



Ohio Public Employees Retirement System

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January 3, 2013

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 2012 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 18, 2012 and presented for approval by the full OPERS Board on December 19, 2012.

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- 2012**

Date: January 2, 2013

The following report documents the activities of the OPERS Audit Committee and Internal Audit Department for 2012. This summary outlines:

- Major Audit Reviews Completed (please see attached schedule)
- Audit Committee Meetings and Actions Taken
- 2013 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 with any specific considerations addressed:

January 18, 2012- The Audit committee received an update from Clifton Gunderson on their proposed merger with Larson Allen. In addition, the committee received an update on internal audit staffing in light of year end staff departures.

The committee also received an informational audit consulting report on OPERS external security.

March 14, 2012- The Audit committee, with its appointed committee chair and other returning and newly appointed members, met for its first quarterly meeting of 2012. The committee completed its biennial review of both the Audit Committee and Audit Department charters.

Changes to both charters were approved and recommended for consideration by the full OPERS Board.

The committee received an update on internal audit staffing as well as long term succession planning.

The committee received the regular quarterly status report of significant audit issues, recommendations made and staff recommended actions to address these issues.

The committee also received an informational status of the Quality Assessment Review recommendations, as well as the Annual Personal Trading Report review.

May 16, 2012 – The CliftonLarsonAllen auditors presented the results of the 2011 OPERS financial examination. In addition, management letter comments on internal controls were presented and discussed with the audit committee.

The committee also received the executive summary of reviews completed during the previous six months with significant audit issue comments presented.

The committee also received the Investment Due Diligence Benchmarking review completed by the P2E consulting group.

June 20, 2012 – The ITCI audit consultant group presented results and recommendations of the Investment Risk Assessment review.

The Audit committee received the Deloitte Incentive Compensation review and resulting observations and considerations.

The committee received the quarterly status report of significant audit issues, recommendations made and staff recommended actions to address these issues.

July 18, 2012- The Audit committee received an update on the proposed management actions resulting from the ITCI Investment Risk Assessment review recommendations and observations.

October 3, 2012- The Audit committee reviewed and approved the proposed 2013 Audit Plan and risk assessment. The committee also reviewed and discussed the proposed 2013 internal audit operating budget and staffing. This departmental budget will be approved as part of the OPERS overall annual budget process in December, 2012.

The committee received an additional brief update on the status of management actions taken from the ITCI Investment Risk Assessment review.

The committee also received an update on the status of the Auditor of State Request For Proposal for OPERS External Auditor for years 2012-2015. Subsequently, CliftonLarsonAllen was appointed by the Auditor of State in November, 2012 to be OPERS auditors for the four year 2012-2015 reporting cycle.

In addition, the audit committee received the quarterly status report of significant audit issues, recommendations made and staff recommended actions to address these issues.

December 18, 2012

The audit committee reviewed and approved the 2012 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 and update on the 2012 audit plan.

In addition, committee was advised on the annual disclosure of all fees paid to the external auditor, in addition to receiving the quarterly status report of significant audit issues, recommendations made and staff recommended actions to address these issues.

2013 Annual Audit Plan

The 2013 audit plan and risk assessment was reviewed and approved by the OPERS Audit Committee at the October 3, 2012 meeting. The priority review areas are summarized on the attached audit plan document.

Special Reviews

The following reviews were completed during 2012 with appropriate comments indicated.

The OPERS Board requested a comprehensive review and assessment of Investment Risk be completed as a result of considerable changes occurring during the past couple years. These changes included but were not limited to: newly hired Executive Director and the hiring of Chief Investment Officer; changes in investment management and the audit group; new Board consultants employed by OPERS Board and the resulting new asset allocation.

Additional internal reviews included discussions concerning the Investment program in light of the monthly resetting of investment target benchmarks, presented by investment staff and approved by the Board's investment consultant.

In addition, Internal Audit staff continued participation in reviewing all Business Process Redesign recommendations. This enterprise strategic initiative will continue with activities in the Foundation Stage heading into 2013. Considerable member self-service applications are planned. All appropriate matters will be reviewed with the Audit Committee, including key risk recommendation monitoring throughout implementation.

