



SERS Retirement Board Audit Committee Agenda
Regular Meeting
March 15, 2023
2:30 P.M.

1. Roll call (R)
2. Approval of September 14, 2022, minutes (R)
3. External Audit Update
4. Internal Audit Update - Chief Audit Officer's Report
 - Q3 Update on the FY2023 Audit Plan,
 - ORSC Annual Audit Committee Report,
 - Status of Audit Recommendations,
 - External Audit Selection Process,
 - FY24 Audit Planning,
 - Recently Completed Audits, Other Activities
5. Executive session pursuant to R.C. 121.22 (G) (1) to consider the employment of a public employee (R)
6. Audit committee requests and follow-up items
7. Adjournment

ITEM 1.

SCHOOL EMPLOYEES RETIREMENT SYSTEM

AUDIT COMMITTEE

March 15, 2022

2:30 P.M.

Roll Call:

Barbra Phillips _____

Catherine Moss _____

James Rossler _____

Guests in Attendance:

ITEM 2.

SCHOOL EMPLOYEES RETIREMENT SYSTEM

**APPROVAL OF MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON
September 14, 2022**

_____ moved and _____ seconded the motion to approve the minutes of the Audit Committee meeting held on September 14, 2022.

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>Megan Robertson</p>	<p>Meeting Date:</p>	<p>September 14, 2022</p>
<p>Committee Chair</p>	<p>Barbra Phillips</p>	<p>Committee roll call was as follows: Barbra Phillips and James Rossler.</p> <p>Also in Attendance: Lisa Reid, Representative of the Ohio Attorney General, SERS Staff Members: Jeff Davis, Joe Marotta, Richard Stensrud, Karen Roggenkamp, Nikki Whitacre, Marni Hall, Vatina Gray, and Megan Robertson.</p>	
<p>Agenda</p>	<ol style="list-style-type: none"> 1. Roll call (R) 2. Approval of June 15, 2022 minutes (R) 3. FY22 External Audit Update 4. Chief Audit Officer's Report <ul style="list-style-type: none"> o Q1 Update on the FY2023 Audit Plan o External Quality Assessment o Status of Audit Recommendations o Recently Completed Audits, Other Activities 5. Executive session pursuant to R.C. 121.22 (G) (1) to consider the employment of a public employee (R) 6. Audit committee requests and follow-up items 7. Adjournment 		
<p>Discussion</p>	<p>The meeting began in open session at 2:30 p.m.</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 and James Rossler.</p> <p>Also in attendance were SERS Staff Members: Jeff Davis, Joe Marotta, Richard Stensrud, Karen Roggenkamp, Nikki Whitacre, Marni Hall, Vatina Gray, and Megan Robertson.</p> <p><u>Approval of Minutes</u></p> <p>James Rossler moved and Barbra Phillips seconded the motion to approve the minutes of the Audit Committee meeting held on June 15, 2022. Upon roll call, the vote was as follows: Yea: Barbra Phillips, James Rossler. The motion carried.</p> <p><u>FY2022 External Audit Update</u></p> <p>SERS CFO Marni Hall presented on the external audit that is being performed by RSM. The is the final year of the contract with RSM. Ms. Hall reminded the committee the original 5-year contract was extended an additional 5-years. The Auditor of State will begin the new auditor selection process this fall to select a new CPA firm by March 2023.</p>		

	<p>The external audit is underway with a plan to present the finished results at the December 2022 board meeting. Audit work is expected to be completed by the end of November. There have been no issues noted to date.</p> <p><u>Chief Audit Officers Report</u></p> <p>Jeffrey Davis, SERS Chief Audit Officer (CAO), provided a presentation on the status of his FY2023 Internal Audit Plan for Quarter 1. Three audits have been completed with three additional audits in progress, and future audits pending.</p> <p>Mr. Davis provided an update on the External Assessment of the Internal Audit Department. After a competitive selection process, Honkamp Krueger was selected to complete the assessment. A Request for Proposal (RFP) was extended, and four firms responded to the RFP. The final selection was made by three senior SERS employees, excluding the CAO. The objective of the engagement was to determine if the expectations of senior management and the Audit Committee are being met, identify opportunities for improving the efficiency and effectiveness of the internal audit activity, and provide a rating with respect to the Institute of Internal Auditor’s standards.</p> <p>Mr. Davis shared notable performance aspects of the recent External Quality Assessment Report. SERS internal audit office complies with the standards of the Institute of Internal Audit. Mr. Davis explained the opportunities and practice improvement suggestions from the External Quality Assessment Report. Corrective action will be taken for the recommendations prior to the end of calendar year 2022.</p> <p>Mr. Davis opened the floor to the committee for questions and comments and Barbra Phillips commended Mr. Davis for the work he accomplishes as the CAO for SERS.</p> <p>Mr. Davis provided the status of audit recommendations for the Microsoft 365 Review.</p> <p><u>Executive session pursuant to R.C. 121.22 (G) (1) to discuss the employment of a public employee (R)</u></p> <p>James Rossler moved and Barbra Phillips seconded the motion that the Audit Committee convene into Executive Session pursuant to R.C. 121.22 (G) (1) to discuss the employment of a public employee. Upon roll call, the vote was as follows: Yea: Barbra Phillips, James Rossler. The motion carried.</p> <p>The Audit Committee convened in executive session at 2:58pm.</p> <p>The Audit Committee returned to open session at 3:08 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 3:09 p.m.</p>		
	Action Items	Assigned Person	Due Date
Action Items	n/a		
Agenda for Next Meeting			

ITEM 3.

EXTERNAL AUDIT UPDATE

External Auditor selection Process

ITEM 4.

**INTERNAL AUDIT UPDATE
(Chief Audit Officer's Report)**



Internal Audit Update

March 2023

Jeff Davis, CAO – Internal Audit



Agenda

- Status of FY23 Internal Audit Plan
- ORSC Annual Audit Report
- Status of Audit Recommendations
- External Audit Selection Process
- FY2024 Audit Planning
- Recently completed audits and Other Activities

Internal Audit Update – March 2023



FY23 Audit Plan Status:

Engagement	Type	Status	Comments
Undue Influence (July 2022)	Audit	Completed	Annual Compliance Audit
Investment Incentive Comp. (August 2022)	Audit	Completed	Annual Compliance Audit
External Quality Assessment Review (September 2022)	Administrative	Completed	
Conflict of Interest (October 2022)	Audit	Completed	Annual Compliance Audit
Disability Benefits (December 2022)	Audit	Completed	
Health Care - Pharmacy Audit (Outsourced)	Consulting	Completed	Biennial outsourced audit of member pharmacy benefits
Service Credit purchase (March 2023)	Audit	Completed	
Employer Reporting	Audit	In Progress	
Board Governance – Audit Committee Annual Report	Consulting	Completed	Annual Activities for Ohio Retirement Study Council - Required by March 31 st

