

Ohio Police & Fire Pension Fund

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January 21, 2020

Bethany Rhodes
Director and General Counsel
Ohio Retirement Study Council
30 E. Broad Street, 2nd Floor

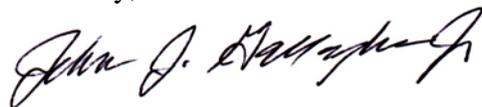
Dear Ms. Rhodes:

Pursuant to R.C. 742.105, enclosed please find a report of actions taken by the Administration and Audit Committee for calendar year 2019. The attached report was prepared by Caren Sparks, OP&F Chief Audit Executive & Privacy and Ethics Officer. The OP&F Administration and Audit Committee held five (5) meetings during 2019. Following is a summary of the meetings and action taken:

Meeting Date	Summary & Action Taken
January 22, 2019	<i>Discussed:</i> Business & Technology Solutions (BTS) Status Update and Internal Audit (IA) Status Report. <i>Approved:</i> 2018 Annual ORSC Audit Report; Internal Audit Activity Charter; Risk Management Policy; 2019 Audit Plan; and Trustee Travel.
April 23, 2019	<i>Discussed:</i> BTS Status Update; IA Status Report and 2019/2020 Admin/Audit Committee Agenda Schedule. <i>Approved:</i> Board Governance Policy Manual.
June 18, 2019	<i>Discussed:</i> BTS Status Update and IA Status Report.
September 24, 2019	<i>Discussed:</i> BTS Status Update; IA Status Report and 2020 Board Meetings & Event Calendar. <i>Approved:</i> OP&F's Communication Plan.
December 3, 2019	<i>Discussed:</i> BTS Status Update and IA Status Report. <i>Approved:</i> 2020 Audit Plan.

Please feel free to contact Caren Sparks or myself if you have any questions.

Sincerely,



John J. Gallagher
Executive Director

Ohio Police and Fire Pension Fund

2019 Annual Audit Report

(Submitted to ORSC January 23, 2020)

Closed Audits: Recommendations

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Records Retention	Low	To determine compliance with Business & Technology Solutions (BTS) records retention schedules applicable to email.	<ol style="list-style-type: none"> Operational needs and legal requirements should be balanced when updating the schedules. Management should consider creating simpler, "bigger bucket" retention schedules with fewer categories that include clear examples. The Team should prepare general schedules that meet the overall operational needs of all departments and specific departmental retention schedules when needed. Streamlining and simplifying retention schedules will help to reduce the number of schedules. A records management program that is easy to understand and follow will protect OP&F from significant compliance risk. Periodically provide training and education to staff members to ensure retention schedule requirements are known and understood. Staff should be 	<ol style="list-style-type: none"> Schedules will be updated to balance operational and legal requirements. Annual Training is provided to staff – additional training throughout the year will be considered. A recommendation will be made to save emails electronically and eliminate the requirement of printing emails. 	1-3. *	1-3. *

¹ Risk Rating Levels (Note: Risk Rating consists of the rating after the review is complete and controls tested.):

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>reminded that policy requires questions and misunderstandings be directed to the Records Manager.</p> <p>3. Implement a systematic records retention program that establishes how long information must be kept for legal and operational requirements and the guidelines for how to dispose of it. Management should identify electronic records retention capabilities; set up a universal retention schedule; determine retention periods; implement a disposition schedule; update policies and procedures (define appropriate means to archive and store a record – electronically versus printing).</p>			
<p>Comments: Internal Audit performed a limited scope review in BTS to determine compliance with the email records retention schedules, to identify the email retention configurations and provide recommendations for future action.</p> <p>*=Based on the low rating, Internal Audit will not perform audit follow-up activities.</p>						
Investments Cash Management Assurance Engagement	Low	To assess compliance with OP&F policies and procedures regarding the short-term investment of cash in excess of immediate needs; determining if internal controls are in place and functioning properly and	<ol style="list-style-type: none"> 1. Periodically update the Short-term Cash Management Policy to ensure they reflect current practices and meet the needs of the business. 2. Work with Finance to determine and define an acceptable risk appetite for the set aside “cushion” that meets the needs of both departments. 	1-2. **	1-2. **	1-2. **

