



# **Investment Allocation and Rebalancing Audit**

**Report Date: March 28, 2024**

**Internal Audit Department**

**OCERS Internal Audit**  
**Investment Allocation and Rebalancing Audit**  
**March 28, 2024**

**Table of Contents**

Audit Objective and Scope.....	1
Conclusion and Executive Summary.....	1
Background.....	2

## Audit Objective and Scope

The objective of this audit was to provide an independent review of the controls in place within OCERS's Investment Division. This includes, but is not limited to, the controls management has in place over the triennial asset allocation and rebalancing process.



The scope of the audit included a review of the 2023 triennial asset allocation approval and the Q3 2023 rebalancing process.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

## Conclusion / Executive Summary

**Opinion: *Satisfactory***

Overall, Internal Audit found the controls over asset allocation and rebalancing to be operating and designed effectively. There are no Observations to report.

<b>Priority Observations</b>  <b>Important Observations</b> 	<b>Priority Observations</b> <b>None</b> <b>Important Observations</b> <b>None</b>
---	---

Internal Audit performed the following:

- Verified that the April 2023 triennial asset allocation study was reviewed and approved by the Investment Committee.
- Verified that the Q3 2023 rebalancing trades were approved by the Chief Investment Officer.
- Verified that Q3 2023 rebalancing activity was reported on the "Quarterly Activity Report" provided to the Investment Committee for reference.
- Verified that the supporting rebalancing spreadsheet agreed to source documents provided by the custodial bank, clerically footed, and contained no formula errors.
- Verified that the rebalancing spreadsheet's ranges and targets were reflective of the asset allocation approved by the Investment Committee.

## **Background**

OCERS currently holds approximately \$22 billion of assets under management in more than 200 investment vehicles across seven asset classes.

Every three years, a formal asset allocation review is conducted to anticipate changing market conditions and to react to projected liability and risk/return expectations. The allocation seeks to optimize long-term returns for the level of risk the Investment Committee considers appropriate. The new allocation's investment target ranges are then updated in OCERS Investment Policy Statement.

Rebalancing occurs monthly, if required. Members of the Investment Division meet monthly to review the investment portfolio, monitor cash, and discuss the economic outlook to determine if rebalancing is necessary. If rebalancing is required, trade activity is reviewed and approved by the Chief Investment Officer. For assets valued as of the last day of the month in June and August 2023, rebalancing of approximately \$50 million took place for each month. The rebalancing was included in November 2023 Investment Committee meeting materials (e.g., Portfolio Activity and Compliance written reports).

An audit of the rebalancing process was reported to the Audit Committee in March 2017. There were no Observations in that audit.

### **Copies to OCERS:**

S. Delaney  
S. Jenike  
M. Murphy  
B. Shott  
M. Serpa

S. Chary  
Audit Committee Members

### **Categories of Observations (Control Exceptions):**

#### **Priority Observations:**

These are observation(s) that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise OCERS' reputation or integrity. Management is expected to address Priority Observations brought to its attention immediately.

#### **Important Observations:**

These items are important to the process owner and they do impact the control environment and/or could be observations for improving the efficiency and/or effectiveness of OCERS' operations. Management is expected to address within six to twelve months.

### **Management's Responsibility for Internal Control**

Management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure are the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and self-assessment of control risks.

### **Internal Control Limitations**

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with OCERS' policies.

### **Audit Report Opinions:**

**Satisfactory:**

No issues or a limited number of “Important Observations” (typically no more than two Important Observations).

**Opportunities for Improvement:**

Multiple issues classified as “Important Observations” (typically two or more Important Observations) with no more than one “Priority Observation”.

**Inadequate:**

Usually rendered when multiple issues are classified as “Priority” (typically one or more Priority Observations), together with one or more other issues classified as “Important Observations”. The Priority Observations identified have a major effect on processes, plan sponsors/members, financials, and/or regulatory requirements.