



June 28, 2013

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 2012. This report, normally submitted in January, was last submitted in July 2012 (delayed for 2011) due to the hiring of internal auditors from the Summit County Department of Internal Auditing (DIA). In the past, the internal auditing function was part of the annual financial audit, but, beginning in 2012, it was done independent of that audit. This report covers the calendar year 2012, and the report for 2013 will be submitted early in 2014.

HPRS recognizes the importance and impact an internal audit function can have on meeting certain goals and objectives. As a result, the HPRS retained DIA to perform a risk assessment and develop an audit plan. DIA developed a risk assessment model to identify areas which pose the greatest risk and liability to HPRS.

Risk Assessment is a process used to assign a number or score to potential audit areas based upon specific risk factors related to an auditee's operations, internal controls, and liability. Examples of specific risk factors used to formulate the risk assessment model and audit plan include public and financial exposure, compliance with laws and regulations and employee turnover. The complete list of risk factors and the assessment process was submitted with last year's internal audit report.

The development of an audit plan, utilizing the risk assessment model, is an ongoing process. HPRS had the opportunity to provide current information about the functional areas of HPRS for use in the risk assessment process with risk factors being reviewed and refined periodically as needed.

As a result of the Risk Assessment, DIA identified five functional areas to be reviewed: Benefits, Property Management, IT, Accounting, and Administration. HPRS engaged DIA to audit Property Management, IT, and Accounting issues. Administration was also intermingled into DIA's review. DIA identified a number of issues that needed to be addressed. By the conclusion of the audit most of these issues had been resolved or corrected. The remaining issues have been addressed and will be reviewed during the 2013 internal audit. The audit report from DIA submitted to the HPRS Board on June 28, 2012, was also submitted with last year's report to ORSC.

Additionally, Kennedy Cottrell Richards (KCR), LLC, the independent auditing firm selected by the Auditor of State, performed a financial audit of HPRS. The auditors did not note any significant deficiencies, but one material weakness was identified. The inaccuracy was immediately corrected and controls were put in place to prevent this from occurring in the future. Going into this audit, we recognized there were control weaknesses in 2011 primarily due to the departures of the previous executive director and CFO. Internal controls have since been put in place to address these issues. KCR noted the audit resulted in an unqualified "clean" opinion. The report from KCR was submitted to the HPRS Board on June 28, 2012, and was included with last year's report to ORSC.

On June 27, 2013, KCR presented its audit report to the Board of Trustees giving HPRS a clean audit. The report noted no deficiencies in our internal controls. The Control and Compliance letter and Opinion letter are attached.

The HPRS Audit Committee met on the following dates in 2012 and took the following actions:

- January 30, 2012: DIA provided the Risk Assessment report. DIA's contract was expanded to proceed with the internal audit focusing on Property Management, IT, and Accounting issues.
- March 22, 2012: The committee approved the charter and work plan.
- June 28, 2012: KCR presented its audit of the 2011 financial statements resulting in an unqualified "clean" opinion. The committee adopted all standing committees' (Investment, Audit, Administration, and Health, Wellness, & Disability) charters and work plans. The committee recommended a minor modification to OAC 5505-9-02. Several HEK fiduciary audit recommendations were approved. DIA presented its final internal audit report.
- September 27, 2012: Captain Carl Roark was elected Committee Chair and Lt. Heidi Marshall was elected Vice-Chair. The final HEK fiduciary audit recommendations were approved. The final response to the HEK audit was delivered to the ORSC on October 26, 2012.
- December 20, 2012: The regularly scheduled meeting was postponed until March 2013.

If you have any questions, please contact me.

Sincerely,



Mark R. Atkeson
Executive Director
direct dial 614.430.3557
matkeson@ohprs.org

Attachments: 2012 KCR Control and Compliance Letter
2012 KCR Opinion Letter
2012 DIA Internal Audit Report
2012 DIA Risk Assessment Report

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Ohio State Highway Patrol Retirement System
6161 Busch Boulevard, Suite 119
Columbus, Ohio 43229-2553

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the basic financial statements and the related notes to the financial statements of the Ohio State Highway Patrol Retirement System (the HPRS), as of and for the year ended December 31, 2012, and have issued our report thereon dated June 10, 2013.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the HPRS' internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the HPRS' internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the HPRS' financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the HPRS' financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Ohio State Highway Patrol Retirement System
Independent Auditor's Report on Internal Control Over
Financial Reporting and Compliance and Other Matters
Required by Government Auditing Standards
Page 2

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the HPRS' internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the HPRS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kennedy Cottrell Richards LLC

Kennedy Cottrell Richards LLC
June 10, 2013

INDEPENDENT AUDITOR'S REPORT

Ohio State Highway Patrol Retirement System
6161 Busch Boulevard, Suite 119
Columbus, Ohio 43229-2553

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying basic financial statements of Ohio State Highway Patrol Retirement System (the HPRS), a component unit of the State of Ohio, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the HPRS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the HPRS' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the HPRS' internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Ohio State Highway Patrol Retirement System, as of December 31, 2012, and the respective changes in plan net position for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and required supplementary schedules, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the HPRS' basic financial statements taken as a whole. The introductory section, supplementary information, investment section, actuarial section, and statistical section, as listed in the table of contents, present additional analysis and are not a required part of the basic financial statements.