Internal Audit Update – March 2023



FY23 Audit Plan Status (Continued):

Engagement	Type	Status	Comments
Investment Management Fees	Consulting	In Progress	
Purchasing/Contracts	Audit	Pending	
IT Consulting	Consulting	In Progress	
Unitized Accounting Practices	Consulting	Pending	
Continuous Auditing	Audit	In Progress	
FY24 Internal Audit Plan	Administrative	In Progress	

Ohio Retirement Study Council Annual Report



- 2022 SERS Annual Audit Report
 - Report finalized at the end of December
 - Submitted to ORSC
- Report required to be filed by March 2023

ORSC Annual Report – Closed Audits: Recommendations



Audit Area	Risk Rating	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target Implementation
Microsoft 365 (June 2022)	Mod	<u>Microsoft 365</u> The objective of the review was to assess the controls over security related to Microsoft 365 (M365).	Ten recommendations were proposed. Two received a moderate rating and eight were rated as low. The report was presented in executive session.	Management has developed a remediation plan for each recommendation. Corrective action has been implemented for the moderate rated recommendations. Corrected action has also been implemented for four of the eight low rated recommendations	Yes	2022/2023
<p><u>Comments:</u> While several deficiencies were identified, they do not compromise achievement of important control objectives.</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.

ORSC Annual Report – Closed Audits: Recommendations (cont.)



	Risk Rating	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target Implementation
Member Account Maintenance (August 2022)	Low	<p><u>Member Account Maintenance</u> Ensure member account maintenance processes are properly designed and operating effectively in accordance with SERS' policy and procedures and adheres to legal requirements. Review included:</p> <ul style="list-style-type: none"> • Personal Information updates • Bank Account changes • Monitoring • Communication • Review of policy and procedure 	Update policy to include reference to the member portal for bank account changes.	Management will update the Member Services Administrative policy.	Yes	2022
<p><u>Comments:</u> Controls related to Member Account Maintenance were operating effectively to achieve business objectives.</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.

ORSC Annual Report – Closed Audits: No Recommendations



Audit Area	Risk Rating	Scope	Management's Response
Accounts Payable (May 2022)	Low	<u>Administrative Services</u> Ensure that payment processes are properly designed and consistently applied in accordance with SERS' policy and procedures and adheres to legal requirements.	Not applicable.
		Comments: Controls for payment processing were operating effectively to achieve business objectives.	
Undue Influence (August 2022)	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 forms submitted.	
Investment Incentive Compensation Review (September 2022)	Low	<u>Investments Department and Enterprise Risk Management</u> Evaluate controls and payments associated with the FY2022 Investment Incentive Compensation Plan.	Not applicable
		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. 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.	

^[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.

ORSC Annual Report: Closed Audit – No Recommendations (cont.) & Active Audits



Audit Area	Risk Rating	Scope	Management's Response
Conflicts of Interest Compliance Review (October 2022)	Low	<p><u>Investments Department and Investment Compliance</u> Review disclosures by Investments staff and external investment service providers for conflicts of interest compliance. Review included:</p> <ul style="list-style-type: none"> • Investment staff certification • Financial Disclosure Statement • Professional Conduct Statement • Investment Manager Agreement • Required Annual Disclosure Form 	Not applicable.
<p>Comments: Reviewed SERS' Investments staff disclosures and external investment service providers. No exceptions identified.</p>			

ORSC Annual Report: Closed Audit – No Recommendations (cont.) & Active Audits



Audit Area	Risk Rating	Scope	Management's Response
Disability Benefits (December 2022)	Low	<p><u>Member Services</u> Ensure Disability Benefit processing controls are operating effectively to achieve business objectives. Review included:</p> <ul style="list-style-type: none"> • SERS' physician selection and review • Disability evaluation and determination • Benefit calculation and payment • Disability recertification • Communication 	Not applicable.
Comments: Controls for disability benefits were operating effectively to achieve business objectives.			

Active Audits: As of December 2022

Audit Area	Risk Rating	Scope	Target Completion
Purchase of Service Credit	Low	Assessment of the design and effectiveness of key controls and compliance with laws and regulations related to the purchase of service credit.	Jan. 2023

ORSC Annual Report: Other Audit Related Activity



Area	Risk Rating	Subject/Project	Description
Disaster Recovery/ Cloud Migration	Mod	Disaster Recovery	The CAO provided consulting services related to the ongoing assessment of disaster recovery/cloud migration. This is a continuation of a process that began with an outsourced review, managed by Internal Audit, of SERS' disaster recovery strategies.
Pharmacy Audit	Mod	Benefits	SERS engaged Sagebrush Analytic Solutions LLC to conduct bi-annual audits of its pharmacy benefit manager to determine overall claims processing accuracy and efficiency and to identify opportunities for improved administration. Internal Audit provided consulting services related to the audit.
Medical Claims Audit	Mod	Benefits	SERS engaged Claim Technologies Incorporated to conduct a bi-annual audit of its medical claims administrator to determine overall claims processing accuracy and efficiency and to identify opportunities for improved administration. Internal Audit provided consulting services related to the audit.
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	CY2022 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 2022 was submitted on December 21, 2022.
Internal Audit Annual Plan	N/A	FY2022 Plan	The FY23 Internal Audit Plan was approved by the SERS Audit Committee on June 15, 2022.
Merit Increases	Low	Payroll	Reviewed FY23 annual merit increases.
Penetration Testing	Low	Information Security	Consulting with Risk Management related to penetration testing.
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.

ORSC Annual Report: Other Audit Related Activity (cont.)



Area	Risk Rating	Subject/Project	Description
Internal Audit Operations	N/A	Internal Audit Quality Assurance	<p>Internal Audit consists of one employee, a Chief Audit Officer (CAO). The CAO continues to maintain quality within audit practices to maintain conformance with IIA <i>Standards</i>. Audit activities include:</p> <ul style="list-style-type: none"> • Updated Internal Audit Operations Manual, Audit Committee and Internal Audit Charters, and standard work paper forms. • Completed CAO annual goals aimed at improving audit effectiveness, plan completion, coordination, and collaboration. • The CAO performed a comprehensive self-assessment of internal audit operations.
Quality Assessment	N/A	Quality Assurance	External quality assessment performed by qualified external firm.

