



**SERS Retirement Board Audit Committee Agenda
Regular Meeting
March 20, 2024
2:30 P.M.**

1. Roll call (R)
2. Approval of December 20, 2023 minutes (R)
3. External Audit Update
4. Internal Audit Update: Chief Audit Officer's Report
 - Q3 Update on the FY2024 Audit Plan
 - Status of External Audit Recommendation
 - Outsourced IT Audit
 - FY25 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

SCHOOL EMPLOYEES RETIREMENT SYSTEM

AUDIT COMMITTEE

March 20, 2024

____ P.M.

Roll Call:

Barbra Phillips	_____
Catherine Moss	_____
James Rossler	_____

Guests in Attendance:

ITEM 2.

**APPROVAL OF MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON
December 20, 2023**

_____ moved and _____ seconded the motion to approve the minutes of the Audit Committee meeting held on December 20, 2023.

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	_____	_____	_____

School Employees Retirement System	<h1>AUDIT COMMITTEE MINUTES</h1>		
Preparer	Megan Robertson	Meeting Date:	December 20, 2023
Committee Chair	Barbra Phillips	<p>Committee roll call was as follows: James Rossler, Barbra Phillips. Absent: Catherine Moss.</p> <p>Also in Attendance: Lisa Reid, Representative of the Ohio Attorney General joined remotely via Zoom, along with members of the public. Plante Moran representatives, Kristin Hunt, Amanda Cronk, and Ashley Raden. SERS Staff Members: Jeff Davis, Joe Marotta, Marni Hall, Richard Stensrud, Karen Roggenkamp, Vatina Gray, Nicole Whitacre, and Megan Robertson.</p>	
Agenda	<ol style="list-style-type: none"> 1. Roll call (R) 2. Approval of September 20, 2023, minutes (R) 3. External Audit Update: Review external auditor's financial statement opinion letter, internal control letter with management's response, and required communications. 4. Internal Audit Update: Chief Audit Officer's Report <ul style="list-style-type: none"> o Q2 Update on the FY2024 Audit Plan o ORSC Annual Audit Committee Report o Recently Completed Audits, Other Activities Approve modification to Audit Committee Charter (R) 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 		
Discussion	<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: James Rossler, Barbra Phillips. Absent: Catherine Moss.</p> <p>Also in attendance were Lisa Reid, Representative of the Ohio Attorney General joined remotely via Zoom, along with members of the public. Plante Moran representatives, Kristin Hunt, Amanda Cronk, and Ashley Raden. SERS Staff Members: Jeff Davis, Joe Marotta, Marni Hall, Richard Stensrud, Karen Roggenkamp, Vatina Gray, Nicole Whitacre, 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 September 20, 2023. Upon roll call, the vote was as follows: Yea: James Rossler, Barbra Phillips. Absent: Catherine Moss. The motion carried.</p> <p><u>External Audit Update</u></p> <p>Marni Hall, CFO, commented on the completed FY23 external audit and introduced representatives from Plante Moran to provide their presentation. Kristin Hunt, Partner, Amanda Cronk, Principal, and Ashley Raden, Senior Manager, were present to discuss</p>		

the completed audit. They discussed the audit timeline and deliverables, audit areas of focus, results of the audit including the audit opinion letter and required communications. A lengthy discussion was held regarding an audit finding. Specifically, a significant deficiency regarding monthly reconciliations. Plante Moran, Ms. Hall and the audit committee discussed the finding in detail. Ms. Hall closed by explaining there is a written plan to respond to the finding that has been shared with CAO, Jeff Davis, including monthly updates that will be reviewed.

Chief Audit Officer's Report

Mr. Davis provided a presentation on the status of his FY2024 Internal Audit Plan for the second quarter. The audits of Investment Incentive Compensation and Conflict of Interest are completed with the reports provided to the committee. The audit of Survivor Benefits is completed, and the report will be issued before the end of December. Planning for an audit of Identify and Access Management is underway. This will be an outsourced audit. The RFP process has started with the RFP to be issued in January 2024. Also, an audit of Purchasing/Contracts has been put on hold until later in the fiscal year.

