



**SERS Retirement Board Audit Committee
Regular Meeting Agenda
September 15, 2021
2:30 P.M.**

Click Link to Join Zoom Meeting:

<https://ohsers.zoom.us/j/93646890496?pwd=cS9QVHFzLzFubnl1RjNOLzIRbDExQT09>

Meeting ID: 936 4689 0496

Password: 644276

To join by phone, dial: (929) 205-6099 and enter the meeting ID: **936 4689 0496** and password: **644276** when prompted.

1. Roll call
2. Approval of **June 16, 2021** Minutes (R)
3. FY21 External Audit Update
4. Internal Audit Update: Chief Audit Officer's Report
 - o Q1 Update on the FY2022 Audit Plan
 - o Quality Assessment Review
 - o Recently Completed Audits and 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 (R)

SCHOOL EMPLOYEES RETIREMENT SYSTEM

AUDIT COMMITTEE

September 15, 2021

2:30 P.M.

Roll Call:

Barbra Phillips	_____
Catherine Moss	_____
James Rossler	_____

Guests in Attendance:

**APPROVAL OF MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON
JUNE 16, 2021**

_____ moved and _____ seconded the motion to approve the minutes of the Audit Committee meeting held on June 16, 2021.

Upon roll call, the vote was as follows:

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

School Employees Retirement System		AUDIT COMMITTEE MINUTES	
Preparer	Vatina Gray	Meeting Date:	June 16, 2021
Committee Chair	Barbra Phillips	<p>Committee roll call was as follows: Barbra Phillips, Catherine Moss and James Rossler</p> <p>Guests in Attendance: None</p> <p>Also in Attendance: Sam Peppers, Representative of the Attorney General SERS Staff Members: Jeff Davis, Vatina Gray, Joe Marotta, Richard Stensrud, Karen Roggenkamp, and other members of the public.</p>	
Agenda	<ol style="list-style-type: none"> 1. Roll call (R) 2. Approval of minutes (R) 3. FY21 External Audit Update 4. Chief Audit Officer's Report <ul style="list-style-type: none"> o Q3 Update on the FY2021 Audit Plan o External review of disaster recovery o Status of Audit Recommendations o FY22 Audit Planning and Recently Completed Audits o Other Activities 5. Review and Approve FY22 Internal Audit Plan (R) 6. Annual Confirmation of Internal Audit Independence 7. Executive session pursuant to R.C. 121.22 (G) (1) to consider the employment and compensation of a public employee (R) 8. Approve Chief Audit Officer's Goals (R) 9. Audit committee requests and follow-up items 10. Adjournment 		
Discussion	<p>The meeting began in open session at 2:32 p.m.</p> <p><u>Roll Call</u> The SERS regular Audit committee began with a roll call. The committee roll call was as follows: Barbra Phillips, Catherine Moss and James Rossler. Also in attendance was Sam Peppers, Representative of the Attorney General, SERS Staff Members: Jeff Davis, Joe Marotta, Richard Stensrud, Karen Roggenkamp, Vatina Gray, and other members of the public.</p> <p><u>Approval of Minutes</u> Catherine Moss moved and James Rossler seconded the motion to approve the minutes of the Audit Committee meeting held on March 17, 2021. Upon roll call, the vote was as follows: Yea: Barbra Phillips, and James Rossler. Abstain: Catherine Moss. The motion carried.</p> <p><u>External Audit Update</u> Tracy Valentino, SERS Chief Financial Officer, opened the presentations with a report on the external audit. RSM, SERS' external auditor, performed a remote audit this year but will be back onsite this fall. RMS reported SERS' audit was one of the best they have done remotely, better than other clients. Auditor of State stated SERS is not required to file separate investment reports for the state. SERS must still complete the work but no</p>		