Status of Audit Recommendations



Microsoft 365 Review

Rating	Risk	Recommendation Summary	Department	Responsible Executive/Director	Action Plan Due Date
Moderate	Change/ Configuration Management	Implement a process to evaluate M365 security standards at least on an annual basis. Corrective Action Implemented.	IT/Information Security	Joe Bell, Chief Risk Officer Mike Flanagan, Assistant Director - IT Infrastructure Service	November 2022

External Audit Selection Process



The 2023-2027 external audit firm selection timeline:

- 1/10/2023 – Auditor of State issues RFQ
- 1/26/2023 – Responses received from four firms
- 2/22/2023 – Review committee ranks responses and selects top two firms
- 3/2/2023 – SERS submits top two firms to the Auditor of State
- 3/9/2023 – Auditor of State to select winning firm
- 3/31/2023 – SERS and winning firm complete contract to begin audit planning in the 4th quarter of FY2023

FY24 Audit Planning



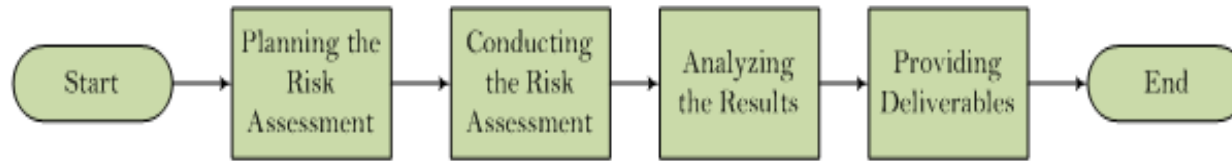
- Audit planning for FY24 in progress
- Feedback from the Board/Audit Committee and Senior Management
- IA will perform its own independent assessment of the audit universe while leveraging knowledge gained from interaction with ERM office.

FY24 Audit Planning





FY24 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



- Three audits completed since the last committee meeting:
 - Investment Compliance (See attachment A)
 - Disability Benefits (See attachment B)
 - Service Credit Purchase (See attachment C)
- External Audit Firm Selection
- Attended APPFA (Association of Public Pension Fund Auditors) conference in November 2022



Q & A

ITEM 5.

RESOLUTION FOR EXECUTIVE SESSION

(Personnel Matter)

ITEM 5.

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.

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	_____	_____	_____

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

RETURN TO OPEN SESSION _____ A.M. / P.M.

ITEM 6.

AUDIT COMMITTEE REQUESTS AND FOLLOW-UP ITEMS

ADJOURNMENT

_____ moved that the Audit Committee adjourn to meet at its next regularly scheduled audit committee meeting.

The meeting adjourned at _____ p.m.

Barbra Phillips, Audit Committee Chair



Internal Audit Department

Attachment A

To: SERS Audit Committee, Board of Trustees

cc: Richard Stensrud, Executive Director
Karen Roggenkamp, Deputy Executive Director
Farouki Majeed, Chief Investment Officer
Terri Martin, Investment Operations Manager
Joe Bell, Chief Risk Officer
Joe Marotta, General Counsel

From: Jeff Davis, Chief Audit Officer

Date: October 18, 2022

Re: 2022 Investment Conflicts of Interest - Compliance Review

Background

It is imperative that investment information, advice provided by investment staff, and implementation of investment decisions by the SERS investment staff and investment service providers are not impaired by conflicts of interest. Investment operations should be conducted in a manner that fosters public confidence in the integrity of SERS, its processes, and its work.

Funston Advisory Services issued a report based on their fiduciary review of SERS' Investment Operations. Included was a recommendation to:

- Establish a process within SERS to ensure staff investment filings are subject to a substantive review upon receipt each year in order to identify any activity that should generate further inquiry or follow-up.

The report further noted the substance of the filings is not reviewed for potential violations so that SERS is made aware of potential compliance issues in a timely manner.

Investment staff are required to annually file a financial disclosure statement with the Ohio Ethics Commission. The Investment Oversight Policy and Procedure also requires investment staff to file their annual reports with SERS.

In conformance with the Investment Oversight Policy and Procedure, Internal Audit conducted an annual compliance review of the Investment Staff's conflicts of interest disclosures. This independent review helped evaluate the Investment Department's procedures to safeguard against potential conflicts of interest involving investment



Internal Audit Department

staff and investment service providers. This audit also reviewed the Investment Compliance Division's controls for monitoring external investment service providers.

The Chief Investment Officer (CIO) is responsible for implementing procedures and annually reviewing the adequacy of those procedures to ensure investment staff and investment service providers comply with applicable federal laws, state laws and SERS policies and procedures. Investment procedures provide guidance to staff on disclosure requirements to assist the CIO in evaluating compliance. Investment staff shall annually file a report for the CIO's review that consists of the following:

- a. Annual Investment Staff Certification (INV-7007)
- b. Financial Disclosure Statement filed with the Ohio Ethics Commission
- c. Professional Conduct Statement filed with CFA Institute

Investment staff and the CIO shall file such reports with the Chief Audit Officer (CAO). The CIO's reports shall be reviewed by the CAO and the Executive Director.

External investment service providers must also adhere to conflicts of interest requirements, including:

- I. Investment Manager Agreement (IMA) or side letter contract requirements
- II. Required Annual Disclosure (RAD) forms for investment managers - monitored by Investment Compliance Division
- III. Periodic monitoring by the Investment Accounting Division and Investments Department staff

Internal Audit performed testing on the RAD forms and did not test the IMA agreements/side letters or site monitoring results.

Scope and Objectives

The purpose of this review is to independently verify all SERS Investment professional staff and investment service providers are in compliance with federal and state laws, applicable SERS policies and procedures, and professional codes of conduct related to the performance of their investment duties.

This review is an annual project based on the FY2023 audit plan. The time period examined for Investment staff was FY2022 (July 2021 – June 2022). The period reviewed for investment service providers: public managers and vendors - January 1 through December 31, 2021, and private managers - April 1, 2021 through March 31, 2022.

SERS' Investment staff completed all forms and submitted them to the Chief Audit Officer on June 27, 2022. SERS' investment service providers submitted their RAD



Internal Audit Department

forms for both public and private managers and vendors to the Investment Compliance Analyst.

Procedures

Annually, the SERS Investment staff files a report consisting of the following documents. A description of the documents contained in the report and the audit procedure used to evaluate staff's compliance are included.

a. Annual Investment Staff Certification (INV-7007)

Description: Each Investment staff member must sign, certifying they are in compliance with federal and state laws, SERS policies and procedures, and professional codes of conduct.

Audit Procedure: The CAO reviewed all investment staff certification forms. All investment staff members attested to their compliance with federal and state laws pertaining to investment work, SERS policies and procedures, and professional codes of conduct.

b. Financial Disclosure Statement filed with the Ohio Ethics Commission

Description: This form is signed by each investment staff member listing income sources, gifts, family members, investments, creditors, and travel expenses.

Audit Procedure: The CAO reviewed all financial disclosure forms focusing on potential conflicts via other sources of income/investments. If other income sources were listed, the source was reviewed for a potential conflict of interest to the staff member's job performance. Any questions were satisfactorily addressed by Investments' employees.

c. Professional Conduct Statements filed with the Chartered Financial Analyst (CFA) for nine Investment staff members and Chartered Alternative Investment Analyst (CAIA) for two Investment staff members.

