



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

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LISA J. MORRIS
Executive Director

HELEN M. NINOS
Deputy Executive Director

September 12, 2011

Aristotle Hutras
Ohio Retirement Study Council
88 East Broad Street, Room 1175
Columbus, Ohio 43215

Dear Aris,

Pursuant to R.C. 3309.044, enclosed please find a report of actions taken by the Audit Committee of the SERS Retirement Board during the preceding fiscal year, FY2011.

Please feel free to contact me if you have any questions.

Sincerely,

Lisa J. Morris
Executive Director

Enclosure

RETIREMENT BOARD

MADONNA D. FARAGHER
Chair

MARK E. ANDERSON
Vice-Chair

NANCY D. EDWARDS
Appointed Member

MARY ANN HOWELL
Retiree Member

CATHERINE P. MOSS
Retiree Member

BARBRA M. PHILLIPS
Employee Member

JAMES A. ROSSLER, JR.
Appointed Member

RICHARD W. SENSENBRENNER
Appointed Member

BEVERLY A. WOOLRIDGE
Employee Member

School Employees Retirement System Audit Committee Annual Report Fiscal Year 2011

The following report documents the activities of the SERS Audit Committee and the SERS Internal Auditor for FY2011. This report is prepared on behalf of the SERS Audit Committee and is categorized into four areas:

- I. Audit Reviews Completed
- II. Special Projects Completed
- III. Summary of Audit Committee Meetings and Actions Taken
- IV. FY2012 Annual Audit Plan

I. Audit Reviews Completed

This section documents the SERS Internal Auditor's completed reviews and projects for FY2011.

Investment Incentive Compensation: The purpose of this audit was to review the controls and payments associated with the 2010 Investment Incentive Compensation program. The scope for the audit included a review of all nine investment incentive compensation payments for FY2010 (July 2009 – June 2010). The payments were examined to determine that they were properly computed.

The audit verified:

- That the incentive compensation plan was approved by the SERS Board before payment
- Investment personnel job titles to determine incentive compensation eligibility
- That the participant is employed and considered an active employee on the date the incentive compensation is paid
- Investment performance measures and asset class weighting used in computing payments
- Base salary used for purposes of computing incentive compensation
- That incentive compensation payment calculations are reviewed and approved by the Interim Executive Director
- The gross amount paid equates to the amount computed and the payee is the correct investment person using payroll records.

The audit also:

- Recomputed incentive compensation payments and compared the results to SERS' payment calculations
- Reviewed FY2009 eligibility and payment waiver criteria for participants.

The audit report was issued on October 4, 2010 with no material comments.

Survivor Benefits: The purpose of this audit was to review the controls and payments associated with survivor benefits validation and processing. The audit objectives were tested below to determine the strengths and weaknesses in the survivor benefit system:

- Are participants entered into the selected plan?
- Are benefits paid properly?
- Are designated survivors valid?
- Are surviving spouses receiving benefits for which they are not qualified?
- Are survivor benefits continuing in error to persons no longer eligible?
- Are benefits not divided correctly between spouse and children?

- Are benefits paid to minors monitored and terminated upon their reaching age of majority?
- Is SERS verifying that students are enrolled in school full-time?

The audit report was issued on November 4, 2010 with no material comments.

MARS Change Reporting: The next four reviews were done as a result of a management letter comment from an external audit. In 2002, Internal Audit began quarterly reviews of online reports for changes in contribution and service credit information, tracking overrides of calculated base disbursement amounts, and tracking demographic changes made to recipients of recurring benefits. The Member Accounting Record System (MARS) is SERS' internally developed computer system used to keep track of member and retiree information, payments, etc.

- **MARS Change Report - April / June 2010:** Report issued July 1, 2010. No material comments were noted.
- **MARS Change Report - July / September 2010:** Report issued October 19, 2010. No material comments were noted.
- **MARS Change Report - October / December 2010:** Report issued January 6, 2011. No material comments were noted.
- **MARS Change Report - January / March 2011:** Report issued April 7, 2011. No material comments were noted.

II. Special Projects Completed

This section documents the SERS Internal Auditor's special projects for FY2011 and key comments identified.

Annual Audit Committee Report: The FY2010 Audit Committee report was reviewed at the September Board meeting and sent to the Ohio Retirement Study Council (ORSC) on September 22, 2010.

HIPAA / HITECH Impact Assessment Workshop: The purpose of the Health Insurance Portability and Accountability Act (HIPAA) of 1996 was to improve the efficiency and effectiveness of the U.S. health care system. In February 2009, Congress amended HIPAA with the Health Information Technology for Economic and Clinical Health (HITECH) Act. HITECH provides more punitive actions on breach notifications for covered entities and business associates.

