



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

300 E. BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746
614-222-5853 • Toll-Free 800-878-5853 • www.ohsers.org

RICHARD STENSURD
Executive Director

HELEN M. NINOS
Deputy Executive Director

January 2, 2018

Bethany Rhodes, Director/General Counsel
Ohio Retirement Study Council
30 E. Broad St., 2nd Floor
Columbus, OH 43215

Dear Ms. Rhodes:

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 2017. The attached report was prepared by SERS' Chief Audit Officer, Joe Bell, and incorporates the reporting format approved by the Ohio Retirement Study Council.

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

Sincerely,

Richard Stensrud
Executive Director

Enclosure

RETIREMENT BOARD

DANIEL L. WILSON
Chair, Appointed Member

JAMES A. ROSSLER, JR.
Vice-Chair, Appointed Member

JEFFREY DELEONE
Appointed Member

HUGH GARSIDE, JR.
Employee-Member

JAMES H. HALLER
Employee-Member

CHRISTINE D. HOLLAND
Employee-Member

CATHERINE D. MOSS
Retiree-Member

BARBRA M. PHILLIPS
Employee-Member

BEVERLY A. WOOLRIDGE
Retiree-Member

School Employees Retirement System of Ohio CY2017 Annual Audit Report

Closed Audits: Recommendations

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
OSERS' Tenant Revenues (February 2017)	Mod.	<u>Administrative Services Department</u> Review included: ➤ Contract Management ➤ Invoice and Revenue Monitoring ➤ Financial Reporting	1. Develop formal policies and procedures to document key OSERS' tenant revenue processes such as contracting, billing, monitoring, and reporting. (Mod.) 2. Processes should be consistently supported by signed contracts with current rate schedules. (Low) 3. Revenue monitoring should include reviews of payment timeliness. (Low)	1. Develop policies and procedures to document processes and process changes. 2. All parking agreements have been signed and parking agreements include rate schedules. 3. OSERS implemented a new software system to enhance monitoring and tracking of all revenues from tenant leases and parking agreements. All payments due to OSERS have been received timely.	1. Yes 2. Yes 3. Yes	1. June 2017 2. June 2017 3. February 2017
		Comments: OSERS' controls for tenant revenues were properly designed and operating effectively in accordance with tenant contracts. No significant issues to OSERS were identified. Scope of audit did not include SERS' IT applications used for tracking and reporting tenant revenues. Conference room and miscellaneous income represent less than 1% of tenant revenue and was excluded from the audit scope.				

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
Disability Benefits (June 2017)	High	<u>Member Services Department</u> Review included: <ul style="list-style-type: none"> ➤ Disability application and eligibility ➤ SERS' physician selection and review ➤ Disability evaluation and determination ➤ Benefit calculation and payment ➤ Disability recertification (medical exam, earnings review) ➤ Communication (to members; sensitive data handling) 	<ol style="list-style-type: none"> 1. Conduct periodic review of physician licensing requirements. (Low) 2. Prepare updated policies and procedures. (Low) 3. Develop and monitor key metrics for physicians. (Low) 4. Consider an external resource for unique independent medical examiner needs. (Low) 	<ol style="list-style-type: none"> 1. Annually verify all medical examiners and notate status in SMART. 2. Update all policies/procedures, including documentation of SMART process changes. 3. Continue to ensure disability applications are given proper review and determination - SMART capabilities will allow for better comparison of examiners. 4. Continue outreach to other retirement systems/third-party vendor if unique specialist is needed. 	<ol style="list-style-type: none"> 1. Yes 2. No 3. Yes 4. Yes 	<ol style="list-style-type: none"> 1. June 2017 2. February 2018 3. September 2017 4. September 2017
		<p>Comments: Member Services' controls were operating effectively to ensure disability benefits were properly designed and operating effectively in accordance with laws, policies and procedures. No significant issues were identified.</p> <p>This audit focused on disability benefits for the audit period of calendar year 2016 and scope of review did not include a detailed review of SERS' IT applications due to recent IT changes. Benchmarking was a high-level analysis with a limited focus (timely, costs, yearly trends, approval/denial rate, peer comparisons) with follow up as necessary. The any occupation requirement was new and a limited scope review.</p>				

Closed Audits: Recommendations (cont.)

