



**SERS Retirement Board Audit Committee Agenda
Regular Meeting
June 14, 2023
2:30 P.M.**

1. Roll call (R)
2. Approval of March 15, 2023 minutes (R)
3. External Audit Update
 - Plant Moran Audit Presentation
4. Internal Audit Update: Chief Audit Officer's Report
 - Q4 Update on the FY2023 Audit Plan
 - FY24 Audit Planning
 - FY24 Audit Plan
 - Audit Committee/Internal Audit Charters
 - Recently Completed Audits, Other Activities
5. Review and Approve FY24 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 Goals (R)
9. Audit committee requests and follow-up items
10. Adjournment

SCHOOL EMPLOYEES RETIREMENT SYSTEM

AUDIT COMMITTEE

June 14, 2023

2:30 P.M.

Roll Call:

Barbra Phillips

Catherine Moss

James Rossler

Guests in Attendance:

SCHOOL EMPLOYEES RETIREMENT SYSTEM

**APPROVAL OF MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON
March 15, 2023**

_____ moved and _____ seconded the motion to approve the minutes of the Audit Committee meeting held on March 15, 2023.

Upon roll call, the vote was as follows:

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

School Employees Retirement System	<h1>AUDIT COMMITTEE MINUTES</h1>		
Preparer	Megan Robertson	Meeting Date:	March 15, 2023
Committee Chair	Barbra Phillips	<p>Committee roll call was as follows: Barbra Phillips, Catherine Moss, and James Rossler.</p> <p>Also in Attendance: Lisa Reid, Representative of the Ohio Attorney General, attended via Zoom. SERS Staff Members: Jeff Davis, Joe Marotta, Richard Stensrud, Karen Roggenkamp, Nikki Whitacre, Marni Hall, Vatina Gray, and Megan Robertson.</p>	
Agenda	<ol style="list-style-type: none"> 1. Roll call (R) 2. Approval of September 14, 2022, minutes (R) 3. External Audit Update 4. Internal Audit Update - Chief Audit Officer's Report <ul style="list-style-type: none"> o Q3 Update on the FY2023 Audit Plan, o ORSC Annual Audit Committee Report, o Status of Audit Recommendations, o External Audit Selection Process, o FY24 Audit Planning, o Recently Completed Audits, Other Activities 5. Executive session pursuant to R.C. 121.22 (G) (1) to consider the employment of a public employee (R) 6. Audit committee requests and follow-up items 7. Adjournment 		
Discussion	<p>The meeting began in open session at 2:30 p.m.</p> <p><u>Roll Call</u></p> <p>The SERS regular Audit committee began with a roll call. The committee roll call was as follows: Barbra Phillips, Catherine Moss, and James Rossler.</p> <p>Also in attendance were SERS Staff Members: Jeff Davis, Joe Marotta, Richard Stensrud, Karen Roggenkamp, Nikki Whitacre, Marni Hall, Vatina Gray, and Megan Robertson. Guests attended virtually on Zoom including Lisa Reid, Representative of the Ohio Attorney General.</p> <p><u>Approval of Minutes</u></p> <p>Catherine Moss moved, and James Rossler seconded the motion to approve the minutes of the Audit Committee meeting held on September 14, 2022. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss, James Rossler. The motion carried.</p> <p><u>External Audit Update</u></p> <p>SERS CFO, Marni Hall, presented on the external audit. Ms. Hall reminded the committee that SERS recently finished their ten-year contract period with RSM, ten years being the maximum period for a firm to conduct the SERS audit. Ms. Hall reported the Auditor of State issued an RFQ in early January 2023. Responses were received from</p>		

four firms. In February 2023 a review committee made up of SERS Finance staff and SERS Chief Audit officer, Jeff Davis, ranked responses using an extensive scoring process and selected two top firms. Both firms proved to be equal in experience with a public pension background and audit approach. In early March 2023, the top two firms selected were submitted to the Auditor of State who selected a winning firm, Plante Moran. SERS and the winning firm will complete a contract and interim audit work will begin in the fourth quarter of FY2023.

Ms. Hall opened the floor to the committee for questions and comments. Board member, Barbra Phillips, asked for more information on the RFQ selection process. Ms. Hall explained the Auditor of State has an RFQ template and SERS was involved in the process for a successful partnership. Once signed the agreement will be for five years, at which point SERS will have the option to extend for five more years. Mr. Davis would like the Audit Committee to meet Plante Moran at the June 2023 meeting.

Chief Audit Officers Report

Jeffrey Davis, SERS Chief Audit Officer (CAO), provided a presentation on the status of his FY2023 Internal Audit Plan for the third quarter. Three audits have been completed since the last committee meeting. One audit is in progress with several future audits pending.

Mr. Davis provided an update on the Ohio Retirement Study Council Annual Report and the recommendations. The report was finalized at the end of December and submitted to the ORSC to be filed by March 2023.

Board member, Barbra Phillips asked Mr. Davis what structures Mr. Davis was putting in place to safeguard SERS beyond best practices. Mr. Davis pointed to the Microsoft 365 Review which was an important audit that resulted in a number of important recommendations. Management has implemented corrective action for those recommendations. Mr. Davis shared that information security is considered and is a component of each audit that is completed.

Mr. Davis provided the status of audit recommendations for the Microsoft 365 Review.

Mr. Davis provided an update on FY2024 Audit Planning. The audit planning process relies on a variety of sources to develop the annual audit plan. This includes leveraging knowledge gained from interactions with the SERS Enterprise Risk Management office and SERS senior management. Six different risk factors are taken into account when preparing the annual audit plan.

Mr. Davis shared an update on the Association of Public Pension Fund Auditors (APPFA) conference he attended in November 2022. Positive knowledge was gained and there was an opportunity to network. In the Spring of 2023, Mr. Davis will be attending the Annual Emerging Trends in Fraud Investigation and Prevention Conference as well as the Central Ohio Information Security Systems Association (ISSA) Infosec Summit for continuing education.

Mr. Davis opened the floor to the committee for questions and comments and the Board thanked Mr. Davis for the update.

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

James Rossler moved, and Catherine Moss seconded the motion that the Audit Committee convene into Executive Session pursuant to R.C. 121.22 (G) (1) to discuss

	<p>the employment of a public employee. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss, James Rossler. The motion carried.</p> <p>The Audit Committee convened in executive session at 2:56 p.m.</p> <p>The Audit Committee returned to open session at 3:18 p.m.</p> <p><u>Committee Requests and Follow Up Items</u></p> <p>There were no requests or follow up items discussed.</p> <p>The meeting adjourned at 3:18 p.m.</p>		
	Action Items	Assigned Person	Due Date
Action Items	n/a		
Agenda for Next Meeting			

DRAFT

ITEM 3.

EXTERNAL AUDIT UPDATE

External Auditor Presentation



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Wealth Management.

School Employees Retirement System of Ohio Audit Committee Pre-Audit Communication

Representing Plante Moran:

Kristin Hunt, Amanda Cronk, Ashley Raden



Your Leadership Team



Kristin Hunt, CPA
Engagement Partner

- 25 years of experience
- A leader in the firm's premier employee benefit plan audit practice serving as a specialist in this area



Amanda Cronk, CPA
Senior Manager

- 15 years of experience
- Experience and professional focus on governmental pension plans and municipalities participating in multi-employer retirement systems
- Member of the governmental technical team



Ashley Raden, CPA
Manager

- 10 years of experience serving governmental clients with a specialty in public pension system audits
- Experience auditing pension plans and governmental organizations and serves as a benefit plan audit specialist



Agenda



- About Plante Moran
- Pre-Audit Communication
 - Audits to Perform
 - Auditor Responsibilities
 - Identification of Significant Risks
 - Plante Moran's Approach to Internal Control
 - Materiality Concept
 - Audit Committee Member Views
- Expected Audit Timeline
- Accounting Standard Changes for FY 2023
- Questions



Plante Moran Fast Facts

Plante Moran is among the nation's largest certified public accounting and business advisory firms

We provide clients with audit; tax; risk management; financial, technology, and business consulting; and wealth management services.

1924 year founded

3,300+ total staff

350+ partners & affiliated entity members

50 States with clients

24 Offices worldwide

30 Languages spoken firmwide



Our Practice



Firmwide practice stats

\$750B	In assets audited firmwide
1,600+	Public plans and benefit plans audited annually
1,500+	Public sector clients served
1,300+	GASB entities served
750+	Annual Comprehensive Financial Reports (ACFRs) audits conducted in the past 25 years. These have received the GFOA's Certificate of Achievement for Excellence in Financial Reporting.
650+	Highly trained government plan and benefit plan audit staff
500+	Governmental clients served
75+	Years serving government entities
45	States with public sector clients



Client satisfaction

We work to earn the trust clients have placed in us. We will work hard for SERS. Your satisfaction is critically important to us.

- ★ 97% of our clients would recommend Plante Moran to others
- ★ 13.2% staff turnover rate in 2020
- ★ Fortune magazine's list of the "100 Best Companies to Work For" 23 consecutive years
- ★ CIO 100 recognized us for business and technology innovation
- ★ Barron's Top 100 independent advisors
- ★ CPA Firm of the Year by ACG New York and M&A Advisor



Pre-Audit Communication



Pre-Audit Communication

Plante Moran will perform an audit and express an opinion on the following statements:

- SERS Annual Comprehensive Financial Report as of and for the year ended June 30, 2023
- Audit in accordance with GASB 68 of the Schedule of Employer Allocations and Schedule of Collective Pension Amounts by Employer for the measurement year ended June 30, 2023
- Audit in accordance with GASB 75 of the Schedule of Employer Allocations and Healthcare Amounts by Employer for the measurement year ended June 30, 2023



Pre-Audit Communication

Auditor Responsibilities

- Express an opinion about whether the financial statements prepared by management are fairly presented, in all material respects, in accordance with GAAP
- Communicate noncompliance with provisions of laws, regulations, contracts or grants that have a material effect on the financial statements that come to our attention



Pre-Audit Communication

Identification of Significant Risks

- Appropriate valuation of investments, particularly the alternative investment that do not have readily establish market values
- Management Override
- Improper Revenue Recognition – Unrealized gains and losses



Pre-Audit Communication

Other Areas of Focus

- Accuracy of participant census data and the assumptions underlying the determination of both the total pension liability and total OPEB liability under GASB 67 and GASB 74, respectively
- Related to both Schedules of Employer Allocations, the calculation of the Collective Pension/OPEB amounts as well as the allocation methodology



Pre-Audit Communication

Plante Moran's Approach to Internal Control

- Narratives/Questionnaires
- Observation and inspection of procedures
- Effectiveness of controls over investments
- No opinion on effectiveness of internal controls

Materiality Concept

We place greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.



Expected Audit Timeline

Our anticipated timeline as included in our proposal is as follows:

- Interim testing/understanding of controls – July 2023
- Fieldwork testing – Mid-September – Mid-October 2023
- Review ACFR and perform census testing – November
- Audit opinion – by November 30, 2023
- Audit committee presentation – December 2023
- GASB 68 and 75 reports – February 2024



New Accounting Standard

GASB Statement No. 96, Subscription-Based Information Technology Arrangements

- What is the scope and potential impact?
 - Similar to GASB Statement No. 87, *Leases* (implemented by SERS during FY 6/30/22, impact was immaterial)
 - Defined as a contract that conveys control of the right to use another party's information technology software over a period of time in an exchange or exchange-like transaction
 - Could have a more significant impact than GASB 87 due to various software packages utilized by SERS
 - Management working on evaluation of the impact of this new standard
- When is this effective?
 - SERS' Fiscal Year Ending June 30, 2023



Questions?

