

		Comments:
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Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Health Care	Mod.	Disbursement Records Retention Comments:	
Health Care	Mod.	Disbursement Records Retention Comments:	

Active Audits

Audit Area	Risk Rating	Scope	Target Completion
Example Area	Low	Example A Example B	1/1/2016 2/18/2020

Example Area	Low	Example A	1/1/2016
		Example B	2/18/2020

Other Audit Related Activity

Area	Risk Rating	Subject/Project	Description

Composition of Audit Committee at end of reporting year (R.C. 145.095)
 John Doe, Retired Member
 Jane Doe, Employee Member
 Richard Scarry, DAS appointee



Ohio Public Employees Retirement System

January 2, 2015

Ms. Bethany Rhodes
Executive Director
Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, OH 43215

Dear Bethany:

Pursuant to R.C. 145.095, enclosed please find the 2014 annual Audit Committee Report of the OPERS Retirement Board. This report summarizes internal audit activities and identifies actions taken by the Audit Committee during the preceding year.

This report was reviewed with the OPERS Audit Committee at its meeting on December 16, 2014 and presented for full approval by the OPERS Board on December 17, 2014.

Please feel free to contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Karen E Carraher".

Karen Carraher
Executive Director



Audit Committee Annual Report

To: Ohio Retirement Study Council (ORSC)

Subject: OPERS Audit Committee Report - 2014

Date: January 2, 2015

The following report documents the activities of the OPERS Audit Committee and Internal Audit Department for 2014. This summary outlines:

- Major Audit Reviews Completed (please see attached schedule)
- Audit Committee Meetings and Actions Taken
- 2015 Annual Audit Plan (priority review areas)
- Special Reviews Completed

Summary of OPERS Audit Committee Meetings and Actions

The OPERS Audit Committee met on the following dates after approval by the OPERS Board to revise the Audit Committee charter committee meeting schedule to three regular meetings beginning in 2014. However, the committee still will meet as required and when necessary throughout the year. The meetings and specific considerations addressed include:

May 21, 2014- The Audit committee met for its first regularly scheduled meeting of 2014, with its newly appointed board member representation. The CliftonLarsonAllen (CLA) auditors presented the results of the 2013 OPERS financial examination. In addition, the CLA partner presented the report of management letter comments on internal controls, discussing with the audit committee.

The committee received the executive summary and status report of significant audit issues. This report included all recommendations made and staff recommended plans and actions to address these issues.

The Audit committee also received the Annual Personal Trading Report prepared by staff as well as the Incentive Compensation Report from Buck Consulting.

September 30, 2014- Audit committee reviewed, discussed and approved the proposed 2015 Audit Plan and risk assessment. The committee also reviewed the proposed 2015 internal audit operating budget and staffing. This departmental budget will be approved as part of the OPERS overall annual budget process in December, 2014.

December 16, 2014- The audit committee reviewed and approved the 2014 draft of the OPERS Audit Committee Annual Report to ORSC. The committee also received an executive summary report of major audit activities for the prior six months, an update on the 2014 audit plan and the periodic status of significant issues.

In addition, committee was advised on the annual disclosure of all fees paid to the external auditor.

2015 Annual Audit Plan

The 2015 audit plan and risk assessment was reviewed and approved by the OPERS Audit Committee at the September 30, 2014 meeting. The priority review areas are summarized on the attached audit plan document.

Special Reviews

The following reviews were completed during 2014 with appropriate comments indicated.

Internal reviews completed included an extensive review of OPERS follow up for aging pension recipients and the death notification process. OPERS is no longer receiving potential member death alert notifications from the government's social security death data base.

In addition, Internal Audit management engaged a third party audit firm to provide an independent IT risk assessment, with a look to the next three years. This review was direct result of the rapidly evolving system technology and architecture changes at OPERS. All appropriate matters will continue to be reviewed with the Audit Committee.

Please let me know if you would like any additional information.

Respectfully submitted:


Gregory M. Januszewski
OPERS Director- Internal Audit
(614)- 222-0080

**OPERS INTERNAL AUDIT
2014 AUDITS COMPLETED**

AUDIT AREA	STATUS OF RECOMMENDATIONS	SIGNIFICANT COMMENTS
Personal Trade Compliance System Program	No Recommendations Presented	Personal Trading Policy compliance review report provided to Board as part of annual reporting requirement in May
Investment Compliance and Risk Review Follow up	Considerable progress occurred during 2014 to implement agreed upon Recommendations.	A comprehensive review of compliance, risk and derivatives will be completed in Q1 2015, as well as continued follow up of the earlier recommendations presented and implemented
Investment Compliance	Recommendations Implemented	Compliance staff organizational realignment to the Risk Office was completed
External Asset Manager Fee Review	Review Ongoing	No significant issues have been identified to date
Investment Incentive Compensation	No Recommendations Presented	External third party completed the review. In addition, Incentive Compensation Plan committee meets regularly to review all plan related issues
Investment Consultant Review- NEPC follow up	Previous recommendations made have had good progress	With the departure of the OPERS CIO, the NEPC review of the US Equities internal portfolio strategies will now be completed in 2015
EFront System	Recommendations Implemented	Management implemented an annual reconciliation of all private equity and real estate activity (including cash flows and unfunded commitments information)
Global Bonds Review	Significant progress occurred in implementing agreed upon recommendations	A follow up review is planned for recommendations to be implemented in early 2015
Internal Securities Lending	Recommendations Implemented	No Significant issues identified
Investment Accounting Follow up	Progress has occurred in implementing agreed upon recommendations	Management included an automated reconciliation tool as part of the RFP for Middle and Back Offices Services Software system, scheduled for implementation in 2015.
Health Care Medicare B Reimbursement Follow up Review	Significant progress occurred in implementing agreed upon recommendations	Management continues to work with the Attorney General's (AG) Collection Process, to enhance the AG office turnaround process for OPERS submissions
Health Care Retiree Medical and Voluntary Employee Benefit Account Review	Progress has occurred in implementing agreed upon recommendations	Health care management is planning an audit of Aetna's retiree medical account administration in the next two years.
Health Care System Review	Recommendations Implemented	No Significant issues identified

**OPERS INTERNAL AUDIT
2014 AUDITS COMPLETED**

AUDIT AREA	STATUS OF RECOMMENDATIONS	SIGNIFICANT COMMENTS
Records and Imaging Review	Review Ongoing	No significant issues have been identified to date
Retirement Benefit Overpayment Review	Recommendations Implemented	No Significant issues identified
Purchasing Review- IT	Progress has occurred in implementing agreed upon recommendations	No Significant issues identified
Finance Purchasing Policy	Progress has occurred in implementing agreed upon recommendations	As older agreements near expiration, Finance will work with Purchasing office to ensure all policy requirements are completed
Disability Review	Recommendations Implemented	Review of the third party process, responsible for administering the disability is planned in 2015
Refunds and Refunds System Review	Recommendations Implemented	No Significant issues identified
IT Vulnerability Security and Penetration Testing	Review Ongoing	Discussions on security related issues identified is presently taking place
Business Process Redesign Enterprise Strategic Initiative and Risk Issues	All Report Recommendation considerations were reviewed as required	Internal Audit participates in both work group and in the Strategic Steering Committee. Internal Audit and Legal presently provide their risk considerations to the various departments, as required
ORS Data and Payment Portal Review	Recommendations Implemented	Portal controls were reviewed to ensure intersystem transfers for all joint (multi system) Ohio retirement cases processed
Pension - Potential Fraud Review	Recommendations Implemented	Additional audit process steps to verify aging member accounts have been put in place, with additional confirmation of aging retiree universe
Our Way Forward Project Management Oversight	No Recommendations Presented	Revised project steering committee direction as appropriate. Monitoring IT and the business process and decisions is occurring
Travel Expenses Analytical Data Review	No Recommendations Presented as a result of Continuous Quarterly Testing	Additional policy reporting change considerations are discussed with Finance Director as necessary
Benefit Calculation Quarterly Reviews	No Recommendations Presented as a result of Continuous Quarterly Testing	No Significant issues identified
Ethics Review	Review Ongoing	Investment business partners and organizational business vendors are randomly selected to ensure policy compliance
GASB 67 and 68 Implementation	Review Ongoing	Internal Audit has been participating in the planned implementation and in discussions with external auditors
Program Management Office Review	Progress has occurred in implementing agreed upon recommendations	Redirection of the OWF Steering Committee resulted in revised PMO reporting as project moves into 2015

Audit Plan

The following table summarizes the name and type of each audit and the preliminary scope of work to be performed. The scope of work will be finalized as part of each audit's planning phase.