The supplementary information is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not subject the introductory section, investment section, actuarial section, and statistical section information to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2013, on our consideration of the HPRS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HPRS' internal control over financial reporting and compliance.

Kennedy Cottrell Richards LLC

Kennedy Cottrell Richards LLC
June 10, 2013

HIGHWAY PATROL RETIREMENT SYSTEM

RISK ASSESSMENT

January 30, 2012



County of Summit, Ohio • Internal Audit Department
175 South Main Street • Akron, Ohio 44308 • 330.643.7890

HIGHWAY PATROL RETIREMENT SYSTEM

RISK ASSESSMENT

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January 30, 2012

Audit Committee
Highway Patrol Retirement System
6161 Busch Boulevard
Columbus, Ohio 43229

We have performed the procedures enumerated below, which were outlined in the Memorandum of Understanding (MOU), dated January 5, 2012, in the development of a risk assessment model for auditing services. This engagement was conducted in accordance with generally accepted government auditing standards established by the Government Accountability Office. The sufficiency of these procedures is solely the responsibility of the Highway Patrol Retirement System.

The risk assessment procedures are as follows:

- Define and identify the audit population,
- Develop questionnaires used to help identify potential risks to the agency,
- Define the risk factors,
- Develop a rating and weighting scale,
- Develop a Risk Assessment Model.

This report is intended solely for the information and use by management of the Highway Patrol Retirement System. Other parties to whom the report may be provided should be advised of the procedures and of the specific purposes for which the procedures were performed.

Lisa L. Skapura
Director
Summit County Internal Audit Department

HIGHWAY PATROL RETIREMENT SYSTEM

RISK ASSESSMENT

I. INTRODUCTION

The Highway Patrol Retirement System (HPRS) recognized the importance and impact an internal audit function can have on meeting certain goals and objectives. As a result, the HPRS retained the Summit County Internal Audit Department (Internal Audit) to perform a risk assessment and develop an audit plan. Internal Audit developed a risk assessment model to identify areas which pose the greatest risk and liability to the HPRS.

Risk Assessment is a process used to assign a number or score to potential audit areas based upon specific risk factors related to an auditee's operations, internal controls, and liability. Examples of specific risk factors used to formulate the risk assessment model and audit plan include public and financial exposure, compliance with laws and regulations and employee turnover. The complete list of risk factors and the assessment process is described in this report.

The development of an audit plan, utilizing the risk assessment model, is an ongoing process. The agency will have the opportunity to provide current information about the functional areas of the HPRS for use in the risk assessment process with risk factors being reviewed and refined periodically as needed.

II. SCOPE OF WORK

Risk assessment is critical to management and the Internal Auditor. Internal Auditors should review the risks in the areas being audited to develop an initial audit program. The internal auditor must have an understanding of the risk assessment process and utilize the appropriate tools to make the assessment prior to developing the internal audit work plan for the future. The internal auditor must turn the output of the risk assessment into an audit program that makes sure needed controls are operating to reduce risk in all critical areas of the organization.

The audit plan should be designed to include a consideration of the organization's risks and exposures. Practice Advisory 2010-2, "Linking the Audit Plan to Risk and Exposure," infers that the organization's strategic plans should consider risks and exposures. The audit plan should assess the degree of attention needed in a particular area to ensure that the audit work plan incorporates the elements of risk priority and exposure.

The Risk Assessment Process

1. Assists management and the Board in identifying, evaluating, and implementing risk management and concerns regarding the current operations and existing controls. Work with management to determine how to resolve potential areas of weakness.

HIGHWAY PATROL RETIREMENT SYSTEM

RISK ASSESSMENT

2. Identifies management and Board concerns regarding existing external and internal risks to the organization and determine how they should be addressed.
3. Identifies management and the Board expectation as to Internal Audit assistance that can be provided in developing a risk management process. Utilization of a risk assessment to determine the priority of the future audit work plan.
4. Includes development of a Risk Assessment Matrix to prioritize the on-going audit work plan to be performed by the Internal Auditor.

Analytical Methods to Be Utilized During Risk Assessment

The identification and use of risks to develop an optimum control structure employs an analytical method or combination of methods, which include the following:

- Employee interviews to gain an understanding of each function of the organization;
- Internal control questionnaires to assess risk;
- Flowcharting and/or written narratives of current process;
- Evaluation of the organization's current Policies and Procedures;
- Perform initial analysis and preparation of Risk Assessment Matrix;
- COSO illustrative methodology (best practices for internal control assessment).

