



Ohio Public Employees Retirement System

January 2, 2020

Ms. Bethany Rhodes
Executive Director
Ohio Retirement Study Council
30 East Broad Street, 2nd Floor
Columbus, OH 43215

Dear Director Rhodes:

Pursuant to R.C. 145.095, please find enclosed the 2019 Annual Audit Committee Report of the OPERS Retirement Board. This report was reviewed with the OPERS Audit Committee during its meeting on November 19, 2019 and approved by the OPERS Retirement Board on November 20, 2019. The report documents the activities of the OPERS Internal Audit Department for 2019 including:

- Closed Audits with Recommendations
- Closed Audits with No Recommendations
- Active Audits
- Other Audit Related Activity

Also, the OPERS Audit Committee held two (2) meetings during 2019. Following is a summary of the meetings and actions taken:

Meeting Date	Meeting Summary & Action Taken
May 15, 2019	<ul style="list-style-type: none">• Staff from CliftonLarsonAllen LLP, OPERS' external auditor, discussed the results of the 2018 financial statement audit.• Staff from OPERS presented highlights from the Comprehensive Annual Financial Report for 2018.• An executive summary of internal audit initiatives and activities occurring since December 2018 along with the status of outstanding audit recommendations was presented.
November 19, 2019	<ul style="list-style-type: none">• Action: The Audit Committee reviewed and approved the 2019 Annual Audit Committee Report to be provided to the ORSC.• Action: The Audit Committee reviewed, discussed and approved the 2020 Six Month Internal Audit Plan (January-June).

Meeting Date	Meeting Summary & Action Taken
	<ul style="list-style-type: none">• Action: The Audit Committee reviewed, discussed and approved updates to the Audit Committee Charter and Internal Audit Department Charter.• Staff from CliftonLarsonAllen LLP, OPERS' external auditor, discussed the audit plan for the upcoming 2019 financial statement audit.• An executive summary of internal audit initiatives and activities occurring since May 2019 along with the status of outstanding audit recommendations was presented.

Please let us know if you need additional information.

Sincerely,



Caroline Stinziano
OPERS Director – Internal Audit
cstinziano@opers.org
(614) 228-3303



Karen Carraher
OPERS Executive Director
kcarraher@opers.org
(614) 222-0011

Ohio Public Employees Retirement System 2019 Annual Audit Committee Report

Closed Audits: Recommendations

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Incentive Compensation (April 2019)	Low	Assess the design of key controls and verify the accuracy of the 2018 Incentive Compensation payments.	1. While no issues were noted in the testing performed, HR should draft departmental procedures to ensure key parts of the incentive compensation process are documented. These procedures should be reviewed annually for changes. This will ensure that the departmental process is executed appropriately and consistently each year in the event of turnover or other changes to the calculation, process or otherwise.	1. Management agreed and implemented.	1. Yes	1. Completed
	Low		2. HR should implement a process to validate those incentive compensation recipients who have completed the qualitative component of the incentive compensation plan in a given year. This will allow for independent management verification of this qualitative requirement outside of the Investments group.	2. Management agreed and will implement.	2. No	2. December 2019
Comments: All incentive compensation awards for 2018 were calculated and paid in accordance with policies and procedures.						

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.

“In process” status is an audit recommendation that has been implemented by management but is pending validation from Internal Audit.

