



Ohio Public Employees Retirement System

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January 2, 2014

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

Bethany

Dear Bethany:

Pursuant to R.C. 145.095, enclosed please find the 2013 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.

This report was reviewed with the OPERS Audit Committee at its meeting on December 18, 2013 and presented for approval to the full OPERS Board on December 18, 2013.

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

Sincerely,

Karen Carraher

Karen Carraher
Executive Director



Audit Committee Annual Report

To: Ohio Retirement Study Council (ORSC)
Subject: **OPERS Audit Committee Report- 2013**
Date: January 2, 2014

The following report documents the activities of the OPERS Audit Committee and Internal Audit Department for 2013. This summary outlines:

- Major Audit Reviews Completed (please see attached schedule)
- Audit Committee Meetings and Actions Taken
- 2014 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 20, 2013- The Audit committee met for its first quarterly meeting of 2013, with its newly appointed board member representation. The Audit committee received an update from CliftonLarsonAllen on their ongoing OPERS financial statement review. This discussion had been rescheduled due to travel issues encountered in December, 2012 .

The committee received the regular quarterly status report of significant audit issues, recommendations made and staff recommended actions to address these issues. The committee also received copies of Board investment consultant reviews completed for both NEPC and Hewitt- EnnisKnupp.

May 15, 2013 – The CliftonLarsonAllen auditors presented the results of the 2012 OPERS financial examination. In addition, the report of management letter comments on internal controls were presented and discussed with the audit committee.

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

August 20, 2013 – The ITCI audit consultant group presented results and recommendations of the Investment US Equities, Risk and Compliance review. Regular status of these audit recommendations will be provided to the Audit Committee.

The Audit committee received the Deloitte Incentive Compensation review.

The committee received the quarterly status report of significant audit issues, recommendations made and staff recommended actions to address these issues.

October 8, 2013- The Audit committee reviewed and approved the proposed 2014 Audit Plan and risk assessment. The committee also reviewed and discussed the proposed 2014 internal audit operating budget and staffing. This departmental budget will be approved as part of the OPERS overall annual budget process in December, 2013.

The committee received an additional status report of management actions taken on the recommendations from the Investment US Equities, Risk and Compliance review. In addition, the audit committee received the quarterly status report of significant audit issues, and staff recommended actions to address these issues.

December 18, 2013

The audit committee reviewed and approved the 2013 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, update on the 2013 audit plan and the quarterly status of significant issues.

In addition, committee was advised on the annual disclosure of all fees paid to the external auditor.

2014 Annual Audit Plan

The 2014 audit plan and risk assessment was reviewed and approved by the OPERS Audit Committee at the October 8, 2013 meeting. The priority review areas are summarized on the attached audit plan document.

Special Reviews

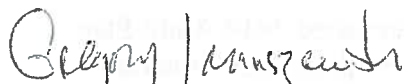
The following reviews were completed during 2013 with appropriate comments indicated.

Internal reviews completed included an extensive review of OPERS personal trading monitoring in light of Compliance Office oversight responsibilities.

In addition, Internal Audit staff continued participation in reviewing all Business Process Redesign recommendations. This included reviewing the risks and controls associated with the online refund process and security. Audit was asked to comment on planned security enhancements for this application. All appropriate matters continue to be reviewed with the Audit Committee throughout implementation.

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

Respectfully submitted:



Gregory M. Januszewski
OPERS Director- Internal Audit
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**OPERS INTERNAL AUDIT
2013 AUDITS COMPLETED**