III. AUDIT PRIORITIZATION AND SELECTION

Objective

The objective of a risk assessment is to identify and prioritize potential audit areas which pose the greatest risk and liability to the HPRS. In order to obtain a priority listing of potential audit areas, Internal Audit utilized a risk assessment model to rank each of the potential areas.

Process

Risk assessment is a process of assigning a number or score to potential audit areas based upon specific risk factors related to a functional area's operations. Risk assessment is typically performed to focus attention on significant audit areas, to allocate resources to the most important audit areas, and to help with audit prioritizing decisions such as audit frequency, intensity and timing. Internal Audit utilized a systematic risk assessment approach. This approach separates the risk into individual risk factors, which were assessed individually, then combined into an overall score reflecting an area's risk potential.

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Interview Process

Internal Audit recognized the need and importance of gaining an understanding of the HPRS functional areas and their operations. As a result, questionnaires were developed and utilized in conducting preliminary interviews with HPRS personnel. See the questionnaires on Attachment A.

Through the interview process, Internal Audit gained a general understanding of each functional area and their operations to evaluate the questionnaire responses.

Risk Factors

The individual risk factors used to evaluate the potential audit areas were selected by Internal Audit based on preliminary interviews conducted with the Highway Patrol Retirement personnel. The seven risk factors are as follows:

- Fiduciary Audit Recommendations – High Priority Level,
- Fiduciary Audit Recommendations – Medium Priority Level,
- Fiduciary Audit Recommendations – Low Priority Level,
- Public Exposure,
- Financial Exposure,
- Compliance With Laws and Regulations,
- Employee Turnover, within a functional area.

The Internal Audit Department then developed definitions for each risk factor, which are presented on Attachment B, to aid in the risk evaluation process.

Weighting Process

Internal Audit also recognized the need to account for the relative measure of importance between each of the risk factors and the subsequent impact on the overall risk score for each functional area. A weighting factor was derived by comparing each specific risk factor to all the other risk factors.

The following formula was used to calculate the Risk Factor Weight as a percentage:

$$\frac{\text{The Risk Factor Weight (score)}}{\text{The sum of all the Risk Factor Weights (scores)}} = \text{The Risk Factor Weight as a percentage (score)}$$

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The weighting of each risk factor is reflected on the Risk Factor Definitions and Guidelines worksheet on Attachment C. In addition, the effect of the weighting factor is evident in the Risk Assessment Model as shown on Attachment D.

Risk Assessment Model

The audit areas were then ranked based upon highest to lowest total risk scores, producing an audit priority listing. However, consideration is given to unique situations and circumstances which would supersede scheduled audits with higher risk scores. The audit areas and their overall risk scores are illustrated on the Risk Assessment Model as shown on Attachment D.

ATTACHMENT A

HIGHWAY PATROL RETIREMENT SYSTEM

RISK ASSESSMENT

RISK ASSESSMENT QUESTIONNAIRE

1. What are your primary functions within the department? Do any of these functions involve other personnel?
2. How long have you been with the HPRS? Have you always been in the same position?
3. Has your area ever been audited before? If so, by whom and when?
4. Does your area have a formal training, cross training and/or orientation program?
5. What accounting software are you currently using?
6. Does your area conduct any cash transactions?

ATTACHMENT A (CONTINUED)

HIGHWAY PATROL RETIREMENT SYSTEM

RISK ASSESSMENT

RISK ASSESSMENT QUESTIONNAIRE

7. What are the regulations, laws and/or compliance issues that affect your area?

8. Do you anticipate full compliance with laws, regulations and policies in the upcoming year?

9. Are you aware of a formal conflict of interest policy?

10. Are you aware of any instances of fraud or potential areas of fraud that could put the HPRS in jeopardy?

11. What are your major concerns with your area? With the agency?

ATTACHMENT B

HIGHWAY PATROL RETIREMENT SYSTEM

RISK ASSESSMENT

RISK FACTORS AND SCORES

<u>Fiduciary Audit Recommendations - High</u>	<u>Score</u>
Less than two (2)	1
Less than four (4)	5
More than six (6)	9

<u>Fiduciary Recommendations - Medium</u>	<u>Score</u>
Less than five (5)	1
Less than ten (10)	5
More than fifteen (15)	9

<u>Fiduciary Audit Recommendations - Low</u>	<u>Score</u>
Less than five (5)	1
Less than ten (10)	5
More than fifteen (15)	9

<u>Public Exposure</u>	<u>Score</u>
Nature of operations have some public interest and visibility - Low	1
Operations with medium of public interest and visibility - Medium	5
Operations with strong public interest and high visibility- High	9

<u>Financial Exposure</u>	<u>Score</u>
Low	1
Medium	5
High	9

<u>Compliance with Laws and Regulations</u>	<u>Score</u>
None	0
Few regulations	5
Substantial volume of regulations	9

ATTACHMENT B (CONTINUED)

HIGHWAY PATROL RETIREMENT SYSTEM

RISK ASSESSMENT

RISK FACTORS AND SCORES

<u>Employee Turnover, within Each Functional Area</u>	<u>Score</u>
No	0
Yes	5

ATTACHMENT C

HIGHWAY PATROL RETIREMENT SYSTEM

RISK ASSESSMENT

RISK FACTOR DEFINITIONS

The table below lists a description of the impact and probability factors and the related assigned weight.

