



## STATE AUDIT COMMITTEE

THURSDAY, DECEMBER 15, 2011, 10:00 A.M.  
VERN RIFFE CENTER FOR GOVERNMENT AND THE ARTS  
77 SOUTH HIGH STREET, 31<sup>ST</sup> 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 10:02 A.M.

### Approval of Minutes

Richard Mueller moved for the minutes of the meeting held September 29, 2011, to be approved with no additions or corrections. Bev Vitaz seconded the motion and all members unanimously approved.

### OBM Financial Reporting Update

Tom Holsinger, Deputy Director, Accounting Administration advised the members that OBM had furnished all deliverables to the AOS on schedule and were currently working with AOS staff to answer any questions. Amy Hall, Financial Reporting Administrator, commented that any subsequent events such as litigation or debt issuances in January would also have to be reported to the AOS. She also noted that during the process of working on the CAFR that her department lost two staff members but were still able to meet the AOS deadlines.

Both Paolo DeMaria and Bev Vitaz commented that OBM did a remarkable job this year in completing the CAFR and meeting the deadlines. Ms. Hall also informed the committee that OBM and the AOS were working to identify an agreed upon due date for next year's CAFR with the goal being to move all deadlines to an earlier date. She also stated that she hoped to fill staff vacancies by Spring 2012. Member Richard Mueller stated that he appreciated the hard work and effort of her staff in completing the CAFR on time.

Tom Holsinger also provided a brief update to the members regarding OBM follow up on AOS management letter comments to agencies, boards and commissions. He explained that OBM has formed an audit oversight workgroup which will review responses to management letter comments and determine if those plans are acceptable. Mr. Holsinger will work with agencies to ensure that audit comments and planned remediation of those comments are completed.

## 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 2011 State of Ohio CAFR. She indicated that OBM provided the final financial statements, trial balances, journal entries and footnotes (except Subsequent Events, which will be provided in January) by the November 30<sup>th</sup> deadline. AOS staff are currently working towards completing fieldwork by the end of December. No major issues or disagreements have been noted to date.

Ms. Klatt also reminded the committee that, due to ISA staffing issues, the AOS again chose to rely on OIA's IT audit work at ODOT and Commerce for FY 2011. She indicated this work is complete, and that the AOS should be able to perform this work for FY 2012. Ms. Klatt also said the AOS had issued the FY 2011 State SOC 1 report (a copy of which was provided to the Committee), and that Maria Jackson from the AOS Information Systems Audit (ISA) section would review the contents of the report with the Committee shortly. She indicated the financial audit group is working with the ISA staff to evaluate the results of the SOC 1 report for 2011 to determine if any of the issues identified as part of that audit would require inclusion in the State of Ohio Report. She also stated the State Single Audit is still on schedule to be completed and released in March, 2012.

Finally, Ms. Klatt indicated that the AOS is looking to move up the timeline for the FY 2012 audit so the opinion can be issued sooner. In order to facilitate this earlier timeline, the AOS is hoping to move up the ending date of the SOC 1 report (Ms. Jackson will provide further details), and ISA is looking to obtain OAKS data sooner so that the financial audit teams can perform testing more timely.

### SOC 1 Update

Maria Jackson, Assistant Chief Auditor for ISA, Auditor of State's office, provided the Committee with a summary sheet related to the State of Ohio's first SOC 1 report (which is similar to the SAS 70 report, and again this year included OAKS FIN and HCM, warrant writing, and EFT payment system) for the period July 1, 2010 through June 30, 2011. The report, dated October 13, 2011 and released November 15, 2011, tested nine general control and 25 application control objectives; one of which was unmet. The unmet objective related to OAKS IT Security – System Software and Utilities Access Controls. Ms. Jackson provided the Committee with a summary of the exceptions identified during testing.

Ms. Jackson also reviewed the results of the State SOC 1 transmittal letter ISA provided to OAKS management on December 14, 2011. The transmittal letter was once again provided separately this year since it is not a required part of the report and is issued to aid management. The transmittal letter contained six comments for 2011 (four repeated from the prior audit), which are currently being evaluated to determine if any should be included in the State of Ohio report. The Committee requested clarification regarding several of the findings included in the SOC 1 report and the transmittal letter, which Ms. Jackson provided.

Ms. Jackson then discussed the AOS' consideration of moving the end date of the audit period for the FY 2012 SOC 1 report to March 31, 2012 in order to facilitate faster completion of the State CAFR audit. She indicated the intention is to do a nine month audit for the period ending March 31, 2012, and then to perform annual audits thereon ending on March 31. The Committee had several questions regarding whether the change in period and the performance of a nine month audit were acceptable. Ms. Jackson indicated that all proposed changes under consideration by the AOS are in accordance with AICPA standards. She also indicated that additional follow-up procedures will be performed for April 1 through June 30, 2012 to ascertain whether or not the internal controls were still functioning as intended.

### Ohio Department of Health

Harry Kamdar, Chief Financial Officer, presented the Ohio Department of Health's remediation efforts of the 2010 State Single Audit. Mr. Kamdar explained that since he had started his employment at the Department of Health six months ago that ODH is strongly committed to remediating the outstanding findings.

As of the meeting date, ODH has completed remediation on three comments and have four remaining comments that are either partially remediated or are in the process of being remediated.

He also explained that ODH had reorganized its finance department and created the position of Audit Remediation Officer. ODH is also working to provide fiscal training to sub-grantees during the first quarter of 2012. Mr. Kamdar explained that one of the oldest comments was regarding the WIC system and segregation of duties of IT staff. Member Rob Richardson asked how many IT staff ODH employed and Mr. Kamdar answered about 90. Mr. Kamdar explained that ODH was working with the AOS to fully remediate this issue by April 2012.

