



**SERS Retirement Board Audit Committee Agenda  
Regular Meeting  
September 20, 2023  
2:30 P.M.**

1. Roll call (R)
2. Approval of June 14, 2023 minutes (R)
3. External Audit Update
4. Internal Audit Update: Chief Audit Officer's Report
  - o Q1 Update on the FY2024 Audit Plan
  - o Audit Committee Charter
  - o Internal Audit - Risk Management Coordination
  - o Recently Completed Audits, Other Activities
5. Approve modification to Audit Committee Charter (R)
6. Executive session pursuant to R.C. 121.22 (G) (1) to consider the employment of a public employee (R)
7. Audit committee requests and follow-up items
8. Adjournment

**SCHOOL EMPLOYEES RETIREMENT SYSTEM**

**AUDIT COMMITTEE**

**September 20, 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  
June 14, 2023**

\_\_\_\_\_ moved and \_\_\_\_\_ seconded the motion to approve the minutes of the Audit Committee meeting held on June 14, 2023.

Upon roll call, the vote was as follows:

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

<p><b>School Employees Retirement System</b></p>	<h1>AUDIT COMMITTEE MINUTES</h1>		
<p><b>Preparer</b></p>	<p>Megan Robertson</p>	<p><b>Meeting Date:</b></p>	<p>June 14, 2023</p>
<p><b>Committee Chair</b></p>	<p>Barbra Phillips</p>	<p>Committee roll call was as follows: Barbra Phillips, Catherine Moss. Absent: James Rossler.</p> <p><b>Also in Attendance:</b>          Lisa Reid, Representative of the Ohio Attorney General, and members of the public. SERS Staff Members: Jeff Davis, Joe Marotta, Marni Hall, Richard Stensrud, Karen Roggenkamp, Vatina Gray, Jennifer Chao, Nicole Whitacre, and Megan Robertson.</p>	
<p><b>Agenda</b></p>	<ol style="list-style-type: none"> <li>1. Roll call (R)</li> <li>2. Approval of March 15, 2023 minutes (R)</li> <li>3. FY23 External Audit Update             <ul style="list-style-type: none"> <li>o Plante Moran Pre-Audit Communication Presentation</li> </ul> </li> <li>4. Chief Audit Officer's Report             <ul style="list-style-type: none"> <li>o Q4 Update on the FY2023 Audit Plan</li> <li>o FY24 Audit Planning</li> <li>o FY24 Audit Plan</li> <li>o Audit Committee/Internal Audit Charters</li> <li>o Recently Completed Audits, Other Activities</li> </ul> </li> <li>5. Review and Approve FY24 Internal Audit Plan (R)</li> <li>6. Annual Confirmation of Internal Audit Independence</li> <li>7. Executive session pursuant to R.C. 121.22 (G) (1) to consider the employment and compensation of a public employee (R)</li> <li>8. Approve Chief Audit Officer Goals (R)</li> <li>9. Audit committee requests and follow-up items</li> <li>10. Adjournment</li> </ol>		
<p><b>Discussion</b></p>	<p>The meeting began in open session at 2:31 p.m.</p> <p><b><u>Roll Call</u></b></p> <p>The SERS regular Audit committee began with a roll call. The committee roll call was as follows: Barbra Phillips, Catherine Moss. Absent: James Rossler.</p> <p>Also in attendance were Lisa Reid, Representative of the Ohio Attorney General, and members of the public. SERS Staff Members: Jeff Davis, Joe Marotta, Marni Hall, Richard Stensrud, Karen Roggenkamp, Vatina Gray, Jennifer Chao, Nicole Whitacre, and Megan Robertson.</p> <p><b><u>Approval of Minutes</u></b></p> <p>Catherine Moss moved, and Barbra Phillips 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: Yea: Barbra Phillips, Catherine Moss. Absent: James Rossler. The motion carried.</p> <p><b><u>FY2023 External Audit Update</u></b></p> <p>Jeffrey Davis, SERS Chief Audit Officer (CAO), introduced the audit team from Plante Moran. This will be Plante Moran's first year auditing SERS. Plante Moran was recently awarded a 5-year contract by the Ohio Auditor of State.</p>		

Kristin Hunt, Engagement Partner, from Plante Moran provided a presentation to the Audit Committee. The presentation included the following topics:

- Background information on Plante Moran
- Audits to Perform
- Auditor Responsibilities
- Identification of Significant Risks
- Plante Moran' Approach to internal Control
- Materiality
- Expected Audit Timeline
- Accounting Standard Changes for FY2023
- Questions/Audit Committee Member Views

Ms. Phillips remarked she is excited about the opportunity for a new set of eyes auditing SERS and remarked that SERS is available and flexible to meet Plante Moran's needs.

#### **Chief Audit Officers Report**

Mr. Davis provided a presentation on the status of his FY2023 Internal Audit Plan for the fourth quarter. The audit plan has been substantially completed. One current audit, Employer Services is an ongoing audit that should be completed by the end of June 2023. The Purchasing/Contracts audit has been started but will be included on the FY24 audit plan.

Mr. Davis next discussed the FY24 audit planning process. FY24 audit planning began in April and was completed in May 2023. The process included discussions with all SERS department leadership. There are currently 88 auditable processes. A risk assessment was performed prior to selecting processes for audit. Thirteen audits/projects are included in the FY24 audit plan.

The CAO next discussed the audit committee and internal audit charters. The charters are up to date with the exception of one minor correction that is required that was identified after board materials were submitted. Specifically, the audit committee charter refers to the Comprehensive Annual Financial Report (CAFR). The name of the report was recently changed to the Annual Comprehensive Financial Report (ACFR). Mr. Davis will include a resolution in the September meeting committee materials to make the necessary correction to the charter.

Recently completed audits and other activities were also discussed. Mr. Davis shared his experience at the Central Ohio Fraud Conference and Infosec IT Conference.