On March 4 and 25, 2011, the Information Security team (core and extended members) took part in two afternoon work sessions with an outside consulting firm. This firm had a facilitated discussion with all SERS personnel who have contact with health care information. The result was a report comparing SERS practices against the new regulations and recommendations needed for compliance.

Institute of Internal Auditors Quality Assessment: At the September 2010 Board Meeting, a question was asked about auditing the Internal Audit department. A memo was prepared describing why Internal Audit should be externally reviewed and the types of external quality assessment reviews that can be performed to satisfy the Institute of Internal Auditors (IIA) five-year review requirement. A memo describing SERS' course of action to meet this standard was requested. The following plan was based on discussions with the IIA's professional standards section. This is the recommended plan for one-person audit departments.

1. Updated the Internal Audit Charter to include language stating that Internal Audit will conform

to the International Standards for the Professional Practice of Internal Auditing (Standards). The audit charter was completed and approved by the Audit Committee in January 2011.

2. For a one-person audit department, completion of a self assessment of the current audit function to establish baseline operations was recommended. The initial self assessment was completed by Internal Audit in April 2011. A presentation was made to the Audit Committee Chair, Board Chair, SERS Executive Director, and Deputy Executive Director on May 17, 2011 describing the results on the internal quality assessment.

Member and Retiree System (MARS) Replacement: The MARS computer system will be replaced in the next three to four years. A request for proposal (RFP) was released to the public and a notice of its publication sent to potential vendors. As a member of this team, the Internal Auditor reviewed the proposals from an audit control perspective. Status – Ongoing.

SERS Information Security Team: The purpose of this project team is to develop an expanded, enterprise-level SERS Information Security Program. While appropriate procedures exist today to preserve the integrity of SERS' electronic data, new threats created by changes in technology, modified internal and external business processes, and trends in criminal activity worldwide are driving the need to consistently apply and expand SERS' information security protections. The Internal Auditor's role on this committee is to review SERS' compliance with information security. Status – Ongoing.

III. Summary of Audit Committee Meetings and Actions Taken

This section identifies the dates of all meetings held and appropriate Audit Committee actions that took place at those specific meetings.

July 2010 – Internal Auditor presented the following reports:

- Investment Staff Disclosure Review
- MARS Change Testing – April / June 2010

August 2010 – Audit Committee did not meet.

September 2010 – Internal Auditor presented the following report:

- Fiscal Year 2010 Audit Committee Report for the Ohio Retirement Study Council

October 2010 – Internal Auditor presented the following reports:

- Investment Incentive Compensation Plan
- Quality Assessment and Improvement Plan

November 2010 – Internal Auditor presented following reports:

- Survivor Benefits
- MARS Change Testing – July / September 2010

December 2010 – Audit Committee reviewed the Fiscal Year 2010 Annual Financial Statements presented by the external auditors. Full Board approved Audited Financial Statements.

January 2011 – Internal Auditor presented the following reports:

- MARS Change Report for October / December 2010
- Internal Audit Charter

February 2011 – Audit Committee did not meet.

March 2011 – Audit Committee did not meet.

April 2011 – Internal Auditor presented the following report:
- MARS Change Report for January / March 2011

May 2011 – For a one-person audit department, completion of a self assessment of the current audit function to establish baseline operations was recommended. The initial self assessment was completed by Internal Audit in April 2011. A presentation made to the Audit Committee Chair, Board Chair, SERS Executive Director and Deputy Executive Director on May 17, 2011 describing the results on the internal quality assessment.

June 2011 – The external auditor discussed the year-end audit schedule along with the requirements and deliverable products of the engagement with the Audit Committee.

IV. FY2012 Annual Audit Plan

The one- and three-year audit plans for 2012, 2013, and 2014, and risk assessment documents, were reviewed and approved by the SERS Audit Committee in July 2011. The following documents internal Audit's scheduled reviews and projects by department for FY2012.

<u>Department</u>	<u>Audit Project</u>
Member Services	Member Change Reporting (Quarterly) Disability Benefits
Finance / Health Care	Health Care Fund Health Care Vendor Fees
Investments	Investment Staff Certification
Executive / Human Resources	Board Travel Expense
Information Technology / Administrative Services	New Benefit System Replacement

If you have any questions about this report, feel free at call me at 614-222-5892.

Respectfully submitted:



Dennis A. Tizeciak, CPA, CFE
Internal Auditor