



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

1. Roll call (R)
2. Approval of September 20, 2023, minutes (R)
3. External Audit Update: Review external auditor's financial statement opinion letter, internal control letter with management's response, and required communications.
4. Internal Audit Update: Chief Audit Officer's Report
  - o Q2 Update on the FY2024 Audit Plan
  - o ORSC Annual Audit Committee Report
  - 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

**SCHOOL EMPLOYEES RETIREMENT SYSTEM**

**AUDIT COMMITTEE**

**December 20, 2023**

\_\_\_\_\_ P.M.

Roll Call:

Catherine Moss	_____
James Rossler	_____
Barbra Phillips	_____

Guests in Attendance:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**ITEM 2.**

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

\_\_\_\_\_ moved and \_\_\_\_\_ seconded the motion to approve the minutes of the Audit Committee meeting held on September 20, 2023.

Upon roll call, the vote was as follows:

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

<b>School Employees Retirement System</b>		<b>AUDIT COMMITTEE MINUTES</b>	
<b>Preparer</b>	Megan Robertson	<b>Meeting Date:</b>	September 20, 2023
<b>Committee Chair</b>	Barbra Phillips	Committee roll call was as follows: Catherine Moss, James Rossler. Absent: Barbra Phillips.  <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, Olivia Hill, Nicole Whitacre, and Megan Robertson.	
<b>Agenda</b>	<ol style="list-style-type: none"> <li>1. Roll call (R)</li> <li>2. Approval of June 14, 2023, minutes (R)</li> <li>3. External Audit Update</li> <li>4. Chief Audit Officer's Report             <ul style="list-style-type: none"> <li>o Q1 Update on the FY2024 Audit Plan</li> <li>o Audit Committee Charter</li> <li>o Internal Audit – Risk Management Coordination</li> <li>o Recently Completed Audits, Other Activities</li> </ul> </li> <li>5. Approve modification to Audit Committee Charter (R)</li> <li>6. Executive session pursuant to R.C. 121.22 (G) (1) to consider the employment of a public employee (R)</li> <li>7. Audit committee requests and follow-up items</li> <li>8. Adjournment</li> </ol>		
<b>Discussion</b>	<p>The meeting began in open session at 2:30 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: Catherine Moss, James Rossler. Absent: Barbra Phillips.</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, Olivia Hill, Nicole Whitacre, and Megan Robertson.</p> <p><b><u>Approval of Minutes</u></b></p> <p>Catherine Moss moved, and James Rossler 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: Yea: Catherine Moss, James Rossler. Absent: Barbra Phillips. The motion carried.</p> <p><b><u>FY2023 External Audit Update</u></b></p> <p>Marni Hall, CFO, provided a status update on the external audit. The audit is underway with a plan to present the finished results at the December 2023 board meeting. The audit work is expected to be completed by the end of November. There have been no issues noted to date. This is the first year of the five-year contract with Plante Moran.</p>		

### **Chief Audit Officer's Report**

Mr. Davis provided a presentation on the status of his FY2024 Internal Audit Plan for the first quarter. The audit of Undue Influence has been completed with a report issued to the Audit Committee. The audits of Investment Incentive Compensation and Conflict of Interest are substantially completed, and reports will be issued before the end of September. The audit of Employer Reporting, that was carried over from FY2023 has been completed and the report sent to the Audit Committee. An audit of Member Services – Survivor Benefits is underway. Also, an audit of Purchasing/Contracts audit has been put on hold until later in the fiscal year. The RFP process for an external audit of Identity and Access Management will begin after the December Audit Committee meeting with the RFP to be issued in January 2024.

Mr. Davis next discussed an update to the Audit Committee Charter. The charter is up to date with the exception of one minor correction that is required. 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). The committee approved a resolution to make the change to the charter.

### **Approval of Modification to Audit Committee Charter**

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

### **Chief Audit Officer's Report Continued**

The CAO next discussed coordination between the Internal Audit office and Risk Management. Mr. Davis discussed the efforts to coordinate audit and risk management activities, enterprise-wide risks and the appropriate roles for Internal Audit related to Risk Management. The audit process was also briefly discussed.