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Death Benefits (October 2017)	Mod.	<u>Member Services Department</u> Review included: ➤ Application and eligibility - beneficiary designation ➤ Death match notification and processing ➤ Death benefit calculation and payments to beneficiaries ➤ Monitoring (vendor; ongoing fraud) ➤ Communication (to members; sensitive data handling)	1. Improve vendor monitoring with added contract language and annual vendor report review. (Mod.) 2. Develop timely monitoring reports for follow up on aged accounts receivable or payable. (Mod.) 3. Monitor high risk benefit payments to avoid prolonged overpayments involving unreported deaths. (Mod.) 4. Increase bank use for receivables. (Low) 5. Use more sources for death notification. (Low) 6. Analyze root cause for errors/delays. (Low) 7. Periodic review of access rights. (Low) 8. Increase metric tracking. (Low)	1. Vendor's SSAE 16 report will be requested and reviewed. Future contracts will be amended. 2. Coordinate with IT and Finance to create a receivable query/monitoring report. Improve receivable collections via enhanced offset policy. 3. High risk benefit recipients will be identified and monitored through regularly scheduled reviews. 4. Meet with Finance to determine dollar limits for overpayment bank collections. 5. Contact Ohio Department of Health to receive death information for benefit recipients. May consider other states. 6. Contact vendor for delay reasons in reporting deaths to SERS. 7. Annually review access rights to vendor's system. 8. Work with IT to develop a query/reports for death benefit activities.	1. No 2. No 3. No 4. No 5. No 6. No 7. No 8. No	1. March 2018 2. March 2018 3. March 2018 4. March 2018 5. March 2018 6. March 2018 7. March 2018 8. March 2018
Comments: Member Services' controls were operating effectively to ensure death benefits provided to beneficiaries were properly designed and operating effectively in accordance with laws, policies and procedures. No significant issues were identified.						
This audit focused on death benefits for the audit period of April through September 2017 and excluded ongoing survivor benefit payments remitted upon the death of a member before attaining retirement status. Scope of review included a limited access control review, not a detailed review of SERS' IT applications.						

Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Ethics Filings – Undue Influence Compliance Review (July 2017)	Low	<u>All Departments</u> 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.	Not Applicable.
		Comments: Reviewed submitted <i>SERS Statement Regarding Undue Influence</i> certification forms and no documented comments were reported.	
Ethics Filings – Conflicts of Interest Compliance Review (July 2017)	Low	<u>Investment Department and Investment Compliance</u> Review disclosures by investment staff and external investment service providers for conflicts of interest compliance. Review includes: <ul style="list-style-type: none"> • Investment staff certification • Financial Disclosure Statement • Professional Conduct Statement • Investment Manager Agreement • Required Annual Disclosure Form 	One minor observation - Management should ensure a proper reconciliation to the Board Manager Card and year-end investment balances occurs for a complete listing of vendors. Two vendors were inadvertently omitted from the annual required annual disclosure form request. Management promptly requested and received the form disclosures without any exceptions noted.
		Comments: Reviewed SERS' investment staff disclosures and external investment service providers and one minor observation was communicated.	
Investment Incentive Compensation Review (September 2017)	Low	<u>Investment Department and Enterprise Risk Management</u> Evaluate controls and payments associated with the FY2017 Investment Incentive Compensation Plan.	The ERM Officer was effective in completing the calculations in an accurate manner with supporting documentation. Some calculation errors were identified during testing and properly and timely adjusted by the ERM Officer.
		Comments: The investment incentive plan appears supportive of the Board's intent to reinforce a performance philosophy to attract and retain high-quality talent within Investments. Performance incentive calculations were properly computed.	

