



STATE AUDIT COMMITTEE

**THURSDAY, MARCH 21, 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
Robert Richardson
John Merchant

Members Absent: Beverly Vitaz

Call to Order

Chairman DeMaria called the meeting to order at 10:06 A.M.

Approval of Minutes

Kai Monahan moved for the minutes of the meeting held December 13, 2012 to be approved with no additions or corrections. Rob Richardson seconded the motion and all members unanimously approved.

Ohio Inspector General

The Ohio Inspector General, Randy Meyer, provided an overview of roles and responsibilities of the Office of Inspector General (OIG). Mr. Meyer distributed the 2012 OIG Annual Report to the committee members. The jurisdiction of the office is limited to the executive branch and also includes state universities and medical colleges. They investigate allegations of wrongful actions, omissions, and wasteful acts committed by state officers or employees. The OIG website reveals reports they feel would be of public interest. Chairman DeMaria asked whether Mr. Meyer noticed a pattern with the investigations that have been conducted. Mr. Meyer stated issues seem to stem from the culture at agencies. Mr. Richardson inquired about the relationship between the OIG and OIA. Mr. Bell stated OIA collaborates with the OIG. OIA does not want to impede in an investigation being conducted. Mr. Meyer pointed out that during their investigation on a developmental disabilities facility he suggested OIA cease audit activities until the OIG's work was complete. Mr. Meyer indicated their staffing is comprised of 20 multi-disciplined staff which includes CPAs, law enforcement, and criminal analysts.

Mr. Monahan pointed out that between 2009 and 2012 cases steadily increased and asked if there were any trends driving up the number. Mr. Meyer indicated they have been meeting with agencies to spread awareness about the importance of controls and stress the OIG's role is to help deter wrongful acts.

Chairman DeMaria asked about the process for obtaining management responses. Mr. Meyer indicated responses are due within 60 days of the report. If not received, a reminder letter is sent. The Governor's office follows up with the agency. The OIG has no authority to enforce recommendations.

OBM Financial Reporting Update and Legal Update

Jim Kennedy, Deputy Director of State Accounting and Reporting, and Amy Hall, Financial Reporting Administrator, presented a summary of highlights from the 2012 State of Ohio Comprehensive Annual Financial Report (CAFR). The State's net assets increased by approximately \$2.32 billion (10.1%), primarily due to the increase in business-type activities at the Bureau of Workers' Compensation. The unrestricted portion of the state's primary government net asset changes for governmental funds are largely due to debt funding for capital projects, whereby the state issues debt and records the liability however assets are recorded by schools and universities. For business-type activities, net asset changes are mostly due to money borrowed from the federal government for the unemployment compensation trust fund. Mr. Kennedy indicated the state's financial outlook received an improved outlook from credit rating agencies. Mr. Monahan inquired about the asset size for the state's roads and bridges. Mr. Kennedy stated that roads and bridges are the largest asset category of the state being approximately \$22 billion out of the total assets of \$43 billion. Mr. Richardson inquired about the largest assets of the state. Mr. Kennedy revealed that the investments held by the Ohio Bureau of Workers' Compensation, roads and bridges, buildings, land and machinery and equipment are the largest assets for the state. The 2012 CAFR will be available online the end of March 2013.

Brianne Brown, OBM Legal Counsel, informed the committee about the required ethics training and filing the annual financial disclosure statements. She continued to inform the committee there are seven dates for ethics training which is scheduled to last two hours. OBM can also provide the training to the committee before or after the next meeting. Mr. Bell will coordinate the ethics training to be held before or after the next committee meeting. Ms. Brown also reminded the committee about the Auditor of State's Fiduciary Training. The training is optional.

External Audit Update

Financial Update

Debbie Liddil, Chief Auditor, State Region, Auditor of State (AOS) 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. She indicated the opinion on the State of Ohio's financial statements is expected to be dated March 21, 2013, and will be provided to OBM once the last few items are finalized for inclusion in the CAFR and submission to the GFOA. Ms. Liddil reminded the committee the opinion was delayed from the planned January 21, 2013, date because of delays experienced with receiving MITS data for testing. She indicated the related Report on Compliance and Internal Controls is also expected to be dated March 21, 2013.