We greatly appreciate the opportunity to serve you!



Contact Information:

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Engagement Partner

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Manager

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ITEM 4.

INTERNAL AUDIT UPDATE
(Chief Audit Officer's Report)



Internal Audit Update

June 2023

Jeff Davis, CAO – Internal Audit

Agenda



- Status of FY23 Internal Audit Plan
- FY24 Audit Planning
- FY24 Audit Plan
- Audit Committee/Internal Audit Charters
- Recently completed audits and Other Activities

FY23 Audit Plan Status



Internal Audit Update – June 2023



FY23 Audit Plan Status:

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

Internal Audit Update – June 2023



FY23 Audit Plan Status (Continued):

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

FY24 Audit Planning



FY24 Audit Planning

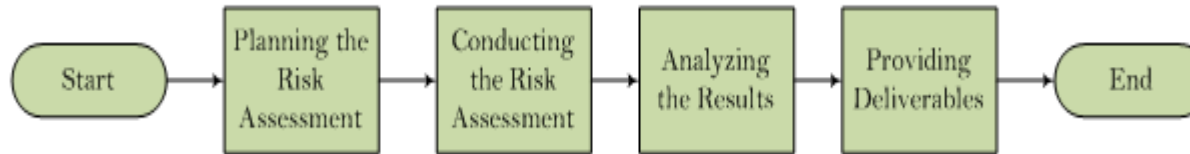


- Audit planning for FY24 completed in May 2023
- Planning involved independent research, coordination with others and management's involvement in identifying audit priorities - including 9 departmental/senior leadership meetings involving over 20 leaders
- IA performed its own independent assessment of the audit universe while leveraging knowledge gained from interaction with ERM Office and other department leaders
- The FY24 Internal Audit Plan document is included as "Attachment A"

FY24 Audit Planning



FY24 Audit Planning

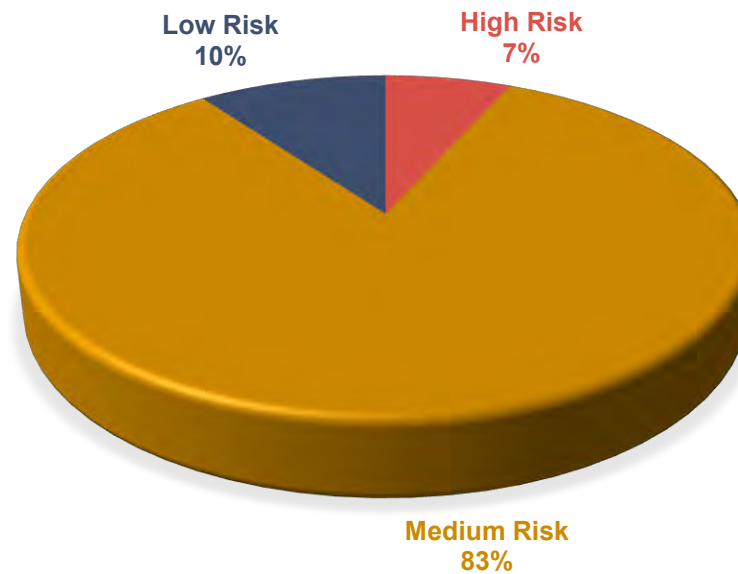


Risk Factors	Weight	Description
A. Control Design and Effectiveness	20%	Assessed reliability of internal controls are important in judging the likelihood of errors in the system; consider known problems/prior audit results.
B. Impact to Members, Retirees, Employers, and Public	20%	Impact to SERS' constituents; management or other stakeholder concerns can influence the priority of an auditable area; consider reputational impact to SERS by failure of a sensitive process.
C. Changes in Organization, Programs, and Operations	15%	A dynamic change to systems/processes/people, increases probability of efficiencies as well as errors.
D. Complexity of Activities, Operations, and/or Systems	15%	Degree of process complexity or perceived impact of IT controls.
E. Dollar Materiality/Operational Impact	15%	Financial statement impact, relative importance, or sensitivity to ongoing operations.
F. Impact of Fraud, Waste, or Data Loss	15%	Impact of illegal acts, wasteful spending, or sensitive data loss can result in a heightened consequence regardless of the dollar amount.

FY24 Audit Planning



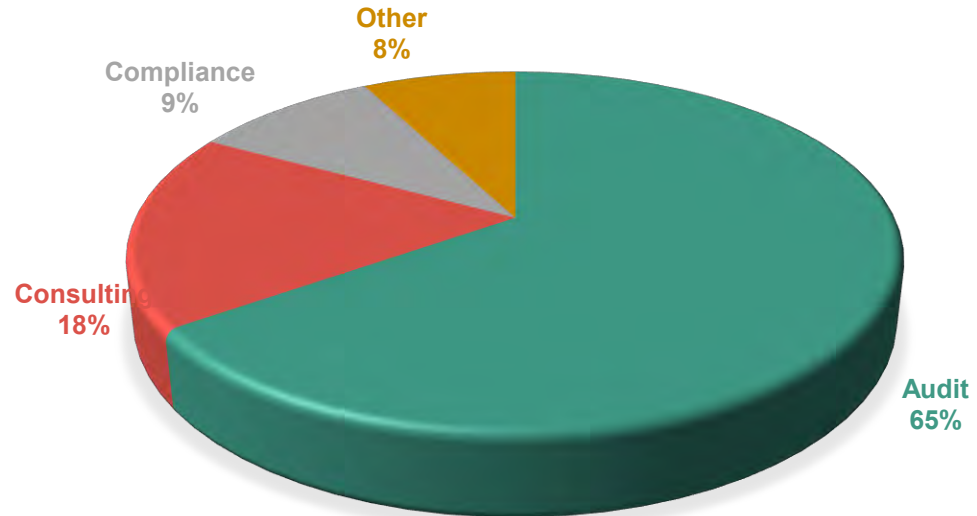
- Summary of Overall Risk Assessment Ratings
- 88 Auditable Processes



FY24 Audit Planning



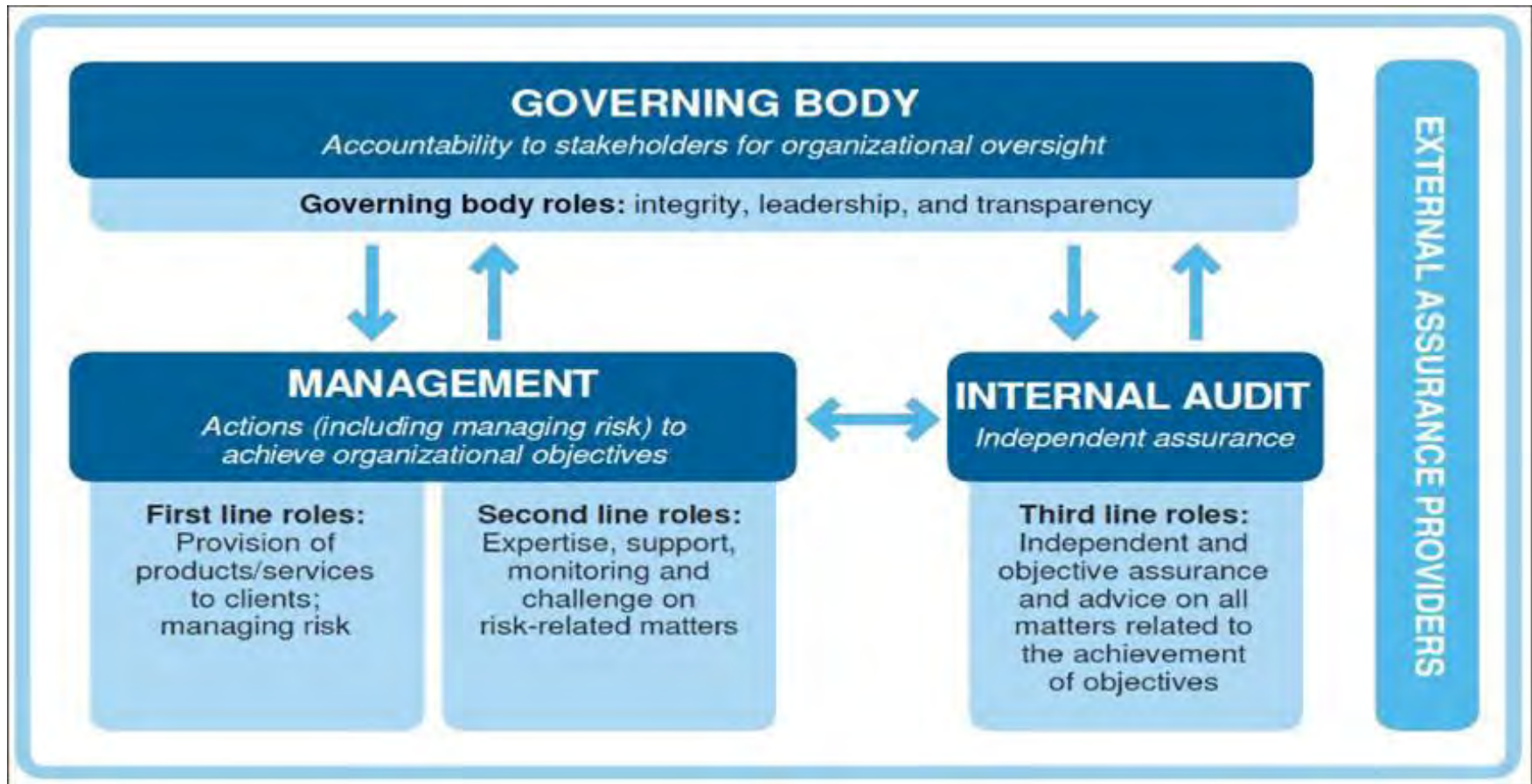
- **Internal Audit Time Allocation 1,300 audit hours – 13 projects**



FY24 Audit Planning



Three Lines of Defense Model



Proposed FY24 Internal Audit Plan



Engagement	Type	Quarter	Level of IA Effort
Investment Incentive Compensation	Audit	Q1	Small
Undue Influence	Audit	Q1	Small
Conflict of Interest	Audit	Q2	Small
Outsourced Audit – Identity and Access Management	Audit	Q2-Q3	Medium
Purchasing/Contracts	Audit	Q1	Large
Health Care Audit (Outsourced)	Consulting	Q3-4	Small
Survivor Benefits	Audit	Q2	Large
Other Consulting/Special Projects	Consulting	All	Medium
Audit Committee Annual Report	Consulting	Q2	Small

Proposed FY24 Internal Audit Plan



Engagement	Type	Quarter	Level of IA Effort
Member Annual Statements	Audit	Q3	Medium
FY25 Internal Audit Planning	Admin	Q4	Medium
IT Consulting	Consulting	Q1-4	Small
Continuous Auditing/Monitoring	Audit	All	Medium

Proposed FY24 Internal Audit Plan



- Resolution for Audit Committee Approval

Audit Committee/Internal Audit Charter Review



- Both the Audit Committee Charter and Internal Audit Charter require annual review
- The CAO has reviewed the charters and current IIA standards
- No updates are required for FY24
- The charters are included as Attachment B and Attachment C

Audit Committee/Internal Audit Charter Review



The Audit Committee is empowered to:

- Oversee the operations of the internal audit activity
- Oversee the work of any public accounting firms employed by SERS
- Resolve any disagreements between management and the external auditors
- Meet with SERS' management, internal auditor, external auditors, or outside counsel, as necessary
- Request information from SERS' employees or external parties as needed

Audit Committee/Internal Audit Charter Review



Audit Committee responsibilities stated in the charter include:

- Financial Statements
- Internal Controls
- Internal Auditing function
- External Auditing
- Compliance
- Reporting to the Board
- Other (Requests from the Board, special investigations, etc.)