	<p>submission to the state is required. This will save SERS money with the amount to be determined in the coming weeks.</p> <p>Ms. Valentino assured the committee that the auditors had the full access they needed even during the remote audit, but they will return onsite soon.</p> <p>Richard Stensrud, SERS Executive Director, stated the auditors took a deeper look at the SERS actuaries. The auditor's job is to look at the assumptions and confirm the results of the actuary studies are reliable. Not every pension system does this deep review. SERS' audit firm, RSM, has an on-staff actuary that reviews actuarial assumptions every year. The actuary and the auditor challenge each other.</p> <p>Ms. Valentino reported this is RSM's ninth year working with SERS and their ten-year contract term is ending soon. RSM originally received a 5-year contract and one option to renew. The auditor of state will issue an RFP on SERS behalf and SERS will have a new external auditor next year. The committee thanked Ms. Valentino for her report.</p> <p><u>Chief Audit Officers Report</u></p> <p>Jeffrey Davis, SERS Chief Audit Officer, provided a presentation on the status of his FY2021 audits. Mr. Davis reviewed several audits that took place this fiscal year and items that have started but have not been completed. Mr. Davis stated FY22 Audit Planning will kick off in May and June of 2021. Mr. Davis has had several meetings regarding planning activities and has performed an independent assessment.</p> <p>Mr. Davis reported 1400 audit hours are spent on 16 projects. Mr. Davis also reviewed several projects slated for FY22 such as a Disaster Recovery Plan Review with Expedient and ERM. Mr. Davis also reported on the potential for increased costs by moving SERS to the cloud-based system. Mr. Davis reported on the next steps which will include the SERS Technology Committee reviewing items and requesting an RFP for cloud management services. The plan is for the Audit and Technology Committees to work together to make these critical decisions for SERS.</p> <p>The SERS Audit Committee agrees that this is a sustainability issue and fully supports moving quickly to resolve any vulnerabilities. Mr. Davis completed an Internal Audit Charter Review and found no changes needed for FY2022. Mr. Davis already reported the audit recommendations are moving forward and are in a good place. Mr. Davis also completed a Quality Assessment Review and SERS is in good shape. Mr. Davis stated audit processes allows SERS to prove we are doing the right things. The committee thanked Mr. Davis for the presentation and all his hard work through the pandemic.</p> <p>Mr. Davis completed a Confirmation of Independence and Objectivity Form and certified that he is not aware of any circumstances that may impair, or that may lead others to question (his) independence or objectivity as Chief Audit Officer.</p> <p>Catherine Moss moved and James Rossler seconded the motion that the FY2022 Internal Audit Plan, as discussed at the June 2021 Audit Committee meeting be approved. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss, and James Rossler. The motion carried.</p>
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	<p><u>Executive session pursuant to R.C. 121.22 (G) (6) to discuss the employment and compensation of a public employee (R)</u></p> <p>At 3:23 p.m. James Rossler moved and Catherine Moss seconded the motion that the Audit Committee convene in Executive Session pursuant to R.C. 121.22 (G) (6) to discuss the employment and compensation of a public employee. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss, and James Rossler. The motion carried.</p> <p>The committee returned to open session at 3:47 p.m.</p> <p>It was moved by Catherine Moss and seconded by James Rossler to approve the Chief Audit Officer's goals for FY2022. Upon roll, call the vote was as follows: Yea: Barbra Phillips, Catherine Moss, and James Rossler. The motion carried.</p> <p>It was moved by James Rossler and seconded by Catherine Moss to recommend to the Board that Chief Audit Officer Jeff Davis receive a 2% merit increase in salary effective the first pay date in fiscal year 2022. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss, and James Rossler. The motion carried.</p> <p><u>Audit Committee Requests and Follow Up Items</u></p> <p>There were no requests or follow up items discussed.</p> <p>The meeting adjourned at 3:52 p.m.</p>		
	Action Items	Assigned Person	Due Date
Action Items	n/a		
Agenda for Next Meeting			

