



Ohio Public Employees Retirement System

January 6, 2012

Ms. Anne Erkman
Interim Executive Director
Ohio Retirement Study Council
88 East Broad Street, Room 1175
Columbus, OH 43215

Dear Anne:

Pursuant to R.C. 145.095, enclosed please find the 2011 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 13, 2011 and presented for full approval by the OPERS Board on December 14, 2011.

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- 2011**

Date: December 1, 2011

The following report documents the activities of the OPERS Audit Committee and Internal Audit Department for 2011. This summary outlines:

- Major Audit Reviews Completed (please see attached schedule)
- Audit Committee Meetings and Actions Taken
- 2012 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:

March 16, 2011- The audit committee met for the first time in 2011. The composition of the appointed audit committee remained unchanged. The committee reviewed recent Internal Audit Division staffing changes and the proposed direction going forward in 2011.

The committee received the quarterly status report of significant audit issues and recommendations.

April 20, 2011- The Audit committee continued discussion on the 2011 Internal Audit direction in light of staff changes.

The committee received a report by Deloitte and Touche on Internal Audit Assessment of External Asset Managers.

May 18, 2011 – The Clifton Gunderson auditors presented the results of the 2010 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 was also advised that the Quality Assessment Review (peer review) would be completed by the Institute of Internal Audit (IIA) representatives during the 4th quarter, 2011.

September 27, 2011- The audit committee reviewed and approved the proposed 2012 Audit Plan and risk assessment. The committee also reviewed and discussed the proposed 2012 internal audit operating budget and staffing. This departmental budget will be approved as part of the OPERS overall annual budget process in December, 2011.

The committee also received an update on the status of the Auditor of State Request For Proposal for OPERS External Auditor for years 2011-2015.

In addition, the audit committee received the quarterly status report of significant audit issues and recommendations.

November 14, 2011- The Audit committee received an update on the status of the OPERS external auditor selection process. The Auditor of State elected to extend Clifton Gunderson as the OPERS external auditor for one year. The RFP will be re bid for a four year period in 2012.

December 13, 2011- The Audit Committee was advised that Clifton Gunderson will present an overview of the planned 2011 OPERS financial statements review in January, 2012. Internal Audit management provided updates on results of the 2011 audit plan.

The audit committee reviewed and approved the 2011 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.

In addition, committee was advised on the annual disclosure of all fees paid to external auditor, and received the quarterly status report of significant audit issues and recommendations.

2012 Annual Audit Plan

The 2012 audit plan and risk assessment was reviewed and approved by the OPERS Audit Committee at the September 27, 2011 meeting. The priority review areas are summarized on the attached audit plan document.

Special Reviews

The following reviews were completed during 2011 with appropriate comments indicated.

The Institute of Internal Auditors (IIA) recently conducted a Quality Assessment Review (QAR) of the Internal Audit Division. This peer review, completed every five years, assesses overall conformance with IIA audit standards. The OPERS Internal Audit group received the "Generally Conforms" rating. This represents a highest overall rating possible, with no significant deficiencies identified.

An additional review of Defined Contribution Plan expenses allocations was completed.

Additional internal reviews within the Investment program were initiated, in light of the number of key executive changes during the last 18 months as well the new asset allocation targets.

In addition, Internal Audit staff continued participation in reviewing all Business Process Redesign recommendations. This enterprise strategic initiative is escalating activities heading into 2012. A number of the processes will be based upon member self service applications. Internal audit has been reviewing key on line applications ensuring proper considerations to risk and security controls occur. 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
2011 AUDITS COMPLETED**

AUDIT AREA	STATUS OF RECOMMENDATIONS	SIGNIFICANT COMMENTS
Personal Trade Compliance System Program	Recommendations Implemented	Personal Trading Policy changes were approved by Board and annual reporting requirement to Board occurred in December.
Internal Quality Assurance Review (QAR)	Report and Recommendation Review is ongoing with March, 2012 target for discussion and implementation time line.	Institute of Internal Auditors representatives recently completed a peer review of Internal Audit conformance with standards. A "Generally Conforms" rating was received, reaffirming overall compliance.
Disability Revised Processes	No Recommendations Presented	None
Voluntary Excess Benefits Arrangement (VEBA) Review	Recommendations Implemented	None
Investment Compliance	Recommendations Presented and on target for completion	Compliance staff retirement scheduled for Q1, 2012. Staff replacement search is still ongoing.
Soft Dollar and Other Commission Arrangements	Recommendations Implemented	None.
Employer Reporting	No Recommendations Presented	None
Pension Benefits Spiking	No Recommendations Presented	None
Receipt of Cash (Cash Management)	No Recommendations Presented	None
External Asset Manager Oversight	Recommendations Presented and on target for 2012 completion	Deloitte and Touche presented investment internal review considerations.
Investments Due Diligence Processes- Private Real Estate	Audit Observations/Recommendations Presented in advance of additional Benchmarking Review.	External audit consultant review ongoing to benchmark process and present considerations.
Investments Due Diligence Processes- Private Equity	Audit Observations/Recommendations Presented in advance of additional Benchmarking Review.	External audit consultant review ongoing to benchmark process and present considerations.
Investments Due Diligence Processes- External Public Markets	Audit Observations/Recommendations Presented in advance of additional Benchmarking Review.	External audit consultant review ongoing to benchmark process and present considerations.
Global Bonds Policy Review	No Recommendations Presented	None
Investment Incentive Compensation	No Recommendations Presented	None
Pension Tax Reporting	No Recommendations Presented	None

**OPERS INTERNAL AUDIT
2011 AUDITS COMPLETED**

AUDIT AREA	STATUS OF RECOMMENDATIONS	SIGNIFICANT COMMENTS
Service Retirement	Recommendations Implemented	None
Data Maintenance	Recommendations Implemented	None
IT Security Data Monitoring Software	No Recommendations Presented	New IT Data Leakage software installed. Internal Audit reviews all identified potential breaches involving data leakage.
Purchasing Policy	Recommendations Implemented	None.
Business Process Redesign Enterprise Strategic Initiative and Risk Issues	All Report Recommendations were reviewed with Significant Risk Evaluations completed and presented to OPERS senior management.	Internal Audit coordinated a work group in developing an on line security application document, to assess new on line applications and resulting security issues and controls. Internal Audit and Legal provide their risk input considerations to the various departments.
Refunds	No Recommendations Presented	None
Capital Budgeting Review	No Recommendations Presented	The Project Management Office continues to enhance the project reporting.
IT Access Member Services Center	Recommendations Implemented or on target for implementation.	Additional control procedures over changes made to member accounts were implemented.
OPERS Trade Process	Recommendations Presented for Implementation	Developing a formal procedure for Global Bonds portfolio transition activity and all other portfolio transition activity is scheduled for consideration by year end.
Survivor Benefits	Recommendations Implemented	None
Travel Expenses Analytical Data Review	No Recommendations Presented as a result of Continuous Quarterly Testing.	Travel trends were examined during the last two years, with favorable results in air fare outliers and lodging costs outside Travel policy limits.
Ethics Review	Review Ongoing	Investment business partners and organizational business vendors are selected to ensure policy compliance.
Enterprise Risk Survey	Review and Discussion of Results will be ongoing throughout 2012.	Comments on risks have been provided by OPERS management and OPERS board members advised.
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.
Mobile Devices and Remote Access	Recommendations Implemented	Data transfer monitoring on sensitive data downloaded to portable devices has being implemented, with ongoing internal audit monitoring of sensitive data issues.
Maintain Member Bank Information	Application Review Completed with ongoing consideration.	Control and Risk comments provided to management for this key member self service application.