



**SERS Retirement Board Audit Committee Agenda  
Regular Meeting  
September 14, 2022  
2:30 P.M.**

1. Roll call (R)
2. Approval of June 15, 2022 minutes (R)
3. FY22 External Audit Update
4. Internal Audit Update - Chief Audit Officer's Report
  - Q1 Update on the FY2023 Audit Plan
  - External Quality Assessment
  - Status of Audit Recommendations
  - 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

**SCHOOL EMPLOYEES RETIREMENT SYSTEM**

**AUDIT COMMITTEE**

**September 14, 2022**

\_\_\_\_\_ P.M.

Roll Call:

Barbra Phillips \_\_\_\_\_

Catherine Moss \_\_\_\_\_

James Rossler \_\_\_\_\_

Guests in Attendance:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**SCHOOL EMPLOYEES RETIREMENT SYSTEM**

**APPROVAL OF MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON  
June 15, 2022**

\_\_\_\_\_ moved and \_\_\_\_\_ 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:

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

|                                    |  |  |               |
|------------------------------------|--|--|---------------|
| School Employees Retirement System | <b>AUDIT COMMITTEE MINUTES</b>   |  |               |
| <b>Preparer</b>                    | Vatina Gray  | <b>Meeting Date:</b>   | June 15, 2022 |
| <b>Committee Chair</b>             | Barbra Phillips  | Committee roll call was as follows: Barbra Phillips, Catherine Moss, and James Rossler.<br><br><b>Also in Attendance:</b><br>Lisa Reid, Representative of the Ohio Attorney General, SERS Staff Members: Jeff Davis, Joe Marotta, Richard Stensrud, Karen Roggenkamp, and Vatina Gray. |               |
| <b>Agenda</b>                      | <ol style="list-style-type: none"> <li>1. Roll call (R)</li> <li>2. Approval of March 16, 2022 minutes (R)</li> <li>3. FY22 External Audit Update</li> <li>4. Executive session pursuant to R.C. 121.22 (G) (6) to discuss security matters (R)             <ul style="list-style-type: none"> <li>o Crowe Presentation</li> </ul> </li> <li>5. Chief Audit Officer's Report             <ul style="list-style-type: none"> <li>o Q4 Update on the FY2022 Audit Plan</li> <li>o FY23 Audit Planning</li> <li>o FY23 Audit Plan</li> <li>o Microsoft 365 Review</li> <li>o Audit Committee/Internal Audit Charters</li> <li>o Recently Completed Audits, Other Activities</li> </ul> </li> <li>6. Review and Approve FY23 Internal Audit Plan (R)</li> <li>7. Annual Confirmation of Internal Audit Independence</li> <li>8. Executive session pursuant to R.C. 121.22 (G) (1) to consider the employment and compensation of a public employee (R)</li> <li>9. Approve Chief Audit Officer Goals (R)</li> <li>10. Audit committee requests and follow-up items</li> <li>11. Adjournment</li> </ol> |  |               |
| <b>Discussion</b>                  | <p>The meeting began in open session at 2:30 p.m.</p> <p><b><u>Roll Call</u></b></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.</p> <p>Also in attendance were SERS Staff Members: Jeff Davis, Joe Marotta, Richard Stensrud, Karen Roggenkamp, Tracy Valentino, and Vatina Gray.</p> <p><b><u>Approval of Minutes</u></b></p> <p>Catherine Moss moved and James Rossler seconded the motion to approve the minutes of the Audit Committee meeting held on March 16, 2022. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss, James Rossler. The motion carried.</p>  |  |               |

### **FY2022 External Audit Update**

SERS CFO Tracy Valentino presented on the external audit that is being performed by RSM. Ms. Valentino informed the committee that SERS is in the final year with RSM. SERS will work with the Ohio Auditor of State to select the next audit firm. The Ohio Auditor of State will oversee the selection process. The selected firm will receive a 5 year contract to be awarded after the completion of the FY22 audit. With Ms. Valentino's pending retirement, the next CFO will contact the auditor of state in the fall to begin the process that will be completed in early 2023. RSM has been a great partner and will be missed.

Ms. Valentino reported the 2022 auditors are not currently on-site but will be in the near future as being on-site is the most efficient way to perform an audit. Auditors started this week to look at internal controls and they'll leave and come back in August to do more testing.

Ms. Valentino continued, stating last year was a GASB change & SERS no longer needs to report certain data. The OBM is no longer needed. The auditors will stay through September then return in October to do actuarial reviews. The goal is to have an opinion by December 1 to be ready for December Audit Committee and SERS Board meeting.

Barbra Philips thanked Ms. Valentino for her work and added she will be truly missed.

### **Executive Session**

Catherine Moss moved and James Rossler seconded the motion that the Audit Committee convene in Executive Session pursuant to R.C. 1211.22 (G)(6) to discuss security matters. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss, James Rossler. The motion carried.

The Audit Committee convened in executive session at 2:40pm.

The Audit Committee returned to open session at 3:05 p.m.