Title	Type	Preliminary Objective
GASB 67 & 68 (Finance)	Consulting	Participate in meetings and assess the implementation of the new standards and reporting requirements.
Employer Services (Finance)	Audit	Identify and assess key controls for service purchases and processing of contributions.
Defined Contribution (Benefits)	Audit	Assess realignment of DC processing to different departments.
Disability (Benefits)	Audit	Assess changes in disability benefit administration, including rehabilitative services.
QEBA (Benefits)	Audit	Assess QEBA funding change implementation.
Death Reporting (Benefits)	Audit	Identify and assess key controls for death notification and reporting.
Knowledge Base (Benefits)	Audit	Identify and assess key controls for maintaining/updating the Knowledge Base (primary reference for member service representatives).
Medical Claims Administrator (Health Care)	Consulting	Coordinate third party review of medical claims vendors.
Health Care Connector (Health Care)	Consulting	Participate in meetings and assess the implementation of the Health Care Connector.
Risk Management, Compliance & Derivatives with ITCI (Investments)	Audit	Follow-up review and testing of the risk management and compliance infrastructures, as well as to identify and assess key controls for internal derivatives transactions.
Trade Order Management System (Investments)	Audit	Identify and assess key controls for the Charles River upgrade.
External Investment Managers (Investments)	Audit	Recalculate management fees and compare to actual fees for reasonableness/accuracy.
Incentive Compensation (Investments)	Audit	Third party review to verify accuracy of the 2014 incentive compensation payments.
Personal Trading (Investments)	Audit	Assess completeness and accuracy of personal trading reporting.
Bring Your Own Device (IT)	Audit	Identify and assess key controls associated with BYOD.

Title	Type	Preliminary Objective
Change Management (IT)	Audit	Identify and assess key controls for the change management processes (incident/problem ticketing, implementing changes to IT applications).
Alternative Plan Design (IT)	Audit	Identify and assess key controls for additional application changes resulting from 2013 legislated changes (SB 343).
Business Continuity & Disaster Recovery (IT)	Consulting	Participate in and observe ongoing business continuity and disaster recovery tests.
Outsourced (IT)	Audit	To be decided after reviewing the results of the Q4 2014 IT Risk Assessment.
Our Way Forward (Benefits & IT)	Audit	Identify and assess key controls for process redesign and system implementation.
Risk Assessment/Audit Plan (All areas)	Consulting	Preparation of the 2016 audit plan.
Internal QAR (Internal Audit)	Consulting	Assess conformance with IIA Standards in advance of 2016 external QAR.
Continuous Auditing (All areas)	Consulting	Complete ongoing audit tests for selected risk areas.

In addition, following is a breakdown of budgeted time allocated to the various areas:

Benefits 29%	Finance 11%	Health Care 7%	IT 21%	Investments 32%
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Ohio Police & Fire Pension Fund

Administration and Audit Committee Annual Report

2014

The following report documents the activities of the Ohio Police & Fire Pension Fund (OP&F) Administration and Audit Committee and the OP&F Internal Auditor for the year ending December 31, 2014. The Committee Membership includes one retired member, one active employee member, and a third member as determined by the chairman. This report is categorized into four areas:

- I. Audit Reviews
- II. Special Projects Completed
- III. Summary of Administration/Audit Meetings and Actions Taken
- IV. 2014-2015 Annual Audit Plan

I. Audit Reviews

1. 2014 OP&F Employee Disclosure Statements – Audit reviewed the OP&F staff disclosure statements that must be completed by selected staff that focuses on potential conflicts of interest from the previous year.
2. 2014 OP&F Business Continuity Test – The test of OP&F’s business continuity plan was conducted to determine if OP&F systems could be restored off-site to produce a benefit pension check.
3. Employee Payroll Processing Audit – Internal Audit completed a review of the processing of employee payroll to determine the compliance with the system of internal controls and the proper recording of payroll transactions.
4. Investment Management Fee Audit – An audit of the process for reviewing and verifying investment management fees was conducted to provide a reasonable assurance that payments and deductions for the management fees are paid accurately and timely.
5. United Healthcare (UHC) Pharmacy Audit – An external audit of OP&F’s pharmacy benefit and rebate programs was completed by Advanced Pharmacy Concepts to verify the programs are maintained accordance with the provisions of the contract with UHC. In addition, an audit of the transition of OP&F’s pharmacy benefit provider through UHC, from Medco to Optum, was completed.
6. Security Assessment – A security assessment was completed by Clifton Larson Allen to validate that OP&F’s systems and processes are operating as expected and to identify any risks to our information systems.
7. American Express Statement Payment Process – Internal audit started a review of the payment process for the issued American Express cards used for OP&F expenses.

II. Special Projects

1. Security Assessment RFP – Participated in the security assessment request for proposal process to select a firm to conduct the assessment.
2. Financial Accounting System RFP – Participated in the financial accounting system request for proposal process to select a financial accounting software package that best fit the needs of OP&F.
3. Service Credit Purchase cost calculation – Internal audit has been involved in the process to complete the implementation of the service credit purchase cost calculation in the V3 system.
4. Risk Assessment Summary – A risk assessment was performed to aid in identifying audits to be selected for the annual audit plan. Information from audits completed in the prior year was updated for current and future assessments.
5. CAFR Review – Assisted the Finance department in reviewing the 2013 Comprehensive Annual Financial Report for accuracy and completeness.
6. HIPAA and Ethics Training – Completed annual HIPAA and ethics training for all OP&F staff.

III. Summary of Administration/Audit Committee Meetings and Actions Taken

This section identifies the dates of all meetings held and appropriate Administration/Audit Committee actions that took place at the specific meetings.

- **January 2014** – Information Services status report was presented. Internal Audit presented the Employee Payroll Audit Report and the 2013 Administration/Audit Committee Annual Report. A status update of the United HealthCare audit was also presented. The Human Resources Manager updated the committee on the 2014 annual compensation adjustments and 2013 paid leave buyback programs. Trustee travel motions were also approved by the committee.
- **February 2014** – No Administration/Audit Committee meeting.
- **March 2014** – No Administration/Audit Committee meeting.
- **April 2014** – Internal Audit presented reports of the Investment Management Fee Audit as well as the 2014 Employee Disclosure Statement Review. A status update of the United HealthCare audit was also presented. The Human Resources Manager presented a report on the 2013 staffing review look back.
- **May 2014** – No Administration/Audit Committee meeting.
- **June 2014** – No Administration/Audit Committee meeting.
- **July 2014** – No Administration/Audit Committee meeting.
- **August 2014** – Information Services status report was presented. Internal audit presented a report of the results of the United HealthCare Audit with representatives from Advanced Pharmacy Concepts. The committee also reviewed the 2014-2015 Internal Audit schedule, the 2014-2015 Committee schedule, the Administration/Audit Committee Charter as well as the Board Governance Policy Manual which includes the travel and ethics policies. Trustee travel motions were also approved by the committee.
- **September 2014** – No Administration/Audit Committee meeting.
- **October 2014** – No Administration/Audit Committee meeting.

- **November 2014** – Information Services status report was presented. Internal Audit presented the results of the 2014 Business Continuity Test. A verbal update on follow-up from the United Healthcare Pharmacy Audit was also provided along with an update on the completion of the security assessment. The 2015 salary and wages budget and 2015 employee healthcare budget planning memorandums were discussed. The communications plan was also approved.
- **December 2014** – No Administration/Audit Committee meeting.

IV. July 2014 - June 2015 Annual Audit Plan

The Internal Audit plan was structured from July 1, 2014 to June 30, 2015 to tie in with the Administration and Audit Committee year. The audit plan was reviewed with the Committee and is created based on a risk assessment that is updated annually. The list below includes anticipated audit projects to be worked on through June 2015:

Audit Projects

Accounts Payable
Business Continuity Test
CAFR Review
Employee Disclosure Statements
Employer/Member Census Data
Investment Accounting
Member Refunds/Withdrawals/Transfers
Pension Calculations
Risk Management Policy
System Security Assessment
1099R Process
Special Projects, as needed

A new audit plan will be created in June for the next Administration/Audit Committee year.

