



**SERS Retirement Board Audit Committee Agenda
Regular Meeting
December 18, 2024
2:30 P.M.**

1. Roll call (R)
2. Approval of June 20, 2024, minutes (R)
3. Review external auditor's financial statement reports, significant results, and recommendations
4. Review management representation letter on internal controls and financial reporting
5. Internal Audit Update: Chief Audit Officer's Report
 - o Q2 Update on the FY2025 Audit Plan
 - o Status of Outstanding Recommendations
 - o ORSC Annual Audit Committee Report
 - o Recently Completed Audits, Other Activities
6. Executive session pursuant to R.C. 121.22 (G) (1) to consider the employment of a public employee (R)
7. Audit committee requests and follow-up items
8. Adjournment

SCHOOL EMPLOYEES RETIREMENT SYSTEM

AUDIT COMMITTEE

December 18, 2024

_____ P.M.

Roll Call:

Catherine Moss	_____
James Rossler	_____
Aimee Russell	_____

Guests in Attendance:

ITEM 2.

SCHOOL EMPLOYEES RETIREMENT SYSTEM

**APPROVAL OF MINUTES OF THE AUDIT COMMITTEE MEETING HELD
ON JUNE 20, 2024**

_____moved and _____seconded the motion to approve the minutes of the Audit Committee meeting held on June 20, 2024.

Upon roll call, the vote was as follows:

<u>ROLL CALL:</u>	<u>YEA</u>	<u>NAY</u>	<u>ABSTAIN</u>
Catherine Moss	_____	_____	_____
Aimee Russell	_____	_____	_____
James Rossler	_____	_____	_____

School Employees Retirement System	<h1>AUDIT COMMITTEE MINUTES</h1>		
Preparer	Megan Robertson	Meeting Date:	June 20, 2024
Committee Chair	Barbra Phillips	<p>Committee roll call was as follows: James Rossler, Catherine Moss. Absent: Barbra Phillips.</p> <p>Also in Attendance: SERS Board Member: Aimee Russell. ORSC representative, Ryan Hennigan. SERS Staff Members: Jeff Davis, Joe Marotta, Marni Hall, Richard Stensrud, Karen Roggenkamp, Vatina Gray, Nicole Whitacre, Amy Clark and Megan Robertson. Lisa Reid, Representative of the Ohio Attorney General joined remotely via Zoom, along with members of the public.</p>	
Agenda	<ol style="list-style-type: none"> 1. Roll call (R) 2. Approval of March 20, 2024, minutes (R) 3. External Audit Update <ul style="list-style-type: none"> o Plante Moran Audit Presentation 4. Executive session pursuant to R.C. 121.22 (G)(6) to discuss security matters (R) <ul style="list-style-type: none"> o Crowe Presentation 5. Internal Audit Update: Chief Audit Officer's Report <ul style="list-style-type: none"> o Q4 Update on the FY2024 Audit Plan o Status of Audit Recommendations o FY25 Audit Planning o FY25 Audit Plan o Recently Completed Audits, Other Activities 6. Review and Approve FY25 Internal Audit Plan (R) 7. Annual Confirmation of Internal Audit Independence 8. Executive session pursuant to R.C. 121.22 (G) (1) to consider the employment and compensation of a public employee (R) 9. Approve Chief Audit Officer Goals (R) 10. Audit committee requests and follow-up items 11. Adjournment 		
Discussion	<p>The meeting began in open session at 2:38 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, Catherine Moss. Absent: Barbra Phillips.</p> <p>Also in attendance was Lisa Reid, Representative of the Ohio Attorney General joined remotely via Zoom, along with members of the public. SERS Staff Members: Jeff Davis, Joe Marotta, Marni Hall, Christi Pepe, Richard Stensrud, Karen Roggenkamp, Vatina Gray, Nicole Whitacre, and Megan Robertson.</p> <p><u>External Audit Update</u></p> <p>SERS Chief Audit Officer, Jeff Davis, introduced the audit team from Plante Moran. This will be Plante Moran's second year auditing SERS. Kristin Hunt, Engagement Partner and Ashley Raden, Manager, from Plante Moran provided a presentation to the Audit Committee. The presentation included the following pre-audit communication topics:</p>		

- Audits to Perform
- Auditor Responsibilities
- Identification of Significant Risks
- Plant Moran' Approach to internal Control
- Materiality
- Expected Audit Timeline
- Accounting Standard Changes for FY2024
- Questions/Audit Committee Member Views

Executive session pursuant to R.C. 121.22 (G)(6) to discuss security matters (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)(6) to discuss security matters. Upon roll call, the vote was as follows: Yea: James Rossler, Catherine Moss. Absent: Barbra Phillips. The motion carried.

The committee convened in executive session at 2:49 p.m.

The committee returned to open session at 3:02 p.m.

Chief Audit Officer's Report

Mr. Davis provided a presentation on the status of his FY2024 Internal Audit Plan for the fourth quarter. The audit plan has been substantially completed. One current audit, Tenant and Parking Revenue is an ongoing audit that should be completed in the next few weeks.

Mr. Davis continued his presentation by reviewing the FY25 audit plan.

Mr. Davis also touched briefly on the status of an external audit recommendation related to monthly bank reconciliations. Finance is currently implementing corrective action. Recently completed audits and other activities were also briefly discussed.

After questions and discussion, the committee thanked Mr. Davis for his update.

