



STATE AUDIT COMMITTEE

THURSDAY, September 29, 2011, 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: Paolo DeMaria, Chair
William Keip
Beverly Vitaz
Robert Richardson
Richard Mueller

Call to Order

Chairman DeMaria called the meeting to order at 10:03 A.M.

Approval of Minutes

Bev Vitaz moved for the minutes of the meeting held June 23, 2011, to be approved with no additions or corrections. Richard Mueller seconded the motion and all members unanimously approved.

Chairman DeMaria directed the committee to review the Annual Planning Calendar and to take note of the items due for the next meeting in December. Mr. Mueller asked whether all planned calendar activities are linked to the audit committee's charter responsibilities and Joe Bell, OBM CAE, affirmed that it does.

Public Meeting Notice Resolution

Bev Vitaz moved for the public meeting notice resolution to be approved. William Keip seconded the motion and all members unanimously approved.

Robin Rose, OBM Chief Legal Counsel indicated, per the Governor's Executive Order, mandatory ethics training is to be completed by the end of this year. Ms. Rose will send the schedule of the available training to the committee and will follow up with the members individually whether they plan to attend the available training or would like for OBM's Legal Counsel to provide the training after the next committee meeting.

OBM Financial Reporting Update

Amy Hall, OBM Financial Reporting Administrator, provided the committee with an update of the OBM financial reporting area. Ms. Hall indicated that they are on track with the established timeline. Ms. Hall stated that the Independently Audited Organizations (IAO) have a due date of September 30 to submit audits. Tom Holsinger, Deputy Director, Accounting Administration walked through the CAFR Preparation Timeline and the timeline is similar to 2010. Ms. Hall

described the annual financial statement compilation process. Chairman DeMaria asked whether they foresee any problems with the IAO packages. Ms. Hall stated that small organizations may experience problems due to staff changes or resource availability. Mr. Mueller asked whether or not adjustments made are communicated back to the organizations. Ms. Hall explained that adjustments are rare and most likely immaterial and require no adjustment. As necessary, changes are communicated to those that submit financial information so they can improve data quality at the original source.

External Audit Update

Cynthia Klatt, Chief Auditor, State Region, Auditor of State's office, indicated the AOS and OBM have finalized the timeline for the 2011 State of Ohio audit. This timeline calls for an opinion on the financial statements January 20, 2012, and on the federal single audit March 20, 2012. Meeting these anticipated dates is contingent upon the AOS receiving information in accordance with the timeline. To help meet these timelines, Ms. Klatt indicated the Auditor of State plans to utilize the work of the OIA related to certain general and application control testing at the Department of Transportation. Ms. Klatt also noted the following with regard to the 2011 engagement:

The Auditor of State and OBM held an entrance conference related to the audit the FY 2011 State CAFR and Single Audit on August 5, 2011, which was attended by Committee member Bev Vitaz via conference call. Audit work on the state's cash transaction is pretty far along at the various support agencies. The audit team on the financial audit has started planning procedures and is expected to be fully staffed for financial statement testing at OBM in mid to late October. All of the signed representation letters have been received from the IPAs who audit the colleges and universities and other state agencies that are included in the state CAFR. The letter of arrangement for these audit services was signed by the OBM director on September 23, 2011, and a copy was provided to the Committee Chair, Governor, House Speaker, and Senate President on September 28, 2011 via email. The other required communications with those charged with governance will be provided at the end of the audit.

Ms. Klatt also informed the Committee that AOS and State management have agreed Ohio will be participating in Phase 3 of U.S. Office of Management and Budget's Single Audit Internal Control Project for four federal programs – Highway Planning and Construction (ODOT), Title 1 Grants to Local Educational Agencies and Special Education Grants (both at EDU), and Capitalization Grants for Clean Water State Revolving Funds (EPA). This entails accelerated reporting for programs with ARRA funding. The Auditor of State plans to provide a draft letter to the agencies and OBM on December 9, 2011. Chairman DeMaria asked if AOS and OBM staff evaluate the processes and procedures used to complete the audit and expressed the Committee's desire to improve the timeline next year. Ms. Klatt indicated the AOS team has real-time discussions with OBM management as the audit progresses, in addition to more formalized status and exit conference meetings, to identify areas for change and improvement. Chairman DeMaria also indicated the Committee will continue to evaluate persistent audit findings and will be seeking input from the Auditor of State as part of their review.