FY21 EXTERNAL AUDIT UPDATE



Internal Audit Update

September 2021

Jeff Davis, CAO – Internal Audit

Agenda



- Status of FY22 Internal Audit Plan
- Quality Assurance and Improvement Plan
- Recently Completed Audits and Other Activities

FY22 Audit Plan Status



Internal Audit Update – September 2021



FY22 Audit Plan Status:

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

Internal Audit Update – September 2021



FY22 Audit Plan Status (Continued):

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

Quality Assurance and Improvement Program (QAIP)



Quality Assurance and Improvement Program (QAIP)

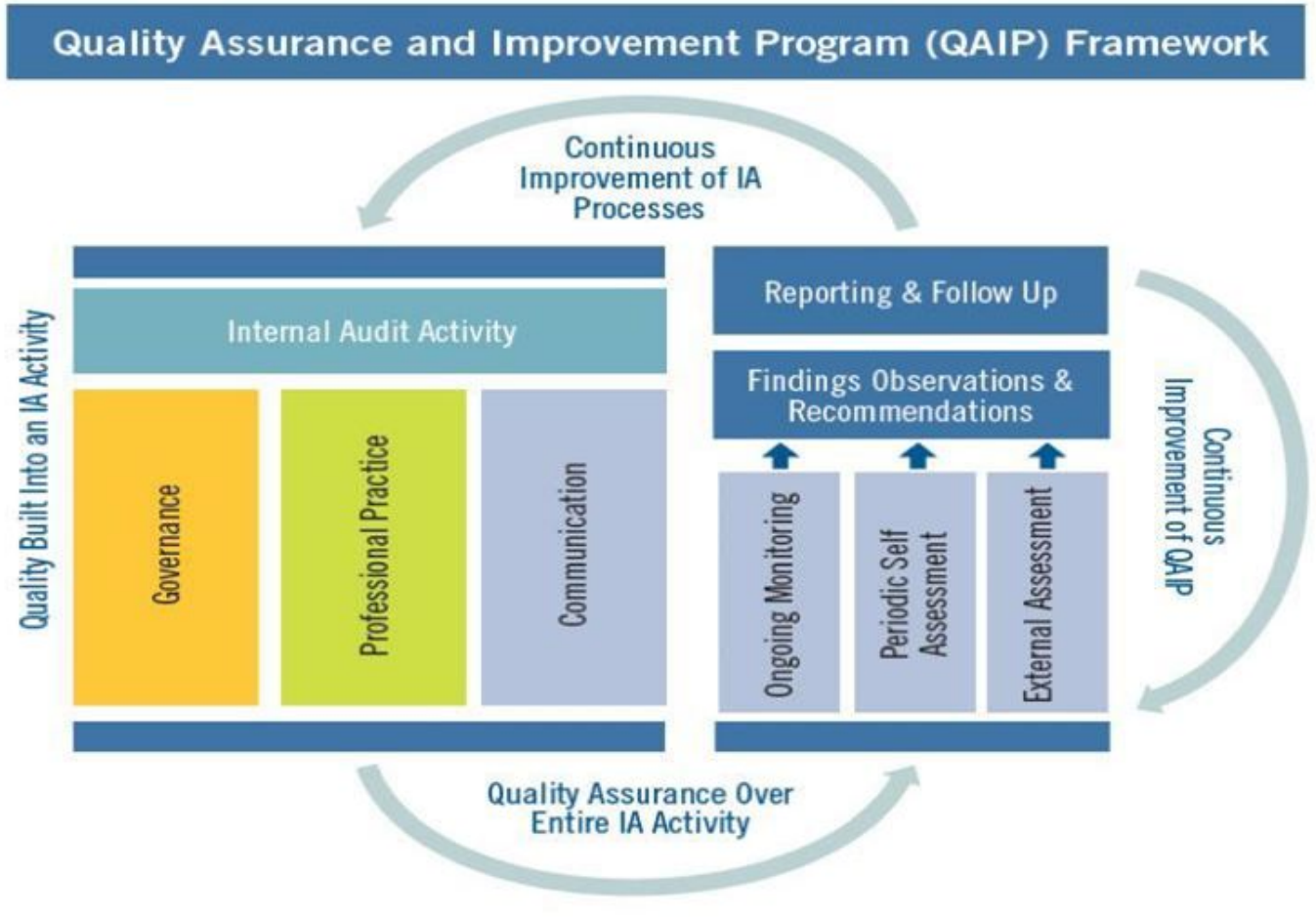


What is a Quality Assurance and Improvement Program?