Review and Approve FY25 Internal Audit Plan

Catherine Moss moved, and James Rossler seconded the motion that the FY 2025 Internal Audit Plan, as discussed at the June 20, 2024, Audit Committee meeting, be approved. Upon roll call, the vote was as follows: Yea: James Rossler, Catherine Moss. Absent: Barbra Phillips. 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.

Approval of Minutes

Catherine Moss moved, and James Rossler seconded the motion to approve the minutes of the Audit Committee meeting held on March 20, 2024. Upon roll call, the vote

	<p>was as follows: Yea: James Rossler, Catherine Moss. Absent: Barbra Phillips. The motion carried.</p> <p><u>Executive session pursuant to R.C. 121.22 (G)(1) to discuss the employment and compensation of a public employee (R)</u></p> <p>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: James Rossler, Catherine Moss. Absent: Barbra Phillips. The motion carried.</p> <p>The committee convened in executive session at 3:17 p.m.</p> <p>The committee returned to open session at 3:35 p.m.</p> <p><u>Approve Chief Audit Officer Goals</u></p> <p>Catherine Moss moved, and James Rossler seconded the motion to approve the Chief Audit Officer's goals for FY2025. Upon roll call, the vote was as follows: Yea: James Rossler, Catherine Moss. Absent: Barbra Phillips The motion carried.</p> <p><u>Recommended Merit Increase in Salary for Chief Audit Officer</u></p> <p>Catherine Moss moved, and James Rossler seconded the motion to recommend to the Board that Chief Audit Officer, Jeff Davis, receive a merit increase in salary effective the first pay of Fiscal Year 2025. Upon roll call, the vote was as follows: Yea: James Rossler, Catherine Moss. Absent: Barbra Phillips The motion carried.</p> <p><u>Committee Requests and Follow Up Items</u></p> <p>The next audit committee meeting will be September 18, 2024.</p> <p>There were no requests or follow-up items discussed.</p> <p>The meeting adjourned at 3:36 p.m.</p>		
	Action Items	Assigned Person	Due Date
Action Items	n/a		
Agenda for Next Meeting			

James Rossler, Acting Committee Chair

Richard Stensrud, Secretary

ITEM 3.

EXTERNAL AUDIT UPDATE

Review external auditor's financial statement reports, significant results, and recommendations

Memo

To: SERS Audit Committee
From: Mami Hall, CFO
CC: Jeff Davis, Richard Stensrud, Karen Roggenkamp
Date: December 9, 2024
Re: June 30, 2024 Audit Response memo

FY2024 Financial Statement Audit Results

There were no new findings issued during the June 30, 2024 financial statement audit. However, there was a bank reconciliation finding carried over from June 30, 2023. Notable progress was achieved this past fiscal year to improve bank reconciliations. However, more time is needed to complete the various phases of the general ledger enhancement project, a key component of the corrective action plan.

A history of the cause, recent accomplishments and remediation actions follow.

Audit Finding Cause

During FY2023, the monthly transaction reconciliations were not performed timely due to staffing turnover and the time needed to train. Differences in the dating of transactions between the general ledger and bank made a standard month end bank reconciliation difficult to complete without a significant amount of manual effort. Therefore, SERS performed compensating controls to ensure cash transactions were fully accounted for and recorded accurately.

External auditors consider internal controls over financial reporting when designating their audit procedures. Auditing standards require the communication of internal control related matters using the following terminology.

1. Material Weakness – control is not designed adequately to prevent a material misstatement.
2. Significant Deficiency – control is missing but existing controls would prevent a material misstatement. Deficiency is reported to the Board.
3. Deficient Control – control is missing, but the deficiency does not rise to the level of reporting the matter to the Board.

SERS' existing controls are designed to prevent a financial misstatement. However, the finding is considered a Significant Deficiency because our standard month-end bank reconciliation is incomplete until the general ledger enhancement project is fully implemented. SERS concurs with the Auditor's rating on this issue.

Recent Accomplishments

During FY2024, monthly transaction reconciliations were performed timely and differences identified.

Phase one of the general ledger enhancement projects was completed in October 2024, which will significantly assist Finance with reconciling month-end cash balances. This phase changed the general ledger deposit transaction date to equal the day the transaction was posted to the bank account.

Finance continues to partner with IT to plan and complete the remaining phases of the general ledger enhancement project. Phase two is being scoped now with outside consultants. The remaining tickets will be bundled with any new findings into Phase three.

While the FY2024 progress was significant in reconciling cash activity, completing a standard month-end bank reconciliation is outstanding.

Remediation Actions

Finance continues to execute its plan after the FY2023 finding, with these additional steps:

1. Continue work on general ledger enhancements phase 2 and phase 3.
2. With the implementation of Phase 1 for deposit transaction dates, evaluate the cash split process between funds to properly move cash between the various bank accounts based on employer contribution actuarial split percentages.
3. Evaluate the monthly recurring journal entry and adjust items as needed.
4. Continue each month's detailed cash transaction reconciliation.
5. Make adjusting entries for corrections identified in previous reconciliations.
6. Move toward a standard bank reconciliation that compares month end general ledger cash balances to bank balances. Differences will be itemized in supporting schedules.
7. Incorporate a formal review of the monthly reconciliation independent of the preparer.

Timeline

The audit finding resolution will be resolved by the 1st quarter of FY2026 using the following phased approach:

1. Continue the timely bank reconciliations.
2. Improve the quality of reconciliations.
3. Utilize enhanced programming to timely identify and resolve cash reconciliation items.