Audit Committee/Internal Audit Charter Review



Internal Audit Charter includes the following categories:

- Professionalism
- Authority
- Independence and Objectivity
- Responsibility
- Accountability
- Internal Audit Plan
- Reporting and Monitoring
- Risk Management, Controls & Fraud Risk

Recently Completed Audits and Other Activities



- One audit completed since the last committee meeting:
 - Employer Reporting
- Review of SMART Data Correction process
- Attended Central Ohio Fraud Conference and Infosec IT Conference



Q & A

ITEM 5.

RESOLUTION TO APPROVE ANNUAL AUDIT PLAN

SERS AUDIT COMMITTEE – APPROVAL OF FY 2024 INTERNAL AUDIT PLAN

_____ moved and _____ seconded the motion that the FY 2024 Internal Audit Plan, as discussed at the June 2023 Audit Committee meeting, be approved.

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	_____	_____	_____

ITEM 6.

ANNUAL CONFIRMATION OF INTERNAL AUDIT INDEPENDENCE

Confirmation of Independence and Objectivity Form



Internal Audit Department

Confirmation of Independence and Objectivity Form

SERS' internal auditors must maintain independence and objectivity in performing their duties. Specifically, the Institute of Internal Auditors (IIA) *Standards* require:

- **1100 – Independence and Objectivity:** The internal audit activity must be independent, and internal auditors must be objective in performing their work.
- **1110 – Organizational Independence:** The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.
- **1112 – Chief Audit Executive Roles Beyond Internal Auditing:** Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.
- **1120 – Individual Objectivity:** Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.
- **1130 – Impairment to Independence or Objectivity:** If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.
 - **1130.A1** – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.
 - **1130.A2** – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.
 - **1130.C1** – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.
 - **1130.C2** – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

The Chief Audit Officer (CAO) must be aware of, and evaluate whether, any impairments to organizational independence or individual objectivity exist. The CAO will annually submit a Confirmation of Independence and Objectivity Form to SERS' General Counsel and Director - Human Resources, since they are best suited to evaluate and determine whether real or perceived conflicts of interest exist. Details of an impairment, as well as the nature of the impairment, will be discussed with the Audit Committee to ensure proper disclosure and consideration of independence and objectivity concerns.

The CAO must also evaluate whether others providing internal audit services within SERS (internal or external resources) have any independence or objectivity impairments. Any such impairments identified will be evaluated by the CAO in conformity with the above mentioned *Standards*.

The CAO will consult with the General Counsel to determine whether circumstances of the individual case impair the independence of the SERS internal auditor or create the appearance of impairment. If so, the internal auditor may be restricted from any participation in the audit in question. As a SERS internal auditor or vendor providing internal audit services, you must annually confirm during June, by submitting the attached form, that you have no impairment of independence or objectivity in conducting your work. Any changes throughout the year must be updated on a new form.



Internal Audit Department

Please answer the following:

Do you have an immediate family member (parent, sibling, spouse, children, in-laws, stepfather/mother, stepsiblings) or an extended family member (aunts, uncles, grandparents, grandchildren, cousins, spouse's extended family, or close friend/associate) employed by SERS?

No **Yes** (List family member, position, and job duties, as applicable:)

N/A

Are you aware of any SERS-contracted vendors in which you or an immediate or extended family member maintain a business or working relationship?

No **Yes** (List vendor, self or applicable family member, and job duties, as applicable:)

N/A

Have you been employed within SERS in a role outside of internal audit within the past 12 months?

No **Yes** (List the SERS department, position held, and date of separation, as applicable)

N/A

Please list any current outside employment (e.g. part-time, teaching, etc.) or indicate "None":

None.

Are you seeking/being considered for employment within SERS or at a SERS-contracted vendor?

No **Yes** (Indicate the SERS position or vendor under consideration)

I am not aware of any circumstances that may impair, or that may lead others to question, my independence or objectivity as Chief Audit Officer, except as indicated above. I understand that I am also responsible to make timely written notification to SERS' Audit Committee, General Counsel, and Director – Human Resources in the event that any other circumstance arises that may impair, or appear to impair, my independence and objectivity.

Employee Name: Jeffrey A. Davis

ITEM 7.

RESOLUTION FOR EXECUTIVE SESSION

(Personnel Matter)

EXECUTIVE SESSION

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

Upon roll call, the vote was as follows:

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

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

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

ITEM 8.

RESOLUTION TO APPROVE FY24 CAO GOALS

SERS AUDIT COMMITTEE – APPROVAL OF CHIEF AUDIT OFFICER GOALS FOR FY 2024

_____ moved and _____ seconded the motion to approve the Chief Audit Officer's goals for FY 2024.

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	_____	_____	_____

RECOMMEND MERIT INCREASE IN SALARY FOR CHIEF AUDIT OFFICER

It was moved by _____ and seconded by _____ to discuss with the Board the Committee's recommendation that Chief Audit Officer Jeff Davis receive a merit increase in salary effective the first pay date in Fiscal Year 2024.

Upon roll call, the vote was as follows:

ROLL CALL:

YEA

NAY

ABSTAIN

Barbra Phillips
Catherine Moss
James Rossler

ADJOURNMENT

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

The meeting adjourned at _____ p.m.

Barbra Phillips, Audit Committee Chair



Internal Audit

FY 2024

Annual Audit Plan

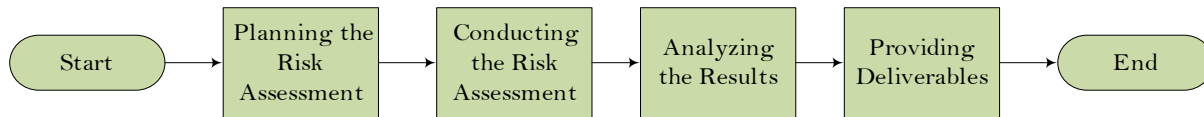


**School Employees Retirement System
Audit Plan - FY 2024
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Executive Summary

The annual audit plan defines specific audit areas intended to be undertaken in the next year. An audit prioritization process consists of the following steps:



Step 1 - Planning the Risk Assessment: Perform research to identify audit universe.

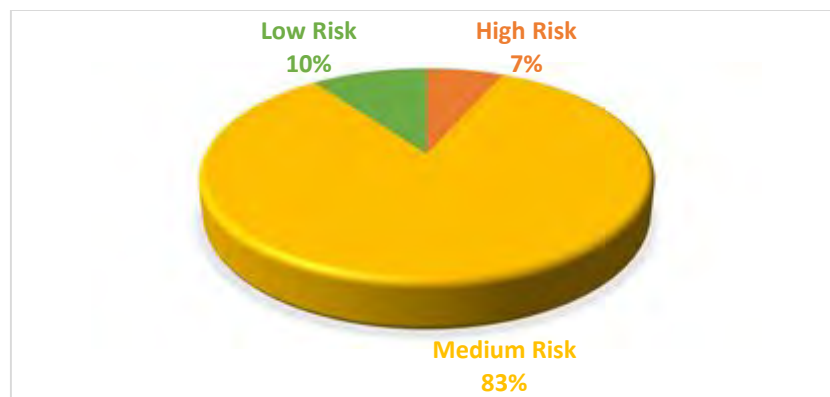
Step 2 - Conducting the Risk Assessment: Obtain client risk factor information.

Step 3 – Analyzing the Results: Assess based on audit universe and risk factors.

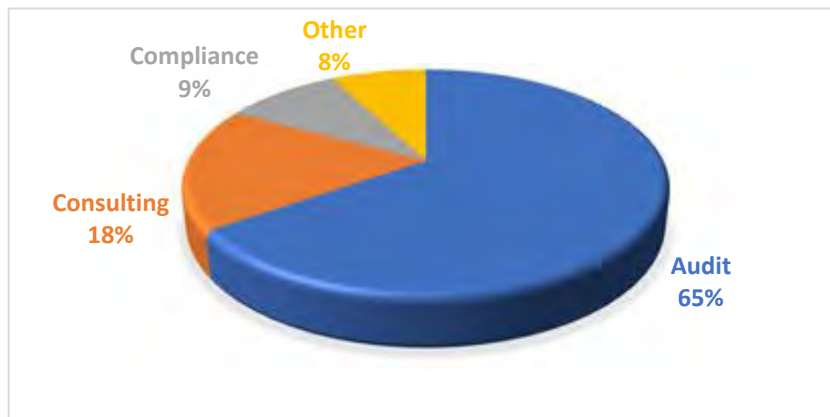
Step 4 – Providing Deliverables: Discuss audit plan priorities with SERS Senior Management to obtain consensus. Obtain Audit Committee approval.

Risk Assessment Ratings Summary

Overall Risk Rating (88 auditable processes)



Internal Audit – Time Allocation (1,300 hours; 13 projects)



FY24 Annual Audit Plan – Project Summary

Department	Process/ Auditable Area	Overall Risk Rating	IA Service	Description of IA Activity
1. IT	Identity and Access Management	3.75	Audit	Outsourced audit of Identity and Access Management.
2. Member Services	Survivor Benefits	3.45	Audit	Audit of survivor benefits.
3. Finance/Legal	Purchasing/ Contracts	3.45	Audit	Audit of the purchasing/contracting process.
4. Health Care	Medical Claims	3.45	Consulting	Minor IA involvement to review scope, report, and remediation of third-party auditor results – process managed by Health Care
5. Member Services	Member Annual Statements	2.60	Audit	Audit of Member Statement process.
6. Executive	Investment Incentive Compensation	2.45	Compliance	Annually review of payment accuracy against policy requirements for investment incentive compensation program.
7. Executive	Invest. Mgrs. Disclosures & Conflict of Interest Filings	2.45	Compliance	Annual evaluation of disclosure filings by external investment managers and ethics filings by Investment Department personnel to ensure any potential conflicts are properly identified, evaluated, and managed to avoid a conflict of interest.
8. Executive	Undue Influence	2.00	Compliance	Annual evaluation of filings of key SERS leadership to ensure any undue influence is properly reviewed and reported to the Board.
9. Executive	Committee Annual Report	1.20	Consulting	Prepare the Audit Committee’s annual activities report for the Ohio Retirement Study Council by March 31 st .
10. Executive/ SERS	All	N/A	Consulting	Departmental consulting and special projects related to various processes.
11. IT	Application Management	N/A	Consulting	Consulting related to SMART.
12. Internal Audit Admin	FY25 IA Audit Plan	N/A	N/A	Conduct risk assessment with input from numerous sources and incorporate audit priorities within the annual audit plan.
13. Continuous Auditing/ Monitoring	On-Going Transactional Auditing	N/A	Audit	Continued development of continuous auditing/monitoring procedures.