As defined by the Institute of Internal Auditors:

- Incorporates both internal and external assessments of the department.
- Internal assessment comprised of ongoing monitoring and periodic self-assessments – required annually.
- External Assessments are required every five years – SERS' last assessment was in 2017.

Quality Assurance and Improvement Program (QAIP)



Quality Assurance and Improvement Program (QAIP)



2017 External Quality Assurance Review Results:

- The external evaluator confirmed that the department generally conforms to the International Standards for the Professional Practice of Internal Auditing.
- Corrective action was implemented for all recommendations proposed for the Internal Audit office.

Quality Assurance and Improvement Program (QAIP)



FY22 Review - CAO performed an internal self assessment of current audit practices. The assessment included the following:

- CAO obtained the most recent IIA quality assessment manual.
- Each area of the IIA audit standards was compared to current IA practices.
- IA practices were documented and supporting documents gathered to support conclusions.
- IA report template, audit program template, IA Operations Manual, etc. were reviewed and updated as needed.

Quality Assurance and Improvement Program (QAIP)



On-going Monitoring processes:

- Monitoring Audits – progress is tracked for each audit/consulting activity - CAO maintains a spreadsheet to track hours used and to ensure audits are completed within the budgeted hours.
- Audit status is reported to the Audit Committee quarterly
- Customer feedback is obtained at the conclusion of each audit engagement.
- Follow-up – disposition of high risk and moderate audit recommendations are followed up until resolved.

Quality Assurance and Improvement Program (QAIP)



Periodic Assessments:

- Annual Governance Review – The charter for the Audit Committee is reviewed annually with the committee and updated as needed - charter was reviewed with the committee at the June 2021 meeting.
- The IA Charter is current and was reviewed by the committee in June.
- Annual Workpaper Review – Audit workpapers are reviewed by the CAO to ensure work is performed in accordance with IIA standards and to identify potential improvements.
- IA Operations Manual was reviewed and updated.

Quality Assurance and Improvement Program (QAIP)



Periodic Assessments (Continued):

- The CAO evaluation is completed annually by the Audit Committee.
- The job description for the CAO has been reviewed and is current.
- CAO goals are discussed at each Audit Committee meeting.
- Professional Development and Training – CAO receives at least 40 hours of continuing professional development annually – each training opportunity approved by the audit committee.

Quality Assurance and Improvement Program (QAIP)



Results:

- Confirmation that Department of Internal Audit is independent - CAO reports functionally to the Audit Committee; and Administratively to the Executive Director.
- Work is performed in accordance with IIA Standards
- The Audit Committee charter and IA Charter are current.
- IA workpapers, operations manual, and other practices comply with IIA standards.
- Internal Audit has maintained professional independence from management.

Recently Completed Audits and Other Activities



Recently Completed Audits and Other Activities



- Three audits completed since the last committee meeting
 - Capital Call and Distributions, Undue Influence, and Investment Incentive Compensation reports are attached.
- Continued involvement with disaster recovery/cloud migration
 - RFP issued by management - responses by September 10th.
 - CAO will be involved with RFP review process and as a consultant on internal controls.



Q & A

EXECUTIVE SESSION

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

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

Upon roll call, the vote was as follows:

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

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

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

CAPITAL CALLS AND DISTRIBUTIONS AUDIT
July 2021
 SERS Internal Audit Department

Business Objectives

Ensure that the capital calls and distributions process is properly designed and consistently processed in accordance with SERS' policy and procedures and adheres to legal requirements.

