Ohio Police & Fire Pension Fund
140 East Town Street / Columbus, Ohio 43215–5164 / Tel. (614) 228–2975 / www.op–f.org

January 22, 2019

Bethany Rhodes
Director and General Counsel
Ohio Retirement Study Council
30 E. Broad Street, 2nd Floor

Dear Ms. Rhodes:

Pursuant to R.C. 742.105, enclosed please find a report of actions taken by the Administration and Audit Committee for calendar year 2018. The attached report was prepared by Caren Sparks, OP&F Chief Audit Executive & Privacy and Ethics Officer and incorporates the reporting format requested by the Ohio Retirement Study Council.

Please feel free to contact Caren Sparks or myself if you have any questions.

Sincerely,

John J. Gallagher
Executive Director

OP&F

(Audit Department of One Staff Member)

2018 Annual Audit Report

Closed Audits: Recommendations

Audit Area	Risk Rating[1]	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Member Services (MS): Benefit Payment and Member Withdrawals - Deferred Retirement Option Plan (DROP) Distributions – Report issued 3/30/18.	Low	Limited scope review related to the controls over the disbursement of DROP funds. The scope of the review included DROP disbursement payments made 7/1 – 12/31/17. The review excluded system access rights.	1. Alternate payee is not required to complete a form in order to receive their court ordered share of DROP funds from the member. Require the alternate payee to complete a form, similar to the member.	1. An alternate payee rollover form was created and implemented on 5/16/18.	1. Yes	1. Complete
			2. No independent review of the data entered by the benefit payment specialist (BPS). Any discrepancies are corrected by the BPS. Assign responsibilities to ensure a crosscheck of duties or increase monitoring and oversight.	2. Benefit payment coordinator now enters the information and the BPS or supervisor independently audits the change.	2. Yes	2. Complete
			3. A voided check is required but is not always enforced when a member submits the DROP Distribution Request form. Determine requirement, inform staff and enforce requirement.	3. A voided check or bank verification is now required when members request direct deposit to an account other than the account on file.	3. Yes	3. Complete
			4. The benefit calculator manually computes the rollover interest to the paid date to verify the accuracy of the V3 calculation. Monitor and	4. Phased out – only used for training purposes now.	4. Yes	4. Complete

[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.

			evaluate variances - if variances continue to be immaterial, management should rely on V3 and discontinue the manual calculation.			
			5. DROP Distribution Worksheet does not contain a basis question to remind staff to check for eligibility. This results in errors and member satisfaction concerns. Include a basis question on the DROP Distribution Worksheet to remind staff to check for eligibility.	5. Eligibility for basis is now verified on all DROP distributions. When applicable, MS staffer contacts member with information regarding basis.	5. Yes	5. Complete
			6. Educating members on basis is a topic that should be considered in the future - member education & expectations, member satisfaction. Provide basis education to applicable members.*	6. Member Education team will work with Communications to develop a handout that discusses basis.	6. No	6. NA
			7. The Benefit Payments area does not utilize workflow. Incorporate workflow into the process to gain operational efficiencies.*	7. Workflow will be considered in the future.	7. No	7. NA
		Comments: Opportunities for Member Services to strengthen internal controls and enhance business operations were identified. Seven observations were noted, four low and three verbal. *Based on the low rating, internal audit will not perform audit follow-up activities.				