In summary, our auditors reviewed our reconciliations and controls and concluded that controls are in place to avoid financial misstatements. However, Plante Moran feels that those that administer our governance standards should be made aware of the reconciliation issue and its significance. The Plante Moran auditors and SERS will continue to work together to address the deficiency and monitor progress in FY2025. This progress will also be monitored by our Chief Audit Officer and reported quarterly to the Audit Committee.

We are happy to answer questions or provide additional detailed information.

plante moran

School Employees
Retirement System of
Ohio
Audit Presentation
December 18, 2024



Introductions



Kristin Hunt, CPA
Partner



Ashley Raden, CPA
Senior Manager



Agenda

- ✓ Audit timeline and deliverables
- ✓ Audit areas of focus
- ✓ Results of the audit
 - ✓ Audit opinion letter
 - ✓ Required communications
- ✓ Questions



Audit timeline and deliverables

Audit timeline:

- Spring 2024 – Initiated planning procedures
- June 2024 – Performed interim testing procedures
- July/August 2024 – Performed additional planning and audit procedures
- September/October 2024 – Fieldwork testing
- November 2024 – Finalization of census testing and review of financial statements
- December 9, 2024 – Issuance of audit opinion on Annual Comprehensive Financial Report (ACFR)
- February 28, 2025 – Issuance of audit opinions for GASB 68 and GASB 75

Deliverables:

- SERS' 2024 ACFR opinion and Required Communications with the Board
- GASB 68 Schedule of Employer Allocations and Schedule of Pension Amounts by Employer
- GASB 75 Schedule of Employer Allocations and Schedule of OPEB Amounts by Employer



Audit areas of focus

The ultimate goal of the audit is the expression of an opinion on your financial statements.

- Investment valuations
- Census data testing
- Actuarial assumptions and actuarial calculations
- Accuracy of benefit calculations and related payments
- Financial reporting



Results of the audit

Opinion

We have audited the financial statements of School Employees Retirement System of Ohio (SERS) as of and for the year ended June 30, 2024 and the related notes to the financial statements, which collectively comprise SERS' basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SERS as of June 30, 2024 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

✓ **Unmodified Opinion**

- ✓ Free from material misstatement
- ✓ Highest level of assurance you can obtain



Results of the audit

Required Communication with Those Charged With Governance

- Management estimates included within the financial statements
 - Harder to value investments – based upon information obtained from various sources
 - Actuarial assumptions
 - Long-term expected rate of return and discount rate
 - Mortality assumptions
- No difficulties or disagreements with management in performing the audit
- No corrected or uncorrected misstatements



Results of the audit

Report on Internal Control over Financial Reporting

Audit identified a Significant Deficiency related to bank reconciliation process

- Audit standards require us to communicate instances when a control is not operating effectively
 - Categories of deficiencies as defined by auditing standards generally accepted in the United States of America:
 - **Material Weakness** – A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
 - **Significant Deficiency** – A deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
 - **Control Deficiency** - Exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.



Questions?



Thank you!

For more information contact:

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Independent Auditor's Report

To the Retirement Board
School Employees Retirement System of Ohio

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of School Employees Retirement System of Ohio (SERS) as of and for the year ended June 30, 2024 and the related notes to the financial statements, which collectively comprise SERS' basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SERS as of June 30, 2024 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of SERS and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SERS' ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Retirement Board
School Employees Retirement System of Ohio

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of SERS' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SERS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SERS' basic financial statements. The supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual financial report. The other information comprises the introductory, investment, actuarial, statistical, and plan summary sections, as listed in the table of contents, but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

To the Retirement Board
School Employees Retirement System of Ohio

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2024 on our consideration of SERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SERS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SERS' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style.

December 9, 2024



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Retirement Board
School Employees Retirement System of Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of School Employees Retirement System of Ohio (SERS) as of and for the year ended June 30, 2024 and the related notes to the financial statements, which collectively comprise SERS' financial statements, and have issued our report thereon dated December 9, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SERS' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SERS' internal control. Accordingly, we do not express an opinion on the effectiveness of SERS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of SERS' financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as Finding 2024-001, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether SERS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SERS' Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on SERS' response to the finding identified in our audit and described in the accompanying schedule of findings. SERS' response was not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

To Management and the Retirement Board
School Employees Retirement System of Ohio

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SERS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SERS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

December 9, 2024

Reference Number	Finding
2024-001	<p data-bbox="399 506 808 531">Finding Type - Significant deficiency</p> <p data-bbox="399 554 1443 636">Criteria - Cash reported in the general ledger should be reconciled to the bank balance on a monthly basis to ensure cash is stated in accordance with generally accepted accounting principles.</p> <p data-bbox="399 657 1443 768">Condition - Monthly bank activity was reconciled throughout the year; however, there are unreconciled items from previous years remaining and certain reconciling items that are not posted in the proper period due to timing. In addition, a secondary review of the bank reconciliations was not performed.</p> <p data-bbox="399 789 1443 844">Context - While other internal controls over cash exist, a comprehensive reconciliation is not performed over all cash activity.</p> <p data-bbox="399 865 1208 890">Cause - SERS' controls over reconciling cash accounts were incomplete.</p> <p data-bbox="399 911 1443 966">Effect - The lack of timely and thorough reconciliations, including review of those reconciliations, increases the risk that errors can occur without being identified or resolved.</p> <p data-bbox="399 987 1443 1068">Recommendation - We recommend that SERS ensure month-end cash reconciliations are prepared and reviewed, and all reconciling items should be identified timely each month to ensure there is no misappropriation of assets.</p> <p data-bbox="399 1089 1443 1346">Views of Responsible Officials and Corrective Action Plan - SERS agrees with this recommendation. Currently, the subsidiary system is creating cash transactions for the general ledger import on a lag in such a way that completion of a timely standard bank reconciliation has been challenging. SERS has implemented a monthly process to reconcile cash and identified reconciling items for each month in the fiscal year. SERS continues to identify reconciling items from previous years. A project has been approved to change when the subsidiary system creates cash transactions for importing into the general ledger. This was implemented subsequent to year end. This will help SERS complete the bank reconciliations timely and more accurately.</p>

