



Ohio Public Employees Retirement System

January 10, 2022

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 2021 Annual Audit Committee Report of the OPERS Retirement Board. This report was reviewed with the OPERS Audit Committee during its meeting on November 16, 2021 and approved by the OPERS Retirement Board on November 17, 2021. The report documents the activities of the OPERS Internal Audit Department for 2021 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 2021. Following is a summary of the meetings and actions taken:

Meeting Date	Meeting Summary & Action Taken
May 19, 2021	<ul style="list-style-type: none">• Action: The Audit Committee reviewed, discussed, and approved the 2021 Six Month Internal Audit Plan (July-December).• An executive summary of internal audit initiatives and activities occurring since December 2020 along with the status of outstanding audit recommendations was presented.• Staff from CliftonLarsonAllen LLP, OPERS' external auditor, discussed the results of the 2020 financial statement audit.• Staff from OPERS presented highlights from the Annual Financial Report for 2020.

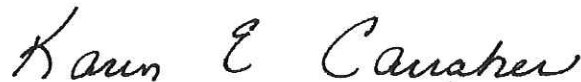
Meeting Date	Meeting Summary & Action Taken
September 14, 2021	<ul style="list-style-type: none"> • Staff from OPERS Internal Audit discussed the results of the Separate Account Real Estate Audit. • An executive summary of internal audit initiatives and activities occurring since May 2021 along with the status of outstanding audit recommendations was presented. • An update was provided on the selection of the new external audit firm for the 2021 Annual Financial Report.
November 16, 2021	<ul style="list-style-type: none"> • Action: The Audit Committee reviewed and approved the 2021 Annual Audit Committee Report to be provided to the ORSC. An executive summary of internal audit initiatives and activities occurring since September 2021 along with the status of outstanding audit recommendations was presented. • Action: The Audit Committee reviewed, discussed, and approved the 2022 Six Month Internal Audit Plan (January-June). • Action: The Audit Committee reviewed, discussed, and approved minor updates to the Audit Committee Charter and Internal Audit Department Charter.

Please let us know if you need additional information.

Sincerely,



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Ohio Public Employees Retirement System 2021 Annual Audit Committee Report

Closed Audits: Recommendations

Audit Area	Risk Rating ¹	Scope	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Remote Workforce Security Audit (January 2021) – outsourced to a third-party firm	1. Low	Evaluate the controls that mitigate risks associated with employees working remotely.	1. Management should perform an annual review and approval of the program and, if applicable, update policies and procedures to reflect the current security standards and practices.	1. Management agreed and will implement.	1. No	1. December 2021
	2. Low		2. OPERS should consider creating a master Incident Response Plan that addresses a broader range of security events beyond just those that result in a loss of data.	2. Management agreed and implemented.	2. Yes	2. December 2021
	3. Low		3. OPERS should perform a comprehensive review of the firewall rules on at least an annual basis to confirm they are still required and are appropriate. The expectations for the review should be documented in the existing IT program materials.	3. Management agreed and will implement.	3. Yes	3. June 2021
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	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Member Services – Dashboard Reporting (July 2021)	1. Low	Assess the design and effectiveness of key controls related to quality assurance and issue reporting/escalation for Member Services.	1. The BI Group and Applications Group should work together to enhance the audit check process to identify when checks are not being performed.	1. Management agreed and will implement.	1. No	1. March 2022
Comments: None						
IT Asset Management (July 2021)	1. Low	Assess the design and effectiveness of key controls for non-capital IT hardware and related assets.	1. IT Customer Support should consider documenting formal procedures related to tracking and monitoring IT equipment inventory in use and in stock to mitigate risks that can lead to improper reporting or recording of IT assets.	1. Management agreed and implemented.	1. In Process	1. April 2021
	2. Mod.		2. IT Customer Support should work with Facilities to determine the best way to document and track keys that are issued to personnel authorized to access the IT equipment storage rooms.	2. Management agreed and implemented.	2. In Process	2. July 2021
	3. Low		3. IT Customer Support should consider developing documented procedures for the purpose of equipment check in, prior to employees returning to the	3. Management agreed and will implement.	3. No	3. December 2021

