OHIO RETIREMENT STUDY COUNCIL

MANAGEMENT LETTER

FOR THE YEARS ENDED JUNE 30, 2018 - 2019

OHIO AUDITOR OF STATE
KEITH FABER

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MANAGEMENT LETTER

Ohio Retirement Study Council
30 East Broad St, 2nd Floor
Columbus, OH 43215

We are auditing the financial statements of the State of Ohio in accordance with *Government Auditing Standards* as of and for the year ended June 30, 2019, and will issue our report thereon.

Government Auditing Standards require us to report significant internal control deficiencies, fraud, noncompliance with laws and regulations, and also abuse and noncompliance with contracts and grant agreements that could directly and materially affect the determination of the State of Ohio's financial statement amounts. We will issue the required report for the year ended June 30, 2019.

The Ohio Retirement Study Council (the Council) is part of the primary government of the State of Ohio. While we have applied audit procedures to the Council, our procedures are designed to detect matters the preceding paragraph describes that could be material to the State's financial statements. Accordingly, these procedures may not detect misstatements, control deficiencies, or noncompliance that might be significant to the Ohio Retirement Study Council. However, the procedures we performed at the Council did not identify matters we must report in the statewide report *Government Auditing Standards* requires.

We are also submitting the following comments for your consideration regarding the Council's internal control. These comments reflect matters that do not require inclusion in the *Government Auditing Standards* report. Nevertheless, these comments represent matters for which we believe improvements in internal controls or operational efficiencies might be achieved.

The scope of our audit included testing procedures related to state revenues, non-payroll disbursements, payroll disbursements, and legal compliance with certain laws and regulations for the period July 1, 2017 through June 30, 2019.

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing these recommendations. However, these comments reflect our continuing desire to assist your Council but are only a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified. If you have questions or concerns regarding these comments, please do not hesitate to contact us.

1. POLICIES AND PROCEDURES – REVENUE AND EXPENDITURES

An entity's system of internal controls consists of the policies and procedures established by management to provide reasonable assurance that specific operational objectives will be achieved. These policies establish the authorization level for financial and operational transactions to be executed and set the tone for management's commitment to the accomplishment of their goals and statutory

1. POLICIES AND PROCEDURES – REVENUE AND EXPENDITURES (Continued)

requirements. Additionally, the documentation of policies represents the initiation point for the development and implementation of control procedures that provide specific direction for consistent and timely processing of financial and operational transactions.

During state fiscal years (SFYs) 2018 and 2019, the Council processed approximately $2.1 million in revenue and disbursed approximately $1.9 million in expenditures. The Council had a Policies and Procedures Manual, which included written policies and procedures over revenue and expenditures, dated from March and April of 2014. Management revised these extensively during the audit period; however, there was no evidence the Council members formally approved them.

Without complete, accurate, updated, and formally approved policies and procedures over key areas of operation and the required dissemination of those policies, management cannot be reasonably assured transactions are processed accurately or consistently, their goals and statutory and professional requirements are being accomplished, or employees are fully aware of the provisions of the policies. This creates a risk that employees may not understand what constitutes acceptable activity and could lead to possible wrong-doing and improper behavior by the employees. The risk increases should there be turnover in key positions responsible for processing transactions in these areas.

We recommend the Council formally document its approval of written policies and procedures relating to the processing of all significant financial and operational transactions. Once approved, these procedures should be communicated to employees and used as a basis in evaluating their performance. In addition, management should perform periodic monitoring to help ensure the established policies and procedures are operating as intended. We recommend the Council review, evaluate, and update its policies and procedures on a regular basis to ensure they remain current and are meeting management's and the governing board's objectives.

2. PAYROLL EXPENDITURES

It is management's responsibility to implement control policies and procedures to reasonably ensure payroll transactions are processed accurately and completely, comply with applicable laws and regulations, and are based on complete and accurate employee timecards, leave requests, and other support documents. To be effective, the performance of an internal control must be sufficiently documented to provide assurance the control is in place and functioning as intended. It is also management's responsibility to periodically monitor these control procedures to verify they are operating effectively and as management intended.