Mr. Davis reviewed the results of the recently completed audits and other activities.

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

Catherine Moss moved, and James Rossler seconded the motion that the Audit Committee convene into Executive Session pursuant to R.C. 121.22 (G) (1) to discuss the employment of a public employee. Upon roll call, the vote was as follows: Yea: Catherine Moss, James Rossler. Absent: Barbra Phillips. The motion carried.

The committee convened in executive session at 2:51 p.m.

The committee returned to open session at 3:04 p.m.

### **Committee Requests and Follow Up Items**

There were no requests or follow-up items discussed.

The meeting adjourned at 3:04 p.m.

	Action Items	Assigned Person	Due Date
Action Items	n/a		
Agenda for Next Meeting			

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James Rossler, Acting Committee Chair

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Richard Stensrud, Secretary

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## **EXTERNAL AUDIT UPDATE**

Review external auditor's financial statement opinion letter, internal control letter with management's response, and required communications

# Memo

**To:** SERS Audit Committee  
**From:** Marni Hall, CFO  
**CC:** Jeff Davis, Richard Stensrud, Karen Roggenkamp  
**Date:** December 7, 2023  
**Re:** June 30,2023 Audit Response memo

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## **FY2023 Financial Statement Audit Finding**

Our external auditors (Plante Moran) have completed the FY2023 SERS financial statement audit and considered SERS' internal controls over financial reporting when designing their audit procedures. Auditing standards require the communication of internal control related matters using the following terminology.

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

Auditing standards provide criteria to assess whether controls meet one of these definitions; however, different auditors may have different opinions on the level of deficiency. SERS received a Significant Deficiency finding related to incomplete month-end bank reconciliations. There were no additional findings.

## **Audit Finding Cause**

The month-end cash reconciliation issue is primarily due to timing differences when employers send automated deposits to our Huntington Bank account compared to when our existing internal processes recognizes the member details and creates offsetting general ledger entries. Typically, there is a one-two business day timing difference. While SERS has adequate daily cash controls, incomplete or delayed monthly reconciliations can result in a potential risk of unrecognized Bank account activity or an unidentified balance remaining in a general ledger holding account. Typically, the monthly unreconciled balance is approximately \$200 thousand out of \$85 million of average monthly receipts. SERS concurs with the Auditor's rating on this issue.

## **History**

Our internal cash reconciliation processes did not take advantage of automated capabilities that could have been included in the SMART conversion to better match deposits and create general ledger details. To date, our General Accounting department utilized other manual controls to bridge the reconciliation requirements which were deemed sufficient by our prior Auditors. However, due to turnover and time needed to train new staff during FY2023, the reconciliations were not completed timely and/or did not consistently classify all outstanding



transactions. By the end of the FY2023 audit, month-end bank reconciliations were completed through June 30, 2023.

### **Remediation Actions**

To address this finding, the Finance staff is refocusing and verifying that existing manual internal controls are being utilized. These include:

1. A daily reconciliation of all incoming bank deposits performed by Employer Services. Employer Services receives daily reports from the bank including a) lockbox deposits with supporting documentation and b) daily bank statements. General Accounting is notified after all deposits for a given day are applied to the intended account.
2. A monthly reconciliation of all incoming monies (Receipts, Pension and Healthcare) between SMART and Huntington bank accounts performed by General Accounting. This ensures daily activity applied by Employer Services produced the appropriate general ledger activity.
3. All cash disbursements are included in a Positive Pay file and submitted in advance. Only items presented for payment that match transactions on the Positive Pay file will settle with the Bank.
4. All disbursements from the bank accounts are initiated by General Accounting and reviewed by Investment Accounting to ensure that all payments have appropriate documentation for the date of payment. Investment Accounting also reviews the next day's bank account to ensure all activity is settled as instructed. Bank disbursements not matching documentation or missing documentation are elevated to the Assistant Director of Financial Reporting.
5. A written plan is in place to complete all month end bank reconciliations timely going forward.

