



Ohio Public Employees Retirement System

January 4, 2024

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 2023 Annual Audit Committee Report of the OPERS Retirement Board. This report was reviewed with the OPERS Audit Committee during its meeting on November 14, 2023 and approved by the OPERS Retirement Board on November 15, 2023. The report documents the activities of the OPERS Internal Audit Department for 2023 including:

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

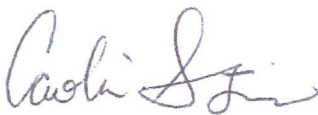
Also, the OPERS Audit Committee held two (2) meetings during 2023. Following is a summary of the meetings and actions taken:

Meeting Date	Meeting Summary & Action Taken
May 16, 2023	<ul style="list-style-type: none">• Action: The Audit Committee reviewed, discussed, and approved the 2023 Six Month Internal Audit Plan (July-December).• An executive summary of internal audit initiatives and activities occurring since November 2022 along with the status of outstanding audit recommendations was presented.• Staff from Plante Moran, OPERS' external auditor, discussed the results of the 2022 financial statement audit.• Staff from OPERS presented highlights from the Annual Financial Report for 2022.
November 14, 2023	<ul style="list-style-type: none">• Action: The Audit Committee reviewed and approved the 2023 Annual Audit Committee Report to be provided to the ORSC.

Meeting Date	Meeting Summary & Action Taken
	<ul style="list-style-type: none"> • An executive summary of internal audit initiatives and activities occurring since May 2023 along with the status of outstanding audit recommendations was presented. • Action: The Audit Committee reviewed, discussed, and approved the 2024 Six Month Internal Audit Plan (January-June). • Action: The Audit Committee reviewed, discussed, and approved minor updates to the Audit Committee Charter and Internal Audit Department Charter. • Staff from Plante Moran, OPERS' external auditor, discussed the audit plan for the 2023 financial statement audit.

Please let us know if you need additional information.

Sincerely,



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Ohio Public Employees Retirement System 2023 Annual Audit Committee Report

Closed Audits: Recommendations

Audit Area	Risk Rating ¹	Scope	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Capital Labor Audit	1. Low	Assess the design and effectiveness of key controls related to the reporting and accounting for capital labor.	1. Payroll should send each project manager the biweekly payroll report that details which employees charged time and how many hours were charged on each project. Responses should be received confirming the project managers reviewed the report and agree it is accurate, complete, and appropriate.	1. Management has agreed and implemented.	1. Yes	1. Completed
	2. Low		2. A process should be put in place to ensure each capital project is considering whether capital labor is applicable or not. The process should include formal documentation of the consideration of capital labor and the rationale as to why/why not capital labor will be involved.	2. Management agreed and implemented.	2. Yes	2. Completed
Comments: None						

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	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Survivor Benefits Processing	1. Mod.	Assess the design and effectiveness of key controls associated with processing Survivor Benefits.	1. Details as to why an account was overridden and what information was changed during the override should be displayed in the system including the processor that overrode the account and the verifier who approved the override.	1. Management agreed and implemented.	1. Yes	1. Completed
	Comments: None					
Health Care Connector Audit	1. Low	Assess the design and effectiveness of key controls related to eligibility and monitoring of health care.	1. Implement the missed performance guarantee and establish a control to ensure all performance guarantees are measured and reported.	1. Management agreed and implemented.	1. In process	1. N/A
	Comments: None					
Ransomware Response Audit	1. High	Evaluate the adequacy of implementation of OPERS Ransomware Response.	1. IT should implement the following: <ul style="list-style-type: none"> • A process should be established to ensure core individuals are onboarded or offboarded from integration with the Ransomware Response Team in a complete and timely manner. • Consider enhancements in training opportunities. 	1. Management has agreed and will implement.	1. No	1. December 2023
	2. Mod.		2. IT Security should consider the following: <ul style="list-style-type: none"> • partner with Human Resources to assist with the follow-up and escalation of the completion of these trainings. 	2. Management has agreed and will implement.	2. No	2. December 2023

Audit Area	Risk Rating ¹	Scope	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
	3. Low		<ul style="list-style-type: none"> • A process and cadence of reporting out on the statistics associated with the results of training and phishing exercises should be established for interested parties. • IT Security should assess the effectiveness of security awareness and training by performing analysis over results to report on potential patterns and identify additional training needs. • Updates to procedures should be documented to ensure consistency of execution. • IT Security should consider a cadence for the requirement of recertification to existing IT Security Policies. <p>3. IT should work with our insurance broker to the extent possible to ensure our security controls are appropriately postured.</p>	3. Management agreed and implemented.	3. Yes	3. Completed
Comments: None						
Investment Performance & Benchmark Audit – co-sourced w third-party firm	1. High 2. Mod.	Assess the design and effectiveness of key controls related to the calculation and monitoring of investment performance as well as the establishment and review of investment benchmarks.	<p>1. The benchmark update process should be enhanced to ensure benchmark updates/changes are communicated to key parties on a timely basis.</p> <p>2. Procedures and requirements for benchmarks should be documented and made clear to all parties (Front Office, Middle/Back Office, Board Consultants, Board) the specific steps needed to select and/or update a benchmark. Clarification and further transparency should be sought in the creation of a specific Board approved</p>	<p>1. Management agreed and implemented.</p> <p>2. Management agreed and will implement.</p>	<p>1. Yes</p> <p>2. No</p>	<p>1. Completed</p> <p>2. December 2023</p>

