



Ohio Public Employees Retirement System

January 10, 2018

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

Dear Director Rhodes:

Pursuant to R.C. 145.095, please find enclosed the 2017 Annual Audit Committee Report of the OPERS Retirement Board. This report was reviewed with the OPERS Audit Committee during its meeting on December 19, 2017 and approved by the OPERS Retirement Board on December 20, 2017. The report documents the activities of the OPERS Internal Audit Department for 2017 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 2017. Following is a summary of the meetings and actions taken:

Meeting Date	Meeting Summary & Action Taken
May 17, 2017	<ul style="list-style-type: none">• Staff from CliftonLarsonAllen LLP, OPERS' external auditor, discussed the results of the 2016 financial statement audit including the report of management letter comments on internal controls.• An executive summary of internal audit initiatives and activities occurring since December 2016 along with the status of outstanding audit recommendations was presented.
August 15, 2017	<ul style="list-style-type: none">• Action: The Audit Committee reviewed, discussed and approved the 2018 Audit Plan.

Meeting Date	Meeting Summary & Action Taken
December 19, 2017	<ul style="list-style-type: none">• Action: The Audit Committee reviewed and approved the 2017 Annual Audit Committee Report to be provided to the ORSC.• An executive summary of internal audit initiatives and activities occurring since May 2017 along with the status of outstanding audit recommendations was presented.

Please let us know if you need additional information.

Sincerely,



Greg Slone
OPERS Interim Director – Internal Audit
gslone@opers.org
(614) 222-0545



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

Ohio Public Employees Retirement System 2017 Annual Audit Committee Report

Closed Audits: Recommendations

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Member Assessment (Feb. 2017)	Mod.	Procedures Segregation of Duties Enrollment Plan Selection Benefit Calculations Redeposits	A paper "Form A" should be submitted in order to comply with the Ohio Revised Code mandate for elected officials to apply for membership prior to contributing. This will require a signature from the elected official before contributions are sent to OPERS. Documented procedures should be updated to include current practices and applications/systems.	Management agreed and implemented. Management agreed and implemented	Yes Yes	April 2017 June 2017
Comments: None.						
Retiree Medical Accounts	Mod.	Procedures	Management should work with VOYA to ensure account statuses are accurately maintained when a refund is reinstated.	Management agreed and implemented.	Yes	February 2017

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.

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
(Feb. 2017)		Segregation of Duties Claims Processing Eligibility Vesting Financial Reporting	<p>Management should fully implement the documented standard operating procedures.</p> <p>Management should follow-up with Voya to ensure address update processes are accurate.</p> <p>Management should compare OPERS records to VOYA records to confirm the status of all deceased participants is accurate.</p> <p>Management should fully implement the procedures that were developed to monitor the effectiveness of third party administrator (TPA) processes.</p> <p>Management should work with Voya to ensure all social security number changes have been accurately processed and all funds transferred appropriately.</p>	<p>Management agreed and implemented.</p> <p>Management agreed and implemented.</p> <p>Management agreed and implemented.</p> <p>Management agreed and will implement.</p> <p>Management agreed and will implement.</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>No</p> <p>No</p>	<p>February 2017</p> <p>March 2017</p> <p>September 2017</p> <p>December 2017</p> <p>March 2018</p>
Comments: None.						
Defined Contribution – Rebalancing and Pricing (Feb. 2017)	Mod.	Procedures Error Resolution Price/NAV Recalculation	Staff should consider using Defined Contribution Investment Options where the investment advisor of the funds is responsible for assessing a daily management fee and calculating the final audited daily net asset values (NAV) for OPERS. The effort would help to eliminate the risks involved with	Management agreed and will research.	No	December 2017