Ms. Phillips brought up Artificial Intelligence (AI) and the significance impact it will have on business. Ms. Phillips posed questions about how SERS will put forth best practices where AI is concerned in terms of having levers in place and leveraging its uses. Ms. Phillips would like SERS to think about how they plan to audit AI. Mr. Davis mentioned a draft policy about monitoring AI is in progress. Mr. Davis agreed there will be opportunities to leverage the AI technology in the organization, and there will be presentations about the risks and needs associated with AI. Richard Stensrud, SERS Executive Director, remarked that AI is a topic of concern, as it is currently not possible to predict what it will look like five to ten years from now. Karen Roggenkamp, SERS Deputy Executive Director, commented AI is one of the Risk Management Team's top priorities to work on with Mr. Davis. The partnering will be critical to this protection. Ms. Phillips ended this robust discussion stating her desire that SERS and the Board be forward thinking about AI.

	<p><b><u>Review and Approve FY24 Internal Audit Plan</u></b></p> <p>Mr. Davis continued his presentation by reviewing the FY24 audit plan. After a brief discussion, Catherine Moss moved and Barbra Phillips seconded the motion that the FY 2024 Internal Audit Plan, as discussed at the June 14, 2023, Audit Committee meeting, be approved. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss. Absent: James Rossler. The motion carried.</p> <p><b><u>Annual Confirmation of Internal Audit Independence</u></b></p> <p>Mr. Davis reported SERS' internal auditors must maintain independence and objectivity in performing their duties. Specifically, the Institute of Internal Auditors (IIA) <i>Standards</i> have several requirements that were affirmed by Mr. Davis. There were no issues and no conflicts of interest to report.</p> <p><b><u>Executive session pursuant to R.C. 121.22 (G) (1) to discuss the employment and compensation of a public employee (R)</u></b></p> <p>Catherine Moss moved and Barbra Phillips seconded the motion that the Audit Committee convene into Executive Session pursuant to R.C. 121.22 (G) (1) to discuss the employment and compensation of a public employee. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss. Absent: James Rossler. The motion carried.</p> <p>The committee convened in executive session at 3:25 p.m.</p> <p>The committee returned to open session at 3:48 p.m.</p> <p><b><u>Approve Chief Audit Officer Goals</u></b></p> <p>Catherine Moss moved and Barbra Phillips seconded the motion to approve the Chief Audit Officer's goals for FY2024. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss. Absent: James Rossler. The motion carried.</p> <p><b><u>Recommended Merit Increase in Salary for Chief Audit Officer</u></b></p> <p>Catherine Moss moved and Barbra Phillips seconded the motion to recommend to the Board that Chief Audit Officer, Jeff Davis, receive a merit increase in salary effective the first pay of Fiscal Year 2024. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Catherine Moss. Absent: James Rossler. The motion carried.</p> <p><b><u>Committee Requests and Follow Up Items</u></b></p> <p>There were no requests or follow up items discussed.</p> <p>The meeting adjourned at 3:49 p.m.</p>		
	<b>Action Items</b>	<b>Assigned Person</b>	<b>Due Date</b>
<b>Action Items</b>	n/a		
<b>Agenda for Next Meeting</b>			

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Barbra Phillips, Committee Chair

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Richard Stensrud, Secretary

DRAFT

**ITEM 3.**

**EXTERNAL AUDIT UPDATE**

External Audit Update



# Memo

**To:** Audit Committee  
**From:** Marni Hall, Chief Financial Officer  
**Date:** September 7, 2023  
**Re:** External Audit Update

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The external audit is underway with a plan to present the finished results at the December 2023 board meeting. We expect the audit work to be completed by the end of November. This is the first year of the five-year contract with Plante Moran.

Planning and risk assessment work was performed over the summer. This included gaining an understanding of our internal controls and gathering historical reports.

Year end audit work begins September 11<sup>th</sup> and will last approximately four weeks. It will be performed using a hybrid schedule with auditors present Tuesday-Thursday.

All year-end adjustments are scheduled to be posted by September 8, 2023, including alternative investment valuation adjustments. Fund managers for alternative investments have 60-90 days to submit their capital account statements, delaying this adjustment until the middle of September.

Audit work completed to date includes:

- Internal control documentation
- Review of historical records such as past ACFRs, actuarial valuations, annual investment plans, and board meeting minutes

The remaining audit work is scheduled as follows:

- September 2023
  - Investments
  - Accounts receivables
  - Internal control testing over distributions and contributions
  - Ohio Compliance supplemental testing
  - Distribution and member census data testing
- Late October/November 2022
  - Actuary valuations
  - Review ACFR draft
- December 2023 board meeting

There have been no issues noted to date.

**ITEM 4.**

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



# Internal Audit Update

## September 2023

**Jeff Davis, CAO – Internal Audit**

# Agenda



- Status of FY2024 Internal Audit Plan
- Audit Committee Charter Update
- Internal Audit - ERM Coordination
- Recently Completed Audits and Other Activities



# FY2024 Audit Plan Status



# FY2024 Audit Plan Status



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

# FY2024 Audit Plan Status Continued



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



# Audit Committee Charter Update



# Audit Committee Charter Update



- One minor update is required for the Audit Committee Charter
- Section 1.4 - Review the *Annual Comprehensive 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.



# Internal Audit – Risk Management Coordination

# Internal Audit - Risk Management Coordination



- Internal auditing is an independent, objective assurance, and consulting activity.
- IA role regarding Risk Management is to provide objective assurance to the board on the effectiveness of risk management and collaborate where possible.
- CAO, Chief Risk Officer, ERM Officer, Information Security Officer and Investment Compliance Officer meet weekly to discuss ongoing initiatives, audit activity, and enterprise-wide risks.