Respectfully submitted,



Mark A. Jordan, CPA
Internal Auditor



**STATE TEACHERS
RETIREMENT SYSTEM
OF OHIO**

275 East Broad Street
Columbus, OH 43215-3771
614-227-4090
www.strsoh.org

RETIREMENT BOARD CHAIR
ROBERT STEIN

RETIREMENT BOARD VICE CHAIR
CAROL CORRETHEERS

EXECUTIVE DIRECTOR
MICHAEL J. NEHF

March 24, 2015

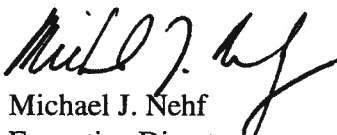
Ms. Bethany Rhodes, Director
Ohio Retirement Study Council
88 E. Broad St., Suite 1175
Columbus, OH 43215

Dear Bethany:

Pursuant to Substitute Senate Bill 133 and as required by Section 3307.044 of the Ohio Revised Code, enclosed is a report of the actions of the Audit Committee of the State Teachers Retirement Board for calendar year 2014.

Please don't hesitate to contact me if you have any questions.

Sincerely,


Michael J. Nehf
Executive Director

Enclosure



To: Ohio Retirement Study Council (ORSC)
Subject: STRS Ohio Audit Committee Report – 2014
Date: March 24, 2015

275 East Broad Street
Columbus, OH 43215-3771
614-227-4090
www.strsoh.org

As required by Section 3307.044 of the Ohio Revised Code, the following report outlines the activities of the STRS Ohio Audit Committee and the STRS Ohio Internal Audit Department for the year ending Dec. 31, 2014. This report outlines the following: audit reviews completed during 2014; STRS Ohio Audit Committee meetings and actions; special reviews completed during 2014; and the 2015 Internal Audit Plan. Audit Committee members during 2014 were Craig Brooks (Chair), Tim Myers (Vice Chair), Craig Brooks, Mark Hill, Jim McGreevy, and Bob Stein (non-voting observer).

Audit Reviews Completed During 2014

The attached 2014 Internal Audit Summary lists the audits performed, the scope for each audit, the recommendations to management, management's response and expected implementation dates. The Internal Audit Summaries were mailed to all State Teachers Retirement Board Members in March, June, September and December 2014.

STRS Ohio Audit Committee Meetings and Actions

The Audit Committee met on June 19, 2014, at 9 a.m. Committee members Mr. Price, Mr. Myers, Mr. Brooks, Mr. McGreevy and Mr. Hill were in attendance. Board members Ms. Correthers and Mr. Stein were present as well as senior staff members.

The Committee reviewed and discussed the Quarterly Internal Audit Summary. Mr. Tackett informed the Committee that there were no material findings and that there was full cooperation from management. Management has accepted all recommendations and is in various stages of action-planning or implementation.

The meeting was adjourned at 9:10 a.m.

The Audit Committee met on Aug. 14, 2014. Committee members present were Mr. Myers, Mr. Brooks, Mr. Hill and Mr. McGreevy. Board members Mr. Stein and Ms. Correthers were also in attendance. Mr. Mayerfeld joined the meeting in progress. Staff present included Mr. Nehf, Mr. Snyder, Ms. Hoover, Mr. Tackett and Mr. Vance.

Kevin Rohrs of CliftonLarsonAllen, presented a summary of their plan for the 2013-14 financial statement audit and tentative schedule for issuing an audit report and management letter. Their overall risk assessment on this engagement is moderate, and CliftonLarsonAllen has identified investments, contributions, benefit payments and actuarial assumptions as critical audit areas. STRS Ohio will implement GASB 67 for the year ended June 30, 2014. The final audit report, including management letter, will be presented to the Audit Committee in December.

The meeting adjourned at approximately 9:44 a.m.

The Audit Committee met on Dec. 18, 2014, at 10:10 a.m. Committee members Mr. Brooks, Mr. Myers, Mr. Hill, and Mr. McGreevy were in attendance. Board members Mr. Price and Mr. Stein were present as well as senior staff members.

The committee reviewed and discussed the 2014 Internal Audit Summary. Mr. Tackett informed the committee that there were no material findings and that there was full cooperation from management. Management has accepted all recommendations and is in various stages of action-planning or implementation.

The 2015 Internal Audit Plan was presented for review and discussion. The committee had no changes to the 2015 Internal Audit Plan. There was general discussion related to preventive IT security measures at STRS Ohio since there was a recently publicized security breach at an out-of-state pension system.

Mr. Hill moved, seconded by Mr. McGreevy, to enter executive session under authority of Division (G) (5) of Section 121.22 of the Revised Code for the purpose of discussing matters required to be kept confidential by federal law or state statutes.

Upon roll call the vote was as follows: Mr. Hill, yes; Mr. McGreevy, yes; Mr. Brooks, yes. Motion carried.

Public session resumed and the Audit Committee meeting was adjourned at 10:31 a.m.

Special Reviews/Projects

There were no special reviews, projects or engagements.

2015 Internal Audit Plan

The 2015 Internal Audit Plan was approved by the STRS Ohio Board on Dec. 18, 2014. A copy of the 2015 Plan is enclosed.

If you have any questions or need further information, please feel free to call me at (614) 227-2821.

Respectfully submitted,



David S. Tackett, CFA, CPA, CIA
Chief Audit Executive



2014 Internal Audit Summary

Audit Area	Scope	Recommendations	Management's Response	Implemented	Implementation Date or Targeted Implementation Date
Closed Audits					
Associate Payroll*	State and Federal Tax Regulations Access to Payroll Database Accuracy of Associate Gross/Net Pay Final Payments to Terminated Employees Immigration Guidelines/Compliance	Audit Did Not Result In Recommendations	N/A	N/A	N/A
Associate Travel	Prior Authorization Compliance with Travel Policy Approval/Payment of Travel Expense	Audit Did Not Result in Recommendations	N/A	N/A	N/A
Board Expenses	Preapproval of Travel Accuracy of Reimbursements Compliance with Rules/Policies	Audit Did Not Result in Recommendations	N/A	N/A	N/A
Call Center*	Associate Training Scheduling of Call Center Associates Monitoring of Associates	Create documented policies and procedures that outline how and when to create and use the Key Performance Indicator Report that aids in the tracking and management of Call Center performance	Agree	Yes	11/13/2013
Derivatives*	Derivative Exposure Report Currency Forward Settlements SWAP Settlements Equity SWAP Collateral Segregation of Duties	Audit Did Not Result in Recommendations	N/A	N/A	N/A
Educational Assistance	Compliance with Policy	Obtain G/L information from the Finance Dept. to aid in year-end reconciliations	Agree	Yes	12/31/2013
Fixed Income	Compliance Approved Brokers/Commissions Accuracy of Pricing Due Diligence Monitoring of External Managers	Audit Did Not Result In Recommendations	N/A	N/A	N/A
Investment Compliance	Identification of Key Policies Review of Controls Applicable Laws/Regulations Controls for Laws/Regulations	Revise the Investment Staff Guidelines and Procedures to include details and supporting documentation on how key activities related to the monitoring of external managers will be accomplished/controlled	Agree	Yes	8/1/2014
Investment Performance	Review of PBI Memos Accuracy of PBI Awards Investment Policy Compliance	Audit Did Not Result In Recommendations	N/A	N/A	N/A

Audit Area	Scope	Recommendations	Management's Response	Implemented	Implementation Date or Targeted Implementation Date
IT Change Control**	Proper Authorizations	Ensure that a comprehensive change-management procedure is documented to outline all stages of the process	Agree	Yes	2/28/2014
	Proper Testing				
	Proper Approvals	All user and ITS testing should be formally documented, authorized and approved by users and ITS prior to migration to production	Agree	Yes	2/28/2014
	Proper Monitoring				
	Proper Segregation of Duties	Create a documented roll-back plan for all changes Individuals responsible for making changes should be limited to development/test environments and functionally separated from production systems (Practicality, cost-benefit consideration resulted in Internal Audit accepting an alternative solution of increased monitoring)	Agree Agree	Yes Yes	3/31/2014 6/30/2014
IT Operations**	Data Backup and Recovery	Regularly perform and document evidence of successful system restores and data recoveries along with testing procedures	Agree	Yes	8/1/2014
	Job Scheduling and Administration				
	Policies and Incidents				
IT Security/ Access**	Password Settings	Uniformly apply password security standards across all IT systems (Logical Access - Password Configuration)	Agreed ¹	Yes	6/30/2014
	User Access				
	Physical Access	Annually complete STaRS access reviews (Logical Access- Periodic Access Reviews)	Agreed	Yes	6/04/2013
	Logical Access	Develop policy/procedures to manage the monitoring and review of access to ITS critical areas (Physical Access - ITS Critical Areas and User Access)	Agreed	Yes	10/31/2013
	Privileged Access	Log Maximis and STaRS MSS & ESS unsuccessful login attempts and monitor regularly to identify potential suspicious activity	Agreed	Yes	10/31/2013
		Set 'login' and 'rlogin (remote login)' values for root accounts to "False" to reduce the risks associated with elevated/privileged or unauthorized systems access	Agreed	Yes	6/04/2013
Other Staff Expenses	Compliance with Policies	Audit Did Not Result in Recommendations	N/A	N/A	N/A
	Accuracy of Board Reporting				
Purchasing Practices*	Compliance with Policies	Update the Policy for Approval of Administrative Expenses	Agree	Yes	6/4/2014
	Due Diligence/Efficient Use of Resource	Document the various levels of purchasing authority to the lowest signee	Agree	Yes	1/02/2014
	Receipt/Tracking of Goods and Services	Consider the potential benefits of partnering with other organizations for purchasing purposes	Agree	Yes	10/1/2013
	Segregations				
Real Estate 2013*	Property Management Fees	Reevaluate the Budget Asset Management process to determine the appropriateness of benchmarking used by Real Estate Dept. to award PBIs to asset managers	Agree	Yes	8/12/2014
	Site Inspections				
	External Compliance Reviews	Revise the Asset Management Manual to include the process for monitoring and verifying monthly property management fees	Agree	Yes	8/12/2014
	Tenant Surveys				
	Compliance with Investment Policy				
Securities Lending*	Compliance	Revise Investment Guidelines to explain the purpose and objectives of reviewing the SSAE 16 Report (Service Organization Control Report)	Agree	Yes	6/30/2014
	Accuracy of Income				
	Approved Borrowers				
	Quality of Collateral				
	Counterparty Risk				

