



# Audit Committee

Aug. 17, 2023

- **Introductions**

- Robert Vance, CAE
- Phil Licata, IT Controls Manager
- Kimberly VanGundy, Investment Audit Specialist
- Bonnie Wild, Internal Auditor

- **Purpose**

- To provide the STRS Ohio Audit Committee an update on Internal Audit Department activities
- To provide an opportunity to address any board/Audit Committee concerns

- **Reporting**
  - Summaries are the primary tools used to provide audit activities updates
  - Layout and basic design remains fairly fixed to meet the Ohio Retirement Study Council uniformity requests
  - Interim and annual summaries are produced on a routine schedule
  - The information represents a collaboration of efforts between the management team, staff and the Internal Audit Dept.

- **Audit review**
  - General summary
    - Audit follow-up activities
    - Active audits
- **Other disclosures**
  - Risk Acceptance
  - Cooperation

- **Base of comparison**
  - The Institute of Internal Auditors’ International Professional Practices Framework (“The Standards”)
  - Funston Fiduciary Audit
- **Quality Assessment Review (QAR)**
  - Self-Assessment (completed)
  - Quality Assurance Improvement Plan (QAIP) (in progress)
  - External Quality Assurance Independent Verification (QAIIV) (in progress)

- **Audit universe update**
  - Reviewing the organization to determine where additional coverage is needed
- **Board/Audit Committee updates**
  - Individual, supplemental meetings
  - Performance and compliance metrics
    - Dashboard development
    - Data collection considerations

- **General summary of changes**

- Added the following:

- Mission statement
- Clear assurance and consulting objectives
- Ohio Revised Code (ORC) reference 3307.044
- Professional standards references for evaluation and adherence
- Audit Committee majority vote needed for charter approval
- Annual charter review requirement
- Responsibilities related to procuring outside expertise
- Requirements for conducting quality assurance and improvement programs



- **Motion to approve update**



# Questions?

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# State Teachers Retirement System of Ohio

Board Presentation

Client Service Plan

Year Ending June 30, 2023

Crowe LLP  
August 17, 2023

# Agenda

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- Crowe Presenters and Client Service Team
- Roles and Responsibilities
- Scope and Deliverables
- Approach
- Timeline
- Planning Communications and Considerations
- Questions and Discussion

# Crowe Presenters and Client Service Team

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**Jen Aras**  
*Concurring Partner*



**Jonathan Schultz**  
*Senior Manager*

# Crowe Client Service Team

Role	Name	Definition of Role
<b>Engagement Partner</b>	<b>Christine Torres</b>	Christine is the auditor in charge of the audits of the STRS financial statements.
<b>Concurring Partner</b>	<b>Jen Aras</b>	Jen oversees management of the overall engagement working closely with the Engagement Partner.
<b>Audit Senior Managers</b>	<b>Jonathan Schultz</b> <b>Ron Gasink</b>	Jonathan is the on-site engagement manager overseeing the day-to-day progress of all significant areas of the audits.  Ron oversees the execution of certain procedures required to be performed over contributing entities.
<b>Other Specialists and Contractors</b>	<b>Harvest Investments</b>	Harvest will be used to assist in the determination of the fair market value of investments.

# Roles and Responsibilities

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## Those Charged with Governance

- Oversight of external auditor, including scope, approach and planned timeline
- Oversight of the reporting and integrity of published financial information
- Continued education due to changing requirements and information

## Management

- Preparation and fair presentation of financial statements in accordance with Generally Accepted Accounting Principles (GAAP)
- Design, implementation and maintenance of internal control structure related to the preparation and fair presentation of the financial statements

## Crowe

- Performance of audits under *Generally Accepted Auditing Standards* and *Government Auditing Standards*

# Scope and Deliverables

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- Independent Auditor's Reports
  - State Teachers' Retirement System of Ohio
  - Other Pension and OPEB Information – specified captions
- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Required Communications to Those Charged with Governance
- Management Comment Letter, if applicable



# Approach



- At all times acting with
  - **PROFESSIONAL SKEPTICISM**
  - **INDEPENDENCE**
  - **OBJECTIVITY**



- Auditing in phases with a continuous risk assessment and commitment to audit quality



- Performing inquiries with Committee members, STRS' executives and other System staff
- Corroborating and testing internal controls over financially significant IT systems and key accounts



- Performing substantive testing over significant risks and key audit areas
  - Existence and fair value of investments
  - Total pension liability
  - Contributions
  - Potential management override of controls

