January 28, 2019

Ms. Bethany Rhodes
Executive Director
Ohio Retirement Study Council
30 East Broad Street, 2nd Floor
Columbus, OH   43215

Dear Director Rhodes:

Pursuant to R.C. 145.095, please find enclosed the 2018 Annual Audit Committee
Report of the OPERS Retirement Board. This report was reviewed with the
OPERS Audit Committee during its meeting on December 18, 2018 and approved
by the OPERS Retirement Board on December 19, 2018. The report documents
the activities of the OPERS Internal Audit Department for 2018 including:

- Closed Audits with Recommendations
- Closed Audits with No Recommendations
- Active Audits
- Other Audit Related Activity

Also, the OPERS Audit Committee held three (3) meetings during 2018. Following
is a summary of the meetings and actions taken:

Meeting Date	Meeting Summary & Action Taken
May 16, 2018	• Staff from CliftonLarsonAllen LLP, OPERS' external auditor, discussed the results of the 2017 financial statement audit. • An executive summary of internal audit initiatives and activities occurring since December 2017 along with the status of outstanding audit recommendations was presented.
September 18, 2018	• Action: The Audit Committee reviewed, discussed and approved the 2019 Audit Plan.
December 18, 2018	• Action: The Audit Committee reviewed and approved the 2018 Annual Audit Committee Report to be provided to the ORSC.

Meeting Date	Meeting Summary & Action Taken
	• Staff from CliftonLarsonAllen LLP, OPERS' external auditor, discussed the audit plan for the upcoming 2018 financial statement audit. • An executive summary of internal audit initiatives and activities occurring since May 2018 along with the status of outstanding audit recommendations was presented.

Please let us know if you need additional information.

Sincerely,

Caroline Stinziano
OPERS Director – Internal Audit
cstinziano@opers.org
(614) 228-3303

Karen Carraher
OPERS Executive Director
kcarraher@opers.org
(614) 222-0011

Ohio Public Employees Retirement System
2018 Annual Audit Committee Report

Closed Audits: Recommendations

Audit Area	Risk Rating[1]	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Administrative Expenses & Corporate Credit Card (January 2018)	Low	Procedures Policies Compliance Segregation of Duties Authorization	Management should develop and implement policies and procedures around the maintenance of the master vendor file to include reviewing current vendor status, new vendors, and changes made to existing vendor records.	Management agreed and implemented.	Yes	January 2018
	Low		Management should review and update the accounts payable procedures to ensure Accounts Payable staff have complete and adequate procedures to perform job functions.	Management agreed and implemented.	Yes	January 2018
	Low		Management should review and update the OPERS Procurement Card Usage Policy for travel related expenses related to OPERS business needs.	Management agreed and implemented.	Yes	August 2018
		Comments: None.				

---

[1] Risk Rating Levels:
     High: Requires immediate attention and remediation.
     Moderate (Mod.): Requires near-term attention.
     Low: Improvements possible but does not require attention in immediate or near-term.

"In process" status is an audit recommendation that has been implemented by management but is pending validation from Internal Audit.

Audit Area	Risk Rating[1]	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Healthcare Operations (January 2018)	Low	Policies	Standard Operating Procedures for initial health care eligibility determination for the Disability and Conversion Retirement benefit recipients should be documented.	Management agreed and implemented.	Yes	July 2018
	Mod.	Procedures Eligibility Overpayments	Manual changes that impact health care eligibility and allowances should be verified by a second person and the reporting capability should be developed for a periodic review by management.	Management agreed and implemented.	Yes	January 2018
	Mod.		To ensure timely termination of health care coverage, health care eligibility expiration dates for disability benefit recipients should be reviewed for accuracy and corrected, as needed.	Management agreed and implemented.	In process	September 2018
	Low		To accurately calculate household income, both member and spouse tax return documentation should be requested for individuals filing separately to determine eligibility for the income-based discount.	Management agreed and implemented.	Yes	January 2018
	Mod.		To prevent unauthorized access to Personal Health Information (PHI), documentation containing PHI collected during the incapacitated dependent process should be imaged per established document access security process.	Management agreed and implemented.	Yes	April 2018
	Mod.		Management should implement procedures to certify uncollected health care overpayments to the Attorney General's office for recovery. If alternative collection options are considered, Management should seek	Management agreed and implemented.	Yes	January 2018