Audit Area	Scope	Recommendations	Management's Response	Implemented	Implementation Date or Targeted Implementation Date
Unused Sick/Vacation Leave	Compliance Accuracy of Payments Disposition	Audit Did Not Result In Recommendations	N/A	N/A	N/A
Active Audits					
AIX/Windows Security v	Verify FTP Login is Restricted Disabled Default Accounts Registry Access Permissions Domain/AD Model Account Lockout Settings Update Access Review Groups	Draft Report Under Management Review	N/A	N/A	N/A
Alternative Investments*	Opportunistic/Diversified: Due Diligence Monitoring Valuations	Draft Under Mgmt. Review	N/A	N/A	N/A
Alternative Investments*	Private Equity: Due Diligence Monitoring Valuations	Audit In Progress	N/A	N/A	N/A
Database Security (Oracle)	Security and Password Configurations Access to Database Listeners Default Accounts and Passwords Host-Based Authentication Methods General Password Settings	Audit In Progress	N/A	N/A	N/A
Disability Benefits	Reexamination Schedules Medical Invoice Payments Statement of Employment/Earnings Terminated Benefits - Notification Benefit Calculations	Audit In Progress	N/A	N/A	N/A
Domestic Equities*	Compliance with Investment Policy Monitoring of External Portfolio Managers	Audit in Progress	N/A	N/A	N/A
Financial Reporting	Role-Based Security/Segregation Adjusting Journal Entries Disaster Recovery Audit Trail Integrity	Audit in Progress	N/A	N/A	N/A
Health Care	Records Retention/Management Issues Monitoring and Resolution Disbursement Reconciliations Segregation of Duties	Audit Initiates 12/19/2014	N/A	N/A	N/A
International Investing*	External Manager Fees Monitoring of External Managers Foreign Tax Reclamations Sub-Custodian Controls	Review the foreign tax reclaim process to reduce the risk of inaccurate or insufficient calculations and collection of receivable funds Work with custodial bank to develop and deliver appropriate month-end reports	Final Rpt Under Mgmt. Review	N/A	N/A

Audit Area	Scope	Recommendations	Management's Response	Implemented	Implementation Date or Targeted Implementation Date
Liquidity Reserves	Compliance Income Purchases/Sales	Audit Initiates 12/22/2014	N/A	N/A	N/A
Member Data Management*	Third-Party Access to Member Data Transmission of Member Data/Security Third-Party Operations/Control Contractual Agreements	Require routine sign-off of data owners to verify accuracy of tracking information related to the sharing and security of member data.	Agree	No	2/28/2015
Member Income Taxes	Withholding Change Reconciliations Tax Interface Reconciliations Segregation of Duties	Review segregation of duties for shared access to STaRS processing screens	Agree	No	3/31/2015
Member Withdrawals	Compliance Refund Estimates/Payments Non-Zero Accounts Segregation of Duties	Audit In Progress	N/A	N/A	N/A
Personal Investment Disclosure	Compliance with Policies Accuracy/Completeness Monitoring	Audit In Progress	N/A	N/A	N/A
Post-Retirement Benefits	Death Match Annuity Certain Expirations Overpayments/Collections Disbursement Compliance	Audit Initiated	N/A	N/A	N/A
Service Retirement Benefits	Departmental Process Documentation Benefit Calculations Management of Overpayments Segregation of Duties	Draft Report Stage	N/A	N/A	N/A
Survivor Benefits	Benefit Calculations Student Benefits Segregation of Duties	Draft Report Stage	N/A	N/A	N/A

Unannounced/Unplanned Audits or Reviews

Petty Cash	Reconciliations Proper Audit Trail Segregation of Duties	Audit Did Not Result in Recommendations	N/A	N/A	N/A
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Off-Audit Plan Work

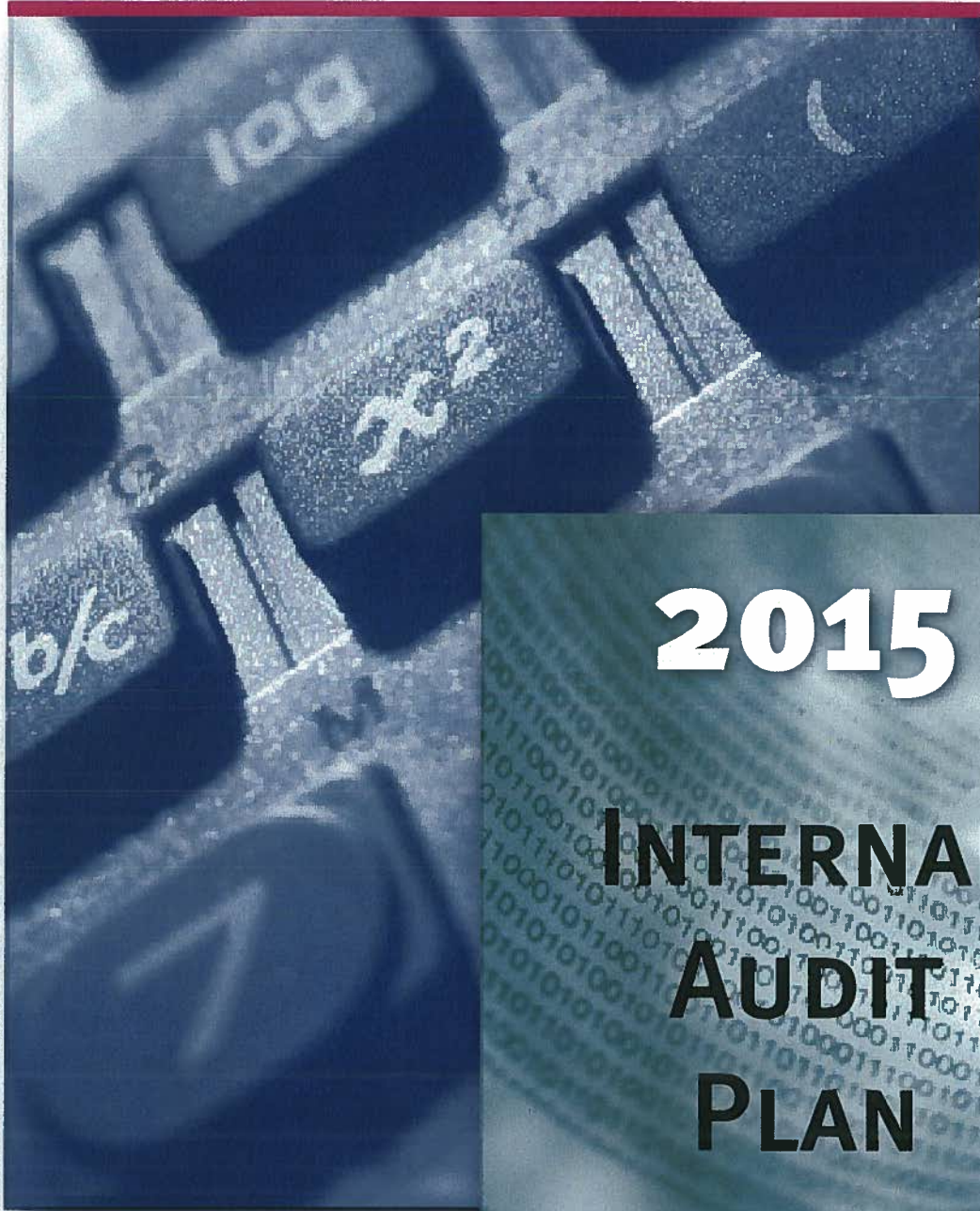
Area	Subject/Project	Description
Internal Audit/I.T.S.	STaRS Redesign Project	Work with I.T.S. and other internal business units to develop a process for STaRS to perform annual user-access reviews
Multi-departmental	Authentication for ESS & MSS Project	Work with Web authentication group to research tools and techniques to better safeguard member and employer accounts
Multi-departmental	ACL (Audit Command Language - audit software) for Eligibility Files	Work with I.T.S. and other internal business units to develop CAATs (computer-assisted audit techniques) to run for continuous audit purposes
Multi-departmental	DLP (Data Loss Prevention)	Participate on the DLP Committee to implement, monitor and evaluate the data loss production as it should work at STRS
Multi-departmental	STaRS Disaster Recovery	Participate in disaster recovery testing/review for 2014