**Accumulation and Evaluation of Results**

# Timeline

## Planning

May 2023 – August 2023

## Reporting to Management

September 2023 - December 2023



## Execution

July 2023 – November 2023

## Final

## Presentation

December 2023

Continuously Evaluating Impact of the Economy on Risk Assessment, Execution and Timing of the Audit

# Investment Testing

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All investments are not the same – we do not test them the same



Investments are segregated into different “buckets” based on risk and samples are further selected from these “buckets”



Within Crowe we have specialists for the different “buckets”



These buckets include:

# Employer Sampling Methodology – AICPA State and Local Government Audit Guide

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Employers > 20% pensionable wages

- Subject to annual selection

Employers 5% - 20% pensionable wages

- Subject to five year rotation (approximate)

Employers 2% - 5% pensionable wages

- Subject to ten year rotation (approximate)

Employers collectively < 2% pensionable wages

- Not subject to selection

# Planning Communications and Considerations

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- Concept of materiality in planning and executing the audits
- Addressing significant risks of material misstatement, whether due to fraud or error
- Crowe's responsibility to communicate evidence of fraud and significant matters
- Use of the work of internal audit
- Views of the Board and areas that warrant particular attention
- Key considerations for FY2023 audit

# Independence Considerations

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- There are no non-attest services performed by Crowe in the current audit.

We wish to report that we are not aware of any relationship between Crowe LLP and the State Teachers Retirement System of Ohio (STRS) that, in our professional judgment, may reasonably be thought to impair our independence.

Accordingly, and relating to our audit of the June 30, 2023 financial statements of STRS, we are independent certified public accountants with respect to STRS within the meaning of the applicable pronouncements of the Independence Standards Board under Rule 101 of the *American Institute of Certified Public Accountants' Code of Professional Conduct*, its interpretations and rulings and *Government Accounting Standards Yellow Book Independence Standards*.

# Questions and Discussion

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# ACA Performance Update

**STRS Ohio Management and Audit Committee**

August 17, 2023





## **ACA Group (“ACA”)**

is the leading governance, risk, and compliance (GRC) advisor in financial services.

We empower our clients to reimagine GRC and protect and grow their business.



# Performance

Our team is the world's largest group of professionals dedicated solely to GIPS® compliance and associated services. We specialize in providing GIPS standards verification and performance-related services to investment managers across the globe.

## Performance consulting services

- GIPS compliance services
  - Gap analysis
  - Pre-verification consulting
  - Firm-wide verification
  - Performance examinations
- Outsourced performance solutions
- Secondments (Staff Augmentation)
- Focused performance review (Project based consulting)
- SEC Marketing Rule Assessment
- Fundraising & Reporting support for private markets
- Performance track record attestations

## Education & consultations

- Discounted access to ACA conferences
- Annual planning meeting (in person or remote)
- Flat fee year-round retainer style consulting
- Educational webcasts
- Regional roundtables
- Access to our U.S. based regulatory consultants for performance advertising related questions

# Our Practice

## Employees

**70+**

Largest global team of professionals solely dedicated to GIPS standards verification and related services.

Average tenure is 9 years.

## Clients

**1,100**

Our clients range from less than \$1B to over \$1T in AUM. Average client AUM is \$27B.

## Global Reach

**24**

Clients in 24 countries rely on ACA for verification.