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Business & Technology Solutions (BTS): Software Compliance Review – Report issued 5/11/18.	Mod	Limited scope review related to the controls over the monitoring for software license compliance. The scope of the review was 2/1/17 – 1/1/18. The review excluded system access rights.	1. Inadequate Quality Assurance: The policies (Rules) that were in place to prevent staff from downloading executables were not working as intended. Staff does not perform monitoring because they rely on the Rules. In addition, there are no detective controls to identify unauthorized software that is installed to OP&F equipment. Management should periodically review the rules and exceptions to verify they are valid, confirm the testing was performed and sign-off prior to installation.	1. Quality assurance will be improved and the rules will be reviewed quarterly; an annual sample of machines will be reviewed to verify that only licenses software is installed.	1. No	1. 12/31/18
			2. Lack of Periodic Review of Access Rights: Several accounts did not have the temporary local admin rights removed timely.	2. A policy and a review process will be implemented to ensure administration rights are monitored consistently.	2. Partially	2. 12/31/18
			3. There is no formal, consistent monitoring performed to ensure compliance with software license requirements. The software master listing was inaccurate, incomplete and there has been no monitoring or compliance testing performed within the past two years. Management should timely update the software master listing; periodically perform monitoring and compliance testing, document the results and implement the necessary corrective action.	3. All helpdesk staff will be trained on the software list process, which will remove the single point of failure issue that has occurred in the past.	3. No	3. 12/31/18
			4. A centralized tracking document (based on thresholds) for maintenance renewal does not exist. Management should create a centralized tracking process for maintenance	4. Resources will be spent on higher priority projects, management will continue	4. No	4. No – risk accepted

			renewals to permit periodic monitoring and timely renewal processing.	to use the procedures that are currently in place.		
			5. Although some policies exist and others are in the process of being updated/created, management should identify the key policies and procedures to be documented and determine the timelines for completion.	5. Key procedures will be implemented.	5. No	5. 12/31/18
			6. There is no formalized or documented risk assessment periodically performed by BTS to identify emerging risk. Conduct a formal risk assessment to identify potential risks, threats, weaknesses and opportunities.**	6. **	6. **	6. **
			7. Obsolete software is not always removed timely. A process should be in place to periodically remove obsolete software.**	7. **	7. **	7. **
			8. Inaccurate number of Enterprise Licenses are being utilized. Finance is working with Microsoft to adjust the number of licenses to meet operational needs and to be compliant with license regulations.**	8. **	8. **	8. **
			9. BTS-IS does not oversee Dynamics, PAM, Applicant Manager or Contract Logix. Instead, the individual departments oversee and assign access rights to these products. Management should ensure the inventory is accurate and complete.**	9. **	9. **	9. **
		Comments: Opportunities for BTS to strengthen internal controls and improve business operations were identified. Nine observations were noted, one high, two medium, two low and four verbal. **Based on the low rating, management is not required to provide a response and internal audit does not perform audit follow-up activities.				

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
MS: Survivor and Death Benefits – Report issued 5/23/18	Mod	Survivor and Death Benefits including applicable annuity payments. The audit scope was 5/1/17 – 4/30/18 and excluded the Ohio Public Safety Officers death Benefit Fund. The audit scope included a limited access control review.	1. MS does not actively monitor benefit payments for potential unreported deaths. Continue to develop a monitoring process to address the risk.	1. MS reviews exception reports, as does the actuary, to manage and monitor issues related to data integrity and the potential payment of benefits to deceased beneficiaries.	1. Yes	1. Complete
			2. No consistent management monitoring of the vendor's control environment adequacy. The vendor contract does not include a right to audit clause nor does it require them to provide a System and Organization Control (SOC) examination report.	2. A decision has been made to locate other vendors and MS expects to use three different vendors to perform various death match services.	2. Yes	2. Complete
			3. Initial death notification typically originates from a member's family, a HOST (Helping Our Survivors in Transition) volunteer, or the vendor. This captures most death notifications; however, several report of death delays may have been identified earlier using additional death match resources. Utilize the Ohio Department of Health's Office of Vital Statistics information that is provided each month at no cost.	3. A monthly match using three different vendors will be implemented, which will include a master death match, an obituary search and a match with the State of Ohio Department of Vital Statistics.	3. No	3. 12/31/18
			4. Continuous Process Improvement: The vendor report did not always pick up the member/survivors death. Analyze the root	4. MS is searching for a new vendor. MS will continue to use available resources to identify	4. Yes	4. Complete

