



Ohio Public Employees Retirement System

January 4, 2016

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

Dear Director Rhodes:

Pursuant to R.C. 145.095, please find enclosed the 2015 Annual Audit Committee Report of the OPERS Retirement Board which is in the new reporting format proposed by ORSC staff. This report was reviewed with the OPERS Audit Committee during its meeting on December 15, 2015 and approved by the OPERS Retirement Board on December 16, 2015. The report documents the activities of the OPERS Internal Audit Department for 2015 including:

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

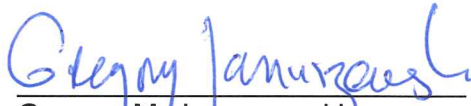
Also, the OPERS Audit Committee held three (3) meetings during 2015. Following is a summary of the meetings and actions taken:

Meeting Date	Meeting Summary & Action Taken
May 20, 2015	<ul style="list-style-type: none">• CliftonLarsonAllen LLP, OPERS' external auditor, discussed the results of the 2014 financial statement audit including the report of management letter comments on internal controls.• An executive summary of internal audit initiatives and activities occurring since December 2014 along with the status of outstanding audit recommendations was presented.
September 29, 2015	<ul style="list-style-type: none">• Action: The Audit Committee reviewed, discussed and approved the 2016 Audit Plan.• The proposed 2016 operating budget for Internal

Meeting Date	Meeting Summary & Action Taken
December 15, 2015	<p data-bbox="651 260 932 296">Audit was presented.</p> <ul data-bbox="607 296 1356 535" style="list-style-type: none"> <li data-bbox="607 296 1356 401">• Action: The Audit Committee reviewed and approved the 2015 Annual Audit Committee Report to be provided to the ORSC. <li data-bbox="607 401 1356 535">• An executive summary of internal audit initiatives and activities occurring since May 2015 along with the status of outstanding audit recommendations was presented.

Please let us know if you need additional information.

Sincerely,



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Ohio Public Employees Retirement System 2015 Annual Audit Report

Closed Audits: Recommendations

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target
Records & Imaging (Feb. 2015)	Mod.	Procedures Segregation of Duties Access	Member Assessment Department should continue to work with IT to examine the criteria and results of the 'potential duplicate SSNs' report to ensure duplicate accounts are identified and corrected. Imaging Department should ensure detailed help desk tickets are submitted before deleting documents.	Management agreed and will implement.	No	March 2016
		Record Retention Disaster Recovery	Help desk tickets should be assigned to appropriate Facilities Department staff when employee badges require access granted or restricted to secure areas within OPERS. Records and Imaging Management should periodically review access to the secure area and identify individuals whose access should be removed.	Management agreed and implemented. Management agreed and implemented.	Yes Yes	January 2015 October 2015
			The Box Tracking Application should be	Management agreed and will implement.	No	December 2015

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.

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
			<p>reconciled to retained documents and updated to comply with the retention policy.</p> <p>The Office of Process and Change Management should evaluate the process of imaging documents with personally identifiable information.</p>	<p>Management agreed and implemented.</p>	<p>Yes</p>	<p>June 2015</p>
<p>Refunds & Refund System (Mar. 2015)</p>	<p>Low</p>	<p>Access</p> <p>Application of Business Rules</p> <p>Processing Controls</p> <p>Financial Controls</p> <p>Segregation of Duties</p>	<p>The data entry screen superseded by TOPS should be restricted to view only access.</p> <p>Audit logging processes in the Refund System should be integrated into processes established for the Compass System.</p> <p>Program logic for creating general ledger information should be reviewed and corrected as necessary to provide accurate information.</p>	<p>Management agreed and implemented.</p> <p>Management agreed and implemented.</p> <p>Management agreed and will implement.</p> <p>Management agreed and will implement.</p>	<p>Yes</p> <p>Yes</p> <p>No</p> <p>No</p>	<p>October 2015</p> <p>October 2015</p> <p>December 2015</p> <p>December 2016</p>

