

# STATE AUDIT COMMITTEE

**TUESDAY, DECEMBER 2, 2008, 10:00 A.M.**  
**VERN RIFFE CENTER FOR GOVERNMENT AND THE ARTS**  
**77 SOUTH HIGH STREET, 31<sup>ST</sup> FLOOR, SOUTH CONF. ROOM A**  
**COLUMBUS, OHIO 43215**

Members Present: William Shkurti, Chair  
William Keip  
Richard Mueller  
Beverly Vitaz

Members Absent: Stuart Laws

## **CALL TO ORDER**

Mr. Shkurti called the meeting to order at 10:02 A.M.

## **WELCOME**

Mr. Shkurti opened the meeting by welcoming Beverly Vitaz, who was absent from the September 30 meeting, to the State Audit Committee.

Mr. Shkurti stated that it was the goal of the meeting to review and approve the State Audit Committee Charter (Committee), discuss the Ethics Policy, review and approve the OBM Office of Internal Audit (OIA) Charter, and address all other matters on the agenda.

## **APPROVAL OF MINUTES**

The minutes of the meeting held September 30, 2008, were unanimously approved with no changes.

Rich Mueller stated that it would be beneficial to have a document available to denote open and closed matters before the Committee to ensure that all action items are tracked. Joe Bell will provide.

## **STATE AUDIT COMMITTEE CHARTER**

Joe Bell provided the members with an overview of the edits made to the previous draft charter. Those changes were mostly editorial and for better document flow. The changes better reflect HB 166 (127<sup>th</sup> General Assembly) requirements. Other changes ensure that appropriate levels of review of audit reports and regular communication between the Ohio Bureau of Workers' Compensation Board of Directors Audit Committee and the State Audit Committee regarding audit issues that may impact the business of the Committee. Rich Mueller suggested minor changes to the "Responsibilities, #2 Internal Audit" section – removing "may" from the last two sentences of the section.

The Committee unanimously approved the Charter with those minor changes.

## **ETHICS POLICY**

Mr. Shkurti clarified that the Ethics Policy was constructed so that every work relationship of the Committee members would not be affected. Joe Bell explained that the policy also defines their roles as not acting as “representatives” while serving as members.

Kathleen Madden, Office of Budget and Management (OBM) Assistant Chief Legal Officer, explained that the policy is a merging of OBM’s and the Governor’s ethics policies and is more usable for this Committee. Rich Mueller stated that he currently serves on a non-profit board and will check to see if any state agencies are involved with it. Other members posed questions about other possible conflicts of interest in their daily business. Ms. Madden explained that it’s always best to disclose and discuss those issues as they may arise and that depending on the matter, members may have to recuse themselves from decisions before the Committee.

Beverly Vitaz asked if they would need to sign the Ethics Statement annually and Joe Bell affirmed that this would be an annual process.

Present members stated that they would sign the agreements and submit them to the Committee Liaison.

## **OBM OFFICE OF INTERNAL AUDIT CHARTER**

Joe Bell explained that most changes made to the OBM Office of Internal Audit Charter from the last meeting were editorial in nature. He stated that the statement of performing all audit work in accordance with the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors (IIA) was added. Also added was the paragraph explaining the best practices and frameworks that OIA would utilize.

Joe also explained the need to develop a fraud reporting process with the Committee as this is a responsibility of OIA within HB 166. At the next meeting Joe would like to discuss the process to report fraud.

The Charter was unanimously approved by the Committee.

## **CHIEF AUDIT EXECUTIVE UPDATE**

Joe Bell updated the committee on the progress of the external vendor contract with Crowe Horwath, LLP (Crowe). He noted that OIA and Crowe are currently working on the establishment of the office – e.g. policies and procedures, staffing plan, budget plan, Internal Audit Manual, tools and technology and processes. The establishment phase will wrap up in January 2009.

The enterprise risk audit portion of the contract will begin in February 2009 and go through April 2009. Areas of focus will be Payroll, Procurement, Financial Reporting and Information Technology (OAKS). OIA is communicating with agency senior management regarding their current risk profile as well as alerting them to the upcoming areas of audit that will affect their respective agencies.

Bill Keip asked if this contract/Request for Proposal was funded through the Controlling Board. Joe explained that funding for OIA was granted through the Controlling Board for Fiscal Year 2009 and included costs for an outside vendor. A chargeback method is being crafted for Fiscal Year 10 and beyond. Chairman Shkurti asked if OIA was impacted by the publicized rounds of

budget cuts. Mr. Bell confirmed that OIA is scaling back on original plans and will base audit efforts on areas of high risk. The Chairman asked what the amount was that was approved and Joe explained that the Controlling Board approved \$8.6 million but a significant amount would be given back to agencies through a rate holiday. He went on to explain that no firm amount has been set to date.

Joe continued his update by informing the Committee that due to the budget cuts it was important to determine the right mix of staff. He is currently in the process of interviewing for key leadership positions. He has also met with several agency directors, Chief Finance Officers, and Chief Information Officers to explain the current staff plan. There will be further communication through Pari Sabety, OBM Director.

Next steps will focus on developing the OIA audit manual, prioritizing the OIA staffing plan, developing more detailed agency risk assessments, and refining the budget implications for agencies.

