



**OHIO RETIREMENT STUDY COUNCIL**

**MANAGEMENT LETTER**

**FOR THE YEARS ENDED JUNE 30, 2021 – 2020**

**OHIO AUDITOR OF STATE**  
**KEITH FABER**





# OHIO AUDITOR OF STATE KEITH FABER



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## MANAGEMENT LETTER

Ohio Retirement Study Council  
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We are auditing, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements defined in our Independent Auditor's Report of the State of Ohio as of and for the year ended June 30, 2021, and the related notes to the financial statements and will issue our report thereon.

*Government Auditing Standards* require us to communicate deficiencies in internal control, as well as, report on compliance with certain provisions of laws, regulations, contracts and grant agreements that could directly and materially affect the determination of the State of Ohio's financial statement amounts. We will issue the required report for the year ended June 30, 2021.

The Ohio Retirement Study Council (the Council) is part of the primary government of the State of Ohio. The scope of our audit included testing procedures related to state revenues, non-payroll disbursements, payroll disbursements, inventory, and legal compliance with certain laws and regulations for the period July 1, 2019 through June 30, 2021. 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.

We are also submitting the following comments for your consideration regarding the Council's compliance with applicable state laws, regulations, contract provisions, and internal control. These comments reflect matters that do not require inclusion in the *Government Auditing Standards* report. Nevertheless, these comments represent matters for which we believe improvements in compliance or internal controls or operational efficiencies might be achieved. Comments previously reported in the Management Letter are marked with an asterisk (\*).

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 but are only a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified. If you have questions or concerns regarding these comments, please do not hesitate to contact us.

## 1. LEGAL COMPLIANCE – DUTIES OF COUNCIL

Ohio Rev. Code (ORC) § 171.04 states, in part:

The Ohio retirement study council shall:

...

(E) Have prepared for each system by an independent actuary, at least once every ten years, an actuarial review of the actuarial valuations and quinquennial actuarial investigations prepared under sections 145.22, 742.14, 3307.20, 3309.21, and 5505.12 of the Revised Code, including a review of the actuarial assumptions and methods, the data underlying the valuations and investigations, and the adequacy of each system's employee and employer contribution rates to amortize its unfunded actuarial pension liability, if any, and to support the payment of benefits authorized by Chapter 145., 742., 3307., 3309., or 5505. of the Revised Code. The council shall submit to the governor and the general assembly a report summarizing each review...

(F) Have conducted by an independent auditor at least once every ten years a fiduciary performance audit of each of the state retirement systems...

It is management's responsibility to develop and implement internal control procedures to reasonably ensure compliance with state laws and regulations and to ensure all required actuarial reviews and fiduciary performance audits are performed in a timely manner.

During the audit period, the Council had procedures in place related to the contracting process to select an independent actuary to perform actuarial reviews for each of the five public retirement systems; State Highway Patrol Retirement System (SHPRS), State Teachers Retirement System (STRS), Ohio Public Employees Retirement System, School Employees Retirement System, and Ohio Police and Fire Pension Fund (OP&F). However, these procedures did not cover the contracting process to select an independent auditor to conduct the fiduciary performance audits for each of the five public retirement systems, nor did they include any controls to ensure the required reviews were performed in a timely manner or to document the required protocol should a delay be encountered for one of these required contracts. As a result, the following review/audits were not completed in accordance with the ORC requirements:

- An actuarial review has not been completed in the last 10 years for:
  - SHPRS; the last review was completed in 2000.
  - STRS; the last review was completed in 2009.
  
- A fiduciary performance audit has not been completed in the last 10 years for:
  - OP&F; the last audit was completed in 2006.
  - STRS; the last audit was completed in 2006.
  - SHPRS; the last audit was completed in 2011.

Without timely actuarial reviews and fiduciary performance audits of the retirement systems, the Council is not in compliance with the ORC requirements. As a result, those charged with governance for the State of Ohio, the members of the systems, and the public cannot be reasonably assured the systems are operating efficiently and maintaining solvency to ensure retirement benefits for members exist into the future. .