Audit Area	Risk Rating ¹	Scope	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
			benchmark policy which clearly outlines the Board's responsibilities and approvals, what responsibilities and approvals are delegated to the Board Consultant, how any updates or actions are communicated back to the Board, and a cadence for the periodic review of benchmarks by the Board and Board Consultant.			
	3. Mod.		3. To ensure the recordkeeper has an accurate list of authorized persons, establish a control to timely update authorized lists.	3. Management agreed and implemented.	3. Yes	3. Completed
	4. Mod.		4. A matrix of portfolios and corresponding benchmarks should be developed to clearly evidence when benchmarks have been reviewed, changed, approved and to be used as a check with BNYM to ensure the correct benchmark is being utilized. A cadence of review should be implemented and documented to confirm benchmarks are a correct fit according to the portfolio.	4. Management agreed and will implement.	4. No	4. December 2023
	5. Low		5. Ensure comfort with the current timing for risk parity benchmarks or if the recordkeeper should be waiting until the benchmark is finalized for reporting.	5. Management agreed and implemented.	5. In process	5. June 2023
	6. Low		6. Update written Investment Operations procedures to validate they include and align with current processes.	6. Management agreed and will implement.	6. No	6. December 2023
Comments: None						

Audit Area	Risk Rating ¹	Scope	Summarized Audit Recommendations	Management's Response	Implemented	Implementation or Target Implementation
2022 Incentive Comp Calculation Audit	1. Mod	Verify the accuracy of the 2022 Incentive Compensation payments.	1. The Incentive Compensation Plan should include detail on how to calculate the quantitative component for both total fund and individual portfolios to ensure consistency and understanding of the mechanics in differing scenarios.	1. Management agreed and will implement.	1. No	1. December 2023
		Comments: None				
Annual Ethics Policy Procedures	1. Low	Perform testing over the annual conflict of interest process.	1. The new Board member onboarding checklist should be enhanced to ensure compliance requirements associated with the distribution of Ohio Ethics Laws and related statues.	1. Management agreed and will implement.	1. No	1. November 2023
		Comments: None				
OPERS Employer Audit	1. Low	Assess compliance with accounting and reporting requirements as an OPERS' employer.	1. Review the board meeting minutes in the OPERS employer case file approving the Pickup Plan. Determine if a new document needs to be drafted per the regulatory requirements.	1. Management agreed and will implement.	1. No	1. December 2023
		Comments: None				

Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Annual Personal Trading Policy Procedures	Mod.	Assess the organization's compliance with the Personal Trading Policy.	Not applicable.
		Comments: Testing performed concluded that controls associated with the Personal Trading Policy are operating effectively.	
Board Election Audit	Low	Assess the design and effectiveness of key controls related to the board election process specifically related to member address files and procedures performed by the vendor.	Not applicable.
		Comments: None	

Active Audits

Audit Area	Risk Rating	Scope	Target Completion
Real Estate – Separate Account Fees	High	Test a sample of Real Estate Separate Account fees to validate calculations and effectiveness of key controls.	January 2024
Private Equity	High	Assess the design and effectiveness of key controls associated with managing Private Equity investments.	December 2023
Disability Vendor Audit	High	Evaluate the adequacy of vendor management and adherence to contractual requirements for OPERS Disability Vendor.	December 2023
Reemployed Retirees	Mod.	Assess the design and effectiveness of controls in place for reemployed retiree processing.	January 2024
Death Benefits	Mod.	Assess the design and effectiveness of controls in place for death benefits.	January 2024
Fiduciary Audit Check-in	Low	Perform an internal fiduciary assessment to evaluate OPERS fiduciary controls in place.	December 2024

Other Audit Related Activity

Subject/Project	Risk Rating	Area	Description
Continuous Auditing (Ongoing)	Low	Finance/Benefits /Fraud	Monthly review of various processes/indicators to identify exceptions and trends that may prompt a more detailed review.
IT Security Penetration Testing (outsourced to a third-party firm)	High	Information Technology	Conduct testing on externally and internally accessible systems from the perspective of an outside threat to assess the effectiveness of security controls.
Investment Risk Assessment	N/A	Risk Assessment	Perform specific risk assessment refresh over Investment functions to drive future Investment audit plans (co-sourced 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).
IT Security Access	Mod.	Information Technology	Review processes and controls associated with sensitive access maintained by IT Security department.
Health Care Service Provider Audit (outsourced to third-party firm)	Mod.	Health Care	Health Care specific audit to be conducted over claims incurred from the period of January 1, 2018 through December 31, 2019 for the Rx administrator. Audit administered by the OPERS Health Care Dept.
Enterprise Risk Management	Low	Enterprise Risk Management	Review and provide feedback related to the organization's ERM process.
Audit Software	N/A	Internal Audit	Implementation of audit software to assist in the execution and documentation of audits.
Risk Assessment/ Audit Plan	N/A	Internal Audit	Preparation of the 2024 audit plan.
Audit Recommendation Follow-up	N/A	Internal Audit	Follow-up and report on the status pf outstanding audit recommendations.
Audit Committee Meetings/ Preparation	N/A	Internal Audit	Prepare communications and attend Audit Committee and Board Meetings.

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

Stewart Smith (Chair) - Representative for Miscellaneous Employees

Chris Mabe - Representative for State Employees

Kathleen Madden - Director, Department of Administrative Services

Jim Tilling - General Assembly Appointed Investment Expert

Tim Steitz - Representative for Retirees