			cause for not timely detecting a member's death.	deceased beneficiaries and to limit overpayments.		
			5. Periodic Review of Access Rights: Forty-one individuals have access to the death report data. To avoid unintentional release or access to sensitive information, access rights should be periodically reviewed to ensure access is provided to only those whose job duties require access to information.	5. The death report folder was moved to a secure drive and access was restricted to three key MS staffers.	5. Yes	5. Complete
			6. Segregation of Duties: There is no oversight of the write-off adjustments made to member's accounts. Write-off adjustments should be reviewed and approved by an independent person. In addition, write-off adjustments should include a detailed description for future reference/research.	6. MS has segregated the adjustment process and the audit process.	6. Yes	6. Complete
			7. Policies and Procedures were outdated and contained a practice that no longer exists. Management should update the procedures to reflect current practices.	7. The procedure was updated to reflect current practices.	7. Yes	7. Complete
			8. Certifying overpayments to Attorney General (Finance) – OP&F has made the decision to pay the collection and finance fees for payments sent to the AG's office for collection. Management should periodically reevaluate this approach to ensure it meets the strategic objectives of the fund. As fiduciaries, recovering the money the fund is entitled to is a duty.	8. Management will reevaluate the decision to pay the collection and finance fees to ensure it meets the strategic objectives of the fund.	8. No	8. 12/31/18
			9. A payment was made to a beneficiary even though the form was not completed accurately. MS should not make payments	9. The process has moved from Survivor Processing to Benefit Payments and a	9. **	9. **

			when the forms are not completed as required.**	review process is now in place.		
			10. V3 Inaccuracies: Incorrect date of deaths and three incorrect marital status entries were noted. An independent person should perform a quality assurance review.**	10. Corrections were made during fieldwork.	10. **	10. **
			11. Procedures should be in place for processing a death certificate when the manner of death is pending investigation. Management should determine if a pending investigation death should require additional research before payments are made to the survivor and or beneficiary.**	11. **	11. **	11. **
			12. Form was scanned and saved in the wrong member's file.**	12. **	12. **	12. **
		Comments: Opportunities for Member Services to strengthen internal controls and enhance business operations were noted. Twelve observations were noted during the review, five medium, three low and four verbal. **Based on the low rating, management is not required to provide a response and internal audit does not perform audit follow-up activities.				

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Enterprise wide – Summary Email issued 9/11/18	Low	To determine if sensitive data is protected accordance with policy.	Floor entry doors require an active, assigned security badge to enter. Since non-OP&F staff have access to floors and doors can be propped open, management should continue to provide education and periodic reminders to team members on the importance of protecting sensitive data. The education should include the	***	***	***

		As of 9/10/18.	department's expectation for properly safeguarding PII.***			
		Comments: ***Based on the low rating, management is not required to provide a response and internal audit does not perform audit follow-up activities.				

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Finance: Accounts Receivable Review	Low	Limited scope review related to the controls over the certification of member and survivor overpayments. Member and survivor overpayments during 1/1 – 6/30/18. The review excluded system access rights.	1. The reconciliation did not include details regarding the preparer, reviewer or the date prepared and reviewed. Internal controls should include documentation of a supervisory review of work performed to ensure processes are performed accurately, timely and consistently.** 2. Pension Overpayment Policy contains PII; AR write-off Policy does not consider thresholds; Pension Overpayment Policy was not current. Protect or redact the PII; Consider thresholds that do not require certification; Update Policy to reflect current practices.**	1. ** 2. **	1. ** 2. **	1. ** 2. **
		Comments: No high or medium risk observations identified during the review. Two verbal recommendations were provided to improve the overall effectiveness of the certification process. **Based on the low rating, management is not required to provide a response and internal audit does not perform audit follow-up activities.				

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
MS: Disability Benefits	Low	Limited scope review related to the Disability Process. The review included members with an active disability case during January 1 – June 30, 2018. The review excluded system access rights.	1. Disability Acknowledgement letters for two of twenty members was not sent within the fourteen-day code requirement.** 2. There is no evidence to verify the award letter is reviewed for accuracy and approved by an independent person prior to sending the award letter to the member. Management should document the review and approval of the grant letter.** 3. Although management tracks various statistics, there is no readily available information that details the time it takes to process a disability from beginning to end. Management should track and report the time it takes to process a disability from receipt of an application to the calculation of the final benefit.** 4. Outstanding medical documentation letters were not sent timely to six of ten members selected for testing. Management should implement guidelines for when outstanding document letters should be sent to the member. This will help ensure applications are processed consistently and dismissed timely. 5. Every six months, management reviews physician licensure status and verifies formal board action does not exist for physician's whose licenses are nearing expiration. Management should consider expanding the review to include all physicians' rather than just	1. ** 2. ** 3. ** 4. ** 5. **	1. ** 2. ** 3. ** 4. ** 5. **	1. ** 2. ** 3. ** 4. ** 5. **

