



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

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HELEN M. NINOS
Interim Executive Director

March 17, 2017

Bethany Rhodes
Director and General Counsel
Ohio Retirement Study Council
30 E. Broad St., 2nd Floor
Columbus, OH 43215

Dear Ms. Rhodes: *Bethany*

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 2016. The attached report was prepared by SERS' Chief Audit Officer, Joe Bell, and incorporates the reporting format requested by the Ohio Retirement Study Council.

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

Sincerely,
Helen

Helen M. Ninos
Interim Executive Director

Enclosure

RETIREMENT BOARD

BARBRA M. PHILLIPS
Chair, Employee-Member

MADONNA D. FARAGHER
Vice-Chair, Employee-Member

JEFFREY DELEONE
Appointed Member

JAMES H. HALLER
Employee-Member

CHRISTINE D. HOLLAND
Employee-Member

CATHERINE D. MOSS
Retiree-Member

JAMES A. ROSSLER, JR.
Appointed Member

DANIEL L. WILSON
Appointed Member

BEVERLY A. WOOLRIDGE
Retiree-Member

School Employees Retirement System of Ohio CY2016 Annual Audit Report

Closed Audits: Recommendations

Audit Area	Risk Rating ¹	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Portability/ Multi-System Retirement Processing (February 2016)	Low	<u>Member Services Department</u> <ul style="list-style-type: none"> ➤ Request From/ To Other Retirement System ➤ Intake/Outgoing Assessment – Service & Age ➤ Calculate Transfer In/Out Cost ➤ Monitoring/ Quality Review Process ➤ Payment/ Reporting Process 	<ol style="list-style-type: none"> 1. Update validation spreadsheet for recalculating transfers and train personnel on its use. 2. Obtain original support documentation for Other Retirement Systems' (ORS') annual interest and contribution rates, as well as support for the continuous compounding interest computation. 3. Enact periodic testing of ORS calculations to help monitor for accuracy. 	<ol style="list-style-type: none"> 1. Management modified the spreadsheet and provided guidance/training. 2. Management obtained the supporting documentation. 3. Management established a periodic testing of calculation accuracy. 	<ol style="list-style-type: none"> 1. Yes 2. Yes 3. Yes 	<ol style="list-style-type: none"> 1. March 2016 2. April 2016 3. April 2016
<p>Comments: Member Services' controls for multi-system retirement processing were operating effectively and in a manner consistent with SERS' service retirement procedures and legal requirements which govern a service retirement. No significant issues to SERS were identified.</p> <p>Scope of audit did not include recalculations of ORS' computations or SERS' IT applications.</p>						

¹ 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
SERS Investment Committee (April 2016)	Low	<u>Investment Department</u> ➤ Policies and procedures for reviewing and approving investments ➤ Due diligence for proposed investment managers ➤ Approval/discharge of investment managers	1. Modify procedures to limit circumstances in which the CIO can serve as a sponsor/co-sponsor. 2. Develop a standard format for consultant memos to provide consistent reporting on key research details, operational risk considerations, and due diligence opinions. 3. Set documentation expectations and/or standard checklists to help improve consistency for Investment staff.	1. Management revised procedures to include language the CIO will not act as a sponsor, unless the situation warrants the CIO's involvement. 2. Management requested that the consultant's opinion letter indicate whether the investment complies with Statement of Investment Policy and asset class Implementation Guidelines. 3. Each new investment requires a standard checklist for due diligence process, including reference calls and meetings. Due to the confidential nature of discussions with references, details of reference calls will be given verbally during the Investment Committee meeting.	1. Yes 2. Yes 3. Yes	1. May 2016 2. October 2016 3. April 2016
		<p>Comments: Investment Department's controls were operating effectively to ensure Investment Committee's procedures were properly designed and operating consistently in accordance with policy requirements. No significant issues were identified.</p> <p>Scope of audit did not review Investment Accounting's due diligence process, investment consultant's operations, internal/external legal counsel, or IT applications.</p>				

Closed Audits: Recommendations (cont.)

