

OP&F
 (Audit Department of One Staff Member)
2017 Annual Audit Report

Closed Audits: Recommendations

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Business & Technology Solutions (BTS) and Finance: Procurement and Accounts Payable Consulting Engagement	Low	Limited scope review of the purchasing and payment process. Determine if Procurement or Accounting should receive invoices. Determine if purchase orders are necessary for purchases made with the procurement card.	1. Short-term (summarized): Verify the items ordered were received before making payment. Invoices should be sent to a centralized location in Finance and matched to the invoices prior to payment. Invoices not matching a purchase order should be tracked and sent to the department who placed the order for review and approval. Long-term: Automate the invoice process to receive invoices from vendors via email or scanning invoices upon receipt. Automate the purchasing process by utilizing workflows and approval hierarchies.	Finance continues to evaluate the process. They have eliminated several steps in the workflow and have made numerous changes in manual processes not flowing through the DAX workflow.	Partially implemented	*
			2a. Management should utilize the American Express card as a true procurement card. This will help streamline the purchasing process and lower overall transaction costs. Cardholders should document purchases and returns in a log and provide supporting documentation for each transaction. The	Discussion in process.	In process	1 st quarter 2018

¹ Risk Rating Levels:

High: Requires immediate attention and remediation.

Moderate (Mod.): Requires near-term attention.

Low: Improvements possible but does not require attention in immediate or near-term.

			<p>supervisor should review the supporting documentation and the reconciliation of the log. Once approved, the supervisor should forward the information to accounts payable for payment.</p> <p>Other: During the review, I noted the Procurement Group reports to Business & Technology Solutions. Best practices would not dictate Purchasing to be part of Business & Technology Systems. Generally, the purchasing function is placed in Finance, reporting to the Chief Financial Officer when their primary role is to deliver cost savings. This reporting structure would strengthen the control environment by aligning their performance with the financial performance and priorities of the fund while also enhancing segregation of duties.</p> <p>Procurement should continue to update policies on a more timely and consistent basis. Not updating policies timely may result in staff not being aware of how to carry out their responsibilities in an efficient manner.</p>	<p>The purchasing group has transitioned to the Finance Department. Some processes have been altered to be more efficient while still having the essential controls in place.</p> <p>Policies have been reviewed and are expected to be finalized by the end of the year.</p>	<p>Implemented</p> <p>In process</p>	<p>Implemented</p> <p>December 2017</p>
<p>Comments: *Consulting engagement was performed at management's request. Internal Audit performed limited follow-up activities.</p>						

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
HR – Hiring Process Review	Low	Limited scope review to identify controls prior to purchasing an applicant tracking system to help with the resume receipt,	1. Collaboration will allow sharing of knowledge and build a teamwork culture. HR should request feedback from management and update the process and forms to reflect the applicable feedback. Policies and training documents should then be updated to reflect current practices.	Management will regularly request feedback from hiring managers.	**	**

		acknowledgement and review process.	<ol style="list-style-type: none"> 2. To ensure consistency, career opportunities should be posted either internally, externally, or both for a defined period of time. Exceptions to the posting or time period should be approved in writing by the Executive Director. 3. Consider evaluating the potential side effects of the Job Interest form that requires the employee to get supervisor sign-off in order to apply for an open position at OP&F. Also, consider assessing the benefits of the behavioral questions. 4. Enhance the hiring process by requiring an online application. Applications provide HR and the hiring manager with preliminary information to determine whether an applicant should qualify for an interview. An application will also help ensure there is a systematic way of comparing candidates. 5. HR should first review applications and/or resumes to ensure candidates meet the minimum qualifications. The resumes that meet the minimum qualifications should then be forwarded to the hiring manager. This will help ensure only those candidates that meet the minimum qualifications are interviewed. 6. HR should schedule all phone interviews (to narrow the pool of candidates) and all on-site interviews with the candidates. The hiring manager should provide HR with their availability or make sure their calendar is up to date. This will allow the hiring department to focus on business operations and let HR focus on the hiring process. 7. HR should continue to provide interviewer training to the hiring manager. HR should consider participating in applicant interviews to 	<p>The policy maintains some discretion for the hiring managers and department directors.</p> <p>Form allows a supervisor to know why an employee may be gone from their desk for a lengthy period.</p> <p>Online application for all applicants is unnecessary.</p> <p>Service can be offered but will not be required.</p> <p>Each department has administrative assistants that can handle scheduling interviews for the department.</p> <p>If HR is involved in every interview, it will slow down the process. HR shares the</p>		
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			<p>make sure adherence to federal and state employment laws.</p> <p>Another option to consider would be HR (the expert) conducting the first part of the interview to discuss benefits, gather confidential details, as well as determining the cultural fit and soft skills of the candidate.</p> <p>8. HR should work with the hiring manager and schedule and attend the regret meetings with internal staff. HR should also consider providing internal candidates with feedback forms that may assist with staff development.</p> <p>9. HR should be responsible for extending offers and negotiating with candidates to ensure federal and state employment laws are followed. Having the hiring manager extend the offer places them in an awkward position that may affect their working relationship with the selected candidate.</p> <p>10. To reduce the amount of personal identifiable information requested and stored at OP&F, only the top three finalist for the position should be asked to complete the background investigation and authorization to obtain consumer reports and investigative consumer report forms.</p>	<p>wage recommendation with each hiring manager.</p> <p>HR will work with the hiring managers to be more comfortable with sharing feedback with internal candidates.</p> <p>HR can extend offers and negotiate with candidates.</p> <p>OP&F will not collect background check information until the top two candidates are identified.</p>		
<p>Comments: **Based on the low rating, Internal Audit performed limited follow-up activities.</p>						