### **Chief Audit Officers Report**

Jeffrey Davis, SERS Chief Audit Officer, provided a presentation on the status of his FY2022 Internal Audit Plan for Quarter 4. Several audits have been completed with one additional audit in progress. The audits not completed, such as member account maintenance are ongoing and are being accomplished as planned. While other items are in progress, several items such as employer reporting will be audited in FY23.

Mr. Davis continued stating FY23 Audit Planning was completed in May 2022. There are 86 auditable processes.

Mr. Davis discussed the number of hours that will be dedicated to audit processes. Mr. Davis noted he decided to delay the next outsourced IT audit until FY24.

After the committee thanked Mr. Davis for his work, Mr. Davis stated not all 86 auditable processes will be audited, however, important areas will be looked at routinely and the committee will be kept informed.

**Review and Approve FY23 Internal Audit Plan**

Mr. Davis continued his presentation by reviewing the FY23 audit plan. After a brief discussion, Catherine Moss moved and James Rossler seconded the motion that the FY 2023 Internal Audit Plan, as discussed at the June 15, 2022 Audit Committee meeting, be approved. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss, James Rossler. The motion carried.

**Annual Confirmation of Internal Audit Independence**

Mr. Davis reported SERS' internal auditors must maintain independence and objectivity in performing their duties. Specifically, the Institute of Internal Auditors (IIA) *Standards* have several requirements that were affirmed by Mr. Davis. There were no issues and no conflicts of interest to report.

**Executive session pursuant to R.C. 121.22 (G) (1) to discuss the employment and compensation of a public employee (R)**

Catherine Moss moved and James Rossler seconded the motion that the Audit Committee convene into Executive Session pursuant to R.C. 121.22 (G) (1) to discuss the employment and compensation of a public employee. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss, James Rossler. The motion carried.

The committee convened in executive session at 3:33 p.m.

The committee returned to open session at 3:52 p.m.

**Approve Chief Audit Officer Goals**

James Rossler moved and Catherine Moss seconded the motion to approve the Chief Audit Officer's goals for FY2023. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss, James Rossler. The motion carried.

**Recommended Merit Increase in Salary for Chief Audit Officer**

Catherine Moss moved and James Rossler seconded the motion to recommend to the Board that Chief Audit Officer, Jeff Davis, receive a 3.25% merit increase in salary effective the first pay of Fiscal Year 2023. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss, James Rossler. The motion carried.

**Committee Requests and Follow Up Items**

There were no requests or follow up items discussed.

The meeting adjourned at 3:56 p.m.

|                     | <b>Action Items</b> | <b>Assigned Person</b> | <b>Due Date</b> |
|---------------------|---------------------|------------------------|-----------------|
| <b>Action Items</b> | n/a                 |                        |                 |

|  |  |
|--|--|
| <b>Agenda for<br/>Next<br/>Meeting</b> |  |
|--|--|

DRAFT

**ITEM 3.**

**FY22 EXTERNAL AUDIT UPDATE**



# Memo

**To:** Audit Committee  
**From:** Marni Hall, Chief Financial Officer  
**Date:** September 1, 2022  
**Re:** External Audit Update

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The external audit is underway with a plan to present the finished results at the December 2022 board meeting. We expect the audit work to be completed by the end of November. This is the final year of the contract with RSM. Their 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.

The audit work is performed using a hybrid schedule with auditors present on Wednesdays. With this schedule, the auditors have had full access to all the audit evidence. Member records are only tested on site using SERS computers.

By the time of this meeting all yearend adjustments should be posted, including alternative investment valuation adjustments. Fund managers for alternative investments have 60-90 days to submit their capital account statements, delaying this adjustment until the middle of September.

Audit work completed to date includes:

- Internal controls
- Distributions
- Member census
- Contribution confirmations
- Cash & Investment confirmations

The remaining audit work is scheduled as follows:

- September 2022
  - Investments
  - Accounts receivables
  - Finish Ohio Compliance supplemental testing
  - Finish Distribution and member census data testing
- Late October/November 2022
  - Actuary valuations
  - Review ACFR draft
- December 2022 board meeting

There have been no issues noted to date.

**ITEM 4.**

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



# Internal Audit Update

## September 2022

Jeff Davis, CAO – Internal Audit

# Agenda



- Status of FY23 Internal Audit Plan
- External Quality Assessment of Internal Audit
- Status of Audit Recommendations
- Recently completed audits and Other Activities

# Internal Audit Update – September 2022



## 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                                | Audit          | In Progress | Annual Compliance Audit  |
| Disability Benefits                                 | Audit          | In Progress |  |
| Health Care - Pharmacy Audit (Outsourced)           | Consulting     | In Progress | Biennial outsourced audit of member pharmacy benefits                                    |
| Employer Reporting                                  | Audit          | Pending     |  |
| Service Purchase Credit                             | Audit          | Pending     |  |
| Board Governance – Audit Committee Annual Report    | Consulting     | Pending     | Annual Activities for Ohio Retirement Study Council - Required by March 31 <sup>st</sup> |

# Internal Audit Update – September 2022



## FY23 Audit Plan Status (Continued):

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

# External Assessment of the Internal Audit Department



- Honkamp Krueger completed the assessment – competitive selection process.
- Four firms responded to the RFP – selection made by three senior SERS employees, excluding 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.

