



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

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LISA J. MORRIS
Executive Director

HELEN M. NINOS
Deputy Executive Director

September 20, 2012

Bethany Rhodes, Director
Ohio Retirement Study Council
88 East Broad Street, Room 1175
Columbus, Ohio 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, FY2012.

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

Sincerely,

Lisa J. Morris
Executive Director

Enclosure

RETIREMENT BOARD

MARK E. ANDERSON
Chair

BEVERLY A. WOOLRIDGE
Vice-Chair

NANCY D. EDWARDS
Appointed Member

MADONNA D. FARAGHER
Retiree Member

MARY ANN HOWELL
Retiree Member

CATHERINE P. MOSS
Retiree Member

BARBRA M. PHILLIPS
Employee Member

JAMES A. ROSSLER, JR.
Appointed Member

RICHARD W. SENSENBRENNER
Appointed Member

School Employees Retirement System Audit Committee Annual Report Fiscal Year 2012

The following report documents the activities of the SERS Audit Committee and the SERS Internal Auditor for FY2012. This report is prepared for the SERS Audit Committee and is categorized into four areas:

- I. Audit Reviews Completed
- II. Special Projects Completed
- III. Summary of Audit Committee Meetings and Actions Taken
- IV. FY2013 Annual Audit Plan

I. Audit Reviews Completed

This section documents the SERS Internal Auditor's completed reviews and projects for FY2012.

Investment Incentive Compensation: The purpose of this audit was to review the controls and payments associated with the 2011 Investment Incentive Compensation program. The scope for the audit included a review of all nine investment incentive compensation payments for FY2011 (July 2010 – June 2011). The payments were examined to determine that they were properly computed.

The audit verified that:

- The incentive compensation plan was approved by the SERS Board before payment
- Investment personnel job titles to determine incentive compensation eligibility
- The participant is employed and considered an active employee on the date the incentive compensation is paid
- Investment performance measures and asset class weighting used in computing payments
- Base salary used for purposes of computing incentive compensation
- Incentive compensation payment calculations are reviewed and approved by the Interim Executive Director
- The gross amount paid equates to the amount computed and the payee is the correct investment person using payroll records

The audit also:

- Recomputed incentive compensation payments and compared the results to SERS' payment calculations
- Reviewed FY2010 eligibility and payment waiver criteria for participants

The audit report was issued on October 5, 2011 with no material comments.

Health Care Fund and Insurer Payments Reviews: 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 HMOs, PPOs 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
- On a limited basis, verifying health care enrollees to the health care application and member file for correct placement in requested plan

- Verifying that insurance claims and premiums paid were correct based upon current contracted rates
- Verifying that insurance claims and premiums paid were accurately reported
- Verifying that premiums paid by retirees were computed correctly and reported in the Health Care Fund
- Verifying that any drug rebate money or Med D drug subsidy money received was documented and reported in the Fund
- Verifying that health care administrative expenses were correct based upon current contracted rates

The audit report was issued on April 18, 2012 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 August 25, 2011 with no material comments.

MARS Change Reporting: The next four reviews were done as a result of a management letter comment from an external audit. In 2002, Internal Audit began quarterly reviews of online 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. 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 2011:** Report issued July 8, 2011. No material comments were noted.
- **MARS Change Report - July / September 2011:** Report issued October 4, 2011. No material comments were noted.
- **MARS Change Report - October / December 2011:** Report issued January 6, 2012. No material comments were noted.
- **MARS Change Report - January / March 2012:** Report issued April 5, 2012. No material comments were noted.

II. Special Projects Completed

This section documents the SERS Internal Auditor's special projects for FY2012 and key comments identified.

2012 One- and Three-Year Audit Plans: The audit plans were approved by the SERS Audit Committee on July 21, 2011.

Annual Audit Committee Report: The FY2011 Audit Committee report was reviewed at the September Board meeting and sent to the Ohio Retirement Study Council (ORSC) on September 12, 2011.

External Quality Assessment for Internal Audit: At the May 2012 Board Meeting, a presentation was made by Internal Audit about an independent review of its operations. The presentation described the SERS timeline for an assessment and the types of external quality assessment reviews that can be

performed to satisfy the Institute of Internal Auditors (IIA) five-year review requirement. The audit committee approved an external quality assessment during fiscal year 2013.

Member and Retiree System (MARS) Replacement: The MARS computer system is in process of being replaced over the next three to four years. As a member of this team, the Internal Auditor is involved in joint application development team meetings with emphasis on data security controls. Status – Ongoing.

SERS Information Security Team: The purpose of this project team is to develop an expanded, enterprise-level SERS Information Security Program. While appropriate procedures exist today to preserve the integrity of SERS' electronic data, new threats created by changes in technology, modified internal and external business processes, and trends in criminal activity worldwide are driving the need to consistently apply and expand SERS' information security protections. The Internal Auditor's role on this committee is to review SERS' compliance with information security. Projects completed during FY2012 include:

- Disposal of confidential information
- HIPAA / HITECH assessment and remediation process

2013 One- and Three-Year Audit Plans: The audit plans were approved by the SERS Audit Committee on June 21, 2012.

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 2011 – Internal Auditor presented the following reports:

- FY2012 One and Three Year Audit Plans
- MARS Change Testing – April / June 2011

August 2011 – Audit Committee did not meet.

September 2011 – Internal Auditor presented the following reports:

- FY2011 Audit Committee Report for the Ohio Retirement Study Council
- Investment Staff Disclosure Review

October 2011 – Internal Auditor presented the following reports:

- Investment Incentive Compensation Plan
- MARS Change Testing – July / September 2011

November 2011 – Audit Committee did not meet.

December 2011 – Audit Committee reviewed the FY2011 Annual Financial Statements presented by the external auditors. Full Board approved Audited Financial Statements.

January 2012 – Internal Auditor presented the following reports:

- MARS Change Report for October / December 2011
- MARS Security Change Review

February 2012 – Audit Committee did not meet.

March 2012 – Audit Committee did not meet.

April 2012 – Internal Auditor presented the following reports:

- MARS Change Report for January / March 2012
- SERS Health Care Fund
- SERS Health Care Insurer Payments

May 2012 – Internal Auditor presented the following report:

- Internal Audit External Quality Assurance Review Timeline and Update
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June 2012 – Internal Auditor presented the following report:

- FY2013 One and Three Year Audit Plans

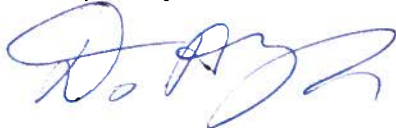
IV. FY2013 Annual Audit Plan

The one- and three-year audit plans for FY2013, FY2014, and FY2015, and risk assessment documents, were reviewed and approved by the SERS Audit Committee in July 2012. The following documents Internal Audit’s scheduled reviews and projects by department for FY2013.

<u>Department</u>	<u>Audit Project</u>
Member Services	Member Change Reporting (Quarterly) Disability Benefits
Finance	Investment Performance
Investments	Investment Staff Certification Investment Incentive Comp
Executive	Employee Payroll Internal Audit External Quality Assessment
Information Technology / Administrative Services	New Benefit System Replacement
Health Care	No audits scheduled

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