final RFP. A member of management from the respective user department approves the final RFP. During this time period, the OPERS policy did not require that documentation of this sign-off be maintained, and as such, was not available for this review. OPERS policy has been changed to require that such documentation be maintained.*

Confirm that a request for proposal was issued to at least three potential vendors/suppliers and list the vendors who received a copy of the request for proposal.

(8 received) Inspected the lists of vendors/suppliers and noted the request for proposals were issued to at least three potential vendors/suppliers.

OPERS Management's Response: *The three projects for which the lists were not available were for maintenance and/or enhancement agreements for systems already developed by a previously selected software development vendor. These software development vendors were originally selected through a RFP process. Due to tight timeframes related to the legislatively mandated Defined Contribution Plan and the high business risk of enhancing these core business and financial systems with a vendor unfamiliar with these systems, OPERS selected the vendor that originally developed the systems. OPERS has since changed its policy to provide guidelines for these circumstances.*

Confirm that at least three vendor/supplier responses were received for each request for proposal and list the vendors that responded to the request for proposal.

(8 received) Inspected the responses to the request for proposals and noted at least three vendors/supplier responses were received.

OPERS Management's Response: *The three projects without RFP's relate to the three projects discussed above. Since the three projects were enhancements to previous projects, the enhancement component was not handled through a RFP process. OPERS has since changed its policy to provide guidelines for these circumstances.*

Confirm that an evaluation team, consisting of individuals from both the information technology department and from non-information technology departments was created. List the names of the evaluation team members and the departments in which they work.

(7 received) Inspected the evaluation team members and their associated departments and noted that six evaluation teams included members from both information technology and non-information technology departments.

OPERS Management's Response: *Two of the eleven projects reviewed in this review received a Request for Information (RFI) rather than a RFP. A RFI is used when the project scope is not completely developed and OPERS is seeking information as to potential technical solutions. In the two projects in which a RFI was issued, the RFI was evaluated with technical personnel only because the technical personnel have the computer system and business knowledge to assess whether the proposed solution is appropriate for the issue. The other three projects for which an evaluation team was not used were the project enhancements discussed in the preceding two steps. Evaluation teams were not considered necessary for project enhancements since the vendor was thoroughly evaluated when the projects were initiated and no significant issues had arisen with the projects.*



Confirm that the contract was awarded to a firm whose final evaluation score was in the upper quartile of all scores tabulated for a respective request for proposal.

(6 received) Inspected the evaluation summary matrices and noted the contract was awarded to the firm whose final evaluation score was in the upper quartile of all scores tabulated for a respective request for proposal.

OPERS Management's Response: *The three projects considered enhancements and the two RFI projects were analyzed by technical staff, assessing the proposed resources.*

Validate that the legal department was involved in reviewing the contract for each contract awarded.

(9 received) Inspected the email communications between OPERS legal department and the IT Director and noted the legal department was involved in reviewing the contracts awarded.

OPERS Management's Response: *All contracts are reviewed by the OPERS legal department. The two without documentation were reviewed by the legal department and an oral approval was given. OPERS policy at that time did not require documentation of such review and accordingly not all documentation was retained.*

Validate that the contract between OPERS and the selected vendor articulates: a project start and stop date; total hours to be charged to OPERS for the work; a rate per hour; and a "not-to-exceed" value in terms of total dollars to be charged to OPERS.

(11 received) Inspected the contracts and noted the contracts included a project start and stop date; total hours to be charged to OPERS for the work; a rate per hour; and a "not-to-exceed" value in terms of total dollars to be charged to OPERS.

Validate if the contract included a penalty clause imposed on the vendor for not completing the project within the specified timeline of the contract.

(11 received) Inspected the contracts and noted eight of the contracts included a clause stating, "The amount of invoices shall include the total amount billed for Company services less a ten percent (10%) holdback. Company shall be entitled to bill Customer for the accumulated holdback amount upon completion of the Scope of Work defined in Section 1." Of the three remaining projects, one was a software purchase and two were hourly-rate projects.