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Actuarial Data File (May 2019)	1. Low	Assess the design and effectiveness of controls associated with the internal review and final transmission of actuarial data for 2017.	1. Management should update procedure documents to ensure all processes and tests performed over the data is documented, testing files include reference to the source of documentation, a formal reply is provided and documented to the external actuaries once summarized information/test cases are provided, and data clean up items have been documented.	1. Management agreed and implemented.	1. Yes	1. Completed
	Comments: None					
Health Care Eligibility (September 2019)	1. Mod.	Assess the design and effectiveness of key controls to verify and validate health care eligibility associated with retirees.	1. Update processes to ensure secondary review is occurring related to service credit changes that could impact health care eligibility.	1. Management agreed and will implement.	1. No	1. December 2019
	2. Low		2. Add a monitoring control to ensure re-employed retirees are enrolled in the correct carrier.	2. Management agreed and implemented.	2. In process	2. October 2019
	Comments: None					
Fund Management (September 2019)	1. Mod.	Assess the design and effectiveness of key controls for certain areas of Fund Management including review of policies and procedures, certain transactions (rebalancing, transition, and derivatives), and business	1. Develop a process to memorialize the review of rebalance and benefit payment transactions.	1. Management agreed and implemented.	1. In process	1. October 2019
	2. Mod.		2. Detailed instructions should be created to illustrate how the daily plan accounting documents are compiled to include consideration of critical inputs.	2. Management agreed and implemented.	2. In process	2. October 2019
	3. Low		3. The department should ensure that critical functions within the department have back-ups identified and received appropriate cross-training.	3. Management agreed and implemented.	3. In process	3. October 2019

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
	4. Low	continuity/disaster recovery.	4. The department should create an inventory of critical functions and ensure documented procedures exist.	4. Management agreed and will implement.	4. No	4. December 2019
Comments: None						
External Manager Fee Validation – Hedge Funds (November 2019)	1. Mod.	Assess the design and effectiveness over the process and controls in place to disclose and validate external Hedge Fund Manager fees.	1. Individual recalculation templates should be created for each fund to ensure a more precise recalculation and validation of fees on an annual basis.	1. Management agreed and will implement.	1. In process	1. October 2019
	2. Low		2. Investment Accounting should establish a process with Investments to communicate any updated side-letters, addendums, or changes in terms to ensure fee recalculation templates include the most current information.	2. Management agreed and implemented.	2. In process	2. October 2019
	3. Low		3. Investments should inventory and review the information currently being provided by the funds through capital statements or other means and, as determined necessary, should request that fee details from funds are either included on the monthly capital statements, as allowed for in Fund Agreements, or reported separately at least quarterly.	3. Management agreed and will implement.	3. No	3. January 2020
Comments: None						
Payroll (November 2019)	1. High	Assess the design and effectiveness of key controls related	1. Documentation should be maintained to evidence the regular review performed over changes to payroll information.	1. Management agreed and will implement.	1. No	November 2019

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
	2. Low	to the payroll process.	2. Payroll related inputs for new hires/rehires should tie back to primary source documentation and procedures should be updated to reflect this process.	2. Management agreed and implemented.	2. In process	November 2019
	3. Low		3. Documentation within the employee count reconciliation should be enhanced.	3. Management agreed and implemented.	3. In process	November 2019
	4. Low		4. Management should consider improvements to access reviews to further consider job responsibilities.	4. Management agreed and will implement.	4. No	December 2019
Comments: None						
Corporate Action Processing (November 2019)	1. Low	Assess the design and effectiveness of key controls for corporate action processing including, accuracy of data and compliance with policies and regulations.	1. Investment Accounting should document policies and procedures related to the accounting methodology selected related to corporate actions specifically related to when actions should be posted in the system.	1. Management agreed and implemented.	1. Yes	October 2019
	2. Low		2. Improvements to the corporate action reconciliations should be made to enhance comments on reconciling items.	2. Management agreed and will implement.	2. No	December 2019
Comments: None						

Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Accounting System Upgrade (April 2019)	Mod.	Assess and review the process associated with the accounting system upgrade.	Not applicable.
		Comments: The review determined that the objectives relating to the consulting work associated with the implementation of the accounting system upgrade were met.	
Cash Management - Follow-up Audit (November 2019)	High	Assess the design and effectiveness of the monthly bank reconciliation control.	
		Comments: Testing performed concluded that bank reconciliation control is operating effectively.	
Personal Trading Policy (November 2019)	Mod.	Assess the organization's compliance with the Personal Trading Policy.	Not Applicable
		Comments: Proper controls were in place to monitor adherence to the Personal Trading Policy.	