Audit Area	Risk Rating ¹	Scope	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
	4. Low		<p>building to ensure all equipment loaned for the COVID work from home initiative is accurately returned and accounted for and to ensure associated IT Service Desk tickets are properly documented, updated, and closed. Additional consideration should be given to the process of tracking IT equipment that is loaned to employees for off-site use.</p> <p>4. IT Customer Support should maintain reconciliations for asset disposal, and any supporting documentation that provides evidence that the control is being performed on a regular basis. IT Customer Support should include documenting formal procedures related to IT asset disposal to ensure risks that can lead to sensitive data being compromised are mitigated.</p>	4. Management agreed and implemented.	4. In Process	4. Completed
Comments: None						
Microsoft 365 Security Audit (August 2021) – outsourced to third-party firm	1. Low 2. Low 3. Low	Assess the design and effectiveness of key controls over the configuration of the Microsoft 365 environment.	<ol style="list-style-type: none"> 1. OPERS should document and maintain a set of hardening standards for the Microsoft 365 applications and services that are in use. 2. OPERS should incorporate a Microsoft 365 monitoring and log review policy and procedure into the existing IS program. 3. OPERS should configure Teams to only allow managed, trusted providers for external storage of documents due to data loss prevention purposes. 	<ol style="list-style-type: none"> 1. Management agreed and will implement. 2. Management agreed and will implement. 3. Management agreed and has implemented. 	1. No 2. No 3. Yes	1. December 2022 2. September 2021 3. Completed
Comments: None						

Audit Area	Risk Rating ¹	Scope	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Incentive Compensation (August 2021)	1. Low	Verify the accuracy of the 2020 Incentive Compensation payments. Comments: None	1. Internal Audit recommends that an annual Incentive Compensation assumptions memo be prepared to bridge between the Annual Incentive Compensation Plan and the Incentive Compensation calculations.	2. Management agreed and will implement.	1. No	1. February 2022
Investment Accounting System Post Implementation (August 2021)	1. Mod. 2. Low	Review and assess the processes and controls in place associated with the new investment accounting system implementation specifically related to key day 1 activities. Comments: None	1. Audit recommends that Management review the associated risk and segregation of duties associated with current system access roles. This would ensure a clear understanding of access capabilities across all access profiles. 2. Considering the significance of the accounting system implementation, we recommend that Investment Accounting conduct a project post debrief/post-mortem to document key aspects of the project and lessons learned that would be helpful to identify any strategic follow-ups or future consideration for similar projects.	1. Management agreed and has implemented. 2. Management agreed and has implemented.	1. Yes 2. Yes	1. September 2021 2. September 2021
Real Estate Audit (August 2021)	1. High	Assess the design and effectiveness of key controls pertaining to the processing, monitoring, and oversight of the Separate Account Private Real Estate	1. Valuation: The OPERS Valuation Process should be re-evaluated and updated to further align with industry practices. Revised processes should be put in place for execution and review to include documentation to evidence compliance with the process. Clear guidance should be documented	1. Management agreed and will implement.	1. No	1. December 2021

Audit Area	Risk Rating ¹	Scope	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
	2. High	investments (Separate Accounts).	<p>on roles and responsibilities of both the front and back office functions.</p> <p>2. Cash Flows: Cash flow processing controls should be enhanced within the Real Estate front office to understand, document, and validate the use of manager capital calls. Investment Accounting should develop a process to maintain an approved re-occurring bank account/wire log and procedures to validate updates to wire instructions.</p> <p>3. Fees: OPERS should perform a full review of the Separate Account fee process.</p> <p>4. Internal Audit recommends the following:</p> <ul style="list-style-type: none"> • An analysis should be performed for managers who are operating under older IMAs to highlight contractual differences and additional risk that may exist. • Perform a review of IMA requirements to determine if additional updates are needed to align with current practices. • Implement a control to validate all managers are providing an AIP with required information. <p>5. A formal process should be developed to validate all items required as part of annual manager monitoring are obtained and validated per required attributes.</p> <p>6. Property site visits for OPERS and managers should be re-evaluated.</p> <p>7. Internal Audit recommends the following:</p>	2. Management agreed and has implemented.	2. In process	2. September 2021
	3. High			3. Management agreed and will implement.	3. No	3. March 2023
	4. High			4. Management agreed and will implement.	4. No	4. June 2022
	5. Mod.			5. Management agreed and has implemented.	5. In process	5. October 2021
	6. High			6. Management agreed and will implement.	6. No	6. December 2021
	7. Mod.			7. Management agreed and will implement.	7. No	7. December 2021

