STATE AUDIT COMMITTEE

TUESDAY, JUNE 23, 2011, 9:00 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 9:00 A.M.

OBM Associate Legal Counsel, Brianne Brown, performed a swearing in ceremony for Beverly Vitaz who was reappointed to the committee with a term expiring June 2014.

Approval of Minutes

Bev Vitaz moved for the minutes of the meeting held April 26, 2011, to be approved with no additions or corrections. Rob Richardson seconded the motion and all members unanimously approved.

OBM Financial Reporting Process Update

Tom Holsinger updated the members on the progress of the 2011 CAFR. College and university financial packages were sent out in May and state agency packets were sent in June. Mr. Holsinger stated that they are on schedule. He informed members that he expected to meet with AOS representatives after year end (June 30).

Member Rich Mueller asked what would be the goal and Mr. Holsinger replied having all completed by December 31 would be optimal. However, changes in accounting practices ultimately drive how quickly the audit can be completed.

Member Rob Richardson asked if there was any type of financial incentive to agencies, colleges, or universities for early completion and Mr. Holsinger stated that there were not. Chairman DeMaria asked if Mr. Holsinger's office needed any assistance from the committee. Mr. Holsinger said that the timelines and deadlines are understood by all parties involved.

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External Audit Update

Financial Update

Cynthia Klatt, Chief Auditor, State Region, Auditor of State's office, indicated the FY 2011 audit is underway and pointed out this timing is much improved over last year when they were presenting the FY 2009 results at the June 2010 State Audit Committee meeting. The AOS is in the planning stages of the financial statement audit, have begun cash-basis testing at the support agencies, and has met with OBM to discuss the timeline for the current audit. The timeline is currently being evaluated by AOS and OBM personnel to determine if any improvements can be made and will be finalized soon. Ms. Klatt indicated the AOS is planning to have a formal entrance conference with OBM management in July and extended an invitation to any Committee member who would like to attend. Ms. Klatt also provided the Committee a handout which summarized the comments from the FY 2010 State of Ohio Single Audit, with an indication of how many years each comment has been reported. Ms. Klatt pointed out this information was based on the Schedule of Prior Audit Findings and Questioned Costs included in the FY 2010 audit report. This information reflects comments for the last five or six years; however, some comments have been repeated for several more years. The Committee expressed their appreciation for the information and indicated they would like to work on a strategy to resolve these issues. The Committee indicated the Office of Internal Audit (OIA) is in discussions with ODJFS regarding some of their more significant comments and OIA will advise the Committee on those matters. There was also discussion between the Committee and the AOS representatives regarding the process used to evaluate the significance of each comment and their potential impact on the State financial statement opinion.

SOC 1 Update

Jim Swonger, Senior Audit Manager for Information Systems Audit (ISA), Auditor of State's office, indicated the SOC 1 testing for the current audit period is in process. The current goal is to complete fieldwork by the end of August and complete the report by the end of September. Mr. Swonger indicated the auditors have not identified any concerning issues as of this date, but have experienced some delays in receiving information. The audit staff is working through these issues with DAS. The Committee requested the AOS let them know if they could be of any assistance.

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David Shaw, State CISO, also provided the committee with an update. He stated that his staff is working to complete the information requests submitted to them from the AOS. He stated that while the list is 63% complete, there were 2 areas lagging: IT operations and IT Security. He does expect that the early August deadline would be met. Chairman DeMaria questioned the scope of the request and Mr. Shaw stated that there were 249 requests – mostly financials and accounts receivable information from OAKS. However, Mr. Shaw's main area of focus is access controls.

AOS Performance Audit – Scope and Overview

Ernie Knight, Director, of the Auditor of State's office provided an overview of the State Performance Audit Program that is mandated by Senate Bill 4 of the 129th General Assembly. This program requires that four agencies have a performance audit completed every year. Mr. Knight explained that the program is an opportunity for agencies to maximize taxpayer's investment as well as maximize efficiency and customer satisfaction. The first four agencies slated for performance audits are Education, Transportation, Job & Family Services and the Ohio Housing Finance Agency.

Mr. Knight also explained that he and his staff would be trained by outside consultants to perform Six Sigma Kaizen events. The program will employee 12 staff and four interns as well as two loaned executives who are Six Sigma Black Belts. These consultants will assist his unit three days per week for the next year.

