

**OHIO AUDIT COMMITTEE
DRAFT**

**TUESDAY, SEPTEMBER 30, 2008, 10:00 A.M.
VERN RIFFE CENTER FOR GOVERNMENT AND THE ARTS
77 SOUTH HIGH STREET, 31ST FLOOR, SOUTH CONF. ROOM A
COLUMBUS, OHIO 43215**

Members Present: William Shkurti, Chair
William Keip
Richard Mueller
Stuart Laws

Members Absent: Beverly Vitaz

CALL TO ORDER

Mr. Shkurti called the meeting to order at 10:01 A.M.

WELCOME

Mr. Shkurti opened the meeting by welcoming the members and attendees and asked for introductions from members, Office of Internal Audit staff present and general attendees.

Mr. Shkurti stated that it was the goal of this first Ohio Audit Committee (OAC) meeting to go through a first reading of the Ohio Audit Committee and Office of Internal Audit charters; set the calendar and agenda for future meetings; and address other administrative issues noted on the agenda.

OPENING REMARKS

Office of Budget and Management (OBM) Director Pari Sabety provided the opening remarks. Director Sabety welcomed the OAC members and relayed greetings from Governor Strickland. Director Sabety stated that her perspective of starting up the Office of Internal Audit (OIA) was to provide better statewide accountability and assure the appropriate spending of taxpayer money. She saluted Auditor of State Mary Taylor for her role in the drafting of House Bill 166 (G.A. 127).

Director Sabety explained that she foresees three challenges in the establishment of OIA:

1. How to effectively balance the cost of the internal audit effort.

Specifically, the state must develop a comprehensive approach to addressing risks while dealing with dwindling resources. State agencies have been forced to cut budgets and are facing an extended period of economic downturn. OBM and OIA must measure the pace of growth against these factors.

2. Effectively communicating the Return on Investment to agency management.

Director Sabety explained the importance of effectively communicating that the internal audit services that will be provided are a valuable management tool. With dwindling resources, agencies may resist accepting this cost.

3. Building credibility with state agencies.

Again, with dwindling resources, Director Sabety stressed the importance of building in a high level of integrity and credibility with agency management. She stated that she is exceedingly proud of the work that Chief Audit Executive Joe Bell has accomplished in this area.

Director Sabety stated that overcoming these challenges will provide a great payback for the State of Ohio.

Chairman Shkurti shared his thoughts regarding the current reporting structure of the OIA. He stated that it is more common practice to have the Chief Audit Executive report administratively to the head of an agency with a dotted line, or “indirect”, reporting relationship to the Audit Committee. He asked if Director Sabety would consider this type of reporting structure. Director Sabety assured Chairman Shkurti that she shared his views and would work with him to accomplish that type of structure.

OVERVIEW

Joe Bell provided an overview of House Bill 166 (G.A. 127). He discussed the basic scope of the bill in that there are 20 agencies that fall within the purview of the Governor’s Office. Those agencies will be the focus of OIA. In June of each year, Mr. Bell will present an annual audit plan to the OAC for approval.

He explained that OIA is working to develop an internal auditor classification series to address staffing needs. This classification series is intended to be specific for OBM.

Joe also introduced the OIA transition team which is currently comprised of a Chief Risk Officer, Chief Business Process and IT Audit Officer, Executive Assistant and a Project Manager.

Stuart Laws asked if there was currently internal audit functions being performed and if there would be employees that would transfer. Mr. Bell explained that HB 166 requires state employees currently performing internal audit functions to transfer to OIA. A study was performed by Deloitte Consulting earlier in the year which identified agencies that currently perform internal audit functions. Five out of twenty agencies were identified as primarily performing internal audit functions. The remaining was deemed to be performing management monitoring functions.

Mr. Laws asked how many internal auditors may transfer. Mr. Bell answered that 36 were identified in the Deloitte study although some attrition has occurred since this study was performed. William Keip asked if there was a current internal auditor classification. Mr. Bell explained that, yes one exists, but that OIA’s goal is to realign the series to adhere to the Institute of Internal Auditor standards and be specific to OBM. Richard Mueller asked if only OBM internal auditors would be doing internal audit work as referenced in the House Bill and asked if it were possible to co-source. Mr. Bell stated that he planned to use OIA staff when available, but will consider co-sourcing opportunities, such as state agency personnel, to augment OIA

resources. Mr. Bell explained that OIA would still have oversight and would direct any co-sourcing efforts.

CUSTODIAL ISSUES

Mr. Shkurti stated that member Bev Vitaz was unable to attend due to a family emergency. He also stated that it was his goal to have the committee meet quarterly and develop the next agenda at each meeting.

He stated that meeting materials were to be received at least one week prior to the meeting. Joe Bell explained that OIA was working to develop a website that would be provided to OAC members to access materials electronically. Mr. Bell will also determine a communication method for periods in between committee meetings.

LEGAL OVERVIEW

Kathleen Madden, Asst. Chief Legal Officer for OBM, provided a high-level overview of the OBM Ethics Policy and the Ohio Ethics Laws for members. She also discussed Governor's Executive Order 2007 01S regarding Gift Acceptance. Because committee members are not specified in current OBM Ethics Policy she suggested that the committee develops its own Ethics Policy. Ethics training dates were also provided.