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Member Services (MS) – Benefit Calculations (BC)	Mod	Retirement Benefits Manual Adjustments	<p>1. The work-arounds/manual processes should be documented and discussed with BTS. An analysis should be performed to determine the cost benefit of fixing a system that is not fully meeting the needs of the department and whether the money and resources should be devoted towards an upgrade or new system. Member Services should work with BTS to develop a plan that includes realistic and reasonable timelines that meet the operational needs of Member Services.</p> <p>Member Services should collaborate with other departments, hold periodic meetings to breakdown the silo culture, determine information needs and identify the best format for processing and meeting the needs of operations. Department units should consider a team approach and be open for suggestions for improving the process.</p>	<p>MS has eliminated redundant activities; cross-trained team members, consolidated like tasks to appropriate staff, partnered with BTS to automate manual activities through increased data capture and designing systematic processes to streamline repetitive work. MS will continue to grow through a focused effort to engage employees and business partners towards methodical and pragmatic innovation in areas mentioned during the review.</p>	<p>Partially implemented but work continues. BC has been documented, 2017 Annual Member Statement in process, pensionable earnings job aid shared, and MS continues to automate manual processes.</p>	<p>December 2017</p>
			<p>2. Management should require team members to rely on V3 data and eliminate manual adjustments.</p> <p>Management should complete a risk assessment and make the following business decisions based on their risk appetite (list not all-inclusive):</p> <ol style="list-style-type: none"> a. Determine if it is necessary to complete a SCAP for every member. b. Determine the action to take when an OP&F team member discovers the SCAP adjustment was not made to the members account. c. Determine if manual adjustments for exception pay should be made if the employer 	<p>MS wishes to further streamline and automate the benefit calculation, prior service calculation and audit activities by eliminating unnecessary and/or negligible SC adjustments. We will work closely with staff, BTS and Finance to document the handling of the various adjustments, to develop clear procedures of the new processes and to understand the efficiencies to be gained.</p>	<p>Partially implemented but work continues. Calculation process streamlined and staff trained. Working on exceptions section of Work History Report. When completed, procedures</p>	<p>Oct 2017</p>

			<p>has not made payment by the enrollment date.</p> <p>Management should update the policy, inform staff of the new process and monitor to ensure the policy is being followed as intended.</p> <p>3. Management and supervisors should consider providing training and/or cross-train team members to perform multiple tasks rather than being specialized by area. Cross training will allow for employee development (rather than specialization), promotional opportunities, and boost employee morale.</p>		<p>will be updated.</p> <p>Implemented</p>	<p>December 2017</p> <p>December 2017</p>
		Comments: None				

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Finance – Employer Reporting	Mod	<p>Limited scope review related to the controls over the employer reporting process.</p> <p>Employer reports due January 1 – June 30, 2017.</p>	<p>1. Finance should:</p> <ul style="list-style-type: none"> a. Streamline the reporting process by reducing the number of earning types used by employers to report pensionable salary. b. Require mandatory training when reports have been submitted with material errors two or more times. <p>In addition, Finance should continue to work with Communications to develop educational webinars and YouTube videos to help educate and train employers.</p>	<p>Finance will review and discuss the earning types to determine the feasibility of reducing the number of earning types. Finance will coordinate and obtain buy-in from the MS department before any decisions are made.</p> <p>The specialists will forward any issue they cannot resolve to the education manager for specific training.</p>	In process	3 rd quarter 2018

