



STATE AUDIT COMMITTEE

**TUESDAY, SEPTEMBER 14, 2010, 10:00 A.M.
VERN RIFFE CENTER FOR GOVERNMENT AND THE ARTS
77 SOUTH HIGH STREET, 31ST FLOOR, West B & C
COLUMBUS, OHIO 43215**

Members Present: William Shkurti, Chair
William Keip
Beverly Vitaz
Robert Richardson

Members Absent: Richard Mueller

Call to Order

Chairman Shkurti called the meeting to order at 10:00 A.M.

Approval of Minutes

The minutes of the meeting held June 15, 2010, were approved. Members offered the suggestion that open items and their status be discussed at the beginning of each meeting.

OBM Financial Reporting Process Update

Tom Holsinger, Director, OBM Accounting Administration, stated his department is still looking to reach the goal of the 2004 financial reporting timeline. To date, all colleges and universities have met their deadlines and it appears that all agencies, boards and commissions are on target to meet their deadlines of mid-October as well. Member Rob Richardson asked if there were any quality issues and if percentages of quality errors had been tracked in the past. Amy Hall, Financial Reporting Administrator, stated that those issues were not tracked; however, they had not seen nor did they expect to see quality issues with the reports when they were filed.

Paula Hicks-Hudson, OBM Chief Legal Counsel, provided an update on Ohio's current procedures relating to bond issuance disclosures. This update was provided to the committee due to recent charges issued by the Securities Exchange Commission (SEC) in another state for inadequate bond issuance disclosures. Members questioned if Ohio was out of compliance. Ms. Hicks-Hudson stated that Ohio was in compliance with bond issuance disclosures. The committee requested that Ms. Hicks-Hudson provide an update on this issue at the December committee meeting.

Ms. Hall provided an overview of the process used to identify and monitor direct and material laws and regulations for the state. Ms. Hall explained that monitoring controls are in place at various agencies and a review of these laws and regulations occurs annually; however, the list of material laws does not vary much each year. Variables include changes in the financial reporting policies, GAAP packages, and



keeping up with the Single Audit requirements. Ms. Hicks-Hudson also added that she interacts with the Attorney General's Office and Ms. Hall's group in helping assess potential year-end legal liabilities.

External Audit Update

Financial Update

Cynthia Klatt, Chief Auditor, State Region, Auditor of State's office, provided a status since the last State Audit Committee meeting in June. She indicated the FY 2009 State of Ohio Single Audit was released June 29, 2010. Ms. Klatt stated the timeline provided by OBM for completing the FY 2010 audit was finalized and pointed out some key dates, including the anticipated financial statement opinion on January 21, 2011 and the release of the Single Audit by March 22, 2011 (these dates are assuming the timely delivery of information from the State and no disruption from the swearing in of new elected officials). To help meet these timelines, Ms. Klatt informed the committee the AOS anticipates utilizing the work performed by the Office of Internal Audit on the general and application controls of the information systems at three agencies (Transportation, Commerce, and Health).

An entrance conference was held for the FY 2010 State CAFR and Single Audit on August 31, 2010, and cash transaction work has begun at various support agencies. The audit team is expected to move on-site to begin financial statement testing at OBM in mid-October and OBM intends to use SharePoint to provide documentation for AOS use in the TeamMate electronic work paper system. Ms. Klatt also indicated the AOS has sent the required representation letter requests to all IPAs and included a list of prior errors in hopes of reducing these issues in the future. Ms. Klatt identified the scope of the FY 2010 audit and indicated the letter of arrangement for these services was provided to OBM on September 9, 2010. The committee will be provided a copy of this document once all signatures are obtained, and other required communications with those charged with governance will be provided at the end of the audit. Ms. Klatt also notified the committee that, in agreement with State management, Ohio will be participating in Phase 2 of U.S. Office of Management and Budget's Single Audit Internal Control Project for four federal programs – Unemployment Insurance (ODJFS), Highway Planning and Construction (ODOT), Title 1 Grants to Local Educational Agencies and Special Education Grants (both at EDU).