			the ones nearing expiration. The review of physician licensing requirements will help verify the physicians are maintaining active licensure status and are in good professional standing.			
		Comments: There were no high or medium risk observations identified during the review. Five verbal recommendations were provided to improve the overall effectiveness of the certification process. **Based on the low rating, management is not required to provide a response and internal audit does not perform audit follow-up activities.				

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
BTS: Terminated User Review	Low	Limited scope review related to removing building and system access timely. The review included employees who were terminated between 1/1 – 9/30/18. Scope excludes observations and issues previously reported in the System Access Granting, Revoking and Periodic Access Monitoring	1. Process Improvement/Internal Control: There is no formal or documented review of the terminated user list. BTS and Human Resources (HR) should collaborate to develop and implement a process to periodically review the terminated user list for appropriateness.**	1. **	1. **	1. **
			2. Process Improvement/Internal Control: Two of ten employees did not have their door card access removed immediately. Even though the door card is required to access the floors, management should consider disabling the door card access when system access is removed.**	2. **	2. **	2. **
			3. Process Improvement/Internal Control: There is no formal, documented QA process to verify the PUF changes were completed accurately. Management should consider implementing a QA process to ensure accuracy and completeness.**	3. **	3. **	3. **

		Review issued 7/21/16 and not corrected as of 10/29/18. Note: A system access monitoring process was implemented in 12/2018.				
		Comments: There were no high or medium risk observations identified during the review. IA identified three opportunities for Business and Technology Solutions to improve the overall effectiveness of the process. **Based on the low rating, management is not required to provide a response and internal audit does not perform audit follow-up activities.				

Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Disclosure Statement – Memo issued 5/23/18	Low	Internal audit reviewed the Disclosure Statements for employees who are in a position to materially influence OP&F business decisions. The purpose of the internal disclosure statement is to proactively identify and prevent conflicts of interest.	NA
		Comments: There were no issues noted during the review of the disclosure statements. OP&F has compensating controls in place to reduce the risk to an acceptable level. OP&F has ethics related policies in place and employees are required to acknowledge that they have read and understand the policies. In addition, annual ethics training is provided to all OP&F employees.	

Active Audits

Audit Area	Risk Rating	Scope	Target Completion
Internal Audit	Low	Internal Audit Quality Assessment – Self Assessment prior to an external review	1/2018

Other Audit Related Activity

Area	Risk Rating	Subject/Project	Description
Enterprise-wide		Internal Control Education and Training	Provided on-going educational information to employees to help enhance and strengthen OP&F's control environment. Prepared internal controls and fraud education program for new employees.
Enterprise-wide		Risk Assessment and Audit Plan for 2018	Completed the Risk Assessment and Audit Plan for 2018. The Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing* (*Standards*) requires the chief audit executive to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with organization's goals. The assessment of the organization's risk environment was completed and the audit plan was finalized. The plan is adjusted, as necessary, in response to changes in the organizations business, risks, operations, systems, and controls. The risk assessment is also updated quarterly (minimum) or more frequently if needed. The Administration and Audit Committee approved the plan on 1/23/18.
Enterprise-wide		Audit Follow-up	Performed audit follow-up. Internal audit monitors the status of outstanding audit observations to verify management has corrected the internal control weaknesses.
Internal Audit		Internal Audit Charter - 2018	Updated the Internal Audit Charter for 2018. The Institute of Internal Auditors *Standard 1000* requires the purpose, authority, and responsibility of internal audit be formally defined in an Internal Audit Charter, consistent with the Mission of internal audit and the mandatory elements of the International Professional Practices Framework. The chief audit executive must periodically review the internal audit charter and present it to senior management and the Administration and Audit Committee for approval. The 2018 Internal Audit Charter was approved by the Board of Trustees on 4/25/18.

