



**Dave Yost • Auditor of State**





# Dave Yost • Auditor of State

## MANAGEMENT LETTER

Ohio Retirement Study Council  
88 East Broad Street, 11th Floor  
Columbus, OH 43215

We have audited the basic financial statements of the State of Ohio in accordance with *Government Auditing Standards* as of and for the year ended June 30, 2013, and have issued our opinion thereon dated December 20, 2013.

*Government Auditing Standards* require us to report significant internal control deficiencies, fraud, and illegal acts (including 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 have issued the required report on these matters as of and for the year ended June 30, 2013.

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, significant 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 for your consideration the following comments on the Council's internal controls. These comments reflect matters that do not require inclusion in the report *Government Auditing Standards* requires. However, we believe these comments represent matters for which 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, minutes, and legal compliance with certain laws and regulations for the period January 1, 2012 through June 30, 2013.

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the recommendations suggested below. However, these comments reflect our continuing desire to assist your Council. If you have questions or concerns regarding these comments, please do not hesitate to contact us.

## 1. REVENUE AND EXPENDITURES – INTERNAL CONTROLS

It is management's responsibility to design and implement internal control procedures to reasonably ensure revenue and expenditure transactions are processed timely, accurately, and completely. These procedures must include periodic reconciliations of accounts and records. Effective reconciliations are performed on a consistent basis, include appropriate follow-up for all significant reconciling items, and are properly documented. To be effective, the performance of an internal control procedure must be evidenced in some manner and periodically monitored by management.

During the audit period, the Council received approximately \$1.04 million in revenue from the five public retirement systems which are responsible for paying a proportionate share of the Council's annual expenses based on the value of their assets for the year. The Council disbursed \$956,411 for expenses during the audit period. After receiving an estimate of each retirement system's total assets, the Executive Assistant computed the proportionate share they were required to pay and submitted a memo detailing the payment amount to the Director for review. When payments from the retirement systems were received, they were accounted for in Quickbooks, the Council's accounting system, and deposited into a custodial bank account. At the end of each quarter, the Senior Research Associate was to review a quarterly deposit report and compare it to copies of the checks deposited from the retirement systems to ensure accuracy of the processed transactions. In addition, the Executive Assistant was to reconcile all revenues and expenditures reported on the Treasurer of State (TOS) Custodial Balance Summary to supporting documentation to ensure all financial activity of the Council was properly processed. However, these control procedures were not consistently performed and/or documented as indicated below:

- One of two (50%) quarterly memos selected for testing was not initialed by the Director to evidence it had been reviewed for accuracy prior to the disbursements being requested from the retirement systems.
- One of two (50%) quarterly deposit reports selected for testing was not initialed by the Senior Research Associate to evidence it had been reviewed and compared to the corresponding checks for accuracy.
- Two of five (40%) reconciliations selected for testing were not initialed by the Executive Assistant to evidence the Council's financial activity had been reconciled to the amounts reported by the TOS.
- The Council did not have complete policies and procedures over the revenue and expenditure transaction cycles to ensure staff responsibilities for internal control procedures were properly communicated and the control procedures were being performed.

In addition, the Council incorrectly coded one payment received to the wrong retirement system within Quickbooks. Management corrected this error in Quickbooks once it was brought to their attention.

Without complete policies and procedures or proper documentation and performance of internal controls, there is an increased risk that controls may not be working as management intended, applied consistently, or performed timely which can lead to inaccuracies in the accounting records. If controls are not properly communicated and monitored by management, these inaccuracies could go undetected or not be detected in a timely manner.

We recommend the Council update the revenue and expenditure policies to reflect current internal control procedures and provide them to all employees. These policies should be formally approved by management and updated on a regular basis to address any significant changes. We also recommend the Council reinforce existing procedures to ensure financial activity is being processed and accounted for accurately. The procedures performed should be adequately documented to provide management reasonable assurance they are being performed timely and consistently. In addition, management should periodically monitor these procedures to help ensure they are operating effectively and as intended.

## 2. PAYROLL

It is management's responsibility to implement internal control procedures over the payroll process to provide reasonable assurance payroll transactions are approved, processed accurately, and reflective of time worked or leave taken. To be effective, performance of these controls must be evidenced in order to show management that they were executed in a timely and consistent manner. It is important for management to monitor these control procedures to ensure they are operating effectively and as intended.

