



# **OPERS Ohio Public Employees Retirement System**

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January 5, 2010

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

Dear Aris:

Pursuant to R.C. 145.095, enclosed please find the 2009 annual Audit Committee Report of the OPERS Retirement Board. This report summarizes internal audit activities and identifies actions taken by the Audit Committee during the preceding year.

Please feel free to contact me if you have any questions.

Sincerely,

Chris DeRose  
Executive Director



## **Audit Committee Annual Report**

**To:** Ohio Retirement Study Council (ORSC)

**Subject:** OPERS Audit Committee Report- 2009

**Date:** January 4, 2010

The following report documents the activities of the OPERS Audit Committee and Internal Audit Department for 2009. This summary outlines:

- Major Audit Reviews Completed (please see attached schedule)
- Audit Committee Meetings and Actions Taken
- 2010 Annual Audit Plan (priority review areas)
- Special Reviews Completed

### **Summary of OPERS Audit Committee Meetings and Actions**

The OPERS Audit Committee met on the following dates with any specific considerations addressed:

**March 17, 2009-** The Audit Committee met for the first time in 2009. The composition of the newly appointed audit committee was unchanged.

The committee received the quarterly status report of significant audit issues and recommendations.

**May 20, 2009** – OPERS’ external auditor Clifton Gunderson presented the results of the 2008 OPERS financial examination. In addition, management letter comments on internal controls were presented and discussed with the committee.

The committee also received the executive summary of reviews completed during the previous six months with significant audit issue comments presented.

**June 17, 2009-** The Audit Committee received a report and presentation on the co sourced review of Internal US Equities related processes and controls from Investment Training and Consulting Institute (ITCI) and internal audit staff. This comprehensive review focus included portfolio management, compliance with board policies, equity accounting processes, performance reporting and calculations, compliance and risk oversight responsibilities and personal trading controls. Investment audit findings and recommendations presented were reviewed with the committee.

In addition, the Audit Committee received the quarterly status report of significant audit issues and recommendations. Audit follow up items from the Internal US Equities review were also defined for future Board Scorecard tracking and reporting purposes.

**October 8, 2009-** OPERS’ external auditor Clifton Gunderson were present for a preliminary discussion of the planned 2009 OPERS financial examination with the Audit Committee.

The Audit Committee reviewed and approved the proposed 2010 Audit Plan and risk assessment. The committee also reviewed and discussed the proposed 2010 internal audit operating budget and staffing. This departmental budget will be approved as part of the OPERS overall annual budget process in December, 2009.

The Audit Committee also received the initial Enterprise Risk Management survey completed by all OPERS management.

In addition, the Audit Committee received the quarterly status report of significant audit issues and recommendations.

**December 16, 2009-** Internal Audit management provided updates on results of the 2009 audit plan.

The Audit Committee reviewed and approved the 2009 draft of the OPERS Audit Committee Annual Report to ORSC. The committee also received an executive summary report of major audit activities for the prior six months.

In addition, committee reports provided included: the annual report of OPERS Personal Trading compliance; the annual disclosure of all fees paid to external auditor; and the quarterly status report of significant audit issues and recommendations.

Audit committee feedback on the brief Enterprise Risk Management survey was summarized and presented to all members. Actions contemplated going into 2010 were reviewed.

## **2010 Annual Audit Plan**

The 2010 audit plan and risk assessment was reviewed and approved by the OPERS Audit Committee at the October 8, 2009 meeting. The priority review areas are summarized on the attached audit plan document.

### **Special Reviews**

The following major review was completed during 2009 with appropriate comments indicated.

Additional internal reviews and follow up within the Investment division was completed. This work was prompted by various review comments and audit recommendations identified in the Internal US Equities review completed. All matters were reviewed with the Audit Committee.

Please let me know if you would like any additional information.