	Factor	Definition	Risk Factor Weight	Weight as a %
1	Fiduciary Audit Findings <i>High Priority</i>	The number of high priority findings cited in the Ohio Retirement Study Council's Independent Review and Evaluation of the Ohio HPRS.	5	18.52%
2	Fiduciary Audit Finding <i>Medium Priority</i>	The number of medium priority findings cited in the Ohio Retirement Study Council's Independent Review and Evaluation of the Ohio HPRS.	3	11.11%
3	Fiduciary Audit Findings <i>Low Priority</i>	The number of low priority findings cited in the Ohio Retirement Study Council's Independent Review and Evaluation of the Ohio HPRS.	1	3.70%
4	Public Exposure	A measure of exposure to loss or embarrassment caused by the level of visibility and/or public interest.	5	18.52%
5	Financial Exposure	A measure of exposure with a financial impact (i.e., cash applications, bank reconciliation process, etc.).	5	18.52%
6	Compliance with Laws and Regulations	A measure of exposure or loss, or regulatory sanction due to complexity and volume of regulations or penalties for noncompliance.	5	18.52%
7	Employee Turnover	The frequency of employee turnover and its effect on limiting exposures.	3	11.11%

ATTACHMENT D

HIGHWAY PATROL RETIREMENT SYSTEM

RISK ASSESSMENT

RISK ASSESSMENT MODEL

Relative Weights of Risk Factors	Fiduciary Audit Recommendations High		Fiduciary Audit Recommendations Medium		Fiduciary Audit Recommendations Low		Public Exposure	Financial Exposure	Compliance with Laws and Regulations	Employee Turnover		Total Score **
	SCORE	SCORE	SCORE	SCORE	SCORE	SCORE				SCORE	SCORE	
Functional Areas												
Benefits	7	9	8	5	5	5	High	High	Substantial	Yes	5	215
Property Management	3	5	0	0	0	0	High	High	Substantial	No	0	160
IT	0	0	0	0	0	0	High	High	Few	n/a	0	115
Accounting	0	0	2	1	1	1	Med	High	Few	Yes	5	114
Administration	5	5	27	9	17	9	Low	Low	Few	Yes	5	111

** Total score is the sum of each employee's individual risk scores multiplied by the relative weights

Benefits: Investments, health care, benchmarking and portfolio
 Property Management: Buildings and maintenance
 Information Technology (IT): System and data security
 Accounting: Accounts payable, account receivable, and payroll
 Administration: Personnel and ethics



COUNTY OF SUMMIT, OHIO
Internal Audit Department

RECD HPRS 5 JUL '12 PM 12:33

June 29, 2012

Mr. Mark Atkeson
Executive Director
Highway Patrol Retirement System
6161 Busch Blvd, Suite 119
Columbus, OH 43229

Re: Highway Patrol Retirement System Internal Audit Report

Dear Mark:

Please find enclosed for your files the above referenced final report, as presented to the HPRS Audit Committee on June 28, 2012.

It was a pleasure working with you and your staff. I look forward to discussing any future opportunities with HPRS.

Sincerely,

Lisa L. Skapura
Director

Enclosures

Highway Patrol Retirement System Internal Audit Report

June 13, 2012

Prepared for:

**Mark Atkeson
Audit Committee**

**Summit County
Internal Audit Department
175 South Main Street
Akron, Ohio 44308**

*Lisa Skapura, Director
Mira Pozna, Deputy Director
Benjamin Franjesevic, Internal Auditor
Jacob Weisheit, Auditor Intern*

**Highway Patrol Retirement System
Internal Audit**

June 13, 2012

Mr. Atkeson:

We have performed the procedures enumerated below, which were agreed to by the Highway Patrol Retirement System and the Summit County Internal Audit Department, solely to assist you in performing an internal audit of the Property Management, Accounting and Information Technology areas. This internal audit engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We conducted this internal audit engagement in accordance with generally accepted government standards. Those standards require that we plan and perform the procedures to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our agreed-upon objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our agreed-upon objectives.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on Highway Patrol Retirement System. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. In addition, we did not search for signature deficiencies in internal control and none came to our attention for which you should be aware.

This report is intended solely for the information and use by management of the Highway Patrol Retirement System and is not intended to be and should not be used by anyone other than these specified parties.