# Internal Audit - Risk management Coordination



- Lack of coordination between Internal Audit and Risk Management can lead to strategic risks not being adequately addressed and inconsistent messaging to Board/Senior Management
- ERM has developed an enterprise risk register that includes current enterprise-wide risks

# Internal Audit - Risk management Coordination



- Highest rated enterprise risks as identified by ERM relate to:
  - Information/Data Security
  - Building and Tenant Services
  - Business Continuity/Disaster Recovery
  - Pandemic/Supply Chain
  - Government Relations
  - Cyber Attacks
  - Member Data
  - IT Infrastructure
  - Safety

# Internal Audit – Risk Management Coordination



## Enterprise Risk Model Activities & Internal Audit Roles

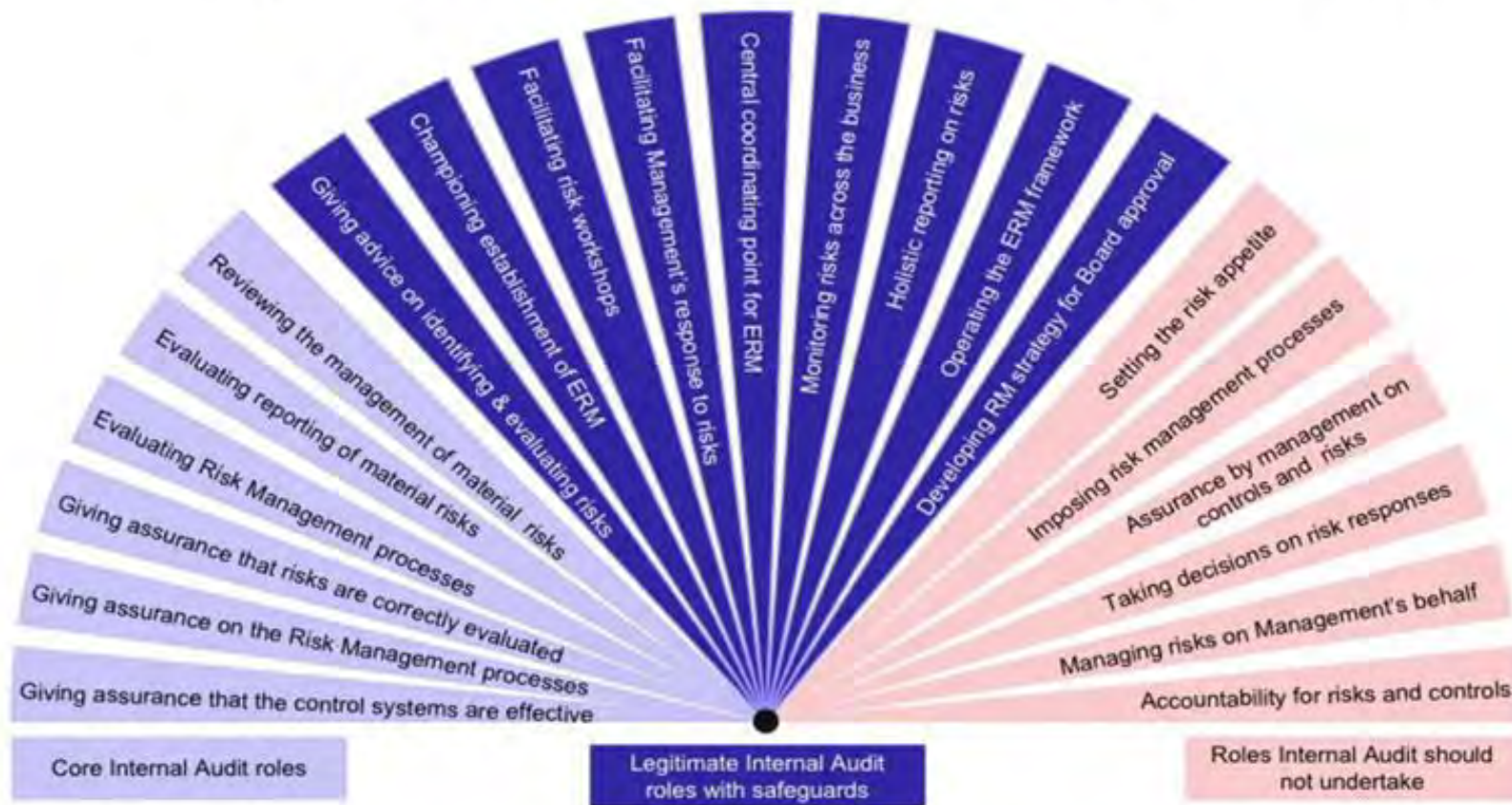


Figure 1: Appropriate reach of internal roles and responsibilities <sup>4</sup>

# Internal Audit – Risk Management Coordination



- Audit Process
  - Departmental/Process audits consider enterprise risks, but also other risks specifically associated with the process being audited
  - For each audit, IA documents risks unique to the process being audited and internal controls
  - Documentation is gathered and a walk through/testing of key controls is performed
- IA incorporates enterprise-wide risks into the audit planning process where possible



# Recently Completed Audits and Other Activities



# Recently Completed Audits and Other Activities



Two audits completed since last committee meeting:

- Employer Reporting (Attachment A)
- Undue Influence (Attachment B)



# Q & A



**ITEM 5.**

**RESOLUTION TO UPDATE THE AUDIT COMMITTEE CHARTER**

**ITEM 5.**

**SERS AUDIT COMMITTEE – AUDIT COMMITTEE CHARTER AMENDMENT**

\_\_\_\_\_ moved and \_\_\_\_\_ seconded the motion to recommend to the SERS Board an amendment to the Audit Committee Charter. Specifically, language in section 1.4 of the Charter that reads “Review the Comprehensive Annual Financial Report will be amended to state “Review the Annual Comprehensive Financial Report”.

Upon roll call, the vote was as follows:

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

**ITEM 6.**

**RESOLUTION FOR EXECUTIVE SESSION**

**(Personnel Matter)**

**ITEM 6.**

**EXECUTIVE SESSION**

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

Upon roll call, the vote was as follows:

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

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

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



**ADJOURNMENT**

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

The meeting adjourned at \_\_\_\_\_ p.m.

\_\_\_\_\_  
James Rossler, Acting Audit Committee Chair



# EMPLOYER REPORTING AUDIT

Attachment A

July 2023

SERS Internal Audit Department

## Business Objectives

Ensure employer reporting and contribution processes are properly designed and operating effectively in accordance with laws, policies and procedures.