Respectfully submitted:

Gregory M. Januszewski  
OPERS Director- Internal Audit  
(614) - 222-0080

**OPERS INTERNAL AUDIT  
2009 AUDITS COMPLETED**

AUDIT AREA	STATUS OF RECOMMENDATIONS	SIGNIFICANT COMMENTS
Trade Order Management Systems ( Bloomberg and Charles River)	Recommendations Implemented	A number of recommendations were presented and implemented. Key recommendation focused on preventing ability to modify trades or avoid pre-trade compliance checks.
Defined Contribution Policy Review Follow up	Recommendations Implemented	None
CEM Benchmarking	No Recommendations Presented	Initial review completed, assessing reasonableness of data captured for this pension peer reporting metric comparison study.
Early Retirement Incentive Plans	Recommendations Implemented	None
Carlyle Realty IV General Partner Review	No Recommendations Presented	None
Investment Incentive Compensation Review ( 2008 plan year)	No Recommendations Presented	Changes made to 2009 plan year will require future review during Q1, 2010.
Defined Benefit Policy Review	No Recommendations Presented	None
Derivatives Policy Review	Recommendations Implemented	Developed procedures for measuring, testing and monitoring policy 10% and 20% exposure limits.
Continuous Program Reviews- Q1, 2009	No Recommendations Presented	None
Benefits Estimates Review	No Recommendations Presented	None
Qualified Excess Benefits Arrangement Review	Recommendations Implemented	None
US Equities Comprehensive Review ( ITCI)	Recommendations implemented or on target for completion as scheduled	A number of recommendations were presented and are being monitored. Comments and action plans were agreed upon to address specific investment compliance and risk organizational reporting structure issues and personal trading oversight.
Retiree Medical Accounts	Recommendations Implemented	None
Hamilton Lane Investment Consultant Review	No Recommendations Presented	None
Continuous Program Reviews- Q2, 2009	No Recommendations Presented	None
Cash System Rewrite Review	Recommendations Implemented	Several medium and low risk areas of improvement were identified during application and access control review.

**OPERS INTERNAL AUDIT  
2009 AUDITS COMPLETED**

AUDIT AREA	STATUS OF RECOMMENDATIONS	SIGNIFICANT COMMENTS
Mercer Investment Consultant Review	No Recommendations Presented	None
IT Great Plains Review	Recommendations Implemented	Server Administrator high risk password issue was immediately addressed, preventing some exposure to financial records and data being manipulated, disclosed or destroyed.
LaSalle Investment Management Real Estate Review	Recommendations Implemented	None
Service Purchase Review	Recommendations Implemented	None
Balanced Scorecard Validation Review	Recommendations Implemented	The reporting metrics used will be periodically evaluated as historical data maturity occurs.
Pharmacy Benefits Review	Recommendations implemented or on target for completion	Third party public records reviews may be warranted to confirm divorced member(s) spouses do not have coverage as eligible dependents.
Code Hennessy & Simmons V General Partner Review	No Recommendations Presented	None
Continuous Program Reviews- Q3, 2009	No Recommendations Presented	None
Investment Internal Reviews	Recommendations implemented or on target for completion	None
Enterprise Risk Management Survey Review	No Recommendations Presented	Compiled results of the initial ERM survey comments and provided to the OPERS board for initial feedback. This data was used in developing 2010 audit plan. In addition, this information will be rolled out for OPERS management consideration during 2010.
JPMorgan Chase Custody Review	Report Pending Review of Recommendations Presented	Initial results have identified an account fee overbilling by JPMorgan.
Annual Personal Trading Policy Review	Review Ongoing	2009 changes to the Personal Trading Policy will require additional reporting requirement in 2010.
IT Security Follow Up Review	Report Pending Review of Recommendations Presented	Previous third party review recommendations have been addressed. Status of all security initiatives to be reviewed with Board in January, 2010.
Avenue Special Situations Fund General Partner Review	Review Ongoing	None
Kronos Payroll Solution Implementation Review	Review Ongoing	Payroll system implementation is being phased in during Q4, 2009 and Q1, 2010. No significant issues identified during transition to date.

