



**SERS Retirement Board Audit Committee Agenda
Regular Meeting
March 16, 2022
2:30 P.M.**

Join Zoom Meeting

<https://ohsers.zoom.us/j/91724972951?pwd=dyt6c3l4U29kejdBamoyUWlxUHNYZz09>

Meeting ID: 917 2497 2951 **Password:** 260644

To join by phone, dial: (929) 2056099 and enter the Meeting ID: 91724972951 and Password: 260644 when prompted.

1. Roll call (R)
2. Approval of December 15, 2021 minutes (R)
3. Chief Audit Officer's Report
 - Q3 Update on the FY2022 Audit Plan
 - Microsoft 365 Review
 - FY23 Audit Planning
 - Recently Completed Audits, Other Activities
4. Executive session pursuant to R.C. 121.22 (G) (1) to consider the employment of a public employee (R)
5. Audit committee requests and follow-up items
6. Adjournment

ITEM 1.

SCHOOL EMPLOYEES RETIREMENT SYSTEM

AUDIT COMMITTEE

March 17, 2022

_____ p.m.

Roll Call:

Barbra Phillips	_____
Catherine Moss	_____
James Rossler	_____

Guests in Attendance:

ITEM 2.

**APPROVAL OF MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON
December 15, 2021**

_____ moved and _____ seconded the motion to approve the minutes of the Audit Committee meeting held on December 15, 2021.

Upon roll call, the vote was as follows:

<u>ROLL CALL:</u>	<u>YEA</u>	<u>NAY</u>	<u>ABSTAIN</u>
Barbra Phillips	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____

<p>School Employees Retirement System</p>	<p>AUDIT COMMITTEE MINUTES</p>		
<p>Preparer</p>	<p>Gina Scarver</p>	<p>Meeting Date:</p>	<p>December 15, 2021</p>
<p>Committee Chair</p>	<p>Barbra Phillips</p>	<p>Committee roll call was as follows: Barbra Phillips, Catherine Moss and James Rossler</p> <p>Also in Attendance: Board Member Frank Weglarz, Sam Peppers, Representative of the Ohio Attorney General, SERS Staff Members: Jeff Davis, Vatina Gray, Joe Marotta, Richard Stensrud, Karen Roggenkamp, Tracy Valentino, and Gina Scarver.</p>	
<p>Agenda</p>	<ol style="list-style-type: none"> 1. Roll call (R) 2. Approval of minutes (R) 3. Review external auditor's financial statement reports, significant results, and recommendations 4. Review management representation letter on internal controls and financial reporting 5. Review status of legal matters effect on financial statements 6. Chief Audit Officer's Report Q2 update on the FY2022 audit plan, ORSC Annual Audit Committee Report, recently completed audits, other activities 7. Executive session pursuant to R.C. 121.22 (G) (1) to consider the employment of a public employee (R) 8. Audit committee requests and follow-up items 9. Adjournment 		
<p>Discussion</p>	<p>The meeting began in open session at 2:30 pm</p> <p><u>Roll Call</u></p> <p>The SERS regular Audit committee began with a roll call. The committee roll call was as follows: Barbra Phillips, Catherine Moss and James Rossler. Also in attendance were Board member Frank Weglarz, Sam Peppers, Representative of the Attorney General, SERS Staff Members: Jeff Davis, Joe Marotta, Richard Stensrud, Karen Roggenkamp, Tracy Valentino, Vatina Gray, Gina Scarver.</p> <p><u>Approval of Minutes</u></p> <p>Cathie Moss moved and Jamie Ross seconded the motion to approve the minutes of the Audit Committee meeting held on September 15, 2021. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss, James Rossler. The motion carried.</p> <p><u>External Audit Update</u></p> <p>Tracy Valentino, SERS Chief Financial Officer, opened the presentations with a report on the external audit. SERS' external auditor, RSM U.S. LLP, performed a predominately remote audit this year with a limited number of on-site visits. The Annual Comprehensive Financial Report for the year ending June 30, 2021 was completed.</p> <p>RSM is currently working through manager and partner reviews and hope to finish soon. RSM has issued a modified opinion, no modifications, disqualifications, and declare that all statements are accurate and correct. They will also issue a second opinion shortly on interim controls, compliance, and other matters.</p>		