It should also be noted that The Treasurer of State of Ohio (TOS) is the custodian by state statute and assists in setting daily debit limits on each of the accounts.

1. SERS is required to submit supporting documentation for all disbursements to the TOS. The TOS performs a daily reconciliation on a day lag to ensure all payments have been duly authorized by SERS.
2. TOS provides daily a listing of redeemed vouchers. This is reconciled to SMART (daily) and Great Plains General Ledger (Monthly).

### **Technology Enhancements**

Finance is working with Information Technology to make changes in SMART to assist in general ledger activity posting and identification of cash receipts.

- Currently twelve process improvement tickets are being bundled into a project request. Once implemented in late FY2024/or early FY2025, there will be significantly less reliance on manual controls.
- Great Plains our existing general ledger is at the end of life and is being replaced by Oracle NetSuite in FY2024. This will provide additional transactional information.
- Finance completed the acquisition of an account reconciliation tool called Blackline. This tool will assist staff in matching transactions between the Bank and SMART and will be integrated into the above technological changes.

### **Timeline**


Using the remediation and technology enhancements noted above, this audit finding resolution will be resolved by the 1<sup>st</sup> quarter of FY2025 using the following phased approach:

1. Continue to work toward completing timely month-end end bank reconciliations.
2. Improve the quality of the reconciliations.
3. Utilize the enhanced programming and Blackline account reconciliation tools to timely identify and resolve cash reconciliation items.

In summary, both our prior external auditors and new auditors reviewed our reconciliations and controls and concluded that controls are in place to avoid financial misstatements. However, Plante Moran feels that those that administer our governance standards should be made aware of the reconciliation issue and its significance. The Plante Moran auditors and SERS will continue to work together to address the deficiency and monitor progress in FY2024. This progress will also be monitored by our Chief Audit Officer and reported quarterly to the Audit Committee.

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

plante moran



School Employees  
Retirement System of  
Ohio  
Audit Presentation  
December 20, 2023



# Introductions



**Kristin Hunt, CPA**  
**Partner**



**Amanda Cronk, CPA**  
**Principal**



**Ashley Raden, CPA**  
**Senior Manager**



# Agenda

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



# Audit timeline and deliverables

## Audit timeline:

- Spring 2023 – Initiated planning procedures
- July 2023 – Performed interim testing procedures
- July/August 2023 – Performed additional planning and audit procedures
- September/October 2023 – Fieldwork testing
- November 2023 – Finalization of census testing and review of financial statements
- December 5, 2023 – Issuance of audit opinion on Annual Comprehensive Financial Report (ACFR)

## Deliverables:

- SERS' 2023 ACFR opinion and Required Communications with the Board
- GASB 68 Schedule of Employer Allocations and Schedule of Pension Amounts by Employer
- GASB 75 Schedule of Employer Allocations and Schedule of OPEB Amounts by Employer



## Audit areas of focus

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

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



# Results of the audit

## ***Opinion***

We have audited the financial statements of School Employees Retirement System of Ohio (SERS) as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise SERS' basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SERS as of June 30, 2023 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ✓ **Unmodified Opinion**

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



# Results of the audit

## Required Communication with Those Charged With Governance

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





# Results of the audit

## Report on Internal Control over Financial Reporting

Audit identified a Significant Deficiency related to bank reconciliation process

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



# Questions?



Thank you!

*For more information contact:*

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## **Independent Auditor's Report**

To the Retirement Board  
School Employees Retirement System of Ohio

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of School Employees Retirement System of Ohio (SERS) as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise SERS' basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SERS as of June 30, 2023 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***Responsibilities of Management for the Financial Statements***

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

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

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

To the Retirement Board  
School Employees Retirement System of Ohio

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

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

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

#### ***Required Supplementary Information***

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

#### ***Other Supplementary Information***

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

#### ***Other Information***

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

To the Retirement Board  
School Employees Retirement System of Ohio

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2023 on our consideration of SERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SERS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SERS' internal control over financial reporting and compliance.