Chairman DeMaria asked if their grants management system could be transferred to the State's OAKS system. Tom Holsinger advised that it could not. Chairman DeMaria stated that he applauded ODH's efforts to remediate the audit issues.

### CAE Update

Jim Kennedy, OIA Chief of Quality Assurance, provided the CAE update on behalf of Joe Bell. Jim provided an overview of the FY 12 2<sup>nd</sup> quarter internal audit activities. He explained that there were no public reports for this quarter, but there would be three IT General Control assurance memos issued. Consulting activities made up 45% of the audit effort in 2<sup>nd</sup> quarter but more time would be spent on assurance work in 3<sup>rd</sup> and 4<sup>th</sup> quarters.

Mr. Kennedy also stated that OIA closed 2 open audit comments leaving one open audit comment due for remediation. Member Richard Mueller asked with the backend of the audit plan appearing to be loaded if staff had the ability get the scheduled audits completed. Mr. Kennedy explained that most of the field work had been completed for the 3<sup>rd</sup> quarter audits and that he was optimistic that the scheduled audits would be completed. Mr. Mueller asked that a brief outline noting which engagements will or will not be completed per the plan and an explanation for uncompleted projects at the March 2012 meeting.

Mr. Kennedy provided an update to the OIA Charter revisions. Specifically, changes were made to the OIA charter to comply with new internal audit standards as well as provided an explanation of consulting work and have the CAE annually confirm the internal audit organization independence to the Audit Committee. There were also a few changes to the IT standards that OIA will be utilizing for future IT audits. Member Richard Mueller moved to approve the OIA Charter; Member Bill Keip seconded the motion; all members approved the changes to the charter noting that OBM Director Tim Keen may also make changes to the document.

Mr. Kennedy provided a brief staffing update noting that OIA currently has 3 financial staff vacancies; had interviewed candidates; and that the vacancies have put OIA slightly behind schedule. Member Rob Richardson stated that he was still unsure how the utilization rate for employees was determined. Chairman DeMaria suggested that staff provide a more in depth explanation at the March 2012 meeting.

Mr. Kennedy also briefed members on the progress of client surveys and quality assurance reviews that were beginning. Mr. Kennedy stated that he planned to present an overview of the completed surveys and reviews at the March 2012 meeting since six months of data would be available. Rob Richardson asked what his initial take was on the results received so far and Mr. Kennedy stated that positive feedback had been received.

Member Bev Vitaz asked Mr. Kennedy about the training of OIA staff. Mr. Kennedy advised that training is a part of OIA's goal as well as individual goals. He explained that OIA looks to provide group training through such entities as IIA for staff. Ms. Vitaz asked that a training report be provided annually that breaks down the type of training, how many attended, etc. Mr. Kennedy stated that it would be best to include that detail in the annual report.

### **Open Discussion**

The committee members reviewed the State Audit Committee self-assessment form. Members discussed rewording some categories so that they more fit to the actual duties performed by the audit committee members. Member Richard Mueller also stated that an overall evaluation of Joe Bell/Chief Audit Executive and the Office of Internal Audit would prove beneficial.

Members decided to revisit the evaluation at the March 2012 meeting and asked that OIA staff reword certain category areas to better align with members' duties as well as the committee's annual calendar.

The committee broke for lunch at 11:48 A.M.

The committee reconvened at 12:24 P.M.

*Executive Session* -- At 12:24 P.M. Chairman DeMaria moved 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. Bev Vitaz seconded the motion and

all members unanimously agreed. A roll call vote was taken and, there being 4 yeas and 0 nays, the motion was approved.

The committee moved out of Executive Session at 1:17 P.M.

No internal audit reports were determined to be final public reports in accordance with Revised Code Section 126.48.

### **Open Discussion – continued**

Chairman DeMaria reviewed the open items list from the September 2011 meeting noting that all items had been discussed and addressed during the course of the meeting. Members tabled discussion of the SAC charter because most had not had the opportunity to review the suggested changes. When reviewing the future committee calendar members requested the OBM Financial Reporting unit provide a financial statement recap in March 2012, as well as an update on key legal risks to the state in the September 2012 meeting. Members did question if Casino Control Commission would be added to OIA's oversight. Jim Kennedy advised not at this time since the commission does not fall under the purview of OIA. Members asked to be informed of the status of the internal audit function of the commission at the March 2012 meeting.

Chairman DeMaria moved to end the meeting at 1:25 P.M. Rob Richardson seconded the motion.

### Open Items for Next Meeting

1. FY 2012 Audit Plan forecast of remaining audits.

Responsible Party: Jim Kennedy

2. Follow-up discussion of OIA employee utilization rate.

Responsible Party: Jim Kennedy

3. Quality assurance and survey results.

Responsible Party: Jim Kennedy

4. Develop a draft evaluation of the Chief Audit Executive and the Office of Internal Audit.

Responsible Party: Joe Bell

5. Refine State Audit Committee self-assessment form.

Responsible Party: Rich Mueller

6. Finalize State Audit Committee Charter.

Responsible Party: Rich Mueller

7. Ohio Casino Control Commission activities update (internal audit function).

Responsible Party: Joe Bell

8. 2011 Financial Statement Recap.

Responsible Party: Amy Hall

9. 2012 OIA Annual Report – training of staff

Responsible Party: Jim Kennedy