Description: An annual professional conduct statement is issued by the CFA Institute and CAIA Association. In order to maintain membership as a CFA, investment staff must certify in the last two years:

- They are not the subject of a written complaint regarding their professional conduct in either a direct or supervisory capacity;
- They have not been the subject of, a defendant in, or respondent to any investigation, civil litigation, arbitration, or other action or proceeding in which their professional conduct, in either a direct or supervisory capacity, was at issue;
- They have not been temporarily or permanently suspended, barred, banned, or otherwise been prevented from: (i) working or participating in the securities industry; (ii) trading on any securities or contract



Internal Audit Department

- market; (iii) acting as a broker, dealer, investment advisor, or other person required to register under any law or regulation; or (iv) acting as an employee; registered representative; or affiliated person of any entity required to register or be licensed under any law or regulation;
- They have not been found to have aided, abetted, counseled, commanded, induced, or procured the violation of any securities- or commodities-related law, regulation or rule; and
 - They have not been convicted of or pled guilty to: (i) any crime defined as a felony or punishable by more than one year in prison (regardless of the sentence actually imposed), or (ii) any crime involving moral turpitude (fraud, lying, cheating, stealing, or other dishonest conduct) or any substantially equivalent crime in any court of law.

Audit Procedure: Internal Audit viewed the CFA website to verify the types of professional conduct that constitute a violation. All Investments staff filings indicated there were no violations of professional conduct with the required certifications. Internal Audit confirmed with the CFA Institute the Investments staff do not have any public disciplinary sanction history and remain in good standing with the CFA Institute.

d. Required Annual Disclosure (RAD) forms from Investment Service Providers

Description: Contracts require external investment service providers to annually certify, via the RAD forms, whether any actual, potential, or perceived conflicts of interest exist. SERS' Investment Compliance Analyst maintains control over the mailing, receipt, review, and follow-up processes involving the RAD forms for 98 investment service providers (45 public managers and vendors; 53 private managers).

Audit Procedure: Internal Audit met with the Investment Compliance Analyst and the Chief Risk Officer (CRO) to confirm the process for monitoring RAD forms. Internal Audit reviewed the process and sampled five RAD forms to ensure:

- Policies and procedures exist to govern the RAD process;
- All investment service providers received and submitted RAD forms;
- Submitted RAD forms contained timely and sufficient evidence of review and monitoring by the Investment Compliance Analyst; and
- An annual memo summarizing the results was issued to individuals with governance responsibilities.

Sufficient policies document the Investment Manager Annual Disclosure process. All RAD forms for FY21-22 were submitted at the time of this audit and those tested were properly reported and did not identify any potential conflicts of interest. The Investment Compliance Analyst and CRO provided



Internal Audit Department

adequate evidence of review of the 2021-22 RAD forms and effectively reported the results in an annual memo to the CIO and Executive Director on October 14, 2022.

Observations

Observations regarding the process, interview, and test results:

- **Contract Requirements:** Conflicts of interest language appears to be effective and consistently applied to new and existing contracts.
- **Investment Manager Agreement:** Contract terms and form contains sufficient requirements defining conflicts of interest circumstances and notification protocol for violations.
- **Required Annual Disclosure Form:** Requesting and tracking process for RAD forms appears to be well-developed, consistently submitted, and effective in identifying and addressing potential conflicts of interest.
- **Policies and Procedures:** Detailed operating procedures adequately define the investment manager annual disclosure process and controls. The Investment Compliance Analyst verifies information received from investment service providers is consistent with data reported to the SEC or other SERS-internally generated information.
- **Communication:** Required Annual Disclosure forms may contain confidential records. The Investment Compliance Analyst's communication to investment managers provides varied levels of secure transmission depending on the client's preference.
- **Reporting:** The *Annual Disclosures of Conflicts of Interest by Investment Managers and Vendors* memo was completed October 14, 2022. Any issues during the year are communicated in real time to the CIO and/or the responsible SERS' investment manager.
- **Documentary Evidence:** A spreadsheet is used to document and track the receipt of all RAD forms and resolution of any potential conflicts of interest reported by investment service providers. Documentation evidencing management's review and resolution of reported matters was adequately prepared for 2021-22.
- **Staffing:** The Investment Compliance Analyst position is currently open and is expected to be filled by the end of the calendar year.



Internal Audit Department

Conclusion

Overall, the Investments conflict of interest process appears to be well-controlled with no disclosed instances of noncompliance.

Report disclosures were complete and timely with no conflicts reported. The Investments Operations Manager maintains very detailed and complete records and tracking spreadsheets. The Investment staff certification process is working as originally stated.

For external investment service providers, the Investment Compliance Analyst and CRO have effectively implemented processes to request, track and report conflicts of interest. The RAD forms appear to be well-developed, consistently submitted, and effective in identifying and addressing potential conflicts of interest.

Please contact me if you have any questions regarding this compliance report.

DISABILITY BENEFITS AUDIT DECEMBER 2022 SERS Internal Audit Department

Attachment B

Business Objectives

Ensure disability benefits 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
- False representation of disability
- Ineligible benefit recipient
- Disability review not completed timely
- Incomplete information submitted
- Incorrect benefit calculation/payments
- Improper duty segregation to prevent errors or irregularities
- Unlicensed or limited independent medical evaluations
- Access to confidential data not authorized/data not protected
- Ineffective monitoring of benefit requirements
- Improper benefit reporting

Management Controls (Bold = Tested)

- **Detailed policies and procedures**
- **Standard benefit forms/requirements**
- **Consistent communication practices**
- **Independent medical exams**
- **Benefit calculations/second review**
- **Benefit payments/duty segregation**
- **Management oversight & monitoring**
- **Uniform reporting practices**
- Business continuity & recovery plans
- System edits
- Fraud and ethics training
- Adequate resources
- Background checks
- Cross training & succession planning

Recommended Actions

There were no high or moderate risk observations reported.

Management Responses

No response required.

Results Summary

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

Objective	Conclusion
Disability Benefits	Well-Controlled

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 13, 2022

Audit Committee, Board of Trustees
Richard Stensrud, Executive Director
Karen Roggenkamp, Deputy Executive Director
John Grumney, Director, Member Services
Holly Cox, Asst. Director, Member Services

EXECUTIVE SUMMARY

Internal Audit has completed the audit of **Disability Benefits**, as included in the *Fiscal Year 2023 Audit Plan*. The business objective related to member account maintenance was to ensure the process was properly designed and consistently processed in accordance with SERS' policy and procedures.