Active Audits

Audit Area	Risk Rating	Scope	Target Completion
eFront Upgrade (cash flow forecasting)	Mod.	Assess and review the process associated with the new reporting compilation for cash flow forecasting purposes.	January 2020
Fixed Income Analytics System Implementation	Mod.	Assess and review the process associated with the implementation of a new fixed income analytics system to include data migration.	January 2020
Disability Benefits	Mod.	Assess the design and effectiveness of key controls for critical areas including eligibility determination and benefit calculations as processing is migrated to the Compass environment. Assess the design and effectiveness of key controls for journal entries related to Compass reporting.	January 2020
eSecLending	Mod.	Assess the design and effectiveness of key controls for critical processes related to eSecLending.	February 2020
Member Services	Low	Assess the design and effectiveness of key controls associated with certain processes within Member Services to include quality assurance and issue reporting/escalation.	January 2020
Investment Accounting System Implementation	Mod.	Assess and review the process associated with the implementation of a new investment accounting system.	April 2020
Master Record Keeper	Mod.	Assess the design and effectiveness of key controls for critical areas including accounting and performance calculations and reconciliations.	January 2020
Contract Management	Mod.	Assess the design and effectiveness of key controls related to the organization's contract management and review process.	January 2020
Ethics Policy	Low	Verify the organization's compliance with OPERS' Ethics Policy.	January 2020

Audit Area	Risk Rating	Scope	Target Completion
Enterprise Risk Management (ERM)	Low	Perform testing over a sample of controls associated with strategic risks through the Enterprise Risk Management program.	February 2020
System Access	Mod.	Assess the design and effectiveness of key controls associated with granting and removing system access.	February 2020

Other Audit Related Activity

Area	Risk Rating	Subject/Project	Description
Expenses, Benefits & Health Care (Ongoing)	Low	Continuous Auditing	Monthly review of various processes/indicators to identify exceptions and trends that may prompt a more detailed review.
Bank Reconciliation Project (April 2019)	High	Reconciliations	Engage a third-party firm to assist in the preparation of historical monthly bank reconciliations, update the bank reconciliation process documents, and provide additional process improvement suggestions.
IT Security Maturity Assessment (May 2019)	Mod.	Information Systems Security Assessment	Identify and assess maturity of key policies/procedures for external/internal network, mainframe and web application security (outsourced to a third-party).
Information Technology Security (October 2019)	Mod.	Information Systems Security Assessment	Penetration testing and vulnerability assessment over external (internet), web application and wireless network (outsourced to a third-party).
IT Risk Assessment	N/A	Risk Assessment	Perform specific risk assessment over IT functions to drive future IT audit plans (outsourced to a third-party). This project will continue into 2020.
Enterprise Risk Management – Operational Controls/Control Test Plans	N/A	Risk Management	Review and provide feedback regarding controls and control test plans associated with the ERM operational risks.
Internal Audit	N/A	2019 Quality Assurance and Improvement	Perform internal quality procedures over OPERS' internal audit activities.
Internal Audit	N/A	Risk Assessment/ Audit Plan	Preparation of the 2020 audit plan.

Area	Risk Rating	Subject/Project	Description
Internal Audit	N/A	Audit Recommendation Follow-up	Follow-up and report on the status of outstanding audit recommendations.
Charter Updates	N/A	Internal Audit Charter – 2019 Audit Committee Charter - 2019	Reviewed and proposed updates to the Internal Audit Charter and Audit Committee Charter for 2019. The charters were submitted to the Audit Committee for review and approved on November 19, 2019.
Board	N/A	Audit Committee Meetings/ Preparation	Prepare communications and attend Audit Committee and Board Meetings.

Composition of Audit Committee at end of reporting year (R.C. 145.095)

Chris Mabe (Chair) - Representative for State Employees

Matthew Damschroder - Director, Department of Administrative Services

Randy Desposito - Representative for Non-teaching College/University Employees

Tim Steitz - Representative for Retirees

Ken Thomas - Representative for Municipal Employees