We recommend the Council create, review, and update its procedures to ensure all actuarial reviews and fiduciary performance audits are completed in a timely manner, in accordance with the ORC requirements. As part of these procedures, the Council should develop a tracking system to monitor when the reviews and audits are due in order to begin the contracting process early enough to allow the selected firm to complete the review/audit by the timeframes outlined in the ORC. In addition, these

### **1. LEGAL COMPLIANCE – DUTIES OF COUNCIL (Continued)**

procedures should document a formal process for obtaining approval to delay one of these engagements, should appropriate circumstances require it. These procedures should include notification and acceptance of such a change from the legislative oversight committee. Formal approval of these procedures should be obtained from the Council and management should perform periodic monitoring to help ensure the established procedures are operating as intended.

### **2. POLICIES AND PROCEDURES – REVENUE AND EXPENDITURES \***

An entity's system of internal controls consists of the policies and procedures established by management to provide reasonable assurance that specific operational objectives will be achieved. These policies establish the authorization level for financial and operational transactions to be executed and set the tone for management's commitment to the accomplishment of their goals and statutory requirements. Additionally, the documentation of policies represents the initiation point for the development and implementation of control procedures that provide specific direction for consistent and timely processing of financial and operational transactions.

During the audit period, the Council processed approximately \$1.2 million in revenue and disbursed approximately \$1.2 million in expenditures. The Council had a Policies and Procedures Manual and written policies and procedures over revenue and expenditures; however, there was no evidence that Management or the Council members formally approved them.

Without formally approved policies and procedures over key areas of operation and the required dissemination of those policies, management cannot be reasonably assured transactions are processed accurately or consistently, their goals and statutory and professional requirements are being accomplished, or employees are fully aware of the provisions of the policies

We recommend the Council formally document its approval of written policies and procedures relating to the processing of all significant financial and operational transactions. Once approved, these procedures should be communicated to employees and used as a basis in evaluating their performance. In addition, management should perform periodic monitoring to help ensure the established policies and procedures are operating as intended. We further recommend the Council review, evaluate, and update its policies and procedures on a regular basis to ensure they remain current and are meeting management's and the governing Council's objectives.

### **3. SEGREGATION OF DUTIES \***

It is management's responsibility to ensure control procedures are established to provide an adequate segregation of duties within the control structure to ensure financial objectives will be achieved and assets are not misappropriated. Segregation of duties is the first line of defense against the prevention, detection, and correction of errors and irregularities. The objective of an effective segregation of duties is to ensure no one person has complete control over a transaction throughout its initiation, authorization, recording, processing, and reporting.

During the audit period, the Council processed approximately \$1.2 million in payroll and non-payroll expenditures. The Council has various control procedures over the expenditure process; however, there is a lack of segregation of duties in the payroll and non-payroll expenditure processes. For payroll expenditures, the Executive Assistant initiates changes to modify the Employee Master file and is also involved in preparing payroll for processing, generating payroll checks, and recording payroll expenses in the accounting system (QuickBooks). When an employee has access to the Employee Master file, they should not be directly involved in the payroll process. For non-payroll expenditures, the Executive Assistant prepares vouchers for payment, initiates ACH payments, mails vendor checks, receives goods, and helps with the reconciliation process.

**3. SEGREGATION OF DUTIES \* (Continued)**

In the absence of a proper segregation of duties, the Council is provided with only minimal assurance that all expenditures are properly disbursed and accounted for. Furthermore, the Council increases the risk that transactions may be processed inconsistently or inaccurately and may not be detected in a timely manner

We recommend the Council evaluate and strengthen current internal controls over payroll and non-payroll expenditures to promote an adequate segregation of duties. These procedures should specifically segregate the duties between updating the Employee Master file and payroll processing, as well as segregate the duties between purchasing, disbursing, and reconciling in the non-payroll expenditure process. Management should formally document the procedures and disseminate them to employees involved in the expenditure processes. Management should also periodically monitor the procedures and control activities to help ensure they are in place and operating as intended.

The Ohio Retirement Study Council has responded to the issues discussed in this Management Letter. You may obtain a copy of their response from Bethany Rhodes, Director/General Counsel at (614) 228-1346. This letter is intended for the information and use of management and those charged with governance for the State of Ohio.



Keith Faber  
Auditor of State  
Columbus, Ohio

October 6, 2021