During the audit period, the Council disbursed \$457,683 in payroll expenditures. Each day, Council employees entered hours worked or any leave taken on a sign-in sheet. Since the Council employees were paid on a current basis, payroll was required to be submitted on the Tuesday prior to the Friday they were paid. At the end of each pay period, employees initialed the sign-in sheet to indicate the time reported was complete and accurate and submitted it to the Director for review. Prior to state fiscal year (SFY) 2013, the sign-in sheets were also provided to the Executive Assistant for entry into QuickBooks for processing and leave reports were reviewed by the Director to ensure accuracy. During SFY13, the leave and compensatory time was entered and tracked in an Excel spreadsheet. If there were changes to the employee's hours worked or leave used after payroll was submitted and approved, the Executive Assistant did not consistently change the Request for Leave forms and Excel spreadsheet to reflect the hours worked and leave used according to the sign-in sheet. A designated employee was to run a quarterly payroll summary report from Quickbooks and review it to ensure payroll was processed accurately. The Council did not consistently document existing controls over the payroll process or properly account for payroll transactions, as detailed below:

- Four of five (80%) payroll summary reports selected for testing were not initialed to evidence the designated employee's review.
- 13 of 28 (46.4%) leave requests selected for testing were processed for an amount that did not agree to the Request for Leave form or Excel spreadsheet. Three of the 13 items did not have a Request for Leave form. The remaining 10 items had variances that ranged from 0.25 hours to 8 hours, with an average of 3.8 hours. None of the 13 cases resulted in overpayments to employees as the time reported on the timesheet was accurate.
- One of nine (11.1%) timesheets selected for testing indicated the employee earned compensatory time but this time was not recorded on the Excel spreadsheet. The employee should have been credited 1.5 hours of compensatory time earned, but was not credited with any time.
- One of 28 (3.6%) leave requests selected for testing was for an amount of hours that exceeded the employee's available leave balance. The employee used 0.5 hours more compensatory time than was available. Since the employee retired from the Council during SFY 2014, this resulted in an overpayment to the employee of less than \$10.

In addition, the Director did not review and monitor the leave and compensatory time in the Excel spreadsheet to ensure leave used and balances were accurate.


A lack of internal controls or inconsistent documentation of controls performed over the leave and compensatory time tracking process does not provide management with reasonable assurance leave and compensatory time are being accurately recorded. This increases the risk that errors could go undetected, resulting in employees using leave beyond what they have earned or earning compensatory time beyond the hours actually worked. As a result, the Council could be overpaying employees for leave and/or compensatory time used that is not due to them. Management indicated that Council employees are now paid on a two week delay, effective January 2014, which allows them to record and track leave more accurately.

**2. PAYROLL (Continued)**

We recommend the Council develop and implement internal controls over the leave and compensatory time tracking process to ensure time is being recorded accurately. In addition, the Council should reinforce existing procedures to ensure the Council's payroll is being processed properly. Internal control procedures should be adequately documented to provide reasonable assurance they are performed timely and consistently. In addition, management should periodically monitor these procedures to help ensure they are operating effectively and as intended. Lastly, we recommend the Council take steps to reconcile employee leave balances and make adjustments where necessary so balances are accurate going forward. Any payments for leave used that were beyond the employee's balance at the time of the leave should be recouped from the employee.

On June 3, 2014, we held an exit conference with the Ohio Retirement Study Council's management and discussed the contents of this letter. The Council has responded to the issues discussed in this Management Letter. A copy of their response may be obtained from Bethany Rhodes, Director at (614) 228-1346.

This letter is intended for the information and use of State of Ohio management and the Ohio General Assembly and is not intended to be and should not be used by anyone other than these specified parties.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

June 3, 2014



# Dave Yost • Auditor of State

**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  
JULY 8, 2014**



# Ohio Retirement Study Council

88 East Broad Street, Suite 1175  
Columbus, Ohio 43215  
PHONE: 614-228-1346  
FAX: 614-228-0118

June 10, 2014

Mr. Allen Moore, Senior Audit Manager  
Office of the Auditor of State  
88 East Broad Street, 10<sup>th</sup> Floor  
Columbus, Ohio 43215

Dear Mr. Moore:

Thank you for the opportunity to respond to the management letter regarding the financial audit of the Ohio Retirement Study Council (ORSC) for the period January 1, 2012, through June 30, 2013. My comments are organized under the headings included in that letter.

## **REVENUE AND EXPENDITURES- QUARTERLY MEMOS**

*In the letter, it was noted that one of the two quarterly memos selected for testing was not initialed by the Director to evidence it had been reviewed for accuracy prior to the disbursements being requested from the retirement systems.*

Previously, staff would draft the quarterly memos, and the Director would review and initial prior to staff sending the memos. In the cases where other staff did draft the memos, the Director did review and initial the work. However, with the transition of staff also came the transition of duties and priorities, including those of the Director. The Director personally authors and sends the quarterly memos, including the two tested and cited for lack of review by the Director. The Director believed that since she was personally writing and sending the memos, it was clear that she had reviewed it and her initials were immaterial. However, we understand that this is most likely an exception to the norm, and the Director has and will initial all subsequent quarterly memos in order to show they were, in fact, reviewed by the Director prior to sending.

