



**SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

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RICHARD STENSRUD  
*Executive Director*

KAREN D. ROGGENKAMP  
*Deputy Executive Director*

December 21, 2020

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 2020. The attached report was prepared by SERS' Chief Audit Officer, Jeff Davis, and incorporates the reporting format approved by the Ohio Retirement Study Council.

Please feel free to contact Jeff Davis or myself if you have any questions.

Sincerely,

**Richard Stensrud**  
Executive Director

Enclosure

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**RETIREMENT BOARD**

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

BARBRA M. PHILLIPS  
*Vice-Chair, Employee-Member*

JEFFREY DELEONE  
*Appointed Member*

JAMES A. ROSSLER, JR.  
*Appointed Member*

JAMES H. HALLER  
*Employee-Member*

CATHERINE P. MOSS  
*Retiree-Member*

DANIEL L. WILSON  
*Appointed Member*

FRANK A. WEGLARZ  
*Retiree-Member*

MATTHEW A. KING  
*Employee-Member*

# School Employees Retirement System of Ohio

## 2020 Annual Audit Report

(Submitted to ORSC December 21, 2020)

### Closed Audits: Recommendations

Audit Area	Risk Rating <sup>1</sup>	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target Implementation
SMART Application Changes (April 2020)	Mod	<u>SMART Application</u> Review included an end-to-end control design evaluation from the change request to deployment of changes.	<ol style="list-style-type: none"> <li>1. Identify all potential change risk areas and incorporate them into the change management form (High)</li> <li>2. Formalize regression testing (Moderate)</li> <li>3. Continue refinement of change categories (Moderate)</li> <li>4. Implement a method for effort estimation to allow for more adequate planning for releases. (Moderate)</li> <li>5. Re-implement security scanning prior to production releases (Moderate)</li> <li>6. Ensure SMART application changes are consistent with defined workflow (Low)</li> <li>7. Validate that all changes made by the release manager are authorized (Low )</li> </ol>	<ol style="list-style-type: none"> <li>1. The standard change form will be revised.</li> <li>2. Management will develop automated regression tests.</li> <li>3. A base set of change management reports will be developed.</li> <li>4. Improvements will be made to allow more accurate estimates of the time required.</li> <li>5. Scans will be re-implemented.</li> <li>6. The change management policy will be updated with a section for SMART.</li> <li>7. Management will consider developing a report that can be ran quarterly to validate changes were deployed only with prior approval.</li> </ol>	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No</li> <li>3. Yes</li> <li>4. No</li> <li>5. No</li> <li>6. No</li> <li>7. No</li> </ol>	<ol style="list-style-type: none"> <li>1. 2020</li> <li>2. 2021</li> <li>3. 2020</li> <li>4. 2021</li> <li>5. 2021</li> <li>6. 2021</li> <li>7. 2021</li> </ol>
<p><u>Comments:</u> The SMART application change management process is achieving its overall purpose. While several control design deficiencies were identified, they do not compromise achievement of important control objectives.</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: No Recommendations

Audit Area	Risk Rating	Scope	Management's Response
Undue Influence Compliance Review (Oct. 2020)	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: The CAO and Chief Risk Officer reviewed the submitted undue influence forms and determined they were properly filed with no instances reported on the 33 forms submitted.	
Conflicts of Interest Compliance Review (Nov. 2020)	Low	<u>Investments Department and Investment Compliance</u> Review disclosures by Investments staff and external investment service providers for conflicts of interest compliance. Review includes: <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>	Not applicable.
		Comments: Reviewed SERS' Investments staff disclosures and external investment service providers without any exceptions noted.	
Investment Incentive Compensation Review (Sept. 2020)	Low	<u>Investments Department and Enterprise Risk Management</u> Evaluate controls and payments associated with the FY2020 Investment Incentive Compensation Plan.	The Chief Risk Officer was effective in completing the calculations in an accurate manner with supporting documentation. There were no calculation errors identified during testing.
		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.	
High Risk Benefit Recipients (March 2020)	Mod.	<u>High Risk Benefit Recipients</u> Ensure processes for high risk benefit recipients are properly designed and operating effectively in accordance with laws, policies and procedures.	Not applicable.
		Comments: Overall, controls for high risk benefit recipients were properly designed and operating effectively to achieve the business objective.	

## Active Audits: As of December 2020

Audit Area	Risk Rating	Scope	Target Completion
Payroll	Mod.	Assessment of the design and effectiveness of key controls and compliance with laws and regulations related to payroll processing.	January 2021

## Other Audit Related Activity

Area	Risk Rating	Subject/Project	Description
Records Management	N/A	Effectiveness Review	Internal Audit participated in a consulting review related to records management with the assistance of a vendor. The goals are to improve storage practices and identify technology solutions that will optimize and support efficient storage and management of records.
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 provided 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	CY2019 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 2019 was submitted on December 18, 2019.
Internal Audit Annual Plan	N/A	FY2021 Plan	The FY21 Internal Audit Plan was approved by the SERS Audit Committee on June 17, 2020.
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 <i>Standards</i> . 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 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 position experienced turnover in 2020. The CAO role was filled by Joe Bell, David Mather and Jeff Davis, who assumed the CAO role August 17, 2020. Joe Bell transitioned to the role of Chief Risk Officer at SERS.

### Composition of Audit Committee at the end of calendar year 2020 reporting year (R.C. 3309.044)

Barbra M. Phillips (Chair), Employee Member

Catherine P. Moss, Retiree Member

James A. Rossler Jr., Appointed Member