	<p>Ms. Valentino gave a summary of the audit process, highlighting areas of focus and reiterated that FY 2021 was a great audit year with zero significant findings, the timeline was consistent with prior years, showed strong continuity in our staffing which can be attributed to multiple years of experience with our auditors.</p> <p>The auditors spent time updating our understanding of internal controls as well as IT General Controls. Ohio Compliance and Ohio Public Records Act audits were performed, and we were given a rating of 4 out of 4 stars.</p> <p>Other areas tested include: valuations, purchasing and sales activity, credit ratings, investment returns, control touching, contributions and distributions (employers and employees), actuarial functions - both Health Care and Pension, and payroll.</p> <p>Ms. Valentino explained the external audit process and emphasized the difficulty to perform the audits virtually.</p> <p>Board Member James Rossler asked if a Management Letter had been issued – Ms. Valentino stated that there was no Management Letter for the current audit and explained that in recent years SERS has not received a management letter. SERS did receive a Management Letter for the FY15 audit. SERS staff worked with the external auditors and former Chief Audit Officer Joseph Bell to take corrective action. Chairwoman Phillips stated her hope that next year the audits can be performed in person. The Committee thanked the RSM representatives and Ms. Valentino for their presentation.</p> <p>Richard Stensrud, SERS Executive Director, also thanked the auditors and discussed valuations being examined with the audit spokesman, pertaining to controls and gaps, how valuations should work, stressing that these items are taken very seriously.</p> <p><u>Status of Legal Matters Effect on Financial Statements</u></p> <p>SERS' General Counsel, Mr. Joseph Marotta, provided a brief update on outstanding litigation matters that could have a material effect on SERS' financial statements. The Committee thanked Mr. Marotta for his update.</p> <p><u>Chief Audit Officers Report</u></p> <p>Jeffrey Davis, SERS Chief Audit Officer, provided a presentation on the status of his FY2022 Internal Audit Plan. Mr. Davis reviewed several audits that took place this quarter of the current fiscal year and items that have started and/or are pending.</p> <p>Mr. Davis reviewed the Ohio Retirement Study Council (ORSC) Annual Audit Report Draft of the report has been provided and will be finalized by end of December, 2021. The Report is required to be filed by March, 2022.</p> <p><u>Recently Completed Audits and Other Activities</u></p> <ul style="list-style-type: none">• Two audits completed since the last committee meeting<ul style="list-style-type: none">– Investment Conflict of Interest and Death Benefits reports are attached.• Continued involvement with disaster recovery/cloud migration• Review of FY22 Merit Increases• Review of Surcharge calculation• Review of Superannuation Board Report• Attended P2F2 Conference
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	<p><u>Executive session pursuant to R.C. 121.22 (G) (6) to discuss the employment and compensation of a public employee (R)</u></p> <p>At 3:03 p.m. Cathie Moss moved and James Rossler seconded the motion that the Audit Committee convene into Executive Session pursuant to R.C. 121.22 (G) (6) to discuss the employment and compensation of a public employee. Upon roll call, the vote was as follows: Yea: Barb Phillips, Catherine Moss, James Rossler. The motion carried.</p> <p>The committee returned to open session at 3:30 p.m.</p> <p><u>Committee Requests and Follow Up Items</u></p> <p>There were no requests or follow up items discussed.</p> <p>The meeting adjourned at 3:31 p.m.</p>		
	Action Items	Assigned Person	Due Date
Action Items	n/a		
Agenda for Next Meeting			



Internal Audit Update

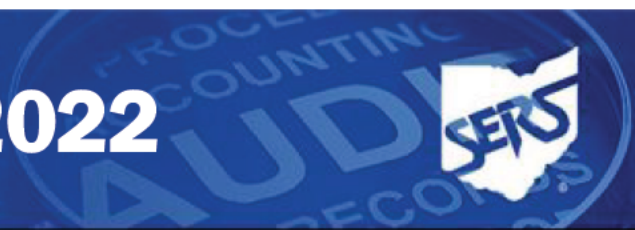
March 2022

Jeff Davis, CAO – Internal Audit

Agenda



- Status of FY22 Internal Audit Plan
- Microsoft 365 Review
- FY23 Audit Planning
- Recently completed audits and Other Activities



Internal Audit Update – March 2022

FY22 Audit Plan Status:

Engagement	Type	Status	Comments
Undue Influence (August 2021)	Audit	Completed	Annual Compliance Audit
Investment Incentive Comp. (August 2021)	Audit	Completed	Annual Compliance Audit
Internal Quality Assessment Review (August 2021)	Administrative	Completed	Quality Assurance and Improvement Program
Conflict of Interest (October 2021)	Audit	Completed	Annual Compliance Audit
Death Benefits (December 2021)	Audit	Completed	
Outsourced IT Review – Office 365	Audit	In Progress	
Payment Processing	Audit	In Progress	
Retiree Accounting	Audit	Planned	
Board Governance	Consulting	Completed	Annual Activities for Ohio Retirement Study Council - Required by March 31 st