# Status of Audit Recommendations



## Microsoft 365 Review - Moderate Recommendations:

| Rating   | Risk                                   | Recommendation Summary  | Department              | Responsible Executive/<br>Director  | Action Plan Due Date |
|----------|--|---|-------------------------|---|----------------------|
| Moderate | Change/<br>Configuration<br>Management | Implement a process to evaluate M365 security standards at least on an annual basis.  | IT/Information Security | Joe Bell, Chief Risk Officer<br><br>Mike Flanagan, Assistant Director - IT Infrastructure Service | November 2022        |
| Moderate | Exchange Online Protection             | Complete project plans to enable and enforce policy to quarantine or reject potentially malicious emails.<br><br>Note: Corrective action has been taken for exchange online protection. | IT/Information Security | Joe Bell, Chief Risk Officer<br><br>Mike Flanagan, Assistant Director - IT Infrastructure Service | July 2022            |



# Recently Completed Audits and Other Activities



- Three audits completed since the last committee meeting:
  - Undue Influence (Attachment A), Member Account Maintenance (Attachment B), and Investment Incentive Compensation
- Review of FY23 Merit Increases
- Review of Superannuation Board Report



# Q & A

**ITEM 5.**

**RESOLUTION FOR EXECUTIVE SESSION**

**(Personnel Matter)**

**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:

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

**IN EXECUTIVE SESSION AT \_\_\_\_\_ A.M./P.M.**

**RETURN TO OPEN SESSION \_\_\_\_\_ A.M. / P.M.**



**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

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**To:** SERS Audit Committee, Board of Trustees

**cc:** Richard Stensrud, Executive Director  
Karen Roggenkamp, Deputy Executive Director

**From:** Jeffrey Davis, Chief Audit Officer

**Date:** August 17, 2022

**Re:** FY22 Undue Influence Certification Report – Compliance Review

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## Background

In May 2013, Funston Advisory Services issued a report based on their review of SERS' Investment Operations. Included were recommendations for:

- An annual report certifying key SERS staff performed their job duties without undue influence from senior staff or Trustee members
- Certification results be provided to Board of Trustees due to their co-fiduciary responsibility for each other
- Chief Audit Officer be responsible for the undue influence certification process due to the position independence and reporting relationship to the Board of Trustees
- Copies of employee certifications be sent to the Chief Risk Officer to reduce the potential for undue influence on the Chief Audit Officer

## Scope and Objectives

The purpose of this review was to 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.

This compliance review is an annual project based on the FY2023 Internal Audit Plan. The time period examined was FY2022 (July 1, 2021 – June 30, 2022).

## Procedures

Annually, an undue influence statement is sent by the Chief Audit Officer to key SERS staff in an effort to detect any coercion of that employee's job performance in accordance with SERS policies. An example of the *SERS Statement Regarding Undue Influence* certification form is enclosed as Attachment A.



# Internal Audit Department

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The following SERS personnel received this form:

- Executive Director
- Deputy Executive Director
- Chief Investment Officer, Assistant Director of Investments and all Investment Officers
- General Counsel and all Legal Department Attorneys
- Directors of Administrative Services, Member Services, and Health Care Services
- Chief Financial Officer
- Chief Technology Officer
- Chief Risk Officer
- Information Security and Privacy Officer
- Investment Compliance Analyst
- Senior Manager of Investment Accounting
- Chief Audit Officer

Each form was modified to include the position's professional standards of conduct. SERS' staff completed the forms and returned them to the Chief Audit Officer by August 5, 2022.

To reduce the potential for undue influence on the Chief Audit Officer, the Chief Risk Officer separately reviewed the completed forms.

## **Conclusion**

The Chief Audit Officer and Chief Risk Officer reviewed the submitted undue influence forms and determined they were properly filed with no instances reported on the 26 forms submitted.

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





# Internal Audit Department

## Attachment A:

### SERS Employee Statement Regarding Undue Influence

#### CHIEF INVESTMENT OFFICER / ALL INVESTMENT OFFICERS

I, \_\_\_\_\_, hereby certify that I have read and am familiar with SERS fiduciary standards, governing documents, investment guidelines and standards of conduct that apply to me including: Ohio Ethics Law, Chapter 3309 of the Ohio Revised Code, and the Chartered Financial Analyst Institute Code of Ethics and Standards of Professional Conduct.

I also certify, for the period from July 1, 2021 through June 30, 2022, that I am not aware of any situation where a SERS executive, board member, other employee, external third party, or any person acting under such person's direction, has attempted to directly or indirectly coerce, manipulate, mislead, or improperly influence me or another SERS employee to (i) materially depart from the honest and good faith performance of duties in accordance with approved SERS policies, guidelines and procedures; or (ii) withhold required disclosures or provide materially inaccurate, incomplete or misleading information to the Board of Trustees, in each case except as set forth below. I certify that I have not attempted to exert such improper influence on another SERS employee, agent, or board member, except as disclosed below.