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

December 5, 2023

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

**Independent Auditor's Report**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of School Employees Retirement System of Ohio (SERS) as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise SERS' financial statements, and have issued our report thereon dated December 5, 2023.

**Report on Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as Finding 2023-001, that we consider to be a significant deficiency.

**Report on Compliance and Other Matters**

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

**SERS' Response to the Finding**

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

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

**Purpose of This Report**

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

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

December 5, 2023



Reference Number	Finding
2023-001	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - Cash reported in the general ledger should be reconciled to the bank balance on a monthly basis to ensure cash is stated in accordance with generally accepted accounting principles.</p> <p><b>Condition</b> - Monthly bank reconciliations were not performed throughout the year; however, bank activity is reconciled daily.</p> <p><b>Context</b> - During our audit, we noted that month-end cash account reconciliations were not completed for any month. While other internal controls over cash exist, a comprehensive reconciliation is not performed over all cash activity.</p> <p><b>Cause</b> - SERS' controls over reconciling cash accounts were incomplete.</p> <p><b>Effect</b> - The lack of timely reconciliations increases the risk that errors can occur without being identified or resolved.</p> <p><b>Recommendation</b> - We recommend that SERS ensure month-end cash reconciliations are prepared and reviewed timely each month to ensure there is no misappropriation of assets.</p> <p><b>Views of Responsible Officials and Corrective Action Plan</b> - SERS agrees with this recommendation. Currently, the subsidiary system is creating cash transactions for the general ledger import on a lag in such a way that a standard bank reconciliation has been challenging to complete timely. SERS has been relying on compensating controls to prevent fraud. A project has been approved to change when the subsidiary system creates cash transactions for importing into the general ledger. This will help SERS complete the bank reconciliations timely.</p>

December 5, 2023

To the Retirement Board  
School Employees Retirement System of Ohio

We have audited the financial statements of School Employees Retirement System of Ohio (SERS) as of and for the year ended June 30, 2023 and have issued our report thereon dated December 5, 2023. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated June 1, 2023, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

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

Our audit of SERS' financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of SERS, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated December 5, 2023 regarding our consideration of SERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 14, 2023.

**Significant Audit Findings**

***Qualitative Aspects of Accounting Practices***

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

No new accounting policies were adopted, and the application of existing policies was not changed during 2023.

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

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

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

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

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

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

- **Long-term Assumed Rate of Return** - For the purpose of Governmental Accounting Standards Board Statement Nos. 67 and 74, as of June 30, 2023, SERS is currently using 7.00 percent for the assumed long-term investment rate of return for pension and OPEB. This expected return is based on information provided by SERS' investment consultant and actuary. The use of this assumed long-term investment rate of return is based on the current approved asset mix and capital market assumptions. We encourage SERS to continually monitor this assumption to ensure it accurately represents SERS' expectations about future market performance.
- **Single Discount Rate** - The calculation of the single discount rate under GASB Statement Nos. 67 and 74, which is calculated using the long-term assumed rate of return as one of many assumptions, is also highly sensitive to estimates the actuary makes about future contributions and future benefit payments. Inherent in those assumptions is some subjectivity surrounding the projection of future contributions. The actuary assumed plan member contributions would be made at the current contribution rate and that employer contributions will be made as required, and these contributions will be sufficient to pay benefits as required by SERS for pension. For OPEB, the contributions are not expected to be sufficient to pay the benefits as required by SERS; thus, the discount rate for OPEB is 4.27 percent, up from 4.08 percent from the prior year.
- **Mortality Assumptions** - The mortality assumptions impact the calculation of total pension liability. The assumptions about mortality were estimated by the actuary by using the Pub-2010 mortality tables and the MP-2020 projection scales. We recommend SERS discuss with the actuary whether updating to the MP-2021 scales is appropriate for the next valuation.

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

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

***Difficulties Encountered in Performing the Audit***

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

***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

We did not detect any misstatements as a result of audit procedures.