Ms. Phillips inquired if Mr. Davis needs any consulting time to focus on the Plante Moran audit finding, and Mr. Davis affirmed he has ample time allotted to work on the special project.

The CAO next discussed the draft Audit Committee annual report for the Ohio Retirement Study Council (ORSC). The draft report is substantially complete and will be finalized by the end of December and provided to the executive director for his signature and submission to the ORSC.

Recently completed audits and other activities were also discussed including recent training attended by the CAO. Ms. Phillips asked if Artificial Intelligence (AI) was a topic of concern or interest at the training the CAO attended. Mr. Davis shared there was some discussion surrounding AI and the opportunities. Mr. Davis also mentioned the many steps that have been taken at SERS to address AI that will be covered at the December Technology Committee meeting in detail. SERS Executive Director, Richard Stensrud, closed by commenting there are systems being put into place, a structure philosophy, and a set of rules that will act as a checks and balance, as well as internal and external audit activities that will be responsive to what is put in place.

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

James Rossler moved, and Barbra Phillips 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: James Rossler, Barbra Phillips. Absent: Catherine Moss. The motion carried.

The committee convened in executive session at 3:14 p.m.

The committee returned to open session at 3:30 p.m.

	<u>Committee Requests and Follow Up Items</u>		
	There were no requests or follow-up items discussed.		
	The meeting adjourned at 3:31 p.m.		
	Action Items	Assigned Person	Due Date
Action Items	n/a		
Agenda for Next Meeting			

Barbra Phillips, Committee Chair

Richard Stensrud, Secretary

DRAFT

ITEM 3.

EXTERNAL AUDIT UPDATE

ITEM 4.

INTERNAL AUDIT UPDATE
(Chief Audit Officer's Report)



Internal Audit Update

March 2024

Jeff Davis, CAO – Internal Audit

Agenda



- Status of FY2024 Internal Audit Plan
- Status of Outstanding Recommendations
- Outsourced IT Audit
- FY25 Audit Planning
- Recently Completed Audits and Other Activities



FY2024 Audit Plan Status



FY2024 Audit Plan Status



Engagement	Type	Status	Comments
Undue Influence (August 2023)	Audit	Completed	Annual Compliance Audit
Investment Incentive Compensation (September 2023)	Audit	Completed	Annual Compliance Audit
Conflict of Interest (November 2023)	Audit	Completed	Annual Compliance Audit
Survivor Benefits (December 2023)	Audit	Completed	
Annual Member Statements (March 2024)	Audit	Completed	Outsourced Audit
Identity and Access Management	Audit	In Progress	
Purchasing/Contracts	Audit	Pending	
Board Governance – Audit Committee Annual Report	Consulting	Completed	Annual Activities for Ohio Retirement Study Council - Required by March 31 st

FY2024 Audit Plan Status Continued



Engagement	Type	Status	Comments
Health Care Audit	Consulting	Pending	Biennial outsourced audit of member pharmacy benefits
Other Consulting/Special Projects	Audit	In Progress	
IT Consulting	Consulting	In Progress	
Continuous Auditing	Audit	In Progress	
FY25 Internal Audit Plan	Administrative	In Progress	



Status of Audit Recommendations



Status of Audit Recommendations – External Audit



Rating	Risk	Recommendation Summary	Department	Responsible Executive/ Director	Action Plan Due Date
Significant Deficiency	Bank Reconciliations Incomplete	Plante Moran recommended that SERS ensure month-end cash reconciliations are prepared and reviewed timely each month to ensure there is no misappropriation of assets.	Finance	Marni Hall, CFO	TBD

Status:

- Progress has been made on the accounts to be reconciled.
- The volume of data involved is significant.
- Timing related to SMART has added complexity to the process.
- The process to enhance SMART related to the reconciliation process has been on hold due to a data breach at Sagitec.
- SMART project should resume in March/April 2024.
- The timeline for full implementation will be monitored and re-evaluated as needed as the project progresses.