Business Risks

- Ineffective or noncompliance with policies/procedures
- Unauthorized or fictitious capital call/distribution
- Distribution not made timely
- Not properly authorized
- Distribution of the wrong amount
- Failure to protect sensitive data
- Supervisor review/independent audit not occurring to prevent errors or irregularities
- Improper record retention
- Failure to notify the Ohio Treasurer of State

Management Controls (Bold = Tested)

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

Recommended Actions

There were no high or moderate risk observations reported.

Management Responses

No response required.

Results Summary

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

Objective	Conclusion
Capital Calls and Distributions	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

July 6, 2021

Audit Committee, Board of Trustees
Richard Stensrud, Executive Director
Karen Roggenkamp, Assistant Executive Director
Farouki Majeed, Chief Investment Officer
Tracey Valentino, Chief Financial Officer
Joe Bell, Chief Risk Officer

EXECUTIVE SUMMARY

Internal Audit has completed the audit of **Capital Calls and Distributions**, as included in the *Fiscal Year 2021 Audit Plan*. The business objective related to capital calls was to ensure the capital call and distribution process was properly designed and consistently processed in accordance with SERS' policy and procedures.

Based on audit results, Internal Audit (IA) determined that overall management controls for SERS' capital calls and distributions process was operating effectively to achieve the business objective. Internal Audit did not identify any high or moderate risk audit observations requiring near-term attention.

In the performance of the audit, no other reportable matters were identified and reported as low risk or process improvement opportunities.

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

POSITIVE RESULTS

Personnel responsible for processing capital call requests are very knowledgeable of the requirements for capital calls and distributions. The workflow process is well defined and adequately describe the internal controls for processing capital calls.

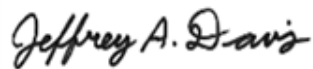
Proper supporting evidence and controls were in place and operating effectively during the audit period (January 1, 2020 – March 31, 2021). Audit results were validated through inquiry, observation, and sample testing of capital calls and distributions to verify segregation of duties and proper authorization. Tests of capital call and distribution transactions identified no exceptions.

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

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

- Stacy Easterday, Sr. Manager – Financial Accounting
- Terri Martin, Investment Business Administrator
- Katie Swank, Senior Administrative Assistant - Investments
- Katie Bloomfield, Investment Compliance Analyst

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



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

BACKGROUND

SERS enters into agreements with private investment managers for investment services. The contract states the total amount committed and any specified fees which are paid based on a call for capital. Capital calls are requested in increments. The capital call and distribution process results in a significant sum of distributions to investment firms. Based on Internal Audit's analysis of data provided by Finance, capital call distributions during the audit period were as follows:

Calendar Year	Total Capital Call Distributions	Count
2020	\$ 692,451,738	234
2021 *	\$ <u>91,631,514</u>	<u>46</u>
Total:	\$ 784,083,252	280

* As of March 31, 2021

The processing of capital calls and distributions is a shared responsibility of the Investment, Enterprise Risk management and Finance departments.

IA focused on evaluating the capital call workflow process and the associated internal controls. Key internal controls included segregation of duties, system access controls, and management review and approval.

POLICY, PROCEDURE, AND COMPLIANCE REQUIREMENTS (EXCERPTS)

A. Capital Call Workflow

- *Capital calls are received by mail, email, or fax.*
- *An Investment Officer provides the Investment Operations specialist with the capital call request.*
- *Legal documents must be sent to the Ohio Treasurer of State before processing the first capital call.*
- *The Investment Officer in charge of cash is notified that an approval for payment has started.*
- *Capital call memo is prepared from an existing capital call template.*
- *The wire instructions are added to the capital call memo.*
- *The capital memo is loaded into ImageNow which starts the capital call workflow.*
- *The capital call memo is routed to the appropriate investment officer.*
- *The ImageNow workflow routes from the Investment Officer to the Investment Compliance Analyst to the Chief Finance Officer and the Chief Investment Officer for approval*
- *The Investment Compliance Analyst verifies the wire instructions.*
- *The memo continues to be routed until all required approvals have occurred.*
- *The Investment Capital Call workflow completes and sends the executed capital call memo and supporting capital call document to Investment Accounting department (IAD) for payment.*