AUDIT AREA	STATUS OF RECOMMENDATIONS	SIGNIFICANT COMMENTS
Personal Trade Compliance System Program	No Recommendations Presented	Personal Trading Policy compliance review report provided to Board as part of annual reporting requirement in March
Investment US Equities, Compliance and Risk Review	Considerable progress occurred during 2013 to implement agreed upon Recommendations.	Continued oversight of the remaining recommendations presented and planned implementation during 2014
Investment Compliance	Recommendations Implemented	Compliance staff organizational realignment to the Risk Office was completed
External Asset Manager Oversight	No Recommendations Presented	No Significant issues
Investment Incentive Compensation	Recommendations Implemented	Incentive Compensation Plan committee meets regularly to review all plan related issues
Investment Risk Assessment	Review area recommendations scheduled for 2013 were completed	Management agreed upon action plan and time line was met with continued review of Risk oversight and compliance activities during 2014
Investment Consultant Review- NEPC	Considerable progress occurred during 2013 to implement agreed upon Recommendations.	The Board investment consultant now meets regularly with the Board. In addition, NEPC has provided copy of all potential conflict of interest issues.
Investment Consultant Review- Hewitt/ Ennis Knupp (HEK)	Recommendations Implemented	The Board investment consultant now meets regularly with the Board. In addition, HEK has provided copy of all potential conflict of interest issues.
Investment Risk System	Recommendations Implemented.	No Significant issues
EFront System	Review Ongoing	
Investment Accounting Review	Recommendations Implemented	Additional Follow up review will take place in 2014
Investment Custody Transition	Review Ongoing	No significant reconciling and balancing issues to date
Health Care Direct Bill-Initial Review	Recommendations Implemented	Internal process requiring change, since timely termination of some members health care coverage, for failure to pay health care premiums due, had not occurred. On these limited number of accounts, the payments were being made by OPERS to the health care provider on behalf of the member.
Health Care Medicare B Reimbursement	Progress has occurred in 2013 to implement agreed upon recommendations	The Attorney General's Collection Process will be utilized beginning in 2014, on overpayment situations

**OPERS INTERNAL AUDIT
2013 AUDITS COMPLETED**

AUDIT AREA	STATUS OF RECOMMENDATIONS	SIGNIFICANT COMMENTS
Purchasing Policy Review- Human Resources	Recommendations Presented	No significant issues identified, however brief follow up review will be completed to determine compliance with the Purchasing Policy
Purchasing Policy Follow up Review- Facilities	Progress on Implementing Recommendations has occurred	The Facilities group has now begun regularly using the Purchasing office
Purchasing Review- Investments	Recommendations Implemented	No Significant issues identified
Purchasing Review – Communications	No Recommendations Presented	No Significant issues identified
Service Oriented Architecture – Follow up Review	Recommendations Implemented	2014 IT external consultant review in planning stage for 2014 in depth review of the new system architecture platform
IT Security Data Monitoring	No Recommendations Presented	New IT Data Leakage Policy considerations recently reviewed and now in place
Business Process Redesign Enterprise Strategic Initiative and Risk Issues	All Report Recommendations were reviewed as required and Significant Risk Evaluations completed and presented to OPERS senior management.	Internal Audit participates in work group in reviewing for subsequent development on line security applications and all other resulting security issues and controls. Internal Audit and Legal presently provide their risk considerations to the various departments.
Reemployed Retirees Review	Recommendations Implemented	No Significant issues identified
Pension - Potential Fraud Review	Recommendations Implemented	Additional audit confirmation for aging retiree universe has been put in place
Our Way Forward Project Management Oversight	No Recommendations Presented	KPMG serves as external OPERS project consultant (Program Management Office) for this significant enterprise initiative
Our Way Forward Business Processes- Foundation Stage	Review of revised business processes activity occurred throughout 2013.	Comments on risks have been provided by OPERS management with OPERS board members advised accordingly
Travel Expenses Analytical Data Review	No Recommendations Presented as a result of Continuous Quarterly Testing.	Additional policy reporting change considerations will be introduced by Finance Director in 2014
Benefit Calculation Quarterly Reviews	No Recommendations Presented as a result of Continuous Quarterly Testing.	No Significant issues identified
Ethics Review	Review Ongoing	Investment business partners and organizational business vendors are randomly selected to ensure policy compliance
Disability Review Process	Review Ongoing	A third party firm is now administering the disability program on behalf of OPERS
GASB 67 and 68 Implementation	Review Ongoing	Internal Audit has been participating in the planned implementation

**OPERS INTERNAL AUDIT
2013 AUDITS COMPLETED**

AUDIT AREA	STATUS OF RECOMMENDATIONS	SIGNIFICANT COMMENTS
Program Management Office Review	Review Ongoing	Internal Audit is reviewing administrative compliance, reporting and oversight linkage to the OPERS new Strategic Plan
ORS Data and Payment Portal Review	Review Ongoing	Internal Audit is reviewing the portal controls to ensure intersystem transfer controls for all joint (multi system) Ohio retirement cases processed.

