



**STATE AUDIT COMMITTEE**

**TUESDAY, DECEMBER 14, 2010, 10:00 A.M.  
VERN RIFFE CENTER FOR GOVERNMENT AND THE ARTS  
77 SOUTH HIGH STREET, 31<sup>ST</sup> FLOOR, SOUTH CONF. ROOM A  
COLUMBUS, OHIO 43215**

Members Present: William Shkurti, Chair  
William Keip  
Beverly Vitaz  
Richard Mueller

Members Absent: Robert Richardson

**Call to Order**

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

**Approval of Minutes**

The minutes of the meeting held December 14, 2010 were approved.

Departing OBM Director Pari Sabety took a few minutes to say thank you to the committee members for their efforts to stand-up the statewide internal auditing effort and for their public service. Bill Shkurti thanked Director Sabety for her diligence in her public service and her professionalism as she worked to guide the State of Ohio through its budget crisis. The members wished her well in her future endeavors.

**OBM Financial Reporting Process Update**

Tom Holsinger, Director, OBM Accounting Administration, stated that OBM met the end of November deadline to deliver CAFR criteria to the Auditor of State. OBM was in good shape and expected the January 21<sup>st</sup> deadline to be met.

Paula Hicks-Hudson, OBM Chief Legal Counsel, provided an update on Ohio's current procedures relating to bond issuance disclosures. She has met with all pension funds and asked for certification of the information provided for the CAFR. All four large pensions certified their information and OBM Legal will continue to monitor.

**External Audit Update**

Financial Update

Cynthia Klatt, Chief Auditor, State Region, Auditor of State's office, provided a status of the ongoing audit of the 2010 State of Ohio CAFR. She indicated that OBM provided the final financial statements, trial balances, journal entries and footnotes (except Note 21-Subsequent Events) by the November 30th



deadline; the MD&A, statistical tables, and RSI were provided on December 7. OBM is expected to provide Note 21 by January 3rd, and the transmittal letter will be provided by new administration, hopefully in early January. Ms. Klatt also indicated they are still waiting on the GAGAS report for Ohio State University. The IPA estimated delivery of the report is the week of December 20th. Ms. Klatt informed the Committee the AOS is at full staff on the GAAP audit. Staff is currently working six days a week with a target to get the initial fieldwork done by the end of the month. No major issues or disagreements have been noted to date.

Ms. Klatt also notified the committee that, due to ISA staffing issues, the AOS chose to rely on OIA's IT audit work at ODOT, Commerce, and Health. They have met with staff from the Office of Internal Audit (OIA) regarding their work performed at ODOT and Commerce (Liquor Control) and did some re-performance testing. ISA is evaluating OIA's testing results to determine whether they need to include any weaknesses in the audit reports. The Committee asked if OIA testing would be made part of the regular audit procedures. Ms. Klatt indicated the circumstances for 2010 were unique and that they would evaluate the option to use OIA testing in future audits based on their needs, etc. Ms. Klatt also indicated ISA provided the State SAS 70 transmittal letter to OAKS management on December 3, 2010, a copy of which was provided to the Committee. She stated the financial audit group is working with the ISA staff to evaluate the results of the SAS 70 for 2010 to determine if any of the issues identified as part of that audit would require inclusion in the State of Ohio report. Ms. Klatt informed the Committee there have been some changes in the guidance used by the AOS to evaluate the placement of issues identified which would be applied to the 2010 audit.

### SAS 70 Update

Maria Jackson, Assistant Chief Auditor for Information Systems Audit (ISA), Auditor of State's office, provided the Committee with a summary sheet related to the State of Ohio SAS 70 report (which included OAKS FIN and HCM, warrant writing, and EFT payment system) for the period July 1, 2009 through June 30, 2010. The report, dated October 6, 2010 and released October 14, 2010, tested nine general control and 25 application control objectives; two of which were unmet. Ms. Jackson noted that some of the control objectives, which are the responsibility of management, had changed slightly from the previous audit to align with the objectives identified by management during the planning process. The two unmet objectives related to OAKS IT Security – System Software and Utilities Access Controls and OAKS FIN – Integrity of Standing Data. Ms. Jackson provided the Committee with a summary of the exceptions identified during testing.