Lisa L. Skapura, CIA, CFE, CGAP, CICA
Director
Summit County Internal Audit Department

**Highway Patrol Retirement System
Internal Audit
Background, Objectives and Methodology**

Background, Scope and Objectives

At the request of the Highway Patrol Retirement System (HPRS), the Internal Audit Department (IAD) agreed to perform an internal audit of the following areas and the following procedures:

1. The following steps were performed in the assessment of property management:
 - Obtain and review the current policies and procedures for the property management billing process,
 - Gain an understanding of the property management process through interviewing and observation,
 - Assess proper segregation of duties for authorization, recording and custody,
 - Obtain a complete listing of active leases and trace them back to QuickBooks to confirm that all active leases are being billed and paid,
 - Trace 2011 revenue transactions from accounting ledgers to QuickBooks,
 - Trace 2011 expenditures from accounting ledgers to QuickBooks,
 - Determine that all transactions are recorded in QuickBooks and review for accuracy,
 - Review any and all credit adjustments,
 - Review all adjusting entries,
 - Investigate discrepancies and summarize results,
 - Make recommendations where applicable.

2. The following steps were performed in the assessment of the Accounting Department:
 - Obtain and review the current policies and procedures for the accounting function,
 - Gain an understanding of the accounting process through interviewing and observation,
 - Assess proper segregation of duties for authorization, recording and custody,
 - Review all necessary accounting cycles, including but not limited to, Revenues, Expenditures, and Payroll,
 - Review all ledgers and sub-ledgers,
 - Review process for financial statement preparation,
 - Review all adjusting entries, if applicable,
 - Investigate discrepancies and summarize results,
 - Make recommendations where applicable.

3. The following steps were performed in the assessment of Information Technology (IT):
 - Obtain and review policies and procedures for the IT function.
 - Meet with the independent consultant to gain an understanding of current IT environment.
 - Prepare a process flow diagram.
 - Obtain and review all access level reports.
 - Determine if access levels are appropriate.
 - Assess proper segregation of duties.
 - Assess integrity of the accounting data in QuickBooks.
 - Assess business continuity documentation.
 - Review backup and recovery procedures.
 - Assess general controls, i.e., physical security.
 - Investigate discrepancies and summarize results.
 - Make recommendations where applicable.

**Highway Patrol Retirement System
Internal Audit
Detailed Comments**

Methodology

We conducted this internal audit engagement in accordance with generally accepted government standards. Those standards require that we plan and perform the procedures to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our agreed upon objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our agreed upon objectives.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the property management, accounting and IT functions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the audit committee and management of the HPRS and is not intended to be and should not be used by anyone other than these specified parties.

Work Performed and Observations

PROPERTY MANAGEMENT

IAD conducted interviews with the Building Administrator and the System Accountant to gain an understanding of the steps taken in renting units through rental billings and collection of rent payments for both 6161 and 6500 Bush Boulevard office buildings. Flowcharts of these processes were developed and provided to HPRS to assist in evaluation of their current processes.

A listing of all leases, along with scanned copies of respective leases that were active during the year ended December 31, 2011, were obtained and reviewed to confirm accuracy and completeness of the listing.

Revenue testing was performed by annualizing the 2011 monthly lease amounts noted on the active lease listing and comparing it to the annual rent revenue noted on the financial statements generated using QuickBooks to test for reasonableness.

The following issues were noted during the review:

1. Issue:

Based on conversations with the Building Administrator, there are no HPRS policies and procedures for the overall property management function, specifically the following areas:

- Background checks for new tenants;
- Security deposit requirements;
- Assessment of late fees;
- Lease expiration.

**Highway Patrol Retirement System
Internal Audit
Detailed Comments**

Recommendation:

IAD recommends that HPRS create, disseminate and adhere to property management policies for the day to day operation of the HPRS buildings. The policies and procedures should include, but not be limited to background checks, security deposits, assessment of late fees and lease expiration.

Corrective Action Taken Prior to the end of Fieldwork

A *draft* of the Building Management Policy was provided to IAD on 6/12/12, which includes the procedures for conducting background checks, security deposits, late fee assessment and lease expiration. This issue has been resolved pending Board approval of the referenced draft policy.

2. Issue:

Detailed testing of active leases indicated there are four leases that are currently expired, three for building 6500 Busch Blvd., and one for 6161 Busch Blvd. The lease agreements include an article that states if the tenant is going to stay after their lease expires, they are to be considered as being on a month to month basis and their rent increases 150%. Testing indicated that none of the four expired tenants were paying month to month.

Recommendation:

IAD recommends that HPRS monitor their current leases to help ensure that all leases are not expired, and tenants are paying on a month to month basis, if applicable. One way this may be accomplished is to have the Executive Assistant create an Outlook calendar appointment, indicating the lease expiration date one month before the leases expires so that the Property Administrator may take the necessary steps to begin discussions with the tenant regarding lease renewal.

Corrective Action Taken Prior to the End of Fieldwork

IAD was provided with copies of updated leases and/or notice of intention to leave the unit, where applicable, for all four leases. In addition, IAD was provided with a *draft* Building Management Policy on 6/12/12, which includes a process for utilizing the Outlook calendar to monitor lease expirations and renewals. This issue has been resolved pending Board approval of the referenced draft policy.