Validate that the OPERS board is updated periodically as to status of these IT projects including a report of the budgeted amount of the project, and the actual expenditure against that budgeted amount.

Inspected a sample of six quarterly reports from 2002 and 2003 that were communicated to the Board. The reports included the budgeted amount of the projects and the actual expenditure against the budgeted amount.

Hiring Practices

Validate that OPERS has a policy that articulates requirements for posting open positions and hiring practices that must be followed.

Inspected OPERS Job Posting Policy and Procedures, noting the policy articulates requirements for posting open positions and hiring practices.



Validate that OPERS has job specifications in place for all information technology positions within OPERS.

For a selection of ten IT positions within OPERS, inspected the associated job specifications.

Validate via discussions with human resources representatives and a review of human resource documentation that a salary range (a minimum and maximum value) has been established for each position within the IT department at OPERS.

Inspected OPERS Salary Range Master and through review with a Human Resource Specialist, noted a salary range (minimum and maximum) has been established for each position within the IT department.

Validate that OPERS has a policy or an administrative practice that prevents external candidates for open positions to receive a salary in excess of 10% over the minimum of the salary range for a given position unless human resource management approval is obtained.

Although there is no policy that prevents external candidates for open positions to receive a salary in excess of 10% over the minimum of the salary range for a given position unless human resource management approval is obtained, an administrative practice is utilized. Note, testing of administrative practice is performed below.

Select a sample of IT positions that have been filled between 01-01-2003 and 12-31-2003 and validate if internal candidates have applied by reviewing the open position file. For positions where no internal candidates applied, identify as such and if an internal promotion occurred.

Selected the total population of nine IT positions filled between 1-01-2003 and 12-31-2003. Received open position files for four IT positions filled. Inspected the open position files and noted two files contained information on multiple internal candidates. The remaining two files did not include internal candidate information.

OPERS Management's Response: Human Resources did experience some turnover that may have contributed to the open files not being available.

There are typically few, if any internal candidates for positions, due to technical skill set requirements. In addition, there were no internal candidates for the remaining two open positions.

For the following employees hired by the OPERS Information Technology department, review their personnel file to determine the open position that they filled and that their starting salary was not in excess of 10% of the minimum of the salary range for the respective position. If the salary was in excess of 10% of the position minimum, confirm that human resource management approval was obtained: Sudhir Gadepalli, Shabir Mirza, Kesave Merukuti, Sanjay Garg, Steve Kell, Praveen Inaganti, Raj Nara, and Venu Raviapati.

Reviewed personnel file and determined that Sudhir Gadepalli, Shabir Mirza, Steve Kell, and Praveen Inaganti's starting salary was not in excess of 10% of the minimum salary range for the position.

Determined that Kesave Merukuti, Sanjay Garg, Raj Nara, and Venu Raviapati's starting salary was in excess of 10% of the minimum salary range for the position. Documented approvals to support the salaries in excess of the 10% of the minimum salary range for the positions were not provided.



OPERS Management's Response: It is the administrative practice of the organization to consider establishing pay that exceeds 10% of the salary range minimum, in situations where individuals possess high levels of direct experience. The organization is consistent in its application of this practice in professional level positions and above.

The Human Resources Director reviews and issues the formal job offer letter. OPERS has since changed the practice to include formal documentation of these decisions in the personnel file.

Validate whether the OPERS Human Resources and/or Information Technology department conducts (either internally or via a third party) salary surveys to compare OPERS salaries of IT employees against market data.

Inspected a copy of the 2003 Compensation Plan Review (April 1, 2003) and the Results of Triennial Compensation Survey (September 4, 2003), noting OPERS Human Resources conducts salary surveys to compare salaries of IT employees against market data.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion of the IT RFP process and awarding of contracts of OPERS. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the managements of OPERS and Auditor of the State of Ohio, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 2, 2004

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OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 25, 2004**