*Audits were listed as "Under Mgmt. Review", "In Progress", "Audit Initiated", or had not implemented recommendation(s) at the time of the last Annual Audit Summary presentation

**Not on the 2013 Audit Plan. IT Auditor hired after Audit Plan preparation. Future 2013 IT audits will be highlighted with any other off-plan audit work performed

√Not on the 2014 Audit Plan. IT audit coverage need determined, and work performed, during the year (post 2014 Audit Plan creation).

"Agreed 1" (IT Security/Access): Consideration of industry practices, employer and member needs, and the intended benefits will be discussed by multi-departmental stakeholders. There is agreement that increased security measures should be discussed. Internal Audit accepted management's response to this recommendation and will follow-up on a future date.

A green rectangular box with a background of binary code (0s and 1s). The text '2015 INTERNAL AUDIT PLAN' is centered in white and black. A small red square is positioned at the bottom center of the box.

2015

INTERNAL AUDIT PLAN

STATE TEACHERS RETIREMENT SYSTEM OF OHIO
275 East Broad Street
Columbus, OH 43215-3771

614-227-4090
www.strsoh.org

INTERNAL AUDIT DEPARTMENT

Mission Statement

To work in partnership with associates to conduct value-added independent appraisals of policies and procedures to contribute to the continuous improvement of STRS Ohio.

Vision Statement

To be recognized as an innovative department that, through independent appraisals and partnered solutions, strives for quality enhancements and the elimination of non-value-added processes.

To create an environment that encourages teamwork, innovation, open communication, empowerment and personal and professional growth.

Guiding Principles

To achieve our mission and vision, we will:

- Prepare a comprehensive, practical, planned program of audit coverage consistent with STRS Ohio's mission, vision and guiding principles.
- Perform audits in compliance with the International Standards for the Professional Practice of Internal Auditing.
- Verify the adequacy and effectiveness of STRS Ohio's systems of administrative, operating and financial controls.
- Understand the associates' business from their perspective.
- Produce objective, clear, concise, constructive and timely reports.
- Maintain contemporary professional proficiency through continuing education and training.
- Seek to continuously improve our team, tools and processes.
- Develop professional expertise for potential career opportunities within STRS Ohio.

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2015 INTERNAL AUDIT SCHEDULE

Audit Area	Description of Audit Area	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Child Care Center	Compliance with State Licensing State Inspections Tuition Payments Enrollment												
Benefit Payment Process	Accuracy of Monthly Forecast General Reconciliations G/L Postings Segregation of Duties												
OEC Reporting	Compliance												
Accounts Payable	Vendor Approval Process Vendor Payment History Compliance with Policy Segregation of Duties												
Attendance Reporting	Accuracy Compliance with Policy												
Fixed Assets	Tracking, Reporting, and Monitoring Depreciation Disposition												
Proxy Voting	Proxy Voting for Active Investments Compliance with Proxy Voting Policy												
Derivatives	Semi-Annual Derivative Exp. Report Currency Forward Settlements Equity Swap Settlements Counterparty Risk Equity SWAP Collateral Segregation of Duties												
Investment Performance	Review of PBI Memos Accuracy of PBI Awards Investment Policy Compliance												
Fixed Income Investments	Due Diligence Approved Brokers/Commissions Accuracy of Pricing Interest Income Monitoring of External Managers Compliance with Investment Policies												

2015 INTERNAL AUDIT SCHEDULE

Audit Area	Description of Audit Area	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Fixed Assets — Computer Equipment	Purchasing Accuracy of Inventory Records Disposition												
IT Security: HIPAA	Awareness & Education Project Planning Electronic Transactions General Security												
Building Maintenance	Purchases of Goods and Services Preventive Maintenance Associate Training Quality Assurance												
Postage	Compliance with Policies/Procedures Disbursements												
Real Estate	Property Management Fees Site Inspections External Compliance Reviews Tenant Surveys Compliance with Investment Policy												
Board Expenses	Preapproval of Travel Accuracy of Reimbursements Compliance with Rules/Policies												
Alternative Investments	Due Diligence Proper Notification and Approval Monitoring Valuations												

RISK FACTORS

Risk Factor	Risk Factor Description	Weighting
A	Adequacy and Effectiveness of the System of Internal Controls	9
B	Major Changes in Technology, Operations, the Organization or the Economy	8
C	Dates and Results of Previous Audits	7
D	Recent or Relevant Changes in Key Personnel	6
E	Complexity or Volatility of Activities	5
F	Asset Size or Transaction Volume	4

RISK ASSESSMENT SCALE

The risk assessment scale is a 9-point system with graduations of risk as follows:

Risk Factor Description	Score
Extremely Risky	9
Very Risky	7
Risky	5*
Slightly Risky	3
Not Risky	1

* If no previous audit was performed, the auditable area was assessed a 5 — Risky.

ASSIGNMENT OF RISK RATING

Audit Area	Risk Factors*						Total
	A	B	C	D	E	F	
ADMINISTRATION							
Associate Payroll	2	2	2	2	2	3	13
Associate Travel Expenses	2	1	1	2	2	2	10
Attendance Reporting	3	2	3	2	2	3	15
Benefit Payment Process	3	4	3	3	3	3	19
Board Expenses	2	1	1	2	2	2	10
Building Maintenance	2	2	2	4	2	2	14
Business Continuity Plan	3	3	3	3	4	3	19
Child Care Center	2	2	2	2	2	2	12
Educational Assistance Program	2	2	2	2	2	2	12
Fixed Assets — Computer Equipment	3	3	3	3	3	3	18
Flexible Spending Plans	2	2	3	2	2	2	13
Insurance/Risk Management	2	2	1	2	2	2	11
OEC Reporting	1	2	1	2	2	1	9
Other Staff Expenses	2	2	2	1	1	1	9
Personal Investment Disclosure	3	2	4	2	3	2	16
Postage	3	2	2	2	2	3	14
Purchasing Practices	3	2	3	2	2	3	15
STRS Ohio Self Insurance Plan	3	3	3	2	3	3	17
Unused Sick and Vacation Leave	2	1	2	2	2	1	10

*See Page 3 for description of risk factors.

ASSIGNMENT OF RISK RATING

Audit Area	Risk Factors*						Total
	A	B	C	D	E	F	
FINANCE							
Accounts Payable	2	2	2	2	2	2	12
Annual Reporting	2	3	2	2	2	2	13
Contribution Reporting	2	3	2	2	2	3	14
Financial Reporting (STRS Ohio)	3	3	2	2	4	4	18
Fixed Assets	3	2	3	4	2	2	16
Member Income Taxes	4	4	2	2	3	4	19
Member Withdrawals	2	3	2	2	2	3	14
Petty Cash/Café Operations	2	2	2	3	1	1	11
Purchasing Service Credit by Payroll Deduction	2	4	2	2	3	2	15
INFORMATION TECHNOLOGY SERVICES							
AIX/ Windows Security	5	3	5	1	5	5	24
Database Security	5	3	5	1	5	5	24
Internet/Intranet Security	2	3	3	2	3	3	16
I.T. Operations	5	3	5	1	5	5	24
I.T. Security: Change Control	5	3	3	3	5	5	24
I.T. Security: Logical/Physical Access	5	3	3	1	5	5	22
I.T. Security: HIPAA	5	3	5	1	5	5	24
INVESTMENTS							
Alternative Investments	4	4	3	2	4	4	21
Derivatives	3	4	2	3	4	3	19
Domestic Equities	3	4	2	2	4	5	20
Fixed Income	2	4	2	3	3	3	17
International Investing	5	5	4	5	4	5	28
Investment Performance	2	2	2	2	3	2	13
Liquidity Reserves	2	3	2	2	2	2	13
Proxy Voting	2	2	2	2	2	1	11
Real Estate	3	4	3	3	3	3	19
Securities Lending	2	4	2	2	3	4	17

*See Page 3 for description of risk factors.

