

STATE AUDIT COMMITTEE

**THURSDAY, DECEMBER 13, 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
Kai Monahan
Beverly Vitaz
Robert Richardson

Members Absent: John Merchant

Call to Order

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

Chairman DeMaria welcomed the guests from the Institute of Internal Auditor chapter from Indonesia who are visiting to attend training. Joe Bell, Chief Audit Executive, stated the visitors will be returning next week for a presentation about the Office of Internal Audit (OIA).

Approval of Minutes

Bev Vitaz moved for the minutes of the meeting held September 27, 2012, to be approved with no additions or corrections. Rob Richardson seconded the motion and all members unanimously approved.

OBM Financial Reporting Update and Legal Update

Mr. Bell stated that there have been personnel changes with some of the individuals that provide updates to the committee. Jim Kennedy has been appointed Deputy Director, Accounting Administration and Debbie Liddil is the Chief Auditor, State Region, AOS. Also, Cindy Klatt is the Chief of Quality Assurance for OIA. Mr. Kennedy presented the State of Ohio Financial Statement Timeline for Fiscal Year 2012. One agency submitted the federal grant information late. However, the financial reporting team met their deadlines. Mr. Richardson recalled that colleges and universities have been late in the past. Mr. Kennedy stated that this year they met their deadline.

Brianna Brown, OBM Legal Counsel, recommended the completion of Auditor of State's Fiduciary Training. The training is optional. Ms. Brown will distribute a link to the webinar to all the committee members.

External Audit Update

Financial Update

Debbie Liddil, Chief Auditor, State Region, Auditor of State (AOS) office provided the Committee with an update on the financial audit of the State of Ohio for the period July 1, 2011 through June 30, 2012. The letter of arrangement was sent to Jim Kennedy on December 5th and AOS has not received a signed letter back.

The date for the financial statement opinion, along with other related dates, has been moved back to the end of March as a result of the delays experienced with MITS. Because of the uncertainties surrounding MITS, the AOS used the latest date allowable for the single audit. The AOS will issue an opinion earlier if possible.

AOS received the financial statements, notes, and trial balances on November 30th. Also, the AOS received the Management Discussion and Analysis (MD&A), Required Supplementary Information (RSI), and statistical tables on December 7th. The financial audit staff is moving forward as originally planned.

All college and university and independently audited organization reports and representation letters have been received. There was one issue noted in the Yellow Book letter for the University of Cincinnati (UC) that will likely be carried forward to the Yellow Book letter for the State of Ohio since UC is a material component unit of the State. This issue required restatements of both the University (nearly \$450 million) and the Foundation (nearly \$246 million). These combined amounts exceed the AOS' materiality threshold for the State of Ohio. This will be the first time an issue for a component unit will be carried forward.

MITS Update

Jim Swonger, Senior Audit Manager for Information System Audit (ISA), AOS, indicated the requested MITS data files were provided on December 7th. Mr. Swonger's team is currently performing integrity testing over these data files and will begin pulling samples if no issues or significant discrepancies are identified. Mr. Swonger briefly discussed the delays in receiving the MITS data files and the vendor's roles and responsibilities in the process. Mr. Richardson asked for clarification on AOS not being allowed to talk to HP contractors directly. Mr. Swonger explained that they were told this after a meeting AOS had with HP back in May 2012. Chairman DeMaria asked if AOS was comfortable with where they are in the engagement. Mr. Swonger stated that AOS is making progress. It helps that JFS assigned a liaison to HP back in September. Chairman DeMaria asked if they are thinking ahead to facilitate future audits and avoid repeated delays. Chairman DeMaria requested that Joe Bell follow up with JFS' plans for compiling FY13 MITS data and report back to the Committee. Mr. Swonger has met with JFS on how to manage obtaining data for subsequent audits and to address their concerns. There will be a weakness reported to the State because of the delays in obtaining the MITS data but AOS has not contemplated what significance it will be. Mr. Monahan asked whether there was a SOC-1 report on HP. Mr. Swonger explained that the SOC-1 report for HP was limited to physical security. AOS will continue to give updates on MITS.

