OKLAHOMA TEACHERS RETIREMENT SYSTEM

AUDIT COMMITTEE MEETING

SEPTEMBER 25, 2012

3:00 PM

MEETING MATERIALS

AUDIT COMMITTEE MEMBERS:

Chair: Stewart Meyers, Jr.
Roger Gaddis, Beth Kerr, Jonathan Small

ALL BOARD MEMBERS ARE ENCOURAGED TO ATTEND AUDIT COMMITTEE MEETINGS

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
Audit Committee Meeting
Tuesday, September 25, 2012 – 3:00 PM
TRS Administration Board Room
2500 N. Lincoln Blvd., 5th Floor, Oklahoma City, OK

AGENDA

1. **CALL TO ORDER**
2. **DISCUSSION AND POSSIBLE ACTION ON INTERNAL AUDIT SERVICES RFP**
3. **QUESTIONS AND COMMENTS FROM TRUSTEES**
4. **ADJOURNMENT**

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OKLAHOMA TEACHERS RETIREMENT SYSTEM

Request for Proposal

Internal Auditing Services

For

Oklahoma Teachers Retirement System

Prepared by:

Oklahoma Teachers Retirement System
P.O. Box 53524
Oklahoma City, OK 73152-3524

Joshua D. Richardson
Internal Auditor
(405) 521-3462

Nature of Services to be Provided

Introduction

The Oklahoma Teachers Retirement System recently completed a conversion from a legacy information system to an enterprise resource system. During this process the current Internal Auditor was involved in the implementation process and remains an integral resource in supporting and managing its processes.

The Board of Trustees has requested that a more comprehensive audit schedule be developed and outsourced. To that end, this request for proposals (RFP) is intended to solicit bids from qualified firms to perform this work as directed by the OTRS Board of Trustees.

It is anticipated that this work would begin with a review of the entity-wide controls in place to enable the firm to better understand OTRS governing and operating structure and also to assess the "tone at the top," since this is often the foundation for all other components of internal control.

This would be followed by a risk assessment of each department to identify the areas of highest risk. It is anticipated that a multi-year internal audit schedule could then be developed.

The purpose of this RFP is to solicit proposals from qualified firms to provide internal auditing services for OTRS for a period of one year with a possibility of up to four (4) one-year extensions if agreed upon by both parties.

These services are to be performed in accordance with generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA) and the Standards for The Professional Practice of Internal Auditing by the Institute of Internal Auditors (IIA).

Scope of Work

The Firm will provide the following services:

1. Perform a review of the entity-wide internal control environment
2. In conjunction with key staff, perform a risk assessment of operations to prioritize the areas for continued internal audit work. From this assessment, propose a multi-year internal audit schedule
3. Perform internal audits of agreed upon departments/processes each year according to the prioritized schedule
4. Have capacity to review other areas as deemed necessary or as requested by the Board of Trustees
5. Provide recommendations for strengthening internal controls in order to lower identified risks
6. Provide recommendations for implementing "best practices" in instances where policies, procedures and processes do not exist or should be improved upon
7. Submit audit findings/reports to OTRS Management and the Board of Trustees at regularly scheduled meetings

8. Perform operational reviews of key business processes to identify deficiencies and weaknesses and make recommendations for improvements
9. Work closely with external auditors and OTRS staff to ensure minimal duplication of effort
10. Develop client satisfaction survey for each specific audit assignment conducted

The OTRS Staff will provide the following services:

1. Administer regular meetings with Firm to determine areas of interest
2. Assist Firm when and if additional expertise, knowledge or information is necessary
3. Be primary contact for Firm regarding audit requests
4. Implement and monitor recommendations
5. Regularly report the progress and direction of the Internal Audit Process to the Board of Trustees

Expected Outcomes and Deliverables

1. Report on assessment of entity-wide control environment
2. Risk assessment of operations
3. Proposal for multi-year internal audit schedule
4. Recommendations, when applicable, for improving operations, internal controls and reducing risks
5. Quarterly board level reports and presentations on work performed
6. Proposed timelines for upcoming audits
7. Copies of work papers used to develop audit reports

Schedule of Events

RFP Schedule of Events NOTICE: OTRS reserves the right, at its sole discretion, to adjust this schedule as it deems necessary	
Event	**Date**
RFP Issued	9/27/12
Deadline for Firm Questions*	10/12/12
OTRS Responds to Firm Questions	10/15/12
Proposal Due	10/26/12
Interviews	11/13/12
Contract Start Date	1/1/13

*Firm questions are to be submitted via email to Joshua D. Richardson at Josh.Richardson@trs.ok.gov

Proposal Preparation

To be considered, receipt of the following materials by OTRS is required by October 26, 2012. Respondents shall submit by mail to the address below, xx (xx) hard copies of the proposal and one (1) electronic version

Joshua D. Richardson
Oklahoma Teachers Retirement System
2500 N. Lincoln Blvd Suite 500
Oklahoma City, OK 73105

The proposals shall include the information requested below:

Management and Qualifications

1. Provide evidence of firm's proposed team credentials and qualifications in the area of internal auditing.
2. Describe firm's experience and expertise focusing on internal audit engagements; additionally list any municipalities, state agencies or other pension systems for which the firm had rendered similar services.
3. List the names of all officers and associates of the firm.
4. List the names and credentials of all current staff that could be assigned to the engagement.
5. Provide a comprehensive description of your approach and philosophy to fulfilling the requirements listed in this engagement.
6. Provide a copy of the firm's latest peer review.
7. Provide any other information that might be beneficial for OTRS to know regarding your ability to complete the requested engagement.
8. Provide a detailed proposed schedule for initiating and completing the engagement.
9. Indicate location of the firm's main offices.
10. List your five most significant internal audit clients, together with a brief description of the services you provided.
11. Provide three references relevant to this engagement.
12. Provide samples of audit reports issued in prior work which relate to the engagement.
13. Attached to this RFP as Appendix A, is a proposed contract . Please indicate any requested changes or amendments to this contract.

Answers to following questions

Background Information

14. Provide an overview of your firm/company
15. Describe how your firm/company is structured

Internal Audit Practice

16. How long have you been providing internal audit services?
17. How big is your internal audit practice?
18. Where are your internal audit offices located?
19. What investments do you make in research and development related to internal audit?
20. What are your internal audit philosophies?

Outsourcing

21. What are the current trends in internal audit outsourcing/co-sourcing?
22. What are the benefits of outsourcing/co-sourcing internal audit?
23. What are the challenges of outsourcing/co-sourcing internal audit?

Process

24. What is your overall approach to internal audit?
25. Describe your internal audit methodology
26. Describe the risk assessment methodology that would be used to develop the internal audit plan

People

27. Are your people dedicated internal audit professionals?
28. Where do you source your internal audit professionals?
29. How do you attract and retain quality internal auditors?

Cost

30. State the proposed cost and cost structure to provide the services on an annual basis. Additionally, include the proposed rate to perform any additional duties should they be requested by OTRS.

Quality Assurance Reviews

OTRS reserves the right for delegated executive/staff members to perform quality assurance on the audit files.

Evaluation and Selection Process

OTRS will review all proposals as received by xx/xx/xx. All responses received, as a result of this RFP, shall be subject to evaluation by a duly authorized committee of qualified personnel for the purpose of selecting the firm with whom a contract will be negotiated.

Terms and Conditions

Governing Law

The resulting contract will be governed in all respects by the laws of the State of Oklahoma. In the event any litigation shall occur concerning the terms and conditions of this contract or the rights and duties of the parties, the parties agree that such suit shall be maintain in the District Courts of the State of Oklahoma. To the extent that a provision of the contract is contrary to the Constitution or law of this State, or of the United States, the provision shall be void and unenforceable. However, the balance of the contract shall remain in force between the parties.

Payment of Invoices

Payments shall be submitted to the Firm within forty-five (45) days of the date of receipt of invoice. After the forty-fifth day from invoice receipt, the Firm is eligible to receive interest on the unpaid balance due per State of Oklahoma Statutes. The interest rate is set by the Oklahoma State Treasurer's office each year.

Independent Contractor

The Firm and its agents are independent contractors and are not employees of OTRS. The Firm has no authorization, expressed or implied, to bind OTRS to any agreements, settlements, liability, or understanding whatsoever and agrees not to perform any acts as agent for OTRS except as expressly set forth herein.

Confidentiality

All information exchanged is non-confidential. If either party requires the exchange of confidential information, it will be made under a signed confidentiality agreement and in accordance with applicable Oklahoma law.

In connection with this Agreement, each party may disclose or otherwise make available certain data or information to the other party, which data or information the disclosing party considers being confidential and proprietary. It is recognized that any information contained in this written agreement is deemed non-confidential and is hereby public information. As used herein, "Confidential Information," means any non-public information, not included in this written document.

The parties agree: (a) to treat and keep as confidential and proprietary all Confidential Information disclosed by the other party; (b) to advise each employee to whom any Confidential Information is to be made available of the confidential nature of such; (c) to promptly return to the disclosing party upon the disclosing party's request, all Confidential Information and all copies thereof and to delete from electronic memory such Confidential Information.

Agreement Termination

Compliance – Either party may terminate this Agreement if the other party does not comply with any of its terms, provided the one who is not complying is given written notice as provided in paragraphs below and fails to comply within 30 days of receipt of such notice. In the event of termination, OTRS will pay Firm for all services provided or delivered prior to the effective date of termination.

Just Cause – Either party may cancel this contract for just cause with a 30 day written notice.

Payment – If this contract is terminated for any reason, OTRS shall be liable only for payment for services rendered before the effective date of termination.

Insurance and Indemnification

The Firm is hereby required to carry liability insurance in accordance with Title 51, Oklahoma Statute, Supplement 1986, Section 151 to adequately compensate persons for injury to their person or property occasioned by an act of negligence by the Firm or its employees. The firm must be able to supply evidence of such insurance upon request. The Firm shall agree to indemnify and hold harmless OTRS against any and all bodily injury and property damage, deficiencies or liabilities resulting from any negligence on the part of the Firm or non-fulfillment of any term or condition in this agreement.