Estimated Quarterly Engagement Schedule – FY24

Engagement	Level of IA Effort	Q1	Q2	Q3	Q4
1. Investment Incentive Comp. (Compliance)	Small	X			
2. Undue Influence (Compliance)	Small	X			
3. Conflict of Interest (Compliance)	Small	X			
4. Outsourced Audit – Identity and Access Management	Medium		X	X	
5. Survivor Benefits	Large		X		
6. Health Care Audit (Outsourced) (Consulting)	Small			X	X
7. Purchasing/Contracts	Large	X			
8. Other Consulting/Special Projects	Medium	X	X	X	X
9. Audit Committee Annual Report	Small		X		
10. Member Annual Statements	Medium			X	
11. IT Consulting	Small	X	X	X	X
12. FY25 Internal Audit Plan	Small				X
13. Continuous Auditing/Monitoring	Medium	X	X	X	X

1 Introduction, Mission, Purpose & Requirements

Introduction

The annual audit plan is goal-oriented and defines specific audit areas intended to be undertaken in the next year.

The objectives for the compilation of an effective annual audit plan are:

- Scheduling of activities identified in the annual audit plan must be realistic;
- Completion of planned activities must be achievable; and
- Audit cycle for each activity must be completed.

This Audit Plan contains key information on expected audit activity for fiscal year 2024. The plan is based on the results of the annual risk assessment process.

Mission

The SERS' Internal Audit Department will provide independent, objective assurance and consulting activities designed to improve management practices, identify operational improvement, and reduce SERS' risk exposure.

Purpose

Internal Audit's audit plan focuses on the following objectives:

- Develop an Internal Audit Annual Plan based upon risk
- Focus on areas of higher risk, strategic importance, or SERS audit priority
- Provide SERS with value added recommendations to improve controls, mitigate identified risks, and increase efficiency within operations

The scope of work of Internal Audit is to determine whether SERS' framework of risk management, control, and governance processes, as designed and represented by Board and management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed;
- Interaction with various governance groups occurs as needed;
- Significant financial, managerial, operating information is accurate, reliable, & timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in control processes;
- Significant legislative or regulatory issues impacting SERS' fiscal operations are recognized and addressed appropriately; and
- Adequate controls are incorporated within new systems and processes.

Requirements

The Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing (the Standards)* govern the framework to be followed by SERS' Internal Audit activities.

When developing the annual Internal Audit plan the following IIA guidance must be considered:

Standard 2010 – Planning: The chief audit executive (CAE) must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

Standard 2010.A1: The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

IIA Practice Advisory 2010-1: Linking the Audit Plan to Risk and Exposures:

"In developing the internal audit activity's audit plan...first develop or update the audit universe. The audit universe is a list of all the possible audits that could be performed. The CAE may obtain input on the audit universe from senior management and the board."

"The CAE prepares the internal audit activity's audit plan based on the audit universe, input from senior management and the board, and an assessment of risk and exposures affecting the organization."

"Audit work schedules are based on, among other factors, an assessment of risk and exposures. Prioritizing is needed to make decisions for applying resources."

SERS' Internal Audit activities must also align to audit planning requirements identified within the Audit Committee and Internal Audit Charters, specifically:

Responsibility under the Audit Committee Charter:

"...Review and approve the internal audit...plans, activities, staffing"

Responsibility under Internal Audit Charter:

"Conduct an annual risk assessment and produce a flexible risk-based audit plan...based upon risks and control concerns identified by the CAO, Board Members, management...and will periodically be updated."

"The Audit Committee retains the right to approve the annual audit plan presented by the CAO. The CAO shall periodically inform the Audit Committee of the status of the audit plan and any changes needed."

"The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal year."

"The CAO will implement the approved audit plan and any plan amendments, special tasks or projects requested by management or the Audit Committee and agreed to by the CAO."

"The CAO may occasionally need to obtain expertise of persons outside of the Internal Audit Department. This expertise may be obtained within the organization through appropriate arrangements with management. Expertise may also be obtained from outside SERS through contracts. The Audit Committee should be informed about the use of all external consultants obtained."

Internal Audit's Operations Manual requires the CAO to develop a risk-based plan. The methodology for the completion of the annual audit plan shall consider the following:

- Organization's risk management framework or an alternative approach if a framework does not exist;
- Organization's identification and management of its strategic objectives and whether strategic risks and new initiatives are managed to an acceptable level;
- Input from key stakeholders (Board members, SERS executive leadership, department directors) on audit priorities that may impact members, retirees, employers, or SERS;
- Determine staffing resource availability and capability;
- To minimize duplication of effort and to maximize the amount of coverage achieved, consider audits planned by the external auditor and other assurance providers;
- Consider emerging issues resulting from the continuous update of the SERS risk profile;
- Include engagements that focus on revenue enhancement or economy of operations for certain SERS processes (sources may include financial statements, annual budget);
- Identify areas potentially subject to continuous auditing, leveraging any SERS risk management framework;
- Accept consulting engagements based on the engagement's potential to improve management of risks, add value, and improve SERS' operations; and
- Consider common risk area profiles which could result in an enterprise audit across SERS departments with similar risk factors.

This document describes the systematic process used by internal audit to develop its risk assessment and annual audit plan process. Risk assessment is inherently subjective; as such, quantitative analysis is supplemented with Internal Audit judgment and management input.

Internal Audit's risk assessment is solely for the purpose of developing the IA plan and focuses on auditable entities, not the entire universe of risks facing SERS. Also, the assessment does not seek to determine or evaluate management's risk tolerance or risk appetite.

The annual audit plan will be reviewed every three months to determine:

- Any significant variations to the original plan arising from the under or over assessment of the time required for audit projects;
- Effects of unforeseen events that significantly impacted the timetabling of audit projects;
- Rescheduling due to the effect of staff changes;
- Percentage of IA audit effort devoted to assurance and consulting engagements; and
- Other metrics developed in coordination with the Audit Committee

Amendments to the annual audit plan arising as a result of the quarterly review shall be presented by the CAO to the SERS Audit Committee.

2 Audit Prioritization Process

The FY24 Internal Audit Plan is designed to provide audit coverage across the entire organization by deploying Internal Audit resources in an effective and efficient manner.

The following approach was taken in creating the risk assessment and Audit Plan:



2.1 Information Gathering and Scoping

- A. Understand industry trends/risks via discussions with industry and audit professionals, reading publications, attending relevant training
- B. Understand SERS strategic objectives and new initiatives by reviewing the strategic plan, annual financial statements, quarterly operations reports, and annual budgets
- C. Develop and update Internal Audit's risk assessment and audit planning methodology
- D. Use prior audit plan as starting point of auditable risk areas/ audit universe

2.2 Information Analysis

- A. Update audit universe and preliminary risk assessments based on research and review of SERS operations and the pension industry
- B. Interview SERS leadership to gain understanding and input on audit universe, ratings and input on internal audit priorities/ value add opportunities
- C. Develop proposed Audit Plan based on interviews, risk assessment, resource availability, budget, third party assurance coordination, and coverage by risk and department

2.3 Develop Internal Audit Strategy and Plan

- A. Present SERS leadership with:
 - Risk assessment results
 - Planned Internal Audit's audit and consulting projects
- B. Submit preliminary Internal Audit plan to Audit Committee for review

Appendix A contains a detailed listing of the Audit Universe – Highest to Lowest

Appendix B contains a detailed listing of the Audit Universe – By Department

3 Risk Based Audit Methodology

Organizations implement risk management processes to identify risks that threaten their capability of achieving their objectives and successful execution of their business strategies. Through an integrated risk management approach, senior management determines how much risk they are willing to accept (e.g. level of acceptable risk). Senior management's approach to risk management must be undertaken as a continuous process of:

- Establishing risk management objectives, tolerances & limits for SERS' significant risks;
- Assessing risks within the context of established tolerances;
- Developing cost-effective risk management strategies and processes consistent with SERS' overall goals and objectives;
- Implementing risk management processes;
- Monitoring and reporting on the performance of risk management processes;
- Improving risk management processes continuously; and
- Ensuring adequate communication and information for decision making.

The continuous improvement cycle for risk management illustrates the need for SERS management to define, be aware of and manage their inherent and control risks.

IA should assess whether risk management processes are effective by determining:

- Organizational objectives support and align with SERS' mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risk with SERS' risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across SERS, enabling management to carry out their responsibilities.

IA will engage and work collaboratively with SERS management, and in particular the Chief Risk Officer. As the enterprise risk management program develops and matures, IA will incorporate the enterprise risk management assessments within the IA risk assessment used for audit planning purposes while maintain organizational independence.

3.1 Risk Methodology Framework

The risk methodology framework and strategy can directly impact risk assessments and planning within the internal audit function. Internal Audit will utilize the methodology as one factor in the course of developing its strategic and annual plans. The process will help ensure higher risk areas are identified and prioritized in the conduct of the audit plan and assignment of internal audit resources.

A risk assessment methodology applies across an entire organization. Each department is responsible for the application of the methodology in their respective areas and aligning to the organizational strategic risk management approach.

3.2 Identification of Audit Universe

The audit universe is reviewed annually as part of the planning process. The audit universe is risk-based and IA leverages management and Audit Committee input, as well as IA knowledge of operations, financial statements, budgets, professional judgment, comparative pension system risks, and brainstorming techniques to identify potential risks. The following factors are considered when developing the audit universe and priorities for annual plan consideration:



NOTE: FY23's plan involved extensive independent research, coordination with other assurance service providers, and management's involvement in identifying audit priorities - including 8 departmental/senior leadership meetings involving over 20 leaders. ERM staff were also included in these meetings to share information and provide added input on risk.

Internal Audit (IA) will evaluate the auditable areas and make modifications throughout the year based upon changes to SERS' risk profile. IA will also participate in SERS' strategic planning process and align IA's plan with appropriate assurance and consulting activities.

3.3 Risk Factors and Weighting

In prioritizing the risks identified, consideration is given to the likelihood of occurrence and consequence, or impact, in the event of occurrence. In weighting risk factors, IA utilizes risk factors from IIA guidance, historical knowledge of pensions, and internal auditing best practices. The overall goal of the risk scoring approach is to ensure that IA audits of high and moderate risk areas receive the largest concentration of audit effort over multiple years.

Once various risk factors are rated, they are weighted in order to arrive at a composite risk score for each area. The composite risk score is then used to determine areas to prioritize in the annual audit plan. Risk factors and assigned weighting are as follows:

Risk Factors	Weight	Description
A. Control Design and Effectiveness	20%	Assessed reliability of internal controls are important in judging the likelihood of errors in the system; consider known problems/prior audit results.
B. Impact to Members, Retirees, Employers, Public, Reputation	20%	Impact to SERS' constituents; management or other stakeholder concerns can influence the priority of an auditable area; consider reputational impact to SERS by failure of a sensitive process.
C. Changes in Organization, Programs, and Operations	15%	A dynamic change to systems/processes/people, increases probability of efficiencies as well as errors.
D. Complexity of Activities, Operations, and/or Systems	15%	Degree of process complexity or perceived impact of IT controls.
E. Dollar Materiality/Operational Impact	15%	Financial statement impact, relative importance, or sensitivity to ongoing operations.
F. Impact of Fraud, Waste, or Data Loss	15%	Impact of illegal acts, wasteful spending, or sensitive data loss can result in a heightened consequence regardless of the dollar amount.