[Please list all exceptions or write "None."]

I also certify I will promptly report in writing to the Board Chair and/or Executive Director any change in circumstances which causes me to believe this certification has become inaccurate.

Signed: \_\_\_\_\_

Position: \_\_\_\_\_

Date: \_\_\_\_\_

# MEMBER ACCOUNT MAINTENANCE AUDIT

August 2022

SERS Internal Audit Department

## Business Objectives

Ensure member account maintenance processes are properly designed and operating effectively in accordance with laws, policies and procedures.

## Business Risks

- Noncompliance with policies, procedures, or legal requirements
- Unauthorized changes to member's personal information from internal or external sources
- Member information not updated timely or accurately
- Ineffective communication to members
- Changes not properly approved
- Improper segregation of duties to prevent errors or irregularities
- Confidential data security
- Access controls not adequate
- Lack of supervisor monitoring

## Management Controls (Bold = Tested)

- **Written policies/procedures**
- **Defined authorization process**
- **Secondary review/verification**
- **Segregation of duties**
- **Management oversight & monitoring**
- **System Access Controls**
- Business continuity & recovery plans
- System edits
- Fraud and ethics training
- Adequate resources
- Background checks
- Cross training & succession planning

## Recommended Actions

There was one low risk process improvement recommendations below:

1. Update Member Services Administrative Policy. The section of the policy related to Direct Deposit Changes does not reference the use of the member portal. (Low Risk)

## Management Responses

Management agrees with recommendations and will do the following:  
The member Services Administrative policy will be updated.

## Results Summary

Overall, controls were **operating effectively** to achieve the business objective. No significant issues to SERS were identified. Internal Audit concludes:

| Objective                  | Conclusion      |
|----------------------------|-----------------|
| Member Account Maintenance | 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

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August 31, 2022

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 has completed the audit of **Member Account Maintenance**, as included in the *Fiscal Year 2022 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 SERS' Member Account Maintenance processes were operating effectively to achieve the business objective. Internal Audit did not identify any high or moderate risk audit observations requiring near-term attention.

During the course of the audit, other reportable matters were identified and reported as low risk or process improvement opportunities. One observation is 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 was:

1. The Member Services Administrative Policy section related to Bank Account Changes does not reference the portal.

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

Personnel responsible for processing member account changes are very knowledgeable of the requirements. The workflow process is well defined and adequately describe the internal controls.

Proper supporting evidence and controls were in place and operating effectively during the audit period (February 1, 2022 – April 30, 2022). Audit results were validated through inquiry, observation, and sample testing of member account changes to verify segregation of duties and proper authorization. Testing of personal information changes identified no exceptions.

There is a well-documented process to help ensure accuracy and completeness. Access controls in SMART and Image Now were in place and provide a clear audit trail of approval activity.

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
- Chad Hanson, Asst. Director, Member Services
- Mary Beth Clark, Manager – Benefits Processing
- Wend Dean-Files, Supervisor – Benefits Processing

Internal Audit also values the support provided by Legal Services and Executive management.



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

## BACKGROUND

This is the initial audit of Member Account Maintenance by Internal Audit. This audit was a regularly scheduled review based on the FY2022 Internal Audit plan. The time period examined was February 1, 2022, through April 30, 2022. This audit focused on personal information changes. Specifically, the process of receiving, reviewing, approval and processing of personal information changes during the audit period, ongoing monitoring, and communication with members. Member Services is responsible for maintaining and updating member records, such as address or other contact information, marital status, etc. A significant number of changes are for address and bank account changes. Other changes that occur include name changes, email/phone number changes, date of birth changes, etc.

Members can make limited changes through the member portal. Security protocols have been put in place to ensure member data is protected. Changes can also be made by completing the personal information change or the Direct Deposit Form and mailing to SERS Member Services. Changes to personal information can also be made by phone. Supporting documentation is often required for the change being requested. Depending on what personal information is being changed, Member Services sends a confirmation letter to the member. For example, all bank account changes require a confirmation letter be sent to the member. The member portal was not tested as part of this audit. A project is currently underway to upgrade the portal. Specific goals of the project include improvement of the member registration process, simplifying and improving the process for resetting passwords, and strengthening security by implementing multi factor authentication.