***Significant Findings or Issues***

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

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated December 5, 2023.

***Management Consultations with Other Independent Accountants***

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

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

**Other Information Included in Annual Reports**

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

To the Retirement Board  
School Employees Retirement System of Ohio

December 5, 2023

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

Very truly yours,

**Plante & Moran, PLLC**



Kristin L. Hunt, CPA  
Partner



Amanda Cronk, CPA  
Principal

**ITEM 4.**

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



# Internal Audit Update

## December 2023

**Jeff Davis, CAO – Internal Audit**

# Agenda



- Status of FY2024 Internal Audit Plan
- ORSC Annual Audit Committee Report
- Recently Completed Audits and Other Activities





# FY2024 Audit Plan Status



# FY2024 Audit Plan Status



Engagement	Type	Status	Comments
Undue Influence (August 2023)	Audit	Completed	Annual Compliance Audit
Investment Incentive Compensation (September 2023)	Audit	Completed	Annual Compliance Audit
Conflict of Interest (November 2023)	Audit	Completed	Annual Compliance Audit
Survivor Benefits	Audit	Completed	
Identity and Access Management	Audit	In Progress	Outsourced Audit
Member Annual Statements	Audit	Pending	
Purchasing/Contracts	Audit	Pending	
Board Governance – Audit Committee Annual Report	Consulting	In Progress	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	



# ORSC Annual Audit Committee Report



# ORSC Annual Audit Committee Report – Closed Audits: Recommendations



Audit Area	Risk Rating	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target Implementation
Employer Reporting (July 2023)	Mod	<u>Employer Reporting</u> The objective of the audit was to ensure employer reporting and contribution processes were properly designed and operating effectively in accordance with laws, policies, and procedures.	1. Management should ensure employee web administrator (EWA) forms are imaged and available for review.	1. Employer Services will undertake a project to confirm and document the EWA for each employer, ensuring that the documentation is imaged and available for review.	No	March 2024
	Low		2. Management should determine the appropriate resolution for receivable balances from FY17 and FY18.	2. Management will work with legal staff to determine the best approach and document the process to resolve outstanding items.	No	January 2024
	Low		3. Management should develop approaches to monitor higher risk activity.	3. Management will work with IT Services to develop additional monitoring tools.	No	January 2024
<u>Comments:</u> Controls related to Employer Reporting were operating effectively to achieve business objectives.						

Risk Rating Levels:

High: Requires immediate attention and remediation.

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

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

# ORSC Annual Audit Committee Report – Closed Audits: Recommendations (Cont.)



Audit Area	Risk Rating	Scope	Recommendations	Mgmt.'s Response	Implemented	Implementation or Target Implementation
Service Credit Purchase (March 2023)	Mod	<u>Member Services</u> Ensure service credit purchase processes are properly designed and operating effectively in accordance with laws, policies, and procedures.	1. Improve monitoring of service credit purchase activity.  2. Improve documentation of the service credit purchase handbook by including details related to monitoring activity.	1. Member Services will develop procedures to monitor higher risk credit purchase activity.	Yes	August 2023
	Low			2. Management will review the process documentation and make changes as needed.	Yes	August 2023
<u>Comments:</u> Controls related to Service Credit Purchase were operating effectively to achieve business objectives.						

<sup>11</sup> Risk Rating Levels:

High: Requires immediate attention and remediation.