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
External Audit IT Comment Remediation (June 2016)	Mod.	<u>Information Technology Department</u> ➤ Remediation of FY2015 external audit recommendations within the IT environment ➤ Eight issues involving administrator access, physical access to IT data center, user access removal, user access review, administrator access controls, password rotation, IT policy review, and generic accounts.	1. Ensure administrator access to key systems is not also provided to users. 2. Enhance physical access controls around the IT data center. 3. Ensure user access is removed timely for employee terminations. 4. Enhance user access review by having access review by employees that do not provision system access. 5. Eliminate ability to share passwords for administrator access. 6. Require administrator passwords be regularly changed. 7. Perform overall IT policy review annually. 8. Eliminate generic accounts within the MARS software.	1. Management implemented and external auditor validated. 2. Management implemented and external auditor validated. 3. Management implemented and external auditor validated. 4. Management implemented and external auditor validated. 5. Management implemented and external auditor validated. 6. Management implemented and external auditor validated. 7. Management implemented and external auditor validated. 8. Management implemented and external auditor validated.	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes 7. Yes 8. Yes	1. June 2016 2. June 2016 3. June 2016 4. June 2016 5. June 2016 6. June 2016 7. June 2016 8. June 2016
Comments: All audit comments were properly addressed by management during FY2016. External auditor performed validation testing during their audit of SERS for FY2016, and concurred with management's remediation.						

Closed Audits: Recommendations (cont.)

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
Member Refunds (August 2016)	Low	<u>Member Services</u> Review included: <ul style="list-style-type: none"> ➤ Communication of refund requirements to members ➤ Evaluation of refund requests (including auto calculation) ➤ Monitoring of members near refund eligibility ➤ Supervisor/audit review process ➤ Communication with other retirement systems ➤ Payment/reporting process 	1. Consider legislative changes to ORC Section 3309.42 to align language similar to other retirement systems requiring spousal approval for certain refund transactions, particularly for married members eligible for a retirement benefit.	1. Management agreed and will work with Legal and Government Relations to propose legislative changes for spousal consent for refunds meeting certain conditions. If approved, process changes will be enacted. (Subsequently, language was included in HB 520)	1. No	1. April 2017 (expected effective date of HB 520)
		<p>Comments: Member Services' controls were operating effectively to ensure member refunds were properly designed and consistently executed in accordance with SERS' policy and procedures and adhered to legal requirements that govern refunds. No significant issues were identified.</p> <p>Scope of audit did not include SERS' IT applications, which computes net refund amounts and employee access change controls. Re-employed members with refunds require unique processing and comprise few transactions, and were thus excluded from the audit scope.</p>				

Closed Audits: Recommendations (cont.)

Audit Area	Risk Rating	Scope	Recommendations	Management's Response	Implemented	Implementation or Target Implementation
SERS' Employee Health Care Benefits (December 2016)	Mod.	<u>Health Care and Human Resources Departments</u> Review included: <ul style="list-style-type: none"> ➤ Communication Requirements ➤ Application Intake/Eligibility Determination ➤ Monitoring - Invoice/Payment/Vendor ➤ Grievance/Appeal Process 	1. Enhance contract language requiring vendor to provide SSAE16 reports, conduct a review of SSAE16 reports, and consider periodic external audits. 2. Add individuals from other departments to the stop-loss insurance annual evaluation. Increase focus on developing a business case proposal to routinely analyze the risks, options, and recommended action in accordance with its risk tolerance. 3. A few files did not contain marriage and birth certificate info. Also, HR should complete Form 50.48 as designed to ensure proper timing of benefit initiation or termination.	1. Management agreed and will request Legal add contract language that enhances monitoring terms, review SSAE16 reports annually, and consider an external audit of the employee health care plan. Evaluate impact on employee plan of any issues identified in the regularly scheduled retiree plan audit. 2. Management agreed and the Stop-Loss Evaluation group's composition will be evaluated to consider the appropriate mix of individuals, and the group will develop a business case document. 3. Management agreed and will conduct a file audit to ensure SERS has a copy of all required marriage and birth certificates for spouses and dependents on SERS' health care plan. HR Director will schedule a training session for all HR staff members to revisit how to properly review the 50.48 form.	1. No 2. No 3. No	1. April 2017 2. April 2017 3. April 2017
		<p>Comments: Human Resources and Health Care Departments' controls were operating effectively to ensure health care benefits provided to SERS' employees are properly determined and provided in accordance with plan requirements. No significant issues were identified.</p> <p>This audit focused on health care and dental benefits for CY2016 and did not include other benefits (hearing, disability, life & travel insurance, health & wellness, prescription drugs, other benefits) since these involve fewer transactions, dollars, and risk. The audit included testing of employee eligibility controls and vendor monitoring, not claims reporting since this process is changing departments. Claims processing, coding, accuracy, and turnaround time were not tested since these often involve specialized industry knowledge and skill sets – however minor coverage was obtained via review of the vendor's SSAE16 report, and additional compensating controls exist (e.g. explanation of benefits form).</p>				