### POLICY, PROCEDURE, AND COMPLIANCE REQUIREMENTS (EXCERPTS)

#### A. Member Services Administrative Policy (MS999-001)

- *This policy outlines the administrative duties of Member Services as it relates to member education and counseling, **updates to member records**, processing mail within the department, Board reporting, and other member requests.*
- *Personal Information Changes Member Services is responsible for maintaining and updating member records, such as address or other contact information, marital status, etc. Member Services also responds to incoming member requests, which may be received via MSS, mail, email, or phone. These include requests for estimates, service credit purchase inquiries, and income verification.*
- *Address Changes Members can change their address using the MSS portal, or by written or verbal notification. A member may have both a permanent and mailing address on file with SERS.*
  - *A permanent address must be a physical address.*
  - *A mailing address may be a temporary address, PO Box, or alternate address.*

*Benefit recipients of any type who receive their payment by direct deposit can change their address over the phone. However, benefit recipients who receive a paper check, or members in a pending status (Refund, Service Retirement, Disability, etc.) must submit their address change in writing, and include their signature. Once an address has been updated in SMART, a batch letter is generated to confirm the change.*
- *Date of Birth Changes: To change a date of birth, SERS must receive a written request from the member/benefit recipient, including a photocopy of any of the following items: certified birth certificate, baptismal certificate with the age and date of baptism (must be dated before*

*SERS membership), U.S. Armed Forces Service Record, delayed registration of birth, valid passport, U.S. census report, or Naturalization papers with the age at entry into this country, the date of entry, and date of naturalization.*

*If a corrected date of birth is received after benefits began, benefit changes are made retroactive to the benefit effective date. Any overpayment of benefits will be collected.*

- *Direct Deposit Changes: To update a direct deposit account, SERS must receive a completed Direct Deposit form (MBS-0012), including a voided check if depositing to a checking account. In lieu of a voided check, SERS can accept a letter from the benefit recipient's bank, which includes the account and routing numbers, and confirms the account is in the benefit recipient's name. If a benefit recipient receives more than one voucher each month from SERS, the direct deposit form must be selected and sent for the desired account(s). Vouchers may be sent to separate addresses or banks if the recipient chooses. If a direct deposit form or bank form is received and the recipient has multiple payments (Re-employed and Retirement, Re-employed and Survivor, etc.), a Specialist will contact the individual to verify the account(s) the change should apply to.*
- *Email and Phone Number Changes: All members/benefit recipients can change or add an email or phone number by using the MSS portal, or by written or verbal notification. Members can have multiple phone numbers (i.e. home, cell, work, and fax), but only one email on file with SERS.*
- *Gender Changes: If the member/benefit recipient's gender is incorrect in the system due to data entry error by SERS and everything in the record reflects the correct gender, SERS will not require documentation from the member/benefit recipient. A Supervisor or Manager may update SMART with the correct information. If the member/benefit recipient's gender has changed, SERS requires a copy of the legal document showing the gender change.*
- *Name Changes: Members and beneficiaries can change their name by using the MSS portal, or by written or verbal notification. Benefit recipients of any type cannot change their name over the phone. If the change is due to a marriage or divorce, a copy of the marriage certificate or divorce decree is required. If the change is not due to a marriage or divorce, one of the following is required: driver's license, probate court order, military records, Medicare card, or Social Security card.*

*Upon receipt of a Medicare card for a member, benefit recipient, or dependent, SERS will change the name to match what is on the Medicare card. If the member/benefit recipient wants to change their name from the name Medicare has listed, they need to change their name with Medicare and send SERS a copy of their new Medicare card.*
- *Power of Attorney (POA) or Guardianship Papers: POA and guardianship documents must be approved by Legal before making any account changes requested by a POA or guardian. Once approved by Legal, the POA/Guardian is entered in SMART. If a POA or guardianship is not approved, Legal sends correspondence explaining the reason for disapproval.*
- *Social Security Number Changes: If a Social Security Number (SSN) is incorrect in SMART, SERS must receive a written notification and copy of the Social Security Card showing the correct number. If the incorrect SSN was due to a data entry error, SERS will not require documentation from the member or benefit recipient. A Supervisor or Manager may update SMART with the correct number.*

## BUSINESS OBJECTIVES, RISKS, AND CONTROLS

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

|   |  |   |
|---|--|---|
| <b>Business Objective</b>                         | Ensure that the Member Account Maintenance process is properly designed and consistently processed in accordance with SERS' policy and procedures and adheres to legal requirements.   |   |
| <b>Business Risks</b>                             | <ul style="list-style-type: none"> <li>• Noncompliance with policies, procedures or legal requirements</li> <li>• Unauthorized changes to member's personal information from internal or external sources</li> <li>• Member information not updated timely or accurately</li> <li>• Changes not properly approved</li> </ul> | <ul style="list-style-type: none"> <li>• Improper duty segregation to prevent errors or irregularities</li> <li>• Confidential data security</li> <li>• Access controls not adequate</li> <li>• Lack of supervisor monitoring</li> <li>• Ineffective communication</li> </ul>                                     |
| <b>Management Controls</b><br><br>(Bold = Tested) | <ul style="list-style-type: none"> <li>• <b>Written policies and procedures</b></li> <li>• <b>Defined authorization process</b></li> <li>• <b>Secondary review/verification</b></li> <li>• <b>Segregation of duties</b></li> <li>• <b>Management oversight &amp; monitoring</b></li> </ul>                                   | <ul style="list-style-type: none"> <li>• <b>System access controls</b></li> <li>• Business continuity &amp; recovery plans</li> <li>• System edits</li> <li>• Fraud and ethics training</li> <li>• Adequate resources</li> <li>• Background checks</li> <li>• Cross training &amp; succession planning</li> </ul> |

