



STATE AUDIT COMMITTEE

**THURSDAY, MARCH 26, 2015, 10:00 A.M.
RHODES STATE OFFICE TOWER
30 EAST BROAD STREET, 35TH FLOOR, JUPITER/SATURN CONFERENCE ROOMS
COLUMBUS, OHIO 43215**

Members Present: Paolo DeMaria
Ryan Hecht
Wendi Finn
Kai Monahan

Members Absent: John Merchant

Call to Order

Chairman DeMaria called the meeting to order at 10:02 a.m.

Approval of Minutes

Chairman DeMaria moved for the minutes of the meeting held December 18, 2014 to be approved with a few wording corrections that had been suggested by Mr. Monahan. Ryan Hecht seconded the motion and all members unanimously approved.

Chairman DeMaria acknowledged new Office of Internal Audit (OIA) employees JaVonne Williams and Sallie Gallegos, as well as Kelly Steinke, who was recently promoted to audit manager.

OBM Financial Reporting Update

Jim Kennedy, OBM Senior Deputy Director for Services & Operations, and Amy Hall, Financial Reporting Manager, provided the financial reporting update.

Mr. Kennedy reported that the Auditor of State opinion on the CAFR was issued on December 22, 2014, and the CAFR was posted on OBM's website on December 23, 2014. In addition, the Auditor of State issued their Single Audit report in accordance with the timeline. The timeline for the fiscal year 2015 CAFR will be provided at the next State Audit Committee meeting. The financial reporting team will be planning and preparing for the FY 2015 CAFR in the next few months.

Mr. Kennedy also provided an overview of the Green Book – Standards of Internal Control in the Federal Government. The Green Book was recently revised based on the new COSO internal control framework. Like COSO, it contains five components of internal control and 17 principles,

but with a government focus. OBM is currently considering a time frame to implement the Green Book framework.

Ms. Finn mentioned that she has worked with companies that have implemented the COSO 2013 framework and it was not as complicated as originally thought. She considers it to be 'common business sense' and the challenge will be how deep an entity goes when implementing. A benefit from implementing is that the entity comes together to form common control processes and determine risk assessments.

Mr. Kennedy mentioned that OBM intends to have a portal, similar to what is utilized for financial reporting, in order to review agencies' documentation and ensure it is being completed. Mr. Kennedy stated that OBM intends to leverage OIA to promote this concept and that pilot agencies, one of which will be OBM, can provide helpful examples for the other agencies. Mr. Hecht asked if the decision has been made to adopt this framework. Mr. Kennedy responded that OBM is intending to implement it, but the FIN upgrade has slowed the progress; as such, he is hopeful to start the implementation process in the spring of 2016. Mr. Hecht inquired about whether this implementation needed to be coordinated with the Auditor of State. Mr. Kennedy responded by saying that the Auditor of State will benefit from it being implemented so that they do not have to prepare the process documentation themselves. Also, with possible agency personnel turnover, it will be helpful for the agencies to have this documentation available.

Chairman DeMaria asked what would be different to an agency who has not implemented the framework. Mr. Kennedy responded that an agency would assess their processes using a practice aid, compare with best practices, and determine if they are meeting the objectives of a particular principle. If not, they would need to determine a corrective action plan to meet that principle and when it would be completed. Mr. Hecht asked how the Audit Committee and OIA could support this initiative. Chairman DeMaria suggested a future discussion.

External Audit Update

Debbie Liddil, Chief Auditor, and Jim Swonger, Senior Auditor Manager from the Auditor of State's State Region office provided an update.

Mr. Swonger informed the audit committee that the OAKS SOC1 field work began the first week of March with a goal to release the report in September 2015. He also mentioned that additional procedures will need to be performed due to the OAKS FIN upgrade and transition of the managed service provider. After much discussion, Mr. Swonger clarified that the production server currently located in Accenture's Cincinnati office will be transitioned to the State of Ohio Computing Center (SOCC) and managed by IBM. He is being told that minimal changes are expected to the internal control structure. Regarding the FIN upgrade, Mr. Kennedy added that FIN version 8.8 is what was originally installed and has not been upgraded since. As a result, the upgrade to version 9.2 is a bigger event. Eight major modules will be updated, and more functionality will be available.

In providing the financial audit update, Ms. Liddil stated that her office issued an unmodified opinion on the financial statement in December. For the “yellow book” or GAGAS report, there was one finding on program change for the MITS system at the Department of Medicaid. Regarding the federal single audit, her office performed testing on 29 major federal programs at 12 state agencies, which provided 95% coverage out of the more than 350 federal programs across the state. In total there were 34 federal audit findings and 37 comments; one yellow book comment and two findings for schools for monies owed to the Department of Education. Sixteen of the 34 comments were repeated from fiscal year 2013. There were also some opinion qualifications in the single audit report for certain compliance requirements for issues found at the Department of Job and Family Services and the Development Services Agency. Overall, questioned costs were approximately \$35,000 compared to approximately \$859,000 in fiscal year 2013. Ms. Liddil stated that there were no management letter comments for the State of Ohio, and all significant state agency management letters except for the Treasurer of State had been issued. She also stated that the Communication to those in Charge of Governance was sent to all governing parties on March 3.

