

OHIO RETIREMENT STUDY COUNCIL

MANAGEMENT LETTER

FOR THE YEARS ENDED JUNE 30, 2014 – 2015



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, 2015, and have issued our opinion thereon dated December 22, 2015.

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 dated December 22, 2015 for the year ended June 30, 2015.

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, 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.

In addition, the procedures we performed identified one finding for recovery repaid under audit in favor of the Council which was included in the State of Ohio's report. This finding is included in the attachment to this management letter as 2015-003.

We are also submitting the following comment for your consideration regarding the Council's internal controls. This comment reflects matters that do not require inclusion in the report *Government Auditing Standards* requires. Nevertheless, this comment represents matters for which we believe 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, and legal compliance with certain laws and regulations for the period July 1, 2013 through June 30, 2015.

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing these recommendations. 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. Comments marked with an asterisk (*) were also reported in the prior Management Letter.

1. PAYROLL *

An effective internal control structure requires implementation of procedures which provide management with assurance that transactions are processed accurately, completely, and are indicative of actual activity. It is imperative that control procedures be adequately documented to evidence they are performed timely, consistently, and as intended by an appropriate level of

1. PAYROLL * (Continued)

management, enabling management to place reliance on them. Furthermore, payroll costs must be based on actual hours worked.

During the audit period, the Council disbursed \$630,701 in payroll expenditures and had established control procedures over the process. Each day, employees recorded their hours worked, compensatory/overtime earned, and any leave taken on the sign-in sheet, which their supervisor reviewed and approved at the end of each pay period. Additionally, employees completed Leave Request Forms which their supervisor reviewed and approved at the end of each pay period. All leave taken and leave balances were tracked on an Excel spreadsheet which was printed monthly and initialed/dated when reviewed by the Executive Assistant. However, the Council did not consistently perform control procedures and did not accurately record leave taken, as noted below:

- For three of 15 (20%) employees tested, the hours on the Leave Request Form (LRF) did not agree with the hours recorded on the Excel spreadsheet and the sign-in sheet. The variances ranged from 0.25 hours to 3 hours. Although the employees were paid the correct amounts, their remaining leave balances were not correctly adjusted.
- For one of six (16.7%) monthly leave reports tested, the Council could not locate the original signed document; therefore, there was no evidence to indicate the report was reviewed.
- For one of 18 (5.6%) requests for leave tested, the Council Chairman did not sign the Director's Leave Request Form to indicate approval.

When payroll charges are not recorded accurately or supported by source documents, there is an elevated risk that fraudulent, inaccurate, and incomplete transactions may be processed; assets or resources of the Council could be compromised; and, irregularities could occur without being detected in a timely manner. If leave is not properly documented/recorded, the Council cannot be assured the employee obtained proper supervisory approval. This also increases the risk that leave taken will not be accurately and completely entered on timesheets or leave tracking spreadsheet.

We recommend the Council evaluate its existing control procedures for processing payroll and revise them as needed to ensure the accuracy and completeness of the transactions processed. Specifically, the Council should reconcile timesheets, Leave Request Forms, and the leave tracking spreadsheet prior to approval of bi-weekly payroll to reasonably ensure payroll transactions for each employee are indicative of actual time worked and leave taken, and to ensure the leave tracking spreadsheet is accurately updated. These procedures should be clearly documented and all documentation should be maintained according to approved records retention schedules. Management should periodically monitor established controls to ensure they are operating as intended.

On September 21, 2015, we delivered a draft of this Management Letter to the Ohio Retirement Study Council's management and provided them with an opportunity to have an exit conference to discuss its contents. The Ohio Retirement Study Council has elected not to have an exit conference, but has responded to this Management Letter. A copy of their response may be obtained from Bethany Rhodes, Director/General Counsel at (614) 228-1346. This letter is intended for the information and use of State of Ohio management and the Ohio General Assembly.

As mentioned above, the Ohio Retirement Study Council had a finding for recovery repaid included in our report on the State of Ohio's compliance and internal controls required by *Government Auditing Standards* as of and for the year ended June 30, 2015. As a result, this management letter was held for release until that report was issued. This finding is identified in the attachment to this management letter.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

February 23, 2016

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1. FINDING FOR RECOVERY REPAID UNDER AUDIT – PAYROLL OVERPAYMENT

<i>Finding Number</i>	2015-003
<i>State Agency</i>	Ohio Retirement Study Council
<i>State Agency Number</i>	RET-001

Ohio Rev. Code §171.03 (C) lists one of the powers of the Ohio Retirement Study Council (the Council) is to “Fix the compensation of the director and all other employees of the council.” Employee compensation is based on hours worked, services performed, or the use of earned benefits (vacation, sick, personal, or overtime / compensatory time). Generally, entities pay employee compensation after the actual work is performed (delayed), but some entities pay employees as the pay is earned or in advance (current).