### Client types:

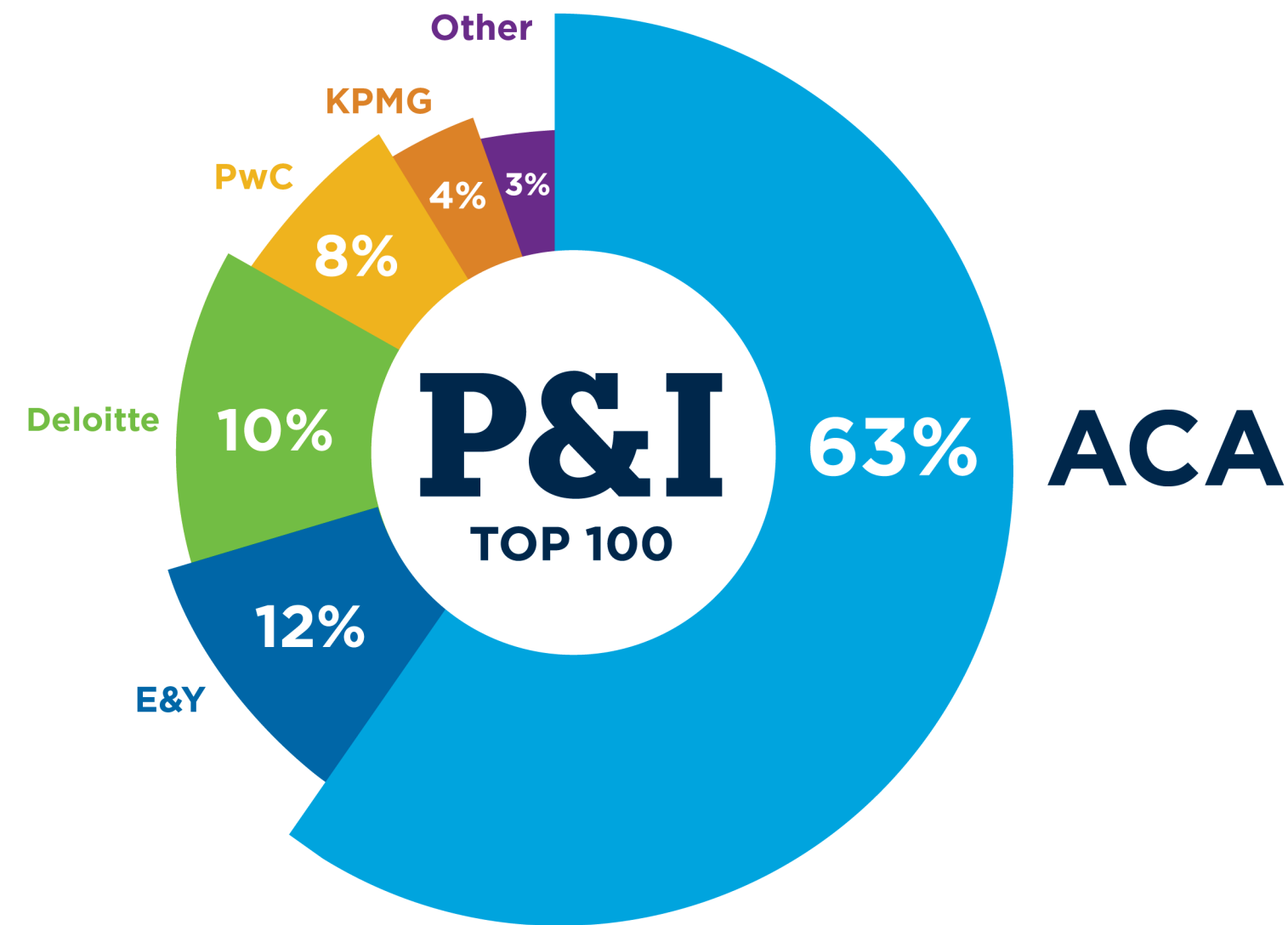
Institutional equity and fixed income, credit, hedge fund, fund of funds, real estate, retail, & asset owners

### CFA Institute involvement:

GIPS Executive Committee, U.S. and UK Investment Performance Council, GIPS Verification Subcommittee, CIPM Standard Setting

# Our Market Share

ACA has the largest market share of verified firms in P&I's Top 100 list.



P&I top 100 list compared to eVestment database as of 8/31/2021.

# STRS Ohio Team

Name	Title	Years Experience	Role
Julia Reyes	Partner	17	Relationship Manager
Gretchen Salisbury	Director	17	Account Owner
Tomas Arciniega	Principal Consultant	5	Lead Consultant
Dylan Miller	Consultant	3	Consultant

# Best Practices for Performance Reporting

- The Global Investment Performance Standards (GIPS®) are globally recognized and considered to be industry best practice
- Asset owners often require investment managers to comply with the GIPS standards
- Asset owners have begun claiming GIPS compliance for the following reasons:
  - the desire to hold themselves to the same standards as their external managers;
  - the need to provide full and transparent performance information and related disclosures in line with industry best practices to the public and oversight board; and
  - an improved compliance framework inclusive of standardized policies and procedures related to performance.
- Asset owners claim compliance to demonstrate a culture of compliance and strong internal controls

# Asset Owners Claiming Compliance with the GIPS® Standards

Organization	Country
Vestcor Inc.	Canada
AIA Group	Hong Kong
Folketrygdfondet	Norway
Oman Investment Authority	Oman
Ministry of Defence Pension Fund	Oman
Hassana Investment Company	Saudi Arabia
Saudi Central Bank (SAMA)	Saudi Arabia
Suva	Switzerland
Missouri Education Pension Trust	USA
<b>State Teachers Retirement System of Ohio</b>	USA
South Carolina Retirement System Investment Commission	USA
Pension Reserves Investment Management Board	USA
AFL-CIO Building Investment Trust	USA
Green Mesa Capital, LLC	USA
California Public Employees' Retirement System	USA
United Nations Joint Staff Pension Fund (UNJSPF)	USA
California State Teachers' Retirement System	USA
Texas Municipal Retirement System	USA