A. Control Design and Effectiveness

The assessed reliability of the internal control system is important in judging the likelihood of errors in the system. Internal controls consider the adequacy of written procedures and whether or not controls have been previously tested.

B. Impact to Members, Retirees, Employers, and Public Reputation

Management or other stakeholder concerns can influence the priority of an auditable area and could take priority over other risk factors in some cases. The reputation of SERS can be impacted by failures in certain sensitive processes. Amount of impact the audit area has on SERS' constituents. Includes concern for public perception. Concern about adverse publicity; laws and regulations; customer demands; and political exposure.

C. Changes in Organization, Programs and Operation

A dynamic environmental change, in terms of systems/processes/people, increases the probability of efficiencies as well as errors occurring. Changes in operations can impact the efficiency and effectiveness of the organization's performance. Criteria include changes in staff size, processing changes (manual to computerized), systems (input and/or output), as well as staff turnover. This area includes concerns of rapid growth in personnel size or additional programs added to an operational area.

Changes in operation to meet statutory, regulatory, and legal requirements, and/or to address organizational restructuring including modifications to manual or automated procedures such as increased use of technology. Changes in operations since this area was last audited may have a significant impact on accuracy and timeliness of work completed, efficiency and effectiveness of operation, and the reliability of work products and records.

D. Complexity of Activities, Operations, or Systems

Complexity includes amount of time, number of steps, techniques or procedures, degree of difficulty, training necessary, and interaction with other organizations/divisions necessary to complete a work task or process a transaction. Complexity can increase both the probability of

error and the effort required to monitor the system. Includes complexity of federal and state laws, rules and regulations governing a particular program.

Computer applications affect the accuracy and timeliness of completed work tasks, as well as the productivities of the staff. Information systems should process information in a secure, reliable and accurate manner.

Age, condition, efficiency and effectiveness of the data processing system specific to this audit area, and the perceived impact of general information technology controls related to: consistent use of an acceptable systems development methodology (including programmer and user documentation and testing procedures), consistent use of an acceptable project management system, effective computer maintenance change controls (to assure application program changes are properly authorized, managed, and recorded), and effective logical access security to guard against unwarranted access and unauthorized changes to computer programs or data.

E. Dollar Materiality/Operational Impact

Materiality focuses on the organizational impact due to financial statement materiality, relative importance, and/or sensitivity to negative public exposure of a process or system.

F. Impact of Fraud, Waste, or Data Loss

Risk inherent in a process or system that employees (including management) individually, or in collusion with others, commit fraud, resulting in financial loss or unauthorized use of financial instruments, physical assets and/or confidential information. For IT systems, also consider the level and type of security threat(s) present (e.g., a firewall has a higher level of security threat associated with it than an internal file server).

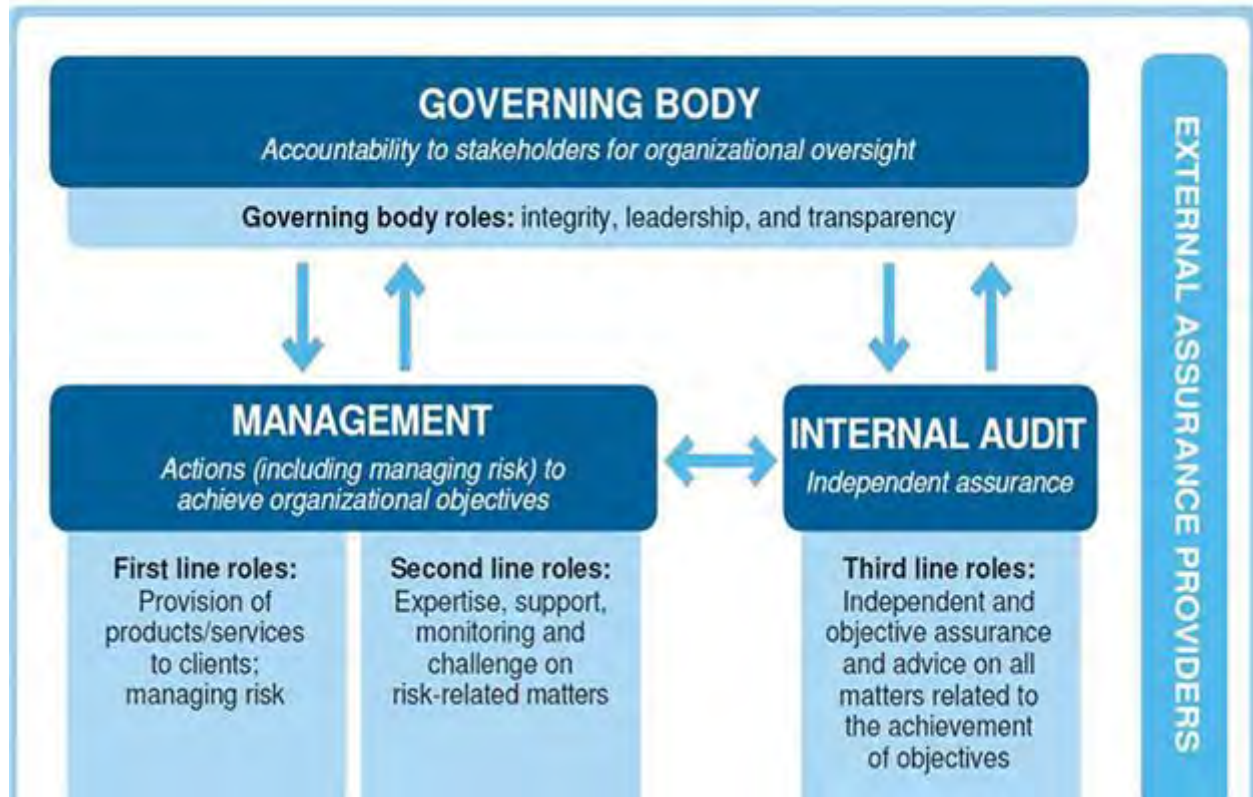
The composite risk rating system is a point in time assessment and ratings may vary based on an individual's perspective or recent event history. Ratings are designed to evaluate SERS risk exposures related to governance, operations, and information systems regarding achievement of their strategic objectives; reliability of financial information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts.

To minimize the potential for duplication of effort and to maximize the amount of coverage achieved, the CAO will consider other assurance providers (both internal and external) and their scope and intended reliance by internal audit.

3.4 Coordinated Audit Coverage

After assessing risk-ratings against the audit universe, an evaluation of third-party assurance activities was conducted to maximize audit coordination efforts and coverage.

Three Lines of Defense Model (Institute of Internal Auditors)



NOTE: Internal Audit's plan incorporates audit coverage from external audit; 3rd party external reviews within Executive, Health Care, Administrative Services, and Member Services; and 2nd Line of Defense SERS' monitoring within investment compliance, investment accounting, and IT security. Internal Audit's review of selected auditable units is not intended to offer a complete opinion on every aspect of the category. Rather, Internal Audit judgmentally evaluates the auditable unit and focuses its scope and objectives on key risks and controls to evaluate and report the results to the Committee. SERS is not "relying" on the work of the external auditors, rather avoiding duplication of efforts by not allocating Internal Audit hours to these areas.

Appendix A

Risk Rating – Highest to Lowest

SERS 2024 Risk Assessment - by Department	Risk Factors						Combined Risk Rating	Risk Rating	Last Year Audited	Internal Audit Planned Coverage	Planned Hours	External Audit	Other 3rd Party	SERS Control Monitoring
	20%	20%	15%	15%	15%	15%								
Auditable Area	A. Control Design and Effectiveness	B. Impact to Members, Retirees, Employers, Public, Reputation	C. Changes in Organization, Programs, Operations	D. Complexity of Activities, Operations, or Systems	E. Dollar Materiality/ Operational Impact	F. Impact of Fraud, Waste, or Data Loss								
Application Management - Software Management/SMART	3	5	3	5	5	5	4.30	High	FY2020					X
Enterprise Risk Management - Information Security Program	2	5	3	4	5	5	3.95	High	FY2019					X
Alternative Investments - Real Estate, Private Equity, Hedge Funds	2	4	4	5	5	4	3.90	High	-			X		X
Enterprise Risk Management -Information Security Program (HIPAA Compliance)	2	5	3	3	5	5	3.80	High				X	X	X
Retirement - Benefits / Calculations / Estimates	2	5	3	4	5	4	3.80	High	FY2020					
Identity and Access Management (IAM)	2	4	3	4	5	5	3.75	High	FY2016	X	120	X		X
Imaging and Information Governance	3	4	4	3	4	4	3.65	Medium	FY2019					
Business Continuity / Disaster Recovery	3	4	4	3	5	3	3.65	Medium	FY2021					X
Employer Reporting and Remittance of Contributions	2	5	3	3	5	4	3.65	Medium	FY2023			X		
Member Withdrawals / Refunds & Lump Sum	2	4	3	4	5	4	3.60	Medium	FY2021			X		
Disability - Benefits / Calculations	2	4	3	4	5	4	3.60	Medium	FY2023			X	X	
Investment Management Fees	3	4	2	5	3	4	3.50	Medium	-					X
Health Care Fund Revenue - Premiums, Rebates, Funding Allocation	2	5	3	3	5	3	3.50	Medium	FY2016			X	X	
Member Account Maintenance	3	4	3	3	3	5	3.50	Medium	FY2022			X		
Enterprise Risk Management - BC/DR	2	4	3	4	4	4	3.45	Medium	FY2021					
Purchasing	2	4	3	3	4	5	3.45	Medium	FY2016					
Investment Accounting - Custody & Master Record Keeper	2	4	3	4	4	4	3.45	Medium	-			X		X
Claims - Medical and Pharmacy	2	4	3	4	5	3	3.45	Medium				X	X	
Survivor - Benefits / Calculations	3	3	3	4	3	5	3.45	Medium	-	X	180	X		
Records Management / Records Requests	3	4	4	3	2	4	3.35	Medium	-					
IT Vendor Management	3	4	3	3	3	4	3.35	Medium	FY2019					X
Death Benefits - SSN Matches/Proof of Life	3	4	3	3	3	4	3.35	Medium	FY2022					
Funding Levels - Compliance and Return Rate	2	5	3	4	5	1	3.35	Medium	-					X
Financial Reporting / ACFR	2	4	3	4	3	4	3.30	Medium	-			X		
Payment Processing / Payables	2	4	2	3	4	5	3.30	Medium	FY2022			X		
Virtualization	3	3	4	3	3	4	3.30	Medium	-					X
Cloud Based Computing	3	3	4	3	3	4	3.30	Medium	FY2022					
Mobile Device Security	3	3	4	3	3	4	3.30	Medium						
Required Minimum Distribution (RMD)	2	4	3	3	4	4	3.30	Medium	FY2021					
Investment Governance & Management - SERS Investment Committee	2	4	3	4	4	3	3.30	Medium	FY2016					X
IT Change Management	2	3	4	4	3	4	3.25	Medium	FY2017			X		
Retiree Accounting	3	4	3	3	3	3	3.20	Medium						
Investment Accounting - Operational Due Diligence	2	4	3	4	3	3	3.15	Medium	-			X		X
Physical Access - IT General Controls	2	4	2	3	4	4	3.15	Medium	FY2016			X		X
Web Self Service - eSERS	2	4	3	3	4	3	3.15	Medium	-					
Investment Risk Management	2	4	3	4	3	3	3.15	Medium	-					X
Capital Calls and Distributions	2	4	2	3	4	4	3.15	Medium	FY2021					
Asset Management - Hardware	3	3	3	3	3	4	3.15	Medium	FY2019					
Confidential Data Management	2	4	3	3	3	4	3.15	Medium	-					
Fixed Income, US Equity, Non-US Equity, Foreign Currency, Mutual Funds	2	3	4	4	4	2	3.10	Medium	FY2019			X		X
Confidential Data Management	2	4	3	2	3	4	3.00	Medium	-					
Interest and Dividend Income	2	4	3	2	3	4	3.00	Medium	-			X		X
Enterprise Risk Management - Vendor Risk Management	2	4	2	3	4	3	3.00	Medium	-					X
Contract Administration and Monitoring	3	3	4	2	3	3	3.00	Medium	FY2016	X	140	X		