3. Issue:

Upon review of all active leases in 2011, detailed testing indicated that there were sixteen lease agreements that were made and entered into after the start of the lease term.

Recommendation:

IAD recommends that HPRS have their tenants sign and enter into lease agreements prior to the start of the lease term, whether it is a new lease or a continuing lease.

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Corrective Action Taken Prior to the end of Fieldwork

A *draft* of the Building Management Policy was provided to IAD on 6/12/12, which includes the procedures for ensuring that tenants sign and enter into lease agreements prior to the start of the lease term. This issue has been resolved pending Board approval of the referenced draft policy.

4. Issue:

Based on a discussion with the Building Administrator, he is not currently aware of when a tenant's rent is past due prior to the preparation of an eviction notice.

Recommendation:

IAD recommends that the Building Administrator be provided with an aging of overdue rents on a monthly basis from the System Accountant. This will help ensure that overdue rents are not being carried for any length of time on the HPRS books.

Corrective Action Taken Prior to the end of Fieldwork

A *draft* of the Building Management Policy was provided to IAD on 6/12/12, which includes the procedures for review and monitoring of current leases. HPRS management advised IAD that monthly reports are already being presented by the System Accountant and being reviewed by the Building Administrator and CFO. This issue has been resolved pending Board approval of the referenced draft policy.

5. Issue:

Based on a review of active leases, it was noted that a scanned copy of all leases is stored on a shared drive. It was noted that during testing that there were several leases that were not included on the shared drive. IAD notes that hard copies of those leases were contained in the Building Administrator's files in his office.

Recommendation:

IAD recommends that if a shared drive of scanned leases is going to be utilized by the System Accountant and the Administrative Assistant for determining appropriate rental amounts and lease expiration, all scanned leases should be contained on the shared drive for reference.

Corrective Action Taken Prior to the end of Fieldwork

A *draft* of the Building Management Policy was provided to IAD on 6/12/12, which includes the procedures for ensuring that all leases are scanned to the shared drive. HPRS management advised IAD that scanned copies of all leases are now stored on the shared drive. This issue has been resolved pending Board approval of the referenced draft policy.

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ACCOUNTING

The accounting section of the HPRS Polies and Procedures manual was reviewed for completeness, and interviews were performed with the System Accountant for the following accounting cycles to obtain an understanding of the processes in place and the control environment:

- Cash Receipts
- Cash Disbursements
- Revenue cycle

A back-up copy of the HPRS QuickBooks data was obtained for a detailed review of accounting transactions. A detailed December 31, 2011 general ledger was generated for review of the transactions recorded for the migration from the Traverse accounting system to QuickBooks along with a review for unusual transactions.

Accounts Receivable and Accounts Payable Aging reports as of March 7, 2012 were generated and reviewed for delinquent accounts.

The following issues were noted during the review:

6. Issue:

Upon review of the Accounting section of the Policies and Procedures Manual, it was noted that the current policies need to be updated and/or created to reflect current policy.

Recommendation:

It is recommended that the Accounting section of the Policies and Procedures Manual be updated to reflect the current changes in job duties and accounting systems. This will help to ensure that the administration of the HPRS is performed as intended.

Management Action Plan

Updating the Policies and Procedures Manual is an essential but time-consuming undertaking. HPRS staff has begun working on this and expects to have the updates completed by the end of 2012.

7. Issue:

Upon review of the updated Purchasing Policy it was noted that there is no approval requirement for P-Card purchases and purchases under \$5,000. In addition, it was noted in the payment process that the individual making a purchase also receives the vendor invoice causing an improper segregation of duties.

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Recommendation:

It is recommended the Purchasing Policy be updated to include a more detailed policy and procedure for the use of the Procurement Card (P-Card) to include purchase authorizations, or that a separate detailed P-Card policy and procedure be developed. The use of P-Cards is typically a high risk area; therefore, it is critical that a detailed policy and procedure is developed and disseminated to help to ensure that the P-Card is used as intended. In addition, it is recommended that the policy be updated to include proper authorizations for purchases under \$5,000, not using the P-Card.

The policy should also be updated to eliminate an improper segregation as the individual making a purchase should not be the same individual receiving and approving the vendor invoice. This will help to reduce the risk of misappropriation of HPRS funds.

Corrective Action Taken Prior to the end of Fieldwork

On 6/12/12, IAD obtained and reviewed Policy No. 8.01 entitled "Purchasing Policy and Policy No. 8.02 entitled "Purchasing Card Policy," which were developed and adopted by the OHPRS Board of Trustees on 5/1/12. This issue has been resolved.

8. Issue:

During the interview process and risk assessment, it was noted that there is an improper segregation of duties as the same person processes transactions for all of the following areas:

- Accounts Receivable,
- Accounts Payable,
- Issuance of pension checks,
- Payroll processing,
- Journal entries,
- Preparation of bank reconciliations.

