



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

300 EAST BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746 • (614) 222-5853
Toll-Free 866-280-7377 • www.ohsers.org

JAMES R. WINFREE
Executive Director

LISA J. MORRIS
Deputy Executive Director

September 26, 2007

Aristotle Hutras
Ohio Retirement Study Council
88 East Broad Street, Room 1175
Columbus, OH 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, FY 2007.

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

Sincerely,

James R. Winfree
Executive Director

JRW:st
Enclosure

RETIREMENT BOARD

| | | | | |
|--|---|---|--|---|
| MARK E. ANDERSON <i>Chair</i> | CATHERINE P. MOSS <i>Vice-Chair</i> | MADONNA D. FARAGHER <i>Employee Member</i> | MARY ANN HOWELL <i>Retiree Member</i> | |
| HARRY J. LEHMAN <i>Appointed Member</i> | BARBARA E. OVERHOLSER <i>Employee Member</i> | BARBRA M. PHILLIPS <i>Employee Member</i> | JAMES A. ROSSLER, JR. <i>Appointed Member</i> | DANIEL L. WILSON <i>Appointed Member</i> |

School Employees Retirement System Audit Committee Annual Report Fiscal Year 2007

The following report documents the activities of the SERS Audit Committee and the SERS Internal Auditor for Fiscal Year 2007. The report is categorized into four areas:

- I. Audit Reviews Completed
- II. Special Projects Completed
- III. Summary of Audit Committee Meetings and Actions Taken
- IV. 2008 Annual Audit Plan

I. Audit Reviews Completed

This section documents the SERS Internal Auditor's completed reviews and projects for Fiscal Year 2007.

1. Board Travel Expenses: An internal control review of SERS Board Travel was performed during the first quarter fiscal year 2007. The audit examined controls associated with approval and payment of Board travel vouchers and proper documentation. The report was issued on October 6, 2006.
2. MARS Change Reporting: The next four reviews were done as a result of a management letter comment from Deloitte & Touche. In 2002, Internal Audit began a quarterly review of on-line reports for changes in contribution and service credit information, tracking overrides of calculated base disbursements amounts, and tracking demographic changes made to recipients of recurring benefits. MARS, or the Member Accounting Record System, is SERS' internally developed computer system used to keep track of member and retiree information, payments, etc.
 - A. MARS Change Report - April / June 2006: Report issued August 10, 2006. No material comments were noted.
 - B. MARS Change Report - July / September 2006: Report issued October 19, 2006. No material comments were noted.
 - C. MARS Change Report - October / December 2006: Report issued January 18, 2007. No material comments were noted.
 - D. MARS Change Report - January / March 2007: Report issued March 30, 2007. No material comments were noted.
3. Safety Net Sample Selection Plan: With the new healthcare changes enacted, qualifying SERS retirees can receive a subsidy to help cover their premiums. The subsidy is approved based on financial information that the retiree has reported. About 1,873 applications were approved, and the Healthcare department needed to verify a sample of the application's information. In December 2006, Internal Audit was asked for thoughts on the selection and testing of the sample size and confirmation drafts. The report was issued on January 10, 2007.

4. Investment Manager Conflict of Interest Annual Disclosure Statement Confirmation and Review: SERS has guidelines with regard to disclosure of conflicts of interest by investment managers. The purpose of this project was to review returned disclosure statements from SERS Investment Managers and examine any potential or real conflicts of interest that may compromise their professionalism. A report was issued on January 29, 2007 with no material comments.

5. Investment Manager Fees: The purpose of this audit was to review the controls associated with SERS Investment Manager Fees. The scope for the audit included a review of investment manager fees accrued and paid for 1st quarter fiscal 2007 (July – September 2006). The fees were examined to determine that they were properly computed and accrued monthly, compared to the quarterly manager fee invoice, and properly documented and approved for payment. The report was issued on May 4, 2007 with a minor comment.