Internal Audit Update – March 2022



FY22 Audit Plan Status (Continued):

Engagement	Type	Status	Comments
Health Care Fund Revenue – Premiums, Rebates, and Funding Allocation	Consulting	Pending	Consult with management on Direct Pay Project
Member Account Maintenance	Audit	Pending	
Health Care Services	Consulting	Pending	Biennial outsourced audit of health care benefits
Employer Reporting	Consulting	Pending	
Unitized Accounting Practices	Consulting	Pending	
Continuous Auditing	Audit	In Progress	
FY23 Internal Audit Plan	Administrative	Pending	Planning related to FY23 plan

Microsoft 365 Review



- The scope of the review will include both governance components that support the management of Microsoft 365, as well as the technical implementation of security configurations within SERS.
- The RFP selection process is complete. Review expected to begin in March.
- The intent is to have a report/presentation for the committee in June.
- Goal is to: identify potential security gaps in our current environment and to identify recommendations to improve SERS security posture

FY23 Audit Planning



- Audit planning for FY23 will begin in April
- Feedback from the Board/Audit Committee and Senior Management will be important
- IA will perform its own independent assessment of the audit universe while leveraging knowledge gained from interaction with ERM office.

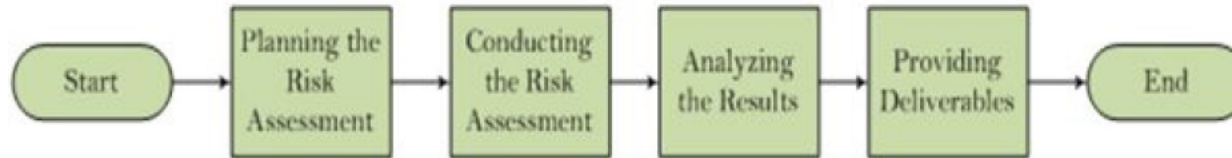


FY23 Audit Planning





FY23 Audit Planning



Risk Factors	Weight	Description
A. Control Design and Effectiveness	20%	Assessed reliability of internal controls are important in judging the likelihood of errors in the system; consider known problems/prior audit results.
B. Impact to Members, Retirees, Employers, and Public	20%	Impact to SERS' constituents; management or other stakeholder concerns can influence the priority of an auditable area; consider reputational impact to SERS by failure of a sensitive process.
C. Changes in Organization, Programs, and Operations	15%	A dynamic change to systems/processes/people, increases probability of efficiencies as well as errors.
D. Complexity of Activities, Operations, and/or Systems	15%	Degree of process complexity or perceived impact of IT controls.
E. Dollar Materiality/Operational Impact	15%	Financial statement impact, relative importance, or sensitivity to ongoing operations.
F. Impact of Fraud, Waste, or Data Loss	15%	Impact of illegal acts, wasteful spending, or sensitive data loss can result in a heightened consequence regardless of the dollar amount.

Recently Completed Audits and Other Activities



- One audit completed since the last committee meeting
 - Death Benefits report is attached. (Attachment A)
- QAR Prep – the next quality assessment will occur in July/August of FY23



Q & A

DEATH BENEFITS AUDIT

December 2021

SERS Internal Audit Department

Business Objectives

Ensure death benefit processes are properly designed and operating effectively in accordance with laws, policies and procedures.

Business Risks

- Noncompliance with policies, procedures or legal requirements
- Ineffective communication to members
- Failure to report death to continue collecting retirement payments
- Forgery/ false representation of death
- Set up fraudulent beneficiary
- Incorrect death benefit calculations/ payments
- Overpayment not collected
- Untimely death benefit processing
- Improper duty segregation to prevent errors or irregularities
- Confidential data security
- Incomplete information submitted
- Ineffective monitoring of ongoing retirement benefits to nonresponsive or higher risk members
- Ineffective vendor monitoring

Management Controls (Bold = Tested)

- Detailed policies and procedures
- Standard forms and practices
- Vendor-provided death match process & SERS' multiple notification options
- Required death certificate and independent verification processes
- Beneficiary designation form
- Benefit calculations/ second review
- Receivable collection/ offset process
- Restricted system/ record access
- **Management oversight & monitoring**
- Suspend ongoing benefit payments and designate survivors promptly
- Segregation of Duties/ roles and access rights assigned/ system edit checks
- Secondary review/ verification
- Exception Reports/ Reconciliations and vendor report monitoring (SOC)
- BC/DR plans; system edits; fraud & ethics training; adequate resources; background checks; cross training and succession planning

Recommended Actions

- There was one moderate and two low risk process improvement recommendations below:
1. Improve vendor contract monitoring related to sensitive data protection. (Moderate Risk)
 2. Proactive monitoring of higher risk members and death notification resources. (Low Risk)
 3. Periodic review of access rights. (Low Risk)

Management Responses

Management agrees with recommendations and will do the following:

Member Services will continue to monitor the performance of its vendor and related contract provisions. Centralized vendor oversight was transitioned to ERM in FY22, and Member Services will continue to coordinate its ongoing monitoring and any future offboarding activities with ERM.