Outsourced IT Audit



Outsourced IT Audit



- An audit of Identity and Access Management was selected for the outsourced IT audit for FY24.
- The RFP selection process was completed in early March with the work expected to begin in April.
- Intend to have a report/presentation for the Audit Committee at the June meeting.
- Goal is to: Obtain an understanding of IT / Information Security operations related to the IAM environment and to determine and identify gaps (or risks) in access controls, identity management policies and procedures, access governance, and privileged access management.



FY25 Audit Planning

FY25 Audit Planning

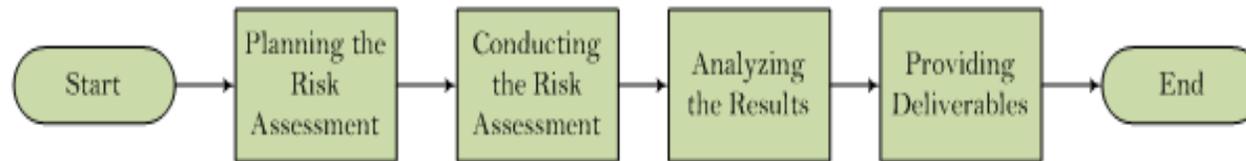


- Audit planning for FY25 has started.
- Feedback from the Board/Audit Committee and Senior Management.
- IA will perform its own independent assessment of the audit universe while leveraging knowledge gained from interaction with Risk Management and the ERM office.

FY25 Audit Planning



FY25 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

Recently Completed Audits and Other Activities



- Two audits completed since last committee meeting:
 - Survivor Benefits (Attachment A)
 - Annual Member Statements (Attachment B)



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.

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

SURVIVOR BENEFITS AUDIT

DECEMBER 2023

SERS Internal Audit Department

Business Objectives

Ensure survivor 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 dependency
- Ineligible benefit recipient
- Survivor benefits review not completed timely
- Incomplete information submitted
- Incorrect benefit calculation/payments
- Improper duty segregation to prevent errors or irregularities
- Access to confidential data not authorized/data not protected
- Ineffective monitoring of benefit requirements

Management Controls (Bold = Tested)

- **Detailed policies and procedures**
- **Standard benefit forms/requirements**
- **Consistent communication practices**
- **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 Survivor Benefits were **properly designed and operating effectively** to achieve the business objective. No high-risk issues were identified. Internal Audit concludes:

Objective	Conclusion
Survivor 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 27, 2023

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 **Survivor Benefits**, as included in the *Fiscal Year 2024 Audit Plan*. The business objective related to survivor benefits was to ensure that processes were 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 survivor benefits were properly designed and operating effectively to achieve the business objectives. 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

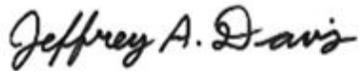
Member Services' personnel responsible for processing survivor benefit applications, calculating benefits, and communicating to survivors were knowledgeable of the requirements for processing survivor benefits. Personnel collectively possess a high level of experience and consistently support members and survivors.

Proper supporting evidence and controls were in place and operating effectively during the FY23 audit period. Audit results were validated through inquiry, observation, and testing to verify survivor eligibility determinations, consistently documented decisions, properly calculated benefit payments, and protection of sensitive information. Tests of survivor 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
- Chad Hanson, Asst. Director, Member Services
- Mary Beth Clark, Senior Manager – Benefits Processing
- Matt Fenner – Supervisor – Post, Survivor Benefits, Refunds