Based on audit results, Internal Audit (IA) determined that overall management controls for disability benefits was properly designed and operating effectively to achieve the business objective. Internal Audit did not identify any high or moderate risk audit observations. During the course of the audit, no other reportable matters were identified.

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.

POSITIVE RESULTS

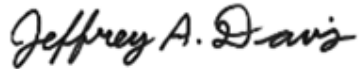
Member Services' personnel responsible for processing disability benefit applications, scheduling physician reviews, processing disability evaluations, calculating benefits, handling re-certifications, and communicating to applicants were knowledgeable of the extensive requirements for processing disability benefits. Personnel collectively possess a high level of experience and consistently support applicants.

Proper supporting evidence and controls were in place and operating effectively during the FY22 audit period. Audit results were validated through inquiry, observation, and testing to verify eligibility determinations, consistently document decisions, adequately monitor SERS-appointed physicians, properly calculate benefit payments, timely receipt of re-examinations and wage and earnings statements, and properly secure and communicate sensitive information. Tests of disability benefits identified no exceptions.

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

- John Grumney, Director, Member Services
- Holly Cox, Asst. Director, Member Services

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



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

BACKGROUND

SERS provides disability benefits for members that become disabled while employed. Members that meet eligibility criteria may receive benefits under one of two disability plans, depending on when they joined SERS.

Numerous eligibility requirements must be met before a disability can be evaluated. Some eligibility criteria include: over five years of total service credit, application filed within two years of contributing service stoppage, permanently disabled for work in SERS-covered position as determined by a SERS-appointed physician, disability occurred after becoming a SERS member, have not received a refund of contributions or service retirement benefit, and have not received a disability benefit from another retirement system.

SERS identifies and schedules physicians to perform independent medical exams (IME) for members that have submitted applications and met eligibility criteria. Physicians are employed to provide an evaluation that will assist SERS' six-member Medical Advisory Committee (MAC) in assessing disability applications, denials, terminations, appeals and reapplications. The MAC Chair can approve if medical evidence and the IME support a disability being granted/continued. The MAC assigns three members to each disability review recommended for denial/termination.

Once a disability is MAC-recommended and/or Board-approved, management processes the benefits in accordance with legal requirements. Benefits are paid monthly, and benefit statements are remitted to members quarterly. Disability is typically granted for one year and often requires members undergo subsequent recertification reviews of disability conditions. Ongoing condition reviews are individually tailored and require members to disclose outside wages earned and have a periodic review by a SERS-appointed vocational rehabilitation specialist to evaluate whether members are capable of performing any occupation.

This is the second audit of disability benefits by Internal Audit. There were no high risk or moderate risk recommendations in the prior audit. Four low risk recommendations were identified, and corrective action was taken by Member Services. This audit focused on the Member Services Department's administration of many disability benefit phases including: application, eligibility review and determination, benefit calculation and payment, ongoing monitoring and member communication. Metrics involving disability benefits include the following:

FY*	Disability Granted (#)	Disability Denied (#)	Approved % SERS (approx. 253/ yr.)	Approved % PERS (approx. 754/ yr.)	Approved % STRS (approx. 236/ yr.)	Approved % OP&F (approx. 112/ yr.)	SERS Disability Benefits (\$)*
2019	173	26	87%	97%	85%	88%	\$95.7M
2020	223	54	81%	94%	79%	89%	\$93.4M
2021	261	23	92%	94%	75%	91%	\$90.7M

* Sources: Annual reports filed with ORSC per ORC 3309.39 and SERS' FY22 Annual Comprehensive Financial Report

Analysis of FY2022 disbursements include:

Annual Payments (\$)	Annual Payments (#)	Average/ Payment (\$)
\$90.8M	58,620	\$1,549

* Source: Finance Department data download

POLICY, PROCEDURE, AND COMPLIANCE REQUIREMENTS (EXCERPTS)

A. Disability Application Processing Policy (MS8-002)
<p><i>This policy outlines the guidelines applicable to processing of applications for disability benefits.</i></p> <p><i>A SERS member unable to continue school employment for medical reasons may request a disability benefit application. Disability benefit applications are processed by the Disability Section of the Member Services Department.</i></p> <p><i>A SERS member, the member's school employer, or anyone acting on the member's behalf may request an Application for Disability Benefits (DIS-0009). In order to apply, the member must:</i></p> <ul style="list-style-type: none"> <i>• Have at least five (5) years of qualified service credit. The five years may include STRS/OPERS service, Worker's Compensation, military, federal, out-of-state, or restored service.</i> <i>• File the application within two (2) years from the last date of contributing service, unless the Retirement Board determines that the member was physically/mentally incapacitated from school duty and unable to make the application.</i> <i>• Not be receiving a disability benefit from any other retirement system (ORS) or a service retirement benefit from SERS.</i> <p><i>There are two payment plans, known as the Old and New Disability Plans. The requirements under the Old Plan are that the member must:</i></p> <ul style="list-style-type: none"> <i>• Apply prior to age 60; and</i> <i>• Be off the school payroll prior to age 60 including actual service, used vacation, or used sick leave</i> <p><i>The requirements under the New Plan are that the member must:</i></p> <ul style="list-style-type: none"> <i>• Have returned the New Disability Plan Selection Form prior to April 7, 1993; or</i> <i>• Have established membership after July 29, 1992.</i> <p><i>A member who previously applied for a disability benefit and was disapproved may request another application assuming that:</i></p> <ul style="list-style-type: none"> <i>• Member still meets the eligibility requirements under their plan selection; and</i> <i>• Medical progression on a previously evaluated condition is established, or a new medical condition is identified.</i> <p><i>Applications are reviewed by the Medical Advisory Committee (MAC) Chair. In processing an application for disability benefit, a member may be required to have an independent medical evaluation. The medical examination is scheduled by the Disability Section with an appointed examiner. The cost of the disability medical evaluation is paid by SERS. If approved, the benefit effective date is the first of the month following the date the application was filed, or the first of the month following the last date of paid employment, whichever is later. Each month the Retirement Board meets, the Disability Section submits a report, which includes all cases that are ready to receive formal Board action. The report is given to the Executive Administrative Officer in two sections: an advanced agenda and an addendum.</i></p>

A. Disability Re-examination Policy (MS8-003)

This policy outlines the guidelines applicable to processing of re-examinations for disability benefit recipients.

When a disability application is approved, the Medical Advisory Committee (MAC) Chair may recommend that the disability benefit recipient be re-evaluated after a designated time period (Ex.: one year). The Chair or Retirement Board may also request re-examination of a disability benefit recipient at any time. In addition, the disability benefit may be granted contingent upon the member’s agreement to seek or continue medical treatment or vocational rehabilitation. The Disability Section is responsible for processing re-examinations of disability benefit recipients. If members are found still disabled, disability benefits are continued; if they are found to be capable of returning to employment, disability benefits are terminated. Disability benefit recipients are re-evaluated based upon their ability to perform the last assigned primary duties with their SERS employer. Disability benefit recipients with a benefit effective date of Feb. 1, 2013, or later are re-evaluated based upon an “any occupation” standard after receiving disability benefits for at least three years. However, if the member is undergoing vocational rehabilitation or required medical treatment the review standard does not change until five years after the benefit effective date.