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
			<p>calculating a second unaudited daily NAV outside of the investment advisor.</p> <p>Staff should consider using Defined Contribution Target Date Funds where the investment advisor of the funds manages the underlying fund's asset allocations and rebalancing activities along with calculating the final audited daily NAV for OPERS. The effort would help to eliminate the risks involved with calculating a second unaudited daily NAV outside of the investment advisor as well as additional operational and financial risks assumed by OPERS directing rebalancing trades.</p>	<p>Management agreed and will research.</p>	No	December 2017
Comments: None.						
Personal Trading Policy (Mar. 2017)	Low	Policies Procedures Compliance	<p>Current controls should be enhanced to ensure all covered persons are included in the process for adding new associates to the covered persons list.</p> <p>Current controls should be enhanced to ensure all covered persons take the annual Material Non-Public Information (MNPI) training.</p>	<p>Management agreed and implemented.</p> <p>Management agreed and implemented.</p>	<p>Yes</p> <p>Yes</p>	<p>September 2017</p> <p>November 2017</p>

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
		Comments: None.				
Mainframe Legacy Applications: Pension & Savings Systems (Jun. 2017)	Low	<p>Access</p> <p>Segregation of Duties</p> <p>Application Controls</p> <p>Security</p>	<p>Management should investigate the cause of the negative monthly contributions (63 accounts identified) resulting from backed out/reposted transactions after the original contribution was refunded/transferred. Additionally, Management should modify application controls, as necessary, to prevent negative net monthly contributions from being created. Corrections should be made to impacted accounts (approximately \$1,000 in total).</p>	Management agreed and will implement.	No	June 2018
		Comments: None.				
Service Retirement (Jun. 2017)	Mod.	<p>Procedures</p> <p>Access</p> <p>Processing Controls</p> <p>Segregation of Duties</p>	<p>Management should review the Required Minimum Distribution (RMD) business rules with IT and enhance the process to include the inactive accounts that were omitted by the 70.5 RMD process or did not appear on the exception report for further review (approximately 14 accounts).</p> <p>Exception reporting should be enhanced to identify instances of Savings System balances remaining after the Combined</p>	<p>Management agreed and implemented.</p> <p>Management agreed and will implement.</p>	<p>Yes</p> <p>No</p>	<p>November 2017</p> <p>December 2017</p>

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
		and Member Directed accounts pension process was completed. Comments: None.				
Survivor Benefits – Data Conversion (Jul. 2017)	High	Procedures Testing and Validation Plans Access Data Integrity Comments: None.	Applications/Data Management should work with IT Security and restrict access to archives database tables containing personally identifiable information.	Management agreed and implemented.	Yes	July 2017
Death Reporting (Aug. 2017)	Mod.	Procedures Access Segregation of Duties Security Comments: None.	A process should be established to research accounts flagged with an 'undeliverable address' identifier in order to include those accounts in the death audit process.	Management agreed and implemented.	Yes	August 2017

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
External Investment Manager Oversight (Nov. 2017)	Low	<p>Procedures</p> <p>Segregation of Duties</p> <p>Due Diligence</p>	<p>To prevent possible inconsistencies, lack of oversight and lack of continuity, Staff should consider updating procedures and processes to include specifics such as templates, checklists, flowcharts, structured file folders, notes and other reporting details, etc. In addition, Staff committees should consider adopting a standard checklist of required documentation for approving new managers and funds.</p> <p>To enhance monitoring of visitors and meetings at OPERS between the Investment Division and external parties, Staff should improve controls for visitors to ensure they are identified as such, logged and approved.</p> <p>To reduce the potential for bias, conflicts of interest or omissions, Staff should consider having two Staff members complete initial investment due diligence related to scoring, meeting with managers (not necessarily related to travel) and reviewing due diligence backup and reporting.</p> <p>To mitigate operational concerns not being discovered for current managers, Investment Staff should consider enhancing the risk matrix for managers including clear guidelines and risk based minimums for onsite due diligence and consultant due diligence reviews regardless of the manager's location. In addition, Staff should consider enhancing</p>	<p>Management agreed and will implement.</p> <p>Management agreed and will implement.</p> <p>Management agreed and will implement</p> <p>Management agreed and will implement.</p>	<p>No</p> <p>No</p> <p>No</p> <p>No</p>	<p>January 2018</p> <p>January 2018</p> <p>June 2018</p> <p>June 2018</p>

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
			all Defined Contribution managers due diligence processes including specifics related to OPERS' Defined Contribution funds.			
Comments: None.						

Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Fiduciary Audit Gap Analysis (Apr. 2017)	Low	Board Policy Governance Manual Investment Policies Conflict of Interest Policies	Not applicable.
Comments: The review determined that there were no significant deficiencies with OPERS' key fiduciary policies/procedures.			
Investment Performance & Incentive Compensation Award Calculations for 2016 (Apr. 2017)	Low	Investment Performance Returns Incentive Compensation Award Calculations	Not applicable.
Comments: All incentive compensation awards for 2016 were calculated and paid in accordance with the policies and procedures.			

Audit Area	Risk Rating	Scope	Management's Response
Fiserv Frontier Reconciliation System (Jun. 2017)	Low	Procedures Segregation of Duties Data Integrity Access Comments: The audit determined that the Fiserv Frontier system was functioning properly and reconciliations were completed accurately and timely.	Not applicable.
Travel Expense Policy (Jul. 2017)	Low	Policies Procedures Compliance Comments: The audit determined that travel related expenses incurred by staff and Board members were reimbursed according to policies/procedures.	Not applicable.
Ethics Policy (Jul. 2017)	Low	Policies Procedures Compliance Comments: The review determined that OPERS' Ethics Policy was being adhered to.	Not applicable.
Survivor	Mod.	Policies	Not applicable.

Audit Area	Risk Rating	Scope	Management's Response
Benefits (Oct. 2017)		Procedures Benefit Calculations Project Management Comments: The review determined that survivor benefit payments were paid accurately post-implementation.	
Board Elections (Nov. 2017)	Low	Policies Procedures Compliance Data Integrity Comments: The review determined that the 2017 Board elections were completed appropriately according to procedures, policies and rules.	Not applicable.
Compliance & Enterprise Risk Management Follow-Up for ITCI Audit (Nov. 2017)	Low	Policies Procedures Compliance Comments: Follow-up review and testing of the compliance and ERM infrastructure for Investments.	Not applicable.

Active Audits

Audit Area	Risk Rating	Scope	Target Completion
Administrative Expenses and Corporate Credit Cards	Mod.	Procedures; Policies; Compliance; Segregation of Duties; Authorization.	January 2018
Proxy Voting	Mod.	Procedures; Policies; Contractual Requirements/Compliance; Access; Exception Reporting.	January 2018
Internal Quality Assurance Review	Low	Conformance with the Institute of Internal Auditor's Standards.	January 2018
Health Care Operations	Mod.	Procedures; Policies; Eligibility; Overpayments.	February 2018
Active Directory	Mod.	Procedures; Policies; Access.	February 2018
Cash Management	Mod.	Procedures; Policies; Segregation of Duties; Reconciliations; Access.	March 2018
Medicare Connector	Mod.	Contractual Compliance; Eligibility; Overpayments; Financial Reporting; Claims Administration.	March 2018
Budgeting System	Mod.	Project Governance; Internal Control Requirements; User Acceptance Testing; Training.	March 2018

Audit Area	Risk Rating	Scope	Target Completion
Information Technology Security	Mod.	The scope of the engagement included a maturity assessment of OPERS' IT Security profile.	March 2018
Health Care Claims Reviews	Mod.	The scope of the engagements included assessments of claims paid.	July 2018

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.

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

Chris Mabe, Representative for State Employees

Robert Blair, Department of Administrative Services

Ken Thomas, Representative for Municipal Employees

James Tilling, General Assembly Appointed Investment Expert