Audit Area	Risk Rating[1]	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
	Low		Legal Services approval prior to implementation. To reduce the risk of unauthorized overrides, voided healthcare receivable should be identified, reviewed and approved by Management.	Management agreed and implemented.	Yes	January 2018
	Low		To reduce overpayments, amounts owed to OPERS related to Medicare A reimbursement when members pass away should be identified and collected.	Management agreed and implemented.	Yes	January 2018
		Comments: None.				
Incentive Compensation (April 2018)	Mod.	Investment Performance Returns Incentive Compensation Award Calculations	A formal process should be adopted to ensure all proposed changes affecting the Incentive Compensation calculations are clearly defined and reviewed per the Investment Compensation Committee Charter and all impacted employees receive written notification of changes.	Management agreed and implemented.	Yes	April 2018
		Comments: All incentive compensation awards for 2017 were calculated and paid in accordance with policies and procedures.				
Proxy Voting (April 2018)	Low	Procedures Policies	To prevent possible inconsistencies in oversight and a lack of continuity, Corporate Governance staff should retain supporting documentation in a centralized location.	Management agreed and implemented.	Yes	April 2018

Audit Area	Risk Rating[1]	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
	Low	Contractual Requirements/ Compliance Access Exception Reporting	To reduce ambiguity, Corporate Governance staff should update the Corporate Governance Policy to clarify any criteria that would exclude certain public market portfolios from the Policy.	Management agreed and implemented.	Yes	April 2018
	Mod.		Corporate Governance staff should review covered public market portfolios that are not voted by OPERS, obtain formal approval from the Corporate Governance Committee and OPERS' Board and include this voting data with OPERS' Board reporting.	Management agreed and implemented.	Yes	April 2018
	Mod.		To prevent possible inconsistencies in oversight and a lack of continuity, Corporate Governance staff should ensure all key activities are reflected in updated written procedures and supporting documentation is maintained in a centralized location.	Management agreed and implemented.	Yes	October 2018
	Mod		To reduce the potential for missed votes, Corporate Governance staff should perform reconciliations of accounts and shares held to shares voted to confirm proxy voting is complete and accurate.	Management agreed and will implement.	No	December 2018
		Comments: None.				
Active Directory (May 2018)	Mod.	Policy	Although new Domain Controllers are built infrequently, an outline of build practices should be developed to ensure	Management agreed and will implement.	No	December 2018

Audit Area	Risk Rating[1]	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
	Low	Physical Controls Role Assignments Monitoring	consistency when it is necessary. This should include hardening practices recommended by Microsoft to reduce potential vulnerabilities. As procedures are developed, configuration of existing Domain Controllers should be reviewed. Management should develop consistent procedures for accessing the cabling closets and the data center.	Management agreed and implemented.	Yes	August 2018
	Low		Management should review recommendations provided by Microsoft to restrict network accessibility to Domain Controllers and implement those that do not significantly impact operations or legacy systems.	Management agreed and will implement.	No	December 2018
	Mod.		Membership granted to privileged groups should be reviewed and limited where practical.	Management agreed and will implement.	No	December 2018
	Mod.		Permissions granted to privileged accounts should be reviewed and limited as practical.	Management agreed and will implement.	No	December 2018
		Comments: None.				
Medicare Connector Operations (May 2018)	Mod.	Contractual Compliance Eligibility Overpayments	Via Benefits should correct accounts in which participants were assessed administration fees and claims were paid during a period of re-employment. Due to the limited sample size it would be beneficial to identify if additional similar errors exist.	Management agreed and implemented.	In process	May 2018

Audit Area	Risk Rating[1]	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
	Mod.	Financial Reporting	OPERS should ensure that OPERS regularly reviews exceptions identified by internally available tools.	Management agreed and implemented.	In process	May 2018
	Mod.	Claims Administration	Via Benefits should ensure that the programmed solution will stop the reimbursable expense incurrence period (REIP) for deceased retirees while continuing the REIP for spouses and/or un-named dependents when OPERS converts from PayFlex.	Management agreed and will implement.	No	November 2019
		Comments: None.				
Soft Dollar Policy (May 2018)	Low	Policy Procedures Reconciliation Segregation of Duties	The Broker Review Committee should ensure that Commission Sharing Arrangement Research Approval Forms submitted for evaluation and approval are thoroughly completed and appropriately approved.	Management agreed and implemented.	Yes	May 2018
		Comments: None.				
AcadiaSoft ProtoColl (September 2018)	Low	Procedures Valuation	Management should document policies and procedures for processing in ProtoColl.	Management agreed and implemented.	Yes	November 2018
	Low	Money Movements	Management should review the current ProtoColl access list and remove users	Management agreed and will implement.	No	March 2019