SOC-1 Update

Maria Jackson, Assistant Chief Auditor for ISA, AOS, provided the committee with an update on the State of Ohio's SOC-1 report on the Ohio Administrative Knowledge System (OAKS) for the period July 1, 2011 through March 31, 2012. Ms. Jackson indicated the SOC-1 report was issued on October 23, 2012.

The entrance conference for this engagement was held on February 1st. Status meetings were held bi-weekly from March 2nd through September 28th. Fieldwork ended in September and the report is dated September 11th.

The report is a SOC 1 Type 2 and covered the OAKS Financials, Human Capital Management, warrant writing and EFT, as well as the general control areas of Program changes, IT Security, and IT Operations. There were two changes in the report from prior years: the period under review went from 12 to nine months, and there was a revision of the control objectives in the IT security section (to align with NIST). Twenty-two general control and 25 application control objectives were tested; one control objective was not met.

A transmittal letter will be issued once all of the IT issues have been evaluated.

As part of the State of Ohio audit, AOS' information systems audit group is performing some limited testing for the period not covered by the report. They are currently wrapping up this testing. If there were any additional issues, they may be added to the transmittal letter. The AOS will evaluate these issues and the report results to determine if they, individually or in the aggregate, will require inclusion in the reports to be issued in accordance with Government Auditing Standards in relation to the audit of the State of Ohio.

CAE Update

Mr. Bell reviewed the FY 13 Quarter 2 activities for OIA. Six preliminary public audit reports were to be discussed in executive session. Mr. Bell explained that Department of Alcohol and Drug Addiction Services and Department of Mental Health will be merging together in July 2013. The state payment card administration audit at OBM will be conducted during fourth quarter per the client request. Timing on the tax credits audit at Department of Taxation may be impacted due to a special project that is planned. Mr. Richardson asked what would be done if budgeted hours cannot be met. Mr. Bell stated that the office would consider hiring or outsourcing.

Mr. Bell informed the committee that the office is fully staffed. Susan Patterson is no longer with the office and the position will likely be replaced with a staff auditor position. Quarter two's audit hours included 32% of hours for consulting activities. The year-to-date percentage of engagements deemed final is 40%. Mr. Bell stated that audit activities appeared to be on track; however, a special project at Taxation may impact the audit plan in quarters three and four.

Kelly Salomone was recognized as passing the CPA exam, Evan Gatian has passed the CIA exam and Caren Murdock has passed the CFE exam. Additionally, two IT auditors recently sat for the CISA exam.

Mr. Bell provided an overview of the remediation of previously issued audit comments. There were six comments outstanding. Three are closed, two remain open and one is partially remediated. Mr. Bell indicated comments not considered closed were for acceptable reasons.

Mr. Bell explained the external peer review process. The peer review team reviewed OIA processes, conducted interviews, and sent surveys to agencies, management and staff. The report states the overall opinion as 'generally conforms' to the Standards and Definition of Internal Audit. Generally conforms is considered the highest rating available.

Mr. Bell discussed the recommendations in the report. Mr. Richardson asked whether there was defined timing on the action plans for the recommendations for OBM management's consideration. Chairman DeMaria stated the approach can be to break some of them into small pieces. It was mentioned that some of the recommendations lead to more visibility in the agencies through support by the Governor and provide a vehicle to assist with minimizing repeat issues. Mr. Bell has also contacted the State CIO in order to have a periodic presence in MAC (Multi-Agency CIO Advisory Council) meetings and be involved in future statewide transformation efforts. In regards to enhancing the content of the OIA Annual Plan, Mr. Bell stated he wants to balance the recommendations with what the committee wants. Mr. Monahan stated that summary-level information is preferred and that the committee does not expect to get involved in daily office activities. Mr. Richardson concurred. Chairman DeMaria suggested looking at other internal audit entities on what information is communicated in their annual plans. Mr. Bell will reach out to the team lead on the peer review for examples.

Mr. Bell confirmed to the committee the independence and objectivity of OIA as required by IIA Standards on an annual basis.

