



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

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JAMES R. WINFREE
Executive Director

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Deputy Executive Director

September 19, 2008

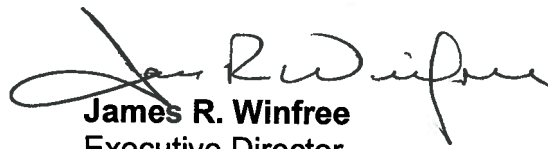
Aristotle Hutras
Ohio Retirement Study Council
88 East Broad Street, Room 1175
Columbus, OH 43215

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 2008.

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

Sincerely,



James R. Winfree
Executive Director

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Enclosure

RETIREMENT BOARD

CATHERINE P. MOSS
Chair

JAMES A. ROSSLER, JR.
Vice-Chair

MARK E. ANDERSON
Employee Member

MADONNA D. FARAGHER
Employee Member

MARY ANN HOWELL
Retiree Member

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BARBRA M. PHILLIPS
Employee Member

DANIEL L. WILSON
Appointed Member

School Employees Retirement System Audit Committee Annual Report Fiscal Year 2008

The following report documents the activities of the SERS Audit Committee and the SERS Internal Auditor for Fiscal Year 2008. 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. 2009 Annual Audit Plan

I. Audit Reviews Completed

This section documents the SERS Internal Auditor's completed reviews and projects for Fiscal Year 2008.

Health Care Fund Review: The SERS Health Care Fund is used for payment of medical expenses, premiums, and prescriptions for retirees, beneficiaries, and survivors. SERS offers several types of health plans from various vendors, including HMO's, PPO's, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. The scope of the Health Care Fund review focused on certain specific areas including:

- Examining MARS Security for respective Finance and Health Care personnel for control duty overlap.
- Verifying that premiums paid by retirees were deposited in the Health Care Fund.
- Verifying the insurance claims and premiums paid were correct and accurately reported.
- Verify that any drug rebate money or Med D drug subsidy money received was documented and reported in the fund.

The audit report was issued on August 31, 2007 with no material comments.

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 disbursement 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 2007:** Report issued July 12, 2007. No material comments were noted.
- **MARS Change Report - July / September 2007:** Report issued October 16, 2007. No material comments were noted.
- **MARS Change Report - October / December 2007:** Report issued December 31, 2007. No material comments were noted.
- **MARS Change Report - January / March 2008:** Report issued April 19, 2008. No material comments were noted.

Member Refunds / Withdrawals: In the event that a member needs to withdrawal money from his / her account, SERS has several types of refunds / withdrawals:

1. Regular And Additional - A member has ceased employment with the school for at least ninety (90) days and applies for a refund of his/her deposits with SERS.
2. Death - The member dies before retirement or a retiree dies. The member's designated beneficiary (ies) may apply for a refund of the member's deposits with SERS.
3. Payment Of Additional Annuities - Payment of a lump sum annuity to a reemployed retiree.
4. Balance of Account - Retiree dies leaving a balance in his/her account.

The scope of the Member Refund / Withdrawal review focused on certain specific control points pertaining to regular member refunds only. Key control points tested included:

- Refund application was completed by the member.
- Member had a current membership record on file.
- Refund was issued after three months elapsed from the date of the last school service.
- Refunds were computed based on the member's account balance.
- For member account refunds that were rolled over into a qualifying plan, the amount was payable to the rollover recipient.
- For refunds made to members (not a qualifying plan), 20% is deducted from the refund amount for federal income taxes on tax-deferred contributions.

The audit report was issued on March 5, 2008 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 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. Yearly, 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.

The audit report was issued on June 2, 2008 with no material comments.

Investment Incentive Comp Payments: The purpose of this audit was to review the controls associated with 2007 Investment Incentive Compensation payments. The scope for the audit included a review of all investment incentive compensation payments for fiscal year 2007. The payments were examined to determine that they were properly computed based on performance goals, properly documented, and approved for payment.

The audit report was issued November 30, 2007 with one minor comment.

II. Special Projects Completed

This section documents the SERS Internal Auditor's special projects for Fiscal Year 2008 and key comments identified.

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. This test assumed a six-week disaster period.

On November 6, 2007, a test was performed of the Corporate Emergency Preparedness Plan. The scenario for the disaster included an early morning tornado touchdown in the SERS vicinity. The building sustained severe damage. A part of the building interior was exposed, and Columbus Police secured a five-block area. The goals of this test include maintaining critical business functions, coordination of the respective emergency teams, and production of voucher payments at the hot site location, about 15-20 miles from SERS.

An audit report was issued on November 28, 2007 with recommendations on hot site telecommunication and data processing needs.

Email and Internet Usage Survey of APPFA Members: The purpose of this review was to review the survey results of APPFA (Association of Pension Plan Fund Auditors) members concerning how their employees are notified of their email and internet usage policies. At SERS, all employees need to sign a form acknowledging SERS' email and internet usage permitted and prohibited. We have internet monitoring and filtering capabilities. The employees agree to the internet policy at time as a part of employee orientation. Periodically, when the email and internet policies are revised, employees are reminded of the policies. An internal report was issued July 3, 2007 documenting the results.

Annual Audit Committee Report: The Fiscal Year 2007 Audit Committee report was reviewed at the September Board meeting and sent to the ORSC on September 24, 2007.

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 2007 – Audit Committee did not meet.
- August 2007 – Audit Committee did not meet.
- September 2007 – Internal Auditor presented the following reports:
 - Fiscal Year 2007 Audit Committee Report for the Ohio Retirement Study Council.
 - MARS Change Report for April / June 2007.
 - Health Care Fund.
- October 2007 – Audit Committee did not meet.
- November 2007 – Internal Auditor presented the MARS Change Report for July / September 2007.
- December 2007 – Audit Committee reviewed the 2007 Annual Financial Statements, presented by the external auditors. Full Board approved Audited Financial Statements. Internal Auditor presented the following reports:
 - Investment Incentive Compensation.
 - Corporate Emergency Preparedness Plan Testing.
- January 2008 – Internal Auditor presented the MARS Change Report for October / December 2007.

- February 2008 – Audit Committee did not meet.
- March 2008 – Internal Auditor presented the Member Refunds / Withdrawals report.
- April 2008 – Audit Committee did not meet.
- May 2008 – Internal Auditor presented the MARS Change Report for January / March 2008.
- June 2008 – Audit Committee approved the SERS Internal Auditor's 2009 one- and three-year audit and risk assessment plans. Internal Auditor presented the Investment Professional Staff Disclosure report.

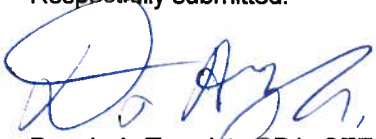
IV. 2009 Annual Audit Plan

The one- and three-year audit plans for Fiscal Years 2009, 2010, and 2011, and risk assessment documents, were reviewed and approved by the SERS Audit Committee in June 2008. The following shows the Internal Auditor's scheduled reviews and projects by department for Fiscal Year 2009.

<u>Department</u>	<u>Audit Project</u>
Finance	Bank Custodian Fees
Member Services	Member Change Reporting (Quarterly) Postretirement Benefits Death Matches
Finance / Investments	Investment Performance Securities Lending Investment Manager Conflict of Interest
Healthcare	Safety Net Review

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

Respectfully submitted:


 Dennis A. Trzeciak, CPA, CFE
Internal Auditor