



# SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

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LISA J. MORRIS  
Interim Executive Director

September 21, 2010

Aristotle Hutras  
Ohio Retirement Study Council  
88 East Broad St, Room 1175  
Columbus, OH 43215

Dear Aris:

Pursuant to R.C. 3309.044, enclosed please find a report of actions taken by the Audit Committee of the SERS Retirement Board during the preceding fiscal year, FY2010.

Please feel free to contact me if you have any questions.

Sincerely,

**Lisa J. Morris**  
Interim Executive Director

Enclosure

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## RETIREMENT BOARD

BARBRA M. PHILLIPS  
*Chair*

HARRY J. LEHMAN  
*Vice-Chair*

MARK E. ANDERSON  
*Employee Member*

MADONNA D. FARAGHER  
*Employee Member*

MARY ANN HOWELL  
*Retiree Member*

CATHERINE P. MOSS  
*Retiree Member*

JAMES A. ROSSLER, JR.  
*Appointed Member*

BEVERLY A. WOOLRIDGE  
*Employee Member*

RICHARD W. SENSENBRENNER  
*Appointed Member*

# School Employees Retirement System Audit Committee Annual Report Fiscal Year 2010

The following report documents the activities of the SERS Audit Committee and the SERS Internal Auditor for Fiscal Year 2010. The report is categorized into four areas:

- I. Audit Reviews Completed
- II. Special Projects Completed
- III. Summary of Audit Committee Meetings and Actions Taken
- IV. 2011 Annual Audit Plan

## **I. Audit Reviews Completed**

This section documents the SERS Internal Auditor's completed reviews and projects for Fiscal Year 2010.

**MARS Change Reporting:** The next four reviews were done as a result of a management letter comment from Deloitte & Touche. In 2002, Internal Audit began a quarterly review of on-line reports for changes in contribution and service credit information, tracking overrides of calculated base disbursements amounts, and tracking demographic changes made to recipients of recurring benefits. The Member Accounting Record System (MARS), is SERS' internally developed computer system used to keep track of member and retiree information, payments, etc.

- **MARS Change Report - April / June 2009:** Report issued July 10, 2009. No material comments were noted.
- **MARS Change Report - July / September 2009:** Report issued October 22, 2009. No material comments were noted.
- **MARS Change Report - October / December 2009:** Report issued February 3, 2010. No material comments were noted.
- **MARS Change Report - January / March 2010:** Report issued March 26, 2010. No material comments were noted.

**Employee Payroll:** The purpose of this audit was to review the controls surrounding the processing of SERS' employee payroll under the new UltiPro system. The scope of this audit included a review of employee payroll processing, accurate computations of gross pay, deductions and net pay, payroll information security, new hires, terminations, leave entitlements, and payroll tax computations. The test period were payrolls completed from January through September 2009. The audit report was issued December 3, 2009 with one comment.

**Purchase Service Credit:** The purpose of this review was to examine the controls concerning SERS' members purchasing service credits. The time period examined was January 2009 to November 2009. The scope of this audit included but was not limited to the following:

- Person purchasing service credit is a SERS member with at least 18 months of contributing service in the system.

- A member may purchase all or part of the credit the member is eligible to purchase in one or more payments. If a member purchases credit in more than one payment, compound interest shall be charged on the balance remaining after the first payment is made.
- If service is from another retirement system, purchase is certified by SERS and / or other retirement personnel.
- Amount to purchase service credits is computed correctly.

The audit report was issued on February 2, 2010 with no material comments.

**Investment Staff Disclosure Review:** In 2007, SERS implemented a policy and procedure that covers the supervision of investment operations and disclosures by investment staff for the purposes of complying with Ohio law. It is imperative that the investment information and advice provided by SERS' investment staff is not impaired by conflicts of interest. Annually, investment staff files a report consisting of the following documents:

- Investment staff certification
- Individual's latest Financial Disclosure Statement filed with the Ohio Ethics Commission
- Individual's latest Professional Conduct Statement filed with the CFA Institute

A review was performed on these documents. The audit report was issued on June 29, 2010 with no material comments.

## **II. Special Projects Completed**

This section documents the SERS Internal Auditor's special projects for Fiscal Year 2010 and key comments identified.

**Annual Audit Committee Report:** The Fiscal Year 2009 Audit Committee report was reviewed at the September Board meeting and sent to the ORSC on September 21, 2009.

**Investment Manager Conflict of Interest Review:** The purpose of this review was to verify that SERS personnel are confirming with SERS Investment Managers any potential or real conflict of interests that may compromise their professionalism. Once confirmed, if a conflict of interest is noted, procedures are in place to monitor and notify management of any conflicts.

The scope of this review included the following key control points:

- A comparison of Investment disclosure lists sent to the number of investment managers from Investments.
- Verifying that the disclosure form was completed by appropriate Investment Manager personnel (i.e. Chief Compliance Officer, General Counsel, etc.).
- Noting any gifts directly or indirectly to SERS' staff or any of its board members. In the sample, no respondent reported giving anything of value directly to a SERS Board or Staff member.
- Broker-Dealer Relationships: SERS does business with a number of companies who are related to broker-dealers. As long as these relationships are disclosed, and the manager has policies and procedures in place to ensure that transactions are allocated and executed at arm's length, such relationships are acceptable. In the sample tested, these broker-dealer relationships were properly disclosed.

A report was issued on September 2, 2009 with no material comments.

**Other System Waivers Project:** Internal Audit assisted Health Care in providing audit guidance for the handling of an eligible SERS health care recipient who is also an eligible health care recipient of another Ohio retirement system. This was a computerization project for Health Care in relation to reimbursement of health care medical, drug and or Medicare Part B costs between Ohio pension systems. This project was completed on December 23, 2009.