ASSIGNMENT OF RISK RATING

Audit Area	Risk Factors*						Total
	A	B	C	D	E	F	
MEMBER BENEFITS							
Annual Statements	3	4	2	2	2	2	15
Member Services Center	2	2	2	1	2	2	11
Defined Contribution Plan	2	2	2	2	2	2	12
Disability Benefits	3	3	2	2	2	3	15
Health Care	3	3	2	2	3	4	17
Member Data Management	3	4	4	2	2	2	17
Benefit Services (Post Retirement)	3	4	2	2	2	2	15
Purchasing Service Credit	2	3	2	2	3	2	14
Members Records Management	2	2	2	2	2	2	12
Reemployed Retirees	3	4	3	3	2	2	17
Service Retirement Benefits	2	4	2	3	3	4	18
Survivor Benefits	3	3	2	3	2	3	16

*See Page 3 for description of risk factors.

RISK FACTORS WEIGHTED

Audit Area	Risk Factors*						Total
	A	B	C	D	E	F	
ADMINISTRATION							
Associate Payroll	18	16	14	12	10	12	82
Associate Travel Expenses	18	8	7	12	10	8	63
Attendance Reporting	27	16	21	12	10	12	98
Benefit Payment Process	27	32	21	18	15	12	125
Board Expenses	18	8	7	12	10	8	63
Building Maintenance	18	16	14	24	10	8	90
Business Continuity Plan	27	24	21	18	20	12	122
Child Care Center	18	16	14	12	10	8	78
Educational Assistance Program	18	16	14	12	10	8	78
Fixed Assets — Computer Equipment	27	24	21	18	15	12	117
Flexible Spending Plans	18	16	21	12	10	8	85
Insurance/Risk Management	18	16	7	12	10	8	71
OEC Reporting	9	16	7	12	10	4	58
Other Staff Expenses	18	16	14	6	5	4	63
Personal Investment Disclosure	27	16	28	12	15	8	106
Postage	27	16	14	12	10	12	91
Purchasing Practices	27	16	21	12	10	12	98
STRS Ohio Self Insurance Plan	27	24	21	12	15	12	111
Unused Sick and Vacation Leave	18	8	14	12	10	4	66

*See Page 4 for description of risk assessment scale.

RISK FACTORS WEIGHTED

Audit Area	Risk Factors*						Total
	A	B	C	D	E	F	
FINANCE							
Accounts Payable	18	16	14	12	10	8	78
Annual Reporting	18	24	14	12	10	8	86
Contribution Reporting	18	24	14	12	10	12	90
Financial Reporting (STRS Ohio)	27	24	14	12	20	16	113
Fixed Assets	27	16	21	24	10	8	106
Member Income Taxes	36	32	14	12	15	16	125
Member Withdrawals	18	24	14	12	10	12	90
Petty Cash/Café Operations	18	16	14	18	5	4	75
Purchasing Service Credit by Payroll Deduction	18	32	14	12	15	8	99

INFORMATION TECHNOLOGY SERVICES							
AIX/ Windows Security	45	24	35	6	25	20	155
Database Security	45	24	35	6	25	20	155
Internet/Intranet Security	18	24	21	12	15	12	102
I.T. Operations	45	24	35	6	25	20	155
I.T. Security: Change Control	45	24	21	18	25	20	153
I.T. Security: Logical/Physical Access	45	24	21	6	25	20	141
I.T. Security: HIPAA	45	24	35	6	25	20	155

INVESTMENTS							
Alternative Investments	36	32	21	12	20	16	137
Derivatives	27	32	14	18	20	12	123
Domestic Equities	27	32	14	12	20	20	125
Fixed Income	18	32	14	18	15	12	109
International Investing	45	40	28	30	20	20	183
Investment Performance	18	16	14	12	15	8	83
Liquidity Reserves	18	24	14	12	10	8	86
Proxy Voting	18	16	14	12	10	4	74
Real Estate	27	32	21	18	15	12	125
Securities Lending	18	32	14	12	15	16	107

*See Page 4 for description of risk assessment scale.

RISK FACTORS WEIGHTED

Audit Area	Risk Factors*						Total
	A	B	C	D	E	F	
MEMBER BENEFITS							
Annual Statements	27	32	14	12	10	8	103
Member Services Center	18	16	14	6	10	8	72
Defined Contribution Plan	18	16	14	12	10	8	78
Disability Benefits	27	24	14	12	10	12	99
Health Care	27	24	14	12	15	16	108
Member Data Management	27	32	28	12	10	8	117
Benefit Services (Post Retirement)	27	32	14	12	10	8	103
Purchasing Service Credit	18	24	14	12	15	8	91
Member Records Management	18	16	14	12	10	8	78
Reemployed Retirees	27	32	21	18	10	8	116
Service Retirement Benefits	18	32	14	18	15	16	113
Survivor Benefits	27	24	14	18	10	12	105

*See Page 4 for description of risk assessment scale.

2015 INTERNAL AUDIT WORK PLAN

Audit Area	Priority	Dept.	Risk Score	Last Audit	Estimated Audit Date	Risk Codes
International Investing	HIGH	I	183	2013		F, I, C, O
Alternative Investments	HIGH	I	137	2014	Oct-15	F, I, C, O
Domestic Equities	HIGH	I	125	2014		F, I, C, O
Real Estate	HIGH	I	125	2013	Jun-15	F, I, C, O
Derivatives	HIGH	I	123	2013	Mar-15	F, I, C, O
Fixed Income	HIGH	I	109	2013	Apr-15	F, I, C, O
Liquidity Reserves	HIGH	I	86	2014		F, I, C, O
AIX/ Windows Security	MED.	ITS	155	2014		F, I, C, O, PS
Database Security	MED.	ITS	155	2014		F, I, C, O, PS
I.T. Security: Change Control	MED.	ITS	155	2013		F, I, C, O, PS
I.T. Security: Logical/Physical Access	MED.	ITS	153	2013		F, I, C, O, PS
I.T. Security: HIPAA	MED.	ITS	155	N/A	May-15	F, I, C, O, PS
Business Continuity Plan	MED.	A	122	2014		F, I, C, O
Member Data Management	MED.	MB	117	2013		PS, C
Financial Reporting (STRS Ohio)	MED.	F	113	2014		I, C, O
Service Retirement Benefits	MED.	MB	113	2013		I, C, O
Health Care	MED.	MB	108	2014		I, C, O
Annual Statements	MED.	MB	103	2013		I, C, O
I.T. Operations	MED.	ITS	102	2013		F, I, C, O, PS
Contribution Reporting	MED.	F	90	2012		I, C, O
Annual Reporting	MED.	F	86	2013		I, C, O
Accounts Payable	MED.	F	78	2012	Feb-15	I, C, O
Defined Contribution Plan	MED.	MB	78	2012		I, C, O
Risk Management/ Insurance	MED.	A	71	2013		F, I, C, O
Benefit Payment Process	LOW	A	125	2011	Mar-15	I, C, O
Member Income Taxes	LOW	F	125	2014		I, C, O

Risk Codes:

F: Financial = Risk related to financial impact

I: Integrity = Risk related to accuracy of data or asset managed/presented

C: Compliance = Risk related to non-compliance with laws/regulations/internal policies

O: Operational = Risk related to operational efficiencies/inefficiencies

PS: Public Sensitivity = No material financial impact but high public sensitivity