December 9, 2024

To the Retirement Board
School Employees Retirement System of Ohio

We have audited the financial statements of School Employees Retirement System of Ohio (SERS) as of and for the year ended June 30, 2024 and have issued our report thereon dated December 9, 2024. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 23, 2024, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of SERS. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of SERS' financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of SERS, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated December 9, 2024 regarding our consideration of SERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 20, 2024.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by SERS are described in Note 1 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during 2024, with the exception of the adoption of GASB Statement No. 100, *Accounting Changes and Error Corrections*, which had no impact on the current year financial statements.

We noted no transactions entered into by SERS during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were the fair values of harder-to-value investments, mainly the non-publicly traded investments, which do not have readily determinable fair values, and the assumptions utilized in the GASB 67 and GASB 74 actuarial valuations.

Management's estimates of the harder-to-value investments are based on audited financial statements, quarterly reports, appraisals, etc. SERS typically values the alternative investments using June 30 capital statements received from the various investment managers. We evaluated the key factors and assumptions used to develop these estimates in determining that the estimates are reasonable in relation to the financial statements taken as a whole.

Pension and OPEB Assumptions - Financial statement disclosures contain information about SERS' total pension liability and total OPEB liability. In order to determine this liability, the actuary must apply certain assumptions, which are highly sensitive to estimation. The most sensitive estimates used in the valuation are as follows:

- **Long-term Assumed Rate of Return** - For the purpose of Governmental Accounting Standards Board Statement Nos. 67 and 74, as of June 30, 2024, SERS is currently using 7.00 percent for the assumed long-term investment rate of return for pension and OPEB. This expected return is based on information provided by SERS' investment consultant and actuary. The use of this assumed long-term investment rate of return is based on the current approved asset mix and capital market assumptions. We encourage SERS to continually monitor this assumption to ensure it accurately represents SERS' expectations about future market performance.
- **Single Discount Rate** - The calculation of the single discount rate under GASB Statement Nos. 67 and 74, which is calculated using the long-term assumed rate of return as one of many assumptions, is also highly sensitive to estimates the actuary makes about future contributions and future benefit payments. Inherent in those assumptions is some subjectivity surrounding the projection of future contributions. The actuary assumed plan member contributions would be made at the current contribution rate and that employer contributions will be made as required, and these contributions will be sufficient to pay benefits as required by SERS for pension. For OPEB, the contributions are not expected to be sufficient to pay the benefits as required by SERS; thus, the discount rate for OPEB is 4.88 percent, up from 4.27 percent from the prior year.
- **Mortality Assumptions** - The mortality assumptions impact the calculation of total pension liability. The assumptions about mortality were estimated by the actuary by using the Pub-2010 mortality tables and the MP-2020 projection scales. We recommend SERS discuss with the actuary whether updating to the MP-2021 scales is appropriate for the next valuation.

We have reviewed these assumptions used to develop the total pension liability and total OPEB liability and determined that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting SERS, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as SERS' auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 9, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to SERS' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

Other Information Included in Annual Reports

Our responsibility for other information included in annual reports does not extend beyond the financial statements, and we do not express an opinion or any form of assurance on the other information. However, we read the introductory, investment, actuarial, statistical, and plan summary sections of the Annual Comprehensive Financial Report (ACFR), and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially misstated or materially inconsistent with the information or manner of its presentation appearing in the financial statements.

To the Retirement Board
School Employees Retirement System of Ohio

December 9, 2024

This information is intended solely for the use of the retirement board and management of SERS and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Kristin L. Hunt, CPA
Partner



Ashley Raden, CPA
Senior Manager

ITEM 4.

EXTERNAL AUDIT UPDATE

Review management representation letter on internal controls and financial reporting

ITEM 5.

INTERNAL AUDIT UPDATE
(Chief Audit Officer's Report)



Internal Audit Update

December 2024

Jeff Davis, CAO – Internal Audit

Agenda



- Status of FY25 Internal Audit Plan
- Status of Audit Recommendations
- ORSC Audit Report
- Recently completed audits and Other Activities



FY2025 Audit Plan Status



FY2025 Audit Plan Status



Engagement	Type	Status	Comments
Undue Influence (August 2024)	Audit	Completed	Annual Compliance Audit
Conflict of Interest (November 2024)	Audit	Completed	Annual Compliance Audit
Investment Incentive Compensation (October 2024)	Audit	Completed	Annual Compliance Audit
Retirement Benefits – Calculations & Estimates	Audit	In Progress	
IT Infrastructure	Audit	Pending	Outsourced Audit
Purchasing/Contracts	Audit	Pending	
Board Governance – Audit Committee Annual Report	Consulting	In Progress	Annual Activities for Ohio Retirement Study Council - Required by March 31 st

FY2025 Audit Plan Status Continued



Engagement	Type	Status	Comments
Health Care Audits	Consulting	In Progress	Biennial outsourced audits of member medical claims and pharmacy benefits
Other Consulting/Special Projects	Audit	In Progress	
IT Consulting	Consulting	Pending	
Continuous Auditing	Audit	In Progress	
FY26 Internal Audit Plan	Administrative	Pending	



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.
- SMART GL Enhancement project phase 1 was completed in October 2024, which synced the GL transaction dates with the bank transaction dates. Phase 2 work in progress, and Phase 3 will include remaining tickets.
- Reconciling items for monthly detail transaction reconciliation through June 2024 have been identified.
- The timeline for full implementation will be monitored and re-evaluated as needed as the project progresses.

