



## SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

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LISA J. MORRIS  
*Executive Director*

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September 23, 2014

Bethany Rhodes  
Director and General Counsel  
Ohio Retirement Study Council  
88 East Broad Street, Suite 1175  
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 during the preceding fiscal year, FY2014.

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

Sincerely,

Lisa J. Morris  
**Executive Director**

Enclosure

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### RETIREMENT BOARD

DANIEL L. WILSON. <i>Chair, Appointed Member</i>	CATHERINE P. MOSS <i>Vice-Chair, Retiree-Member</i>	DEBRA J. BASHAM <i>Employee-Member</i>	NANCY D. EDWARDS <i>Appointed Member</i>	
MADONNA D. FARAGHER <i>Employee-Member</i>	CHRISTINE D. HOLLAND <i>Employee-Member</i>	BARBRA M. PHILLIPS <i>Employee-Member</i>	JAMES A. ROSSLER, JR <i>Appointed Member</i>	FRANK A. WEGLARZ <i>Retiree-Member</i>

# School Employees Retirement System Audit Committee Annual Report Fiscal Year 2014

The following report documents the activities of the SERS Audit Committee and the SERS Internal Auditor for FY2014. This report is prepared for the SERS Audit Committee and is separated into four areas:

- I. Audit Reviews Completed
- II. Special Projects Completed
- III. Summary of Audit Committee Meetings and Actions Taken
- IV. FY2015 Annual Audit Plan

## **I. Audit Reviews Completed**

This section documents the SERS Internal Auditor's completed reviews and projects for FY2014.

### **1. Audit Review: Investment Staff Disclosure**

- a. Audit Frequency: Annually.
- b. History: In 2007, SERS implemented a policy and procedure that covered the supervision of investment operations and disclosures by investment staff for the purposes of complying with Ohio law.
- c. Objective: To ensure that the investment information and advice provided by SERS' investment staff was not impaired by conflicts of interest.
- d. Work Process: Internal Auditor checks that Investment staff completes yearly reports consisting of the following documents:
  - i. Investment staff certification
  - ii. Individuals' latest Financial Disclosure Statement filed with the Ohio Ethics Commission
  - iii. Individuals' latest Professional Conduct Statement filed with the CFA Institute
- e. Observations: Internal Auditor performed a review on these documents, with no material comments.
- f. Results: The audit report was issued on September 27, 2013.

### **2. Audit Review: FY2014 Audit Risk Assessment and Audit Plan**

- a. Audit Frequency: Annually.
- b. Objective: To develop the FY2014 Internal Audit Plan.
- c. Work Process: Internal Auditor has modified the internal audit plan process with input from the Audit Committee to include more:
  - i. Involvement with high risk identification
  - ii. Manager review of audit high risk audits
  - iii. Management consensus with audit plan
  - iv. Audit plan development
- d. Results: The FY2014 Internal Audit Plan was reviewed by the SERS Audit Committee on September 18, 2013 and December 18, 2013; and approved by the SERS Board on February 14, 2014.

### **3. Audit Review: SERS Access Control**

- a. Audit Frequency: A regularly scheduled audit based on the three-year audit cycle.
- b. Objective: To ensure that access to SERS' computer systems are controlled and access to information is allowed based on job duties and needs.

- c. Work Process: Internal Auditor has reviewed user access with MARS, Dynamics, ImageNow, active directory, and tested external auditor and SERS Board access. Contractor access was not reviewed.
- d. Observations: Internal Auditor generated four observations:
  - i. Noted disabled employees listed on MARS, ImageNow, and Dynamics Access Listings
  - ii. Noted SERS employees with more MARS access than was granted
  - iii. Noted one SERS Employee who should be removed from the MARS access Listing
  - iv. Could not locate current Access Form for new external auditor
- e. Results: Management accepted the recommendations or offered acceptable alternatives. The final report was issued on April 4, 2014. An audit of contractor access will be performed in FY2015

**4. Audit Review: Employee Payroll**

- a. Audit Frequency: A regularly scheduled audit on the FY2014 audit plan.
- b. Objective: To review the controls associated with SERS' Employee Payroll function concerning authorization, recording, and custody of payroll records.
- c. Work Process: Internal Auditor has focused on a number of areas, including:
  - i. Security over payroll documentation
  - ii. New hires
  - iii. Termed employees
  - iv. Length of service pay
  - v. Leave requests
  - vi. Payroll processing
  - vii. Payroll adjustments
  - viii. Merit increases – July 2013
  - ix. Unused leave time payouts
  - x. Payroll taxes
  - xi. General ledger payroll accounts
- d. Observations: Internal Auditor made two observations:
  - i. Appropriate person reviewing payroll processing.
  - ii. Using a duplicate bank account report.
- e. Results: Management accepted the recommendations or offered acceptable alternatives. The final report was issued on June 20, 2014.