**OPERS INTERNAL AUDIT  
2009 AUDITS COMPLETED**

AUDIT AREA	STATUS OF RECOMMENDATIONS	SIGNIFICANT COMMENTS
General Ledger Adjustments Review	Review Ongoing	Reviewing all substantive adjustment activity for reasonableness and proper account activity usage.
Administrative Expenses Review	In Process of Implementation	In certain instances, usage of corporate credit accounts is outside policy; may require reevaluation of Travel Policy .
Travel Expenses Analytical Data Review	Review Ongoing	Travel trends were examined during the last two years, with favorable results in air fare outliers and lodging costs outside Travel policy limits.
Ethics Review	No Recommendations Presented	Investment business partners and organizational business vendors are complying with policies.
Enterprise Risk Survey	Review and Discussion of Results will be ongoing throughout 2010	Comments on risks were provided by OPERS management and initial feedback received from OPERS board members.

**OPERS Internal Audit Plan**  
**Detail on Critical Audit Priority Reviews - 2010**

Reporting Entity	Audit Area(s)	Objective
Investments/ Internal Asset Mgmt.	Derivatives Structural Process Controls and Reporting	This review will assess the overall processing structure and control network, compliance etc. Third party participation assistance will be utilized to complete this comprehensive review.
Investments/Internal and External Asset Mgmt	<ul style="list-style-type: none"> <li>* Public Manager Reviews</li> <li>* Private Equity Manager Reviews</li> <li>* Private Real Estate Manager Reviews</li> </ul>	These reviews will continue focusing on investment management agreement compliance, due diligence documentation, investment valuation policy compliance and management reporting.
Investments/Investment policies	<ul style="list-style-type: none"> <li>*Private Equity Policy</li> <li>*Real Estate Policy</li> <li>*Soft Dollars and Other Commission</li> <li>*Ohio Qualified Minority Manager</li> <li>*Iran/Sudan Divestment policy</li> </ul>	These reviews will focus on compliance and management reporting for Board approved Investment policies.
Investments/Total Fund	Incentive Compensation & Investment Performance Calculations	This review is intended to ensure that investment performance reporting is both accurately and consistently reflected based upon investment accounting system and custodian bank reporting, reflected by accurate incentive compensation payments.
Investments/Total Fund	Investment Compliance	Ongoing reviews ( automated routines will be developed) will address specific policy compliance issues for the asset classes.
Investments/Total Fund	Personal Trading	Personal Trading Policy changes adopted by the Board in 2009, and now administered by the Investments Division will be reviewed for overall compliance.
Finance- Accounting	Capital Budgeting and Reporting	Overall Capital Budgeting and project management will be examined in light of specific projects included ( and ongoing) in the OPERS Strategic Plan,
Finance- Accounting	Health Care Accounting and Reporting	Reviews will focus on the health care costs/cash flows and the accounting components for the various medical plans.
Finance- Accounting	Centralized Purchasing	Review will assess the control structure for the Centralized Purchasing function established in 2009.
Benefits Admin. - Health Care	Medical Provider Transition	This area review focus will be on the 2010 Humana transition as one of the retiree's health care providers.



**OPERS Internal Audit Plan**  
**Detail on Critical Audit Priority Reviews - 2010**

Reporting Entity	Audit Area(s)	Objective
Benefits Admin. - Defined Contributions	DC Plan Elections and Accounting	This review will examine member plan selections, changes and the related accounting.
Benefits Admin. - Retirement Benefits	Disability Process	Ongoing changes in plan design will be monitored as existing disability process is reviewed.
IT- Audit Applications	Audit Data Warehouse	This project requires development of an internal database and various applications to significantly upgrade continuous pension, administrative and financial testing requirements.
IT- SQL DataBase	Data base System Controls	Review will assess the level of SQL Server database (Investment system controls) to ensure proper protection of OPERS data records.
IT- Security	Mobile Devices and Remote Access	Review will examine OPERS mobile devices and remote access security and controls.
IT- Security	Business Continuity Planning and Disaster Recovery	Review business continuity and disaster recovery technologies, in light of new co location site.
IT Actuarial Reporting	Actuarial Reporting Changes	Additional financial reporting requirements, necessitating actuarial program logic changes, will be validated for accuracy.
OPERS - Other	Ethics	This ongoing review will verify that OPERS managers, business partners and vendors are in compliance with Ohio Ethics laws prohibiting gifts to OPERS staff and board.
OPERS - Other	Imaging	Overall Imaging controls of member case files will be examined for consistency and completeness of file document.