Status of Audit Recommendations – Employer Reporting and Building Services



Rating	Risk	Recommendation Summary	Department	Responsible Executive/ Director	Action Plan Due Date/Status
Moderate	Employer Web Administrator Forms	Management should determine the best approach to ensure EWA forms are imaged and available for review. This may include requesting that employers complete and submit updated EWA forms to SERS.	Employer Reporting	Chris Castle	4 th QTR FY24 Corrective Action Implemented
Moderate	Policy and Procedure	Management should develop policies and procedures to govern the processes involved in handling tenant revenues and other areas of OSERS operations. Documented procedures should include contract management, invoicing/billing, monitoring, and reporting processes.	Building Services – Tenant and Parking Revenue	Mike McManaway	4th QTR FY25 In Progress

Status of Audit Recommendations – Identity and Access Management



- An outsourced audit of Identity and Access Management was performed in FY24.
- The details of the audit were discussed in executive session at the June 2024 Audit Committee meeting.
- There were six moderate risk recommendations.
- Progress in implementing corrective action is underway.
- 4 recommendations have an implementation date in 3rd QTR FY25
- 2 recommendations have an implementation date in 4th QTR FY25



ORSC 2024 Annual Audit Committee Report



ORSC Annual Audit Committee Report – Current Year Completed Audits: Recommendations



Audit Area	Risk Rating	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target Implementation
Tenant and Parking Revenue (July 2024)	Mod	<p><u>Tenant and Parking Revenue</u></p> <p>The objective of the audit was to ensure Tenant and Parking Revenue processes were properly designed and operating effectively in accordance with laws, policies, and procedures.</p>	Management should develop policies and procedures to govern the processes related to tenant revenue and other areas of operations.	Procedures will be document by the department. The first draft will be complete by June 30, 2025. However, the first draft of the leasing and parking revenue procedures will be completed by December 31, 2024.	No	June 2025
<p><u>Comments:</u> Controls related to Tenant and Parking Revenue were operating effectively to achieve business objectives.</p>						

Risk Rating Levels:

High: Requires immediate attention and remediation.

Moderate (Mod.): Requires near-term attention.

Low: Improvements possible but does not require attention in immediate or near-term.

ORSC Annual Audit Report – Current Year Completed Audits - Recommendations



Audit Area	Risk Rating	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target Implementation
Identity and Access Management (June 2024)	Mod	<p><u>Identity and Access Management</u></p> <p>The objective of the review was to assess internal controls, policies, procedures and security related to Identity and Access Management.</p>	<p>Eleven recommendations were proposed. Six received a moderate rating and five were rated as low.</p> <p>The report was presented in executive session.</p>	Management has developed a remediation plan for each recommendation.		
<p>Comments: Controls related to Identity and Access Management were operating effectively to achieve business objectives.</p>						

Risk Rating Levels:

High: Requires immediate attention and remediation.

Moderate (Mod.): Requires near-term attention.

Low: Improvements possible but does not require attention in immediate or near-term.

ORSC Annual Audit Report – Prior Years Completed Audits - Updates to Recommendations



Audit Area	Risk Rating	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target Implementation
Employer Reporting	Mod	<u>Employer Reporting</u> The objective of the audit was to ensure employer reporting and contribution processes were properly designed and operating effectively in accordance with laws, policies, and procedures.	1. Management should ensure employee web administrator (EWA) forms are imaged and available for review.	1. Employer Services will undertake a project to confirm and document the EWA for each employer, ensuring that the documentation is imaged and available for review.	Yes	July 2024
<u>Comments:</u> Controls related to Employer Reporting were operating effectively to achieve business objectives.						

Risk Rating Levels:

High: Requires immediate attention and remediation.

Moderate (Mod.): Requires near-term attention.

Low: Improvements possible but does not require attention in immediate or near-term.

ORSC Annual Audit Report – Completed Audits: No Recommendations



Audit Area	Risk Rating	Scope	Management's Response
Member Annual Statements (March 2024)	Low	<p><u>Member Annual Statements</u> Ensure that survivor benefit processes are properly designed and consistently applied in accordance with SERS' policy and procedures and adheres to legal requirements.</p> <p>The audit focused on controls within the Member Services Department and included a review of:</p> <ul style="list-style-type: none"> • Survivor Benefits approval process • Processing and payment of survivor benefits • Monitoring • Communication 	Not applicable.
Comments: Controls for survivor benefits were operating effectively to achieve business objectives.			
Undue Influence (August 2024)	Low	<p><u>All Departments</u> Independently verify key SERS staff performed their job duties in good faith according to SERS' policies and reaffirm no one had attempted to coerce their work or influence their job performance.</p>	Not applicable.
Comments: The CAO and ERM Officer reviewed the submitted undue influence forms and determined they were properly filed with no instances reported on the forms submitted.			
Investment Incentive Compensation Review (October 2024)	Low	<p><u>Investments Department and Enterprise Risk Management</u> Evaluate controls and payments associated with the FY2024 Investment Incentive Compensation Plan.</p>	Not applicable
Comments: The investment incentive plan appears supportive of the Board's intent to reinforce a performance philosophy to attract and retain high-quality talent within Investments. The Chief Risk Officer was effective in completing the calculations in an accurate manner with supporting documentation. There were no calculation errors identified during testing.			