**5. Audit Review: FY2015 Audit Risk Assessment and Audit Plan**

- a. Project Frequency: Annually.
- b. Objective: To develop the FY2015 Internal Audit Plan.
- c. Work Process: Internal Auditor has fine-tuned the internal audit plan process to include more:
  - i. Involvement in high risk identification
  - ii. Manager review of audit high risk audits
  - iii. Management consensus with audit plan
  - iv. Audit plan development
- d. Results: The FY2015 Internal Audit Plan was reviewed and recommended by the Audit Committee on June 18, 2014. The plan was approved by the SERS Board at the July 2014 Board meeting.

**6. Audit Review: Health Care Vendor Invoice Approval Process**

- a. Audit Frequency: Scheduled audit on the FY2014 Audit Plan.
- b. Objective: To review the controls on authorization, approval, and completeness of health care vendor invoices.

- c. Work Process: Internal Auditor has initiated specific areas of review, including verification of contract rates and examination of additions or deletions to a vendor invoice before payment is made.
- d. Results: This audit will be completed in FY2015.

**7. Audit Review: Quality Assessment Review Follow-Up Work**

- a. Project Frequency: Following IIA Review.
- b. Objective: To improve the performance and efficiency of SERS internal audit by implementing a number of the IIA's recorded observations..
- c. Work Process: Internal Auditor used feedback from the February SERS Board Retreat to prepare a draft copy of an Audit Committee charter. The document follows the IIA model audit committee charter and included modifications from other pension internal audit departments. Board feedback has been incorporated into the second revision of the charter.
- d. Results: This document was approved at the March 2013 Board Meeting, and was revised and acted on by the Audit Committee in February 2014 and June 2014.

**II. Special Projects Completed**

This section documents the SERS Internal Auditor's special projects for FY2014 and key comments identified.

**1. Special Project: Audit Committee Calendar Builder**

- a. Requested by: The Audit Committee Chair and Internal Auditor.
- b. Project Plan: The Audit Committee Chair and Internal Auditor have located a worksheet that may be useful in tracking the annual activities and meeting agendas for the Audit Committee. The Internal Auditor is working to incorporate SERS' external reporting, internal reporting, and other audit or reporting concerns into the calendar builder.
- c. Status: Completed.

**2. Special Project: Annual Audit Committee Report:**

- a. Requested by: ORC § 3309.044
- b. Status: The FY2013 Audit Committee report was reviewed at the September 2013 Board meeting and sent to the Ohio Retirement Study Council (ORSC) on September 23, 2013.

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

This section identifies the dates of all meetings held and Audit Committee actions taken.

**July 2013** –The Committee met the new external audit team. The audit partner described the scope and timing of the FY2013 audit engagement and the reports that would be issued at its conclusion.

Internal Auditor presented the following report:  
 - FY2014 One- and Three-Year Audit Plans

**August 2013** – Audit Committee did not meet.

**September 2013** – Internal Auditor presented the following reports:  
 - FY2014 One- and Three-Year Audit Plans (Revised)  
 - FY2013 Audit Committee Report for the Ohio Retirement Study Council  
 - Investment Staff Disclosure Review

- Status of 1<sup>st</sup> quarter audits

**October 2013** – Audit Committee did not meet.

**November 2013** – The Committee Chair gave an update of the external auditor's progress. Management is reviewing the preliminary findings for clarity.

**December 2013** – The external auditors presented the results of the FY2013 audit. SERS received a clean opinion of its financial statements; management letter comments were limited to deficiencies in internal control that did not constitute material weaknesses and constructive suggestions to be considered as part of SERS' ongoing process of improving procedures.

Internal Auditor presented the following updates:

- FY2014 Audit Plan (Revised)
- Access Security audit

**January 2014** – Audit Committee did not meet.

**February 2014** – The Audit Committee evaluated the Internal Auditor's recommendation that monies be included in the FY2015 Administrative Budget for an Enterprise Security Review to be performed by an external firm.

The Committee recommended Board adoption of:

- Revised Audit Committee Charter
- Revised FY2014 One- and Three-Year Audit Plan

**March 2014** – Audit Committee did not meet.

**April 2014** – The Audit Committee recommended that the Institute of Internal Auditors return to perform a follow-up review on the status of the observations noted in the September 2012 Quality Assessment Review.

Internal Auditor presented the following reports:

- Access Control
- Status of 4<sup>th</sup> quarter audits

**May 2014** – Audit Committee discussed the Audit Committee meeting calendar.

**June 4, 2014** – The Audit Committee discussed the draft of the Internal Audit FY2015 One- and Three-Year Audit Plans

**June 18, 2014** – The Audit Committee discussed and recommended Board approval of Internal Audit's FY2015 One- and Three-Year Audit plans.

#### **IV. FY2015 Annual Audit Plan**

The one- and three-year audit plans for FY2015, FY2016, and FY2017, and risk assessment documents, were reviewed by the SERS Audit Committee in June 2014. The following reviews are scheduled for FY2015:

Department

Audit Project

All

Enterprise Risk Security (outsourced)

Member Services

Disabilities  
Member Withdrawals / Refunds  
Member Census data (external auditor)

Investments

Investment Staff Certification  
Investment Manager Fees (outsourced)

Executive

Undue Influence Forms

Administrative Services

Purchasing

Information Technology

Access Security – Contractor Access

Finance

Employer Contributions

Health Care

Vendor Invoice Approval Process