		evaluating the efficiency and effectiveness of cash management processes.				
<p>Comments: Internal Audit did not identify any high or medium risk audit observations; however, two other reportable matters were identified and reported as process improvement opportunities. **=Please note, these low risk/verbal comments noted above do not require management response and Internal Audit does not perform audit follow-up activities.</p>						
Human Resources Payroll Changes Review	Low	To determine if internal controls are in place and functioning properly and evaluate the efficiency and effectiveness of the payroll changes processes.	<ol style="list-style-type: none"> 1. Eliminate/reduce paper documents. Develop a policy for charity certificate to address when the hours are earned and when the hours will be recouped at termination. Efficiencies can be gained by uploading hours by "batch" and making the limited number of adjustments when needed. 2. Two independent reviews are performed to verify the accuracy of the payroll changes. Consider eliminating the second review or performing spot checks rather than 100% testing. 3. Management should evaluate the segregation of duties weaknesses and determine if the current controls meet the risk appetite of the department. 4. HR changed an employee's timecard to permit the use of vacation leave. Management should clarify the policy to note some exceptions exist that allow employees in the initial introductory period to use vacation time. 	<ol style="list-style-type: none"> 1. Management will weigh the benefit of less instances of data entry for certificates compared to the value of the certificate with premature exits. 2. The HR Director will continue to evaluate the review process to determine if the second review is needed and adding value to the process. 3. The HR Director believes there is a well-defined segregation of duties; however, collusion would not be addressed. When discrepancies exist, audit reports within ADP may also be used to assist with identifying the source of data changes. 4. The process for new hires that have pre-planned a vacation or other appointments prior to the start date is not detailed in the Employee Handbook. HR Director does not want to add the new hire process to the policy and draw attention to it as the current process is approved by the Executive Director. 5. Automated controls to prevent an employee from entering more time off in the timesheet than what is available in his/her accruals and other controls is not available with ADP. 	1-5. ***	1-5. ***

			5. The payroll review process is a manual and time intensive process. Management should work with ADP to determine if prevention controls and other capabilities exist, that may help automate the review process.			
Comments: There were no high or medium risk observations identified during the review. IA identified opportunities for Human Resources to enhance the overall efficiency of the payroll changes process. ***=Please note, low risk/verbal comments do not require management response and Internal Audit does not perform audit follow-up activities.						
Procurement Audit	Mod.	Assess compliance with Procurement policies and procedures and to determine if internal controls are in place and functioning properly; Evaluate the efficiency and effectiveness of the procurement process.	<ol style="list-style-type: none"> 1. Management should update the policy to clarify the bidding, RFP and contract requirements. Remind and train staff on the requirements. 2. The waiver document should explain or justify why the competitive process is not being followed. Management should ensure the waiver contains an adequate circumstance or need prior to the approval of the waiver. 3. Implement a formal process to track and monitor the expiration of agreements and contracts under \$50K. This will allow sufficient time for renewing the contract, requesting competitive bids, or preparing the RFP. 4. Maintain documentation to support the legality and fiscal responsibility of each payment that results from a purchase. Reconcile the expense to verify the charges are reasonable and accurate. 5. Consider taking advantage of the 30 day contract payment terms. 6. Update the policy to include the documents required to make a purchase and support the expense. 	<ol style="list-style-type: none"> 1. The policy will be updated with additional clarifying language. 2. Finance will provide more details on the waiver document that explains the reason for the waiver of bids and sole source documentation form. 3. Finance will research the capabilities of the contract logix system that is used by legal, to incorporate the use of the notification feature with items within the procurement duties and responsibilities. 	<ol style="list-style-type: none"> 1. Draft Policy completed. 2. No waivers have been submitted for processing. 3. Meeting scheduled for 1/2/20. 	<ol style="list-style-type: none"> 1. November 2019. 2. Immediately 3. End of 4th quarter 2019. 4. 4-11. ****

		<p>Also, inform staff of the requirements via training.</p> <ol style="list-style-type: none"> 7. Require itemized invoices for independent medical exams and process them through Dynamics. 8. Streamline the invoice scanning process and eliminate the duplicative processing. 9. Ensure invoices are paid by the due date. 10. Simplify and streamline the purchasing process by reducing the number of staff members having to play a role in the process. 11. Amend contracts to remove terminated employees timely. 			
<p>Comments: There were three medium risk observations identified during the review. Additionally, eight low risk/verbal recommendations were identified during the review and discussed with management. ****=Please note, low risk/verbal comments do not require management response and Internal Audit does not perform audit follow-up activities.</p>					

Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
2018 Disclosure Statement Review (filed in 2019)	Low	Mandatory Annual Audit required to be performed by Internal Audit to proactively identify and prevent conflicts of interests. Internal Audit reviewed the Disclosure Statements for employees who are in a position to materially influence OP&F business decisions.	NA
		Comments: There were no issues noted during the review of the Disclosure Statements.	