**Corporate Emergency Preparedness Plan:** The purpose of the Corporate Emergency Preparedness Plan is to restore essential business functions and to resume normal business operations and services as soon as possible. The Plan assumes a range of exposure from partial loss of facilities to a complete loss of access to facilities. The Plan assumes disaster duration of one day to two weeks. Yearly, SERS performs a test involving SERS personnel and their functions. For 2009, the test was broken into two parts:

- December 8, 2009 – Hot-Site testing of the plan
- December 22, 2009 – Stress testing of hot-site computer equipment

**I: December 8, 2009 – Business Continuity Site Testing of the Plan:** On December 8, 2009, a test was performed of the SERS Corporate Emergency Preparedness Plan (CEPP). The goals of this test included maintaining critical business functions and coordination of the respective emergency teams at the Business Continuity Site, about 15-20 miles from SERS. Staff identified a number of objectives for this test.

- 1) Determine if the plan still meets the Critical Business Functions Addressed for the organization.
- 2) Ensure every team and team member is trained in all aspects of the plan.
- 3) Allow every team member the opportunity to learn an easy route to get to the Business Continuity Site.
- 4) Introduce new team members/back-ups to their responsibilities during a recovery operation.
- 5) Allow senior management to understand the current state of preparedness for all departments and the technology infrastructure recovery plans at the Business Continuity Site to determine if it will be sufficient to respond appropriately to a disaster.
- 6) Update inventory lists for supplies, equipment, hardware, software, telecommunications equipment, etc.
- 7) Identify problems and oversights within the plan that need to be corrected and/or adjusted.

A report dated February 5, 2010 was issued with no material comments.

**II: December 22, 2009 – Stress Testing of Business Continuity Site Computer Equipment:** SERS Information Technology and Administrative Services departments performed a stress test at the Business Continuity Site on December 22, 2009. Stress-testing is a form of testing designed to determine the stability of a computer system under extreme conditions. The stress test incorporated about 18-20 SERS staff at the site accessing daily software applications, SharePoint documents, and internet services. The objective of the stress test was to simulate the work environment and test the current capacity of the computer system. A report was issued on February 5, 2010 with no material comments.

**Health Care Fraud, Waste & Abuse Project:** In November 2009, the Board asked: Where is fraud likely to occur in a pension plan? Four areas were identified as potential areas that fraudulent activities could occur. The Board's focus was Health Care fraud. From previous attended conference material, seven areas were listed pertaining to Health Care fraud:

- Unbundling and up-coding of service
- Sweetheart deals with network providers
- General kickbacks
- Fictitious services
- Non-transmittal of rebates and discounts
- Fictitious claims by service providers and / or participants
- Duplicate coverage

A memo, (dated March 17, 2010) was written that discusses how SERS' insurance carriers have fraud prevention departments in place to monitor the above areas.

**MARS Security Review:** The MARS Security Users listing details what access each SERS' employee has to the MARS system. This is important because not all employees should have access to certain areas (Example: Finance personnel should not be able to set up retiree accounts.) The employee's security level should be consistent with current job requirements. This project was completed May 14, 2010.

**2011 One- and Three-Year Audit Plans:** The audit plans were issued on June 1, 2010.

### **III. Summary of Audit Committee Meetings and Actions Taken**

This section identifies the dates of all meetings held and appropriate Audit Committee actions that took place at those specific meetings.

**July 2009** – Internal Auditor presented the following reports:

- Investment Staff Disclosure Review
- MARS Change Testing – April / June 2009

**August 2009** – Audit Committee did not meet.

**September 2009** – Internal Auditor presented the following reports:

- Fiscal Year 2009 Audit Committee Report for the Ohio Retirement Study Council
- Investment Manager Conflict of Interest Review

**October 2009** – Audit Committee did not meet.

**November 2009** – Internal Auditor presented the MARS Change Report for July / September 2009.

**December 2009** – Audit Committee reviewed the Fiscal Year 2009 Annual Financial Statements presented by the external auditors. Full Board approved Audited Financial Statements. Internal Auditor presented the Employee Payroll Audit Report.

**January 2010** – Audit Committee did not meet.

**February 2010** – Internal Auditor presented the following reports:

- MARS Change Report for October / December 2009
- Corporate Emergency Preparedness Plan Testing
- Purchase Service Credit Review

**March 2010** – Audit Committee did not meet.

**April 2010** – Internal Auditor presented the following reports:

- MARS Change Report for January / March 2010
- Health Care Fraud, Waste & Abuse Report

**May 2010** – Audit Committee did not meet.

**June 2010** – The external auditor discussed the year-end audit schedule along with the requirements and deliverable products of the engagement with the Audit Committee. Internal Auditor presented the 2011 one- and three-year audit and risk assessment plans.

#### **IV. 2011 Annual Audit Plan**

The one- and three-year audit plans for Fiscal Years 2011, 2012, and 2013, and risk assessment documents, were reviewed and approved by the SERS Audit Committee in June 2010. The following documents Internal Audit's scheduled reviews and projects by department for Fiscal Year 2011.

<u>Department</u>	<u>Audit Project</u>
Finance	Accounts Payable
Member Services	Member Change Reporting (Quarterly) Survivor Benefits Disability Benefits
Finance / Investments	Securities Lending Management Fees
Health Care	Health Care Subsidies / Rebates Safety Net Program Review
Investments	Investment Staff Certification
Executive / Human Resources	Investment Incentive Comp
Information Technology / Administrative Services	Business Continuity Testing

If you have any questions about this report, feel free to call me at 614-222-5892.

Respectfully submitted:



CPA, CFE

Dennis A. Trzeciak, CPA, CFE  
**Internal Auditor**