NOTE: Low risk comments will be adequately addressed by management (see page 11).

Results Summary

Overall, controls for death benefits were **properly designed and operating effectively** to achieve the business objective. No high-risk issues were identified. Internal Audit concludes:

Objective	Conclusion
Death Benefits	Well-Controlled with Improvement Needed

Legend of Results:

- Red - Significant to SERS; Require Immediate Attention
- Yellow - Significant to Business Objectives; Requires Near-Term Attention
- Green - Other Reportable Issue; Process Improvement Opportunity



Internal Audit Department

December 20, 2021

Audit Committee, Board of Trustees
Richard Stensrud, Executive Director
Karen Roggenkamp, Deputy Executive Director
John Grumney, Director - Member Services
Chad Hanson, Asst. Director - Member Services

EXECUTIVE SUMMARY

Internal Audit completed the audit of **Death Benefits**¹, as included in the *Fiscal Year 2022 Audit Plan*. The business objective related to death benefits was to ensure processes were properly designed and operating effectively in accordance with laws, policies and procedures.

Based on audit results, Internal Audit (IA) determined that overall management controls for death benefits was properly designed and operating effectively to achieve the business objective. Internal Audit did not identify any high-risk audit observations, however, a moderate risk recommendation requiring near-term attention included:

1. Improve contract monitoring related to sensitive data protection.

During the course of the audit, other reportable matters were identified and reported as low risk or process improvement opportunities. Two observations were included in this report. Management has developed appropriate responses; however, Internal Audit will not perform follow up testing on low-risk issues. The low-risk recommendations were:

2. Proactive monitoring of higher risk members and death notification resources.
3. Periodic review of access rights.

Results of procedures are presented in more detail in the Other Reportable Results section of this report. The audit objective, scope, methodology and conclusion are also described later in the report.

¹ This death benefits audit focused on ensuring death benefit processes were properly designed and operating effectively in accordance with laws, policies and procedures. Scope of review did not include ongoing survivor benefit payments. Scope of review included a limited access control review, not a detailed review of SERS' IT applications.

POSITIVE RESULTS

Member Services' personnel responsible for processing death notifications, beneficiary applications, death benefit calculations, payment, and collection of overpayments, and communicating to beneficiaries were knowledgeable of the extensive requirements for processing death benefits. Personnel collectively possess a high level of experience and consistently support beneficiaries. Employees were thorough and detailed in their reviews, documentation was clear and consistent, external resources were properly used in enhancing the accuracy of information.

Proper supporting evidence and controls were in place and operating effectively during the audit period. Audit results were validated through inquiry, observation, and testing to verify secure transmission of sensitive information, payment to eligible beneficiaries, timely and consistent documentation of decisions, accurate calculation of death payments, proper collection of benefit overpayments, and effective communication.

Internal Audit was grateful for the assistance and time provided in support of this audit by the Member Services Department. Internal Audit would especially like to thank the following individuals for their cooperation, courtesy and professionalism provided on this engagement:

- John Grumney, Director, Member Services
- Chad Hanson, Asst. Director, Member Services
- Mary Beth Clark, Manager – Benefits Processing
- Scott Murta, Assistant Director, IT

Internal Audit also values the support provided by Legal, Finance, IT and Executive management.



Jeff Davis, CPA, CISA, CIA, CFE
Chief Audit Officer

BACKGROUND

An audit of death benefits was performed previously by Internal Audit in FY2018. The prior audit report included three moderate risk recommendations. All three recommendations were corrected after the prior audit was completed. This audit was a regularly scheduled review based on the FY2022 Internal Audit plan. The time period examined was April 2021 through September 2021. This audit focused on death benefit phases that included: beneficiary designation, confirmation of member death, benefit calculation and payment, ongoing monitoring, and member communication. The scope of the audit included gaining an understanding of management's proactive controls to validate certain higher risk pension payments involving potentially deceased members.

SERS provides death benefits for members that designate a beneficiary in the event of the member's death 1) prior to service retirement, 2) while receiving a service retirement allowance, or 3) while receiving disability benefits. If a member dies while receiving a service retirement allowance or on disability, the qualifying beneficiary will receive a \$1,000 death benefit from SERS. The beneficiary may also be eligible for monthly benefits or a refund of a member's unused account balance. If the member has not provided an order of succession, Ohio law designates an order of succession for benefits from a member's account.