Active Audits: As of December 2017

Audit Area	Risk Rating	Scope	Target Completion
Information Security Maturity Assessment	High	<p>An engagement performed by an external firm to evaluate the current maturity level of SERS' Information Security Program and processes using a maturity framework that assesses the following areas:</p> <ul style="list-style-type: none"> ○ Program Governance, Management and Culture ○ Security Risk Management, Planning, Budget and Resources ○ Security Controls, Compliance & Access Management ○ Threat Detection and Response ○ Employee Behavior and Risk Awareness ○ Incident Response and Crisis Management ○ Third-Party Risk Management <p>The assessment will identify current maturity levels, evaluate gaps, and provide recommendations for enhancing the maturity of SERS' Information Security Program.</p>	January 2018

Other Audit-Related Activity

Area	Risk Rating	Subject/Project	Description
External Quality Assessment Review	N/A	Internal Audit Function	<p>The audit firm of Plante Moran was selected by SERS' Audit Committee to conduct an external quality assessment (QA) of SERS' internal audit (IA) activity. The objectives of the QA were to assess the IA activity's conformance to The Institute of Internal Auditors' <i>International Standards for the Professional Practice of Internal Auditing (Standards)</i>, evaluate the IA activity's effectiveness in carrying out its mission, and identify opportunities to enhance its management and work processes, as well as its value to SERS.</p> <p>Plante Moran's overall opinion found the IA activity to 'Generally Conform' to all of the <i>Standards</i> and Code of Ethics, which is the highest rating attainable. Plante Moran identified four recommendations which included: revise the Audit Committee Charter; update risk assessment format and presentation; assess IT governance program; and, summarize findings documentation.</p>
SMART	High	Software Implement	Internal Audit maintained involvement in pre-implementation activities by assessing conformance to CoBIT's Build, Acquire, and Implement (BAI07) requirements for exit and entry criteria standards, participation in SMART committee and leadership implementation meetings, and discussion of user acceptance/system testing, training, and change management initiatives. Test results were also shared with external auditors and fiduciary auditors to enhance coordination of audit resources. Ongoing participation in post-implementation continues and has been incorporated into audit engagements, as applicable.
Fiduciary Audit	N/A	Audit Facilitation	<p>Internal Audit served as the point of contact between the fiduciary auditors, ORSC, and SERS' management to perform the following:</p> <ul style="list-style-type: none"> • Facilitated 32 interviews of SERS' leadership and Board, and 23 calls to key external service providers • Uploaded 500+ documents into auditor's portal and organized completion of enterprise questionnaire of 200+ questions • Worked with SERS' management to review and respond to auditor's draft and final reports • Ongoing coordination of audit comment remediation and reporting results to the Board
External Audit	N/A	Financial Statements	External auditors provide all required written communication and verbal updates on the audit of the annual financial statements to the Audit Committee and Board.
Committee Report	N/A	CY2016 Annual Report	Pursuant to R.C. 3309.044, a report of actions taken by the Audit Committee of the SERS' Retirement Board for calendar year 2016 was submitted on March 27, 2017.
Internal Audit Annual Plan	N/A	Create FY2018 Audit Plan	The FY2018 Internal Audit Plan was approved by the SERS Retirement Board on June 15, 2017.
Comment Remediation	N/A	Issued Audit Comments	Perform audit remediation activities involving internal, external, and fiduciary audit comments.
Financial Reporting	N/A	Financial Statement Controls	The Chief Financial Officer regularly provides updates to the Committee on financial reporting processes, changes in accounting and financial reporting standards, comprehensive annual financial report overview, processes in place to limit material control weaknesses and fraud, and periodic updates on activities involving external auditors or other oversight entities.

Composition of Audit Committee at the end of calendar year 2017 reporting year (R.C. 3309.044)

Barbra M. Phillips (Chair), Employee Member

Catherine P. Moss, Retiree Member

James A. Rossler Jr., Appointed Member