Vocational Rehabilitation Requirement

If vocational rehabilitation is required as a condition of continued benefits, the member’s leave of absence period is extended from three years to five years. During this time, the member must seek vocational rehabilitation that may enable them to secure future employment, which meets the any occupation standard.

BUSINESS OBJECTIVES, RISKS, AND CONTROLS

For the audit of disability 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 that the disability benefit processes are properly designed and consistently processed in accordance with SERS’ policy and procedures and adheres to legal requirements.	
Business Risks	<ul style="list-style-type: none"> • Noncompliance with policies, procedures or legal requirements • Ineffective communication to members • False representation of disability • Ineligible benefit recipient • Disability review not completed timely • Incomplete information submitted • Incorrect benefit calculations/payments 	<ul style="list-style-type: none"> • Improper duty segregation to prevent errors or irregularities • Uncensored or limited independent medical evaluations • Access to confidential data not authorized/data not protected • Ineffective monitoring of benefit requirements • Improper benefit reporting

<p>Management Controls</p> <p>(Bold = Tested)</p>	<ul style="list-style-type: none"> • Detailed policies and procedures • Standard benefit forms/requirements • Consistent communication practices • Independent medical exams • Benefit calculations/ second review • Benefit payments/ duty segregation • Management oversight & monitoring 	<ul style="list-style-type: none"> • Uniform reporting practices • Business continuity & recovery plans • System edits • Fraud and ethics training • Adequate resources • Background checks • Cross training & succession planning
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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)*.

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.

<p>Audit Objective</p>	<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"> ➤ Ensure disability 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 disability payments.
<p>Audit Scope</p>	<p>Scope/Key Processes: This disability 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. SERS' physician selection and review 2. Disability evaluation and determination 3. Benefit calculation and payment 4. Disability recertification (medical exam, earnings review) 5. Communication (to members; sensitive data handling) <p>Audit Period: July 1, 2021 – June 30, 2022</p> <p>Transactional volume from internally reported records indicates disability benefits for the audit period:</p> <ul style="list-style-type: none"> ➤ \$90.8M disability benefits paid ➤ 272 new disabilities granted, and 26 disabilities denied (90.5% approval)
<p>Audit Methodology</p>	<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 compliance requirements, policies, and procedures ➤ Conducted interviews/walkthroughs with management and key staff members ➤ Documented understanding of key risks and controls ➤ Performed a walkthrough of controls and retested a selection of transactions

Audit Conclusion	Internal Audit determined overall management controls for SERS' disability benefits were operating effectively to achieve the business objective. Internal Audit did not identify any high or moderate risk audit observations. There were no other reportable results identified. The overall conclusion was determined to be Well-Controlled .
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OBSERVATIONS AND RECOMMENDATIONS

Internal Audit did not identify any high or moderate risk audit observations requiring near-term attention.*

* Refer to Appendix A for classification of audit observations.

OTHER REPORTABLE RESULTS

There were no other reportable results identified.

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

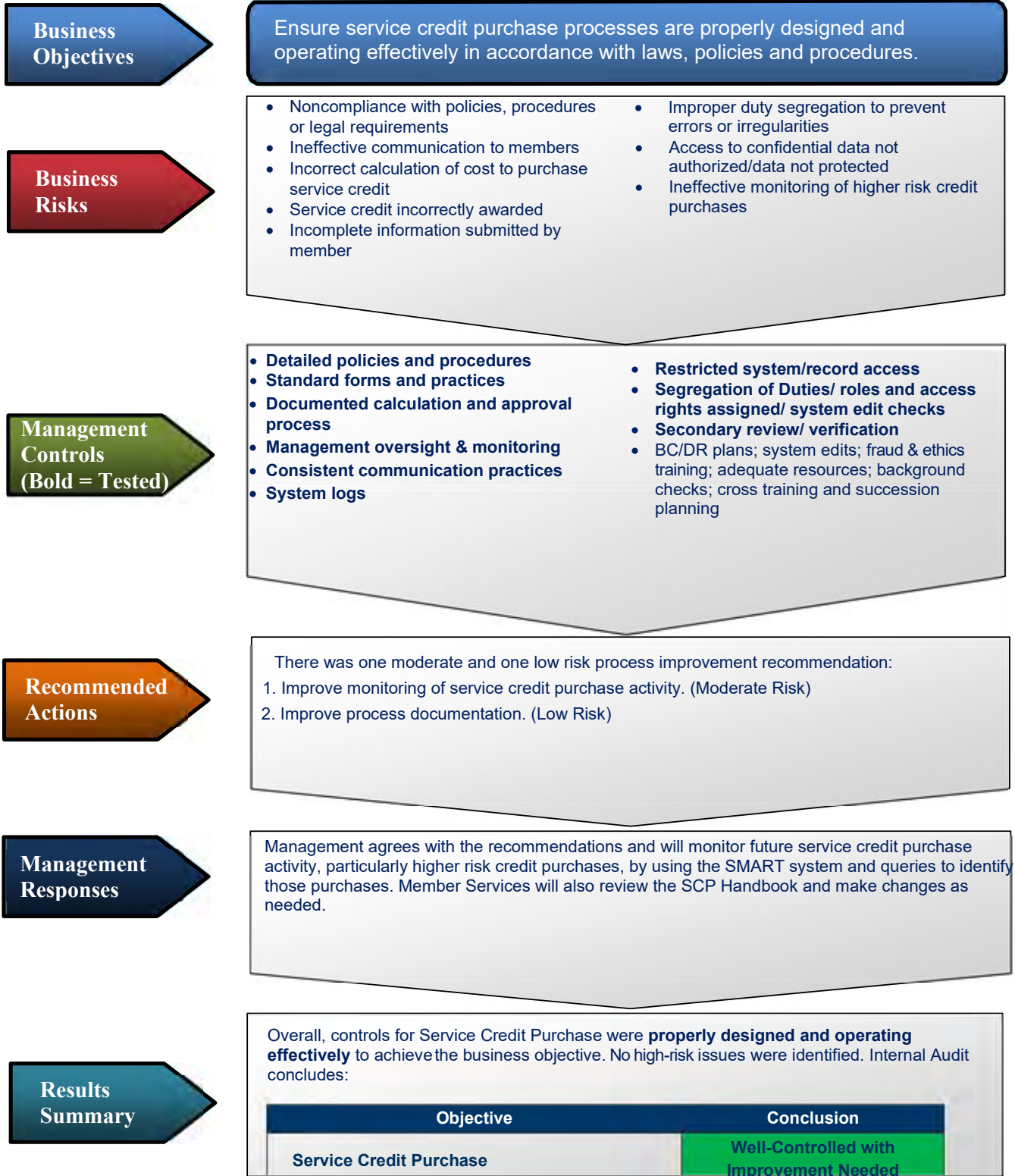
Each conclusion will be identified with one of the four categories utilizing the following description of factors:

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.

