



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

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LISA J. MORRIS
Executive Director

HELEN M. NINOS
Deputy Executive Director

March 16, 2016

Bethany Rhodes
Director and General Counsel
Ohio Retirement Study Council
88 E. Broad St., Suite 1175
Columbus, OH 43215

Dear Ms. Rhodes:

Bethany

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 2015. The attached report was prepared by SERS' Chief Audit Officer, Joe Bell, and incorporates the new reporting format requested by the Ohio Retirement Study Council.

Please feel free to contact Joe Bell or myself if you have any questions.

Sincerely,

Lisa J. Morris
Executive Director

Enclosure

RETIREMENT BOARD

CATHERINE D. MOSS
Chair, Retiree-Member

BARBRA M. PHILLIPS
Vice-Chair, Employee-Member

VACANT
Employee-Member

NANCY D. EDWARDS
Appointed Member

MADONNA D. FARAGHER
Employee-Member

CHRISTINE D. HOLLAND
Employee-Member

JAMES A. ROSSLER, JR.
Appointed Member

DANIEL L. WILSON
Appointed Member

BEVERLY A. WOOLRIDGE
Retiree-Member

School Employees Retirement System of Ohio CY2015 Annual Audit Report

Closed Audits: Recommendations

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Sensitive Data Handling (December 2015)	Low	<p><u>Legal Department</u></p> <ul style="list-style-type: none"> ➤ Intake (primarily mail) ➤ Review and Process ➤ Safeguard and Storage ➤ Inter-Department Transfer and Imaging ➤ External Transfer and Communication ➤ Monitor and Report 	<ol style="list-style-type: none"> 1. Develop Personally Identifiable Information (PII) process flows for sensitive data handling. 2. Consider certified mail usage for externally remitted sensitive information. 3. Conduct timely removal of scanned images of rejected items. 4. Increase electronic security for subpoenas/other data remitted to external sources. 	<ol style="list-style-type: none"> 1. Management agreed and will create a process flow chart of sensitive data and remit to the Chief Information Security Officer for review. 2. Management agreed and in future mailings, Legal will redact sensitive data and send via regular mail. 3. Management agreed and will review rejected items and remove obsolete information; implement ongoing review. 4. Management agreed and subpoenas and external communications of sensitive information will be sent in a password-protected email file and the password communicated separately. 	<ol style="list-style-type: none"> 1. No 2. Yes 3. No 4. Yes 	<ol style="list-style-type: none"> 1. March 2016 2. December 2015 3. March 2016 4. January 2016
<p>Comments: Legal Department's controls over sensitive data handling were operating effectively to ensure proper safeguards were in place to prevent the inadvertent release of sensitive information. No significant issues to SERS were identified.</p> <p>This sensitive data handling audit focused on the Legal Department and its safeguarding controls with internal departments and external customers, but did not include recalculations of legal decisions, detailed testing of safeguard controls within other departments, or application testing.</p>						

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.

Closed Audits: Recommendations (cont.)

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
<p>Purchasing and Contract Administration (October 2015)</p>	<p>Mod.</p>	<p>Administrative Services > Governance/Policy and Procedure > Bidding/Contracting > Administration/ Vendor Monitoring/ Payments > Reporting/Metrics/ Communication</p>	<ol style="list-style-type: none"> 1. Update purchase/contract policies, create guidance to improve contract files, communicate to purchasing personnel, establish monitoring, and maintain current contracts. 2. Create uniform repository for purchasing and contract documents, monitor and track contract renewals, and train personnel. 3. Research open purchase orders (PO), close-out older POs, and create timely review of POs. 4. Update access list for purchase requisition/approval; create ongoing monitoring process. 5. Train purchasing personnel. 6. Maintain consistent control evidence. 7. Define record keeping/index format and monitor. 8. Create, maintain and distribute prohibited purchase list. 9. Monitor and report on key metrics. 	<ol style="list-style-type: none"> 1. Management agreed and will coordinate updating of policies/procedures, create guidance for purchasing personnel, provide training, create monitoring process, and maintain a contract list. 2. Management agreed and will assemble cross-functional workgroup to develop consistent repository, compile complete contract listing, provide training and monitor compliance. 3. Management agreed and will research older POs with management, closeout outdated POs, and establish monitoring. 4. Management agreed and purchasing access will be updated and monitored to ensure proper access rights exist. 5. Management agreed and will implement. 6. Management agreed and will implement. 7. Management agreed and will implement. 8. Management agreed and will implement. 9. Management agreed and will implement. 	<ol style="list-style-type: none"> 1. No 2. No 3. Yes 4. Yes 5. No 6. No 7. No 8. No 9. Yes 	<ol style="list-style-type: none"> 1. March 2016 2. June 2016 3. January 2016 4. January 2016 5. April 2016 6. June 2016 7. June 2016 8. March 2016 9. January 2016
<p>Comments: Administrative Services' controls for purchasing and contract activities were operating effectively to ensure administrative purchases and contracts, including related payments, were authorized and processed in accordance with SERS' procurement process. No significant issues to SERS were identified.</p>						
<p>Scope of review did not include credit card purchases, health care payments, investment transactions, employee reimbursements, memberships, tuition, seminars/training, travel, other compensation, or application testing.</p>						

Closed Audits: Recommendations (cont.)