## 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.

|                        |   |
|------------------------|---|
| <b>Audit Objective</b> | <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"> <li>➤ Evaluate whether processes are properly designed and operating effectively in accordance with laws, policies and procedures.</li> <li>➤ Maintain the integrity, availability and protection in the storage, use, and transfer of sensitive SERS information.</li> <li>➤ Ensure validity, accuracy, completeness and timeliness of changes.</li> </ul> |
| <b>Audit Scope</b>     | <p><b>Scope/Key Processes:</b> 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"> <li>1. Processing of personal information changes/updates</li> <li>2. Monitoring (accuracy, completeness, potential fraud)</li> <li>3. Communication (to internal customers and members; sensitive data handling)</li> </ol> <p style="text-align: center;">Audit Period: February 1, 2022 – April 30, 2022</p>           |

|                          |  |
|--------------------------|--|
| <b>Audit Methodology</b> | <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"> <li>➤ Reviewed legal requirements, policies and procedures</li> <li>➤ Conducted interviews/walkthroughs with management and key staff members</li> <li>➤ Documented understanding of key risks and controls</li> <li>➤ Performed walkthrough of controls and retested a judgmental selection of personal information changes/updates</li> </ul> |
| <b>Audit Conclusion</b>  | <p>Internal Audit determined overall management controls for Member Account Maintenance were <b>operating effectively</b> to achieve the business objectives.</p> <p>Internal Audit did not identify any high-risk or moderate observations or recommendations. During the course of the audit, there was one recommendation reported as low risk or process improvement opportunity.</p> <p>The overall conclusion was determined to be <b>Well-Controlled</b></p>  |

## 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

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.

**Member Services Administrative Policy** – The Member Services Administrative Policy should be updated with current Member Services practices. Specifically, the section of policy related to direct deposit changes does not include details related to the member portal. Members frequently use the portal to update their direct deposit information. Other sections of the policy related to address changes, email changes and phone number changes includes references to the portal.

### **Management Response:**

The Member Services Administrative Policy will be updated to included references to the member portal as it relates to direct deposit changes.



## 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.                              |

# School Employees Retirement System of Ohio

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External Quality Assessment Report

**September 13, 2022**

*Prepared by*



HONKAMP KRUEGER & CO, P.C.

*CPAs & Business Consultants*



# REPORT CONTENTS

|  | Page |
|--|------|
| <b>Executive Summary</b>   |      |
| Introduction   | 2    |
| HK Solution  | 3    |
| Notable Performance Aspects  | 4    |
| Conformity Rating  | 5    |
| <br>   |      |
| <b>Opportunities and Practice Improvement Suggestions – Summary</b>          |      |
| Opportunities to Improve Conformity with IIA <i>Standards</i>                | 6    |
| Practice Improvement Suggestions for Internal Audit Department Consideration | 6    |
| <br>   |      |
| <b>Report Detail</b>   |      |
| Opportunities to Improve Conformity with IIA <i>Standards</i>                | 7    |
| Practice Improvement Suggestions for Internal Audit Department Consideration | 9    |
| <br>   |      |
| <b>Appendix A</b>  |      |
| <i>Standards</i> Conformance Evaluation Summary                              | 10   |



# EXECUTIVE SUMMARY

## Introduction

Internal auditing is one of the cornerstones of corporate governance. Because of its unique position within organizations, internal auditing provides audit committee members and senior management with valuable assistance by delivering an objective assessment on governance, risk management and control processes. To do this effectively, an internal audit activity must be adequately resourced, professionally staffed and follow the International Professional Practices Framework (IPPF). The IPPF, the conceptual framework developed by the Institute of Internal Auditors (IIA), is a comprehensive set of mandatory guidance which is principles-based and is considered the essential requirement for establishing and performing internal auditing. The four mandatory elements of the IPPF are the Definition of Internal Auditing, Core Principles, the Code of Ethics and the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Honkamp Krueger & Co., P.C. (HK) was engaged to perform an external quality assessment (QA) of the School Employees Retirement System of Ohio (SERS) Internal Audit Department (IAD). This engagement was conducted in accordance with *Standard 1312 – External Assessments*, related Implementation Guidance and the *Quality Assessment Manual* published by the Institute of Internal Auditors Research Foundation.

This report is intended solely for the information and use of the IAD, Board of Directors, and senior management of SERS and is not intended to be, and should not be used, by anyone other than these specified parties.



## HK Solution

*Standard* 1300 requires internal auditors to develop and maintain a Quality Assurance and Improvement Program (QAIP). In addition to both ongoing and periodic internal assessments, the *Standards* also require an external quality assessment of the internal audit activity's adherence to the IPPF at least once every five years.