## Business Risks

- Noncompliance with policies, procedures or legal requirements
- Inaccurate contributions due to incorrect contribution rates, data or calculations
- Compensation spiking
- Incomplete/untimely payroll reports
- Participants contributing are ineligible
- Penalties not applied to delinquent payroll contributions or reports
- Inadequate contribution error follow-up
- Ineffective communication to employers
- Refunds not issued/ erroneous
- Alternative retirement plans not approved
- Member accounts not properly maintained in active and inactive status
- Payroll reports and funds not processed timely or properly allocated/posted
- System access inappropriate or segregation of duties improper
- Confidential data security

## Management Controls (Bold = Tested)

- **Detailed policies and procedures**
- **eSERS and SMART system edit checks and preventive controls**
- **Standard communication forms/ practices**
- **Exception reports/ reconciliation controls**
- **Management review of refunds or penalty assessment/ offset process**
- **Report monitoring controls**
- **Duty segregation/roles and access rights assigned**
- **Restricted system/record access**
- Business continuity & recovery plans
- Fraud and ethics training
- Adequate resources
- Background checks
- Cross training & succession planning

## Recommended Actions

- There was 1 moderate and 2 low risk/process improvement recommendations:
1. Ensure Employee Web Administrator forms are imaged and unavailable for review. (Moderate)
  2. Review receivable balances from FY17 and FY18 and resolve where possible. (Low)
  3. Develop risk-based strategy and monitoring approach to monitor higher risk activity. (Low)

## Management Responses

Management agrees with the recommendations and will do the following:

1. Employer Services will undertake a project to confirm and document the EWA for each employer, ensuring that the documentation is imaged into the employer account.

NOTE: Low risk comments will be adequately addressed by management (see page 11).

## Results Summary

Overall, controls for employer reporting and contributions were **properly designed and operating effectively** to achieve the business objective. No high-risk issues were identified. Internal Audit concludes:

Objective	Conclusion
Employer Reporting	Well-Controlled with Improvement Needed

Legend of Results:

- Red** - Significant to SERS; Require Immediate Attention
- Yellow** - Significant to Business Objectives; Requires Near-Term Attention
- Green** - Other Reportable Issue; Process Improvement Opportunity



# Internal Audit Department

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July 21, 2023

Audit Committee, Board of Trustees  
Richard Stensrud, Executive Director  
Karen Roggenkamp, Deputy Executive Director  
Marni Hall, Chief Financial Officer, Finance

## EXECUTIVE SUMMARY

Internal Audit completed the audit of **Employer Reporting**<sup>1</sup>, as included in the *Fiscal Year 2023 Audit Plan*. The business objective was to ensure employer reporting and contribution processes are properly designed and operating effectively in accordance with laws, policies and procedures.

Based on audit results, Internal Audit (IA) determined that overall management controls were properly designed and operating effectively to achieve the business objective. Internal Audit did not identify high risk audit observations. One moderate risk recommendation was identified:

1. Employee Web Administrator (EWA) forms submitted prior to SMART implementation were not imaged and were unavailable for review. Management should take action to ensure EWA forms are imaged and available. This may include requesting that employers complete and submit updated EWA forms to SERS.

During the course of the audit, other reportable matters were identified and reported as low risk or process improvement opportunities. These observations were included in this report. Management has developed appropriate responses, however, Internal Audit will not perform follow up testing on low-risk issues. The low-risk observations were:

1. Review receivable balances from FY17 and FY18 and resolve where possible.
2. Develop risk-based strategy and monitoring approach to monitor higher risk activity.

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

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<sup>1</sup> This audit focused on ensuring employer reporting and contribution processes are properly designed and operating effectively in accordance with laws, policies and procedures. Scope of review did not include testing of census data information that is annually tested by the external auditors. Scope of review includes a limited access control review, not a detailed review of eSERS, SMART or other SERS' IT applications.

## POSITIVE RESULTS

Employer Services' personnel are responsible for processes involving employer reporting and contributions. Personnel are very knowledgeable of requirements for processing employer contributions and reports. They collectively possess a high level of experience, consistently support employers' requests, and process contributions in a timely manner. Employees thoroughly described risks and controls, provided ample supporting documentation, and issued excellent online and written training materials to guide employers in their responsibilities.

Proper supporting evidence and controls were in place and operating effectively during the audit period. Audit results were validated through inquiry, observation, and testing. and specific test observations included:

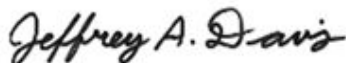
- Surcharge calculations in FY2022 were properly applied to each employer and complied with statewide requirement limits
- Walkthroughs reflected proper segregation of duties and back-up personnel
- Employer and employee contributions tested were accurate and uploaded timely

A few weaknesses were noted but overall processes were well configured. Tests of supporting documentation identified no significant exceptions.

Internal Audit is grateful for the assistance and time provided in support of this audit by Employer Services' personnel. Internal Audit would especially like to thank the following individuals for their cooperation, courtesy and professionalism provided on this engagement:

- Marni Hall, Chief Financial Officer, Finance
- Chris Castle, Manager – Employer Services, Finance
- Angie Minnehan, Specialist – Sr. Employer Services Specialist, Finance
- Alisha Russell, Specialist – Contribution Reporting, Finance

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



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

## BACKGROUND

In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by state statute.

Pension benefits are funded through a combination of employee and employer contributions and investment income. Medicare Part B premium reimbursements and death benefits are funded through employer contributions and investment income. The QEBA, a separate plan under Internal Revenue Code §415, is funded by contributions from the retiree's last employer and invested separately in a short-term investment fund. Funding for the health care program comes from employers, retiree premium payments, the federal government, and investment income.

Employee contributions consist of 10% of reported payroll, and member purchases of restored and optional service credits. Employer contributions include 14% of reported payroll, the employer's share of optional and compulsory purchased service credit, early retirement incentives, and the health care surcharge. Employer contributions in excess of those required to support the Pension, Medicare B, and Death Benefits Funds may be allocated to the Health Care Fund.

A health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount and is pro-rated according to service credit earned during the year. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of total statewide SERS-covered payroll for the health care surcharge. For FY2022, the minimum compensation level was established at \$25,000. The surcharge included in employer contributions for FY2022 was \$53.8 million.

An audit of employer reporting and contributions was performed in FY18 by Internal Audit. The audit focused on the Finance Department's administration of employer reporting and contributions.