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Ethics Filings – Conflicts of Interest Review (August 2015)	Low	<p><u>Investments</u> Review disclosures by investment staff and external investment service providers for conflicts of interest compliance. Review includes:</p> <ul style="list-style-type: none"> • Investment staff certification • Financial Disclosure Statement • Professional Conduct Statement • Investment Manager Agreement • Required Annual Disclosure Form 	<ol style="list-style-type: none"> 1. Enhance procedures to specify the review, escalation and reporting process and corresponding timeframes. 2. Ensure a more secure data transmission for external investment service providers. 3. Prepare and issue memo on a timely and consistent basis for proper awareness of potential conflicts of interest. 4. Document spreadsheet review to include remediation/escalation steps taken to address potential conflicts of interest or related decisions. 	<ol style="list-style-type: none"> 1. Management agreed and will implement. 2. Management agreed and will implement. 3. Management agreed and will implement. 4. Management agreed and will implement. 	<ol style="list-style-type: none"> 1. No 2. Yes 3. Yes 4. Yes 	<ol style="list-style-type: none"> 1. April 2016 2. July 2016 3. April 2016 4. October 2015
Comments: A review was performed on SERS' investment staff disclosures and external investment service providers.						

Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Ethics Filings – Undue Influence Forms Review (July 2015)	Low	All Departments 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. Comments: Reviewed submitted <i>SERS Statement Regarding Undue Influence</i> certification forms and no documented comments were reported.	Not Applicable.
Investment Incentive Compensation Review (August 2015)	Low	<u>Investments</u> Evaluate controls and payments associated with the 2015 Investment Incentive Compensation plan. Comments: The investment incentive plan appears supportive of the Board's intent to reinforce a performance philosophy and attract and retain high-quality talent within Investments. Performance incentive calculations were properly computed.	Not Applicable.

Active Audits

Audit Area	Risk Rating	Scope	Target Completion
Portability/ Multi-system Retirement Processing	N/A	Ensure multi-system retirement processing is maintained in a manner consistent with SERS' service retirement procedures and adheres to legal requirements which govern a service retirement. This audit will focus on the Member Services Department and controls within its functional areas, and other retirement systems. The audit will include a review of governance, risk management, and internal control design and effectiveness for: <ol style="list-style-type: none"> 1. Request From/To Other Retirement System 2. Intake/Outgoing Assessment – Service & Age 3. Calculate Transfer In/Out Cost 4. Monitoring/Quality Review Process 5. Payment/Reporting Process NOTE: Scope of review does not include recalculations of other retirement systems' computations or SERS' IT applications.	February 2016

Other Audit Related Activity

Area	Risk Rating	Subject/Project	Description
Investment Management Fees	Mod.	Third Party Review	Minor Internal Audit involvement to review results, report, and remediation of private equity vendor results – process managed and directed by ERM Officer.
SMART	High	Software Implement	Ongoing involvement by Internal Audit before and after implementation via participation in SMART Committee, review results and resolution of user acceptance/system testing, training, change management. NOTE: Third party vendor involvement with assurance on adequacy and completeness of contract deliverables.
Fiduciary Audit	N/A	Audit Readiness	Internal Audit will consult and work with management to help compile an evaluation grid based on the following: <ul style="list-style-type: none"> • Review of RFP requirements issued by Ohio Retirement Study Council • Evaluate best practice fiduciary audit considerations • Work with management to identify risks, controls, and supporting information
Claims	Mod.	Third Party Review	Minor Internal Audit involvement to review RFP scope, report results, and remediation of pharmacy claims/rebate audit vendor results – process managed and directed by Pharmacy Benefit Manager.
Audit Committee Annual Report	N/A	Submit FY2015 Annual Report	Pursuant to R.C. 3309.044, a report of actions taken by the Audit Committee of the SERS Retirement Board for fiscal year 2015 was submitted on September 17, 2015.
Internal Audit Annual Plan	N/A	Create FY2016 Audit Plan	The FY2016 Internal Audit Plan was approved by the SERS Retirement Board on July 16, 2015.
Internal Audit Operations	N/A	Establish Internal Audit Function	SERS' Internal Audit Department consists of one employee, a Chief Audit Officer (CAO), and this position was vacant most of FY2015. A new CAO was hired in March 2015 and focused on rebuilding the value and effectiveness of the Department through initiatives that included: <ul style="list-style-type: none"> • Addressing prior reported external quality assessment weaknesses via a remediation plan • Developing an Internal Audit Operations Manual to align operations with best practices and the Institute of Internal Auditors (IIA) Standards • Updating Audit Committee and Internal Audit Charters to enhance governance processes • Creating an Audit Committee calendar that aligns Audit Committee charter responsibilities with future meeting dates • Establishing with management a consistent process for identifying and handling any reported matters involving suspected misconduct

Composition of Audit Committee at end of calendar year 2015 reporting year (R.C. 3309.044)

Barbra M. Phillips (Chair), Employee Member

Catherine P. Moss, Retiree Member

Debra J. Basham, Employee Member

Daniel L. Wilson, Appointed Member