Closed Audits: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Ethics Filings – Undue Influence Forms Review (July 2016)	Low	<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.	Not Applicable.
		Comments: Reviewed submitted <i>SERS Statement Regarding Undue Influence</i> certification forms and no documented comments were reported.	
Ethics Filings – Conflicts of Interest Review (July 2016)	Low	<u>Investment Department and Investment Compliance</u> Review disclosures by investment staff and external investment service providers for conflicts of interest compliance. Review includes: <ul style="list-style-type: none"> • Investment staff certification • Financial Disclosure Statement • Professional Conduct Statement • Investment Manager Agreement • Required Annual Disclosure Form 	Not Applicable.
		Comments: A review was performed on SERS' investment staff disclosures and external investment service providers, and no documented comments were reported.	
Investment Incentive Compensation Review (Sept. 2016)	Low	<u>Investment Department and Enterprise Risk Management</u> Evaluate controls and payments associated with the 2016 Investment Incentive Compensation plan.	Not Applicable.
		Comments: The investment incentive plan appears supportive of the Board's intent to reinforce a performance philosophy and attract and retain high-quality talent within Investments. Performance incentive calculations were properly computed.	

Active Audits: As of December 2016

Audit Area	Risk Rating	Scope	Target Completion
OSERS' Tenant Revenue	N/A	Review adequacy and effectiveness of process controls used in managing, collecting and reporting OSERS' tenant revenues.	February 2017

Other Audit-Related Activity

Area	Risk Rating	Subject/Project	Description
SMART	High	Software Implement	Ongoing Internal Audit involvement in pre-implementation activities through participation in SMART committee and leadership implementation meetings, and discussion of user acceptance/system testing, training, and change management initiatives. NOTE: Third party vendor's involvement with assurance on adequacy and completeness of contract deliverables, as well as hardware and software design and development.
Fiduciary Audit	N/A	Audit Readiness and Coordination	Internal Audit serves as the point of contact between the fiduciary auditors, ORSC, and SERS' management to perform the following: <ul style="list-style-type: none"> • Facilitated 32 interviews of SERS' leadership and Board, and 23 calls to key external service providers • Uploaded 500+ documents into auditor's portal and organized completion of enterprise questionnaire of 200+ questions • Work with SERS' management to review and respond to auditor's draft report
External Audit	N/A	Audited Financial Statements	Internal Audit maintains involvement by attending audit entrance, update, and closing meetings, coordinating audit coverage, sharing internal audit results, and providing audit support as needed. External auditors provide all required written communication and verbal updates on the audit of the annual financial statements to the Audit Committee and Board.
Pharmacy Claims	Mod.	Third Party Review	Minor Internal Audit involvement to review RFP scope, report results, and remediation of pharmacy claims/rebate audit vendor's results – process managed and directed by Pharmacy Benefit Manager.
Committee Report	N/A	CY2015 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 2015 was submitted on March 16, 2016.
Internal Audit Annual Plan	N/A	Create FY2017 Audit Plan	The FY2017 Internal Audit Plan was approved by the SERS Retirement Board on June 16, 2016.
Comment Remediation	N/A	Issued Audit Comments	Perform audit remediation activities involving internal, external, and fiduciary 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 has focused on the value and effectiveness of internal audit's activities and has begun preparing for an external assessment for late 2017 through initiatives that included: <ul style="list-style-type: none"> • Updated the Internal Audit Operations Manual, Audit Committee and Internal Audit Charters, and standard forms • Conducted a self-assessment to evaluate compliance against the Institute of Internal Auditors (IIA) <i>Standards</i> • Facilitated a review by a peer pension system to assess internal audit's readiness and compliance with IIA <i>Standards</i> • Developed a three-year strategic plan to build continuous improvement into internal audit's practices

Composition of Audit Committee at end of calendar year 2016 reporting year (R.C. 3309.044)

Barbra M. Phillips (Chair), Employee Member

Catherine D. Moss, Retiree Member

Daniel L. Wilson, Appointed Member