2015 INTERNAL AUDIT WORK PLAN

Audit Area	Priority	Dept.	Risk Score	Last Audit	Estimated Audit Date	Risk Codes
Fixed Assets — Computer Equipment	LOW	A	117	2012	May-15	I, C, O
Reemployed Retirees	LOW	MB	116	2012		I, C, O
STRS Ohio Self Insurance Plan	LOW	A	111	2012		I, C, O
Securities Lending	LOW	I	107	2013		I, C, O
Fixed Assets	LOW	F	106	2012	Feb-15	I, C, O
Benefit Services (Post Retirement)	LOW	MB	103	2014		I, C, O
Purchasing Service Credit by Payroll Deduction	LOW	F	99	2012		I, C, O
Purchasing Practices	LOW	A	98	2013		I, C, O, PS
Attendance Reporting	LOW	A	98	2010	Feb-15	I, C, O
Survivor Benefits	LOW	MB	92	2014		I, C, O
Postage	LOW	A	91	2012	Jun-15	I, C, O
Purchasing Service Credit	LOW	MB	91	2012		I, C, O
Building Maintenance	LOW	A	90	2012	May-15	I, C, O
Member Withdrawals	LOW	F	90	2014		I, C, O
Personal Investment Disclosure	LOW	A	106	2014		I, C
Disability Benefits	LOW	MB	99	2014		I, C, O
Flexible Spending Programs	LOW	A	85	2013		I, C, O
Associate Travel Expenses	LOW	A	63	2014		I, C, O, PS
Investment Performance	LOW	I	83	2014	Apr-15	I, C, O
Associate Payroll	LOW	A	82	2013		I, C, O
Board Expenses	LOW	A	63	2014	Sep-15	I, C, O, PS
Educational Assistance Program	LOW	A	78	2013		I, C, O
Child Care Center	LOW	A	78	2011	Jan-15	I, C, O
Member Records Management	LOW	MB	78	2012		C, O
Other Staff Expenses	LOW	A	63	2014		I, C, O, PS

Risk Codes:

- F: Financial = Risk related to financial impact
- I: Integrity = Risk related to accuracy of data or asset managed/presented
- C: Compliance = Risk related to non-compliance with laws/regulations/internal policies
- O: Operational = Risk related to operational efficiencies/inefficiencies
- PS: Public Sensitivity = No material financial impact but high public sensitivity

2015 INTERNAL AUDIT WORK PLAN

Audit Area	Priority	Dept.	Risk Score	Last Audit	Estimated Audit Date	Risk Codes
Petty Cash/Café Operations	LOW	F	75	2014		I, C, O, PS
Proxy Voting	LOW	I	74	2012	Mar-15	I, C
Member Services Center	LOW	MB	72	2013		C, O
Unused Sick and Vacation Leave	LOW	A	66	2013		I, C, O
OEC Reporting	LOW	A	58	2008	Feb-15	I, C, O, PS

Risk Codes:

- F: Financial = Risk related to financial impact
- I: Integrity = Risk related to accuracy of data or asset managed/presented
- C: Compliance = Risk related to non-compliance with laws/regulations/internal policies
- O: Operational = Risk related to operational efficiencies/inefficiencies
- PS: Public Sensitivity = No material financial impact but high public sensitivity



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

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614-222-5853 • Toll-Free 800-878-5853 • www.ohsers.org

LISA J. MORRIS
Executive Director

HELEN M. NINOS
Deputy Executive Director

September 17, 2015

Bethany Rhodes
Director and General Counsel
Ohio Retirement Study Council
88 E. Broad St., Suite 1175
Columbus, OH 43215

Dear Ms. Rhodes:

Bethany

Pursuant to R.C. 3309.044, enclosed please find a report of actions taken by the Audit Committee of the SERS Retirement Board for fiscal year 2015.

Please feel free to contact me if you have any questions.

Sincerely,

Lisa J. Morris

Lisa J. Morris
Executive Director

Enclosure

RETIREMENT BOARD

CATHERINE P. MOSS
Chair, Retiree-Member

BARBRA M. PHILLIPS
Vice-Chair, Employee-Member

DEBRA J. BASHAM
Employee-Member

NANCY D. EDWARDS
Appointed Member

MADONNA D. FARAGHER
Employee-Member

CHRISTINE D. HOLLAND
Employee-Member

JAMES A. ROSSLER, JR
Appointed Member

DANIEL L. WILSON
Appointed Member

BEVERLY A. WOOLRIDGE
Retiree-Member



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614-222-5853 • Toll-Free 800-878-5853 • www.ohsers.org

LISA J. MORRIS
Executive Director

HELEN M. NINOS
Deputy Executive Director

To: Ohio Retirement Study Council (ORSC)

Subject: SERS Retirement Board Audit Committee Annual Report – FY2015

Date: September 17, 2015

As required by R.C. 3309.044, the following report documents the activities of the SERS Audit Committee and the SERS Chief Audit Officer for the fiscal year ended June 30, 2015 (FY2015). This report is prepared for the SERS Audit Committee and is separated into four areas:

- I. Audit Reviews Completed
- II. Special Projects Completed
- III. Summary of Audit Committee Meetings and Actions Taken
- IV. FY2016 Annual Audit Plan

Audit Committee members during FY2015 were Nancy Edwards (Chair), Barbra Phillips, and Frank Weglarz.

I. Audit Reviews Completed

This section documents the SERS Internal Auditor's completed reviews and projects for FY2015.

1. **Investment Staff Disclosure Review:** SERS maintains a policy and procedure that covers the supervision of investment operations and disclosures by investment staff to comply with Ohio law. It is imperative the investment information and advice provided by SERS' investment staff is not impaired by conflicts of interest. Annually, investment staff file a report consisting of the following documents:
 - Investment staff certification
 - Individual's latest Financial Disclosure Statement filed with the Ohio Ethics Commission
 - Individual's latest Professional Conduct Statement filed with the CFA Institute

A review was performed on these documents. The audit report was completed on August 1, 2014 with no comments.

2. **FY2015 Audit Risk Assessment and Audit Plan:** This project focused on developing the FY2015 Internal Audit plan. This project fine-tuned the internal audit plan process by having more involvement about:
 - High risk identification
 - Manager review of audit high risk audits

- Management consensus with audit plan
- Audit plan development

The audit plan was reviewed and recommended by the Audit Committee on June 18, 2014. The FY2015 plan was approved by the SERS Board at the July 2014 Board meeting.

The SERS Internal Audit Department consists of one employee, a Chief Audit Officer (CAO), and this position was vacant most of FY2015. The previous CAO left SERS in early FY2015 and a new CAO was hired in March 2015. As such, there was little completed on the FY2015 Internal Audit Plan.

II. Special Projects Completed

This annual report will focus on activities being performed to properly establish the framework for conducting future Internal Audit activities. The new CAO has focused on rebuilding the value and effectiveness of the Department through effective infrastructure activities that included:

- Addressing prior reported external quality assessment weaknesses via a remediation plan
- Developing an Internal Audit (IA) Operations Manual to align IA operations with best practices and the Institute of Internal Auditors (IIA) *Standards*
- Updating Audit Committee and Internal Audit Charters to enhance governance processes
- Creating an Audit Committee calendar that aligns Audit Committee charter responsibilities with future meeting dates
- Establishing with management a consistent process for identifying and handling any reported matters involving suspected misconduct

III. Summary of Audit Committee Meetings and Actions Taken

Meetings and related actions taken by the SERS Audit Committee during FY2015 are detailed below:

July 18, 2014

- Committee discussed FY2014 financial statements and audit results with external auditors.
- Committees attested there were no improprieties that would impair Committee's ability to make good judgment and affect SERS.
- General Counsel affirmed there were no potential legal settlements reserved for possible liability above insurance.
- Committee noted the Payroll Audit was submitted in June 2014 and reviewed the same.
- Executive session to consider the job performance of a public employee.

August 18, 2014

- Chief Financial Officer (CFO) presented an overview of financial controls and financial statements
- Executive session to consider the job performance of a public employee.

September 17, 2014

- Committee recommended the full Board accept the resignation of the Internal Auditor and determine the process to replace the position of internal auditor.

October 6, 2014 (Special Audit Committee Meeting)

- External search firm provided an overview of the Chief Audit Officer (CAO) search process, next steps, and timeline.

October 15, 2014

- Committee recommended SERS Board amend its SERS CAO job description and position specifications.
- Committee discussed Enterprise Risk Management (ERM) initiative with management and the significant risk exposures and related controls.
- General Counsel reviewed SERS' Code of Ethical Conduct policy and employee training.
- Committee discussed topic of information security risks and related metrics

November 19, 2014 (Special Audit Committee Meeting)

- External search firm provided an update of the CAO search process, next steps, and timeline.
- Management presentation of ERM process overview, timelines, and next steps of cataloging, assessing, and ongoing steps of monitoring risks.
- Information security update provided by Chief Information Security Officer (CISO) regarding emerging risks involving healthcare information security.