BUSINESS OBJECTIVES, RISKS, AND CONTROLS

For the audit of capital calls and distributions, 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 capital calls and distributions process is 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"> • Ineffective or noncompliance with policies/procedures • Unauthorized or fictitious capital call/distribution • Distributions not made timely • Payments not properly authorized • Distribution of the wrong amount • Failure to protect sensitive data 	<ul style="list-style-type: none"> • Supervisor review/independent audit not occurring to prevent errors or irregularities • Improper record retention • Failure to notify the Ohio Treasurer of State
Management Controls (Bold = Tested)	<ul style="list-style-type: none"> • Written policies/procedures • Defined authorization process • Document reviews & recalculations • Segregation of duties • Management oversight & monitoring • System Access Controls 	<ul style="list-style-type: none"> • 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	➤ Ensure capital calls and distributions are properly processed, approved, and based on a valid capital call request.
Audit Scope	<p>Scope/Key Processes: This capital calls/distributions audit focused on the controls associated with receiving, processing, approving and distribution of a capital call. The audit included a review of governance, risk management, and internal control design and effectiveness for:</p> <ol style="list-style-type: none"> 1. Receiving a capital call request 2. Workflow and controls associated with the approval of the capital call 3. Payment of the capital call and accounting 4. Management review

	<p>Audit Period: January 1, 2020 – March 31, 2021</p> <p>Transactional volume from Finance data included:</p> <p>Capital Calls Paid in the audit period:</p> <ul style="list-style-type: none"> ➤ 280 capital calls totaling \$784M
Audit Methodology	<p>IA's methodology included obtaining information on management's business objective and risks and focused on key processes and monitoring controls management has established to address significant risks. To meet the audit objectives, IA specifically performed the following procedures:</p> <ul style="list-style-type: none"> ➤ Reviewed compliance requirements, policies and procedures ➤ Conducted interviews/walkthroughs with management and key staff members ➤ Documented understanding of key risks and controls ➤ Performed tests of controls from a judgmental selection of capital calls from the audit period
Audit Conclusion	<p>Internal Audit determined overall management controls for SERS' capital calls and distributions 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.



Internal Audit Department

Attachment B

To: SERS Audit Committee, Board of Trustees

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

From: Jeffrey Davis, Chief Audit Officer

Date: July 28, 2021

Re: FY21 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 FY2022 Internal Audit Plan. The time period examined was FY2021 (July 1, 2020 – June 30, 2021).

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

Attachment B

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 July 28, 2021. The form for one former employee was also provided by Administrative Services. The form was completed by the employee as part of the off-boarding process.

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

Conclusion

The CAO and Chief Risk Officer reviewed the submitted undue influence forms and determined they were properly filed with no instances reported on the 27 forms submitted.

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



Internal Audit Department

Attachment B

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, 2020 through June 30, 2021, 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
Joe Bell, Chief Risk Officer

From: Jeff Davis, Chief Audit Officer

Date: August 30, 2021

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 (7.5% during 2021), 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.



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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 Chief Risk Officer 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 Chief Risk Officer.

Scope and Objectives

The objective of the audit was to evaluate the payment accuracy and completeness associated with the 2021 Investment Incentive Compensation plan. The performance period for purposes of the Plan coincide with SERS' fiscal year 2021 (July 1, 2020 through June 30, 2021).

Procedures

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

- Review SERS' May 21, 2020 (amended), 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 the Chief Risk Officer.
- Obtain BNY Mellon's June 30, 2021, 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 2021.
- Obtain relevant information relating to each employee eligible for an incentive award from Administrative Services.
- Obtain from supervisors the individual's annual performance ratings and review against the overall eligibility criteria of meets expectations.
- Obtain incentive award calculations completed by the Chief Risk Officer.
- Recalculate investment performance returns at the total fund, asset class, and/or portfolio levels.