ORSC Annual Audit Committee Report – Completed Closed Audits: No Recommendations (Cont.)



Audit Area	Risk Rating	Scope	Management's Response
Conflicts of Interest Compliance Review (November 2024)	Low	<p><u>Investments Department and Investment Compliance</u> Review disclosures by Investments staff and external investment service providers for conflicts of interest compliance. Review included:</p> <ul style="list-style-type: none"> • Investment staff certification • Financial Disclosure Statement • Professional Conduct Statement • Investment Manager Agreement • Required Annual Disclosure Form 	Not applicable.
Comments: Reviewed SERS' Investments staff disclosures and external investment service providers. No exceptions identified.			

Active Audits: As of December 2024

Audit Area	Risk Rating	Scope	Target Completion
IT Infrastructure	Mod	Review of IT infrastructure updates from the past two fiscal years.	June 2025

ORSC Annual Audit Committee Report – Other Audit Related Activity



Area	Risk Rating	Subject/Project	Description
Disaster Recovery/Cloud Migration	Mod	Disaster Recovery	The CAO provided consulting services related to the ongoing assessment of disaster recovery/cloud migration. This is a continuation of a process that began with an outsourced review, managed by Internal Audit, of SERS' disaster recovery strategies.
Pharmacy Audit	Mod	Benefits	SERS engaged an external consultant to conduct bi-annual audits of its pharmacy benefit manager to determine overall claims processing accuracy and efficiency and to identify opportunities for improved administration. Internal Audit provided consulting services related to the audit.
Medical Claims Audit	Mod	Benefits	SERS engaged an external consultant to conduct a bi-annual audit of its medical claims administrator to determine overall claims processing accuracy and efficiency and to identify opportunities for improved administration. Internal Audit provided consulting services related to the audit.
Risk Management	N/A	Strategic Plan	Internal Audit provided ongoing consulting into the development and implementation of SERS' risk management program and practices, as identified in audit reports and SERS' FY2020-24 Strategic Plan.
External Audit	N/A	Financial Statements	External auditors provided all required written communication and verbal updates on the audit of the annual financial statements to the Audit Committee and Board.
Committee Report	N/A	CY2024 Annual Report	Pursuant to R.C. 3309.044, a report of actions taken by the Audit Committee of the SERS' Retirement Board for calendar year 2024.
Internal Audit Annual Plan	N/A	FY2025 Plan	The FY25 Internal Audit Plan was approved by the SERS Audit Committee June 2024.
Merit Increases	Low	Payroll	Reviewed FY24 annual merit increases.
Penetration Testing	Low	Information Security	Consulting with Risk Management related to penetration testing.
Comment Remediation	N/A	Issued Audit Comments	Perform audit remediation activities involving internal, external, and other audit comments.
Financial Reporting	N/A	Financial Statement Controls	The Chief Financial Officer regularly provides updates to the Committee on financial reporting processes, changes in accounting and financial reporting standards, comprehensive annual financial report overview, processes in place to limit material control weaknesses and fraud, and periodic updates on activities involving external auditors or other oversight entities.
Internal Audit Operations	N/A	Internal Audit Quality Assurance	Internal Audit consists of one employee, a Chief Audit Officer (CAO). The CAO continues to maintain quality within audit practices to maintain conformance with IIA <i>Standards</i> . Audit activities include: <ul style="list-style-type: none"> Updated Internal Audit Operations Manual, Audit Committee and Internal Audit Charters, and standard work paper forms. Completed CAO annual goals aimed at improving audit effectiveness, plan completion, coordination, and collaboration. The CAO performed a comprehensive self-assessment of internal audit operations.



Recently Completed Audits and Other Activities



Recently Completed Audits and Other Activities



- Three audits/projects completed since the last committee meeting:
 - Undue Influence (Attachment A)
 - Investment Incentive Compensation (Attachment B)
 - Conflict of Interest (Attachment C)



Q & A



ITEM 6.

RESOLUTION FOR EXECUTIVE SESSION

(Personnel Matter)

ITEM 6.

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>
Catherine Moss	_____	_____	_____
Aimee Russell	_____	_____	_____
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.

James Rossler, Audit Committee Chair



Internal Audit Department

Attachment A

To: SERS Audit Committee, Board of Trustees

cc: Richard Stensrud, Executive Director
Karen Roggenkamp, Deputy Executive Director
Joe Marotta, General Counsel

From: Jeffrey Davis, Chief Audit Officer

Date: August 14, 2024

Re: FY24 Undue Influence Certification Report – Compliance Review

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 FY2025 Internal Audit Plan. The time period examined was FY2024 (July 1, 2023 – June 30, 2024).

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

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 13, 2024. If any personnel resign from SERS during the fiscal year, they are asked to review and sign the undue influence form as part of the off-boarding process.

To reduce the potential for undue influence on the Chief Audit Officer, the Enterprise Risk Management Officer separately reviewed the completed forms. The Chief Risk Officer position is currently vacant.