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

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

# ORSC Annual Audit Committee Report – Closed Audits: No Recommendations



Audit Area	Risk Rating	Scope	Management's Response
Survivor Benefits (December 2023)	Low	<p><u>Survivor Benefits</u> Ensure that survivor benefit processes are properly designed and consistently applied in accordance with SERS' policy and procedures and adheres to legal requirements.</p> <p>The audit focused on controls within the Member Services Department and included a review of:</p> <ul style="list-style-type: none"> <li>• Survivor Benefits approval process</li> <li>• Processing and payment of survivor benefits</li> <li>• Monitoring</li> <li>• Communication</li> </ul>	Not applicable.
Comments: Controls for survivor benefits were operating effectively to achieve business objectives.			
Undue Influence (August 2023)	Low	<p><u>All Departments</u> Independently verify key SERS staff performed their job duties in good faith according to SERS' policies and reaffirm no one had attempted to coerce their work or influence their job performance.</p>	Not applicable.
Comments: The CAO and Chief Risk Officer reviewed the submitted undue influence forms and determined they were properly filed with no instances reported on the forms submitted.			
Investment Incentive Compensation Review (September 2023)	Low	<p><u>Investments Department and Enterprise Risk Management</u> Evaluate controls and payments associated with the FY2023 Investment Incentive Compensation Plan.</p>	Not applicable
Comments: The investment incentive plan appears supportive of the Board's intent to reinforce a performance philosophy to attract and retain high-quality talent within Investments. The Chief Risk Officer was effective in completing the calculations in an accurate manner with supporting documentation. There were no calculation errors identified during testing.			

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



Audit Area	Risk Rating	Scope	Management's Response
Conflicts of Interest Compliance Review (November 2023)	Low	<p><u>Investments Department and Investment Compliance</u> Review disclosures by Investments staff and external investment service providers for conflicts of interest compliance. Review included:</p> <ul style="list-style-type: none"> <li>• Investment staff certification</li> <li>• Financial Disclosure Statement</li> <li>• Professional Conduct Statement</li> <li>• Investment Manager Agreement</li> <li>• Required Annual Disclosure Form</li> </ul>	Not applicable.
Comments: Reviewed SERS' Investments staff disclosures and external investment service providers. No exceptions identified.			

## Active Audits: As of December 2023

Audit Area	Risk Rating	Scope	Target Completion
Identity and Access Management	Low	Assessment of the design and effectiveness of key controls related to identity and access management.	June 2024



# ORSC Annual Audit Committee Report – Other Audit Related Activity



Area	Risk Rating	Subject/Project	Description
Disaster Recovery/Cloud Migration	Mod	Disaster Recovery	The CAO provided consulting services related to the ongoing assessment of disaster recovery/cloud migration. This is a continuation of a process that began with an outsourced review, managed by Internal Audit, of SERS' disaster recovery strategies.
Pharmacy Audit	Mod	Benefits	SERS engaged Sagebrush Analytic Solutions LLC to conduct bi-annual audits of its pharmacy benefit manager to determine overall claims processing accuracy and efficiency and to identify opportunities for improved administration. Internal Audit provided consulting services related to the audit.
Medical Claims Audit	Mod	Benefits	SERS engaged Claim Technologies Incorporated to conduct a bi-annual audit of its medical claims administrator to determine overall claims processing accuracy and efficiency and to identify opportunities for improved administration. Internal Audit provided consulting services related to the audit.
Risk Management	N/A	Strategic Plan	Internal Audit provided ongoing consulting into the development and implementation of SERS' risk management program and practices, as identified in audit reports and SERS' FY2020-24 Strategic Plan.
External Audit	N/A	Financial Statements	External auditors provided all required written communication and verbal updates on the audit of the annual financial statements to the Audit Committee and Board.
Committee Report	N/A	CY2023 Annual Report	Pursuant to R.C. 3309.044, a report of actions taken by the Audit Committee of the SERS' Retirement Board for calendar year 2023.
Internal Audit Annual Plan	N/A	FY2024 Plan	The FY2 Internal Audit Plan was approved by the SERS Audit Committee on June 14, 2023.
Merit Increases	Low	Payroll	Reviewed FY24 annual merit increases.
Penetration Testing	Low	Information Security	Consulting with Risk Management related to penetration testing.
Comment Remediation	N/A	Issued Audit Comments	Perform audit remediation activities involving internal, external, and other audit comments.
Financial Reporting	N/A	Financial Statement Controls	The Chief Financial Officer regularly provides updates to the Committee on financial reporting processes, changes in accounting and financial reporting standards, comprehensive annual financial report overview, processes in place to limit material control weaknesses and fraud, and periodic updates on activities involving external auditors or other oversight entities.
Internal Audit Operations	N/A	Internal Audit Quality Assurance	Internal Audit consists of one employee, a Chief Audit Officer (CAO). The CAO continues to maintain quality within audit practices to maintain conformance with IIA <i>Standards</i> . Audit activities include: <ul style="list-style-type: none"> <li>Updated Internal Audit Operations Manual, Audit Committee and Internal Audit Charters, and standard work paper forms.</li> <li>Completed CAO annual goals aimed at improving audit effectiveness, plan completion, coordination, and collaboration.</li> <li>The CAO performed a comprehensive self-assessment of internal audit operations.</li> </ul>