The proper administration of death benefits relies upon prompt notification of a member's death, effective processes to validate a member's death, and detailed procedures to calculate death benefit payments. Further, it is important for SERS to maintain proper controls to ensure improper or erroneous death benefit payments are quickly identified and remedied. SERS utilizes a third-party vendor, Lexis Nexis (LN), to assist in the timely identification and reporting of member deaths, as well as numerous other sources of notification.

LN compiles, maintains, and reports death information received from its sources that match monthly member records provided by SERS. The primary source of death matches from LN is derived from obituaries, US Social Security Administration's (SSA) master death file, and records obtained from various state vital records agencies. Weekly data reports are sent from LN to SERS and include the match probability for SERS to verify (e.g., higher probabilities result from social security number matches, as opposed to obituaries with a common name). Member Services then applies validation procedures (e.g., death certificate required before any payment) and issues communication to known beneficiaries.

Due to the timing of notification of a member's death it is not uncommon to have overpayments to a member's account. SERS has detailed policies and procedures to minimize these payments and has recovery procedures that include a returned check, bank transaction reversal, beneficiary repayment, future payment offset, payment plan, and other options to recover monies owed to SERS. Death benefit payments are funded primarily by employer contributions (.05% of the overall 14% contribution) made from the Death Benefit Fund, which is considered an insurance fund in compliance with IRC Section 101(a).

The following tables include metrics involving death benefits:

Fiscal Year – Type of Death Benefit	Death Benefit Annual Payment By Service/ Disability*	Death Benefit Annual Payment Total*
2019 - Service	\$2,083,499	\$2,289,135
2019 - Disability	\$205,636	
2020 - Service	\$2,169,208	\$2,364,642
2020 - Disability	\$195,434	
2021 - Service	\$2,710,522	\$2,962,198
2021 - Disability	\$251,676	

Source: SERS' 2021 CAFR (Statistical Section) – excludes ongoing survivor benefit payments

Lexis Nexis Death Matches					
Average # Member Records sent Monthly by SERS to LN	Six Month Total	Supplemental	Social Security Administration	Ohio	Other States
102,399/month	1,241	90%	10%	76%	24%

Source: Lexis Nexis weekly reports from April through September 2021 and Lexis Nexis Death Match Extract Files. Supplemental sources include state records, consumer credit bureau records, obituaries, etc. Total death matches reported by Lexis Nexis was 1,241, however, 784 of these deaths were already reported to SERS from other sources (phone call, health care vendor, etc.)

Number of Days to Notification		Source of Notification	
Less than One Month	2,076	Phone Call	1,466
Two to Three Months	188	Death Match	357
Three Months to One Year	79	Health Care Vendor	278
Greater than One Year *	45	Other Retirement System	112
Total:	2,388	Email	87
		Other	88
		Total:	2,388

Source: SMART Death Notification Lookup (April through September 2021)

* Deaths reported more than one year after death were members whose account was inactive and had minimal service credit (less than one year) and were not receiving retirement benefits.

POLICY, PROCEDURE, AND COMPLIANCE REQUIREMENTS (EXCERPTS)

A. Survivor Benefits Processing Policy - Designation of Beneficiaries Prior to Retirement (MS6-001)

- *A member may designate one or more beneficiaries by completing a Member Beneficiary Designation form (VER-0006). The form may be requested by letter, email, SERS website, or telephone call. Beneficiary forms are sent by the Survivor Benefit section and must be completed in ink. Beneficiary forms can also be submitted electronically via the Member Self-Serve portal.*
- *Ohio law designates a certain order of succession for benefits from a member's account, if the member has not designated a beneficiary. The statutory order of succession will automatically apply unless the member files a Designation of Beneficiary form with SERS.*

B. Survivor Benefits Processing Policy - Disability Recipient Death Benefit (MS6-001)

- *If a member dies while on disability, the beneficiary(s) will receive a \$1,000 death benefit from SERS and may be eligible for monthly benefits or a refund of the member's unused account balance.*
- *If there is no balance remaining in the member's account after disability payments were made, a \$1,000 death benefit only is paid to the beneficiary or shared equally between beneficiaries.*