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



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

BACKGROUND

Per the Member Services Department Survivor Benefits Guide, if a member dies while working, before the member begins receiving a monthly service retirement benefit, or while receiving a disability benefit, the member’s qualified survivors are entitled to certain benefits. A beneficiary qualifies for benefits if that person has been designated in writing by the member on a form provided by SERS. If there is no designated beneficiary or the beneficiary died before the member, the statutory order of beneficiaries applies. The qualifying beneficiary is entitled to a one-time, lump-sum payment of only the member’s remaining contributions to SERS, or monthly benefits if otherwise eligible. However, if the member is survived by children under age 19, or by children who are mentally or physically incompetent, only a monthly benefit is available to the qualifying survivors. Monthly benefit payments are available if the member meets specific criteria. The policy section below includes the criteria.

This audit focused on the Member Services Department’s administration of many survivor benefits phases including: application, eligibility review and determination, benefit calculation and payment, ongoing monitoring and member communication.

Metrics involving survivor benefits include the following:

	FY2023	FY2022	FY2021	FY2020	FY2019
Survivor Benefit Payments	\$41.7M	\$40.7M	\$40.6M	\$40.2M	\$40.1M

** Source: SERS’ FY23 Annual Comprehensive Financial Report*

POLICY, PROCEDURE, AND COMPLIANCE REQUIREMENTS (EXCERPTS)

A. Survivor Benefits (MS6-001)
<ul style="list-style-type: none"> ➤ <i>The purpose of this policy is to outline the guidelines applicable to processing of survivor benefits to beneficiaries of deceased members, including disability benefit recipients.</i> ➤ <i>When a SERS member or disability recipient dies before retirement, the type of benefit due and identity of beneficiaries must be determined by the Survivor Benefit section of the Member Services Department.</i> ➤ <i>After determining beneficiaries and eligibility for benefit type, the Survivor Benefits section must process the necessary applications for the benefit or refund. See the Survivor Benefit Calculation and Processing Procedure below.</i> ➤ <i>A member may designate one or more beneficiaries by completing a Member Beneficiary Designation form (VER-0006). The form may be requested by letter, email, SERS website, or telephone call. Beneficiary forms are sent by the Survivor Benefit section, and must be completed in ink. Beneficiary forms can also be submitted electronically via the Member Self-Serve portal.</i> ➤ <i>There are three choices or “orders of designation” a member may elect: 1) Statutory Succession 2) Sole and Contingent Beneficiaries 3) Joint Beneficiaries</i> ➤ <i>A Member Beneficiary Designation form (VER-0006) on file with SERS is automatically voided when: 1) The member files a new Member Beneficiary Designation form 2) The member marries 3) The sole designated beneficiary dies 4) The member is legally separated or the member’s marriage is terminated by divorce or dissolution 5) A child is born to or adopted by the member 6) The member receives an account refund</i> ➤ <i>Statutory succession will automatically apply unless the member files a new Member Beneficiary Designation form (VER-0006).</i>