Ms. Madden also discussed financial disclosure requirements and stated that she would work with OBM Human Resources to send a letter with the appropriate disclosure forms for the members to complete and return. A discussion was held to clarify what is considered "gifts" and Ms. Madden offered that anytime a committee member had a question that OBM would provide legal guidance. Mr. Laws stated that the committee charter should incorporate that they are serving as individuals and not as representatives of their current employers.

Ms. Madden also explained the Ohio Sunshine Law and how it applies to Ohio Audit Committee meetings. She informed the members that should they receive a public records request or media request it should be forwarded to Joe Bell for OBM to fulfill.

CHARTER DEVELOPMENT

Mr. Shkurti explained that it was his goal to approve the charter at the next meeting once the members had a chance to review and make the necessary changes. He stated that the matter regarding the reporting structure had been addressed by Director Sabety.

Mr. Bell explained that the current draft charters for the Audit Committee and the Office of Internal Audit were a deliverable product provided by Deloitte as a part of the last contract in May 2008 and would serve as a starting point for the committee.

The committee held further discussion on the committee composition (terms and required member expertise) of the charter and decided it would be helpful if Mr. Bell could provide a matrix for the committee to evaluate how to effectively address their duties as outlined in the house bill.

Mr. Bell explained that the OIA charter's main goal would be to enhance the internal controls for the State of Ohio and to provide internal control education and tools for management. Mr. Mueller inquired about the relationship between the committee, OIA and the Auditor of State. Mr. Bell explained that the State's Auditor, who is separately elected, provides an independent

external audit of the state in accordance with generally accepted accounting principles (GAAP). The committee should provide oversight to both internal (OIA) and external (AOS) audits.

Mr. Bell explained that OIA would not duplicate efforts of the AOS. Mr. Shkurti felt that the committee should respect the work of the Auditor of State. All agreed and Mr. Bell explained that OIA is laying the groundwork to exchange information. He went on to explain that Auditor of State's financial statement opinions apply a separate and distinct audit approach. OIA will collaboratively work with the Auditor of State to minimize areas of audit overlap. Also, the AOS focuses heavily on federal programs at state agencies – e.g. how they are administered, monitored and managed.

The Auditor of State, or her representatives, will be invited to the next committee meeting. Mr. Shkurti asked that committee liaison e-mail the draft charters to the members for their review and changes which are due back in 30 days.

2008/2009 SCHEDULE & AGENDA

A brief discussion was held regarding future meetings and topics for agendas. The committee agreed to meet in early December with the calendar year 2009 meetings scheduled in March, June, September and December.

Tentative agenda items for December are approval of charters, next meeting agenda items, discussion with Auditor of State, and presentation by the external vendor.

OIA IMPLEMENTATION PLAN

Joe Bell gave an overview of the OIA Implementation Plan that was presented to the Controlling Board in May 2008. He discussed the scope and approach recommended by Deloitte and also discussed the various roles of agency management, Auditor of State and the Inspector General. The committee discussed a long-range goal of supporting the various stakeholders in an internal audit project. Joe Bell will develop a flowchart for reporting issues to those stakeholders.

Joe went on to explain the vendor's methodology in their risk assessment of the various agencies. Mr. Mueller questioned the audit frequency assumption for auditing low risk processes every four years. Mr. Bell stated that OIA's focus in initial years would be in the high risk areas. Other risk areas would be addressed as resources allow, but may not fall within the four year cycle.

He also explained that staffing up the OIA will be slower than initially planned due to internal audit resource constraints, agency risks and the state's current fiscal crisis. The committee also held a discussion on agency management's concerns of hourly rates, chargeability and funding. Joe explained that meetings with agency directors are on-going to address these concerns.

REQUEST FOR PROPOSAL

A Request for Proposal (RFP) was issued in July 2008 for services to assist in establishing the Office of Internal Audit and to address the State of Ohio enterprise risks. The selected vendor will evaluate the people, processes and technology needed to support the OIA as well as evaluate the enterprise-wide risks identified in the implementation plan – payroll, financial reporting, procurement/expenditure management and information technology.

Once the contract phase is finalized, he will inform the committee of the name of the firm. The work is expected to begin within the next few weeks.

STATE OF OHIO AUDIT REPORTS

A brief discussion was held concerning the State of Ohio Single Audit that is completed by the Auditor of State. The report includes an audit opinion on the state's financial statements with footnotes and an "in relation to" opinion on the state's federal programs. The audit may identify material weaknesses and significant deficiencies issued in accordance with Yellow Book standards and Federal Circular A-133. The Auditor will also issue a SAS 70 report that addresses information technology issues.

The committee also discussed how future internal audit reports would be reviewed and monitored by them. There were specific clauses in HB 166 regarding what is public record and when an item becomes public record. Mr. Mueller asked about the number of audit reports they may be expected to review and Mr. Bell noted that at this point it was not possible to give a good estimate.

The committee also discussed how Auditor of State reports may be handled. It was suggested that it be discussed further when the AOS presents at the next meeting.

Before adjourning, Chairman Shkurti reviewed possible items for the next agenda and reminded the members to attend one of the Ethics training sessions.

ADJOURN

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