

STATE AUDIT COMMITTEE

TUESDAY, MARCH 10, 2009, 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
Beverly Vitaz

Members Absent: Stuart Laws

CALL TO ORDER

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

APPROVAL OF MINUTES

The minutes of the meeting held December 2, 2008, were unanimously approved with no changes.

OBM FINANCIAL REPORTING PROCESS

Tom Holsinger, Deputy Director, Accounting Administration, Office of Budget and Management, opened the discussion by providing a general overview of his division. Mr. Holsinger explained that the State of Ohio is the 5th largest PeopleSoft user in the United States. Prior to converting to the Ohio Administrative Knowledge System (OAKS), Ohio utilized a single entry accounting system that was purely cash based. OAKS provided the ability to have a dual entry accounting system that was a modified cash basis and full accrual accounting.

Amy Hall, OBM Financial Reporting Administrator, explained that the State's Financial Statements must be presented on Generally Accepted Accounting Principles (GAAP) that includes modified accrual and full accrual. The financial reporting process translates the modified cash system to GAAP basis. The GAAP financial report information is then rolled into the Comprehensive Annual Financial Report (CAFR) that includes an introductory section, financial section, and a statistical section. The CAFR is issued pursuant to ORC 126.21(A)(9) and its data is primarily used for federal grant agreements and debt covenants.

The CAFR is also used by the Ohio Office of the Auditor of State (AOS) as part of the State's annual audit process. The Single Audit is performed as a requirement of the federal Office of Management and Budget for entities that expend federal awards of more than \$500,000.

Currently, agencies as well as OBM's financial reporting accountants are constructing financial statements from the new OAKS ERP system for the first time. However, several systematic processes and reports intended for financial reporting were delayed. Certain data previously accessible for statewide accruals is no longer directly accessible from the system which has caused significant delays in providing financial statements to the Auditor of State for the current

CAFR. New system and process documentation must be created as accounting processes are being completed. It was noted that these challenges are temporary and that the long-term benefits of increased accuracy and efficiency will be realized in the next year.

Committee members asked to have quarterly updates of the progress of supplying financial reporting data to the Auditor of State.

CHIEF AUDIT EXECUTIVE UPDATE

Joe Bell, OBM Chief Audit Executive, introduced four new OIA section chiefs: Financial Section Chiefs Greg Mason and Maria Robinson; and Information Technology Audit Section Chiefs, Edward Carr and Melissa Justice. Mr. Bell provided an update on some open items from the December 2008 meeting: 1. Emergency matters that rise in the course of an audit: Kathleen Madden, OBM Assistant Chief Legal Counsel, explained that the committee could “empower” the chairman to make decisions on behalf of the committee should an emergency situation arise. The chairman could then inform the members how he acted. Ms. Madden advised that she would check to see if it would be permissible to inform members via e-mail or if another method would be applicable.

Mr. Bell then proceeded to update the committee on the audit report review and fraud reporting processes. These processes have been developed internally and will soon be reviewed by the OBM legal counsel.

OIA is also in the beginning stages of the FY 2010 annual audit planning. Eight agencies have been identified for audit activity in FY 10 – Bureau of Workers’ Compensation, Dept. of Public Safety, Dept. of Job and Family Services, Dept. of Administrative Services, Dept. of Commerce, Dept. of Taxation, Dept. of Transportation, and Dept. of Development. Jim Kennedy, Chief Risk Officer, explained that these agencies were initially chosen based on the initial Deloitte Consulting risk assessment performed in May 2008 and were supported by subsequent risk assessment activities. OIA also plans limited enterprise internal audit activity at the remaining state agencies.

Mr. Kennedy explained that as a part of the risk assessment, OIA staff will meet with agency management and stakeholders to determine specific agency audit areas. These assessments will roll up into an agency annual audit plan, which will then become a part of the entire FY 10 OIA annual audit plan. Agencies will be presented with a heat-map that explains the areas of high risk identified in their agency and the audit effort needed to complete the audit.

Raj Subramanian, Chief of Business Process and Information Technology Audit, explained to the members how IT audits will be integrated into the financial audits. Audits teams will be comprised of financial auditors and IT auditors so that the agency process that is audited will be audited from an operational and system aspect. IT audits will also be conducted in enterprise areas such as privacy and security.

OIA will also produce a Fiscal Year 2009 annual report that will highlight the accomplishments of the division in fiscal year 2009. The report is due to be released July 1, 2009.

Mr. Bell provided the committee with an update of OIA’s role in the American Reinvestment and Recovery Act (ARRA) and how the federal stimulus project will impact the annual audit plans for fiscal years 2010 and 2011. Because of the unprecedented reporting and transparency requirements of ARRA, OIA’s primary role will be in the areas of assurance and consulting.