Enterprise-wide		Ethics Training	To comply with OP&F Policy #201 Business Ethics and Conduct, internal audit provided ethics training to all OP&F employees. New employees receive the training their first week at OP&F. Also provided a No Gift Acceptance Education and Training to staff.
Enterprise-wide		HIPAA Training	Health Insurance Portability and Accountability Act Training (HIPAA): Internal audit provided annual HIPAA training to OP&F staff on policies and procedures for use, disclosure, and general treatment of protected health information (PHI) and ePHI. New employees receive the training their first week at OP&F.
Enterprise-wide		Financial Audit	Met with external auditor, provided requested documents and completed fraud questionnaire.
Investments		Daily Trade	Provided consulting related to the daily trade quality assurance process.
Administration		Ohio Ethics Financial Disclosure Statement	Reviewed the statements submitted by staff and board of trustees.
Enterprise-wide		OP&F Board Governance Policy Manual	Updated the OP&F Board Governance Policy Manual. Manual contains: OP&F's Mission, Vision, and Core Values; Fiduciary Duties; Governing Style; Trustee Development; Board Officers and Offices; Code of Conduct; Committee Guidelines; Committee Charters; Ethics Policy; Board Travel Policy; and Modern Rules of Order Tailored for OP&F. The Board of Trustees approved the manual on 6/20/18.
Various		Research	During the year, six incidents potentially involving Personally Identifiable Information were reported to internal audit. Internal audit documented each incident and provided the report to the Executive Director and General Counsel.
BTS		Audit Follow-up	Reviewed external security assessment and performed follow-up to verify corrective action.
BTS		Consulting	Participated in V10 upgrade meetings and provided internal control input.
Communications		Consulting	Reviewed the pre-retirement documents and provided feedback to Communications.
Enterprise-wide		Consulting	Analyzed VPN usage, created reports and bar charts.
Internal Audit		Education	Completed the Institute of Internal Auditors mandatory ethics training online course.

Member Services		Consulting	Prepared a process map detailing the new health care process that will be start 1/1/19.
Member Services		Education	Provided HIPAA training to the Helping Our Survivor in Transition (HOST) members.
Enterprise-wide		Special Project	Performed department wide spot-checks to verify compliance with records retention schedules.
Internal Audit		Internal Audit Charter - 2019	Updated the Internal Audit Charter for 2019. The chief audit executive must periodically review the internal audit charter and present it to senior management and the Administration and Audit Committee for approval. The 2019 Internal Audit Activity Charter was submitted to management for review and input on 11/26/18 and will be submitted to the Administration and Audit Committee for review and approval on 1/22/19.
Enterprise-wide		Risk Assessment and Audit Plan for 2019	Completed the Risk Assessment and Audit Plan for 2019. Reviewed the plan with management throughout 11/2018. The 2019 Plan will be presented to the Administration and Audit Committee for review and approval on 1/22/19.
Enterprise-wide		Risk Management Policy Manual	Collaborative project with management: Updated the Manual to include known internal controls. Met with management, brainstormed potential risks, and discussed controls in place. Internal audit helped facilitate the updates to the Policy. Policy will be presented to the Board of Trustees for review and approval on 1/22/19.

Composition of Audit Committee at end of reporting year (R.C. 742.03)
John Wainscott, Administration and Audit Committee Chair, Retired, Cincinnati Police, term expires 5/31/20
Jeffrey Moore, West Chester Fire, term expires 6/2/19
Karin Maloney Stifler, Investment Expert Member appointed by the Treasurer of State, term expires 3/4/19

Ohio law provides for the Board to be comprised of the nine members as follows:

Six employee members elected by their respective member groups

Two representatives of police departments – Ed L. Montgomery, Timothy Patton

Two representatives of fire departments – Daniel Desmond, Jeffrey Moore

One retired firefighter – William Deighton

One retired police officer – John Wainscott

Three statutory members with professional investment experience

One appointed by the Governor - Charles O. Moore

One appointed by the State Treasurer - Karin Maloney Stifler

One appointed jointly by the Senate President and the Speaker of the House – J. David Heller