## **AUDITOR OF STATE PRESENTATION**

Robert Hinkle, Chief Deputy Officer, led the presentation and introduced Cynthia Klatt, Chief Auditor – State Region. Mr. Hinkle provided a high-level overview of the duties of the Auditor of State and the external audit efforts.

Ms. Klatt updated the Committee on the status of the Fiscal Year 2008 financial statement audit of the State of Ohio's Comprehensive Annual Financial Report (CAFR). She explained that the entrance conference was held on August 20, 2008, and noted that Committee members would be invited to future entrance conferences. Status update meetings were held with OBM staff on October 2, 2008, and November 20, 2008. She noted that the audit team has been told the OBM-prepared financial statements will not be available until March 2009 due to implementation issues related to the Ohio Administrative Knowledge System (OAKS). She is targeting June 2009 for the Auditor of State Financial Statement Opinion to be issued based on receiving the financial statements by early March.

Mr. Hinkle stated that it was a goal of the Auditor of State to have future audits of this nature completed in a six month timeframe after year end (December 31<sup>st</sup>). The current audit will produce two reports: CAFR and the Federal Single Audit. Ms. Klatt stated that she will provide updates to the Committee as needed regarding any sensitive matters, disagreements, or timeline changes. Chairman Shkurti asked if it was the AOS' intention to have a representative at all future Committee meetings. Mr. Hinkle stated that his office would have a person at each meeting.

Ms. Klatt explained that the status of the State of Ohio audit would be provided to those charged with governance – the Governor of the State of Ohio, President of the Ohio Senate, and Speaker of the House of Representatives. Mr. Hinkle stated that starting with this audit they will also include Chairman Shkurti. Rich Mueller asked if a Management Letter would be issued and shared. Mr. Hinkle stated that it would be shared with the Committee and OIA. Mr. Bell stated that audit reports produced by OIA would be shared with the Auditor of State.

Chairman Shkurti asked if there were any current concerns. Ms. Klatt stated that the concerns they have surround the fact that the financial statements would not be available until ~~by~~ March thus delaying the final report. She also expressed that the SAS 70 of the OAKS system will identify several management comments which will affect the audit of the financial statements (CAFR).

Beverly Vitaz asked if the risk assessments performed by the AOS were similar to what OIA will utilize. Mr. Hinkle and Mr. Bell stated that their goal was to not duplicate efforts and they would work to leverage information. Mr. Hinkle explained that their office may rotate agency audits each year based on information from the financial statements. Some agencies due to their size and complexity are audited every year while smaller, less complex agencies are audited every other year. The AOS outsources some audits to external vendors for large agencies such as the Bureau of Workers' Compensation.

Chairman Shkurti asked if the federal authorities will have concerns with the current audit being issued after the Single Audit deadline (9 months after fiscal year end). Mr. Hinkle stated that there is concern regarding the lateness and there will be a communication to the federal cognizant agency regarding the late submission.

Ms. Klatt stated that she would e-mail a link for the last Single Audit report for the Committee to review.

Chairman Shkurti asked what other divisions were within the Auditor of State's office. Mr. Hinkle stated that there is a total AOS audit staff of 700 that perform various functions. The AOS has over 5,600 clients of which over 200 are state agency related and the rest are at the local government level. They also have a Special Investigations Unit that investigates fraud related matters, a Performance Audit Section that completes performance audits, a LGS Section that provides financial management services and a Medicaid Contract Audit Section that audits Medicaid providers.

## **ISSUED AUDIT REPORTS PROCESS**

Joe Bell led the discussion of how OIA will present future preliminary audit reports for review by the Committee. There also needs to be a process or protocol in place for the Committee to issue a final audit report as indicated in HB 166. Beverly Vitaz and Chairman Shkurti stated there should also be a protocol in place to notify the Speaker of the House and President of the Senate of final reports. A discussion was held regarding a process of handling "emergency" issues. Mr. Bell stated that he would consult with OBM legal counsel and provide an update to the committee.

Mr. Shkurti asked for a separate discussion with Tom Holsinger, OBM Chief Finance Officer, which would explain the State of Ohio state accounting financial statement reporting process.

## **2009 MEETING SCHEDULE**

Potential meeting dates will be sent to all members.

The Committee broke for lunch at 12:00 P.M. and reconvened at 1:00 PM

## **CROWE HORWATH LLP PRESENTATION**

Bill Watts provided an update to the Committee on the progress of the establishment of OIA and addressing the enterprise risks. Mr. Watts explained they are essentially responsible for focusing on four areas: transformation (workforce, transition strategy), policies and procedures (overall management, audit execution, communication and templates), information technology/infrastructure (automation needs), and conducting enterprise audits. Committee members posed the question if there would be OIA staff assisting in the audit activity with

Crowe. Joe explained that there will be senior leadership available and perhaps some other audit staff available.

Joe assured the Committee that knowledge transfer of the audit was a priority and was working to obtain the workforce needed to complete the project. Chairman Shkurti asked that for the next meeting a one-page table be provided outlining how OIA staff will be maximized with Crowe staff during the project.

Members also asked if they would be provided a final OIA audit report and what format would be utilized as it was important that the report be consistent with future audit reports. Mr. Watts agreed to develop a report template for the Committee to review at the next meeting.

## **ADJOURN**

Chairman Shkurti adjourned the meeting at 1:32 P.M.

APPROVED: MARCH 10, 2008  
BILL SHKURTI, CHAIR