*Note: 3 entities chose to remain private*

# STRS Ohio History and Background

- **STRS Ohio has been verified since July 1, 2006**
  - Performed annually for the fiscal year July 1 – June 30
  - Performance Examination conducted on the Total Fund for the same periods
- **ACA has issued no formal, written recommendations for improvement to STRS Ohio since the early years of GIPS compliance (circa 2006)**
  - Periodic updates managed through ongoing discourse to ensure claim of compliance is maintained/enhanced
- **STRS Ohio was an early adopter of the GIPS Standards**
  - GIPS Standards for Asset Owners model
  - Additional measure of oversight and governance
  - Industry best practice among investment managers
  - Commitment to the highest standard of performance calculation and presentation



# Process

***As a verifier, we must verify that STRS Ohio has established policies and procedures for complying with the GIPS related to total fund maintenance and the calculation, presentation, and distribution of performance that are designed in compliance with the GIPS standards, as well as whether these policies and procedures have been implemented on an asset owner-wide basis.***

- STRS Ohio must have policies and procedures for all applicable provisions of the GIPS standards including valuation, return calculation, and presentation and reporting
- Involves rigorous testing, including the methodologies and validation to third-party support, of the STRS Ohio Total Fund performance calculation inputs, resulting return, and reporting
- Asset owners have discretion to assign assets to underlying external managers. No requirement for the external managers to be GIPS compliant themselves – burden of GIPS compliance rests with the asset owner
- Deviation from required provisions would result in STRS Ohio not being GIPS compliant
  - Must meet **ALL** requirements to be GIPS compliant

# Areas of Testing – STRS Ohio

- Initial Data Review
- Sample Selection
- Performance Calculations – Inputs and Calculation Methodology
- Presentation and Reporting
- Benchmark Returns
- Policies and Procedures

# Sample Size – STRS Ohio

## ➤ Performance Calculations

- All asset class-level returns are replicated based on documented methodologies and rolled up to the Total Fund level
- 3 months of total fund level calculations and valuation reconciliations
- 3 months of asset class level calculations and valuation reconciliations
- 1 month of capital calls/distributions reconciled back to third-party fund administrator

## ➤ Valuations

- 15 external real estate property values, including debt values, are reconciled against external third-party appraisals.
- 47 alternative investment fund valuations are reconciled using quarterly partner capital reports and capital call/distribution notices from STRS third-party private fund administrator.
- 1 month of derivative reconciliations against third-party custodian

## ➤ Reporting

- All stats in GIPS Report are replicated and/or tied back to internal STRS documentation
- Annual review of STRS GIPS Policies and Procedures to recommend enhancements/check for proper application
- All GIPS Report disclosures checked against ACA's testing to check for accuracy

# Returns

**Gross Returns** reflect the deduction of:

- All external investment management fees and costs, including carried interest and other fund expenses, for alternative investments and real estate
- Brokerage commissions and other trading related expenses
- Applicable foreign withholding taxes on dividends, interest, and capital gains

**Net Returns** are Gross Returns reduced by:

- All internal and external management fees and costs
  - Consistently range from 11-14bps per year for past 10 years
- *Required by the GIPS standards for asset owners to represent the true return an investor can expect to receive after all fees and expenses*

# Verification and Performance Examination

- A Verification and Performance Examination enables a practitioner to express an opinion that, **in all material respects**, the firm has designed policies and procedures to construct composites, calculate and present performance in accordance with the GIPS standards
- The objective of a financial statement audit is to enable the auditor to express an opinion as to whether the financial statements are prepared, **in all material respects**, in accordance with generally accepted accounting principals
- Both a verification and an audit are conducted on a sample basis, follow robust industry standards, and are designed to provide reasonable but not absolute assurance
- Level of liability for a verifier and an auditor are essentially the same
- CPA firms conducting Verifications must follow AICPA SOP 20-01 (refer to next slide) which directs practitioners to follow verification and performance examination procedures within the GIPS standards

## AICPA Statement of Position 20-1 Reporting Pursuant to the 2020 Edition of the Global Investment Performance Standards

### Engagement Objectives

19. Practitioners are required to conduct verifications and performance examinations in accordance with attestation standards established by the AICPA. In addition, the GIPS standards specify that these engagements must be conducted in accordance with required verification or performance examination procedures. This SOP is not intended to provide all the required procedures set forth in the GIPS standards or cover all the requirements in the applicable attestation standards established by the AICPA.