During SFYs 2018 and 2019, the Council disbursed $749,383 in payroll expenditures. Employees record the hours they work and any leave taken for each day on the Signin Sheet and verify their hours are accurate at the end of each pay period by initialing the form. The Director, or designated employee, reviews and approves all Leave Request Forms and reviews the Signin Sheets for accuracy. Afterwards, the Executive Assistant enters the hours into QuickBooks, the accounting package used for recording all transactions, including payroll, and processes payroll for that pay period. This process includes printing the pay stub that shows the gross pay, deductions withheld, leave balances used and remaining, and the net pay for each employee, as well as updated the leave on the summary leave form. At the end of each month, the Senior Research Associate reconciles all vacation leave, sick leave, and compensatory time usage between the Signin Sheets/leave forms and a leave summary report to verify accuracy and completeness and initials the leave summary report. However, the Council did not consistently apply its controls during the year or process payroll accurately, as noted below.

- For one of five (20%) leave reconciliations tested, the reconciliation was completed but did not identify inconsistencies in leave amounts approved and documented on the Signin Sheet, leave form, and leave summary report. The Signin Sheet and leave form showed an employee took

2. PAYROLL EXPENDITURES (continued)

4 hours of leave in the pay period ended March 30, 2018, but the leave summary report showed the leave entered for the pay period ended April 13, 2018.

- For two of 16 (12.5%) pay stubs tested, the hours worked per the QuickBooks Pay Stub did not agree to the hours worked per the Signin Sheet. For one employee, the Signin Sheet listed 76 hours worked with two sick and two vacation leave hours, while the QuickBooks Pay Stub listed 77 hours worked with two sick and one vacation leave hours. For the second employee, the Signin Sheet listed 78.5 hours worked with one-and-a half sick leave hours, while the QuickBooks Pay Stub listed 79 hours worked with one sick leave hour.

- For one of 20 (5%) Leave Request Forms tested, the Vice Chair approved r sick leave hours when the employee did not have a sufficient sick leave balance. The Council made an untimely correction two months later to change the request to vacation leave hours. The leave was taken in the pay period ended July 22, 2017, payroll processed in the first part of August when the insufficient sick leave balance should have been noted when preparing the leave summary form and employee's pay stub, but the correction was not made until September.

Without accurate completion of payroll forms and proper review of leave balances prior to approving requests for leave, the risk exists that QuickBooks may not be accurate. In addition, without effective reconciliation procedures, there is an increased risk that errors could go undetected. These items could result in increased payroll costs, payment of unapproved hours worked, and employee use of leave hours that have not been accrued or have already been used.

We recommend management evaluate and strengthen current processes and procedures related to payroll expenditures to reasonably ensure payroll is processed accurately and completely. These procedures should include verification that employee Signin Sheets and Leave Request Forms are consistently and accurately completed and processed in QuickBooks, as well as effective reconciliations that properly identify errors in payroll processing for timely correction. In addition, management should periodically monitor the control procedures to help ensure they are performed consistently, effectively, and as management intended.

3. SEGREGATION OF DUTIES

It is management's responsibility to ensure control procedures are established to provide an adequate segregation of duties is included within the control structure to ensure financial objectives will be achieved. Segregation of duties is the first line of defense against the prevention, detection, and correction of errors and irregularities. The objective of an effective segregation of duties is to ensure no one person has complete control over a transaction throughout its initiation, authorization, recording, processing, and reporting.

During SFYs 2018 and 2019, the Council processed approximately $1.9 million in payroll and non-payroll expenditures. The Council has various control procedures over the expenditure process; however, there is a lack of segregation of duties in the payroll and non-payroll processes. For payroll expenditures, the Executive Assistant initiates changes to modify the Employee Master file and is also involved in preparing payroll for processing, generating payroll checks, and recording payroll expense in the accounting system (QuickBooks). When an employee has access to the Employee Master file, they should not be directly involved in the payroll process. For non-payroll expenditures, the Executive Assistant prepares vouchers for payment, initiates ACH payments, mails vendor checks, receives goods, and helps with the reconciliation process.

3. SEGREGATION OF DUTIES (Continued)

In the absence of a proper segregation of duties, the Council is provided with only minimal assurance that all expenditures are properly disbursed and accounted for. Furthermore, the Council increases the risk that transactions may be processed inconsistently or inaccurately and may not be detected in a timely manner.