Recommendation:

It is recommended that duties surrounding all accounting cycles be segregated so that the same person is not issuing invoices, recording cash receipts, paying vendor invoices, processing payroll, preparing journal entries and preparing bank reconciliation. In addition, the Policy and Procedures manual should be update noting the segregated duties. This will help to reduce the risk of misappropriation of HPRS funds.

Management Action Plan

While HPRS recognizes that better segregation of duties is important, this is another recommendation that will take time. In the next few weeks, HPRS will begin cross-training other staff members in accounting duties such as accounts receivable, accounts payable, and payroll. HPRS expects to have this completed prior to the System Accountant's maternity leave in September. The changes will be included in the updated Policy and Procedures Manual.

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9. Issue:

Upon review of the Accounts Receivable Aging report as of March 7, 2012, it was noted that there is an outstanding balance of \$20,727 over 90 days past due. In addition, through the interview process it was noted that Accounts Payable and Accounts Receivable Aging Reports are not provided to anyone in the HPRS system making it very difficult to have a true accounting of the status of accounts in order to take the appropriate corrective action.

Recommendation:

It is recommended that an Accounts Receivable Aging Report be provided to and reviewed by the Property Manager and the Chief Financial Officer at least monthly, and an Accounts Payable Aging Report be provided to and reviewed by the Chief Financial Officer at least monthly in order to keep accounts current.

Corrective Action Taken Prior to the end of Fieldwork

A *draft* of the Building Management Policy was provided to IAD on 6/12/12, which includes a process for review by the Building Manager and CFO of the accounts receivable aging on a monthly basis for overdue rents. HPRS management advised IAD that monthly reports are already being presented by the System Accountant and being reviewed by the Building Administrator and CFO. This issue has been resolved pending Board approval of the referenced draft policy.

10. Issue:

During interviews with the System Accountant and the Executive Director, and upon review of printed checks, it was noted that checks are electronically signed as they are printed.

Recommendation:

It is recommended that the HPRS not utilize the automatic check signing feature and require that all checks be manually reviewed and signed. This adds an additional level of control over cash disbursements which will help to reduce the risk of misappropriation of HPRS funds.

Management Action Plan

This recommendation has been implemented and will be included in the updated Policy and Procedures Manual. This issue has been resolved.

11. Issue:

Upon review of the detail transactions in QuickBooks, and through discussions with the System Accountant, it was noted that the migration from Traverse to QuickBooks is not reconciled.

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Recommendation:

It is recommended that a complete reconciliation of the opening balances in QuickBooks be reconciled to the ending balances in Traverse to ensure that there is a correct opening balance for the new accounting system and proper accounting of assets and liabilities.

Corrective Action Taken Prior to the end of Fieldwork

On 6/13/12, IAD received an email from Brent Lewis of Kennedy, Cottrell and Richards (HPRS' external financial auditors) advising that the financial audit results reflected that the Traverse and QuickBooks systems had been reconciled in the current year audit. Variances in the individual line items (i.e., entries were run through miscellaneous income, rather than reducing expenses) were noted; however, the variances were identified and determined by Kennedy, Cottrell and Richards to be immaterial.

INFORMATION TECHNOLOGY (IT)

The HPRS Policies and Procedures manual was reviewed and interviews were performed with the CFO, System Accountant, and the IT Consultant to gain an understanding of the IT environment and related general and application controls in place. A physical observation of IT equipment was performed to determine safeguards in place over HPRS IT assets.

The following user access listings were obtained and reviewed to determine the reasonableness of user access:

- Network user ID listing,
- QuickBooks user ID listing,
- Pension System user ID listing,
- SQL Server user ID listing.

Amounts in QuickBooks were traced and agreed to corresponding payment source documentation and bank statements to assess QuickBooks data integrity.

Disaster recovery and business continuity documentation and procedures were reviewed for adequacy and completeness.

The following issues were noted during the review:

12. Issue:

Upon review of the policy and procedure manual, IAD noted that there are no formal policies or procedures in place governing passwords or user access assignment/termination. Through discussion with staff, IAD noted the following:

- Password complexity requirements are not in place for the HPRS systems,
- Users are not required to change QuickBooks passwords, resulting in default passwords being utilized,
- There is an informal process in place for the granting and termination of user access.

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Recommendation:

IAD recommends that the HPRS develop formal policies and procedures for user passwords as well as for the assignment and termination of user access. These policies and procedures should address password complexity, changing default passwords, and the staff responsible for approving, granting, and terminating user access. This will help to ensure that only active, authorized users have access to agency applications and data.

Management Action Plan

Password complexity requirements have been established for access to all programs/data. These requirements include password expiration every 3 months. Passwords require uppercase and lowercase letters, numbers, and symbols and cannot contain the account name or the user's first or last name. In addition, the IT Consultant has a designated password. Password access to QuickBooks is governed by the application security settings. These issues will be outlined in the updated Policy and Procedures Manual. This issue has been resolved pending Board approval of the updated Policy and Procedures Manual.