Ms. Liddil indicated the State of Ohio Single Audit Report is due to the Federal government no later than March 31, 2013. She informed the committee that testing is still ongoing with regards

to MITS data and is hopeful it will be completed in the next few days to allow a timely submission to the Federal Audit Clearinghouse. Ms. Liddil stated that the required communication with those charged with governance will occur shortly after the release of the Single Audit Report, most likely sometime in April.

MITS 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; the report was issued on October 23, 2012. Ms. Jackson stated that, although a formal communication is not required by standards, on March 7th the Auditor of State issued a transmittal letter to communicate additional detail issues that were described in the test results of the SOC 1 report and previously communicated to OBM and DAS personnel at bi-weekly status meetings. Ms. Jackson also indicated the auditors considered the results of the limited testing performed for the State of Ohio audit for the period from the end of the SOC 1 reporting period in March through the end of the June 30th fiscal year. She stated the audit team subsequently evaluated these issues in relation to the opinion on the financial statements for the State of Ohio, and determined they did not require additional reporting. Ms. Jackson informed the Committee the audit team will follow up on these issues in the next SOC 1 engagement.

Ms. Jackson also informed the Committee the entrance conference for the OAKS SOC-1 audit for the period April 1, 2012 through March 31, 2013 was held on March 19, 2013 and fieldwork will begin soon. She stated the period will continue to be for the April 1 through March 31 going forward to provide users of the report with timelier results.

Chairman DeMaria advised AOS to inform the committee on how they can help AOS with their work particularly regarding repeat findings. He asked why the audit period for the OAKS SOC-1 report was not aligned with the state fiscal year. Ms. Jackson stated that the audit period was shortened to ensure the report is completed timely.

CAE Update

Mr. Bell summarized the FY 13 Quarter 3 activities for OIA. Seven preliminary public audit reports were to be discussed in executive session. Mr. Bell stated the Department of Administrative Services (DAS) requested OIA to perform an OAKS Security Assessment. Mr. Monahan asked whether it was going to be a consulting engagement. Mr. Bell explained it will be an assurance engagement reviewing out of state facilities and the report will be a security record. A consulting review of the SOCC Data Center is back on for Q4 and will extend into SFY14. The SOCC houses the technology infrastructure for the state and a vendor has been selected to help with the redesign of the facility. Mr. Richardson encouraged that business continuity and disaster recovery be part of the scope of the engagement. Mr. Bell confirmed and stated that cost is a big issue for agencies to have space in the SOCC.

The Ohio Shared Services audit will be moved to fourth quarter as well as consulting on the state payment card due to changes at OBM. The engagement on the Division of Securities at the Department of Commerce (COM) changed to reviewing processes at the Office of

Consumer Finance in the Division of Financial Institutions. Because of the delay in the system being automated, a project planned for state fiscal year 2014 was moved up to take its place.

Mr. Bell indicated the Invest Ohio program at Development Services Agency is a new consulting engagement that was added to third quarter. The engagement entailed looking at their monitoring of the program. Mr. Bell continued to say that two reports will be issued in fourth quarter for audits of Developmental Disabilities' institutions. The Office of Inspector General (OIG) issued a report on an institution and OIA will use the recommendations during the audit of the two institutions. A new project was also added for Environmental Protection Agency on Auto Emissions. The Tax Credit audit has moved to fourth quarter due to an additional engagement that was added assisting the OIG with an investigation at the Department of Taxation (TAX).

Mr. Richardson asked whether OIA has enough staff to handle the new engagements and agencies next year. Mr. Bell stated that OIA will have 23 auditors for next year's staffing plan. Mr. Monahan asked whether the new agencies have audit resources. Mr. Bell stated that there are five agencies that will be added to OIA's oversight. The Lottery Commission (LOT) has three financial auditors to leverage and IT audit coverage will likely be from OIA. Also, there is an external audit presence on the financial statement and OIA will evaluate their needs and any gaps in audit coverage. Mr. Monahan inquired about whether the auditors would report to OIA. Mr. Bell stated he will review and approve the LOT audit plan but not have employees report to him. The other new agencies are Adjutant General, Public Utilities Commission of Ohio, Rehabilitation Services Commission and the Department of Medicaid. The Department of Medicaid will consolidate Medicaid programs currently at various state agencies. The Auditor of State's Office will continue to audit the Medicaid program. Mr. Bell envisions more consulting engagements initially at the Department of Medicaid. Mr. Monahan asked whether audit work will be financial or focused on internal controls. Mr. Bell indicated OIA will evaluate existing controls at the agency and plan accordingly.