- *If the member was also a member of STRS and/or OPERS at the time of death, the most recent Member Beneficiary Designation form on file with any of the systems will apply if either system will pay a monthly benefit to the survivors. If no beneficiary is eligible for, or does not elect a monthly benefit, the systems will each follow their own designation forms. If no designated beneficiary exists with our system, SERS may choose to follow a specific beneficiary designation from STRS or OPERS.*
- *Monthly survivor benefits are paid to qualified beneficiaries only if the member: 1) Was eligible for service retirement; or 2) Had one and a half years of service credit, including 45 days in the two and a half years preceding death; or 3) Was a disability benefit recipient.*
- *If these requirements are not met or if there are no qualified beneficiaries, the beneficiary can only receive a refund of the member's contributions. A qualified beneficiary may elect to receive a refund of the member's contributions instead of monthly survivor benefits.*
- *Surviving Spouse without Minor Children - The surviving spouse will be eligible if the member had 10 or more years of service credit. If the member met the minimum age and service requirements for retirement, the surviving spouse can elect to receive survivor benefits equivalent to the Plan D option the member could have chosen had they retired prior to death. If the member had less than 10 years of service credit, the surviving spouse will be eligible at age 62.*
- *Surviving Spouse with Minor Children - The surviving spouse can receive monthly benefits at any age, and the benefit will continue until the youngest child reaches age 19. At that point, the benefit will terminate until the spouse becomes eligible under surviving spouse without minor children eligibility requirements.*
- *Minors · Eligibility for Survivor Benefits Effective Jan. 1, 2013 and before 1) When a dependent child reaches age 18, benefit payments may continue if the child is a student enrolled for at least two-thirds full curriculum. 2) At age 18, or at the beginning of each quarter or semester (if the child is already receiving benefits as a student), a letter (SUR-0012) is sent to the parent or guardian to verify student status. A copy of the student's class schedule must be returned to SERS to verify student status. 3) The class schedule must be returned to SERS within an appropriate amount of time to avoid any disruption of benefits including the benefit check(s) and health insurance coverage. SERS will accept school schedules, transcripts, and diplomas as a form of enrollment or completion verification. 4) If the class schedule is not returned by the required date, the benefit check is suspended and held until forms are returned and health care coverage is terminated.*
- *Eligibility for Survivor Benefits Effective Feb. 1, 2013 and after the beneficiary is eligible until age 19. The benefit will terminate prior to age 19 if the child marries, is adopted, or while in active military service.*
- *A spouse or child who is adjudged physically or mentally incompetent is eligible at any age. A child's incompetence must have existed prior to the member's death and prior to age 19.*
- *The dependent parent is eligible for benefits at age 65 if the member contributed one half or more of the parent's support during the 12-month period prior to death.*
- *The beneficiary may elect to take a refund of the member's contributions, including amounts paid by the member to purchase service credit. A cash refund terminates eligibility for survivor benefit monthly payments.*
- *If the member was eligible for a service retirement at the time of death, the surviving spouse or other sole dependent beneficiary may elect to receive a monthly benefit, calculated as the Joint Survivor Allowance (Plan D) amount that the beneficiary would have received if the member had retired with Plan D prior to death. The benefit effective date is the first day of the month following the member's death.*
- *The qualified beneficiary(s) may elect to receive monthly payments based on the number of qualified survivors, and paid as the percentage of member's final average salary or as a minimum benefit amount designated by statute.*

- *The surviving spouse or dependents may purchase service credit that the member was eligible to purchase. Purchased service will be added to the deceased member's account.*
- *If a member dies while on disability, the beneficiary(s) will receive a \$1,000 death benefit from SERS, and may be eligible for monthly benefits or a refund of the member's unused account balance. If there is no balance remaining in the member's account after disability payments were made, a \$1,000 death benefit only is paid to the beneficiary or shared equally between beneficiaries.*
- *A survivor benefit payment may change or be terminated when the beneficiary(s) no longer meet the eligibility requirements.*
- *A benefit amount may change for the following reasons: 1. A spouse in blackout reaches age 62 2. A child is no longer eligible 3. A child returns to school 4. Death of a beneficiary*
- *Benefits may be terminated for the following reasons: 1. A child reaches age 19 or 22, marries, is adopted, enters military service, or leaves the care of the beneficiary 2. A child reaches age 18 and does not continue on in school (for benefit effective dates prior to February 1, 2013 only) 3. A child who is a student but carries less than two-thirds full enrollment or drops out of school 4. Death of a beneficiary*

BUSINESS OBJECTIVES, RISKS, AND CONTROLS

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 survivor 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 dependency • Ineligible benefit recipient • Survivor Benefits 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 • Access to confidential data not authorized/data not protected • Ineffective monitoring of benefit requirements
Management Controls (Bold = Tested)	<ul style="list-style-type: none"> • Detailed policies and procedures • Standard benefit forms/requirements • Consistent communication practices • 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

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.

