



**SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

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JAMES R. WINFREE  
*Executive Director*

LISA J. MORRIS  
*Deputy Executive Director*

September 17, 2009

Aristotle Hutras  
Ohio Retirement Study Council  
88 East Broad Street, 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, FY 2009.

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

Sincerely,

**James R. Winfree**  
Executive Director

JRW:st  
Enclosure

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RETIREMENT BOARD

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*Appointed Member*

# School Employees Retirement System Audit Committee Annual Report Fiscal Year 2009

The following report documents the activities of the SERS Audit Committee and the SERS Internal Auditor for Fiscal Year 2009. 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. 2010 Annual Audit Plan

## I. Audit Reviews Completed

This section documents the SERS Internal Auditor's completed reviews and projects for Fiscal Year 2009.

**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. MARS, or the Member Accounting Record System, is SERS' internally developed computer system used to keep track of member and retiree information, payments, etc.

- **MARS Change Report - April / June 2008:** Report issued July 10, 2008. No material comments were noted.
- **MARS Change Report - July / September 2008:** Report issued November 13, 2008. No material comments were noted.
- **MARS Change Report - October / December 2008:** Report issued January 23, 2009. No material comments were noted.
- **MARS Change Report - January / March 2009:** Report issued April 8, 2009. No material comments were noted.

**Retiree Benefit Payments:** The purpose of this audit was to review the controls and documentation associated with Retiree Benefit Payments. The scope of the audit included a review of retiree file documentation, benefit payment recalculation, and retiree payment system. A report was issued on November 3, 2008 with one comment.

**Retiree Death Match Review:** Prevention of overpayments depends on timely reporting of a retiree's death and timely discontinuance of payments. The purpose of this review was to examine the controls identifying deceased retiree members and preventing the payment of monthly benefits to deceased retirees. The audit report was issued May 5, 2009 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 25, 2009 with no material comments.

## **II. Special Projects Completed**

This section documents the SERS Internal Auditor's special projects for Fiscal Year 2009 and key comments identified.

**Payroll Processing Procedures:** Internal Audit was requested by the Payroll department to review their documented procedures for payroll processing for the external auditors. Project completed in August 2008.

**"Ghost" Employees:** The purpose of this review was to examine the controls preventing the addition of false or "ghost" employees into Human Resource records and preventing false paychecks to ghost employees from Payroll. A report was issued on September 4, 2008 documenting SERS' procedures on handling ghost employees.

**Annual Audit Committee Report:** The Fiscal Year 2008 Audit Committee report was reviewed at the September Board meeting and sent to the ORSC on September 22, 2008.

**Claims Administration Audit Review:** During the second half of 2008, an external audit of health care claims was performed by Claims Technologies. The vendor performed this service for SERS, PERS, and STRS. 100% of all claims processed for the period 1/1/2006 to 12/31/2007 were reviewed. Internal Audit was requested by the Health Care department to review the draft audit report and give input as to the results.

**Health Care Eligibility Verification / Audit Process:** During November 2008 through January 2009, Internal Audit worked with SERS' Information Technology and Health Care departments to help identify strengths and weaknesses in SERS' health care participation system. Flowcharts were created that documented the eligibility determination and enrollment process. This area is reviewed by Internal Audit on a periodic basis.

**Corporate Emergency Preparedness Plan (CEPP) Testing:** On November 4, 2008, a test was performed of the SERS Corporate Emergency Preparedness Plan (CEPP). The goals of this test include 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 identified 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 and back-up staff 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.

Also, the SERS Information Technology and Administrative Services departments performed a stress test at the Business Continuity Site on December 3, 2008. 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, 2009 with no material comments.

**Review of SERS Payroll Controls:** Internal Audit was asked to attend a meeting concerning UltiPro Payroll Processing Procedure Flow. The purpose of this meeting was to review the internal controls surrounding the processing of SERS employee payroll under the new UltiPro system. A payroll internal controls document prepared by the Payroll Administrator was reviewed. As a product of this meeting, Internal Audit was requested to provide suggestions concerning the payroll controls presented. Status – Completed February 2009.

**2010 One- and Three-Year Audit Plans:** The audit plans were issued on June 3, 2009.

### **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 2008** – 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 MARS Change Report for April / June 2008.

**August 2008** – Audit Committee did not meet.

**September 2008** – Internal Auditor presented the following reports:

- Fiscal Year 2008 Audit Committee Report for the Ohio Retirement Study Council.
- "Ghost" Employee Review

**October 2008** – Audit Committee did not meet.

**November 2008** – Internal Auditor presented the Retiree Benefit Payment report.

**December 2008** – Audit Committee reviewed the 2008 Annual Financial Statements presented by the external auditors. Full Board approved Audited Financial Statements. Internal Auditor presented the MARS Change Report for July / September 2008.

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

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

- MARS Change Report for October / December 2008
- Corporate Emergency Preparedness Plan Testing

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

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

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

- MARS Change Report for January / March 2009
- Retiree Death Processing Review

**June 2009** – Audit Committee approved the SERS Internal Auditor's 2010 one- and three-year audit and risk assessment plans.

#### **IV. 2010 Annual Audit Plan**

The one- and three-year audit plans for Fiscal Years 2010, 2011 and 2012, and risk assessment documents, were reviewed and approved by the SERS Audit Committee in June 2009. The following documents Internal Audit's scheduled reviews and projects by department for Fiscal Year 2010.

<u>Department</u>	<u>Audit Project</u>
Finance	Bank Custodial Fees
Member Services	Member Change Reporting (Quarterly) Purchase Service Credits Disability Benefits
Finance / Investments	Investment Performance
Health Care	Health Care Eligibility Safety Net Program Review
Investments	Investment Staff Certification
Executive / Human Resources	Employee Payroll

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