Mr. Bell reported Kelly Salomone was promoted to Internal Audit Section Chief from the Manager position and two Senior Auditors were promoted to Managers. Additionally, there are interviews being conducted for three financial audit positions. OIA has completed 69% of the planned projects per the audit plan. Client delays and staffing levels had some impact to planned engagements. Mr. Bell also stated that agencies made progress on remediating observations and anticipates those not fully remediated will be closed for the next meeting. Agencies have been proactively contacting OIA to help with known issues. For the Developmental Disabilities audit to be conducted next quarter, OIA will look at the action plan the department submitted in response to the OIG report as part of the audit planning process. The department did not have a culture of monitoring. Mr. Richardson asked where OIA had looked at the Department of Developmental Disabilities in the past and if OIA missed anything. Mr. Bell stated that in future audit planning OIA will be aware in considering the operations in the more decentralized entities.

OIA will discuss their FY13 annual report and FY14 audit plan at the June meeting. Mr. Bell will send to the committee the last annual report. Chairman DeMaria stated a deadline will be set to get feedback from the committee on the annual report. Mr. Bell indicated he will be meeting with agency directors in mid-April and section chiefs will meet with agency CFOs and CIOs in

order to get an operational perspective. OIA will get feedback from OBM budget analysts and the Governor's Office as well as the committee. OIA attends the periodic Multi-Agency CIO committee meetings (MAC) and Ed Carr, IT Auditor Section Chief, also serves on one of the subcommittees for the IT Optimization initiative. The State CIO, Stu Davis, is planned to speak to the committee members in June. Mr. Bell stated OIA needs to understand anticipated changes to know how OIA can best add value. The challenge is being able to maintain skill sets and training and being involved in the committees/groups. Mr. Richardson asked whether OIA knows where they need to be within the IT Optimization endeavor. Mr. Bell stated the difficulty is predicting what IT functions will be centralized and what will remain at agencies. Chairman DeMaria suggested next year's plan be more expansive in the area of IT Optimization. Mr. Richardson added OIA should focus on customer service particularly having clear service level agreements and vendor management.

Mr. Bell indicated the FY14-15 OIA strategic plan will be reported at the June meeting which identified continuous improvement strategies and action plans.

The committee broke for lunch at 11:45 A.M.

The committee reconvened at 12:10 P.M.

Executive Session -- At 12:10 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. Merchant 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 1:27 P.M.

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

1. Development Services Agency – Tax Credits Audit
2. Environmental Protection Agency – Auto Emissions
3. Department of Natural Resources – State Park Operations
4. Department of Public Safety – Emergency Medical Services
5. Department of Public Safety – Inventory Audit
6. Department of Transportation – Contract Task Orders

Chairman DeMaria made the motion to finalize the above reports and Mr. Merchant seconded the motion. All members were in favor.

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

1. Department of Insurance – Security Collateral

Chairman DeMaria made the motion to finalize the above report and Mr. Richardson seconded the motion. All three members were in favor with Mr. Monahan abstaining.

Open Discussion

Members were provided with tentative meeting dates for 2013. Mr. Bell will email dates to the committee member for future meetings. Chairman DeMaria advised the committee members to notify him on any conflicts. Also, committee members are to review the Audit Committee Charter and the State Audit Committee Self-Assessment. At the next committee meeting, there will be a discussion on how they are doing. Mr. Bell will send the self-assessment to the committee members by mid-April. Committee members are to return the completed self-assessment to Chairman DeMaria or Mr. Bell by mid-May. During the September meeting, the committee will perform the CAE assessment. Chairman DeMaria will work with Mr. Bell to establish the process for September. Mr. Bell will send out the draft audit plan in early June to members.

The meeting was adjourned at 1:38 P.M.

Open Items for June, 2013 meeting

1. Advise availability for future meetings.

Responsible Party: Members

2. Send FY13 OIA Annual Plan and FY12 OIA Annual Report to members for input.

Responsible Party: Joe Bell/Members

3. Send State Audit Committee Charter and State Audit Committee Self-Assessment to members for input and consideration in performing the self-assessment in June meeting.

Responsible Party: Joe Bell/Members

4. Send Chief Audit Executive/OIA Assessment to members for discussion in June meeting.

Responsible Party: Joe Bell

5. Send draft of SFY14 Audit Plan to committee members in early June.

Responsible Party: Joe Bell