### Objectives

The engagement was designed to achieve the following objectives:

- Evaluate the IAD's level of conformity with the IIA *Standards* and Code of Ethics;
- Identify opportunities for improving the efficiency and effectiveness of the IAD; and
- Identify opportunities to help ensure the expectations of the board, stakeholders and executive management are being met.

### Scope

The onsite fieldwork was conducted August 17<sup>th</sup> and 18<sup>th</sup> and continued remotely through September 9, 2022. A formal closing conference was held on September 9, 2022. To achieve the objectives of the QA, the following items were reviewed or performed:

- The information provided in advance by the IAD, which included detailed information about the organization and the IAD;
- Discussions with the Chief Audit Officer (CAO);
- Confidential surveys of executives (IAD internal clients);
- Interviews of the Board of Directors Audit Committee (AC) Chair and five members of senior management; and
- Workpapers and reports for a sample of two engagements completed by the IAD in the past 18 months.

The IAD's risk assessment and audit planning processes, audit tools and methodologies, and engagement management processes were also reviewed.



## Notable Performance Aspects

The IAD is seen as one of the key cornerstones of SERS's corporate governance, as evidenced by interviews, surveys, document reviews and observations. We found numerous positive aspects about the IAD and the work it performs. Some of the more notable positive aspects and practices include:

- Strong agency management support for SERS IAD
- Partnering and collaboration evident with assurance and consulting engagements
- Comprehensive policies and procedures manual
- Post Audit Quality Checklist sign-off process
- Clear, concise, and thorough AC updates covering key informational topics
- Professionally structured, thorough Audit Planning Memo methodology
- Solid audit universe and thoughtful risk assessment process used to arrive at annual plan

SERS's IAD has demonstrated a commitment to quality, successful leadership practices and maintaining an internal auditor's mindset for professionalism. Our assessment noted the IAD has developed and implemented methodologies, policies and procedures, and established a single person audit activity resourced with an experienced internal auditor to achieve its mandates. Evaluation of the IAD's processes and related audit workpapers evidenced that the audit activity conducts its work in an organized, consistent fashion while providing value to the organization.



## Conformity Rating

The IIA QA framework provides a system for rating conformity to the *Standards*, which consists of three categories: generally conforms, partially conforms and does not conform. The framework describes these categories as follows:

**Generally Conforms (GC)** means that an internal audit activity has a charter, policies and processes that are judged to be in accordance with the *Standards* in all material respects, but some opportunities for improvement may exist.

**Partially Conforms (PC)** means that practices were noted that are judged to deviate from the *Standards*, but they did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.

**Does Not Conform (DNC)** means that deficiencies in practices were judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

The QA team rates SERS's IAD as follows:

|                                      |                    |
|--------------------------------------|--------------------|
| <b>Attribute <i>Standards</i>:</b>   | Generally Conforms |
| <b>Performance <i>Standards</i>:</b> | Generally Conforms |
| <b>Code of Ethics:</b>               | Generally Conforms |
| <b>OVERALL EVALUATION:</b>           | GENERALLY CONFORMS |



## Opportunities and Practice Improvement Suggestions – Summary

The opportunities and practice improvement suggestions that we believe will enhance conformity with the *Standards* and further improve the effectiveness of the IAD are summarized as follows.

### Opportunities to Improve Conformity with IIA *Standards*

1. Strengthen the Quality Assurance and Improvement Program (QAIP) by revisiting the current descriptive narrative with the objective of redefining the program components in a more granular fashion while considering the limitations of a single person audit activity.
2. Enhance Internal Audit Policy/Procedure Manual with the inclusion of policies covering the following *Standards*:
  - Errors and Omissions in Audit Communications (*Standard 2421*);
  - Engagement Disclosure of Nonconformance with IIA *Standards* (*Standard 2431*); and
  - Resolution of Senior Management’s Improper Acceptance of Risks (*Standard 2600*).

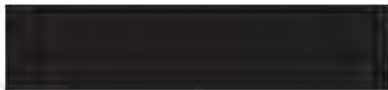
### Practice Improvement Suggestions for Internal Audit Department Consideration

1. Bolster current QAIP by exploring what opportunities exist for the periodic independent review of workpaper files, including potentially engaging with other small (single person) public pension fund audit activities in a reciprocal agreement to conduct each other’s reviews.

Additional detail about the above listed opportunities and best practices is provided in the Report Detail section that follows this Summary. Thank you again for the opportunity to provide you with our quality assessment services.