			<p>2. Finance should continue to work with Vitech but also consider requiring employers to submit payroll documentation online. OP&F should provide education and training opportunities to employers to ensure a smooth transition to online reporting. Training could include webinars, group training held at OP&F, procedure manuals and videos posted to the website.</p> <p>3. Finance should require employers to document the events and prove eligibility for penalty reductions. Finance may want to consider using a standardized form or checklist to ensure consistency in processing.</p> <p>4. Management should consider holding periodic interdepartmental and cross-departmental meetings to maintain an efficient flow of information. Accurate and efficient communication will build trust and eliminate the extra research and verification that reduces efficiency.</p> <p>5. Management should ensure policies exist for key business processes and continue to update policies and procedures to reflect current business practices. Management should prioritize policies and procedures and set timelines for completing each document.</p>	<p>Finance had initial discussions on how to incorporate webinars and YouTube videos to assist in training employers.</p> <p>Finance is working on training enhancements to aid employers understanding of OP&F requirements. Once the ESS enhancements are in production the next step is to work with IS to allow excel spreadsheets to be submitted and loaded into V3.</p> <p>Employers will be required to complete a document when requesting a reduction of penalty.</p> <p>Meetings will be held every other month or more frequently when needs arise. Meetings with MS will be held on a quarterly basis and more frequent as needs arise.</p> <p>Policies are being revised.</p> <p>Employer Manual will be updated.</p>	<p>In process</p> <p>In process</p> <p>In process</p> <p>In process</p> <p>In process</p>	<p>3rd quarter 2018</p> <p>January 2, 2018</p> <p>January 2018</p> <p>December 2017</p> <p>1st quarter 2018</p>
		Comments: None				

Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Enterprise-wide – Disclosure Statement for 2016 (filed in 2017)	Mod	Disclosure Statements for employees who hold fiduciary positions or by employees who are in a position to materially influence business decisions of the Fund.	NA
		Comments: No compliance issues or conflicts of interest were noted during the review. OP&F has ethics related policies in place and employees are required to acknowledge that they have read and understand the policies. In addition, annual ethics training is provided to all OP&F employees.	

Active Audits

Audit Area	Risk Rating	Scope	Target Completion
Member Services	High*	Planning Phase: Benefit Payments and Member Withdrawals - Member requests of Deferred Retirement Option Plan (DROP) funds.	February 2018
Business & Technology Services	High*	Planning Phase (Currently working with external auditors – will be an outsourced project with internal audit oversight): Information Security – Network/System Access Rights and Monitoring of Activity.	March 2018
Business & Technology Services	High*	Planning Phase: Computer Operations – Tracking and Monitoring of Software and Hardware.	April 2018
Business & Technology Services	High*	Planning Phase (Currently working with external auditors – will be an outsourced project with internal audit oversight): BC/DR Readiness – Planning and preparations to minimize the loss and ensure the continuity of business functions.	September 2018

*Initial risk rating from 2018 risk assessment.

Other Audit Related Activity

Area	Risk Rating	Subject/Project	Description
Enterprise-wide		HIPAA Training July 2017	Health Insurance Portability and Accountability Act Training (HIPAA): Internal Audit is responsible for training OP&F staff on policies and procedures for use, disclosure, and general treatment of protected health information (PHI) and ePHI and training those who have access to PHI or ePHI on HIPAA's requirements. New employees receive the training their first week at OP&F.
Enterprise-wide		Ethics Training June 2017 November 2017	To comply with OP&F Policy #201 Business Ethics and Conduct, Internal Audit provided ethics training to all OP&F employees during the month of June 2017. Also provided No Gift Acceptance Education/Training during the month of November 2017. New employees receive the training their first week at OP&F.
Enterprise-wide		Internal Control Education and Training	Provided on-going educational information to employees to help enhance and strengthen OP&F's control environment.
Enterprise-wide		Audit Follow-up	Internal audit monitors the status of outstanding audit observations to verify management has corrected the internal control weaknesses.
Enterprise-wide		Financial Audit	Met with external auditor, gathered requested documents and completed fraud questionnaire.
Enterprise-wide		Travel	Performed travel per diem best practice research with other like retirement funds.
Enterprise-wide		Forms	Researched changes made to Personnel Update Form and provided feedback to directors.
Various		Research	During the year, eight incidents potentially involving Personally Identifiable Information were reported to internal audit. Internal Audit documented each incident and provided the report to the Executive Director and General Counsel.
MS		Benchmarking & Education	Researched and documented the Death Match# and Disability Benefits process. #=Confirming the life status of individuals who receive payments by comparing OP&F records to death records and obituaries.
MS		DROP	Participated in Deferred Retirement Option Plan (DROP) calculation training and DROP training from the viewpoint of a customer service representative.
MS		Customer Service	Observed customer service representatives address member's questions and concerns (via phone), observed retirement and DROP member interview meetings. Documented the process for future reference.
Business & Technology Services		Narrative	Researched and documented the email security process at OP&F.
Finance		Policy Reviews	Performed high-level best practice policy reviews and provided feedback for the Procurement Policy and the Business Expense Reimbursement Policy.
Finance		Employer Self- Service	Reviewed website and provided feedback regarding potential improvements.
Finance		CAFR	Performed Limited review of Comprehensive Annual Financial Report (CAFR).