SERVICE CREDIT PURCHASE MARCH 2023

Attachment C

SERS Internal Audit Department



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

March 9, 2023

Audit Committee, Board of Trustees
Richard Stensrud, Executive Director
Karen Roggenkamp, Deputy Executive Director
John Grumney, Director, Member Services
Holly Cox, Asst. Director, Member Services

EXECUTIVE SUMMARY

Internal Audit completed the audit of **Service Credit Purchase**, as included in the *Fiscal Year 2023 Audit Plan*. The business objective related to the service credit purchase audit 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 service credit purchase were properly designed and operating effectively to achieve the business objective. Internal Audit did not identify any high-risk audit observations however, one moderate risk audit observation was identified requiring near-term attention. The recommendation is to develop additional monitoring procedures related to Service Credit Purchases.

During the audit, one other reportable matter was identified and reported as low risk or process improvement opportunity. An observation was included in this report. Management has developed appropriate responses however, Internal Audit will does not perform follow up testing on low risk issues. The low-risk recommendation was to improve process documentation.

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.

POSITIVE RESULTS

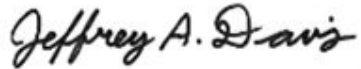
Member Services personnel responsible for processing service credit purchases were knowledgeable of the extensive requirements for processing service credit purchase requests. Personnel collectively possess a high level of experience. Employees were thorough and detailed in their reviews, documentation 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 of service credit purchase transactions.

Internal Audit is 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
- Holly Cox, Asst. Director, Member Services
- Sherry Powell, Senior Purchases Service Specialist

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



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

BACKGROUND

This was the initial audit of the service credit purchase process. This audit was a regularly scheduled review based on the FY2023 Internal Audit plan. The time period examined was July 2020 through December 31, 2022. This audit focused specifically on the process of receiving, reviewing, approval and processing of service credit purchase requests.

Members may have service credit available to purchase or be granted at no cost. This additional service credit may increase their total service credit used for calculation of benefits. One year of credit is earned for 120 paid days in a school year (July 1 – June 30). If the member worked less than 120 days, partial credit is granted on the basis of a 180-day year. The Service Credit Purchase section of the Member Services Department processes requests to purchase available service credit. Member requests may be communicated to SERS by telephone, email, or letter. Detailed descriptions are included in the policy section of this report (see pages 4-6)

The table below documents service credit purchases completed based on the due date of the quote. Included is the total amount of principal and interest paid by the member and/or the member’s employer. Also included is the number of individual purchases completed.

Type	FY2021 Total	#	FY2022 Total	#	FY2023 Total *	#	Total Purchase Cost	Total #
Compulsory Pre/Post 1991	134,389	12	667,429	49	0	0	801,818	61
Exempted	10,929	2	15,570	2	153,478	3	179,977	7
Federal Service	44,361	3	13,442	2	10,644	2	68,447	7
Leave of Absence	2,282	1	10,344	3	10,108	2	22,734	6
Military	255,460	19	482,018	27	145,211	9	882,689	55
Non-Contributing	351,892	39	370,431	34	5,366	1	727,689	74
OP&F Transferred In	128,813	1	0	0	0	0	128,813	1
Other School/Other State Service	44,579	10	186,524	10	156,956	4	388,059	24
PERS Restored	32,943	1	12,564	1	17,757	2	63,264	4
SERS Restored	1,037,430	142	1,292,389	135	639,758	89	2,969,577	366
Total:	2,043,078	230	3,050,711	263	1,139,278	112	6,233,067	605

*As of 12/31/2022

The table below documents the total number of years purchased by members from all service purchase types by fiscal year.

Fiscal Year	Total Years Purchased
FY2021	332
FY2022	387
FY2023 *	177
Total:	896

*As of 12/31/2022

There are specific types of credit that are awarded that do not involve a financial transaction. For example, if a member receives workers compensation or is disabled, service credit can be awarded for that time. Transfers from STRS and OPERS also do not result in a financial transaction. The table below documents the total number of purchase requests for the purchase types listed from 7/1/2020 – 12/31/2022.

Type	#
PERS Transferred In	139
SERS Disability Free	5
STRS Transferred In	48
Workers Comp	58
PERS Restored	6
Total:	256

POLICY, PROCEDURE, AND COMPLIANCE REQUIREMENTS (EXCERPTS)

A. Service Credit Purchase Processing Policy (MS35-001)

- *The Service Credit Purchase section of the Member Services Department processes requests for estimates/quotes to purchase available service credit, including payments received and service credit adjustments to member accounts. Requests for additional service credit, free or purchasable, may be requested by members by telephone, email, or letter. All service credit purchase calculations are rounded to three decimal places.*
- *Compulsory Service Credit – Compulsory service credit applies to members who were employed in a SERS-covered position, but SERS contributions were not withheld at the time of employment as required. All service prior to June 30, 1991 – both the member and employer are responsible for paying their portions of contributions, plus interest. All service beginning July 1, 1991 – the employer is responsible for paying both the employee and employer portions of contributions, plus interest.*
- *Free Service Credit – Service credit may be granted at no cost for time off the payroll due to receipt of workers compensation benefits, or active military service that interrupted the school career.*
- *Workers’ Compensation – A maximum of three years of free service credit may be granted to a member who has been off the school payroll and receiving benefits from the Bureau of Workers’ Compensation for an injury or incapacitation that was a direct result of school employment.*
- *Free Military – A maximum of 10 years of free service credit may be granted to a member who: 1) Has at least one full year of service credit with SERS before military duty began; and 2) Entered active military service directly from school employment; and returned to Ohio public service with SERS, OPERS, or STRS within two years after discharge and established at least one year of service credit in the system.*
- *Disability Free – After termination of disability benefits, in order to receive service credit for time while receiving disability, a member must return to employment covered by SERS, STRS, or OPERS and contribute for two years. Up to two years of disability credit is granted at no cost for the time they received disability benefits. The member may purchase service credit for any disability time over two years. The two years of free credit will be the most recent two years the member received disability benefits.*
- *Other Purchasable Service Credit - Members may purchase the following types of credit by lump sum payment, incremental payments, rollover, or payroll deduction (if offered by their employer):*