Ms. Jackson also summarized the results of the State SAS 70 transmittal letter ISA provided to OAKS management on December 3, 2010. She indicated the transmittal letter was provided separately this year since it is not a required part of the report and is issued to aid management. This allowed the SAS 70 report to be issued by the required deadline. She also indicated there were some formatting changes to this year's transmittal letter which added additional explanations and clarity regarding the recommendations related to the unmet control objectives. Ms. Jackson stated the transmittal letter contained ten comments for 2010, five repeated from the prior audits, which are currently being evaluated to determine if any should be included in the State of Ohio report. In addition, Ms. Jackson notified the Committee the AICPA has issued new standards for service organization audits which would be used for the 2011 audit. She indicated the main differences involved formatting (the current standard will be separated into two standards) and the name of the report will be called Service Organization



Controls (SOC) report, instead of SAS 70. She indicated the two main differences would require management assertions to be included in the report and the dating of the reports will change (will cover a period).

### DAS Update

Chairman Shkurti called on David Shaw, Interim State CISO, to provide an update on the findings of the SAS 70. Mr. Shaw provided more information relating to the off-boarding of employees vacating positions. This change is one that was transitioned to the managed services vendor. DAS OIT performs regular checks with the business units but noted that there is always a risk of overlooking a change that should have occurred.

Richard Mueller asked if these changes were automated or manual. Mr. Shaw explained that front end changes are automatic but backend checks are manual. Chairman Shkurti asked if there is a generally accepted guideline or “number” that is acceptable. Mr. Shaw explained that his staff always shoots for 100% but he was not aware of guidelines. He stated the highest risk is with employees who are terminated and not the typical transitioning employee. Mr. Shkurti asked Joe Bell to check with Rob Richards to see if he knows of any existing guidelines on change management/termination of system access rights and to see if there was a way to get a better handle on how to define “success”.

### **Bureau of Workers’ Compensation Internal Audit Overview**

Caren Murdock, BWC Internal Audit Director, provided members with an overview describing the internal audit function as it relates to the Ohio Bureau of Workers’ Compensation. The Internal Audit staff at BWC provides the Administrator and the Board of Directors Audit Committee with an annual audit plan, quarterly executive summary updates, and monthly project summaries. Finally, Ms. Murdock summarized BWC’s enterprise risk management efforts.

### **CAE Update**

Joe Bell explained the process and timeline for the OIA strategic plan. He also stated that staff was working on transition materials for the incoming Director of OBM, Tim Keen. Jim Kennedy provided an update on the FY 11 Annual Audit Plan. Plan projects are on schedule. There were a few changes to the plan to accommodate the Auditor of State IT audit priorities. He also stated that there would be no audit planned for ODOT’s rail program. OIA would be issuing five public reports in the second quarter with large financial audits to be completed in quarters three and four. Mr. Kennedy also noted that six previously issued comments were validated and cleared.

At 11:30 A.M. the committee broke for lunch.

### **Transition Discussion**

At 11:55 A.M. the committee returned to session to discuss various transition matters. Chairman Shkurti expressed his desire to reach out to the new State Auditor and various agency directors, including OBM. The group also discussed potential impact to the current internal audit activity planned for the remainder of this fiscal year and into the next year.



At 12:00 P.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 12:48 P.M. Chairman Shkurti moved out of Executive Session.

### **Assessment of the Office of Internal Audit and State Audit Committee**

Members discussed the outcome of the two assessments, both of which were positive.

Chairman Shkurti moved to end the meeting at 1:32 P.M.



### Open Items for next meeting

- Provide a definition of what is an acceptable parameter of change management/security issues (SAS 70 control issue).

**Responsible party:** Joe Bell

- Transition issues and monitor changes of OBM, DAS, BWC and AOS. Also, have Tim Keen attend March meeting to speak about forward trends based on budget and CAFR.

**Responsible party:** Joe Bell

- Follow up on OBG and Commerce security record issues.

**Responsible party:** Joe Bell and Raj Subramanian

- Integrated Audits

**Responsible party:** Jim Kennedy and Raj Subramanian

- Set Meeting with Auditor of State prior to the next committee meeting to discuss Single Audit and CAFR results.

**Responsible party:** Susan Hanley