C. Survivor Benefits Processing Policy - Survivor Benefit Eligibility (MS6-001)

- *When an SERS member or disability recipient dies before retirement, the type of benefit due and qualified beneficiaries must be determined by the Survivor Benefit section of the Member Services Department.*
- *After determining beneficiaries and eligibility for benefit type, the Survivor Benefits section must process the necessary applications for the benefit or refund.*
- *Eligibility - Monthly survivor benefit payments are paid to qualified beneficiaries only if the member:*
 - *was eligible for service retirement*
 - *had 1 ½ years of service credit, including 45 days in the 2 ½ years preceding death, or*
 - *was drawing a disability benefit*
- *Qualified Beneficiaries - A beneficiary is qualified to receive survivor benefit payments only under the following circumstances:*
 - *Surviving spouse without minor children*
 - *Surviving spouse with minor children*
 - *Minor child*
 - *Minor child adjudged to be physically or mentally incompetent prior to the member's death and prior to age 19*
 - *Dependent parent*
 - *Surviving spouse adjudged to be physically or mentally incompetent*
- *Types of benefits available to the beneficiary of a member who dies before retirement include: cash refund of the deposits contributed, joint survivor allowance (if member was eligible for retirement – Plan D), or survivor benefit monthly payments based on number of qualified dependents and percentage of member's final average salary.*
- *Survivor Benefits completes the applications and records to process the benefit or refund.*

D. Survivor Benefits Processing Policy – Application for Survivor Benefit

Application for Survivor Benefit

Copies of the following documents are required before payment can begin:

Death Certificate (all cases)

- Marriage Certificate (if writing to spouse)
- Beneficiary Birth Certificate (for Plan D or under 10 years only)
- Social Security Card, or Driver's License (monthly benefit only)
- Children Birth Certificates (for monthly benefit)
- Children Social Security Card (for monthly benefit)
- Completed Extended Student Benefit Forms (dependent child age 18 or older)
- Guardianship Papers (if applicable)
- Administrator Or Executor Appointment (estate refund)
- Divorce Decree of Member and Spouse or Spouses Death Certificate
- Medicare Card (if the beneficiary is a spouse or a parent age 65 or older)

E. Accounts Receivable Policy (FIN1-003)

Provides guidance for timely and efficiently collecting and accounting for money owed to SERS, including overpaid benefits to members. Overpayments are expected to be paid immediately and in full.

Collection of Overpaid Benefits Due to Death of Benefit Recipient

1. Member Services is notified of benefit recipient's death.
2. Member Services determines the repayment terms and notifies Finance of any installment plan.
3. Overpaid benefits to a retiree whose spouse will receive a service benefit:
 - Member Services sets up the receivable.
 - Member Services recovers funds through deduction from future benefit payment(s) or direct payment.
4. Overpaid benefits to a benefit recipient with no future payments (except Death Benefit)
 - Member Services sets up a receivable.
 - Member Services sends out initial letter requesting repayment of any overpaid benefit.
 - The receivable will be recovered from a payable death benefit at the 45-day mark. If the receivable is more than \$1,000, the entire death benefit is applied to the receivable and Member Services sends a second request for reimbursement of the balance.
 - If no response is received within 30 days of the second request, Member Services will transfer the file to Finance for collection, unless there is a mutually agreed upon extension.
 - Collection will be turned over to the Attorney General's Office within a month unless definite progress is being made on collecting the overpayment.

F. Payment of Death Benefit (ORC 3309.50); Recovering Erroneous Payments (3309.70); Effect of Applicant's Death on Retirement Application (OAC 3309-1-48)

- Upon the death of a retirant or disability benefit recipient, who at the time of death is receiving a service retirement allowance or disability benefit from SERS, a lump-sum payment of one-thousand dollars shall be paid, following completion of an application on a form approved by SERS' Board.
- If a person listed in division ORC Section 3309.50 (A)(1) is deceased or is not located within 180 days, the person ceases to qualify for the payment. The payment shall be made to the person next in order of precedence.

- *A benefit paid under this section shall be treated as life insurance and funded from contributions made under ORC Section [3309.49](#) and any earnings attributable to those contributions.*
- *If a person is paid any benefit or payment by SERS to which the person is not entitled, the benefit shall be repaid to SERS by the person. If the person fails to make the repayment, SERS shall withhold the amount due from any benefit due the person or the person's beneficiary under this chapter or may collect the amount in any other manner provided by law.*
- *If a member has filed a proper and complete application for a retirement allowance and dies subsequent to the established effective date of the retirement, whatever benefits may be due the member's beneficiaries will be determined by the plan of payment selected by the member on the application forms for retirement.*

BUSINESS OBJECTIVES, RISKS, AND CONTROLS

For the audit of death benefits, Internal Audit obtained information about the following business objective, as well as the related risks and controls management established to mitigate these risks:

Business Objective	Ensure death benefit processes are properly designed and operating effectively in accordance with laws, policies and procedures.	
Business Risks	<ul style="list-style-type: none"> • Noncompliance with policies, procedures or legal requirements • Ineffective communication to members • Failure to report death to continue collecting retirement payments • Forgery/false representation of death • Set up fraudulent beneficiary • Incorrect death benefit calculations/payments • Overpayment not collected 	<ul style="list-style-type: none"> • Untimely death benefit processing • Improper duty segregation to prevent errors or irregularities • Confidential data security • Incomplete information submitted • Ineffective monitoring of ongoing retirement benefits to nonresponsive or higher risk payments • Ineffective vendor monitoring
Management Controls (Bold = Tested)	<ul style="list-style-type: none"> • Detailed policies and procedures • Standard communication forms and practices • Vendor-provided death match process & SERS' multiple notification options • Required death certificate and independent verification processes • Beneficiary designation form • Benefit calculations/ second review • Receivable collection/ offset process • Suspend ongoing benefit payments and designate survivors promptly • Segregation of Duties/ roles and access rights assigned/ system edit checks 	<ul style="list-style-type: none"> • Restricted system/ record access • Secondary review/ verification - uniform reporting practices • Management oversight & monitoring • Exception Reports/ Reconciliations and vendor report monitoring (SOC) • Business continuity & recovery plans • System edits • Fraud and ethics training • Adequate resources • Background checks • Cross training & succession planning

AUDIT OBJECTIVE, SCOPE, METHODOLOGY, AND CONCLUSION

Internal Audit (IA) aligns its audit practices with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (the Standards)*. Internal Audit has conducted this engagement in accordance with those *Standards*.

These *Standards* require IA plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for observations and conclusions based on audit objectives. Internal Audit believes the evidence obtained provides a reasonable basis for the audit observations and conclusions.

Audit Objective	<p>Determine whether internal controls are in place and working effectively to achieve the business objectives and mitigate significant risks to meeting those objectives.</p> <ul style="list-style-type: none"> ➤ Evaluate whether death benefit processes are properly designed and operating effectively in accordance with laws, policies, and procedures. ➤ Maintain the integrity, availability and protection in the storage, use, and transfer of sensitive SERS information. ➤ Ensure validity, accuracy, completeness, and timeliness of benefit payments. ➤ Assess whether SERS records are timely updated to reflect third party death notifications. ➤ Ensure sufficient processes exist to recover death benefit overpayments.
Audit Scope	<p><u>Scope/Key Processes:</u> This death benefit audit focused on controls within the Member Services' Department and included a review of governance, risk management, and internal control design and effectiveness for:</p> <ol style="list-style-type: none"> 1. Application and eligibility - beneficiary designation 2. Death match notification and processing 3. Death benefit calculation and payments to beneficiaries 4. Monitoring (vendor; ongoing fraud) 5. Communication (to members; sensitive data handling) <p>NOTE: Scope of review will exclude ongoing survivor benefit payments remitted upon the death of a member before attaining retirement status. Scope of review includes a limited access control review, not a detailed review of SERS' IT applications.</p> <p>Audit Period: April 1, 2021 – September 30, 2021</p> <p>Transactional volume indicates death benefit payments for the audit period:</p> <ul style="list-style-type: none"> ➤ 2,400 potential member deaths reported and processed during the audit period, including some reported multiple times from different sources (SSA, state obit) and others that were reviewed and determined not to be SERS' members
Audit Methodology	<p>IA's methodology included obtaining information on management's business objective and risks and focused on key processes and monitoring controls management has established to address significant risks. To meet the audit objectives, IA specifically performed the following procedures:</p> <ul style="list-style-type: none"> ➤ Reviewed legal requirements, policies and procedures, and process flowcharts ➤ Conducted interviews/ walkthroughs with management and key staff members ➤ Documented understanding or key risks and controls ➤ Performed walkthrough of controls and retested a judgmental selection of death benefits during the audit period

Audit Conclusion	<p>Internal Audit determined overall management controls for death benefits were properly designed and operating effectively to achieve the business objective.</p> <p>Internal Audit did not identify any high-risk observations. During the course of the audit, there was one moderate risk observations and two other reportable matters identified and reported as low risk or process improvement opportunities.</p> <p>The overall conclusion was determined to be Well-Controlled with Improvement Needed.</p>
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OBSERVATIONS AND RECOMMENDATIONS