We recommend the Council evaluate and strengthen current internal controls over payroll and non-payroll expenditures to promote an adequate segregation of duties for the processing of expenditure transactions. These procedures should specifically segregate the duties between updating the Employee Master file and payroll processing, as well as segregate the duties between purchasing, disbursing, and reconciling in the non-payroll expenditure process. Management should disseminate the procedures to employees involved in the expenditure processes and periodically monitor the procedures and control activities of Council personnel to help ensure controls are in place and operating as intended and that a proper segregation of duties is occurring.

The Ohio Retirement Study Council has responded to the issues discussed in this Management Letter. You may obtain a copy of their response from Bethany Rhodes, Director/General Counsel at (614) 228-1346. This letter is intended for the information and use of management and those charged with governance for the State of Ohio.

Keith Faber

Keith Faber
Ohio Auditor of State

Columbus, Ohio

October 29, 2019

OHIO AUDITOR OF STATE
KEITH FABER

OHIO RETIREMENT STUDY COUNCIL

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 19, 2019

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Ohio
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October 29, 2019

Mr. Francis R. Schwinne, CPA, CISA
Senior Audit Manager
Office of the Auditor of State
88 East Broad Street
Columbus, Ohio 43215

Dear Mr. Schwinne:

Thank you for the opportunity to respond to the management letter regarding the financial audit of the Ohio Retirement Study Council (ORSC) for the years ended June 30, 2018 through June 30, 2019. My comments are organized under the headings included in that letter.

POLICIES AND PROCEDURES- REVENUE AND EXPENDITURES

In the letter, it was noted that the ORSC's Policies and Procedures Manual has not been put forward to the ORSC for a formal vote.

The Policies and Procedures Manual sets forth the administrative duties of the day to day running of the agency. This manual is set forth with extreme specificity, noting in a step-by-step process exactly how to log on to various accounts for bill pay, receipt, etc., which fields to change, etc. It is intended to direct those completely unfamiliar with the individual and wholly administrative processes in the event of an emergency so that the agency may continue to financially function without incurring fines and fees.

Given its step-by-step nature, the Policies and Procedures Manual changes very quickly, especially in this world of rapidly evolving technology. For example, every time the bank's website updates, it is likely this manual will require amendment.

While I believe these are among duties delegated to me as Director through R.C. 171.03(A), in addition to those expected of me and implied by the members of the ORSC, I will certainly raise this issue with the ORSC during their review of this audit to ensure such compliance.

PAYROLL EXPENDITURES

In the letter, it was noted that there were some inconsistencies in staff leave request forms in comparison to the staff sign in sheets.

While the ORSC staff does not disagree with this finding, the ORSC staff would like to note, however, the timing of the noted errors and implementation of better controls.

During the audit, when notified of the errors contained in this management letter, Executive Assistant Cindy Burck created a new, single sign in and leave request form to address the issues that were identified. This new form, instituted in May 2019, is much more specific, while reducing paperwork and the likelihood of inadvertent mistakes.

During the audit, ORSC staff expressly requested a review of the new controls implemented; this request was denied.

SEGREGATION OF DUTIES

In the letter, it was noted that the ORSC staff duties overlap and are not properly segregated and that only one employee has complete control over a transaction throughout its initiation, authorization, recording, processing, and reporting.

While the Executive Assistant may prepare the paperwork for each transaction, R.C. 171.05 requires the payment of all ORSC expenses to "be paid upon vouchers approved by the director and the chairperson of the council." This, in itself, requires a minimum of three individuals to be included on every single financial transaction taking place within the agency, one being an actual voting member of the ORSC.

The ORSC employs four full-time employees; there is no other staff, either compensated or uncompensated. While I would agree that, ideally, there might be more segregation of administrative duties, it is realistically impossible to expect over a 20% increase in staff just to ensure that the same employee that has access to updating the Employee Master file and payroll is not handling the non-payroll expenditure process, especially given the two signature requirement set forth in R.C. 171.05

Sincerely,

Bethany Rhodes
Director/General Counsel