OIA will evaluate agency documentation and processes; conduct testing and recommend improvements as appropriate; and, monitor corrective actions initiated by management.

The committee questioned the adequacy of OIA resources to cover the unexpected activity. Mr. Bell explained that OIA management is strategically planning activity and working to coordinate activities with external entities. He also explained that most of the money seemed to be going to larger agencies and programs that already exist. These agencies are already a part of the FY 2010 annual audit plan so federal stimulus activity will be included in the agency's audit plan.

Also discussed was the OIA FY 2010-2011 budget. Mr. Bell explained that OIA will have a cost savings in FY 2009 of over \$5 million from the original Controlling Board appropriation. This savings reflects a reduction in the staffing plan as well as a more careful approach in posting and filling vacancies and lower than projected personal services costs. In Fiscal Year 2010, OIA projects an employee count of 44 with a \$6 million budget. In Fiscal Year, OIA projects an employee count of 48 with a \$6.5 million budget. Cost recovery will be a combination of agency billings and state agency payroll allocation.

Raj Subramanian provided an overview of the Office of Internal Audit and State Audit Committee website. He explained that the website is up with limited information available and the he continues to work with OBM's Office of Information Technology department in building the website. The site will contain information on OIA, audit activity, annual plans, audit committee activities, and information links to other audit sites. It will also serve as the mechanism for reporting employee wrongdoing.

EXTERNAL AUDIT UPDATE

Auditor of State Mary Taylor opened with a brief statement to the committee members regarding her concern for the time for which the Office of Budget and Management plans to deliver the state's financial statements, which is June 2009. She stated that OBM indicated that the financial statements could not be completed because of difficulties with the state's OAKS system. She asked the members to use their oversight role with regard to the timely preparation of the financial statements and stated that she appreciated their assistance in facilitating the timely completion of the financial statements.

Chairman Shkurti assured her of the committee's support and that OBM had provided an update earlier in the meeting.

Cynthia Klatt, AOS Chief Auditor-State Region, reiterated that there continues to be significant concern that OBM will not be able to meet their estimated completion date of June 30, 2009 for the FY 08 financial statements. Since beginning the audit, the AOS team has received bad files and wrong data from OAKS. Ms. Klatt stated that it appeared that the Single Audit would be completed in conjunction with the audit of the state CAFR. She remains hopeful that OBM will be able to meet the timelines they have set forth but reiterated that the CAFR opinion would not be completed until 14 weeks after the statements are received.

The committee asked how many estimated completion dates had been provided and if she felt that the deadline could be met. Ms. Klatt replied that two estimated completion dates had been provided and that while she felt that OBM is in a better situation with getting information from OAKS, she was still skeptical. She affirmed to the committee that there are regular communications between the Auditor of State and OBM. Chairman Shkurti stated that it appeared that most of the problems lie within the OAKS software application. AOS auditor

Maria Jackson confirmed that the issues within OAKS contributed to the difficulty in reconciling the data and noted the multiple report problems with the ~~software~~ system.

SAS 70 Release/Management Remediation

Maria Jackson introduced Jim Swonger, AOS senior audit manager, and provided a brief overview of the purpose of a SAS 70 report, a summary of the key issues, and a summary of the key issues in the management letter.

The SAS 70 report is divided into three sections: 1. Service auditor's report/opinion, 2. User organization's (in this case the OAKS entity/Department of Administrative Services, Office of Information Technology) description of the controls, and 3. Service auditor's tests of the operating effectiveness of internal controls. The report is for the period of July 1, 2007 – June 30, 2008. The SAS 70 covers the general controls in development and implementation, program changes, IT security, and IT operations. She noted that there were 38 comments in the management letter. The more significant comments relate to IT security with the most significant weaknesses related to access to FIN People Soft Application Security and the Human Capital Management (HCM) PeopleSoft Application Security.

Quentin Potter, Chief Finance Officer, DAS, provided a status update on the remediation of the SAS 70 comments. He indicated that several issues had been addressed and that most would be completed with the transition to the managed services vendor. Chairman Shkurti indicated that the committee would expect DAS OIT to provide quarterly updates (at each meeting) to the members of the SAS 70 comments issued by the Auditor of State.

CROWE HORWATH LLP UPDATE

Bill Watts, Crowe Horwath, provided a brief update to the committee's request of what information would be contained in the final report issued. He also assured the committee that the audit was still on schedule to be completed and the report ready for the June 2009 meeting.

Chairman Shkurti moved to go into Executive Session at to discuss the ongoing risk audit and work performed to date. Member Bev Vitaz provided a second to the motion.

ADJOURN

The committee moved out of Executive Session at 2:40 P.M. and no other agenda items were discussed. Chairman Shkurti adjourned the meeting at 2:40 P.M.