Ms. Liddil stated that fiscal year 2015 audit planning will be starting in April 2015. The cash basis audit work will begin in late April/early May. Other than GASB 68, she expects no major changes for the FY 2015 audit. Chairman DeMaria asked about GASB 68, and Ms. Liddil stated that it was the requirement that the pension liability be recorded in each government’s financial statements. This will have a significant impact on the FY15 audit.

Ms. Finn inquired about the tracking of findings and how they are addressed in the subsequent audit. Ms. Liddil stated that one of the first procedures performed in the subsequent audit is reviewing the corrective action plans and whether any progress was made. Ms. Finn said that it would be helpful in the case of recurring findings to have information about what resolutions were attempted yet not successful in addressing the findings in order to obtain some perspective on how the agencies are addressing their findings. Ms. Liddil stated that her team could incorporate such information in the future.

Mr. Hecht asked how the group audit requirement was implemented for fiscal year 2014. Ms. Liddil stated that their existing processes already addressed many of the new requirements, including communication with the independent public accountants (IPAs) and the related expectations. In addition, certain representations are obtained from the IPAs. Ms. Liddil stated that for the first time this year, her team decided not to place reliance on some of the smaller entities, but still maintained communications with them.

Mr. Hecht also mentioned the number of findings per agency, which was generally consistent except for a large spike in the number of findings for the Ohio Department of Education (ODE). He asked about what OIA was doing with ODE, and Cindy Klatt clarified that although ODE was not under OIA’s purview, OIA was just starting to perform work there at ODE’s request. He asked if the Auditor of State was concerned about the higher number of findings at ODE. Ms. Liddil stated that ODE has been administering more federal programs with higher dollar amounts in recent years. ODE has also undergone some changes in processes and systems. The Auditor of State has also been performing some special work at ODE regarding the attendance reporting. She anticipates that there will be additional issues at ODE in fiscal year 2015.

Mr. Hecht also asked if the Auditor of State is able to leverage OIA's work and how that is coordinated. Ms. Liddil stated that part of their process at the beginning of their engagements is to determine whether any other audits have been performed, such as OIA, Inspector General, or federal audits. There have been instances where OIA performed the audit work, such as IT audit procedures at the Department of Transportation, and her staff verifies the work done, re-performs some of the testing, and reports the results. Mr. Hecht also asked whether there was any cost analysis performed as to whether the Auditor of State or OIA should perform the work. Ms. Klatt indicated that no cost analysis is performed, but OIA would be performing their work according to their annual plan, which is based on risks, and would also determine whether the Auditor of State performed similar work at that agency. Ms. Liddil also pointed out that OIA's audit procedures are more based on current activity whereas the Auditor of State looks more at the past. This also needs to be considered when relying on OIA's work.

Mr. Monahan asked about the dollar thresholds for determining significant deficiencies and material weaknesses. Ms. Liddil affirmed that materiality is based on dollar amounts but it is separately assessed depending on the program or placement in the financial statements. She stated that a significant deficiency is typically based on 40% of the materiality amount. She also mentioned that the federal government may be doing away with the category "significant deficiency" in the future, although she was told in the past that they did not want to increase the \$10,000 questioned cost threshold for the State of Ohio. Mr. Monahan also asked if non-compliance was determined in the same manner, and Ms. Liddil explained that non-compliance would be lack of adherence to a material law or lack of documentation to support compliance. She stated that this could relate to financial reporting or a federal program. She said that significant deficiencies and material weaknesses relate more to control deficiencies.

Legal Update

Joy DeMarco from OBM Legal reminded the committee that the annual financial disclosure statements are due to the Ethics Commission on April 15. The State Audit Committee members' financial disclosure statements are confidential; if members have questions, OBM Legal can assist, but they do not typically read or maintain the members' statements since they are not part of OBM's record. She also provided suggested dates and times for members to attend ethics training, which needs to be completed annually. If any of those dates or times is not convenient, OBM Legal can help facilitate ethics training for the members.

CAE Update

Cindy Klatt, Acting Chief Audit Executive, provided an update. She stated that for the third quarter of the fiscal year, 25 engagements were completed, which included 10 public reports, eight security record assurance reports, two Business-IT alignment assessments (BITA), and five consulting engagements (one of which was a security record).