OPERS Internal Audit Plan
Detail on Selected Audit Priority Reviews - 2014

Reporting Entity	Audit Area(s)	Objective
Board Approved Investment Policies	Policy Reviews with emphasis in 2014 on continuous investment data monitoring reviews.	These reviews will focus on compliance and management reporting for Board approved Investment policies.
Internal Asset Management	US Equity Review	Follow up review is intended to ensure that appropriate 2013 internal audit control recommendations have been implemented.
Internal Asset Management	Global Bonds	Comprehensive internal review to evaluate controls, accounting accuracy and reporting to management. This review will allow internal audit staff to independently complete. Previous review had been a co sourced effort.
Internal Asset Management	Cash/Securities Lending	Internal review intended to review internal controls, accounting, daily collateral requirements and reporting.
External Asset Managers	Hedge Fund Managers	Reviews will be completed to examine controls, investment accounting system and reporting related to the Risk parity and GTAA strategies.
Other Investment Areas	Investment Compliance	Follow up review will examine implementation of all earlier audit recommendations, and build out of compliance program monitoring.
Other Investment Areas	Trade Order Management System-Charles River	The planned trading system upgrade will be reviewed.
Other Investment Areas	Risk Management	Follow up review, as overall Risk program structure occurs throughout 2014.
Other Investment Areas	Incentive Compensation	Review will focus on investment performance, incentive compensation calculations and transition of 2014 plan changes.
Other Investment Areas	Personal Trading	Review will focus on new personal trading system and regular Board reporting.
Other Investment Areas	Business Continuity and Disaster Recovery	Continuing review of business continuity plans and testing will be completed.
Finance/Purchasing	Purchasing Compliance	Reviews will be departmental focused purchasing compliance reviews.

**OPERS Internal Audit Plan
Detail on Selected Audit Priority Reviews - 2014**

Reporting Entity	Audit Area(s)	Objective
Finance/Employer Services	Employer Penalty Process	This penalty process is essentially automated, so review will examine reversed penalty and interest charge processing/decisions.
Finance/Employer Services	Receipt of Cash/Cash Management	Review will examine cash allocation controls and treatment of unallocated payments.
Finance/Accounting	Taxable Income Reporting (1099)	Review focus is an examination of manual correction process controls and reporting.
Finance/Accounting	GASB 67 & 68	Review will address the continuing implementation of the new standards and reporting requirements.
Finance/Accounting	Financial Reporting	All Accounting reconciliations and processes will be reviewed against policy guidelines.
Benefits Administration	Service Purchase	Review will examine the planned service purchase unification process, where members will be able to consolidate their service credit from different plans for retirement eligibility purposes.
Benefits Administration	Defined Contributions (DC)	The review will center on the planned realignment of DC processes, resulting from the OWF changes.
Benefits Administration	Disabilities	Continuing review of significant process and administrative changes in disability plan administration.
Benefits Administration	Alternative Plan Design	Continuing review of process implementation changes will be completed.
IT/Security	Network Intrusion Vulnerabilities	3rd party review to review perimeter defense, intrusion detection and malicious software.
IT/Technical Support	Business Continuity and Disaster Recovery	Review of other departmental formal plans developed and potential alternative back up site.
OPERS - OWF Strategic Initiatives	OWF Processes	2014 initiatives scheduled will require continued consulting and control reviews, risk oversight etc., to strategically streamline benefit processes.
OPERS - OWF Strategic Initiatives	Strategic Plan Initiatives and Cos/Resource Management	This review will ensure linkage exists between OWF resource allocation and expenditure levels.

**OPERS Internal Audit Plan
Detail on Selected Audit Priority Reviews - 2014**

Reporting Entity	Audit Area(s)	Objective
OPERS - Other	Ethics	Ongoing reviews verify that OPERS managers, business partners and vendors are in compliance with Ohio Ethics laws prohibiting gifts to OPERS staff and board.
OPERS- Other	Risk Management- Fraud	Review of anti- fraud controls at the enterprise level, across the organization.