1 – Contract Monitoring – Sensitive Data

<p>Pension Benefit Information (PBI) was the former vendor who was responsible for comparing SERS-provided member and beneficiary data to PBI's death data base and report to SERS the identity of recipients who have been reported to PBI as deceased. SERS transitioned to Lexis Nexis (LN) in August 2019 for the same services. The contract with PBI included a confidentiality clause requiring PBI to return all information to SERS or certify in writing that all sensitive information has been destroyed within sixty days. The current contract requires that LN provide written confirmation and validation to SERS within thirty days that all customer data and confidential information has been securely destroyed.</p> <p>Due to staffing changes in Member Services, there is no evidence that this step was completed at the conclusion of the PBI contract. During the FY22 audit of Death Benefits, the certification that confidential information provided to PBI was destroyed was obtained by the Enterprise Risk Management Office (ERM). The certification was dated November 9, 2021. The monitoring of offboarding of vendors was transitioned to ERM in FY22.</p>		
Recommendation		
<p>Management should ensure that key contract provisions are completed at the conclusion of the contract.</p>		
Management's Action Plan		
<p><i>Member Services will continue to monitor the performance of its vendor and related contract provisions. As mentioned, PBI's certificate of records destruction was obtained in FY22. Centralized vendor oversight was transitioned to ERM in FY22 and Member Services will continue to coordinate its ongoing monitoring and any future offboarding activities with ERM.</i></p>		
Risk*	Remediation Owner	Estimated Completion Date
Moderate	Director, Member Services	December 2021 (complete)

* Refer to Appendix A for classification of audit observations.

OTHER REPORTABLE RESULTS

The following observations are considered to be a low risk or process improvement opportunity aimed at helping enhance management's processes. Responses by management do not require follow up testing from Internal Audit.

A. Proactive Monitoring of Higher Risk Members and Death Notification Resources –

The prior audit report included recommendations addressing higher risk members and the use of additional death notification resources, such as data available from the Ohio Department of Health's Office of Vital Statistics.

Management developed effective procedures for the proactive monitoring of higher risk members (members over 90 years of age and members residing outside the United States). This process required notary certification that the member was still living. The pandemic resulted in this process being suspended. IA recommends this process be reinstated, when possible, given the high-risk nature of these members.

Management began using the Ohio Department of Health's Office of Vital Statistics after the prior audit. There have been challenges due to the nature of the data (last 4 of SSN, lack of other details) that creates a high likelihood of false positives. However, IA recommends using this data where possible.

Management Response:

Member Services anticipates reactivating the procedure of identifying "high risk" members (members over the age of 90 or living outside the country) beginning in January 2022. This assumes members will be able to obtain notarizations without undue hardship brought on by the pandemic. Member Services will use Ohio Department of Health's Office of Vital Statistics data where possible.

B. Periodic Review of Access Rights

Accurint is a third-party service that is used by SERS staff to research demographic information of SERS members for various purposes. Accurint is used to validate mailing_ addresses for members and benefit_recipients, confirm date of death, determine gender, or_ confirm date of birth. To avoid unintentional release or access to sensitive information, SERS' employee access rights system should be periodically monitored, at least annually, particularly given changes that can occur with employee responsibilities. Access to Accurint is not handled by central IT. Access is managed by the Member Services Assistant Director. While the granting of access management was effective, annual access reviews should be documented.

Management Response:

As responsibilities and staffing change, access rights to Accurint are reviewed. However, Member Services will schedule an annual review to ensure proper granting of access.

APPENDIX A

CLASSIFICATION OF AUDIT OBSERVATIONS AND CONCLUSIONS

Classification of Audit Observations

Observations will be judgmentally risk ranked based on the below rating factors:

Rating	Description of Factors
Low	Observation poses relatively minor exposure to SERS. Represents a process improvement opportunity.
Moderate	Observation has significant impact to department or business objective but not to SERS as a whole. Compensating controls may exist but are not operating as designed. Requires near-term attention.
High	Observation has broad (SERS organization) impact and possible or existing material business objective exposure requiring immediate attention and remediation.

Classification of Audit Conclusions

Each conclusion will be identified with one of the four categories utilizing the following description of factors:

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present and could compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

ITEM 4.

EXECUTIVE SESSION

_____ moved and _____ seconded the motion that the Audit Committee convene in Executive Session pursuant to R.C. 121.22 (G)(1) to consider the employment of a public employee.

IN EXECUTIVE SESSION AT _____ A.M./P.M.

Upon roll call, the vote was as follows:

<u>ROLL CALL:</u>	<u>YEA</u>	<u>NAY</u>	<u>ABSTAIN</u>
Barbra Phillips	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____

Return to Open Session _____ A.M. / P.M.

ITEM 6.

SCHOOL EMPLOYEES RETIREMENT SYSTEM

AUDIT COMMITTEE

March 16, 2022

Adjournment at _____ P.M.