Respectfully,

**HONKAMP KRUEGER & CO., P.C.**







# REPORT **DETAIL**

## Opportunities to Improve Conformity with IIA Standards

| Observation   | Recommendation   | Response   |
|---|--|--|
| <p><b>1. Strengthen Quality Assurance and Improvement Program</b> – <i>Standard 1300</i> states the CAE must develop and maintain a quality assurance and improvement program (QAIP) that covers all aspects of the internal audit activity. The subsequent quality <i>Standards 1310-1322</i> go on to describe a robust program of internal ongoing and periodic assessments and external assessments, as well as the requirement for reporting the results to the oversight stakeholder committee.</p> <p>As required by <i>Standard 1300</i>, IAD has documented in its policy and procedure manual a broadly defined QAIP. Much of the narrative used to describe the program was drawn directly from the IIA’s professional guidance and covers in a broad fashion the IAD responsibilities to establish processes to conduct internal and external quality assessments and periodically report assessment results to senior management and the AC. Although the current narrative reflects the IAD’s commitment to quality and demonstrates conformity, we believe IIA guidance on this topic promotes the approach that internal audit activities should tailor their program to fit the circumstances and consist of specific components defined at a more granular level.</p> <p>(<i>Standard 1310</i> – Requirement of the Quality Assurance &amp; Improvement Program; <i>Standard 1311</i> – Quality Assurance &amp; Improvement Program and Related Implementation and Practice Guides)</p> | <p>The IAD should consider re-visiting its documented QAIP with the objective of defining in a more granular fashion, specific, achievable elements of its ongoing and periodic assessments. The program should focus on quality and conformity but should also continually try to identify improvement opportunities and act on them as deemed appropriate within the constraints of the available resources.</p> <p>The QAIP should continue to provide assurance that the IAD follows its own policies and procedures, while meeting the expectations of senior management and the AC. The program should assure on-going conformity with the IIA <i>Standards</i>, Code of Ethics, Definition of Internal Auditing, and Core Principles and can be achieved by using the methodologies described in IIA Practice and Implementation Guides. QAIP best practice often considers components that involve stakeholder satisfaction, key audit processes, staff capabilities, and technological innovation, while bringing focus on managing and improving all IAD activities.</p> | <p>The Chief Audit Officer will review the operations manual and include more specific details related to the QAIP.</p> <p>Target completion date: Q2 FY23</p> |

**2. Enhance Internal Audit Policy/Procedure Manual –**

*Standard 2040* states the CAE must establish policies and procedures to guide the internal audit activity.

IAD has a comprehensive policy and procedure manual but does not have written policies that describe what actions are required when one or more of the events listed below take place. The likelihood of one of these events occurring is rare, which is why it is important to develop action plans and communicate the plans to senior management and the Audit Committee.

- Errors and Omissions in Audit Communications (*Standard 2421*)
- Engagement Disclosure of Nonconformance with IIA *Standards (Standard 2431)*
- Resolution of Senior Management's Improper Acceptance of Risks (*Standard 2600*)

(*Standard 2040 – Policies and Procedures*)

Consider developing policies/procedures for handling situation involving the *Standards* listed below.

- Errors and Omissions in Audit Communications (*Standard 2421*)
- Engagement Disclosure of Nonconformance with IIA *Standards (Standard 2431)*
- Resolution of Senior Management's Improper Acceptance of Risks (*Standard 2600*)

The Chief Audit Officer will update the operations manual based on the observations identified.

Target completion date: 30 days post report issuance.



## Practice Improvement Suggestions for Internal Audit Department Consideration

### Observation

#### 1. Bolster Current QAIP with Independent Workpaper File

**Reviews** – *Standard* 1311 states internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessment or assessments by other persons within the organization with sufficient knowledge of internal audit practice.

An independent review of audit workpaper files is a common periodic assessment best practice included in an internal audit activity's QAIP. As a single person audit function IAD does not have a process to allow periodic independent reviews of a sample of its workpaper files. The establishment of an approach for conducting such periodic reviews would enhance assurance that audits are being conducted following established policies and procedures and in conformity with IIA *Standards*.

(*Standard* 1311 – Internal Assessments)

### Recommendation

IAD should consider what opportunities exist to establish a periodic independent review of a sample of its workpaper files.

The first option is to explore the potential for engaging in a reciprocal peer-to-peer agreement with other small public pension audit activities to review and comment on each other's workpaper file documentation.

A second, more costly option is to periodically engage an independent outside party to perform these reviews.

### Response

The Chief Audit Officer will explore options to periodically have an external review of workpaper files.

Target completion date: Prior to end of FY23



# APPENDIX A

## Standards Conformance Evaluation Summary

### Attribute Standards

|      |   | GC | PC | DNC |
|------|---|----|----|-----|
| 1000 | Purpose, Authority and Responsibility     | X  |    |     |
| 1100 | Independence and Objectivity              | X  |    |     |
| 1200 | Proficiency and Due Professional Care     | X  |    |     |
| 1300 | Quality Assurance and Improvement Program |    | X  |     |

### Performance Standards

|      |                                      | GC | PC | DNC |
|------|--------------------------------------|----|----|-----|
| 2000 | Managing the Internal Audit Activity | X  |    |     |
| 2100 | Nature of Work                       | X  |    |     |
| 2200 | Engagement Planning                  | X  |    |     |
| 2300 | Performing the Engagement            | X  |    |     |
| 2400 | Communicating Results                | X  |    |     |
| 2500 | Monitoring Progress                  | X  |    |     |
| 2600 | Management's Acceptance of Risks     | X  |    |     |