6. Employer Payroll: Member Services: The purpose of this audit was to review the controls associated with Employer Payroll: Member Services function. The scope of the Employer Payroll, Member Services review focused on certain specific areas. These areas included:
 - Verifying school employee membership documents
 - Verifying that payroll reports are submitted timely (15th of the next month)
 - Timely follow-up on delinquent payroll reports
 - Member contributions are computed correctly
 - Member contributions are posted to the valid member account.
 A report was issued on June 8, 2007 with no material comments.

II. Special Projects Completed

This section documents the SERS Internal Auditor's special projects for Fiscal Year 2007 and key comments identified.

1. Member Enrollment MARS Security Access Review: On October 19, 2006, Internal Audit was asked for input into MARS security access for Member Enrollment section. This is a sensitive control module of MARS. Member Enrollment enables new SERS members to be enrolled in the pension plan, and also allows updating of demographic information for returning SERS members. Only essential users in Member Services should have access to use this module. It is important that these users do not have other functions that are incompatible with the Member Enrollment module. A report was issued on November 1, 2006 listing potential control concerns.

2. Member Services MARS Security Access Review: Internal Audit was asked to review the computer security assigned to Member Services personnel. It is important that security assigned is proper for the employee's job duties. A report was issued on March 1, 2007 documenting the procedures performed.

3. Annual Audit Committee Report: The Fiscal Year 2006 Audit Committee report was reviewed at the September Board meeting and sent to the ORSC on September 21, 2006.

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 2006 – Internal Auditor presented the MARS Change Report for January / March 2006.
- August 2006 – Audit Committee did not meet.
- September 2006 – Director of Finance discussed independence issues concerning external auditor’s role as lead plaintiff in a lawsuit. Internal Auditor presented the following reports:
 - Fiscal Year 2006 Audit Committee Report for the Ohio Retirement Study Council.
 - MARS Change Report for April / June 2006.
- October 2006 – Internal Auditor presented the SERS Fiscal Year 2006 Board Travel Expense report.
- November 2006 – Internal Audit presented the following reports:
 - MARS Change Report for July / September 2006.
 - Member Enrollment MARS Security Access Review.
- December 2006 – Audit Committee reviewed the 2006 Annual Financial Statements, presented by the external auditors. Full Board approved Audited Financial Statements.
- January 2007 – Internal Auditor presented the MARS Change Report for October / December 2006.
- February 2007 – Internal Audit presented the following reports:
 - Investment Manager 2006 Conflict of Interest Disclosure Statement Review.
 - Safety Net Sample Selection Plan.
- March 2007 – Audit Committee did not meet.
- April 2007 – Internal Audit presented the following reports:
 - MARS Change Report for January / March 2007.
 - Member Services MARS Security Access Review.
- May 2007 – Internal Auditor presented the Investment Manager Fees report.
- June 2007 – Audit Committee approved SERS Internal Auditor’s 2008 one and three-year audit and risk assessment plans. Internal Audit presented the Employer Payroll: Member Services report.

IV. 2008 Annual Audit Plan

The one- and three-year audit plans for Fiscal Years 2008, 2009 and 2010, and risk assessment documents were reviewed and approved by the SERS Audit Committee in June 2007. The following documents SERS Internal Audit’s scheduled reviews and projects by department for Fiscal Year 2008.

| <u>Department</u> | <u>Audit Project</u> |
|---------------------------|---|
| Finance / Member Services | Member Refunds / Withdrawals Employer Payroll |
| Finance / Healthcare | Healthcare Participant Eligibility Healthcare Fund |

Member Services

Member Change Reporting (Quarterly)

Finance / Investments

Investment Performance
Securities Lending

Healthcare

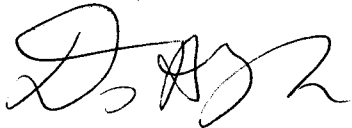
Healthcare Participant / Reverse Eligibility

Executive

Incentive Compensation – Investments
Fiduciary Audit (Possible Fiscal 2008 or 2009)

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

Respectfully submitted:



Dennis A. Trzeciak, CPA, CFE
Internal Auditor