- *Restored – A member who withdrew their SERS account may restore the refunded service credit by repaying the amount withdrawn, plus interest. Members who refunded a STRS and/or OPERS account may also restore their refunded service through payroll deduction with their SERS employer.*
- *Military – Members can purchase up to five years of service for active military service.*
- *Military service credit may be purchased in one payment or in increments of at least one month. Extra days of service remaining after the purchase of all years and months of service may also be purchased. Total credit purchased cannot exceed the total SERS service credit held at the time of purchase. One year of SERS service credit is given for each twelve months of military duty. Per Legal, we only look at SERS service credit.*
- *Includes time spent in the Ohio National Guard and the armed forces reserves that consists of assembly, drill and instruction, training at encampments, maneuvers, outdoor target practice, and any training or duty in this state ordered by the Governor.*
- *No credit may be purchased for any period of duty during which the member was contributing to SERS.*
- *A maximum of five years of time spent as a prisoner of war may be purchased by a member after active duty time has been purchased. Five years of active duty and five additional years of prisoner of war time may be purchased for a total service credit of ten years.*
- *Optional Service – A member can purchase credit prior for service prior to July 1991 if the member was a student or not required by law to pay into SERS.*
- *Other School, Other State Public Service, or Federal Government – A member who worked for the federal government, or for a school or public agency outside Ohio, may purchase up to five years. Private school service in or outside the state may also be purchased.*
- *Leave of Absence – A member who was on a board-approved unpaid leave of absence can purchase service credit up to a maximum of two years per occurrence or five years for multiple occurrences.*
- *Ohio Police and Fire (OP&F), Ohio’s Highway Patrol Retirement System (HPRS), and Cincinnati Municipal Retirement System (CMRS) – Former members of these systems who are contributing to SERS may purchase refunded time or may transfer an existing account to SERS.*
- *School Board – School Board service prior to July 1991 can be purchased from the system from which the member is retiring. The cost is 100% of the actuarial liability and must be purchased no more than 90 days prior to retirement.*
- *Exempted Service – For any service on or after July 1, 1991 a member may purchase credit for service in a position for which SERS membership was compulsory, but for which they were permitted to, and did, sign an exemption from membership form. The cost for each year of service credit is 20% of the current year’s SERS compensation. Under certain circumstances, a member may purchase STRS or OPERS exempt service credit with SERS. The cost for each year is 24% of the current year’s SERS compensation. A member cannot purchase this credit if the compensation for such service was subject to taxes under the Federal Insurance Contributions Act.*
- *Resignation Due to Pregnancy or Adoption of a Child – If a member resigned due to pregnancy or adoption of a child, they may purchase service credit for this time. The member must have returned to work by the beginning of the third school year after the resignation and earned a year of contributing service credit after the return to work. The purchase cannot exceed a total of two years of service credit. For each year of credit, contributions are based on the first year of full-time SERS covered employment after returning to work, plus interest from the date of the return to work to the date of payment. The employer at the time of the resignation also must pay the employer contributions and interest.*

- *Disability Service Purchase – Members can purchase disability service credit after disability benefits are terminated and the member returns to work under SERS, OPERS, or STRS, and earns 2.000 years of service credit.*
- *Purchases of Military, Federal, Other School, and Other State Service A member must: 1) Have matching amount of contributing service credit with SERS. 2) Certify that the years of purchased time will not be used in the calculation of any retirement benefit currently being paid to the member, or payable in the future under any other retirement program, except Social Security and Title 10 reserve military retirement program.*

BUSINESS OBJECTIVES, RISKS, AND CONTROLS

For the audit of Service Credit Purchase, 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 service credit purchase 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 • Incorrect calculation of cost to purchase service credit • Service credit incorrectly awarded • Incomplete information submitted by member 	<ul style="list-style-type: none"> • Improper duty segregation to prevent errors or irregularities • Access to confidential data not authorized/data not protected • Ineffective monitoring of higher risk credit purchases
Management Controls (Bold = Tested)	<ul style="list-style-type: none"> • Detailed policies and procedures • Standard communication forms and practices • Documented calculation and approval process • Management oversight & monitoring • Consistent communication practices • System logs 	<ul style="list-style-type: none"> • Restricted system/record access • Segregation of duties/roles and access rights assigned/system edit checks • Secondary review/verification • Business continuity & recovery plans • 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 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.
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<p>Audit Scope</p>	<p>Scope/Key Processes: This 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. Processing of Service Credit Purchase requests 2. Calculation of estimates and verification of supporting documentation 3. Monitoring (vendor, potential fraud) 4. Communication <p>Audit Period: July 1, 2020 – December 31, 2022</p> <p>Transactional volume from internally reported records indicates Service Credit Purchases completed for the audit period totaled:</p> <ul style="list-style-type: none"> ➤ Approximately \$6,233,067 service credit purchase cost during the audit period total 896 years purchased by members.
<p>Audit Methodology</p>	<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 ➤ Conducted interviews/walkthroughs with management and key staff members ➤ Documented understanding of key risks and controls ➤ Performed walkthrough of controls and retested a judgmental selection of transactions processed during the audit period
<p>Audit Conclusion</p>	<p>Internal Audit determined overall management controls for the Service Credit Purchase processes were properly designed and operating effectively to achieve the business objective.</p> <p>Internal Audit identified one moderate risk observation. There was one other reportable observation identified.</p> <p>The overall conclusion was determined to be Well-Controlled with Improvement Needed.</p>

OBSERVATIONS AND RECOMMENDATIONS

Monitoring

The current service credit purchase process includes oversight by an assistant director in Member Services. Data is available related to service credit purchases in SMART. However, there does not appear to be ongoing monitoring pertaining to service credit purchase that includes total credit purchases (principal, interest) and the number of years purchased.

There is an opportunity to improve monitoring activities by developing a dashboard that would include all relevant information that should be periodically reviewed to identify service credit purchases that may require additional review.

Recommendation

Member Services should improve monitoring activities.

Management's Action Plan

Member Services will monitor future service credit purchase activity, particularly higher risk credit purchases, by using the SMART system and queries to identify those purchases.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Assistant Director, Member Services	August 2023

* Refer to Appendix A for classification of audit observations.

OTHER REPORTABLE RESULTS

The following observation is 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.

Process Documentation

Observation:

Member Services maintains a service credit process manual (SCP Handbook). While the handbook was helpful there are opportunities to improve the handbook. Specifically, Member Services should consider including a section related to monitoring of service credit purchases. This section might include specific scenarios when further supervisory review may be required. Member Services should also consider including additional details related to the calculation of service credit. Currently those details are included in the SMART business rules documentation.

Recommendation:

Member Services should consider updated the manual to improve process documentation.

Management Response:

Member Services will review the SCP Handbook and make changes as needed.

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.