



**SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

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RICHARD STENSRUD  
*Executive Director*

KAREN D. ROGGENKAMP  
*Deputy Executive Director*

January 4, 2023

Bethany Rhodes, Director/General Counsel  
Ohio Retirement Study Council  
30 E. Broad St., 2<sup>nd</sup> Floor  
Columbus, OH 43215

Dear Ms. Rhodes:

Pursuant to R.C. 3309.044, enclosed please find a report of actions taken by the Audit Committee of the SERS Retirement Board for calendar year 2022. The attached report was prepared by SERS' Chief Audit Officer, Jeff Davis, and incorporates the reporting format approved by the Ohio Retirement Study Council.

Please feel free to contact Jeff Davis or myself if you have any questions.

Sincerely,

**Richard Stensrud**  
Executive Director

Enclosure

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**RETIREMENT BOARD**

JEFFREY DELEONE  
*Chair, Appointed-Member*

FRANK A. WEGLARZ  
*Vice-Chair, Retiree-Member*

HUGH GARSIDE, JR  
*Employee-Member*

JAMES H. HALLER  
*Employee-Member*

MATTHEW A. KING  
*Employee-Member*

CATHERINE P. MOSS  
*Retiree-Member*

BARBRA M. PHILLIPS  
*Employee-Member*

JAMES A. ROSSLER, JR  
*Appointed Member*

DANIEL L. WILSON  
*Appointed Member*

# School Employees Retirement System of Ohio 2022 Annual Audit Report

(Submitted to ORSC January 3, 2023)

## Closed Audits: Recommendations

Audit Area	Risk Rating <sup>1</sup>	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target Implementation
Microsoft 365 (June 2022)	Mod	<u>Microsoft 365</u> The objective of the review was to assess internal controls and security related to Microsoft 365 (M365).	Ten recommendations were proposed. Two received a moderate rating and eight were rated as low.  The report was presented in executive session.	Management has developed a remediation plan for each recommendation.  Corrective action has been implemented for the moderate rated recommendations. Corrected action has also been implemented for four of the eight low rated recommendations	Yes	2022/2023
<u>Comments:</u> While several deficiencies were identified, they do not compromise achievement of important control objectives.						

<sup>1</sup> 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.

## Closed Audits: Recommendations (cont.)

Audit Area	Risk Rating <sup>2</sup>	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target Implementation
Member Account Maintenance (August 2022)	Low	<u>Member Account Maintenance</u> Ensure member account maintenance processes are properly designed and operating effectively in accordance with SERS' policy and procedures and adheres to legal requirements. Review included: <ul style="list-style-type: none"> <li>• Personal Information updates</li> <li>• Bank Account changes</li> <li>• Monitoring</li> <li>• Communication</li> <li>• Review of policy and procedure</li> </ul>	Update policy to include reference to the member portal for bank account changes.	Management will update the Member Services Administrative policy.	No	2023
<u>Comments:</u> Controls related to Member Account Maintenance were operating effectively to achieve business objectives.						

<sup>2</sup> 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.

## Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Accounts Payable (May 2022)	Low	<p><u>Finance</u> Ensure that payment processes are properly designed and consistently applied in accordance with SERS' policy and procedures and adheres to legal requirements.</p> <p>The audit focused on controls within the Finance Department and included a review of:</p> <ul style="list-style-type: none"> <li>• Processing and payment of accounts payable transactions</li> <li>• Monitoring (vendor, potential fraud)</li> <li>• Communication (to internal customers and vendors; sensitive data handling)</li> </ul>	Not applicable.
		<p>Comments: Controls for payment processing were operating effectively to achieve business objectives.</p>	
Undue Influence (August 2022)	Low	<p><u>All Departments</u> Independently verify key SERS staff performed their job duties in good faith according to SERS' policies and reaffirm no one had attempted to coerce their work or influence their job performance.</p>	Not applicable.
		<p>Comments: The CAO and Chief Risk Officer reviewed the submitted undue influence forms and determined they were properly filed with no instances reported on the forms submitted.</p>	
Investment Incentive Compensation Review (September 2022)	Low	<p><u>Investments Department and Enterprise Risk Management</u> Evaluate controls and payments associated with the FY2022 Investment Incentive Compensation Plan.</p>	Not applicable
		<p>Comments: The investment incentive plan appears supportive of the Board's intent to reinforce a performance philosophy to attract and retain high-quality talent within Investments. The Chief Risk Officer was effective in completing the calculations in an accurate manner with supporting documentation. There were no calculation errors identified during testing.</p>	