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"> ➤ Ensure survivor 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 survivor payments.
Audit Scope	<p><u>Scope/Key Processes:</u> Survivor benefit application and eligibility.</p> <ol style="list-style-type: none"> 1. Internal controls are sufficient to ensure survivors are processed in accordance with policies, procedures, rules and regulations. <ol style="list-style-type: none"> a. Survivors were eligible b. Payments were accurate and timely c. Payments were stopped timely upon death or ineligibility d. Overpayments were recouped timely e. Overpayments are recouped prior to making survivor or death benefit payments 2. Controls relating to processing survivor benefits are in place and functioning properly 3. Survivor benefits are processed in an efficient and effective manner. <p>Audit Period: July 1, 2022 – June 30, 2023</p> <p>Transactional volume from internally reported records indicates survivor benefits for the audit period:</p> <ul style="list-style-type: none"> ➤ \$41.7M survivor benefits paid in FY23 (per FY23 ACFR) ➤ 51,153 survivor benefit payments in FY23 (approximate)
Audit Methodology	<p>IA's methodology included obtaining information on management's business objectives 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' survivor 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.

ANNUAL MEMBER AND RE-EMPLOYED RETIREE STATEMENTS AUDIT MARCH 2024

SERS Internal Audit Department

Business Objectives

Ensure the annual statement 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
- Inaccurate annual statements
- Annual statement process not completed timely
- Improper duty segregation to prevent errors or irregularities
- Access to confidential data not authorized/data not protected
- Ineffective monitoring

Management Controls (Bold = Tested)

- **Detailed policies and procedures**
- **Standard forms/requirements**
- **Consistent communication practices**
- **Segregation of duties**
- **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 Annual Member and Re-Employed Retiree Statements were **properly designed and operating effectively** to achieve the business objective. No high-risk issues were identified. Internal Audit concludes:

Objective	Conclusion
Annual Member and Re-Employed Retiree Statements	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

March 7, 2024

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 **Annual Member and Re-Employed Retiree Statements (annual statements)**, as included in the *Fiscal Year 2024 Audit Plan*. The business objective related to annual statements was to ensure that processes were properly designed and consistently processed in accordance with SERS' policy and procedures.

Based on audit results, Internal Audit (IA) determined that overall management controls were properly designed and operating effectively to achieve the business objectives. 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

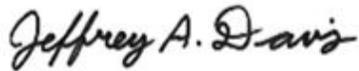
Member Services' and IT personnel responsible for processing annual statements and communicating to members were knowledgeable of the requirements for processing annual statements. Personnel collectively possess a high level of experience and consistently support members.

Proper supporting evidence and controls were in place and operating effectively during the FY23 audit period. Audit results were validated through inquiry, observation, and testing to verify annual statements completeness and accuracys, and protection of sensitive information. Tests of annual member statements 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 and IT department. Internal Audit would especially like to thank the following individuals for their cooperation, courtesy and professionalism provided on this engagement:

- John Grumney, Director, Member Services
- Chad Hanson, Asst. Director, Member Services
- Erin Knight, Operations Coordinator – Member Services
- Thavamani Baskaran – Manager – IT Applications Development

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



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

BACKGROUND

Per SERS policy, annual statements are prepared and sent to each active member showing his or her service credit and total contributions for the previous fiscal year. The statement also provides total service credit, total amount of deposits on account, and estimate(s) if eligible. In addition, an annual statement is sent to each active re-employed retiree showing his or her total contributions for the previous fiscal year, total amount of deposits on account, and any applicable interest. Depending on the member's age and account balance, it may include an estimated monthly payment amount. The Annual Member and Re-employed retiree statements policy (MS5-003) outlines the guidelines applicable to the processing of annual statements. As of August 2023, all annual statements were mailed. Electronic statements will be available in future annual statement distributions if that is the preference of the member. The table below includes data related to annual statements mailed in August 2023.