SERS 2024 Risk Assessment - by Department	Risk Factors						100%	Combined Risk Rating	Risk Rating	Last Year Audited	Internal Audit Planned Coverage	Planned Hours	External Audit	Other 3rd Party	SERS Control Monitoring
	20%	20%	15%	15%	15%	15%									
Auditable Area	A. Control Design and Effectiveness	B. Impact to Members, Retirees, Employers, Public, Reputation	C. Changes in Organization, Programs, Operations	D. Complexity of Activities, Operations, or Systems	E. Dollar Materiality/ Operational Impact	F. Impact of Fraud, Waste, or Data Loss									
Health Care Vendor Management	2	4	3	3	3	3	3.00	Medium	-						
Investment Due Diligence Review (Existing Investments)	2	4	3	4	2	3	3.00	Medium	-						X
Portability - Retirement System Transfers / Calculations	2	4	3	3	3	3	3.00	Medium	FY2016						
Medicare B Fund - Retirement Benefit Payments	2	3	3	3	3	4	2.95	Medium	-				X		
Health Care Plan - Participant Eligibility / Calculation / Service	2	3	3	3	3	4	2.95	Medium	-				X		
Self Service Portle/On-line Activity	2	3	3	3	3	4	2.95	Medium	-						
Government Relations - Legislation (Advocacy, Monitoring, Response)	2	5	3	3	3	1	2.90	Medium	-						X
IT Governance	3	4	4	2	2	2	2.90	Medium	FY2018						
Enterprise Risk Management - Investment Compliance	2	4	3	3	3	2	2.85	Medium	FY2023						
Legal - Contract Review & Execution	1	4	2	2	4	4	2.80	Medium	-						
Unitized Accounting Practices	3	2	3	3	3	3	2.80	Medium	-						
Customer Service / Member Counseling Center	2	3	3	3	4	2	2.80	Medium	-						
Service Purchase Credit / Calculation	3	3	3	2	1	4	2.70	Medium	FY2023						
Retirement - Application Process	2	4	3	3	2	2	2.70	Medium	-						
Legal - Litigation	1	4	2	3	4	2	2.65	Medium	-				X		
Employee Payroll, Timekeeping & Leave	2	3	2	2	3	4	2.65	Medium	FY2021				X	X	
Employee Health Care Plan / Costs	2	3	3	2	2	4	2.65	Medium	FY2017						
Mail Room / Print Operations/Vehicles	2	3	3	3	2	3	2.65	Medium	FY2019						
Treasury/Cash Management	2	2	3	2	3	4	2.60	Medium	-				X		
Member Statements	3	4	3	2	2	1	2.60	Medium	-	X	140				
Information and Communications	2	4	3	2	2	2	2.55	Medium	-						
Travel Expenses	2	4	2	1	1	5	2.55	Medium	-						
Building Services (OSERS Building, Land, Furniture, Security, Safety)	2	3	2	2	3	3	2.50	Medium	-						
Budget Processing & Reporting	2	3	2	2	4	2	2.50	Medium	-				X		
Reemployed Retirees / QEBA (This potentially belongs to finance)	2	3	2	4	1	3	2.50	Medium	-						
Audit Remediation - Fiduciary, External, Other	2	3	3	3	3	1	2.50	Medium	FY2019						
Personnel Management	2	3	3	3	2	2	2.50	Medium	-					X	
Tenant Services (OSERS - Suite and Parking services)	2	2	2	2	3	4	2.45	Medium	FY2017						
Investment Incentive Compensation	2	2	3	3	2	3	2.45	Medium	FY2023	X	50				
Legal - Administrative Rules, Public Records Requests, Other	1	3	2	3	3	3	2.45	Medium	-						
Board Governance	1	3	2	3	3	3	2.45	Medium	-						
Cash and Receivables	2	2	2	2	3	4	2.45	Medium	-				X		
Securities Lending	2	2	3	3	2	3	2.45	Medium	-				X		X
Investment Data Management / Maintenance / Retention	1	2	3	3	2	4	2.40	Medium	-						X
Legal - Tax Compliance	1	4	2	2	4	1	2.35	Medium	FY2016						
Legal - Sensitive Data Handling (Division Of Property Orders, Power of Attorney)	1	4	2	2	2	3	2.35	Medium	FY2016						X
Government Relations - Proxy Voting	2	3	3	2	2	2	2.35	Medium	-						X
Capital Project Activities	2	1	2	2	3	4	2.25	Medium	-						
Ethics - Conflict of Interest Confirmation	1	3	2	2	2	3	2.15	Low	FY2023	X	60				
Enterprise Risk Management - Safety	2	2	2	2	3	1	2.00	Low	-						
Ethics Filings - Conflicts of Interest (Investment Managers / Vendors)	1	3	1	2	2	3	2.00	Low	FY2023	X	60				
Ethics Filings - Undue Influence Forms	1	3	2	1	1	4	2.00	Low	FY2023	X	12				X
Policy / Procedure - Development, Review, and Monitoring	1	3	3	2	2	1	2.00	Low	FY2017						
Fixed Assets / Inventory	2	1	2	2	2	3	1.95	Low	-						
Other Benefits	2	1	2	1	1	3	1.65	Low	-						
Employment Practices (Recruitment, onboarding, separations, etc)	2	2	2	1	1	1	1.55	Low	-						
Audit Committee Annual Report - ORSC	1	2	1	1	1	1	1.20	Low	FY2023	X	20				

Appendix B

Risk Rating – By Department

SERS 2024 Risk Assessment - by Department	Risk Factors						Combined Risk Rating	Risk Rating	Last Year Audited	Internal Audit Planned Coverage	Planned Hours	External Audit	Other 3rd Party	SERS Control Monitoring
	20%	20%	15%	15%	15%	15%								
Auditable Area	A. Control Design and Effectiveness	B. Impact to Members, Retirees, Employers, Public, Reputation	C. Changes in Organization, Programs, Operations	D. Complexity of Activities, Operations, or Systems	E. Dollar Materiality/Operational Impact	F. Impact of Fraud, Waste, or Data Loss								
Building & Tenant Services														
Building Services (OSERS Building, Land, Furniture, Security, Safety)	2	3	2	2	3	3	2.50	Medium	-					
Tenant Services (OSERS - Suite and Parking services)	2	2	2	2	3	4	2.45	Medium	FY2017					
Capital Project Activities	2	1	2	2	3	4	2.25	Medium	-					
Executive, Legal & Communications														
Enterprise Risk Management - Information Security Program	2	5	3	4	5	5	3.95	High	FY2019					X
Enterprise Risk Management -Information Security Program (HIPAA Compliance)	2	5	3	3	5	5	3.80	High				X	X	X
Enterprise Risk Management - Vendor Risk Management	2	4	2	3	4	3	3.00	Medium	-					X
Enterprise Risk Management - Safety	2	2	2	2	3	1	2.00	Low						
Enterprise Risk Management - Investment Compliance	2	4	3	3	3	2	2.85	Medium	FY2023					
Enterprise Risk Management - BC/DR	2	4	3	4	4	4	3.45	Medium	FY2021					
Funding Levels - Compliance and Return Rate	2	5	3	4	5	1	3.35	Medium	-					X
Government Relations - Legislation (Advocacy, Monitoring, Response)	2	5	3	3	3	1	2.90	Medium	-					X
Legal - Litigation	1	4	2	3	4	2	2.65	Medium	-			X		
Investment Incentive Compensation	2	2	3	3	2	3	2.45	Medium	FY2023	X	50			
Information and Communications	2	4	3	2	2	2	2.55	Medium	-					
Audit Remediation - Fiduciary, External, Other	2	3	3	3	3	1	2.50	Medium	FY2019					
Legal - Tax Compliance	1	4	2	2	4	1	2.35	Medium	FY2016					
Legal - Sensitive Data Handling (Division Of Property Orders, Power of Attorney)	1	4	2	2	2	3	2.35	Medium	FY2016					X
Legal - Administrative Rules, Public Records Requests, Other	1	3	2	3	3	3	2.45	Medium						
Legal - Contract Review & Execution	1	4	2	2	4	4	2.80	Medium						
Government Relations - Proxy Voting	2	3	3	2	2	2	2.35	Medium	-					X
Ethics Filings - Conflicts of Interest (Investment Managers / Vendors)	1	3	1	2	2	3	2.00	Low	FY2023	X	60			
Ethics Filings - Undue Influence Forms	1	3	2	1	1	4	2.00	Low	FY2023	X	12			X
Mail Room / Print Operations/Vehicles	2	3	3	3	2	3	2.65	Medium	FY2019					
Board Governance	1	3	2	3	3	3	2.45	Medium						
Audit Committee Annual Report - ORSC	1	2	1	1	1	1	1.20	Low	FY2023	X	20			
Finance														
Purchasing	2	4	3	3	4	5	3.45	Medium	FY2016					
Employer Reporting and Remittance of Contributions	2	5	3	3	5	4	3.65	Medium	FY2023			X		
Investment Accounting - Custody & Master Record Keeper	2	4	3	4	4	4	3.45	Medium	-			X		X
Financial Reporting / ACFR	2	4	3	4	3	4	3.30	Medium	-			X		
Retiree Accounting	3	4	3	3	3	3	3.20	Medium						
Payment Processing / Payables	2	4	2	3	4	5	3.30	Medium	FY2022			X		
Investment Accounting - Operational Due Diligence	2	4	3	4	3	3	3.15	Medium	-			X		X
Contract Administration and Monitoring	3	3	4	2	3	3	3.00	Medium	FY2016	X	140	X		
Budget Processing & Reporting	2	3	2	2	4	2	2.50	Medium	-			X		
Treasury/Cash Management	2	2	3	2	3	4	2.60	Medium	-			X		
Unitized Accounting Practices	3	2	3	3	3	3	2.80	Medium	-					
Travel Expenses	2	4	2	1	1	5	2.55	Medium	-					
Cash and Receivables	2	2	2	2	3	4	2.45	Medium	-			X		
Fixed Assets / Inventory	2	1	2	2	2	3	1.95	Low	-					
Health Care														
Health Care Fund Revenue - Premiums, Rebates, Funding Allocation	2	5	3	3	5	3	3.50	Medium	FY2016			X	X	
Claims - Medical and Pharmacy	2	4	3	4	5	3	3.45	Medium				X	X	
Health Care Vendor Management	2	4	3	3	3	3	3.00	Medium	-					
Confidential Data Management	2	4	3	2	3	4	3.00	Medium	-					
Medicare B Fund - Retirement Benefit Payments	2	3	3	3	3	4	2.95	Medium	-			X		
Health Care Plan - Participant Eligibility / Calculation / Service	2	3	3	3	3	4	2.95	Medium	-			X		