## Closed Audits: No Recommendations (cont.)

Audit Area	Risk Rating	Scope	Management's Response
Conflicts of Interest Compliance Review (October 2022)	Low	<u>Investments Department and Investment Compliance</u> Review disclosures by Investments staff and external investment service providers for conflicts of interest compliance. Review included: <ul style="list-style-type: none"> <li>• Investment staff certification</li> <li>• Financial Disclosure Statement</li> <li>• Professional Conduct Statement</li> <li>• Investment Manager Agreement</li> <li>• Required Annual Disclosure Form</li> </ul>	Not applicable.
		Comments: Reviewed SERS' Investments staff disclosures and external investment service providers. No exceptions identified.	
Disability Benefits (December 2022)	Low	<u>Member Services</u> Ensure Disability Benefit processing controls are operating effectively to achieve business objectives. Review included: <ul style="list-style-type: none"> <li>• SERS' physician selection and review</li> <li>• Disability Evaluation and determination</li> <li>• Benefit calculation and payment</li> <li>• Disability recertification</li> <li>• Communication</li> </ul>	Not applicable
		Comments: Controls for disability benefits were operating effectively to achieve business objectives.	

## Active Audits: As of December 2022

Audit Area	Risk Rating	Scope	Target Completion
Purchase of Service Credit	Low	Assessment of the design and effectiveness of key controls and compliance with laws and regulations related to the purchase of service credit.	January 2023

## Other Audit Related Activity

Area	Risk Rating	Subject/ Project	Description
Disaster Recovery/ Cloud Migration	Mod	Disaster Recovery	The CAO provided consulting services related to the ongoing assessment of disaster recovery/cloud migration. This is a continuation of a process that began with an outsourced review, managed by Internal Audit, of SERS' disaster recovery strategies.
Pharmacy Audit	Mod	Benefits	SERS engaged Sagebrush Analytic Solutions LLC to conduct bi-annual audits of its pharmacy benefit manager to determine overall claims processing accuracy and efficiency and to identify opportunities for improved administration. Internal Audit provided consulting services related to the audit.
Medical Claims Audit	Mod	Benefits	SERS engaged Claim Technologies Incorporated to conduct a bi-annual audit of its medical claims administrator to determine overall claims processing accuracy and efficiency and to identify opportunities for improved administration. Internal Audit provided consulting services related to the audit.
Risk Management	N/A	Strategic Plan	Internal Audit provided ongoing consulting into the development and implementation of SERS' risk management program and practices, as identified in audit reports and SERS' FY2020-24 Strategic Plan.
External Audit	N/A	Financial Statements	External auditors provided all required written communication and verbal updates on the audit of the annual financial statements to the Audit Committee and Board.
Committee Report	N/A	CY2022 Annual Report	Pursuant to R.C. 3309.044, a report of actions taken by the Audit Committee of the SERS' Retirement Board for calendar year 2022.
Internal Audit Annual Plan	N/A	FY2022 Plan	The FY23 Internal Audit Plan was approved by the SERS Audit Committee on June 15, 2022.
Merit Increases	Low	Payroll	Reviewed FY23 annual merit increases.
Penetration Testing	Low	Information Security	Consulting with Risk Management related to penetration testing.
Comment Remediation	N/A	Issued Audit Comments	Perform audit remediation activities involving internal, external, and other audit comments.
Financial Reporting	N/A	Financial Statement Controls	The Chief Financial Officer regularly provides updates to the Committee on financial reporting processes, changes in accounting and financial reporting standards, comprehensive annual financial report overview, processes in place to limit material control weaknesses and fraud, and periodic updates on activities involving external auditors or other oversight entities.
Internal Audit Operations	N/A	Internal Audit Quality Assurance	Internal Audit consists of one employee, a Chief Audit Officer (CAO). The CAO continues to maintain quality within audit practices to maintain conformance with IIA <i>Standards</i> . Audit activities include: <ul style="list-style-type: none"> <li>• Updated Internal Audit Operations Manual, Audit Committee and Internal Audit Charters, and standard work paper forms.</li> <li>• Completed CAO annual goals aimed at improving audit effectiveness, plan completion, coordination, and collaboration.</li> <li>• The CAO performed a comprehensive self-assessment of internal audit operations.</li> </ul>
Quality Assessment	N/A	Quality Assurance	External quality assessment performed by qualified external firm in August/September 2022.

**Composition of Audit Committee at the end of calendar year 2021 reporting year (R.C. 3309.044)**

Barbra M. Phillips (Chair), Employee Member

Catherine P. Moss, Retiree Member

James A. Rossler Jr., Appointed Member