As of June 30, 2022, employers and covered members consisted of:

<b>Employer Type</b>	<b># Employers</b>	<b># Covered Members</b>
Ten Largest Employers	10	20,458
All Other:		
Local	369	50,274
City	183	53,712
Educational Service Center	51	9,090
Village	49	7,183
Higher Education	15	4,102
Vocational/Technical	48	3,169
Community Schools	311	5,521
Other	21	1,554
<b>Total</b>	<b>1,057</b>	<b>155,063</b>

As of June 30, 2022, active employees were:

<b>Active Employees</b>	<b>#</b>
Vested active employees	43,724
Non-vested active employees	111,339
<b>Total</b>	<b>155,063</b>

Schedule of Contributions – Source 2022 ACFR Required Supplementary Pension Information  
(NOTE: employer contributions calculated based on actuarial estimates)

<b>Fiscal Year</b>	<b>Employer Contributions (all funds)</b>	<b>Employee Contributions</b>	<b>Total Contributions (all funds)</b>	<b>Covered-Employee Payroll</b>
2022	\$ 578.3M	\$ 375.8M	\$ 954.1M	\$ 3,734.3M
2021	\$ 537.7M	\$ 346.7M	\$ 884.4M	\$ 3,449.3M
2020	\$ 540.1M	\$ 352.3M	\$ 892.4M	\$ 3,477.6M
2019	\$ 530.9M	\$ 345.2M	\$ 876.1M	\$ 3,462.5M

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

### **A. Employer Reporting and Remitting of Contributions (FIN2-001)**

- *Governs operation of employer reporting and remitting of mandatory contributions and payments.*
- *Employers are required to:*
  - *Withhold, report, and remit all mandatory employee contributions, and voluntary payments (e.g. purchase of service credit) withheld from an employee’s compensation.*
  - *Report and remit mandatory employer contributions either directly to SERS or through the Ohio Department of Education Foundation Program.*
  - *Report and remit any other employer mandatory payments, including but not limited to, payments for health care surcharge, early retirement incentive plans, or alternative retirement plan mitigation.*
  - *Provide employee information as required or needed by SERS for the operation of the system.*
- *SERS should assure such reports, and contributions and payments are timely, in compliance with applicable state and federal law, and properly processed by SERS.*
- *Internal Revenue Code permits “pick-up” of employee contributions by employers. Employers may adopt three types of pick-up plans: salary reduction, fringe benefit (Board-paid), or fringe benefit included in compensation. Employers must notify SERS prior to implementation of pick-up plans and SERS reviews for proper content and compliance with SERS’ policy and IRS regulations to include:*
  - *Employer formally adopts a pick-up plan for a designated group with copy of Board Resolution (Form 15.51). Plan cannot be optional or retroactive.*
  - *Employers must enter the pick-up plan details through eSERS, as well as upload a copy of the board action that implements the plan prior to implementation.*
  - *Contributions covered by the plan must be properly reported as pick-up on the monthly payroll, or risk program delayed implementation.*
  - *Within SMART, SERS records the plan’s effective date, class of pickup, tax deferred and percent, Board paid and percent, and any Pickup-on-Pickup.*
- *Membership enrollment is required for any employee subject to SERS membership. Employers must electronically submit (via eSERS) member enrollment information, which provides necessary personal, job, and employee retirement information.*

**B. Funds - Creation of funds – trustees (ORC 3309.60); Maintenance of Individual Account (ORC 3309.20)**

➤ *SERS board shall be the trustee of the following funds:*

- *"Employees' savings fund" – maintains individual accounts by contributor of the accumulated contributions deducted from the compensation of contributors, together with interest.*
- *"Employers' trust fund" – accumulates employer contributions and the reserves held in trust for the payment of all pensions, disability benefits, or other benefits to contributors retiring or receiving disability benefits in the future or to their qualified beneficiaries.*
- *"Defined contribution fund" - accumulates contributions deducted from the compensation of members participating in a plan together with any earnings and employer contributions.*

**C. Membership Requirements - Contributors to SERS (ORC 3309.23); Members of local district pension system excluded from membership - membership by petition (ORC 3309.24); Coordinating and integrating membership in state retirement systems (ORC 3309.35); Written statement to employee of duties and obligations (ORC 3309.53); Membership determinations (OAC 3309-1-11); Restoration of cancelled SERS service credit (OAC 3309-1-36)**

*The following shall be contributors to SERS:*

- *All employees, as defined in ORC 3309.01 (B).*
- *Employees of an employer supported by the state or any political subdivision wholly controlled and managed by the state or any subdivision. Employees shall become contributors and employers shall agree by formal resolution to accept all requirements and obligations imposed upon employers.*
- *All other individuals who become members.*

*Certain individuals (e.g. students) may choose to be exempt from compulsory membership by filing a written application for exemption with the employer within the first month of employment.*

*In all cases of doubt pertaining to contributors on an individual or group basis or the status of existing or newly created employer units, the decision shall be made by SERS' board, and such decision shall be final.*

*Before employing any employee, each employer shall give a written statement of the person's duties and obligations as a condition of employment. Any such appointment shall be conditioned upon the employee's acceptance of such sections as a part of the contract.*

*A determination request as to whether an individual(s) are required to be members of SERS may be initiated by an employer, an affected individual, or SERS. If contributions have not been remitted and SERS determines the individual is covered by SERS, the employer shall be liable for employee and employer compulsory contributions. If contributions have been remitted and SERS determines the individual is not covered by SERS, any contributions received shall be refunded.*

**D. Employee Contributions - Contribution of contributor (ORC 3309.47); Employer failing to deduct employee contribution (ORC 3309.48); Obtaining optional or compulsory service credit (OAC 3309-1-13); Purchase of service credit – military (OAC 3309-1-28); Purchase of service credit – out of state and other (OAC 3309-1-29); Purchase of service credit - pregnancy and adoption resignation (OAC 3309-1-44); Purchase of school board member service (OAC 3309-1-47); Purchase of exempt service credit (OAC 3309-1-49)**

*Contribution of contributor*

- *Each SERS contributor shall contribute eight per cent of the contributor's compensation to the employees' savings fund, except the board may raise the contribution rate to not greater than ten per cent of compensation.*