Internal Audit Department

- 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 Chief Risk Officer.

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 Chief Risk Officer maintained a very detailed spreadsheet with supportive records for calculations.
 - *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.*
 - *SERS' five-year annualized return of the total fund (net of fees) on June 30, 2021 was 11.45%. This rate exceeded the actuarial assumed rate of return (7.5% during 2021).*

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 D

To: SERS Audit Committee, Board of Trustees

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

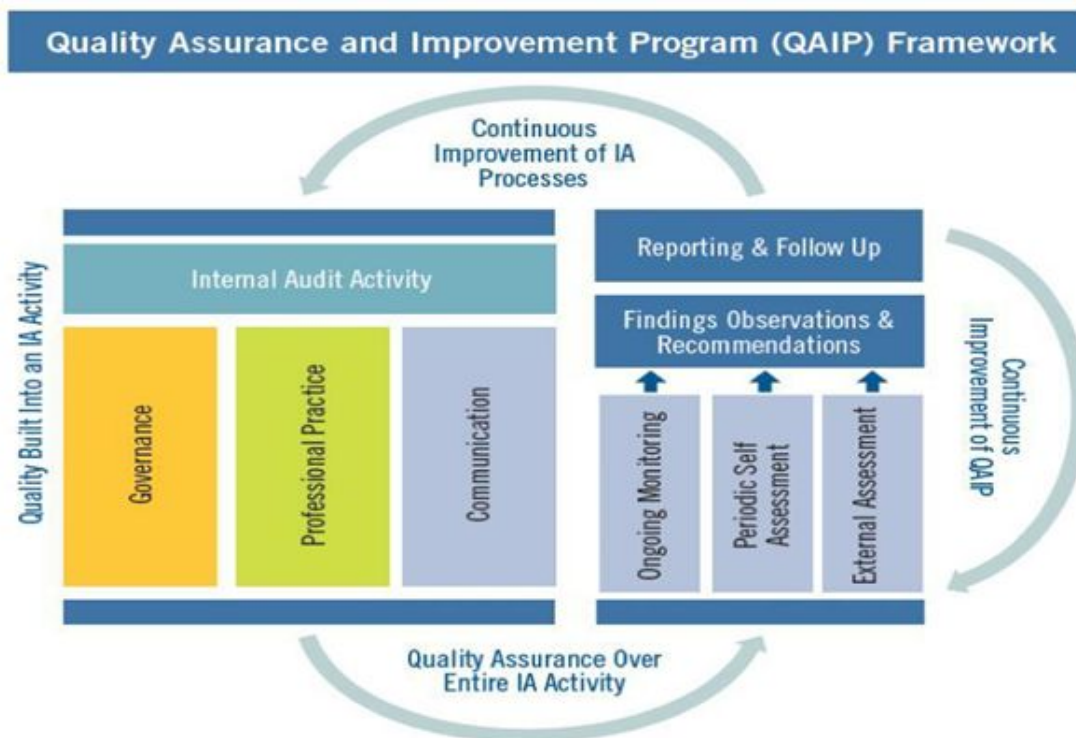
From: Jeff Davis, Chief Audit Officer

Date: September 7, 2021

Re: Internal Audit Quality Assurance and Improvement Program

IIA standards require the Chief Audit Officer (CAO) to annually report on the status of the quality assurance and improvement program (QAIP). This memo summarizes the details of the ongoing and periodic monitoring activities of the SERS Internal Audit Office (IA). A summary of the most recent external review that was completed in 2017 and the recommendations from that review are also provided.

The QAIP, as defined by the Institute of Internal Auditors (IIA), incorporates both internal and external assessments. SERS' last external assessment was in 2017. The internal assessment component of the QAIP includes ongoing monitoring and periodic self-assessments. The IIA chart below provides an overview of the framework.