Audit Area	Risk Rating[1]	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
		System Access Business Continuity	that do not have active roles. In addition, management should consider the cadence of reviewing access to the system to ensure access is removed timely and in line with OPERS policies.			
		Comments: None.				
Cash Management (November 2018)	High	Policies Procedures Reconciliations Segregation of Duties Access	Financial Reporting should document policies and procedures for performing monthly bank to general ledger cash reconciliations and establish a process to monitor the execution of the monthly reconciliations in accordance with those policies and procedures. Prior activity should be reconciled, and any unreconciled balances should be researched and resolved.	Management agreed and will implement.	No	December 2018
	Low		Facilities should segregate the roles between collecting fitness center membership/badge fees from employees who grant accesses.	Management agreed and implemented.	Yes	December 2018
	Low		Financial Reporting should formally document the procedures for updating access for the custodial bank and ensure these procedures are executed in a timely manner.	Management agreed and will implement.	No	December 2018
		Comments: Audit objectives were not met based on certain key controls determined not to be designed or operating effectively. An outside firm was hired to document procedures over the reconciliation process and assist with bringing reconciliations current. A formal follow up audit to be conducted by Internal Audit is scheduled to be performed in 2019.				

Audit Area	Risk Rating[1]	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation

Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Disability Benefits Data Conversion (July 2018)	Mod.	Procedures Validation Data Migration	Not applicable.
		Comments: The audit ensured accurate and complete migration of legacy data to the new data structure.	
Automated Budgeting Software (August 2018)	Low	Project Governance Internal Control Requirements User Acceptance Testing Training Access	Not applicable.
		Comments: The review determined that the objectives relating to the consulting work associated with the implementation of the new budgeting software were met.	
Payroll System Upgrade	Mod.	Project Governance Internal Control Requirements	Not applicable.

Audit Area	Risk Rating	Scope	Management's Response
(September 2018)		User Acceptance Testing Training Access	
		Comments: The review determined that the objectives relating to the consulting work associated with the implementation of the payroll system upgrade were met.	
Personal Trading Policy (November 2018)	Low	Polices Procedures Compliance	Not applicable.
		Comments: Proper controls were in place to monitor adherence to the Personal Trading Policy.	
Ethics Policy (December 2018)	Low	Policies Procedures Compliance	Not applicable.
		Comments: The review determined that OPERS' Ethics Policy was being followed.	

Active Audits

Audit Area	Risk Rating	Scope	Target Completion
Accounting System Upgrade	Mod.	Project Management; Governance; Budget; Project Plan.	February2019
Actuarial Data File	Mod.	Data Validity.	February 2019
Disability Benefits	Mod.	Calculations; Eligibility; Compliance; Post Implementation; Finance.	February 2019
Fund Management	Mod.	Asset Allocation; Transition Management; Benefit Payments.	February 2019
External Investment Manager Fees	Mod.	Compliance; Calculations.	February 2019
Information Technology Security	Mod.	The scope of the engagement included a maturity assessment of OPERS' IT Security profile.	February 2019

Other Audit Related Activity

Area	Risk Rating	Subject/Project	Description
Expenses, Benefits & Investments	Low	Continuous Auditing	Monthly review of various processes/indicators to identify exceptions and trends that may prompt a more detailed review.
Internal Audit	N/A	2017 Internal Quality Assurance Review	Perform an internal quality assessment of OPERS' internal audit activity (Closed).
Internal Audit	N/A	2018 Internal Quality Assurance Review	Perform an internal quality assessment of OPERS' internal audit activity (Active).
Internal Audit	N/A	Risk Assessment/ Audit Plan	Preparation of the 2019 audit plan.
Internal Audit	N/A	Audit Recommendation Follow-up	Follow-up and report on the status pf outstanding audit recommendations.
Board	N/A	Audit Committee Meetings/ Preparation	Prepare communications and attend Audit Committee and Board Meetings.

Composition of Audit Committee at end of reporting year (R.C. 145.095)

Chris Mabe (Chair), Representative for State Employees

Robert Blair, Department of Administrative Services

Randy Desposito, Representative for College/University Employees

Tim Steitz, Representative for Retirees

Ken Thomas, Representative for Municipal Employees