



July 10, 2012

Ms. Bethany Rhodes, Director
Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, OH 43215-3506

Dear Ms. Rhodes:

In accordance with Ohio Revised Code Section 5505.111, I am providing this report on the internal audit activities of Highway Patrol Retirement System (HPRS) during 2011 and the first half of 2012. This report, normally submitted in January, was delayed due to the hiring of internal auditors from the Summit County Department of Internal Auditing (DIA). Normally the internal auditing function was part of the annual financial audit, but beginning this year, it was done independent of that audit.

HPRS recognizes the importance and impact an internal audit function can have on meeting certain goals and objectives. As a result, the HPRS retained DIA to perform a risk assessment and develop an audit plan. DIA developed a risk assessment model to identify areas which pose the greatest risk and liability to HPRS.

Risk Assessment is a process used to assign a number or score to potential audit areas based upon specific risk factors related to an auditee's operations, internal controls, and liability. Examples of specific risk factors used to formulate the risk assessment model and audit plan include public and financial exposure, compliance with laws and regulations and employee turnover. The complete list of risk factors and the assessment process is described in the attached report.

The development of an audit plan, utilizing the risk assessment model, is an ongoing process. HPRS had the opportunity to provide current information about the functional areas of HPRS for use in the risk assessment process with risk factors being reviewed and refined periodically as needed.

As a result of the Risk Assessment, DIA identified five functional areas to be reviewed: Benefits, Property Management, IT, Accounting, and Administration. HPRS engaged DIA to audit Property Management, IT, and Accounting issues. Administration was also intermingled into DIA's review. DIA identified a number of issues that needed to be addressed. By the conclusion of the audit most of these issues had been resolved or corrected. The remaining issues are in the process of being addressed.

The attached audit report from DIA was submitted to the HPRS Board on June 28, 2012. Also attached is the Risk Assessment conducted by DIA. Not to be redundant, these reports speak for themselves and are not broken down in this narrative. Please refer to these documents for additional information if needed.

Additionally, Kennedy Cottrell Richards (KCR), LLC, the independent auditing firm selected by the Auditor of State, performed a financial audit of HPRS. The auditors did not note any significant deficiencies, but one material weakness was identified. The inaccuracy was immediately corrected and controls were put in place to prevent this from occurring in the future. Going into this audit, we recognized there were control weaknesses in 2011 primarily due to the departures of the previous executive director and CFO. Internal controls have since been put in place to address these issues. KCR noted the audit resulted in an unqualified "clean" opinion. The attached report from KCR was submitted to the HPRS Board on June 28, 2012.

The HPRS Audit Committee met on the following dates and took the following actions:

- June 23, 2011: Darryl Anderson was elected as the committee chair. KCR presented its audit of the 2010 financial statements resulting in an unqualified "clean" opinion. The committee discussed the requirement of hiring an internal auditor.
- September 28, 2011: Heidi Marshall was elected as the committee vice-chair. The draft Audit Committee Charter was presented. Summit County Department of Internal Auditing (DIA) was selected to provide internal auditing services to HPRS. The committee recommended to the Board not to oppose a legislative change that would allow the Board the discretion to use the State Auditor's office or select an independent financial auditing firm. Several HEK fiduciary audit recommendations were approved.
- December 1, 2011: Regular meeting dates were approved for 2012. Several HEK fiduciary audit recommendations were approved. The committee approved engaging Brian Murphy of Gabriel Roeder Smith & Co. to give a presentation in February 2012 on Health Care Funding.
- December 15, 2011: One HEK fiduciary audit recommendation was approved.
- January 30, 2012: DIA provided the Risk Assessment report. DIA's contract was expanded to proceed with the internal audit focusing on Property Management, IT, and Accounting issues.
- March 22, 2012: The committee approved the charter and work plan.
- June 28, 2012: KCR presented its audit of the 2011 financial statements resulting in an unqualified "clean" opinion. The committee adopted all standing committees' (Investment, Audit, Administration, and Health, Wellness, & Disability) charters and work plans. The committee recommended a minor modification to OAC 5505-9-02. Several HEK fiduciary audit recommendations were approved. DIA presented its final internal audit report.

A new audit plan will be created in November 2012 for the next Audit Committee year. If you have any questions, please contact me.

Sincerely,



Mark R. Atkeson
Executive Director
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Attachments: HPRS Risk Assessment Report
 2012.06.13 Internal Audit Report Final
 2011 KCR Internal Controls Letter