



**SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

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RICHARD STENSURD  
*Executive Director*

KAREN D. ROGGENKAMP  
*Deputy Executive Director*

December 26, 2019

Bethany Rhodes, Director/General Counsel  
Ohio Retirement Study Council  
30 E. Broad St., 2<sup>nd</sup> 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 2019. The attached report was prepared by SERS' Chief Audit Officer, Joe Bell, and incorporates the reporting format approved by the Ohio Retirement Study Council.

Please feel free to contact Joe Bell or myself if you have any questions.

Sincerely,

**Richard Stensrud**  
Executive Director

Enclosure

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RETIREMENT BOARD

CATHERINE D. MOSS  
*Chair, Retiree-Member*

HUGH GARSIDE, JR.  
*Vice-Chair, Employee-Member*

JEFFREY DELEONE  
*Appointed Member*

JAMES A. ROSSLER, JR.  
*Appointed Member*

JAMES H. HALLER  
*Employee-Member*

BARBRA M. PHILLIPS  
*Employee-Member*

DANIEL L. WILSON  
*Appointed Member*

FRANK WEGLARZ  
*Retiree-Member*

MATTHEW KING  
*Employee-Member*

# School Employees Retirement System of Ohio CY2019 Annual Audit Report

(Submitted to ORSC December 18, 2019)

## Closed Audits: Recommendations

Audit Area	Risk Rating <sup>1</sup>	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target Implementation
Cash Management (May 2019)	Med	<u>Investments Department</u> Review included: A. Money market B. Cash forecast C. Cash transfer D. Commercial paper	1. Formalize existing functions into policy (Low) 2. Consider modifying Multi-Asset Strategies funding process (Low) 3. Summary memo for money market selection (Low)	1. Will create charter and map process workflows. 2. Currently not feasible due to investment timing needs. 3. Will formalize during next custodial contract.	1. No 2. No 3. No	1. 2020 2. N/A 3. 2020
<p><u>Comments:</u> Investments' controls for cash management were properly designed and operating effectively to ensure proper access, safeguarding and compliance with investment requirements for money markets, cash forecasts, cash transfers, and commercial paper. Only minor issues were identified.</p> <p><u>Scope Limit:</u> Primarily focused on cash management and short-term investment activities of Investments Department. Scope did not include cash overlay or securities lending programs managed by third parties. Access controls received only a limited review of Bloomberg terminals.</p>						

<sup>1</sup> 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	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
External Data Transmissions Assessment (June 2019)	High	<p><u>All Departments</u>                      Review included stages of data transmission:</p> <p>A. legal contracts                      B. data access controls                      C. data validation                      D. job scheduling                      E. data transmission controls                      F. vendor report monitoring                      G. escalation processes                      H. vendor termination planning</p>	<p>1. Develop and establish a formal governance program for the third party risk management program (Mod.)</p> <p>2. Enhance contract review and execution process by enhancing contract provisions (Mod. to High)</p> <p>3. Develop and establish formal governance for a user provisioning process, including privileged accounts (High)</p> <p>4. Develop and review standard build profiles for all printers to improve security of the devices. (Mod.)</p> <p>5. Regularly perform scans to track and manage software licenses in a single location (Mod.)</p> <p>6. Implements controls for whitelisting/blacklisting of software (Mod.)</p> <p>7. Formally document secure configuration baselines for all operating systems, networking devices and software and regularly monitor compliance (Mod.)</p> <p>8. Evaluate information security resource needs (Mod.)</p> <p>9. Perform regular access reviews for disability medical examiners &amp; vocational evaluators (Low)</p> <p>10. Develop policies and procedures for the use of password vaults (Low)</p>	<p>1. Committee developed to oversee third party management processes.</p> <p>2. Contract template revised.</p> <p>3. Evaluate administrative access rights roles &amp; risks.</p> <p>4. Printers have standard preventive controls.</p> <p>5. Manual control in place; new software control.</p> <p>6. Manual control in place; new software control.</p> <p>7. Configuration template baselines in place; new software control.</p> <p>8. Staff changes made; align resource needs with risks.</p> <p>9. Access review process to include physician office contracts.</p> <p>10. Policy in place; future software control.</p>	<p>1. Yes                      2. Yes                      3. Yes                      4. Yes                      5. Yes                      6. Yes                      7. Yes                      8. Yes                      9. No                      10. No</p>	<p>1. Dec. 2019                      2. Sept. 2019                      3. Nov. 2019                      4. Sept. 2019                      5. Dec. 2019                      6. Dec. 2019                      7. Dec. 2019                      8. Nov. 2019                      9. June 2020                      10. April 2020</p>
<p><u>Comments:</u> An external vendor performed a control review of 15 key processes (identified by SERS) that involved electronic transmission of confidential or sensitive data with external parties. Processes were evaluated for current controls related to data sensitivity, frequency of transmission and volume of sensitive records transmitted. Many procedures were documented and reviewed annually, however, a key control gap theme was informally defined policies and procedures. Control gaps identified two high risk, six moderate risk, and two low risk control weaknesses.</p>						

## Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Undue Influence Compliance Review (Aug. 2019)	Low	<p><u>All Departments</u> 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.</p> <p>Comments: The CAO and Enterprise Risk Management Officer reviewed the submitted undue influence forms and determined they were properly filed with no instances reported on 27 of 28 forms submitted. The CAO met with the HR Director to discuss the one reported disclosure of undue influence. The CAO feels proper disclosure has been made to the Board and sufficient involvement and follow up has occurred by the HR Director. The employee did not request follow up by the CAO and additional involvement is not planned by the CAO.</p>	<p>Management disagreed with the one reported instance of undue influence. The HR Director remained actively engaged with the individual and their concerns. Further follow up by the HR Director determined the statements expressed by the employee were isolated and did not warrant further action at the time.</p>
Conflicts of Interest Compliance Review (July 2019)	Low	<p><u>Investment Department and Investment Compliance</u> Review disclosures by investment staff and external investment service providers for conflicts of interest compliance. Review includes:</p> <ul style="list-style-type: none"> <li>• Investment staff certification</li> <li>• Financial Disclosure Statement</li> <li>• Professional Conduct Statement</li> <li>• Investment Manager Agreement</li> <li>• Required Annual Disclosure Form</li> </ul> <p>Comments: Reviewed SERS' investment staff disclosures and external investment service providers without any exceptions noted.</p>	Not applicable.
Investment Incentive Compensation Review (Aug. 2019)	Low	<p><u>Investment Department and Enterprise Risk Management</u> Evaluate controls and payments associated with the FY2019 Investment Incentive Compensation Plan.</p> <p>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. Performance incentive calculations were properly computed.</p>	<p>The ERM Officer was effective in completing the calculations in an accurate manner with supporting documentation. There were no calculation errors identified during testing.</p>

## Active Audits: As of December 2019

Audit Area	Risk Rating	Scope	Target Completion
Application Change Mgmt.	High	The scope includes an end to end review of the change management process for the SMART application. The review has been outsourced to a third party vendor.	June 2020

## Other Audit-Related Activity

Area	Risk Rating	Subject/Project	Description
Cloud-Based Activities	Mod.	Email	Perform high level post-implementation review of email transition to cloud solution.
Employer Reporting	Mod.	Monitoring Approach	Consult on process design for risk assessment and future monitoring reviews of employers.
Medical & Pharmacy Claims	Mod.	Third Party Review	Minor Internal Audit involvement to review audit scope, report, and remediation of medical and pharmacy claims/rebate audit vendor's results. Process managed and directed by Assistant Director, Health Care Services.
Information Security	N/A	Effectiveness Review	Internal Audit performed a consulting review for the Executive Director to further enhance the effectiveness of the Information Security function by assessing the governance, risk management and internal control structures.
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 provide 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	CY2018 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 2018 was submitted on December 28, 2018.
Internal Audit Annual Plan	N/A	FY2020 Plan	The FY2020 Internal Audit Plan was approved by the SERS Audit Committee on June 19, 2019.
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 maintaining quality within audit practices to maintain conformance with IIA Standards. Audit activities include: <ul style="list-style-type: none"> <li>• Updated Internal Audit Operations Manual, Audit Committee and Internal Audit Charters, and standard work paper forms</li> <li>• Completed strategic initiatives from the FY2017-19 internal audit strategic plan</li> <li>• Completed CAO annual goals aimed at improving audit effectiveness, plan completion, coordination and collaboration &amp; skill sets</li> </ul>
Internal Audit Staff	N/A	Chief Audit Officer	The Chief Audit Officer for the calendar year was Joe Bell. He will be transitioning into the role of Chief Risk Officer at SERS. SERS' Board is in the process of selecting a new Chief Audit Officer.

### Composition of Audit Committee at the end of calendar year 2019 reporting year (R.C. 3309.044)

Barbra M. Phillips (Chair), Employee Member

Catherine P. Moss, Retiree Member

James A. Rossler Jr., Appointed Member