SAS 70 Update

Maria Jackson, Assistant Chief Auditor for Information Systems Audit (ISA), Auditor of State's office, provided the committee with information on MACSIS SAS 70 report for the period January 1, 2009 through December 31, 2009. The report, dated April 23, 2010, was released June 17, 2010, and identified four control objectives related to program changes which were partially met; all other control objectives were met. Ms. Jackson indicated the transactions processed by this system were not material to the State's CAFR or to overall state agency transactions. The Committee asked about the transmittal letter comments that were repeated; the answer was that AOS was told at least one of the comments would not be remediated because of the upcoming new system, MITS.

Jim Swonger, Senior Audit Manager for Information Systems Audit (ISA), Auditor of State's office, indicated the OAKS SAS 70 audit for the period July 1, 2009 through June 30, 2010 is ongoing. Mr. Swonger identified some key dates in the audit process, including the May 5, 2010 entrance conference, June 8, 2010 start of fieldwork, various status meetings held with OBM and DAS management, and the

anticipated fieldwork end date of September 30, 2010. Mr. Swonger indicated the anticipated release date of the audit is early to mid-October, 2010; however, this could be jeopardized if outstanding documentation is not received timely. Mr. Swonger expressed concerns about the delays experienced in receiving requested documentation for the FY 2010 audit and indicated a follow-up meeting is planned with OBM and DAS management after the release of the report to discuss lessons learned and how to improve the audit process for FY 2011. Chairman Shkurti asked for weekly updates on the untimely documentation issue until the audit is complete.

OIA Staffing Update

Joe Bell, Chief Audit Executive, OBM Office of Internal Audit, provided a staffing overview highlighting the qualifications of OIA staff that included audit experience and professional certifications. OIA currently has three IT audit vacancies and one financial audit staff vacancy, all of which will be posted in the near future. A senior IT audit staff person was promoted into the IT Audit Chief vacancy. Mr. Bell also discussed fiscal years 2012 & 2013 budgets which are currently being prepared and the staffing impact.

CAE Update

Joe Bell provided an update to the members regarding OIA's consulting engagement on the Ohio Energy Appliance Rebate program (Department of Development). Mr. Bell stated the program has been mentioned in recent news articles and the Office of the Inspector General was reviewing the administration of the external vendor contract related to the distribution of the rebates. OIA plans to perform follow up audit activity on this program during this fiscal year.

Mr. Bell also provided an update on OIA staffing. Specifically, he informed members that BWC financial external audit staff would remain at that agency and that OIA would work with the BWC audit committee and Internal Audit director to develop an enterprise wide risk management approach (ERM). OIA will coordinate audit coverage between BWC's internal audit, BWC's external auditors and OIA.

Jim Kennedy discussed the OIA Annual Plan update which included changes for the Auditor of State audit priorities. OIA spent most of the first quarter installing and implementing new software. Several large projects are due for completion in the 2nd and 3rd quarters. He also stated that most of the previous comments issued have been cleared.

At 11:33 A.M. Chairman Shkurti moved the meeting into executive session for the purpose of discussing confidential matters exempted from public disclosure per Ohio Revised Code 126.48.

At 11:55 A.M. Chairman Shkurti moved out of Executive Session.

Assessment of the Office of Internal Audit and State Audit Committee

The committee discussed the draft assessment forms. Minor wording changes were recommended and agreed upon by members. Final forms will be emailed to the members and the feedback will be discussed at the December 14 meeting.

Chairman Shkurti moved to end the meeting at 12:18 P.M.



Open Items for December 14, 2010 Meeting

- Finalize committee and SAC assessment forms and distribute to members.

Responsible party: Joe Bell

- Provide update on Ohio's response to bond issuance disclosures.

Responsible party: Paula Hicks-Hudson

- Provide weekly updates to committee chair on OAKS documentation requests until audit completion.

Responsible party: Jim Swonger

- Provide signed letter of arrangement to the committee for FY 2010 State CAFR and Single Audit.

Responsible party: Cindy Klatt

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