Audit Area	Risk Rating ¹	Scope	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
			<ul style="list-style-type: none"> • A standard potential acquisition/disposition report and agenda should be used in communications with the managers. • A summarized report of potential acquisitions/dispositions should be communicated to the Real Estate Committee once per quarter. • Exceptions to the process should be documented. 			
	8. Mod.		8. A process for identifying troubled or higher risk properties should be established that includes the creation of a watch list.	8. Management agreed and has implemented.	8. Yes	8. July 2021
	9. Mod.		9. OPERS staff should establish a process for tracking, monitoring, and reporting on acquisitions and dispositions.	9. Management agreed and will implement.	9. No	9. September 2021
	10. High		10. The REC charter should be updated to reflect the oversight activities of the committee. Additionally, REC oversight could be enhanced to include key information such as individual manager data, a property watch list, acquisitions and dispositions, and the external manager AIPs.	10. Management agreed and will implement.	10. No	10. December 2021
	11. High		11. OPERS should consult with legal resources to evaluate the current practices and ensure appropriate oversight is in place as it pertains to the PERS Holding Company structure.	11. Management agreed and will implement.	11. No	11. December 2021
	12. Low		12. Management should evaluate the current process used to compile information reported to the Board and ensure that review controls are in place to validate information is accurate and consistent.	12. Management agreed and has implemented.	12. Yes	12. July 2021

Audit Area	Risk Rating ¹	Scope	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
	13. Low		13. Management should evaluate the use of the subledger system and consider opportunities for improvement.	13. Management agreed and will implement.	13. No	13. December 2021
	14. Mod.		14. Internal Audit recommends the following: <ul style="list-style-type: none"> A control should be developed to verify processes are performed according to procedures as well as the consideration of the frequency of information reviewed for each manager. Consideration should be given to further evaluate and enhance review procedures to consider and understand period over period changes to enhance monitoring. 	14. Management agreed and has implemented.	14. In process	14. December 2021
	15. Low		15. Staff should consider compiling end to end procedure documents with an overview that highlights the key responsibilities of different OPERS' groups.	15. Management agreed and will implement.	15. No	15. December 2021
Comments: None						
Qualified Excess Benefit Arrangement (QEBA) Audit (August 2021)	1. Low	Assess the effectiveness of the controls that are in place to ensure compliance with the IRC 415(b) limit.	1. Service Retirement should consider reviewing the details of the QEBA Payments by Month report to ensure QEBA payments agree with the amounts calculated by GRS.	1. Management agreed and has implemented.	1. Yes	1. September 2021
	2. Low		2. IT should document procedures for reconciling the payment totals for Federal and State tax for QEBA. Additional consideration should be given to whether it would be more appropriate for Finance to own the reconciliation.	2. Management agreed and will implement.	2. No	2. December 2021
Comments: None						

Audit Area	Risk Rating ¹	Scope	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Member Directed Retiree Medical Accounts (RMA) Audit (September 2021)	1. Low	Assess the effectiveness of controls that Retiree Medical Accounts are operating appropriately according to plan rules. Comments: None	1. The process to notify Voya of incorrect accounts should be evaluated. A periodic reconciliation of OPERS' accounts to Voya Accounts should be performed. Additionally, duplicate or incorrect accounts should be identified and corrected to ensure the accuracy of information between OPERS and Voya.	1. Management agreed and has implemented.	1. Yes	1. Complete
Member Refunds (October 2021)	1. Low 2. Low	Assess the design and effectiveness of the key controls related to Member Refunds. Comments: None	1. Investigate testing exceptions to determine why stale dated check letters were not being sent. Once the root cause has been identified, steps should be taken to correct the issue. 2. Management should consider if an efficiency opportunity exists in only requiring one level of verification when the refund does not require any edits to be made during the approval process. Two levels of verification should still occur when edits are made to a member's refund transaction.	1. Management agreed and has implemented. 2. Management agreed and has implemented.	1. Yes 2. Yes	1. October 2021 2. October 2021

Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Annual Ethics Policy Procedures (2019) (January 2021)	Low	Verify the organization's compliance with OPERS' Ethics Policy (2019). Comments: Testing performed based on agreed upon procedures with management.	Not applicable.
Service Retirement - Data Conversion (February 2021)	Mod.	Assess the design and effectiveness of key controls over the completeness and accuracy of historical data as processing is migrated to the Compass 5.0 environment. Comments: The review determined that the objectives relating to the controls associated to the Compass 5.0 Data conversion were met.	Not applicable.
Annual Ethics Policy Procedures (2020) (May 2021)	Low	Verify the organization's compliance with OPERS' Ethics Policy (2020). Comments: Testing performed based on agreed upon procedures with management.	Not applicable.
Personal Trading Policy (July 2021)	Mod.	Assess the organization's compliance with the Personal Trading Policy. Comments: Testing performed concluded that controls associated with the Personal Trading Policy are operating effectively.	Not applicable.
Member Services – Dashboard Reporting (July 2021)	Low	Assess the design and effectiveness of key controls over the completeness and accuracy of reporting used to monitor the call center. Comments: Testing performed concluded that controls operating effectively.	Not applicable.
IT Key Person Risk (November 2021)	High	Assess roles and responsibilities within the IT Department to ensure appropriate mitigation of key person risk. Comments: Testing performed concluded that controls operating effectively.	Not applicable.

Audit Area		Risk Rating	Scope	Management's Response
IT Succession Planning (November 2021)	High	Assess continuity of key IT positions to retain and develop intellectual and knowledge capital for the future. Comments: Testing performed concluded that controls operating effectively.	Not applicable.	
Service Retirement – new retirements (September 2021)	Low	Assess the design and effectiveness of key controls related to the Service Retirement processes post migration to the Compass environment. Comments: Testing performed concluded that controls operating effectively.	Not applicable.	
Fiduciary Audit Follow-up (November 2021)	Low	Perform follow-up procedures related to the implementation of recommendations associated with soon to be issued Fiduciary audit. Comments: Validation of management's remediation of audit recommendations performed.	Not applicable.	
Contract Management (November 2021)	Low	Assess the design and effectiveness of key controls related to the organization's contract management and review process. Comments: Testing performed concluded that controls operating effectively.	Not applicable.	

Active Audits

Audit Area	Risk Rating	Scope	Target Completion
Service Retirement – Division of Property Order process	Mod.	Assess the design and effectiveness of key controls related to the Service Retirement processes post migration to the Compass environment.	December 2021
Service Retirement – Required Minimum Distribution	Mod.	Assess the design and effectiveness of key controls related to the Service Retirement processes post migration to the Compass environment.	December 2021
Derivatives	High	Assess the design and effectiveness of key controls associated with the use of derivative instruments.	January 2022
IT Change Management (outsourced to third-party firm)	High	Assess the design and effectiveness of key controls within the change management process to manage the enhancements, updates, incremental fixes, and patches to production systems.	December 2021
Health Care Service Provider Audit (outsourced to third-party firm)	Mod.	Health Care specific audit to be conducted over claims incurred from the period of January 1, 2016 through December 21, 2017 for the Rx administrator.	December 2021
Records & Imaging	Mod.	Assess the design and effectiveness of key controls associated with the records and imaging process within the Office Services department.	December 2021
Board Election Audit	Low	Assess the design and effectiveness of key controls related to the board election process specifically related to member address files and procedures performed by the vendor.	December 2021

Other Audit Related Activity

Subject/Project	Risk Rating	Area	Description
Continuous Auditing (On-going)	Low	Finance/Benefits/Health Care	Monthly review of various processes/indicators to identify exceptions and trends that may prompt a more detailed review.
IT Security Penetration Testing (outsourced to a third-party firm)	High	Information Technology	Conduct testing on externally and internally accessible systems from the perspective of an outside threat to assess the effectiveness of security controls. Project is in planning/contracting phase with anticipated completion by March 2022.
Enterprise Risk Management	Low	Enterprise Risk Management	Review and provide feedback related to the organization's ERM process.
2021 Quality Assurance and Improvement (outsourced to a third-party firm)	N/A	Internal Audit	Perform external quality procedures over OPERS' internal audit activities.
Risk Assessment/Audit Plan	N/A	Internal Audit	Preparation of the 2022 audit plan.
Audit Recommendation Follow-up	N/A	Internal Audit	Follow-up and report on the status of outstanding audit recommendations.
Audit Committee Meetings/Preparation	N/A	Internal Audit	Prepare communications and attend Audit Committee and Board Meetings.

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

Ken Thomas (Chair) - Representative for Municipal Employees
 Chris Mabe - Representative for State Employees
 Kathleen Madden - Director, Department of Administrative Services
 Jim Tilling - General Assembly Appointed Investment Expert
 Tim Steitz - Representative for Retirees