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Fund

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February 16, 2006

Aristotle Hutras  
Ohio Retirement Study Council  
88 East Broad Street, Room 1175  
Columbus, OH 43215

Dear Mr. Hutras,

As a result of Senate SB 133, effective September 15, 2004, enclosed is the report of actions taken by the Administration Audit Committee of the OP&F Board of Trustees for the previous fiscal year 2005.

Please contact me if there are any questions.

Sincerely,



William J. Estabrook  
Executive Director

# **Ohio Police & Fire Pension Fund Administration/Audit Committee Annual Report 2005**

The following report documents the activities of the Ohio Police & Fire Pension Fund (OP&F) Administration/Audit Committee and the OP&F Internal Auditor for the year ending December 31, 2005. This report is categorized into four areas:

- I. Audit Reviews Completed
- II. Special Projects Completed
- III. Summary of Administration/Audit Meetings and Actions Taken
- IV. 2006 Annual Audit Plan

## **I. Audit Reviews Completed**

1. Health Care Stabilization Fund Review - The objective of the audit was to evaluate the controls over the Health Care Stabilization Fund process to ensure the balance of the fund is accurately being reported.
2. 2005 OP&F Business Continuity Test – The objective was to test the continuity plan and procedures in place to determine if the OP&F system could be restored off-site and produce a benefit pension check.
3. 2005 OP&F Disclosure Statements – Audit reviewed the OP&F staff disclosure statements that must be completed by selected staff that focuses on potential conflicts of interest from the previous year.
4. 2005 Employer Billing Audit – Audit focused on the billing process and evaluated controls that are in place. The audit also reviewed the penalty and payroll deduction processes.
5. Bank Custody Review – Review was conducted along with State Treasurer’s Office personnel at our custodian, Huntington Bank. Areas of review tied in to the Custody Model procedures created by the State Treasurer’s Office.
6. Travel Audit – Audit was part of semi-annual review as required by the Board Governance Policy. Audit looked at travel for both Board and staff. Reimbursement documentation was reviewed.

## II. Special Projects Completed

1. Check run Validation – Internal Auditor was asked to validate the check run results from our current pension system with that of the New Pension Administration System (NPAS). The systems have been parallel testing and the validation is being done to ensure member checks are not affected by the change to the new pension system.
2. Work Group Process Study: Communications, Student Eligibility – The work group process studies were initiated by Executive Director to review specific areas for operational improvements and efficiencies. Internal Auditor is one of several staff involved to evaluate process and potential control improvements.
3. Ethics Policy Analysis – A comparison was made between the Board Governance Policy and the Ethics Commission's Model Ethics Policy to determine similarities and differences. Results were presented to the Administration Audit Committee and the full Board. Once the Board approved the Trustee Ethics Policy the Board Governance Policy had to be amended to incorporate the Ethics Policy in the Governance Policy language.
4. NPAS Steering Committee – The Internal Auditor has been part of the NPAS Steering Committee since the beginning of the project. The intent of being on the committee is to provide input on potential controls from an outside viewpoint. The Internal Auditor gains valuable experience that will aid in future audits.

## III. Summary of Administration/ Audit Meetings and Actions Taken

This section identifies the dates of all meetings held and appropriate Administration/ Audit Committee actions that took place at the specific meetings.

- **January 2005** – The Committee met the external audit firm Clark, Schaefer, Hackett & Co. to discuss OP&F's 2003 and 2004 audits and its plan for doing both audits. The Internal Auditor made presentations on three projects: Health Care Stabilization Fund Audit, Travel Audit and Bank Custody Review. The Information Services (IS) Director presented monthly status report and Trustee travel was approved as required by Board Governance Policy. The Committee received an initial presentation on the Trustee Ethics Policy.
- **February 2005** – The Committee received the monthly IS report. The Internal Auditor gave an update on the fiduciary audit and the reasons for the delay in the

project. The Committee amended its Travel Policy and Rule. Further discussion was made on Trustee Ethics Policy.

- **March 2005** – The Committee received monthly status reports from the IS Director and Project Manager. Internal Auditor discussed Independent Fiduciary Services (IFS), and provided analysis of the Board Governance Policy and the Ethics Commission Model policy comparing similarities and differences. The Internal Auditor also provided analysis on travel reimbursement rates in higher cost cities compared to OP&F policy and federal per diem rates. The Committee reviewed the Board Ethics Policy and Ethics Opinion. The Committee received a presentation on Direct Deposit Statements, reviewed the Quarterly Board Expenses and received update on the external audit.
- **April 2005** – The Committee received the monthly report from the IS Director. The Internal Auditor presented the 2005 OP&F Staff Disclosure Statement Review. The Committee reviewed the revision to the Trustee Ethics Policy.
- **May 2005** – The Committee received a presentation from Clark, Schaefer, Hackett & Co. on the external audit results. The IS Director and Project Manager provided monthly reports. The Internal Auditor provided a status report. The Committee reviewed Board quarterly expenses. The Committee received information on a survey of editorial boards and a public relations consultant services RFP. The Committee voted and accepted the Trustee Ethics Policy.
- **June 2005** – The Administration Committee became the Administration /Audit Committee beginning in June 2005. The Committee received monthly status reports from the IS Director and the Internal Auditor. The Internal Auditor presented the audit plan for the next 12 months. A presentation was made concerning disclosure of public records provided by the General Counsel. The Committee reviewed an administrative rule.
- **July 2005** – The Committee approved the Administration and Audit Committee Charter. The Committee received a monthly report from Project Manager, IS Director and Internal Auditor.
- **August 2005** – The Internal Auditor presented the Employer Billing Audit results. The Committee reviewed Board quarterly expenses and reviewed an administrative rule. The Committee received an update on the public relations consultant search.
- **September 2005** – Monthly status reports were presented by the Internal Auditor, IS Director and Project Manager.
- **October 2005** – The Committee reviewed the 2006 meetings and events calendar. The Internal Auditor provided results on the business continuity test results and an update on the check run validation between the current system and NPAS. The

Committee reviewed the merit salary budget planning document. The 2006 Budget review presentation was made for the Administration Budget, I.S. Budget and Trustee Budget.

- **November 2005** – Monthly status reports were presented by the IS director, Project Manager and Internal Auditor. The Committee reviewed the quarterly Board expenses and received a listing of potential 2006 conferences and seminars
- **December 2005** – Monthly status reports were presented by the IS director, Project Manager and Internal Auditor. Reviewed draft of SB133 requirement of Audit Committee Annual Report that is to be provided to the Ohio Retirement Study Council (ORSC).

#### IV. 2006 Annual Audit Plan

The Internal Audit plan was made from June 1, 2005 to May 31, 2006 to tie in with the Administration/Audit Committee year. The audit plan was reviewed with the Committee and is created based on a risk assessment that is updated annually. The below list includes anticipated audit projects to be worked on through May 2006:

##### Audit Projects

IFS Fiduciary Audit –(Originally scheduled to be completed January 2005)  
Review of External Investment Consultant  
Investment Performance  
Investment Manager Fees  
2006 OP&F Disclosure Statements  
OP&F Travel Review  
NPAS Security Review

A new audit plan will be created in June for the next Administration/Audit Committee year.

Respectfully submitted,



Scott K. Miller, CIA, CIDA  
Internal Auditor