December 17, 2014

- Committee reviewed final FY2014 financial statements presented by the external auditors.
- General Counsel noted there were no significant legal and regulatory matters impacts on SERS' financial statements.
- Committee received information security update from CISO.

March 3, 2015

- Committee welcomed SERS' newly selected Chief Audit Officer (CAO), Joe Bell.
- Update on Investment Manager Fees-Private Equity audit provided by ERM Officer.

April 15, 2015

- Committee received an update on external auditing activities from the CFO
- Committee received update from CAO on developing internal audit processes, addressing prior external quality assessment recommendations, creating a Committee calendar, and recommending the next external assessment of Internal Audit in the fall of FY2017.
- Committee discussed audit coordination via the IIA's Three Lines of Defense model.
- CAO provided the Committee with intentions for a Reporting of Suspected Misconduct Policy and General Counsel indicated there were no items of misconduct reported in FY2015.
- Committee received update from CAO on internal audit policy and procedures development.
- Committee discussed with CAO the annual report requirements and timelines to complete.
- CAO discussed the draft Internal Audit budget with the Committee.
- ERM Officer provided an update on the outsourced Private Equity Fee audit.
- ERM Officer provided an update on the ERM program.

IV. FY2016 Internal Audit Plan

The FY2016 Internal Audit Plan was approved by the SERS Ohio Board on July 16, 2015. A copy of the proposed projects and engagement schedule for FY2016 is attached.

If you have any questions or need further information, please feel free to call me at (614) 222-5892.

Respectfully submitted,

A handwritten signature in blue ink that reads "Joe Bell". The signature is written in a cursive style with a large initial "J" and "B".

Joseph P. Bell, CPA, CIA, CGAP
Chief Audit Officer

FY2016 Annual Audit Plan - Proposed Projects

Department	Process/ Auditable Area	Overall Risk Rating	IA Service	Description of IA Activity
1. Information Technology	SMART Program	5.00	Consulting	Ongoing involvement before and after implementation via participation in SMART Committee, review results and resolution of user acceptance/system testing, training, change management. NOTE: Third party vendor assurance on adequacy and completeness of contract deliverables.
2. Finance	Employer Reporting	4.70	Audit	Focus on verification of the completeness of school self-reported contributions. NOTE: Third party vendor assurance on accuracy.
3. Information Technology	IT Enterprise Security Program	4.40	Audit (outsourcing)	Enterprise security program is internally developed and impacts all facets of SERS. Develop RFP and oversee vendor. Multi-year strategy with broad high-level coverage in year 1; more in depth reviews in ensuing years.
4. Investments	Investment Committee	4.35	Audit	Review newly developed SERS Investment Committee processes used to determine external investment manager decisions.
5. Member Services	Portability	4.20	Audit	Review the portability process involving retirement system transfers and verify accuracy of related calculations.
6. Member Services	Member Withdrawals	4.00	Audit	Review the member withdrawal, refund and lump sum payment process and verify the accuracy of related calculations.
7. Investments	Investment Management Fees	3.95	Consulting	Minor IA involvement to review results, report, and remediation of private equity vendor results – process managed and directed by ERM Officer.
8. Admin. Services	Purchasing	3.90	Audit	Review the purchasing and procurement processes, possibly including RFP, contracting, payments, vendor monitoring.
9. Health Care	Claims	3.60	Consulting	Minor IA involvement to review RFP scope, report results, and remediation of pharmacy claims/rebate audit vendor results – process managed and directed by Pharmacy Benefit Manager.
10. Finance	Unitized Accounting Practices	3.55	Consulting	Minor IA involvement to participate on Finance's internal committee to study and evaluate ways to improve the process efficiency/effectiveness.
11. Investments	Investment Incentive Compensation	2.80	Compliance	Minor IA involvement to annually evaluate the payment accuracy against policy requirements for the investment incentive compensation program.
12. Executive - Legal	Sensitive Data Handling	2.75	Audit	Review and verify the processes within Legal associated with handling sensitive data, particularly division of property orders, power of attorney, etc.
13. Executive	Fiduciary Audit	2.60	Consulting	Conduct consulting to assist in reviewing the RFP associated with the FY2017 enterprise-wide fiduciary audit and help evaluate organizational readiness.
14. Executive	Ethics Filings – Undue Influence	2.00	Compliance	Minor IA involvement to annually evaluate filings of key leadership employees to ensure undue influence is properly reviewed and reported to Board members.
15. Investments	Ethics Filings – Conflicts of Interest	2.00	Compliance	Minor IA involvement to annually evaluate filings by Investments' personnel to ensure any potential conflicts are properly identified, evaluated, and managed to avoid conflicts of interest.
16. Executive	Audit Committee Annual Report	1.70	Consulting	Minor IA involvement to annually develop or review the Committee's annual compilation of activities to be reported to the Ohio Retirement Study Council (ORSC).

Estimated Quarterly Engagement Schedule

Engagement	Level of IA Effort	Q1	Q2	Q3	Q4
1. Purchasing	Large	X			
2. Ethics Filings – Conflicts of Interest	Small	X			
3. Ethics Filings – Undue Influence Forms	Small	X			
4. Audit Committee Annual Report	Small	X			
5. Investment Incentive Compensation	Small	X			
6. Investment Management Fees – P.E.	Small	X			
7. Portability	Large		X		
8. Sensitive Data Handling	Medium		X		
9. Fiduciary Audit	Medium		X	X	
10. SMART	Medium		X	X	
11. SERS Investment Committee	Large			X	
12. Unitized Accounting Practices	Small			X	
13. Claims	Small			X	
14. IT Enterprise Security Program (Outsource)	Medium			X	X
15. Member Withdrawals/Refunds	Large				X
16. Employer Reporting	Large				X



January 30, 2015

Ms. Bethany Rhodes, Director
Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, OH 43215-3506

Dear Ms. Rhodes:

In accordance with Ohio Revised Code Section 5505.111, I am providing this report on the internal audit activities of Highway Patrol Retirement System (HPRS) during 2014. Once again, HPRS retained the Summit County Internal Audit Department (IAD) to perform internal audit services in 2014. Attached are two reports of its findings. The first is a report on the follow-up items from the 2012/2013 audit, and the second is a report of its 2014 findings.

In the Follow-up Report, the internal auditors noted five issues that had been "Partially Implemented" by HPRS. Two of the five "Partially Implemented" items have since been fully implemented. The remaining three issues are fully implemented in practice; however, the newly appointed Finance Director will update HPRS's written procedures to reflect what is already practiced.

For the 2014 audit, IAD examined the following areas: fringe benefits; asset inventory; expenditures; payroll; board meetings; and ORC compliance. The 2014 Final Report is self-explanatory. All of the recommendations have either been implemented or are in the process of being implemented. IAD will conduct another follow-up during its 2015 audit.

Both audit reports were presented to the HPRS Board on August 21, 2014, by Lisa Skapura, the IAD director. The Board was satisfied with the results of the audit and voted to accept the 2014 report.

In addition to the Internal Audit, Kennedy Cottrell Richards (KCR), LLC, the independent auditing firm selected by the Auditor of State, performed a financial audit of HPRS. On June 18, 2014, KCR presented its audit report to the Audit Committee, giving HPRS a clean opinion. The report noted no deficiencies in HPRS' internal controls. The Control and Compliance letter and Opinion letter are attached.

The HPRS Audit Committee met on the following dates in 2014 and took the following actions:

- February 19, 2014: The Committee reviewed and approved the Audit Committee Charter and Work Plan and approved a motion to recommend to the Board to re-

hire Summit County IAD to conduct the 2014 internal audit. The Committee also reviewed all trustees' expense reports for compliance with HPRS policies.

- June 18, 2014: KCR presented its audit of the 2013 financial statements resulting in an unqualified "clean" opinion. No material weaknesses were found and no reportable comments were noted. The Committee reviewed all trustees' expense reports for compliance with HPRS policies.
- August 21, 2014: The Committee met as part of the full Board and accepted the 2014 internal audit report as presented by IAD.
- December 17, 2014: Lieutenant Andre Swinerton was elected Committee Chair and Staff Lieutenant Heidi Marshall was elected Vice-Chair. The Committee approved a motion to recommend to the Board to re-hire Summit County IAD to conduct the 2015 internal audit. It also reviewed all trustees' expense reports for compliance with HPRS policies.

If you have any questions, please contact me.

Sincerely,



Mark R. Atkeson

Executive Director

direct dial 614.430.3557

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Attachments: 2014 IAD Internal Audit Follow Up Report
 2014 IAD Internal Audit Report
 2013 KCR Control and Compliance Letter
 2013 KCR Opinion Letter