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
			<p>The Office of Process and Change Management (OPCM) should review the process of and evaluate the opportunities to improve the segregation of duties when the original refund check is returned to the Refunds Department and only an address change is required resulting in one employee changing the address in the system and re-mailing the original check.</p>	<p>The OPCM indicated a segregation of duties was not required since the check payee cannot be updated without verification.</p>	No	N/A
Investment Compliance, Risk Management & Derivatives (Jun. 2015)	Mod.	<p>Trade Execution Trade Settlement Reporting Compliance Investment Accounting Risk Management</p>	<p>OPERS should establish an Internal Risk Mgt. Committee that would be co-chaired by the Enterprise Chief Risk Officer and the Investment Risk Officer.</p> <p>The Compliance Department should document a complete list of policy limits and guidelines they are responsible for tracking/testing.</p> <p>The Compliance Department should develop an independent infrastructure to test applicable regulatory, internal policy and guideline restrictions to maintain segregation from the Investment Risk group.</p> <p>The Compliance Department should set up procedures to test the accuracy of Bloomberg and/or BNY rules on a</p>	<p>Management agreed and implemented.</p> <p>Management agreed and implemented.</p> <p>Management agreed and implemented.</p>	Yes Yes Yes	May 2015 November 2015 May 2015 April 2015

Comments: None.

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target
			<p>periodic basis.</p> <p>The Derivatives Policy should be updated to further define a prohibited speculative strategy or trade. Once defined, the Leverage Policy and the Derivatives Policy should be reviewed for consistency.</p>	Management agreed and will implement.	No	February 2016
			<p>OPERS should contract an outside consultant to perform a Business System Analysis to ensure that OPERS systems and processes are structured efficiently and effectively as well as to increase the level of data integrity.</p>	Management agreed and will implement.	No	December 2016
			<p>A recordkeeping system for the required documents on each over-the-counter derivative covered under the Dodd-Frank regulation should be developed and formally maintained by an appointed Division within OPERS.</p>	Management agreed and implemented.	Yes	May 2015
			<p>The Compliance Department should ensure covered persons are added to the ACA personal trading system and view the online material, non-public information training session within 30 days of becoming covered persons.</p>	Management agreed and implemented.	Yes	May 2015
			<p>The Compliance Department should have the responsibility of 'lifting' the restriction on the portfolio/restricted securities so they can monitor what trading activity has been completed and ensure the restrictions have been properly restored once the trading has</p>	Management agreed and will implement.	No	February 2016

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
			<p>been completed. In addition, the MNPI policy should be updated to reflect the opinion of Legal counsel and the restrictions that have been imposed on the trading.</p> <p>A Bloomberg compliance rule should be established to identify and prevent any trading of Global Bonds which could be restricted for material, non-public information.</p>	<p>Management agreed and implemented.</p>	<p>Yes</p>	<p>February 2015</p>
			<p>Key metrics from the Fund Management Committee (which is an Investment Division Committee) meeting materials including asset allocation analysis, upcoming cash flow projections, leverage testing results, investment policy dashboards and DB/Hc cash inflow/outflow worksheets should be provided in a condensed report (flash report) to the leadership team on a bi-weekly basis.</p>	<p>Management agreed and will implement.</p>	<p>No</p>	<p>May 2016</p>
			<p>Investment Accounting should enter information known on traded Swaps and FX spot securities into the accounting system for proper recording on trade date (Swaps) or next day (FX spot trades). Once additional information is obtained, they can update the accounting record if changes need to be made.</p>	<p>Management agreed and implemented.</p>	<p>Yes</p>	<p>May 2015</p>
<p>Comments: None.</p>						