- *Contributions shall be deducted by the employer from the compensation of each contributor on each payroll of such contributor for each payroll period and shall be an amount equal to the required per cent of such contributor's compensation.*
- *If an employer fails or refuses to deduct contributions for any employee and to transmit such amounts to SERS, the board may determine amount of the delinquent contributions, including interest, and certify to the employer the amounts for collection.*
- *Delinquent payments from the employer are held in trust pending receipt of a report of contributions for the employee for the period involved. The amount shall then be transferred to the employee's savings fund to the credit of the employee. Any amount remaining after the transfer to the employees' savings fund shall be transferred to the employers' trust fund as a credit of the employer.*
- *Additional deposits may be made to a member's account.*

Employer failing to deduct employee contribution

- *Any employee who left an employer and such employer failed to deduct and transmit to SERS the employee contributions for which membership was compulsory, shall be granted service credit without cost.*
- *Subject to limitations, the liability incurred due to service credit being granted shall equal the combined employee and employer rates of contribution against the compensation of such employee, together with interest, and the total amount shall be collected from the employer and deposited into the employers' trust fund.*

Obtaining optional or compulsory service credit

- *Most members are eligible to purchase service credit when contributing service was optional. Contributing service is optional when contributions were not required by SERS and no contributions or member record was received. Members pay to SERS an amount equal to the employee's and employer's contributions for such period, plus interest compounded annually. Amounts are credited to the employees' savings fund.*
- *To receive service credit for periods of compulsory service prior to June 30, 1991, for which the employer did not deduct and transmit contributions, the member shall pay the employee's share of the back contributions plus interest to the employees' savings fund, and the employer shall pay the employer's share of the back contributions plus interest to the employers' trust fund.*
- *To receive service credit for periods of compulsory service after June 29, 1991, for which the employer did not deduct and transmit contributions, the employer shall pay both the employer's share and the employee's share of the back contributions. Payments for both the employee's and the employer's shares of back contributions shall include interest.*

**E. Employer Contributions – Employer Contribution (ORC 3309.49); Employer minimum compensation contribution (ORC 3309.491); Payment into employers' trust fund (ORC 3309.51); Purchase of service credit with amounts designated as picked-up contributions (OAC 3309-1-54)**

Employer Contribution

- *Each employer shall pay to SERS at such times as required by SERS an amount that shall be a certain per cent of the earnable compensation of all employees, and shall be known as the "employer contribution."*
- *The rate of such contribution shall be fixed by the actuary on the basis of the actuary's evaluation of the liabilities of SERS, but shall not exceed fourteen per cent, and shall be approved by the board. The actuary shall compute the percentage of such earnable compensation, to be known as the "employer rate" required annually to fund liabilities.*

#### Employer minimum compensation contribution

- An actuary shall annually recommend and the board determine for each employer the "employer minimum compensation contribution" needed to fund the cost of providing future health care benefits. The amount shall typically be 2 % of the compensation of all members employed by the employer during the prior year.
- If the total employer minimum contribution amounts to 1 ½ % of the compensation of all members employed by employers required to pay the employer minimum compensation contribution, the board shall reduce the amount determined for each employer so the total amount determined does not exceed 1 ½ % of the compensation of all members employed by employers required to pay the employer minimum compensation contribution. Any reduction shall be applied to each employer in the same proportion as the employer's minimum compensation contribution bears to the total employer minimum compensation contribution.
- SERS shall annually certify to each employer the determined employer minimum compensation contribution. Each employer shall pay to the employers' trust fund the amount certified to the employer. By August 1<sup>st</sup>, SERS shall submit to the superintendent of public instruction a list of employer payments made during the preceding fiscal year.

#### Payment into employers' trust fund

- Each employer shall pay into the employers' trust fund monthly or as the board requires. Payments by school district boards of education may be made from amounts allocated prior to their distribution to individual school districts. Similar processes exist for community and STEM schools.
- Where an employer fails or refuses to make payments to the employers' trust fund or fails to pay any penalty SERS may certify to the state superintendent of public instruction the amount due from such employer, and the superintendent shall deduct from the amount allocated to the employer the entire amounts due to SERS from the employer upon the certification to the superintendent by SERS.

#### Purchase of service credit with amounts designated as picked-up contributions

- A member of SERS may purchase service credit (PSC) by payroll deduction with amounts designated by the member's employer as picked-up contributions under a plan which is in compliance with section 414(h)(2) of the Internal Revenue Code.
- Prior to the PSC with amounts designated as picked-up contributions, the member's employer shall adopt and file with SERS a resolution authorizing the PSC for its employees by payroll deduction with amounts designated as picked-up and paid to SERS by the employer.
- The employer shall remit amounts withheld and designated as picked up contributions directly to SERS monthly, accompanied by a report that identifies the members for which amounts are being remitted by name and social security number.

#### **F. Employer Reporting - Notifying board of personnel changes (ORC 3309.55); Deductions report (ORC 3309.56); Transmission of contributions (3309.57); Penalties (ORC 3309.571); Payment of employee and employer contributions (OAC 3309-1-18); Member Enrollment (OAC 3309-1-19); Contributing status - compulsory and optional (OAC 3309-1-23); Service credit established under retirement incentive plan (OAC 3309-1-43)**

- Each employer shall notify the board of removals and withdrawals of employees that occurred during the month preceding or the period since the period covered by the last notification. Each employer shall keep records and furnish information and assistance to SERS board as it requires.
- Each employer shall deduct on each payroll the contribution payable. The employer shall report contributions deducted to SERS as required by SERS board.
- Each employer shall transmit the required contributions to SERS. SERS will record all receipts and pay them to the treasurer of state.
- Once re-instituted, SERS shall impose the following penalties for:



- Failure to transmit contributions withheld from employees or any amount due the employer's trust fund not later than the date specified under rules adopted by SERS, one hundred dollars per day for each day the employer fails to transmit the contributions or other amounts;
  - Failure to submit a required payroll or other report not later than the date specified under board rules, one hundred dollars per day for each day the employer fails to submit the report, except the penalty shall not exceed one thousand five hundred dollars;
  - Failure to submit a record, fifty dollars per record for each month the record is not filed, except the penalty shall not exceed three hundred dollars.
- "Contribution report" means payroll data for each pay date that has been cleared of any errors or warnings.
  - "Surcharge" means the employer minimum compensation contribution amount.
  - Employee contribution payments and contribution reports shall be submitted to SERS by the fifth business day following the pay date.
  - Annually, SERS shall issue a final school year statement that reconciles the estimated employer payments received with the employer payments owed. Within thirty days of the statement's issuance, the employer shall directly pay to the employers' trust fund any balance owed, or SERS shall directly refund to the employer any overpayments made. SERS shall not issue a refund to an employer whose reports or payments are delinquent.
  - Surcharge payments due to the employers' trust fund shall be collected in one of the following ways:
    - Some employers may opt to pay its surcharge directly to the employers' trust fund. An employer who chooses this option must pay its surcharge within thirty days after receipt of the certified amount due from SERS.
    - For other employers, SERS shall include surcharge payments in the estimated payments certified to the superintendent of public instruction.
  - Payment remittance information shall be submitted in the manner specified by SERS no later than the date the payment is remitted, unless good cause exists.
  - The detailed statement of the employee's personal information shall be submitted through SERS' electronic employer reporting system.
- Service Credit Established Under Retirement Incentive Plan
- Upon adoption of a retirement incentive plan, the employer shall notify SERS.
  - The cost to the employer for each year of credit purchased will be determined by factors recommended by SERS' actuary which yield an amount equal to the additional liability of the amount purchased.

## BUSINESS OBJECTIVES, RISKS, AND CONTROLS

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

<b>Business Objective</b>	Ensure employer reporting and contribution processes are properly designed and operating effectively in accordance with laws, policies and procedures.	
<b>Business Risks</b>	<ul style="list-style-type: none"> <li>• Noncompliance with policies, procedures or legal requirements</li> <li>• Participant awarded inaccurate contributions due to incorrect contribution rates, data or calculations</li> <li>• Compensation spiking</li> <li>• Duplicate or incomplete payroll reports not timely identified</li> <li>• Participants contributing are not eligible</li> <li>• Penalties not applied to delinquent payroll contributions or reports</li> <li>• Inadequate contribution error follow-up</li> </ul>	<ul style="list-style-type: none"> <li>• Ineffective communication to employers</li> <li>• Refunds not processed when needed or processed in error</li> <li>• Alternative retirement plans not approved and processed as required</li> <li>• Member accounts not properly maintained in active and inactive status</li> <li>• Payroll reports and funds not processed timely or properly allocated/posted</li> <li>• System access inappropriate or segregation of duties improper</li> <li>• Confidential data security</li> </ul>
<b>Management Controls</b>  ( <b>Bold = Tested</b> )	<ul style="list-style-type: none"> <li>• <b>Detailed policies and procedures</b></li> <li>• <b>eSERS and SMART system edit checks and preventive controls</b></li> <li>• <b>Standard communication forms and practices</b></li> <li>• <b>Exception reports/ reconciliation controls</b></li> <li>• <b>Management review of refunds or penalty assessment/ offset process</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Report monitoring controls</b></li> <li>• <b>Duty segregation/roles and access rights assigned</b></li> <li>• <b>Restricted system/record access</b></li> <li>• Business continuity &amp; recovery plans</li> <li>• Fraud and ethics training</li> <li>• Adequate resources</li> <li>• Background checks</li> <li>• Cross training &amp; succession planning</li> </ul>

## AUDIT OBJECTIVE, SCOPE, METHODOLOGY, AND CONCLUSION

Internal Audit (IA) aligns its audit practices with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (the Standards)*. Internal Audit has conducted this engagement in accordance with those *Standards*.

These *Standards* require IA plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for observations and conclusions based on audit objectives. Internal Audit believes the evidence obtained provides a reasonable basis for the audit observations and conclusions.

<b>Audit Objective</b>	<p>Determine whether controls are adequately designed, placed into operation, and working effectively to ensure accurate and complete member records and payroll data is being submitted by employers to achieve the business objectives and mitigate significant risks to meeting those objectives.</p> <ul style="list-style-type: none"> <li>➤ Evaluate whether employer reporting and contribution processes are properly designed and operating effectively in accordance with laws, policies and procedures.</li> <li>➤ Maintain the integrity, availability and protection in the storage, use, and transfer of sensitive information.</li> </ul>
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	<ul style="list-style-type: none"> <li>➤ Ensure validity, accuracy, completeness and timeliness of employer reporting and contributions.</li> <li>➤ Ensure sufficient processes exist to recover underpayments, refund overpayments and assess penalties.</li> </ul>										
<p><b>Audit Scope</b></p>	<p><b>Scope/Key Processes:</b> This audit focused on controls within the Finance Department and included a review of governance, risk management, and internal control design and effectiveness for:</p> <ol style="list-style-type: none"> <li>1. Employer reporting and contributions</li> <li>2. Transaction reconciliation, monitoring, handling of over/underpayments</li> <li>3. Communication (employers; transmission/sensitive data handling)</li> </ol> <p><b>NOTE:</b> Scope of review excluded testing of census data information that is annually performed by the external auditors. Scope of review includes a limited access control review, not a detailed review of eSERS, SMART or other SERS' IT applications.</p> <p>Audit Period: July 1, 2022 – December 31, 2022</p> <p>Transactional volume from ACFR reported records indicate employer reporting and contributions for fiscal year 2022:</p> <table border="1" data-bbox="418 842 1414 982"> <thead> <tr> <th>Fiscal Year</th> <th>Employer Contributions (all funds)</th> <th>Employee Contributions</th> <th>Total Contributions (all funds)</th> <th>Covered-Employee Payroll</th> </tr> </thead> <tbody> <tr> <td>2022</td> <td>\$ 578.3M</td> <td>\$ 375.8M</td> <td>\$ 954.1M</td> <td>\$ 3,734.3M</td> </tr> </tbody> </table> <p>There were 1,057 employers and approximately 155,063 active employees.</p>	Fiscal Year	Employer Contributions (all funds)	Employee Contributions	Total Contributions (all funds)	Covered-Employee Payroll	2022	\$ 578.3M	\$ 375.8M	\$ 954.1M	\$ 3,734.3M
Fiscal Year	Employer Contributions (all funds)	Employee Contributions	Total Contributions (all funds)	Covered-Employee Payroll							
2022	\$ 578.3M	\$ 375.8M	\$ 954.1M	\$ 3,734.3M							
<p><b>Audit Methodology</b></p>	<p>IA's methodology included obtaining information on management's business objective and risks, and focused on key processes and monitoring controls management has established to address significant risks. To meet the audit objectives, IA specifically performed the following procedures:</p> <ul style="list-style-type: none"> <li>➤ Reviewed legal requirements, policies and procedures</li> <li>➤ Conducted interviews/walkthroughs with management and key staff members</li> <li>➤ Documented understanding of key risks and controls</li> <li>➤ Performed walkthrough of controls and tested a judgmental selection of employer reporting and contributions during the audit period</li> </ul>										
<p><b>Audit Conclusion</b></p>	<p>Internal Audit determined overall controls for employer reporting and contributions were <b>properly designed and operating effectively</b> to achieve the business objective.</p> <p>Internal Audit did not identify any high risk observations. During the course of the audit, there was one moderate risk observation and two other reportable matters identified and reported as low risk or process improvement opportunities.</p> <p>The overall conclusion was determined to be <b>Well-Controlled with Improvement Needed</b>.</p>										