# Recently Completed Audits and Other Activities

# Recently Completed Audits and Other Activities



Three audits completed since last committee meeting:

- Investment Incentive Compensation (Attachment A)
- Conflict of Interest (Attachment B)
- Survivor Benefits
- Attended APPFA (Association of Public Pension Fund Auditors) conference in November
- Identity & Access Management and Cloud Security training



# Q & A



**ITEM 5.**

**RESOLUTION FOR EXECUTIVE SESSION**

**(Personnel Matter)**

**ITEM 5.**

**EXECUTIVE SESSION**

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

Upon roll call, the vote was as follows:

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

**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





# Internal Audit Department

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

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

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

**Date:** September 27, 2023

**Re:** Investment Incentive Compensation Plan - Compliance Review

## Background

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

The objectives of the Plan are to:

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

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

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



## Internal Audit Department

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

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

For purposes of this Plan, the maximum performance goal is 50 basis points over the Board-approved benchmark. If the total fund’s total return (net of fees) in the current fiscal year is negative (less than 0%) then the total incentive compensation will be ratably reduced. Additionally, if the five-year annualized return of the total fund (net of fees) is less than the actuarial assumed rate of return (7.0% during 2023), the total incentive compensation for each incentive-eligible employee will be reduced by 10%.

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

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



## Internal Audit Department

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

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

### **Scope and Objectives**

The objective of the audit was to evaluate the payment accuracy and completeness associated with the 2023 Investment Incentive Compensation plan. The performance period for purposes of the Plan coincide with SERS' fiscal year 2023 (July 1, 2022 through June 30, 2023).

### **Procedures**

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

- Review SERS' May 19, 2022, Board-approved Investment Department Incentive Plans.
- Review SERS Board's Statement of Investment Policy to include the identification of benchmark measures and asset class allocation strategies.
- Hold in-person engagement planning meeting and periodic status update discussions with the Chief Risk Officer.
- Obtain BNY Mellon's June 30, 2023, Individual and Total Fund Summary Report by Asset Class, Net of Manager Fees.
- Obtain SERS' Investment Accounting Division's statement of Certification of SERS' Returns and Benchmarks for fiscal year 2023.
- Obtain relevant information relating to each employee eligible for an incentive award from Administrative Services.
- Obtain from Administrative Services the individual's annual performance ratings and review against the overall eligibility criteria of meets expectations.
- Obtain incentive award calculations completed by the Chief Risk Officer.
- Recalculate investment performance returns at the total fund, asset class, and/or portfolio levels.



## Internal Audit Department

- Verify individual incentive compensation award calculations and compliance with SERS' incentive compensation plan.
- Compare the investment performance returns used for the award calculations to records prepared by BNY Mellon and/or SERS.
- Compare interim calculations to final computation sheet signed by the Executive Director and Chief Risk Officer.