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Employer Services (Jul. 2015)	Mod.	Procedures	A process to update written procedures in a timely manner should be established.	Management agreed and implemented.	Yes	December 2015
		Compliance	The reporting capability should be established to identify employers that have not submitted the non-contributing list to OPERS.	Management agreed and will implement.	No	December 2015
		Processing Controls	The reporting capability to identify the missing contribution reports for DAS and ARP employers should be developed.	Management agreed and will implement.	No	December 2015
		Access	A process should be established to match the non-contributing list with OPERS membership records to ensure that employers have properly notified OPERS of re-employment or contractor services.	Management agreed and will implement.	No	December 2015
		Segregation of Duties	A process to report and verify changes manually made to payroll records for OPERS employees should be established.	Management agreed and implemented.	Yes	August 2015
			A quality assurance process to periodically review a sample of issued service purchase cost statements should be established.	Management agreed and implemented.	Yes	July 2015
			Comments: None.			
Member Knowledge Base		Procedures Content	Quality Assurance staff should document expected completion dates for resolving each priority status (high, medium, low)	Management agreed and will implement.	Yes	November 2015

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
(Aug. 2015)			<p>issue added to the Knowledge Base Issue Log.</p> <p>Quality Assurance staff should update the knowledge base in a timely manner for items that require new or revised information.</p> <p>Organizational changes should be provided to Member Services staff prior to implementing to allow for sufficient time for training and updating of the Knowledge Base prior to receiving member inquiries.</p> <p>The Content Administrator should consider updating the Knowledge Base Issue Log when issues are downgraded from their original priority status.</p>	<p>Management agreed and will implement.</p> <p>Management agreed and implemented.</p> <p>Management agreed and will implement.</p>	<p>No</p> <p>Yes</p> <p>Yes</p>	<p>December 2015</p> <p>August 2015</p> <p>November 2015</p>
			Comments: None.			

Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Investment Performance & Incentive	Low	Investment Performance Returns Incentive Compensation Award Calculations	Not applicable.

Risk		Scope		Management's Response
Audit Area	Risk Rating			
Compensation Award Calculations for 2014 (Apr. 2015)				Comments: All incentive compensation awards for 2014 were calculated and paid in accordance with the policies and procedures.
1099-R Tax Reporting (Apr. 2015)	Low	Procedures Compliance	Not applicable.	<p>Timeliness of Issuing 1099-Rs</p> <p>Comments: The audit determined: policies and procedures were updated/documented; 1099-Rs were accurate and issued timely.</p>
Personal Devices (Jul. 2015)	Low	<p>Policies Procedures</p> <p>Data Loss/Leakage</p> <p>Comments: The audit determined: accesses were approved and also disabled upon employee terminations; approved devices were configured in accordance standards/policy; access to sensitive information via wireless networks was limited.</p>	Not applicable.	

Active Audits

Audit Area	Risk Rating	Scope	Target Completion
Qualified Excess Benefit	Mod.	Procedures; Compliance; Processing Controls; Financial Reporting/Accounting; Access; Board Reporting	December 2015

Audit Area	Risk Rating	Scope	Target Completion
Arrangements			
Disability Benefits	Mod.	Procedures; Access; Processing Controls; Financial Reporting/Accounting	January 2016
Database Management	Mod.	Access; Security; Change Management	January 2016
Change Management	Mod.	Unauthorized Changes; Procedures; Access; Testing	February 2016

Other Audit Related Activity

Area	Risk Rating	Subject/Project	Description
Expenses, Benefits & Investments	Low	Continuous Auditing	Monthly review of various processes/indicators to identify exceptions and trends that may prompt a more detailed review.
Investment Compliance	Mod.	Investment Compliance	Monitor and verify the implementation of investment compliance related audit recommendations.
Information Technology Security	Mod.	Information Systems Security Assessment	The scope of the engagement included an assessment of the internet-facing and internal networks, web-applications and mainframe security.

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

- John Maurer, Representative for Retirees
- Cynthia Sledz, Representative for Miscellaneous Employees
- Chris Mabe, Representative for State Employees
- Robert Blair, Department of Administrative Services
- Bob Smith, Treasurer Appointed Investment Expert