Ms. Klatt stated that OIA performed two IT engagements at DAS for the quarter – one evaluating the ongoing operations of service level agreements and one where OIA assessed the mobile communication device ordering process against the service level agreement. At the

Casino Control Commission, which is not under OIA purview, OIA looked the voluntary exclusion program. There are over 1,300 people enrolled in this program who essentially volunteer not to be able to gamble in Ohio's casinos. The engagement looked at the initial application process, overall administration of the program, and data security.

Ms. Klatt continued with other OIA third quarter work: For Commerce in the Industrial Compliance section, OIA reviewed the elevator and boiler permitting and certification processes; two IT assurance engagements were performed over NIST SP 800-53, the state's security standard, at Development Services Agency and the Department of Health, as well as similar procedures at the Bureau of Workers' Compensation (BWC); for Developmental Disabilities, OIA reviewed the Self Empowered Life Funding (SELF) waiver program, including controls over compliance with program requirements, claims processing and invoicing process; two Business-IT alignment assessments were performed at Developmental Disabilities and BWC.

Ms. Klatt stated that OIA completed its first project for the Department of Education, which was a consulting engagement over the competitive grant award process; at JFS, OIA performed an assurance engagement on adoption and foster care licensing and recertification processes. Also at JFS, OIA performed an assurance engagement on JFS' IT access controls, as well as an audit of JFS' IT vendor and asset management.

At the Lottery Commission, Ms. Klatt stated that she performed an assurance review over Lottery's internal audit function, which will be discussed later in the meeting; At Medicaid, OIA reviewed the Managed Care Plans and the fraud monitoring, as well as Medicaid's monitoring of that function; OIA also performed an IT consulting engagement at Medicaid to help them develop key IT responsibilities and processes since they are a relatively new agency.

Ms. Klatt mentioned that some of the engagements had to be switched between third and fourth quarters based on client availability and other issues. OIA also received a request from Public Safety's Emergency Management Agency (EMA) to review their federal EMA expenditures. She stated that some engagements were transitioned from assurance to consulting because of the changes occurring at those agencies. The School for the Deaf and the State School for the Blind have a new CFO, and the Department of Education, which has oversight over the two schools, has asked OIA to perform some procedures at the schools, which is planned to be performed during fourth quarter.

Ms. Klatt stated that there were a few audits in the FY 2015 plan that will not be performed at the Department of Health: one assurance engagement, Healthy Ohio, was delayed because of the grant activity already audited this year at the agency; a consulting engagement was delayed because the department was not ready; and the Business-IT alignment is delayed until FY 2016 because of transition in the IT department.

Ms. Klatt also mentioned that OIA performed a small consulting engagement requested by Department of Natural Resources (DNR) on their Clean Ohio Trial program, and also said that a DNR assurance engagement performed in third quarter will not be reported until fourth quarter in order for the agency to develop corrective action. Mr. Hecht inquired about the OAKS upgrade project on the listing, and Ms. Klatt confirmed that the project did relate to the FIN upgrade previously mentioned in the meeting.

Ms. Klatt reviewed the metrics with the committee. Thus far through the end of the third quarter, OIA's annual plan is 74% complete. Ms. Klatt stated that completion of the plan was challenging due to needing to replace a vacancy and a staff person being on disability. She mentioned that OIA is hoping to soon have an intermittent IT Auditor to help complete the plan. Mr. Hecht inquired about the percentage completion of the plan vs. the budgeted hours used, and noted the gap. Ms. Klatt explained that OIA is not completely exhausting the audit hours when carrying out projects. Mr. Hecht asked for an estimate as to what percentage Ms. Klatt expected OIA to accomplish relating to the annual plan, and she stated 90-92%.

Ms. Klatt discussed the remediation of financial issues from prior reports. She mentioned some high risk issues at the Department of Rehabilitation and Correction that are due to be remediated in early April. Early discussions are leading them to believe that some progress has been made with those high risk issues. Ms. Klatt mentioned that Commerce had a previous observation upon which they have later stated they would accept the risk. Ms. Klatt indicated that OIA has not experienced this before, and she would like to discuss this with the Committee in executive session to determine OIA's reaction. Mr. Hecht asked about the spike in the number of comments to be remediated in February, noting that this occurred in February of 2014 as well. Conclusion from the ensuing discussion was that this was not a particular trend but perhaps a coincidence, since the number of comments varies per project and per quarter.

Ms. Klatt informed the Committee about the updated OIA Policies and Procedures document, which she and Joe Bell, the prior Chief Audit Executive, revised. She indicated that most of the changes were clarifications and enhancements to match current practices. She also stated that information regarding IIA Practice Advisories and Guides that were issued since the last policy and procedure update was included. She said that OIA staff were given until June to read and acknowledge the revised policies and procedures. Mr. Monahan asked if any of the new guidance had a significant effect on the Quality Assurance process, and Ms. Klatt indicated that the new guidance was more related to cybersecurity and IT issues, as well as planning procedures.