## **REVENUE AND EXPENDITURES- QUARTERLY DEPOSITS**

*In the letter, it was noted that one of the two quarterly deposits selected for testing was not initialed by the Senior Research Associate to evidence it had been reviewed and compared to the corresponding checks for accuracy.*

The Auditor discovered that prior to this audit, this report had been completed monthly for the previous ten years without exception by the former Staff Attorney; however, in March of 2012, records show that the filing of this report abruptly stopped. It is

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#### Director/General Counsel

Jethany Rhodes



important to note that this specific report is completed to ensure that all deposits are recorded and verified accurately and must not be completed by either the Director or the Executive Assistant. In this case, it could only be completed by the Staff Attorney (now the Senior Research Associate or Research Associate) in order to abate a risk of abuse. This report has since been filed appropriately, and current staff has put protocols in place to ensure that this report is completed each quarter.

#### REVENUE AND EXPENDITURES- RECONCILIATIONS

*In the letter, it was noted that two of the five reconciliations selected for testing were not initialed by the Executive Assistant to evidence the Council's financial activity had been reconciled to the amounts reported to the Treasurer of State.*

Similar to the quarterly memos above, the Executive Assistant believed it to be clear that printing the reconciliation reports and highlighting (in differing colors) the various parts before filing were evidence to show that they had been reconciled. However, we understand need for clarity, and the Executive Assistant has and will initial all subsequent reconciliation reports in order to show they were, in fact, reconciled.

#### REVENUE AND EXPENDITURES- INCOMPLETE POLICIES AND PROCEDURES

*In the letter, it was noted that the Council did not have complete policies and procedures over the revenue and expenditure transaction cycles to ensure staff responsibilities for internal control procedures were properly communicated and the control procedures were being performed.*

At the time of this audit, all computers and software for managing revenue were being updated, and a secure internal network was installed in place of an open-access, residential, wireless modem. Prior to this update, software incompatibility with the TOS and Fifth Third Bank was problematic especially since any existing revenue policies and procedures were outdated. Staff has now reviewed and updated all policies and procedures, which are currently being reviewed by the Attorney General's office. The Executive Assistant has also created and implemented a comprehensive checklist to ensure accuracy in reporting revenue activity and consistency in operational effectiveness.

#### PAYROLL- SUMMARY REPORTS

*In the letter, it was noted that four of the five payroll summary reports selected for testing were not initialed to evidence the designated employee's review.*

Prior to this audit letter, summary reports were fastened to additional forms, and the Director only initialed the top form of the packet. However, the Executive Assistant has and will prepare all forms for the Director *and/or* the Senior Research Associate to initial individually.

#### PAYROLL- LEAVE REQUESTS

*In the letter, it was noted that 13 of 28 leave requests selected for testing were processed for an amount that did not agree to the Request Leave form or Excel spreadsheet.*

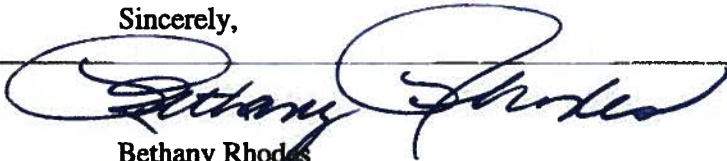
Since this audit letter, the Senior Research Associate and the Executive Assistant both review and calculate the time listed on the Leave Request forms and the Excel Spreadsheet to verify that the leave times match on both documents. Also, in January of 2014, the staff changed the payroll cycle dates to a two week delay from a current pay cycle. Previously, payroll was submitted biweekly on the Tuesday prior to when paychecks were issued, thereby compensating staff for work days prior to those actual days taking place. This shift has alleviated several time calculation oversights and prevents any issue of misuse and abuse.

**PAYROLL- TIMESHEETS AND LEAVE REQUESTS**

*In the letter, it was noted that one of nine timesheets selected for testing where the employee earned compensatory time had an amount of hours earned that did not agree to the Excel spreadsheet, and one of twenty-eight leave requests selected for testing was for an amount of hours that exceeded the employee's available leave balance.*

The Auditor discovered that two leave amounts were recorded in the wrong columns on the Excel Spreadsheet. As stated above, staff has and will continue to have the Executive Assistant *and* the Senior Research Associate review and verify that the calculations of leave time are correct.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bethany Rhodes", is written over a horizontal line.

Bethany Rhodes  
Director/ General Counsel