



Ohio Public Employees Retirement System

January 2, 2015

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

Dear Bethany:

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

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

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

Sincerely,

Karen Carraher
Executive Director



Audit Committee Annual Report

To: Ohio Retirement Study Council (ORSC)

Subject: OPERS Audit Committee Report - 2014

Date: January 2, 2015

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

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

Summary of OPERS Audit Committee Meetings and Actions

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

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

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

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

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

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

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

2015 Annual Audit Plan

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

Special Reviews


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

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

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

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

Respectfully submitted:


Gregory M. Januszewski
OPERS Director- Internal Audit
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**OPERS INTERNAL AUDIT
2014 AUDITS COMPLETED**

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

**OPERS INTERNAL AUDIT
2014 AUDITS COMPLETED**

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

Audit Plan

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

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

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

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

Benefits 29%	Finance 11%	Health Care 7%	IT 21%	Investments 32%
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