Mr. Bell presented suggested minor changes to the OIA charter. Mr. Bell noted the committee needs to be added to the distribution list for the external peer review report. Mr. Monahan suggested a table to be included in the scope of work section that specifies the state agencies under OIA purview. Mr. Monahan asked whether the Department of Education was under OIA oversight. Mr. Bell stated they are not as the agency has its own board and internal audit function. Proposed changes to the Ohio Revised Code will give OIA the ability to assist other agencies not currently under their purview. Mr. Monahan inquired how to initiate dialogue about potential inclusion of Department of Education under OIA oversight. Mr. Bell stated dialogue would begin with the OBM Director.

Chairman DeMaria made motion to approve revisions to the OIA charter as amended without objection. Ms. Vitaz seconded the motion and all members unanimously approved.

Mr. Bell provided an overview of IIA Publications provided to the committee on Enterprise Risk Management (ERM) and Internal Audit Oversight. Mr. Monahan asked if there was an interest or discussions on ERM activity at the agency level. Chairman DeMaria stated no one has pulled it all together or have implemented formal activity on it. Mr. Bell stated BWC is moving toward ERM and it seems to be more present in regulated industries. Chairman DeMaria asked how other states approach the ERM concept. Mr. Bell stated there is no known implementation of ERM at a state level. Mr. Richardson inquired whether OIA has access to strategic plans of agencies. Chairman DeMaria stated some agencies may not have a defined or consistent

strategic planning process. Mr. Bell informed the committee that OIA plans to build awareness when it provides internal control training with components of ERM as part of the COSO framework.

The committee broke for lunch at 11:30 A.M.

The committee reconvened at 12:03 P.M.

Executive Session -- At 12:03 P.M. Chairman DeMaria asked for 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. Mr. Richardson seconded the motion and 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 1:37 P.M.

The Committee determined the following six reports to be final public reports in accordance with Revised Code Section 126.48:

1. Department of Commerce – Real Estate Audit
2. Department of Health – Procurement Process Audit
3. Department of Natural Resources – Payment Card Audit
4. Department of Public Safety – Bureau of Motor Vehicles (Tax Distribution) Audit
5. Board of Regents – Choose Ohio First Scholarship Audit
6. Department of Veterans Services – Payment Card Audit

Mr. Monahan made the motion to finalize the above reports and Ms. Vitaz seconded the motion. All members were in favor.

Open Discussion

Mr. Bell conveyed the proposed Ohio Revised Code revision to include Public Utilities Commission, Department of Rehabilitation Services Commission, Lottery Commission, and Adjutant General as part of OIA's purview. Mr. Monahan asked whether OIA will be adding more resources to handle the additional agencies under OIA scope. Mr. Bell explained that he intends to convert the administrative assistant position into an auditor position. There will be no transfers of resources from these agencies. Other revisions include language to align the Revised Code to the Committee's Charter, such as: having IT system knowledge within the composition of the committee, removing the committee's responsibility to review budgetary financial information and clarifying the definition of a public report.

Mr. Bell informed the committee that the Inspector General is open to discuss their role in future meetings and he also talked with the State CIO about attending the June 2013 meeting.

Members were provided with tentative meeting dates for 2013. They will advise Mr. Bell on their availability for the December 2013 meeting.

The meeting was adjourned at 1:46 P.M.

Open Items for March, 2013 meeting

1. Advise availability for December 2013 meeting.

Responsible Party: Members

2. Send link to webinar training on Auditor of State's Fiduciary Training.

Responsible Party: Brianna Brown

3. Meet with JFS to facilitate timely response on MITS data requests for future audits.

Responsible Party: Joe Bell

4. Reach out to external peer review team lead for examples of information communicated in annual plan.

Responsible Party: Joe Bell

5. Revise OIA charter to include committee in the distribution list for external peer review reports and a table specifying the agencies under OIA purview.

Responsible Party: Joe Bell

6. Discuss with OBM Director potential inclusion of Department of Education in OIA oversight.

Responsible Party: Joe Bell