Conclusion

The Chief Audit Officer and Enterprise Risk Management Officer reviewed the submitted undue influence forms and determined they were properly filed with no instances reported on the 28 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, 2023 through June 30, 2024, 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: _____



Internal Audit Department

To: SERS Audit Committee, Board of Trustees

cc: Richard Stensrud, Executive Director
Karen Roggenkamp, Deputy Executive Director
Farouki Majeed, Chief Investment Officer
Joe Marotta, General Counsel
Stacy Easterday, Assistant Director, Finance

From: Jeff Davis, Chief Audit Officer

Date: October 22, 2024

Re: Investment Incentive Compensation Plan - Compliance Review

Background

SERS offers an incentive compensation plan to Investment Department staff. The purpose of the Staff Incentive Plan (“Plan”) is to provide a compensation package that allows SERS to recruit and retain talent in the Investment Department that is necessary to maximize investment returns. The objectives of the Plan are to:

- a. Reinforce a performance philosophy.
- b. Attract and retain high quality talent.

Multiple tiers of participation exist within the Plan which cover the following job classifications and offer the following opportunities by level (% applied to base salary):

JOB TITLES	MAXIMUM DISTRIBUTION (50 bps or greater)
I. Chief Investment Officer	90%
II. Assistant Director	60%
III. Senior Investment Officer / Investment Officer	60%
IV. Associate Investment Officer / Senior Investment Analyst	30%
V. Investment Analyst	10%



Internal Audit Department

In order to be eligible to receive incentive compensation, a participant must meet performance expectations (including goals and competencies) on the most recent SERS annual performance evaluation, and the fund must meet certain performance standards. A participant who fails to achieve an overall rating of “Expected Performance” on the annual performance evaluation will be ineligible for incentive compensation for the corresponding year of the evaluation, as will a participant who is no longer in good standing at SERS at the time the incentive compensation is paid.

The Plan will be funded if the Investment Department achieves positive net of fees investment returns in excess of the benchmark established by the Board on the overall fund or specific asset classes. Incentive plan participants are eligible to earn payment percentages of base salary dependent on achieving a combination of individual and department performance goals. Individual performance goals are weighted differently based upon their position. An employee’s allocation may vary based upon their designated responsibilities or time worked within a particular asset class.

For purposes of this Plan, the maximum performance goal is 50 basis points over the Board-approved benchmark. If the total fund’s total return (net of fees) in the current fiscal year is negative (less than 0%) then the total incentive compensation will be ratably reduced. Additionally, if the five-year annualized return of the total fund (net of fees) is less than the actuarial assumed rate of return (7.0% during 2024), the total incentive compensation for each incentive-eligible employee will be reduced by 10%.

In order to be compensated under this Plan, a participant must be employed and considered an active employee on the date the incentive compensation is paid. If a participant terminates from SERS for any reason other than death, disability, or normal retirement prior to the date of the incentive payment, that employee is ineligible to receive compensation under the Plan. If a participant terminates from SERS for reasons of death, permanent or total disability, or normal retirement, then pro-rata compensation is payable for the period of time the participant was employed based on the number of whole months worked during the performance period divided by twelve months.

SERS’ external performance and analytics consultant (BNY Mellon) determines the extent to which the Fund’s performance targets have been met. This data is additionally verified by SERS’ Investment Accounting department. Specifically, performance targets are linked to achieving benchmark targets for individual asset class or overall fund benchmark targets (established by the Board) less investment manager fees.



Internal Audit Department

The Plan funding amount is calculated on the number, level, and salaries of eligible participants in the Plan as of July 1 of the fiscal year in which the incentive is earned. Mid-year changes for new hires or salary adjustments receive a pro-rata allocation based on the date of change.

The Finance Assistant Director, Financial Accounting, verifies the abovementioned information with Administrative Services and prepares the investment incentive compensation calculations. The Chief Audit Officer reviews the calculations before and after incentive compensation earnings are approved by the Executive Director and Finance Assistant Director, Financial Accounting.

Scope and Objectives

The objective of the audit was to evaluate the payment accuracy and completeness associated with the 2024 Investment Incentive Compensation plan. The performance period for purposes of the Plan coincide with SERS' fiscal year 2024 (July 1, 2023 through June 30, 2024).

Procedures

Compliance with the incentive payment plan policy is tested by Internal Audit to include:

- Review SERS' May 18, 2023, Board-approved Investment Department Incentive Plans.
- Review SERS Board's Statement of Investment Policy to include the identification of benchmark measures and asset class allocation strategies.
- Hold in-person engagement planning meeting and periodic status update discussions with Finance.
- Obtain BNY Mellon's June 30, 2024, Individual and Total Fund Summary Report by Asset Class, Net of Manager Fees.
- Obtain SERS' Investment Accounting Division's statement of Certification of SERS' Returns and Benchmarks for fiscal year 2024.
- Obtain relevant information relating to each employee eligible for an incentive award from Administrative Services.
- Obtain from Administrative Services the individual's annual performance ratings and review against the overall eligibility criteria of meets expectations.
- Obtain incentive award calculations completed by Finance.



Internal Audit Department

- Recalculate investment performance returns at the total fund, asset class, and/or portfolio levels.
- Verify individual incentive compensation award calculations and compliance with SERS' incentive compensation plan.
- Compare the investment performance returns used for the award calculations to records prepared by BNY Mellon and/or SERS.
- Compare interim calculations to final computation sheet signed by the Executive Director and Finance.