Enterprise-wide		Risk Management Policy Manual	Collaborative project with management: Updated the Manual to include known internal controls. Met with management, brainstormed potential risks, and discussed controls in place. Internal Audit helped facilitate the updates to the Policy. Approved by the Board of Trustees on December 12, 2017.
Enterprise-wide		OP&F Board Governance Policy Manual	Updated the OP&F Board Governance Policy Manual. Manual contains: OP&F's Mission, Vision, and Core Values; Fiduciary Duties; Governing Style; Trustee Development; Board Officers and Offices; Code of Conduct; Committee Guidelines; Committee Charters; Ethics Policy; Board Travel Policy; and Modern Rules of Order Tailored for OP&F. Approved by the Board of Trustees on October 24, 2017.
Enterprise-wide		Risk Assessment and Audit Plan	Completed the Risk Assessment and Audit Plan. The Institute of Internal Auditors <i>International Standards for the Professional Practice of Internal Auditing (Standards)</i> requires the chief audit executive to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with organization's goals. The assessment of the organization's risk environment was completed and the audit plan was finalized. The risk assessment and audit plan will help facilitate a robust process of continuous improvement in both processes and internal controls. The plan is adjusted, as necessary, in response to changes in the organizations business, risks, operations, systems, and controls. The risk assessment is also updated quarterly (minimum) or more frequently if needed. 2017 Plan approved by the Board of Trustees on January 24, 2017.
		Internal Audit Charter	Updated the Internal Audit Charter to include the revisions to the <i>Standards</i> approved by the International Professional Practice Framework Oversight Council. The Institute of Internal Auditors <i>Standard 1000</i> requires the purpose, authority, and responsibility of Internal Audit be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework. The chief audit executive must periodically review the internal audit charter and present it to senior management and the Administration/Audit Committee for approval. Approved by the Board of Trustees on August 22, 2017.
		Internal Audit Operating Procedures Manual	Updated the Internal Audit Operating Procedures Manual. The Manual describes the audit procedures and policies established by the Chief Audit Executive by which the internal audit function can operate effectively while providing a high level of accountability. <i>Standard 2040</i> requires the CAE to establish policies and procedures to guide the internal audit activity. Presented to Administration/Audit Committee on August 22, 2017.
		Compliance with Standards – Crosswalk document	Updated Internal Audit Policies and Procedures to reflect updated Crosswalk to demonstrate how Internal Audit complies with the <i>Standards</i> . Presented to Administration/Audit Committee on August 22, 2017.

Composition of Audit Committee at end of reporting year (R.C. 742.03)

John Wainscott, Administration/Audit Committee Chair, Retired, Cincinnati Police, term expires 5/31/20

Timothy Patton, Cleveland Police, term expires 6/2/19

Karin Maloney Stifler, Investment Expert Member appointed by the Treasurer of State, term expires 3/4/19

Ohio law provides for the Board to be comprised of the nine members as follows:

Six employee members elected by their respective member groups

Two representatives of police departments – Ed L. Montgomery, Timothy Patton

Two representatives of fire departments – Daniel Desmond, Jeffrey Moore

One retired firefighter – William Deighton

One retired police officer – John Wainscott

Three statutory members with professional investment experience

One appointed by the Governor - Charles O. Moore

One appointed by the State Treasurer - Karin Maloney Stifler

One appointed jointly by the Senate President and the Speaker of the House – J. David Heller

Board Approved January 24, 2018