



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 STENSRUD
Executive Director

KAREN D. ROGGENKAMP
Deputy Executive Director

December 21, 2021

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 2021. The attached report was prepared by SERS' Chief Audit Officer, Jeff Davis, and incorporates the reporting format approved by the Ohio Retirement Study Council.

Please feel free to contact Jeff Davis or myself if you have any questions.

Sincerely,

Richard Stensrud
Executive Director

Enclosure

RETIREMENT BOARD

BARBRA M. PHILLIPS
Chair, Employee-Member

JEFFREY DELEONE
Vice-Chair, Appointed Member

HUGH GARSIDE, JR
Employee-Member

JAMES H. HALLER
Employee-Member

MATTHEW A. KING
Employee-Member

CATHERINE P. MOSS
Retiree-Member

JAMES A. ROSSLER, JR
Appointed Member

FRANK A. WEGLARZ
Retiree-Member

DANIEL L. WILSON
Appointed Member

School Employees Retirement System of Ohio 2021 Annual Audit Report

(Submitted to ORSC December 21, 2021)

Closed Audits: Recommendations

Audit Area	Risk Rating ¹	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target
Processing and Payment of Refunds (March 2021)	Low	<p><u>Member Services</u></p> <p>Ensure the member refund process is properly designed and consistently processed in accordance with SERS' policy and procedures and adheres to legal requirements that govern refunds. Review includes:</p> <ul style="list-style-type: none"> • Evaluation of refund requests • Monitoring of members near refund eligibility • Supervisor/audit review processes • Payment/reporting processes • Communication • Required Minimum Distribution 	<p>Consider transitioning member refunds to direct deposit rather than mailing refund checks to members.</p>	<p>Preliminary discussions regarding design and identify resources needed to complete initiative have been held.</p>	No	2022
<p><u>Comments:</u> Controls for processing and payment of refunds were operating effectively to achieve business objectives.</p>						

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 ²	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target Implementation
Death Benefits (December 2021)	<ol style="list-style-type: none"> 1. Mod 2. Low 3. Low 	<p>Death Benefits</p> <p>Ensure death benefit processes are properly designed and operating effectively in accordance with SERS' policy and procedures and adheres to legal requirements. Review includes:</p> <ul style="list-style-type: none"> • Application and eligibility • Death Match notification and processing • Benefit calculation and payment • Monitoring • Communication 	<ol style="list-style-type: none"> 1. Sensitive data should be protected by ensuring that key contract requirements are completed. 2. Proactively monitor higher risk members and use available death notification resources. 3. The periodic review of access rights should be documented. 	<ol style="list-style-type: none"> 1. Contract provisions and offboarding activities will be monitored. 2. Member Services anticipates reactivating the procedure of identifying and monitoring "high risk" members beginning in January 2022. Vital statistics data will be used in the death confirmation process. 3. The periodic review of access rights will be documented. 	<p style="text-align: center;">Yes</p> <p style="text-align: center;">No</p> <p style="text-align: center;">No</p>	<p style="text-align: center;">2021</p> <p style="text-align: center;">2022</p> <p style="text-align: center;">2022</p>
<p><u>Comments:</u> Controls related to Death Benefit processing were operating effectively to achieve business objectives.</p>						

² 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: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Payroll (January 2021)	Low	Administrative Services Ensure that payroll processes are properly designed and consistently applied in accordance with SERS' policy and procedures and adheres to legal requirements.	Not applicable. Comments: Controls for payroll processing were operating effectively to achieve business objectives.
Capital Calls and Distributions (July 2021)	Low	Investments Department/Finance/ERM Ensure that the capital call and distribution process is properly designed and consistently processed in accordance with SERS' policy and procedure. Comments: Controls for the capital call and distribution process were operating effectively to achieve the business objectives.	Not applicable.
Undue Influence (August 2021)	Low	All Departments 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. Comments: The CAO and Chief Risk Officer reviewed the submitted undue influence forms and determined they were properly filed with no instances reported on the 27 forms submitted.	Not applicable.
Investment Incentive Compensation Review (August 2021)	Low	Investments Department and Enterprise Risk Management Evaluate controls and payments associated with the FY2021 Investment Incentive Compensation Plan. 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. The Chief Risk Officer was effective in completing the calculations in an accurate manner with supporting documentation. There were no calculation errors identified during testing.	Not applicable

Closed Audits: No Recommendations (cont.)

Audit Area	Risk Rating	Scope	Management's Response
Conflicts of Interest Compliance Review (October 2021)	Low	Investments Department and Investment Compliance Review disclosures by Investments staff and external investment service providers for conflicts of interest compliance. Review included: <ul style="list-style-type: none"> • Investment staff certification • Financial Disclosure Statement • Professional Conduct Statement • Investment Manager Agreement • Required Annual Disclosure Form 	Not applicable.
Comments: Reviewed SERS' Investments staff disclosures and external investment service providers. No exceptions identified.			

Active Audits: As of December 2021

Audit Area	Risk Rating	Scope	Target Completion
Retiree Accounting Microsoft Office 365 Security Review	Low Mod	Assessment of the design and effectiveness of key controls and compliance with laws and regulations related to Retiree Accounting. Outsourced security review of Microsoft Office 365.	February 2022 May 2022

Other Audit Related Activity

Area	Risk Rating	Subject/ Project	Description
Disaster Recovery/ Cloud Migration	Mod	Disaster Recovery	The CAO provided consulting services related to the ongoing assessment of disaster recovery/cloud migration. This is a continuation of a process that began with an outsourced review, managed by Internal Audit, of SERS' disaster recovery strategies.
Pharmacy Audit	Mod	Benefits	SERS engaged Sagebrush Analytic Solutions LLC to conduct bi-annual audits of its pharmacy benefit manager to determine overall claims processing accuracy and efficiency and to identify opportunities for improved administration. Internal Audit provided consulting services related to the audit.
Risk Management	N/A	Strategic Plan	Internal Audit provided ongoing consulting into the development and implementation of SERS' risk management program and practices, as identified in audit reports and SERS' FY2020-24 Strategic Plan.
External Audit	N/A	Financial Statements	External auditors provided 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	CY2020 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 2020 was submitted on December 21, 2020.
Internal Audit Annual Plan	N/A	FY2022 Plan	The FY22 Internal Audit Plan was approved by the SERS Audit Committee on June 16, 2021.
Merit Increases	Low	Payroll	Reviewed FY22 annual merit increases.
Employer Reporting	Low	Finance	Reviewed Employer Reporting process.
Comment Remediation	N/A	Issued Audit Comments	Perform audit remediation activities involving internal, external, and other 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.
Internal Audit Operations	N/A	Internal Audit Quality Assurance	Internal Audit consists of one employee, a Chief Audit Officer (CAO). The CAO continues to maintain quality within audit practices to maintain conformance with IIA Standards. Audit activities include: <ul style="list-style-type: none"> • Updated Internal Audit Operations Manual, Audit Committee and Internal Audit Charters, and standard work paper forms. • Completed CAO annual goals aimed at improving audit effectiveness, plan completion, coordination, and collaboration. • The CAO performed a comprehensive self-assessment of internal audit operations.

Composition of Audit Committee at the end of calendar year 2021 reporting year (R.C. 3309.044)

Barbra M. Phillips (Chair), Employee Member

Catherine P. Moss, Retiree Member

James A. Rossler Jr., Appointed Member