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

Respectfully submitted:

Gregory M. Januszewski
OPERS Director- Internal Audit
(614)- 222-0080

**OPERS INTERNAL AUDIT
2012 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 March.
Internal Quality Assurance Review (QAR)	Report and Recommendation Review status presented in March, 2012 with time line.	As the earlier report noted, "Generally Conforms" rating was received, reaffirming overall compliance with the Institute of Internal Auditor standards.
Investments Due Diligence Processes- Private Real Estate	Recommendations Implemented	OPERS overall due diligence practices are sound.
Investments Due Diligence Processes- Private Equity	Recommendations Implemented	OPERS overall due diligence practices are sound.
Investment Compliance	Recommendations Implemented	Compliance staff replacement addition has been employed.
External Asset Manager Oversight	Recommendations Implemented	Deloitte and Touche presented investment internal review considerations.
Investment Incentive Compensation	Recommendations Implemented	Incentive Compensation Plan committee was formalized with audit staff participation to ensure all material modifications to plan are fully reviewed with Board Personnel and Salary Administration Committee. Chief Investment Officer role and guidelines are defined.
Investment Risk Assessment	ITCI Report and Recommendation Review with time line for implementation presented in June, 2012	Management agreed upon action plan and time line is being refined with additional discussion planned in December. Continued review of Risk oversight and compliance activities will occur in 2013.
Investment Consultant Review- NEPC	Due diligence contractual compliance review ongoing	Observations and discussions will take place by end of year.
Investment Consultant Review- Hewitt/ Ennis Knupp	Due diligence contractual compliance review ongoing	Observations and discussions will take place by end of year.
Investment Risk System	Implementation of BARRA Risk system is expected during 4 th quarter.	Audit participation of key issue discussions have taken place and post installation review will be completed during 1 st quarter, 2013.
Health Care Direct Bill-Initial Review	Recommendations Implemented	Internal process requiring change, since timely termination of some members' health care coverage, for failure to pay health care premiums due, had not occurred. On these limited number of accounts, the payments were being made by OPERS to the health care provider on behalf of the member.
Health Care Direct Bill-	Review Ongoing	New internal process implemented at year end, providing timely

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Follow up		termination of members' health care coverage for failure to pay health care premiums due.
Death Match Review and Follow up	No Recommendations Presented	Ongoing follow up continues after Social Security administration decision to not release death information to Death Match data base providers.
Large Earnings Report	No Recommendations Presented	None
Pension Benefits Spiking	No Recommendations Presented	None
Data Maintenance	Recommendations Presented	None
Individual Health Care Coverage	Recommendations Implemented	None
Purchasing Policy Review- Human Resources	Recommendations Presented	No significant issues identified, however brief follow up review will be completed to determine compliance with the Purchasing Policy.
Purchasing Policy Review- Facilities	Review Ongoing	
Purchasing Review- Internal Follow up	Recommendations Implemented	None
Service Oriented Architecture – Initial Review	No Recommendations Presented	2013 IT external consultant review is planned to review in depth the new system architecture platform.
IT External Security Review- Accuvant	Recommendations Implemented	Appropriate management action was taken to disable a server with sensitive information upon identification.
IT Security Data Monitoring	No Recommendations Presented	New IT Data Leakage Policy considerations recently discussed and pending completion.
Express Scripts Operational Due Diligence Review	No Recommendations Presented.	Express Scripps overall compliant with terms of agreement regarding fraud, waste and abuse of prescription drugs.
Reemployment of Elected Officials	No Recommendations Presented	None
Business Process Redesign Enterprise Strategic Initiative and Risk Issues	All Report Recommendations were reviewed as required and Significant Risk Evaluations completed and presented to OPERS senior management.	Internal Audit participates in work group in reviewing for subsequent development on line security applications and all other resulting security issues and controls. Internal Audit and Legal provide their risk input considerations to the various departments.
Pension Overpayment and Potential Fraud Review	No Recommendations Presented to date	Follow up process for overpayment situations is ongoing. Appropriate IT policy changes are being considered. In addition, as noted earlier, close attention is being paid to the Death Match database issues.
Our Way Forward Project Management Oversight	No Recommendations Presented	KPMG serves as external OPERS project consultant on the Project Management Office for this significant enterprise initiative.

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2012 AUDITS COMPLETED**

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IT Access Member Services Center	Recommendations Implemented or on target for implementation.	Additional control procedures over changes made to member accounts were implemented.
Travel Expenses Analytical Data Review	No Recommendations Presented as a result of Continuous Quarterly Testing.	Additional reporting considerations for 2013 will be discussed with the OPERS Board.
IT Security Policies Benchmarking Review	Review Ongoing	Observations and Recommendations are expected during December.
Ethics Review	Review Ongoing	Investment business partners and organizational business vendors are randomly selected to ensure policy compliance.
Investment Accounting Review	Review Ongoing	Review is expected to be completed during 1 st quarter, 2013.
Our Way Forward Business Processes- Foundation Stage	Review of revised business processes and discussion throughout 2012.	Comments on risks have been provided by OPERS management with OPERS board members advised accordingly.
Benefit Calculation Quarterly Reviews	No Recommendations Presented as a result of Continuous Quarterly Testing.	Outliers identified representing potential pension spiking issues are now routinely referred to Benefits management for follow up.
Mobile Devices and Remote Access	Ongoing reviews	Data transfer monitoring on sensitive data downloaded to portable devices is ongoing, with internal audit monitoring of sensitive data issues.