# OBSERVATIONS AND RECOMMENDATIONS

## 1 – Employer Web Administrator Registration (EWA) Forms

Each school district is required to designate one individual to be the district’s Employer Web Administrator (EWA). The EWA is the contact person for eSERS matters and is responsible for maintaining the district’s eSERS information. The EWA can authorize additional employees to have access to eSERS. A user must be given authorization by the EWA through the Web User Maintenance application, which can only be accessed by the EWA. The EWA also decides which eSERS application a user can access.

EWA forms submitted to SERS prior to SMART implementation were not all imaged and were not readily available for review based on IA’s testing.

### Recommendation

Management should determine the best approach to ensure EWA forms are imaged and available for review. This may include requesting that employers complete and submit updated EWA forms to SERS.

### Management’s Action Plan

Employer Services will undertake a project to confirm and document the EWA for each employer, ensuring that the documentation is imaged into the employer account.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Manager - Employer Services, Finance	March 1, 2024

\* Refer to Appendix A for classification of audit observations.

## OTHER REPORTABLE RESULTS

The following observations are considered to be low risk observations or process improvement opportunities aimed at helping enhance management's processes. Responses by management do not require follow-up testing from Internal Audit.

### **Accounts Receivable Balances**

The employer and employee accounts receivable reports for Employer Reporting include receivables from FY17 and FY18. The majority of these receivables pertain to charter schools and are not considered individually significant to SERS. Many items have been escalated to senior management, actively followed up on, left open for good cause, or awaiting employer responses.

SERS, management should determine the appropriate resolution for those accounts receivable balances from FY17 and FY18.

Management Response: Management will work with legal staff to determine the best approach and document the processes to resolve these outstanding items by 1/1/2024.

### **Employer/Employee Monitoring**

There are additional opportunities to monitor higher risk activity. Specifically, by monitoring employees with unusual combinations of years of service credit with minimal contributions. IA has developed a query to identify unusual activity. Employer Services is also working with IT to develop a query to monitor unusual activity.

Management should work with IT to finalize the query and monitor unusual activity.

Management Response: Management will work with IT Services to have a working, on demand query to identify accounts with unusual combination of high service credit to minimal contributions by 10/1/2023.

## APPENDIX A

### CLASSIFICATION OF AUDIT OBSERVATIONS AND CONCLUSIONS

#### Classification of Audit Observations

Observations will be judgmentally risk ranked based on the below rating factors:

Rating	Description of Factors
Low	Observation poses relatively minor exposure to SERS. Represents a process improvement opportunity.
Moderate	Observation has significant impact to department or business objective but not to SERS as a whole. Compensating controls may exist but are not operating as designed. Requires near-term attention.
High	Observation has broad (SERS organization) impact and possible or existing material business objective exposure requiring immediate attention and remediation.

#### Classification of Audit Conclusions

Each conclusion will be identified with one of the four categories utilizing the following description of factors:

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present and could compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.



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

**cc:** Richard Stensrud, Executive Director  
Karen Roggenkamp, Deputy Executive Director  
Joe Bell, Chief Risk Officer

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

**Date:** August 18, 2023

**Re:** FY23 Undue Influence Certification Report – Compliance Review

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## Background

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

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

## Scope and Objectives

The purpose of this review was to independently verify key SERS staff performed their job duties in good faith according to SERS policies and reaffirm no one had attempted to coerce their work or influence their job performance.

This compliance review is an annual project based on the FY2024 Internal Audit Plan. The time period examined was FY2023 (July 1, 2022 – June 30, 2023).

## Procedures

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



## Internal Audit Department

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The following SERS personnel received this form:

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

Each form was modified to include the position's professional standards of conduct. SERS' staff completed the forms and returned them to the Chief Audit Officer by August 7, 2023.

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

### **Conclusion**

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

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





# Internal Audit Department

## Attachment A:

### SERS Employee Statement Regarding Undue Influence

#### CHIEF INVESTMENT OFFICER / ALL INVESTMENT OFFICERS

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

I also certify, for the period from July 1, 2022 through June 30, 2023, that I am not aware of any situation where a SERS executive, board member, other employee, external third party, or any person acting under such person's direction, has attempted to directly or indirectly coerce, manipulate, mislead, or improperly influence me or another SERS employee to (i) materially depart from the honest and good faith performance of duties in accordance with approved SERS policies, guidelines and procedures; or (ii) withhold required disclosures or provide materially inaccurate, incomplete or misleading information to the Board of Trustees, in each case except as set forth below. I certify that I have not attempted to exert such improper influence on another SERS employee, agent, or board member, except as disclosed below.

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

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

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

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

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



BD5-015

# SERS Audit Committee Charter

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

## 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.

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## Policy

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### 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

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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
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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.

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### Procedures None

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### Definitions

None

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### Related Documents and Information

Statutes: 3309.044

Rules: N/A

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

Forms: ---

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### Policy History

Version 1 – March 21, 2013 – Created – Approved by Board  
Version 2 – February 14, 2014 – Edited – Approved by Board  
Version 3 – June 19, 2014 – Edited – Approved by Board  
Version 4 – September 17, 2015 – Edited – Approved by Board  
Version 5 – June 16, 2016 – Edited – Approved by Board  
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