SERS 2024 Risk Assessment - by Department	Risk Factors						Combined Risk Rating	Risk Rating	Last Year Audited	Internal Audit Planned Coverage	Planned Hours	External Audit	Other 3rd Party	SERS Control Monitoring
	20%	20%	15%	15%	15%	100%								
Auditable Area	A. Control Design and Effectiveness	B. Impact to Members, Retirees, Employers, Public, Reputation	C. Changes in Organization, Programs, Operations	D. Complexity of Activities, Operations, or Systems	E. Dollar Materiality/Operational Impact	F. Impact of Fraud, Waste, or Data Loss								

Administrative Services

Personnel Management	2	3	3	3	2	2	2.50	Medium	-				X	
Employee Payroll, Timekeeping & Leave	2	3	2	2	3	4	2.65	Medium	FY2021			X	X	
Employee Health Care Plan / Costs	2	3	3	2	2	4	2.65	Medium	FY2017					
Policy / Procedure - Development, Review, and Monitoring	1	3	3	2	2	1	2.00	Low	FY2017					
Other Benefits	2	1	2	1	1	3	1.65	Low	-					
Employment Practices (Recruitment, onboarding, separations, etc)	2	2	2	1	1	1	1.55	Low	-					
Imaging and Information Governance	3	4	4	3	4	4	3.65	Medium	2019					
Records Management / Records Requests	3	4	4	3	2	4	3.35	Medium	-					

Information Technology

Application Management - Software Management/SMART	3	5	3	5	5	5	4.30	High	FY2020					X
Identity and Access Management (IAM)	2	4	3	4	5	5	3.75	High	FY2016	X	120	X		X
Business Continuity / Disaster Recovery	3	4	4	3	5	3	3.65	Medium	FY2021					X
IT Vendor Management	3	4	3	3	3	4	3.35	Medium	FY2019					X
Virtualization	3	3	4	3	3	4	3.30	Medium	-					X
Cloud Based Computing	3	3	4	3	3	4	3.30	Medium	FY2022					
Mobile Device Security	3	3	4	3	3	4	3.30	Medium	-					
IT Change Management	2	3	4	4	3	4	3.25	Medium	FY2017			X		
Physical Access - IT General Controls	2	4	2	3	4	4	3.15	Medium	FY2016			X		X
Web Self Service - eSERS	2	4	3	3	4	3	3.15	Medium	-					
Asset Management - Hardware	3	3	3	3	3	4	3.15	Medium	FY2019					
IT Governance	3	4	4	2	2	2	2.90	Medium	FY2018					

Investments

Alternative Investments - Real Estate, Private Equity, Hedge Funds	2	4	4	5	5	4	3.90	High	-			X		X
Investment Management Fees	3	4	2	5	3	4	3.50	Medium	-					X
Investment Governance & Management - SERS Investment Committee	2	4	3	4	4	3	3.30	Medium	FY2016					X
Fixed Income, US Equity, Non-US Equity, Foreign Currency, Mutual Funds	2	3	4	4	4	2	3.10	Medium	FY2019			X		X
Investment Risk Management	2	4	3	4	3	3	3.15	Medium	-					X
Investment Due Diligence Review (Existing Investments)	2	4	3	4	2	3	3.00	Medium	-					X
Interest and Dividend Income	2	4	3	2	3	4	3.00	Medium	-			X		X
Capital Calls and Distributions	2	4	2	3	4	4	3.15	Medium	FY2021			X		
Securities Lending	2	2	3	3	2	3	2.45	Medium	-			X		X
Investment Data Management / Maintenance / Retention	1	2	3	3	2	4	2.40	Medium	-					X
Ethics - Conflict of Interest Confirmation	1	3	2	2	2	3	2.15	Low	FY2023	X	60			

Member Services

Retirement - Benefits / Calculations / Estimates	2	5	3	4	5	4	3.80	High	FY2020					
Member Withdrawals / Refunds & Lump Sum	2	4	3	4	5	4	3.60	Medium	FY2021			X		
Survivor - Benefits / Calculations	3	3	3	4	3	5	3.45	Medium	-	X	180	X		
Member Account Maintenance	3	4	3	3	3	5	3.50	Medium	FY2022			X		
Disability - Benefits / Calculations	2	4	3	4	5	4	3.60	Medium	FY2023			X	X	
Required Minimum Distribution (RMD)	2	4	3	3	4	4	3.30	Medium	FY2021			X		
Death Benefits - SSN Matches/Proof of Life	3	4	3	3	3	4	3.35	Medium	FY2022					
Customer Service / Member Counseling Center	2	3	3	3	4	2	2.80	Medium	-					
Confidential Data Management	2	4	3	3	3	4	3.15	Medium	-					
Portability - Retirement System Transfers / Calculations	2	4	3	3	3	3	3.00	Medium	FY2016					
Member Statements	3	4	3	2	2	1	2.60	Medium	-	X	140			
Service Purchase Credit / Calculation	3	3	3	2	1	4	2.70	Medium	FY2023					
Retirement - Application Process	2	4	3	3	2	2	2.70	Medium	-					
Self Service Portle/On-line Activity	2	3	3	3	3	4	2.95	Medium	-					
Reemployed Retirees / QEBA (This potentially belongs to finance)	2	3	2	4	1	3	2.50	Medium	-					



SERS Audit Committee Charter

BD5-015

Effective Date:	03/21/2013	Revision Date:	06/18/2020	Audience:	Everyone
Owner:	Board	Certifier:	Richard Stensrud	Co-Owner (s):	Executive
Document Links:	Purpose , Policy , Procedure , Definitions , Related Documents , Policy History				

Purpose

The purpose of this Audit Committee Charter is to assist the SERS Board in fulfilling its oversight responsibilities for:

- Financial and non-financial reporting processes;
- The system of internal control and risk management;
- Internal and external audit processes of SERS; and
- Compliance with laws and regulations and SERS’ policies governing ethical conduct.

Policy

Authority

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Oversee the operations of the internal audit activity.
- Oversee the work of any registered public accounting firm employed by the organization.
- Resolve any disagreements between management and the external auditors regarding financial reporting.
- Seek any information it requires from employees – all of whom are directed to cooperate with the Committee’s requests – or external parties.
- Meet with SERS’ management, internal auditors, external auditors, or outside counsel, as necessary.

Composition

The Audit Committee consists of three members of the SERS Board. The Board Chair will appoint the Committee Chair on a biennial basis. Following the appointment of the

Committee Chair, the Board Chair will ask for other Board members to fill the remaining spots on the Committee, with such commitments being for a two-year term.

Each committee member will be both independent and familiar with the finances of SERS. One committee member will be a retirant member and one committee member will be an employee member. One member shall be an “investment expert” or an “investment designee” as defined in Ohio Revised Code Section 3309.05.

Meetings and Communications

The Committee will hold regular meetings each quarter. Notice for all meetings shall be given in accordance with Rule 3309-1-25. The Committee may also convene additional meetings as circumstances require.

All committee members are expected to attend each meeting. The Committee will invite members of management, internal and external auditors, or others to attend meetings and provide pertinent information as necessary. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared and approved by the Committee at the subsequent meeting. Meetings will be arranged and conducted in accordance with Ohio’s open meeting laws. Subject to open meeting laws, the Committee may hold executive sessions.

Responsibilities

Certain committee responsibilities will be carried out by the SERS Board at regular Board meetings (external audit results, enterprise risk management, management operational reporting, etc.). The Committee will ensure the following responsibilities are performed:

1. Financial Statements

- 1.1** Obtain information and training to enhance the Audit Committee members’ expertise in financial reporting standards and processes to reasonably oversee financial reporting.
 - 1.2** Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
 - 1.3** Review with the external auditors the results of the audit, including any difficulties or disagreements encountered.
 - 1.4** Review the Comprehensive Annual Financial Report and related regulatory filings before release and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
 - 1.5** Review with the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
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- 1.6 Review all significant adjustments proposed by the external auditor.
- 1.7 Review all significant external auditor recommendations and management responses.
- 1.8 Review with General Counsel the status of legal matters that may have an effect on the financial statements.
- 1.9 Review the statement of management's responsibility for internal controls.

2. Internal Control

- 2.1 Review and discuss the organization's risk management and internal control system, including information technology security and control.
- 2.2 Obtain information and training to enhance the Audit Committee members' awareness of the organization's internal controls to limit material weaknesses and fraud.
- 2.3 Understand the scope of Internal Audit's review of risk management and internal control and obtain reports on significant findings and recommendations, together with management's responses.
- 2.4 Understand the scope of the external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- 2.5 Discuss with the external auditors their review of the organization's internal control over financial reporting.

3. Internal Auditing

- 3.1 Review and approve the Internal Audit Charter, plans, activities, staffing, and organizational structure of the internal audit activity, including succession planning.
 - 3.2 As needed, ensure there are no unjustified scope restrictions or resource limitations placed on the internal audit activity.
 - 3.3 Annually approve the goals and objectives of the Chief Audit Officer (CAO).
 - 3.4 At least quarterly, review the goals of the CAO.
 - 3.5 Annually evaluate the performance of the CAO and deliver an annual written evaluation report to the Board.
 - 3.6 Recommend to the Board salary and benefit changes for the CAO.
 - 3.7 As needed, recommend to the Board the CAO's appointment and/or discharge.
 - 3.8 As needed, meet separately with the CAO to discuss any matters that the Committee or CAO believes should be discussed in executive session.
 - 3.9 Receive and review internal audit reports and management responses as appropriate.
 - 3.10 Review the responsiveness and timeliness of management's follow-up
-

activities pertaining to any reported recommendations.

- 3.11 Review periodic updates of advisory and consulting activities by the internal audit activity.
- 3.12 Review the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.

4. External Auditing

- 4.1 Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal auditing.
- 4.2 Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the organization, including non-audit services and compensation practices, and discussing the relationships with the auditors.
- 4.3 As needed, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed in executive session.

5. Compliance

- 5.1 Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- 5.2 Review the findings of any examinations by regulatory agencies, and any auditor observations.
- 5.3 Review the process for communicating applicable policies governing ethical conduct to SERS personnel, and for monitoring compliance therewith.
- 5.4 Obtain regular updates from management and legal counsel regarding compliance matters.