SOC 1 – Update and Deliverables

Maria Jackson, Assistant Chief Auditor for Information Systems Audit (ISA), Auditor of State's office, provided an update on the SOC 1 testing for the current audit period. Ms. Jackson reminded the Committee of the change in standards that resulted in the new "SOC1" terminology. She indicated the 2011 testing is in the final stages. The AOS team is currently following up on some exceptions noted and awaiting documentation from the managed service provider to complete the audit. Once this information is received and reviewed, the AOS can move forward with the release. If the information is received timely, the Auditor of State anticipates completing the report by mid-October. Ms. Jackson indicated a letter will be provided to the Committee regarding any recommendations for improvement and the results of the SOC 1 audit will be considered in the State of Ohio audit. The Committee asked if the SOC 1 report would be available to the public. Ms. Jackson indicated the report has a limited distribution and will no longer be posted to the Auditor of State's web site. However, the report will be a public record and must be provided upon request; however, procedures are conducted to redact sensitive information. The Committee also asked for clarification on the make-up of the SOC 1 report and if it would include an opinion and recommendations. Ms. Jackson indicated the report would contain an opinion and that any weaknesses in the control objectives would be included in the body of the report. A letter to management will also be provided with any other recommendations identified.

David Shaw, State CISO, DAS indicated that the engagement is progressing very well and are in the final stages of fieldwork. Chairman DeMaria asked Mr. Shaw on his thoughts on the timeliness of the engagement. Mr. Shaw stated that he would like to see a more compressed timeframe. AOS asks for reports before the end of the year and again after the end of the year because AOS needs to evaluate the full year. Ms. Vitaz asked whether a six month report was issued in the past. Ms. Jackson indicated that traditionally the reports are issued annually. If they issued a report for a shorter period, they would have to come back to perform procedures after the period in order to also report annually. Mr. Richardson asked whether reports are ran early to catch issues and offer an opportunity to fix them. Mr. Shaw stated the bulk of the work is performed with the first report run and more procedures are performed after that time with the second report run.

Chairman DeMaria expressed after last meeting that there is a lack of understanding of what the laptop disposal procedures are and what procedures exist at the agencies. Ms. Vitaz also added mobile phones as a concern. Mr. Shaw stated that few processes exist at the agencies. Some agencies sanitize laptops/computers themselves while others contract with a company on state term contract to assist with the disposal process. This company can also perform drive destruction and assist with repurposing machines. Some agencies perform some of the procedures and contract out the rest or have the company perform all the procedures necessary for proper disposal. After devices are sanitized, they are remitted to DAS for reuse, sale or disposal. Blackberry devices also are required to be sanitized. Mr. Keip asked how DAS knows that agencies follow the standards and methods. Mr. Shaw stated that he hasn't heard of a situation where data was still remaining on a device. Mr. Richardson asked whether companies are mindful of environmental impacts as they dispose of machines and whether the state contract has an indemnification clause. Mr. Shaw stated the salvage process must be adhered to and he is not sure if the contract has the indemnification clause. Chair DeMaria

recommended OIA follow up with Mr. Shaw to better understand the risks and controls to evaluate subsequent involvement by OIA.

Ohio Department of Job & Family Services

Christina Helm, Chief of Audit Resolution Section, ODJFS provided the members an update on the 2010 State Single Audit remediation. Out of the 27 comments relating to ODJFS systems and processes, ODJFS has completed remediation on 15 comments thus far. For the remaining 12 comments, seven are either partially remediated or are in process of being remediated. ODJFS disagrees with the remaining five comments and continues to work with the AOS and the Federal grantor agency to resolve these issues. There are seven comments which the AOS considered the most severe due to their impact on the financial statements of the State of Ohio. Of the seven comments, ODJFS management considers five to be remediated and two are scheduled for remediation. The OBM Office of Internal Audit has been engaged to assist with these issues, as appropriate. ODJFS is also working with AOS on any preliminary findings for the current audit. Mr. Richardson asked how the comment related to the MMIS system is addressed. Ms. Helm responded the new Medicaid system will help remove the comment related to the previous MMIS system. Mr. Mueller asked whether ODJFS identified interim steps for remediation since the remediation date is slated for December 2012. Ms. Helm explained the agency will continue to test the system and can provide an update to the committee in 6 months. Chairman DeMaria thanked Ms. Helm for her commitment to resolving these issues.