20. For a verification, the practitioner's objective is to express an opinion on whether, in all material respects, the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been

- a. designed in compliance with the GIPS standards, and
- b. implemented on a firm-wide basis.

21. For a performance examination of a specific composite, the practitioner's objective is to express an opinion on whether, in all material respects, the firm has

- a. constructed the composite and calculated the composite performance in compliance with the GIPS standards, and
- b. prepared and presented the GIPS Composite Report in compliance with the GIPS standards.

22. For a performance examination of a specific pooled fund, the practitioner's objective is to express an opinion on whether, in all material respects, the firm has

- a. calculated the pooled fund performance in compliance with the GIPS standards, and
- b. prepared and presented the GIPS Pooled Fund Report in compliance with the GIPS standards.

23. For a performance examination of a specific asset owner total fund or composite, the practitioner's objective is to express an opinion on whether, in all material respects, the asset owner has

- a. constructed the [*total fund or composite*] and calculated the [*total fund or composite*] performance in compliance with the GIPS standards, and
- b. prepared and presented the GIPS Asset Owner Report in compliance with the GIPS standards.

# Total Fund Benchmark

ACA reconciles the underlying benchmark performance using independent third-party sources

## Full Reconciliation:

Strategy	Benchmark
Domestic Equities	Russell 3000 Index
Liquidity Reserves	ICE BofA US 3-Month Treasury Bill Index
Real Estate	85/15 blend of NCREIF Property Index (NPI) and FTSE NAREIT Equity REITs Index (replication of blend)
International Equities	80/20 blend of MSCI World ex-U.S. 50% Hedged Index (Net) and MSCI Emerging Markets Index (Net) <ul style="list-style-type: none"> <li>Return stream from STRS used in blend calculation for hedged component</li> </ul>
Alternative Investments	Blend of underlying policy weights PE/Opportunistic Diversified (47.4%/52.6% effective 7/2022) <ul style="list-style-type: none"> <li>Private Equity Benchmark is the Cambridge Associates Private Equity and Venture Capital Index</li> <li>The Opportunistic/Diversified blended benchmark consists of the actual Opportunistic Investments Portfolio weight multiplied by the Cambridge Associates Private Credit Index plus the actual weight of the Diversified Investments Portfolio multiplied by the HFRI Fund of Funds Composite Index</li> </ul>
Fixed Income Blend	Blend of Bloomberg U.S. Universal and Bloomberg U.S. Intermediate Treasury using actual daily weights of Core Fixed Income and Liquid Treasury portfolios

# Total Fund Benchmark, continued

- The Total Fund blended benchmark is calculated monthly using a blend of the asset class benchmarks based on the Total Fund's policy weights for the respective asset classes
- Industry norm is a blended benchmark based off either actual or target asset class weights and the corresponding asset class benchmarks
- For Alternative asset classes, we often see a variety of benchmarks used
  - Actual portfolio return
  - Peer universe data – including private market benchmarks
  - Published public benchmarks



# Deliverables

## ➤ Verification Report

In our opinion, for the periods from July 1, 2006 through June 30, 2023, the Asset Owner's policies and procedures for complying with the GIPS standards related to total fund maintenance, as well as the calculation, presentation, and distribution of performance, have been, in all material respects:

- Designed in compliance with the GIPS standards, and
- Implemented on an asset owner-wide basis.

## ➤ Performance Examination Report

Also, in our opinion, the Firm has, in all material respects:

- Calculated the Total Fund's performance for the periods from July 1, 2006 through June 30, 2023 in compliance with the GIPS standards; and
- Prepared and presented the accompanying GIPS Total Fund Report for the periods from July 1, 2013 through June 30, 2023 in compliance with the GIPS standards.
- Additionally, in our opinion, the accompanying Supplemental Information for the period from July 1, 2022 through June 30, 2023 has been calculated and presented, in all material respects, in compliance with industry performance standards as described in the Supplemental Information accompanying notes.