Ms. Klatt asked Venu Pallerla, OIA IT Audit Chief, to provide an update on OIA's data analytics process. Mr. Pallerla indicated that some of the OIA staff members have received training on ACL and fraud analysis, and the ACL server version has been deployed. He stated that in fiscal year 2016 the goal is to automate about 10% of the audits in order for OIA to focus more resources on high risk items. OIA is currently using the data analysis process to test access controls at a pilot agency and will be able to provide more information about the results at the end of fourth quarter. Committee members indicated their excitement about the possibilities this will bring to the audit process. Ms. Finn mentioned the 100% coverage on certain processes such as travel expense or access controls, and Mr. Pallerla indicated that these results can be provided to management for their action in a timely manner. Mr. Monahan stated that this automated process could be transitioned, in time, to the line of business if they have the desire and aptitude, and this could have a future impact on the audit process.

Ms. Klatt noted that FY 16 planning is in the very early stages. The IT chiefs have already met with many of the agency CIOs to discuss their concerns and possible audits. OIA will also be asking the audit liaisons and CFOs for feedback regarding their processes. In addition, Ms.

Klatt plans to meet with agency directors and the Governor's office for their perspectives on risks.

Ms. Klatt provided an update to the Committee regarding her assurance review on Lottery Commission's internal audit process. Mr. Hecht stepped out of the room during this update. Ms. Klatt noted that much improvement has been made since the assurance review she performed last year. She indicated that changes were made immediately to the composition of Lottery's audit committee (no longer including members of Lottery management), and more remediation efforts are being made. Ms. Klatt indicated that remediation continues to be Lottery's biggest challenge. She did recommend that Lottery enhance their Quality Assurance checklists and more clearly document the wording of the internal controls in the working papers. Ms. Klatt stated that she intends to share the IIA guides for quality assurance reviews so that both Lottery Commission and BWC are ready for the external peer review in 2017. After Ms. Klatt completed her update on the Lottery Commission, Mr. Hecht stepped back into the room.

The Committee paused their meeting for lunch at 11:25 a.m. and reconvened at 12:00 p.m.

Executive Session -- At 12:00 p.m., Chairman DeMaria stated a motion to move the meeting into executive session for the purpose of discussing confidential matters exempted from public disclosure under Ohio Revised Code Sections 126.48 and 149.433. Ms. Finn seconded the motion. A roll call vote was taken and, there being four yeas and zero nays, the motion was approved. The Committee moved out of Executive Session at 1:55 p.m.

Chairman DeMaria made a motion to approve the ten public reports; Mr. Monahan seconded the motion. The Committee determined the following ten reports to be final public reports in accordance with Revised Code Section 126.48:

1. Casino Control Commission: Voluntary Exclusion Program
2. Department of Commerce – Industrial Compliance
3. Department of Developmental Disabilities – SELF Waiver Program
4. Department of Job and Family Services – Adoption/Foster Care Licensing
5. Department of Medicaid – MCP Fraud Analysis and Capture Procedures
6. Opportunities for Ohioans with Disabilities – Procurement
7. Public Utilities Commission – Annual Report Filing Process
8. Board of Regents – Ohio Tuition Trust Authority
9. Department of Transportation – Turnpike Bond Revenue
10. Department of Youth Services – Juvenile Correctional Facilities Procurement

Open Discussion

Chairman DeMaria mentioned that if members had any feedback about the meeting, configuration of the room, or OIA staff processes and procedures to provide them to Ms. Klatt. He also stated that the next meeting will include a self-assessment of the Committee, and he will provide more information to the members prior to the June meeting.

Mr. Monahan asked about the Chief Audit Executive hiring process and status. Chairman DeMaria clarified that OBM Director appoints the Chief Audit Executive, and the audit committee

has more of an advisory role. He indicated that Ms. Klatt is in the interim role, and Ms. DeMarco indicated that Ms. Klatt has the authority as approved by the Governor to perform OIA Chief Audit Executive duties.

The meeting was adjourned at 2:00 p.m.

Open Items for June, 2015 meeting

1. Provide feedback on Committee meeting assessment (each meeting)

Responsible Party: Cindy Klatt/Members

2. Schedule periodic IT Optimization updates with State Chief Information Officer Stu Davis and State Chief Information Security Officer David Brown

Responsible Party: Cindy Klatt

3. Auditor of State technical update (as needed)

Responsible Party: Debbie Liddil

4. Provide updates on Green Book implementation

Responsible Party: Jim Kennedy/Cindy Klatt

5. State Audit Committee Self-Assessment

Responsible Party: Members

6. State Audit Committee Discussion on SAC/OIA Role in Green Book Implementation

Responsible Party: Members