6. Reporting Responsibilities

- 6.1 Regularly report to the SERS Board about committee activities, issues, and related recommendations.
- 6.2 Provide an open avenue of communication between internal auditors, external auditors, management, and the SERS Board.
- 6.3 As needed, review any other reports the organization issues that relate to committee responsibilities.
- 6.4 In accordance with Ohio Revised Code Section 3309.044, the Committee shall annually prepare and submit to the Ohio Retirement Study Council a report of its actions during the preceding year.

7. Other Responsibilities

- 7.1 Perform other activities related to this Charter as requested by the SERS Board.
- 7.2 Institute and oversee special investigations as needed.
- 7.3 Review and assess the adequacy of the Committee Charter annually, requesting SERS Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- 7.4 Review annually that all responsibilities outlined in this Charter have been carried out.
- 7.5 Evaluate the Committee's and individual members' performance on a regular basis.
- 7.6 In accordance with the SERS Reporting of Suspected Misconduct Policy, review results of any suspected misconduct reported to or discovered by the internal audit activity.

Effective Date

This Audit Committee Charter was adopted by the SERS Board on March 21, 2013, and amended by the Board on February 14, 2014, June 19, 2014, September 17, 2015, June 16, 2016, June 15, 2017, June 21, 2018, and June 18, 2020.

Procedures None

Definitions

None

Related Documents and Information

Statutes: 3309.044

Rules: N/A

Document Links: [Purpose](#), [Policy](#), [Procedure](#), [Definitions](#), [Related Documents](#), [Policy History](#)

Forms: ---

Policy History

Version 1 – March 21, 2013– Created – Approved by Board
Version 2 – February 14, 2014 – Edited – Approved by Board
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Version 6 – June 15, 2017 – Edited – Approved by Board
Version 7 – June 21, 2018 – Edited – Approved by Board
Version 8 – June 18, 2020 – Edited – Approved by Board



BD5-013

SERS Internal Audit Charter

Effective Date:	01/20/2011	Revision Date:	06/17/2020	Audience:	Everyone
Owner:	Board	Certifier:	Richard Stensrud	Co-Owner (s):	Executive
Document Links:	Purpose , Policy , Procedure , Definitions , Related Documents , Policy History				

Policy

INTRODUCTION

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of SERS. It assists SERS in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

The vision of SERS' Internal Audit is to be a highly regarded internal audit organization that adds value and mitigates risk by working collaboratively with SERS' leadership to provide objective insights and innovative recommendations to improve operations.

PURPOSE

The purpose of this charter is to assist the SERS' Chief Audit Officer (CAO) in fulfilling the mission and fiduciary responsibilities under the oversight of the Audit Committee. This charter shall be reviewed at least annually and any changes shall be approved by the Audit Committee.

PROFESSIONALISM

The internal audit activity governs itself by adherence to the mandatory elements of The Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing (Standards)*, and the Definition of Internal Auditing. The Chief Audit Officer will report periodically to senior management and the Audit Committee regarding the internal audit activity's conformance to the Code of Ethics and the Standards.

AUTHORITY

The Chief Audit Officer reports functionally to the Audit Committee and reports administratively to the Executive Director. The CAO is hired, retained, and terminated by the SERS Board, upon recommendation from the Audit Committee. The CAO is evaluated annually by the Audit Committee. The Audit Committee seeks input from the Executive Director in the hiring of the CAO.

The CAO is delegated the authority to operate internal audit activities. The Audit Committee retains the right to approve the annual audit plan presented by the CAO. The CAO shall periodically inform the Audit Committee of the status of the audit plan and any changes needed. The CAO is authorized to allocate resources, set project frequencies, select audit engagements, determine scopes of work, and apply techniques necessary to accomplish the audit objectives. If the appropriate need arises, the CAO is authorized to hire, retain, train, develop internal audit staff to achieve the objectives and is authorized to terminate internal audit staff when necessary (subject to applicable laws). The CAO must also communicate the impact of resource limitations.

The CAO is not authorized to perform operational duties for SERS and/or its contractors. The CAO is not authorized to initiate or approve accounting transactions external to the Internal Audit Department. The CAO is not authorized to direct the activities of any SERS employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist internal audit staff.

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of SERS' records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Board.

INDEPENDENCE AND OBJECTIVITY

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in

forming judgments. The standards of independence and objectivity will be evaluated against the Institute of Internal Auditors' *Standards*, Ohio Ethics Law, and SERS' policies governing ethical conduct.

The CAO should discuss any potential issues regarding impairment of independence, objectivity, and/or conflicts of interest and their mitigation with the Audit Committee as necessary. The CAO will confirm annually the organizational independence and independence process in place.

RESPONSIBILITY

The scope of internal auditing encompasses the objective examination and evaluation of the effectiveness of the organization's governance, risk management, and internal control processes, as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, contracts, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Evaluating whether internal and external assurance providers engaged by SERS are coordinated with internal audit activity to provide continuity of audit efforts and to avoid duplication of efforts.
- Performing consulting and advisory services as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Committee or Board.
- Evaluating specific operations at the request of the Committee, Board or management.
- Supporting SERS in achieving its objectives through independent auditing and consulting services.
- Maintaining a dynamic environment which encourages personal and professional growth.

ACCOUNTABILITY

The CAO is accountable for the following in order to meet the mission, objectives and scope of this Internal Audit Charter and the Internal Audit Department:

- Establish policies and an internal audit operations manual for conducting its activities and directing its technical and administrative functions according to SERS' policies and direction provided by the Audit Committee and professional standards.
- Assess periodically whether the purpose, authority and responsibility, as defined in this Internal Audit Charter, continue to be adequate to enable the Internal Audit Department to accomplish its mission, objectives and scope. The result of this periodic assessment should be communicated to the Audit Committee and the Executive Director.
- Establish and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. Results of external and periodic internal assessments, as well as the results of ongoing monitoring, will be communicated at least annually.
- Attend Audit Committee and Board meetings.
- Obtain an external quality assessment review no less frequently than every five years.
- Inform the Audit Committee of emerging trends and successful practices in internal auditing.
- As necessary, assist in the investigation of significant suspected misconduct or fraudulent activities within SERS and notify the Audit Committee, the Executive Director and management, as detailed in SERS' Reporting of Suspected Misconduct Policy, of the results.
- Participate in professional audit organizations by attending meetings, joining governing boards, presenting speeches/papers and networking with other professionals. Network with internal audit staff of other public pension systems to learn and exchange leading practices.
- Participate, in an advisory capacity, in the planning, design, development, implementation and modification phases of major systems or key processes.

INTERNAL AUDIT PLAN

The CAO will conduct an annual risk assessment and produce a flexible risk-based audit plan that will accomplish the mission, objectives and scope of this charter. This plan shall in part be based upon risks and control concerns identified by the CAO, SERS Board/Audit Committee members, SERS leadership, external auditors, third party assurance providers, financial statements, strategic plan, budget initiatives, fraud risks, and industry risks/trends, and will periodically be updated. SERS' enterprise risk management program will be used as a source of potential audit areas in the development of Internal Audit's risk-based assessments. The plan will also consider significant and new or changing services, processes, operations and control processes.

The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal year. This plan will include some unassigned hours in order to provide flexibility for changing conditions. The CAO will communicate the impact of resource limitations and significant interim changes to senior management and the Board. The scope of work of any other internal or external assurance providers will be considered for the purpose of providing optimal audit coverage to SERS at a reasonable cost. The CAO will enact performance measures that reflect the goals and implementation of the audit plan approved by the Audit Committee.

The CAO will implement the approved audit plan and any plan amendments, special tasks, or projects requested by management or the Audit Committee and agreed to by the CAO. Any significant deviation from the approved internal audit plan will be communicated to the Audit Committee, Board, and senior management through periodic activity reports.

The CAO may occasionally need to obtain expertise outside of the Internal Audit Department. This expertise may be obtained within the organization through appropriate arrangements with management. When obtaining this expertise, care must be taken to avoid conflicts of interest within SERS that could damage the quality of audit work performed and/or conclusions obtained; the CAO must also evaluate the competence, independence, and objectivity of such individuals. Expertise may also be obtained from outside SERS through contracts. In such cases, the contract should contain appropriate provisions regarding the nature of the services provided and professional standards to be applied. The Audit Committee should be informed about the use of all external consultants obtained.

REPORTING AND MONITORING

Opportunities for improving member service, management of risks, internal control, governance, and SERS' effectiveness and image may be identified during audits. This information will be communicated to the Audit Committee, Executive Director, and to appropriate levels of management.

A written report will be prepared and issued by the CAO following the conclusion of each internal audit engagement and reports and significant comments will be distributed and discussed with the Audit Committee. The internal audit report will include management's response and corrective action to be taken in regard to the specific recommendations. Management's response to the recommendations should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. If the CAO concludes that management has accepted a level of risk that may be unacceptable to SERS, the CAO must discuss the matter with senior management and, if it is not resolved, communicate the matter to the Audit Committee.

The internal audit activity will be responsible for evaluating management's responses and implementation timelines for reasonableness, as well as appropriate follow-up on

audit recommendations. All moderate and high risk comments will be tracked until cleared. The CAO shall consider residual risk, as well as the cost-benefit of implementing controls to address audit recommendations.

The CAO will periodically summarize results of audit activities and the status of follow-up activities. Also, the CAO will assist in developing the Audit's Committee's annual report required by the Ohio Retirement Study Council.

RISK MANAGEMENT, CONTROLS & FRAUD RISK

Management is responsible for implementing the system of risk management and internal control. The CAO will aid management by evaluating risk management and internal controls during each audit and through consulting activities.

The CAO strives to participate in the initial stages of major projects so risks can be appropriately managed and internal controls instituted in the design phase in order to prevent problems and minimize costs. The CAO recognizes it is more expensive to detect and correct problems than it is to prevent them in the initial stages of a project.

Prevention and detection of fraud and irregularities is a responsibility shared by all members of management. The CAO alone cannot be relied upon by management or by the Audit Committee to detect or prevent errors and irregularities that may occur within SERS.

The CAO's responsibilities for detecting fraud are to have sufficient knowledge of fraud to be able to identify indicators that fraud may have been committed and be alert for opportunities, such as internal control weaknesses, that could allow fraud to occur. The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

EFFECTIVE DATE

This Internal Audit Charter was adopted by the SERS Audit Committee on January 20, 2011, and amended on March 21, 2013, July 15, 2015, June 16, 2016, June 14, 2017, and June 17, 2020.

Procedures None

Definitions

None

Related Documents and Information

Statutes: N/A

Rules: N/A

Document Links: [Purpose](#), [Policy](#), [Procedure](#), [Definitions](#), [Related Documents](#), [Policy History](#)

Forms: ---

Policy History

Version 1 – January 20, 2011 – Created – Approved by Audit Committee

Version 2 – March 21, 2013 – Edited – Approved by Audit Committee

Version 3 – July 15, 2015 – Edited – Approved by Audit Committee

Version 4 – June 16, 2016 – Edited – Approved by Audit Committee

Version 5 – June 14, 2017 – Edited – Approved by Audit Committee

Version 6 – June 17, 2020 – Edited – Approved by Audit Committee