Active Audits

Audit Area	Risk Rating	Scope	Target Completion
Investments – Private Equity Capital Call and Distribution	Mod (at time of review)	Evaluating the effectiveness and efficiency of management’s capital calls and distributions process. Performed planning and best practice research, conducted walkthroughs, prepared process maps and started testing.	January 2020
Internal Audit	Low	Internal Audit Quality Assurance Review – Self Assessment prior to an External Assessment. To verify Internal Audit is compliant with audit standards. Note: Reviewed the IIA Quality Assessment Manual, gathered the required documents and completed the assessments applicable to Internal Audit excluded management feedback. An external, independent review of the self-assessment is the next phase.	2020
Communications & Legal	Mod (at time of review)	Public Records Request – To verify internal controls relating to processing public records requests are in place and functioning properly; to determine if public records requests are processed in accordance with policies, procedures, rules and regulations; and evaluate if public records requests are processed in an efficient and effective manner. Note: Planning work completed, process map prepared but review was placed on hold so management could focus on a higher priority item.	2020

Other Audit Related Activity

Area	Risk Rating	Subject/Project	Description
Enterprise-wide	NA	Internal Control Education and Training	Provided on-going educational information to select new employees to help enhance and strengthen OP&F’s control environment. Typically, new employees with fiscal or security responsibilities receive the training their first week at OP&F. Provided education during audits, consulting engagements and audit follow-up activities.
Enterprise-wide	NA	Risk Assessment and Audit Plan for 2019	Completed the Risk Assessment and Audit Plan for 2019. 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 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 or more frequently if needed. The Administration and Audit Committee approved the plan on 1/22/19.

Enterprise-wide	NA	Audit Follow-up	Performed audit follow-up. Internal Audit monitors the status of outstanding audit observations to verify management has corrected the internal control weaknesses.
Internal Audit	NA	Internal Audit Charter - 2019	Updated the Internal Audit Charter for 2019. 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 and Audit Committee for approval. The 2019 Internal Audit Charter was approved by the Board of Trustees on 1/22/19.
Member Services	Mod.	Health Care Stipend Consulting Engagement	Conducted research, performed walk-throughs, made updates to process map and discussed risk and controls document with subject matter experts.
Internal Audit	NA	Fiduciary Audit Prep	Performed research, networked with local pension funds and updated spreadsheet to include controls related to internal audit processes.
Enterprise-wide	Low	Records Destruction	Observed and signed off on the destruction of eligible boxes to ensure compliance with records retention schedules.
Enterprise-wide	Mod.	Ethics Training	To comply with OP&F Policy #201 Business Ethics and Conduct, Internal Audit provided ethics training to all OP&F employees.
Enterprise-wide	Mod.	HIPAA Training	Health Insurance Portability and Accountability Act Training (HIPAA): Internal Audit provided annual HIPAA training to OP&F staff on policies and procedures for use, disclosure, and general treatment of protected health information (PHI) and ePHI. New employees receive the training their first week at OP&F.
Enterprise-wide	Low	Financial Audit	Provided requested documents and completed fraud questionnaire.
Administration	Low	Ohio Ethics Financial Disclosure Statement	Reviewed the statements submitted by staff and board of trustees.
Enterprise-wide	Low	OP&F Board Governance Policy Manual	Started updating 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. The manual will be presented to the Board of Trustees on 6/17/20.

Various	Mod.	Research	During 2019, six incidents potentially involving Personally Identifiable Information were reported to Internal Audit. Internal Audit documented each incident and provided a summary report to the Executive Director and General Counsel.
Various	Mod.	Research	Performed system access follow-up and research.
Internal Audit	Low	File Clean-up Project	Completed work for the Business and Technology Solutions File Clean-up Project.
Internal Audit	Low	No gift policy reminder	Sent letters throughout the year to remind individuals/companies that OP&F has a no gift policy/practice. Any items received were returned or donated to charity.
Enterprise-wide	NA	Risk Assessment and Audit Plan for 2020	Completed the Risk Assessment and Audit Plan for 2020. Reviewed the plan with management throughout 11/2019. The 2019 Plan was approved by the Board of Trustees on 12/4/19.
Enterprise-wide	NA	Risk Management Policy Manual	Collaborative project with management: On-going updates to 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. Policy will be presented to the Board of Trustees for review and approval in January 2020.

Composition of Audit Committee at end of reporting year (R.C. 742.105)

John Wainscott, Administration and Audit Committee Chair, Retired, Cincinnati Police, term expires 5/31/20
Stephen A. Corvi, Columbus Fire, term expires 6/4/23
Karin Maloney Stifler, Investment Expert Member appointed by the Treasurer of State, term expires 3/4/23

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, Robert E. Britt, II

Two representatives of fire departments – Daniel Desmond, Stephen A. Corvi

One retired firefighter – Marco J. Miller

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