Member Rob Richardson asked Mr. Knight how metrics would be defined for the program. Mr. Knight stated that it would depend on the audience but that the office would provide clear efficiency and improvement measures to be implemented by the agency. He explained that he expects a series of implementation steps. The agency directors are also required to go to the General Assembly to testify on implementation of comments. Chairman DeMaria asked for periodic updates from Mr. Knight on the progress of the office and the work being performed.

Fiscal Year 2012 OIA Annual Plan

Jim Kennedy, OIA Chief of Quality Assurance, reviewed the FY 12 annual audit plan with members. He explained that there is an increased focus in fiscal year 2012 for end-to-end process reviews which result in more integrated audits of financial and IT audit staff. There are seven integrated audits planned. Mr. Kennedy also explained that a larger concentration of consulting activities will occur in FY 12 due to an increase in process changes and new systems at state agencies.

To complete both the financial and information technology engagements planned, OIA estimates approximately 17,000 financial audit hours and 10,500 IT audit hours will be necessary. The plan includes 15 public assurance audits and 17 non-public IT assurance audits.

It was also noted that the state legislature recently passed legislation to include the Board of Regents as part of OIA's oversight. OIA will identify the audit universe and perform an audit

prioritization process for BOR in the first quarter of fiscal year 2012. The audit plan with initial engagements will be present to the Committee in September 2011.

Member Rich Mueller asked how consulting engagements were decided. Joe Bell stated that that several factors were involved, e.g. priority, staffing, what stage the process is in, value to the agency. Member Mueller asked what the cycle is for unplanned yellow processes and Mr. Kennedy explained that yellow unplanned processes were on a five-year cycle.

Mr. Mueller asked if there was an engagement planned in every agency and, if so, would some of those resources be better utilized in the bigger areas. Mr. Kennedy stated that there is something planned for each agency within OIA's purview and that it was important to keep visibility in each agency. He also explained that some of the smaller agencies do not get audited by the AOS because of their size and that it was important that those agencies have audits to ensure proper internal controls.

Member Richardson asked if any enterprise audits were planned. Mr. Kennedy stated that enterprise audits were not planned but each year they are evaluated.

It was also suggested that it would be helpful to include with the plan the percentage that each agency gets in General Revenue Funding along with a comparison of how much audit effort is expended at that agency. Mr. Bell indicated that those changes would be made and a revised plan would be presented to members.

Fiscal Year 2011 Annual Report

Joe Bell reviewed the draft Fiscal Year 2011 Annual Report with committee members. Chairman DeMaria suggested adding a link to the report. Member Richardson suggested adding to future reports what audits were added or deleted during the course of the year. He also suggested explaining why certain goals were not met, e.g. staffing changes, risk changes, priority changes.

CAE Update

Joe Bell provided members with updated information from the Single Audit findings and questioned costs. Mr. Bell provided a spreadsheet that noted which comments posed a higher risk to the State of Ohio financial statements compared to risk limited to a federal program. Members expressed concerns that several of those comments were multi-year findings and had yet to be corrected. Joe explained that agency management had indicated that several factors drove the non-resolution of those findings such as funding, competing priorities, or disagreement by management on a comment.

Joe explained that OIA is working with ODJFS and ODH management to help create and evaluate an action plan to resolve those issues. Members asked that management be present at future committee meetings to provide an explanation and a plan for resolution of those multi-year findings.

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Mr. Bell also provided an update to the FY 11 fourth quarter OIA audit activities. He explained that two audits had been delayed at the request of the agency. He also provided a remediation update and noted that two agencies had extended the remediation dates and that OIA had agreed to those extensions.

The committee broke for lunch at 11:32 A.M.

The committee reconvened at 11:57 P.M.

Executive Session -- At 11:57 P.M. Chairman DeMaria moved the meeting into executive session for the purpose of discussing confidential matters exempted from public disclosure. Member Bill Keip seconded the motion and a roll call was taken.

The committee moved out of Executive Session at 12:29 P.M.

Open Discussion

The committee and Joe Bell discussed open items for the next meeting on September 29th at 10AM.

Chairman DeMaria moved to end the meeting at 12:40 P.M. Member Bill Keip seconded the motion and all members were unanimous.

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Open Items for Next Meeting

1. ODJFS management updates on multi-year materiality comments in Single Audit.

   Responsible Party: Joe Bell

2. Update FY 12 OIA audit plan, including Board of Regents audit plan.

   Responsible Party: Joe Bell

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