Internal Audit did not evaluate the adequacy of the Plan. However, Funston Advisory Services (FAS) issued a report in 2013 based on their fiduciary review of SERS' Investment Incentive Plan. This report indicated the purpose of the policy 'to recruit and retain the appropriate investment management talent' is fully consistent with the Board's objective to achieve or exceed investment performance objectives.

FAS further indicated a concurrent review of the incentive plan should be conducted by the Chief Audit Officer. This compliance review provides the Board assurance the intent and operation of the plan remains consistent with overall Fund investment objectives.

Observations

Observations regarding the process, interview, and test results:

- **Policy:** Investment Incentive Plan appears to be aligned with Board goals.
- **Incentive Calculations:** The calculation formula involves a degree of complexity and the Finance Assistant Director, Financial Accounting, maintained a very detailed spreadsheet with supportive records for calculations.
 - *Finance staff were effective in completing the calculations in an accurate manner with supporting documentation. There were no calculation errors identified during testing.*
 - *SERS' five-year annualized return of the total fund (net of fees) on June 30, 2024 was 8.88%. This rate exceeded the actuarial assumed rate of return (7.0% during 2024).*
 - *The CIO and all investment officers met the eligibility requirements of the plan based on their annual job performance evaluation.*
 - *SERS' total fund's total return (net of fees) in the current fiscal year was 9.69%.*



Internal Audit Department

Conclusion

The investment incentive plan appears supportive of the Board's intent to reinforce a performance philosophy and attract and retain high quality talent within Investments. Performance incentive calculations were properly computed. Please contact me if you have any questions regarding this compliance report.



Internal Audit Department

Attachment C

To: SERS Audit Committee, Board of Trustees

cc: Richard Stensrud, Executive Director
Karen Roggenkamp, Deputy Executive Director
Farouki Majeed, Chief Investment Officer
Joe Marotta, General Counsel
Colette Barricks, Chief Risk Officer
Katie Swank, Investment Operations Manager

From: Jeff Davis, Chief Audit Officer

Date: November 4, 2024

Re: 2024 Investment Conflicts of Interest - Compliance Review

Background

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

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

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

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

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

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



Internal Audit Department

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

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

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

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

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

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

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

Scope and Objectives

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

This review is an annual project based on the FY2025 audit plan. The time period examined for Investment staff was FY2024 (July 2023 – June 2024). The period reviewed for investment service providers (private managers, public managers and vendors) was January 1 through December 31, 2023. In FY23 a change was made to the reporting requirements to have all managers file disclosures based on a calendar year.



Internal Audit Department

SERS' Investment staff completed all forms and submitted them to the Chief Audit Officer on July 10, 2024. SERS' investment service providers submitted their RAD forms for both public and private managers and vendors to the Risk Management and Compliance Analyst.

Procedures

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

a. Annual Investment Staff Certification (INV-7007)

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

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

b. Financial Disclosure Statement filed with the Ohio Ethics Commission

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

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

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

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

- They are not the subject of a written complaint regarding their professional conduct in either a direct or supervisory capacity;
- They have not been the subject of, a defendant in, or respondent to any investigation, civil litigation, arbitration, or other action or proceeding in which their professional conduct, in either a direct or supervisory capacity, was at issue;



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

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

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

Description: Contracts require external investment service providers to annually certify, via the RAD forms, whether any actual, potential, or perceived conflicts of interest exist. SERS' Risk Management and Compliance Analyst maintains control over the mailing, receipt, review, and follow-up processes involving the RAD forms for 98 investment service providers (42 public managers and vendors; 56 private managers).

Audit Procedure: Internal Audit met with the Risk Management and Compliance Analyst to confirm the process for monitoring RAD forms. Internal Audit reviewed the process and sampled five RAD forms to ensure:

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



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Sufficient policies document the Investment Manager Annual Disclosure process. All RAD forms, with the exception of one firm, for FY22-23 were submitted at the time of this audit and those tested were properly reported and did not identify any potential conflicts of interest. The Risk Management and Compliance Analyst provided adequate evidence of review of the 2023-24 RAD forms and effectively reported the results in an annual memo to the CIO and Executive Director on June 5, 2024.

Observations

Observations regarding the process, interview, and test results:

- **Contract Requirements:** Conflicts of interest language appears to be effective and consistently applied to new and existing contracts.
- **Investment Manager Agreement:** Contract terms and form contains sufficient requirements defining conflicts of interest circumstances and notification protocol for violations.
- **Required Annual Disclosure Form:** Requesting and tracking process for RAD forms appears to be well-developed, consistently submitted, and effective in identifying and addressing potential conflicts of interest.
- **Policies and Procedures:** Detailed operating procedures adequately define the investment manager annual disclosure process and controls. The Risk Management and Compliance Analyst verifies information received from investment service providers is consistent with data reported to the SEC or other SERS-internally generated information.
- **Communication:** Required Annual Disclosure forms may contain confidential records. The Risk Management and Compliance Analyst's communication to investment managers provides varied levels of secure transmission depending on the client's preference.
- **Reporting:** The *Annual Disclosures of Conflicts of Interest by Investment Managers and Vendors* memo was completed June 5, 2024. Any issues during the year are communicated in real time to the CIO and/or the responsible SERS' investment manager.
- **Documentary Evidence:** A spreadsheet is used to document and track the receipt of all RAD forms and resolution of any potential conflicts of interest reported by investment service providers. Documentation evidencing management's review and resolution of reported matters was adequately prepared for 2023-24.



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Conclusion

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

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

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

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