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

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

### Observations

Observations regarding the process, interview, and test results:

- **Policy:** Investment Incentive Plan appears to be aligned with Board goals.
- **Incentive Calculations:** The calculation formula involves a degree of complexity and the Chief Risk Officer maintained a very detailed spreadsheet with supportive records for calculations.
  - *The Chief Risk Officer was effective in completing the calculations in an accurate manner with supporting documentation. There were no calculation errors identified during testing.*
  - *SERS' five-year annualized return of the total fund (net of fees) on June 30, 2023 was 8.26%. This rate exceeded the actuarial assumed rate of return (7.0% during 2023).*
  - *One individual received an overall rating of "Needs Improvement" on their Annual Performance review for fiscal year 2023. This score falls below the required overall rating of "Expected Performance," and therefore were ineligible to receive incentive compensation. The CIO and remaining Investment Officers met the eligibility requirements of the Plan.*
  - *SERS' total fund's total return (net of fees) in the current fiscal year was 7.39%.*



## Internal Audit Department

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### Conclusion

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



# Internal Audit Department

Attachment B

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

**cc:** Richard Stensrud, Executive Director  
Karen Roggenkamp, Deputy Executive Director  
Farouki Majeed, Chief Investment Officer  
Terri Martin, Investment Operations Manager  
Joe Bell, Chief Risk Officer  
Joe Marotta, General Counsel

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

**Date:** November 10, 2023

**Re:** 2023 Investment Conflicts of Interest - Compliance Review

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## Background

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

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

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

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

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

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



## Internal Audit Department

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

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

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

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

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

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

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

### **Scope and Objectives**

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

This review is an annual project based on the FY2024 audit plan. The time period examined for Investment staff was FY2023 (July 2022 – June 2023). The period reviewed for investment service providers (private managers, public managers and vendors) was January 1 through December 31, 2022. In FY23 a change was made to the reporting requirements to have all managers file disclosures based on a calendar year.



## Internal Audit Department

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SERS' Investment staff completed all forms and submitted them to the Chief Audit Officer on June 7, 2023. SERS' investment service providers submitted their RAD forms for both public and private managers and vendors to the Risk Management and Compliance Analyst.

### Procedures

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

a. Annual Investment Staff Certification (INV-7007)

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

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

b. Financial Disclosure Statement filed with the Ohio Ethics Commission

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

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

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

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

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





## Internal Audit Department

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

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

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

Description: Contracts require external investment service providers to annually certify, via the RAD forms, whether any actual, potential, or perceived conflicts of interest exist. SERS' Risk Management and Compliance Analyst maintains control over the mailing, receipt, review, and follow-up processes involving the RAD forms for 97 investment service providers (42 public managers and vendors; 55 private managers).

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

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



## Internal Audit Department

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Sufficient policies document the Investment Manager Annual Disclosure process. All RAD forms, with the exception of one firm, for FY22-23 were submitted at the time of this audit and those tested were properly reported and did not identify any potential conflicts of interest. The Risk Management and Compliance Analyst and CRO provided adequate evidence of review of the 2022-23 RAD forms and effectively reported the results in an annual memo to the CIO and Executive Director on October 23, 2023.

### Observations

Observations regarding the process, interview, and test results:

- **Contract Requirements:** Conflicts of interest language appears to be effective and consistently applied to new and existing contracts.
- **Investment Manager Agreement:** Contract terms and form contains sufficient requirements defining conflicts of interest circumstances and notification protocol for violations.
- **Required Annual Disclosure Form:** Requesting and tracking process for RAD forms appears to be well-developed, consistently submitted, and effective in identifying and addressing potential conflicts of interest.
- **Policies and Procedures:** Detailed operating procedures adequately define the investment manager annual disclosure process and controls. The Risk Management and Compliance Analyst verifies information received from investment service providers is consistent with data reported to the SEC or other SERS-internally generated information.
- **Communication:** Required Annual Disclosure forms may contain confidential records. The Risk Management and Compliance Analyst's communication to investment managers provides varied levels of secure transmission depending on the client's preference.
- **Reporting:** The *Annual Disclosures of Conflicts of Interest by Investment Managers and Vendors* memo was completed October 23, 2023. Any issues during the year are communicated in real time to the CIO and/or the responsible SERS' investment manager.
- **Documentary Evidence:** A spreadsheet is used to document and track the receipt of all RAD forms and resolution of any potential conflicts of interest reported by investment service providers. Documentation evidencing management's review and resolution of reported matters was adequately prepared for 2022-23.



## Internal Audit Department

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### Conclusion

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

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

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

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