13. Issue:

Upon observation of QuickBooks program settings, IAD noted that user permission assignments appear excessive, allowing users to change and delete transactions that have previously been posted.

Recommendation:

IAD recommends that QuickBooks permissions be restricted so that users are able to perform their job duties but are unable to change and/or delete previously posted transactions. Furthermore, IAD recommends that management begin regularly reviewing QuickBooks audit trail reports. This will help to ensure the accuracy and integrity of data maintained in QuickBooks.

Management Action Plan

Currently, only two employees (CFO and System Accountant) have access to QuickBooks. HPRS's IT Consultant contacted QuickBooks and was informed that the present access requirements be maintained to permit importing transactions from the HPRS pension system. This deficiency will be addressed by closer monitoring of changes/deletions in the QuickBooks program.

14. Issue:

Upon review of Pension System users with access to sensitive information (HPRS Admin or Trustee account types), IAD noted that 1 of 9 active users reviewed belonged to a HPRS Board Trustee that is no longer active.

Recommendation:

IAD recommends that the HPRS review Pension System users and deactivate all former employees and trustees. Furthermore, IAD recommends that policies be put into place regarding user review and

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deactivation. This will help to ensure that only active, authorized users have access to HPRS applications and data.

Management Action Plan

At present, only active employees and Board members have access to sensitive HPRS data. All inactive personnel have had their access terminated. A policy will be developed to require a list of active users be reviewed at least quarterly by the Executive Director or CFO to ensure that only authorized persons have access.

15. Issue:

Upon review of SQL Server user IDs and permissions, IAD noted the following:

- All HPRS employees are assigned the high level “sesame” permissions,
- An unused vendor account is active and assigned high level “sesame” permissions,
- The Pension System user account is assigned high level “sesame” permissions.

Recommendation:

IAD recognizes that HPRS employees are assigned high level permissions as a result of the current installation of Traverse and that these permissions will be revoked upon full migration to the Pension System; however, excessive permissions represent a risk to agency data and therefore IAD recommends that monitoring controls be put into place to ensure the integrity of HPRS systems and data. Furthermore, IAD recommends that unused vendor accounts be deactivated and that the Pension System user account be assigned permissions consistent with its function. This will help to ensure data integrity as well as that access to data is appropriate.

Management Action Plan

The “high level” permissions are needed to allow access to the Traverse application. Once the migration from Traverse is complete, the “high level” permissions will be deactivated. The migration should be complete within the next two months. The “abs” vendor account has been disabled. Concerning the “webuser” account, our IT Consultant uses the “sysadmin” access for program development on a separate server. HPRS believes this access is necessary and the risk of unauthorized use is minimal since he is the only person with this access. HPRS can address this issue in the future, but due to other priorities and the minimal exposure to risk, it cannot be corrected in the near term.

16. Issue:

Through discussions with the HPRS IT Consultant, as well as review of data backup and recovery procedures, IAD noted that all backups are stored onsite.

Recommendation:

IAD recommends that the HPRS store backups at an offsite location. This will help to ensure data availability in the event that data stored at the HPRS primary location is rendered unusable.

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Corrective action taken prior to the end of field work:

On 4/5/12, IAD observed a backup server maintained at an offsite location (6500 Busch Blvd.) Per the IT Consultant, the HPRS is transmitting incremental copies of public files and database transactions to this server every 20 minutes. Additionally, IAD observed a USB drive utilized for backup data maintained in a fireproof safe at the offsite location.

17. Issue:

Upon observation of the physical IT environment of the HPRS, IAD noted that all agency servers and equipment are maintained in a common area that is easily accessible to all staff.

Recommendation:

IAD recommends that the HPRS relocate and secure all agency servers and equipment. This will help to ensure that appropriate physical safeguards are in place over agency assets to reduce the risk of downtime, data loss, and service interruption.

Corrective action taken prior to the end of field work

On 5/23/12 IAD observed that the servers and related equipment have been moved to a locked room at 6161 Busch Blvd. IAD also noted that the room was locked and that the Administrative Assistant controls access to the room. This issue has been resolved.

18. Issue:

Through discussion with the IT Consultant, as well as review of the most recent contract between the HPRS and the IT Consultant, IAD noted that the current contract in place is outdated and does not accurately describe services currently being provided by the IT Consultant. The most current contract was signed in 2003.

Recommendation:

IAD recommends that a formal agreement be established between the HPRS and the IT Consultant that clearly defines the scope of services, ownership of data, and confidentiality. This agreement should also provide legal remedy for nonperformance of services. This will help to ensure that outsourced IT functions are clearly defined as well as reduce the risk of service disruption and interruption of critical HPRS processes.

Management Action Plan

The Executive Director and IT Consultant will negotiate a new agreement that addresses the issues noted above. HPRS expects an agreement to be in place by the end of 2012.