During the audit period, the Council changed its practice from paying employees on a two-week current basis to a two-week delayed basis, similar to the majority of state entities. Paula H. Levitt was an employee who was paid on a current basis and retired approximately the same time as the Council transitioned to a delayed basis payroll process for employees. The Council issued two different checks to compensate Paula H. Levitt for 80 hours of work/leave used for the pay period ending January 27, 2013. As such, the Council paid Ms. Levitt twice for the same pay period – once on a biweekly current pay status and again as a biweekly delayed pay status. The gross amount overpaid, either directly to Ms. Levitt or on her behalf for benefits (taxes and pension), was \$1,539.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code § 117.28, a finding for recovery for public money illegally expended was issued against Paula H. Levitt in the amount of \$1,539 and in favor of the Ohio Retirement Study Council. On August 13, 2015, Bethany Rhodes, Director/General Counsel of the Ohio Retirement Study Council repaid \$1,539 which was posted to the Council's operating account.

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Dave Yost • Auditor of State

OHIO RETIREMENT STUDY COUNCIL

FRANKLIN COUNTY

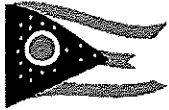
CLERK'S CERTIFICATION

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
MARCH 17, 2016



Ohio Retirement Study Council

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

September 29, 2015

Voting Members

Senators

Bill Beagle, *Chair*
Edna Brown
Jay Hottinger

Representatives

Kirk Schuring, *Vice-Chair*
Ron Amstutz
Dan Ramos

Governor's Appointees

Lora Miller
Seth Morgan
Vacant

Non-Voting Members

Mark Atkeson, *HPRS*
Karen Carraher, *PERS*
John Gallagher, *OP&F*
Lisa Morris, *SERS*
Mike Nehf, *STRS*

Director/General Counsel

Bethany Rhodes

Mr. Francis R. Schwinne, CPA, CISA
Senior Audit Manager
Office of the Auditor of State
88 East Broad Street
Columbus, Ohio 43215

Dear Mr. Schwinne:

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 July 1, 2013, through June 30, 2015.

The ORSC staff does not disagree with any of the findings of the audit as listed in the management letter:

- Leave Request Form (LRF) discrepancy with sign in sheet (three errors);
- Unable to locate original monthly leave report (one error);
- Council Chairman LRF approval error (one error).

The ORSC staff would like to note, however, the timing of the noted errors and implementation of better controls regarding LRFs:

- LRF discrepancy with sign in sheet (three errors)- the date of errors occurred on pay periods ending: 8/9/2013 (1 error) and 11/15/2013 (2 errors);
- Council Chairman LRF approval error was during pay period ending 11/15/2013.

The previous audit of the ORSC began on April 4, 2013, with the draft management letter being received by the ORSC staff over a year later on June 3, 2014. When notified of the errors contained in the 2013 management letter, Executive Assistant Cindy Burck and Senior Research Associate Jeff Bernard instituted a new series of controls to address the issues that were identified. Due to the significant time lapse between the beginning and completion of the 2013 Audit, the findings contained in the 2015 Audit Management Letter all predate notification of any issues raised in the 2013 Audit Management Letter and the new controls implemented to correct the issues. The ORSC staff is pleased to see that after the implementation of these new controls, which were instituted on May 29, 2014, the error rate on LRFs appears to be 0%.

The loss of the original signed document is the exception, with the loss occurring sometime in the summer of 2014. The ORSC staff does acknowledge this error.

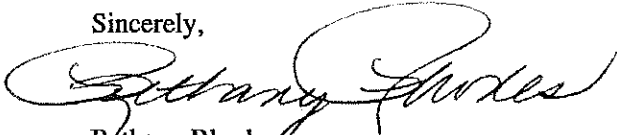
Additionally, the payroll overpayment was, as noted in the Attachment to the Management Letter, a one-time anomaly due to a complete overhaul to the payroll manner. A number of previous audits had noted the discrepancies in LRFs and time sheets as well as the consistent need to correct leave balances from previous pay periods. The ORSC staff determined the root cause of the issue was due to the employee compensation being paid "current" rather than "delayed." Upon careful consideration, the ORSC staff concluded it was most prudent and appropriate to convert to the "delayed" pay period.

The overpayment occurred in this case due to this shift in payroll manner simultaneously as Mrs. Paula Levitt was retiring from public service. Additionally, Mrs. Levitt had been summoned for jury duty the last month of her employment, which only further complicated and delayed the finalization of her pay and also the certification of her retirement, as ORSC employees may only retain compensation up to \$15 jury duty pay for each day of service in addition to their full salary.

Upon the conversion from a "current" to a "delayed" pay period in 2014, assistance was requested and declined by the auditors who were still conducting the 2013 Audit. While it was generally agreed that such a shift would most likely cure the issues noted, the ORSC staff was informed that either system was permissive and would be reviewed in the 2015 Audit.

The auditors notified the ORSC staff of the payroll overpayment on August 13, 2015, and I immediately issued a personal check in the full amount for \$1,539.00 that same day to reimburse the ORSC. The funding for the ORSC wholly derives from the membership of the five public pension systems and, as Director, it is ultimately my responsibility and liability to ensure that they remain whole.

Sincerely,



Bethany Rhodes
Director/General Counsel