## ➤ Recommendation Letter

# GIPS Total Fund Report

**State Teachers Retirement System of Ohio  
Total Fund  
July 1, 2013 through June 30, 2023**

**Total Fund as of June 30**

<b>Fiscal Year</b>	<b>Gross Return (%)</b>	<b>Net Return (%)</b>	<b>Benchmark Return (%)</b>	<b>% of Externally-Managed Assets (%)</b>	<b>Total Composite Assets (\$ millions)</b>
2023	7.68	7.55	7.62	36	90,063
2022	-3.61	-3.73	-5.62	36	87,616
2021	29.28	29.16	27.98	34	94,832
2020	3.14	3.01	3.07	31	77,080
2019	7.13	6.99	7.30	30	78,851
2018	9.57	9.43	8.94	30	77,750
2017	14.29	14.15	13.52	29	75,060
2016	0.92	0.78	0.67	30	69,861
2015	5.45	5.33	5.08	28	74,173
2014	16.83	16.71	17.53	28	74,812

State Teachers Retirement System of Ohio (“STRS Ohio”) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. State Teachers Retirement System of Ohio (“STRS Ohio”) has been independently verified for the periods from July 1, 2006 through June 30, 2023. An asset owner that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the asset owner’s policies and procedures related to total fund and composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on an asset-owner-wide basis. The Total Fund has had a performance examination for the periods July 1, 2006, through June 30, 2023. The verification and performance examination reports are available upon request.

# Conclusion

- The GIPS standards are globally recognized and considered to be industry best practice
- Asset owners claim compliance to demonstrate a culture of compliance and strong internal controls
- STRS has been verified since 2006
- The GIPS standards require net returns for asset owners which are net of all costs, including carried interest
- ACA replicates returns and benchmarks based on asset owner's established policies using data that is supported by independent third-parties
- ALL requirements to be GIPS compliant have been met
- For fiscal year 2023, ACA has verified that STRS Ohio has calculated and reported Total Fund performance in accordance with the GIPS standards



## **ACA Group**

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# Fiduciary Audit Update

Aug. 17, 2023

- **Funston Advisory Services (FAS) was engaged by the Ohio Retirement Study Council (ORSC) to conduct a fiduciary performance audit of STRS Ohio, which was completed in May 2022.**
- **FAS made formal presentations to both the ORSC and the STRS Ohio board in June 2022.**
- **STRS Ohio staff prepared an implementation roadmap to track progress on the FAS recommendations.**
- **Board and staff discussed the recommendations at the Board Education and Planning Session in November 2022.**
- **The board chair established an Ad Hoc Governance Committee to review board-related recommendations.**

- The State Teachers Retirement Board has been effectively fulfilling its fiduciary duties (loyalty, prudence, staying informed, diversifying asset, controlling costs, compliance with laws and co-fiduciary duties).
- STRS Ohio has the powers or authorities needed to fulfill its fiduciary duties with two exceptions: lack of authority to select outside legal counsel and the custodian.
- Overall, STRS Ohio is operationally excellent with effective operational policies and processes and is a generally well-run, high performing operation.
- STRS Ohio's investment performance is in the top quartile of systems in the country according to CEM Benchmarking, and investment operations are excellent.
- Member Services are consistently a top performer while costs are currently lower than the average of STRS Ohio's peers.

- **As with any organization, improvements can always be made.**
- **Out of 172 recommendations, the current status is as follows:**
  - **Complete – 33 recommendations**
  - **In progress or planned – 85 recommendations**
  - **Board decision – 49 recommendations**
  - **Disagree/Disagree in part – five recommendations**



- **Board approved a statement of investment beliefs.**
- **Board meeting livestreams now include video, and meeting recordings and materials will be archived on the STRS Ohio website for a one-year period.**
- **Preliminary meeting materials are available to the public on the STRS Ohio website two days prior to a board meeting.**
- **Workday Human Capital Management (HCM) has been fully implemented for payroll, time reporting and benefits.**
- **RFPs have been issued for a Governance Consultant and a Defined Contribution (DC) Investment Consultant.**

- **Conducting regular meetings with constituent groups; planning town hall style meetings.**
- **STRS Ohio hired an internal candidate to fill the vacant internal auditor position, budgeted for an additional internal auditor position, and added full-time administrative support for the internal audit department.**
- **A compliance director has been hired and will start in late August.**
- **Recruitment for the director of the DC Plan is underway.**
- **Various internal policies and processes have been updated.**

- **Staff will continue to review and implement systems, policies, and other changes recommended by FAS, as appropriate.**
- **The board will engage a governance consultant to assist with recommendations related to Board Policies, committees, education and enterprise risk management.**
- **Regular updates on the implementation roadmap will be provided to the board at future Audit Committee meetings.**



# Questions?

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