CAE Update

Joe Bell stated first quarter projects were completed and will be discussed during executive session. Mr. Bell walked through the fiscal year 2012 annual plan status document. Because of new people, processes, and systems in agencies, it was planned to have approximately 30% as consulting work. Jim Kennedy, OBM Chief of Quality Assurance, stated more assurance work will be performed toward the end of the fiscal year and that more consulting work was planned for this year but there must be a balance to do checks on important systems. Chairman DeMaria asked if a customer survey is distributed to agencies after consulting engagements. Mr. Kennedy indicated that a survey will be distributed when the first quarter reports are finalized.

Mr. Bell informed the committee that Board of Regents (BOR) was added to OIA oversight in the last budget bill. The agency is undergoing changes and has a new management team. AOS audits the agency annually primarily concentrating on the state share of instruction. OIA will be working with the agency to develop a plan for consulting engagements. Mr. Bell also informed the committee that 15 previously reported OIA comments were remediated by state agency management and validated by OIA this quarter. No open remediation items exist on the public engagements.

Mr. Bell indicated the review and approval of the OIA charter and Audit Committee charter is due in December and welcomed any suggestions for revision. Chairman DeMaria asked OIA to have the electronic document sent to the members and he will provide the committee a timeline to provide comments.

Ms. Vitaz asked when a peer review will be performed on OIA. Mr. Bell and Mr. Kennedy conveyed the peer review will take place after the third year in operation which would be during the fall of 2012. At that time, a request for proposal for review will be discussed with the committee.

Mr. Bell provided a staffing update to the committee. OIA has two IT auditor positions open; however, Mr. Bell explained that management has a plan to address the need. Mr. Bell also indicated that each employee completes a confirmation of independence form annually as well as during the onset of each engagement.

Mr. Bell also informed members of the selection of the chief audit executive at the Bureau of Workers' Compensation. He stated OIA will continue to rely on BWC's monitoring of their financial auditors while OIA will continue to perform IT audits and integrated audits at BWC.

The committee broke for lunch at 11:37 A.M.

The committee reconvened at 12:09 P.M.

Executive Session -- At 12:09 P.M. Chairman DeMaria moved the meeting into executive session for the purpose of discussing confidential matters exempted from public disclosure.

The committee moved out of Executive Session at 12:56 P.M.

Open Discussion

Committee members reviewed and agreed with calendar dates set for 2011 and 2012 audit committee meetings.

The Audit Committee self-assessment tool is due in December. Chairman DeMaria asked OIA to have the document sent to the members and he will provide the committee a timeline to provide comments. Mr. Mueller stated that there had not been a discussion on results from the previous assessment. Chairman DeMaria asked OIA to have the results of the previous self-assessment to be sent to the members.

Chairman DeMaria moved to end the meeting at 1:17 P.M. Member Bill Keip seconded the motion and all members were unanimous.



Open Items for Next Meeting

1. Ethics training dates sent to members/follow-up.
Responsible Party: OBM Legal Counsel
2. Update on status of 2011 Single Audit engagement.
Responsible Party: Cynthia Klatt
3. OIA follow up on asset disposal process.
Responsible Party: Joe Bell
4. OIA follow up on ODJFS material issues noted in Single Audit.
Responsible Party: Joe Bell
5. Status of audit timeline for FY 2011 CAFR deliverables.
Responsible Party: Amy Hall
6. OIA Charter and State Audit Committee Charter updates.
Responsible Party: Joe Bell
7. Audit Committee Self-Assessment
Responsible Party: Joe Bell
8. Audit Plan for Board of Regents
Responsible Party: Joe Bell