Internal Audit Department

Attachment D

Ongoing Monitoring

The CAO performs tasks throughout the year that have an impact on quality. The following items are included:

- Monitoring Audits – progress is tracked for each audit/consulting activity. The CAO maintains a spreadsheet to track hours used and to ensure audits are completed within the budgeted hours.
- Customer feedback is requested at the conclusion of each audit engagement.
- Audit Planning – Audit planning is an ongoing process. The CAO considers potential modifications to the approved audit plan throughout the fiscal year as new information related to risks is identified.
- High and moderate risk recommendations issued by the office are tracked and corrective action monitored. A status report is provided to the Audit Committee quarterly for open recommendations.
- The CAO continually reviews processes to identify opportunities for improvement.
- The IA Operations Manual is utilized throughout the fiscal year and modifications are made as needed.

Periodic Monitoring

Other tasks are performed on a periodic basis (quarterly, annually). Periodic monitoring tasks are listed below:

- Annual self-assessment that compares current audit practices to the IIA standards.
- Annual Workpaper Review – A review of workpaper templates is conducted each year. Quality and efficiency improvements are considered, and modifications are made where appropriate.
- Audit Governance – The Audit Committee Charter and Internal Audit Charter are reviewed annually and discussed with the committee. The charters were reviewed during the June 2021 Audit Committee Meeting. No modifications were required.
- Audit plan status is reported to the audit committee quarterly.
- Job descriptions are reviewed annually. The CAO job description is current and does not require modification.
- Audit Management Review – The CAO receives an annual evaluation from the Audit Committee. The most recent was in June 2021.
- Professional Development and Training – Opportunities for professional development are provided to the CAO. All training opportunities are approved by the Audit Committee.
- CAO goals are reviewed and discussed quarterly with the Audit Committee.
- Audit Process/Scope Review – Annually the CAO reviews potential audit process/scope improvements. This typically happens in July/August of each year. However, potential improvements are considered throughout year.
- External Assessments – The office has an external assessment every 5 years. The next assessment will be in July/August 2022.
- The Audit Committee receives an annual QAIP update. Along with this memo, an update will be provided at the September 2021 committee meeting.



Internal Audit Department

Attachment D

Status of 2017 External Quality Assessment Recommendations

The most recent external quality assessment occurred in July 2017. All recommendations proposed by the firm performing the assessment, Plante Moran, were addressed by the CAO shortly after the review was completed. The recommendations issued and the status are summarized below:

1. Recommendation: **Revise the Audit Committee Charter** - The Audit Committee should consider documenting in the Audit Committee Charter their purpose and responsibilities regarding compliance.

Status: The Audit Committee Charter was revised to include the committee's purpose and responsibilities regarding compliance.

2. Recommendation: **Consider Updating Risk Assessment Format and Presentation** - The CAO should consider de-bundling HIPAA and Cybersecurity into their own risks and provide clarification on the inclusion and non-reliance of external audit work

Status: The risk assessment process was revised to separate HIPAA and Cybersecurity into their own risk categories. Clarification regarding external work was also addressed.

3. Recommendation: **Perform Assessment of Information Technology Governance Program** - The CAO should assess whether the information technology (IT) governance of the organization supports the organization's strategies and objectives.

Status: Information governance is included in the annual risk assessment.

4. Recommendation: **Summarize Findings Documentation** - The CAO should consider establishing a summary of findings document to capture all findings from the audit engagement in one stand-alone workpaper.

Status: A summary findings document was developed and is included with each audit.

Summary

The CAO completed a comprehensive self-assessment of current IA practices. The most recent IIA quality assessment manual was purchased, and current IA practices were compared to the IIA auditing standards. The CAO is confident that we comply with IIA standards and are prepared for the external review that will occur in July/August 2022. While recommendations are likely, the IA office generally complies with IIA standards. The IIA evaluates internal audit operations based on a generally complies, partially complies, and does not comply scale.