Annual Member and Re-Employed Retiree Statements	
FY23 Annual Statements Mailed:	Count
Members – More than 10 Years	40,046
Members – Less Than 10 Years	116,539
Members – Less Than 120 Days Worked	1,563
Re-Employed Retirees	8,191
Total:	166,339

POLICY, PROCEDURE, AND COMPLIANCE REQUIREMENTS (EXCERPTS)

A. Annual Member and Re-Employed Retiree Statements Policy (MS5-003)
<ul style="list-style-type: none"> ➤ <i>This policy covers the issuance of Annual Member Statements to all active members and Annual Reemployed Retiree Statements to all active reemployed retirees who have retired from one of the five state pension funds but have returned to SERS-covered employment and are contributing to an annuity account.</i> ➤ <i>An annual statement shall be prepared and sent to each active member showing his or her service credit and total contributions for the previous fiscal year. The statement shall also provide total service credit, total amount of deposits on account, and estimate(s) if eligible. In addition, an annual statement shall be prepared and sent to each active re-employed retiree showing his or her total contributions for the previous fiscal year, total amount of deposits on account, and any applicable interest. Depending on the member's age and account balance, it may include an estimated monthly payment amount.</i> ➤ <i>Annual Member Statement - After Finance has completed year-end closing for the previous fiscal year, a SMART batch job updates the member account status. If no contributions were received in the previous fiscal year, the account status is updated to "inactive". If contributions were received in the previous fiscal year, the account status is "active". Active member's addresses are sent in a secure file to a third-party vendor for address updates and cleansing. If the account status is "active", the members are grouped in the appropriate annual statement version: Less than 10 years (no estimate until vested); Less than 120 days worked in previous fiscal year (estimate with no projected service credit); Everyone with over 10 years of service credit and worked 120 days or more (includes estimate with projected service credit)</i> ➤ <i>Member Services and IT test and verify data is correct. Once verified, the statements are sent to Print Shop through a batch job, then printed and mailed in a</i>

staggered mailing order. A PDF copy is also viewable in the member self-serve (MSS) portal.

- Annual Reemployed Retiree Statement
- For reemployed retirees, there is only one version of the statement. Member Services and IT test and verify data is correct. Once verified, the statements are sent to Print Shop through a batch job, then printed and mailed in a staggered mailing order. A PDF copy is also viewable in the member self-serve (MSS) portal.

BUSINESS OBJECTIVES, RISKS, AND CONTROLS

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 the annual statement 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 • Annual member statement process not completed timely • Inaccurate annual member statements 	<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 benefit requirements
Management Controls (Bold = Tested)	<ul style="list-style-type: none"> • Detailed policies and procedures • Standard benefit forms/requirements • Consistent communication practices • Segregation of duties • 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

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.

Audit Objective	<p>Determine whether internal controls are in place and working effectively to achieve the business objectives and mitigate significant risks to meet those objectives.</p> <ul style="list-style-type: none"> ➤ Ensure annual statements are processed 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 annual statements.
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<p>Audit Scope</p>	<p><u>Scope/Key Processes:</u> Annual Statements</p> <ol style="list-style-type: none"> 1. Internal controls are sufficient to ensure annual statements are processed in accordance with policies, procedures, rules and regulations. 2. Annual statements were accurate 3. Annual statements were issued timely 4. Controls relating to processing annual member statements are in place and functioning properly 5. Annual statements are prepared efficiently and effectively. <p>NOTE: Scope of review did not include a detailed review of SERS' IT applications</p> <p>Audit Period: July 1, 2022 – June 30, 2023</p> <p>Transactional volume from internally reported records indicate the number of annual statements issued during the audit period:</p> <ol style="list-style-type: none"> 1. 166,339 annual member statements (August 2023)
<p>Audit Methodology</p>	<p>IA's methodology included obtaining information on management's business objectives 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
<p>Audit Conclusion</p>	<p>Internal Audit determined overall management controls for SERS' Annual Member Statements were operating effectively to achieve the business objective.</p> <p>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.</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

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.