



STATE AUDIT COMMITTEE

**THURSDAY, MARCH 13, 2014, 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
Ryan Hecht

Members Absent: John Merchant
Beverly Vitaz

Call to Order

Chairman DeMaria called the meeting to order at 10:02 a.m.

Chairman DeMaria welcomed the guests and recognized employees from the Department of Job and Family Services (JFS) who successfully remediated a long standing material weakness that had been reported in the State of Ohio Single Audit report. Employees named: Kipp Bertke, Karen Brown, Jeff Clouse, Rick Copley, Tom Croyle, Director Cynthia Dungey, Patty Gray, Rama Gudhe, Al Hammond, John Maynard, Eric Mency, Corey Sines, and Sylvan Wilson.

Approval of Minutes

Mr. Hecht moved for the minutes of the meeting held December 9, 2013 to be approved with no additions or corrections. Mr. Monahan seconded the motion and all members unanimously approved.

IT Security Update

Chairman DeMaria introduced David Brown, State Chief Information Security Officer from the Department of Administrative Services (DAS) to update the Committee on the state's efforts on IT Optimization Security initiatives.

Mr. Brown mentioned that the goal is to use resources more efficiently. They have three different methods of accomplishing this: centralize security services; develop common solutions; develop staff.

Mr. Brown discussed the various security services needed. They have hired a couple of architects for Security Architecture. For the risk management process, they are utilizing NIST (National Institute of Standards and Technology) guidelines. For Security Compliance, the intent is to monitor system certification and accreditation, make sure that controls are effective, and that systems stay compliant over time.

Mr. Brown stated that they have several ongoing projects for the Security Engineering function. For the Security Monitoring, they intend to have 24 hour/7 days a week monitoring capability to respond to threats quickly. DAS is hiring someone to start a monitoring team that will take 18 months to build.

Mr. Brown said that his staff has been working with OIA on policy development efforts for the security framework.

Mr. Brown detailed the Phase 1 initiatives, including expanding the platform to all agencies, installing a series of sensors, utilizing Qualys to perform vulnerability assessments, assessing the Malware agencies have, and installing a new suite of products that have multi-tiered layers of defense. He also spoke about installing firewalls and consolidating servers currently utilized by the agencies. In the next 18 to 24 months, the plan is to have centralization of IT security staff.

Mr. Hecht asked about how the termination of user access controls takes place. Mr. Brown stated that the individual agency initiates the end of user access and notifies DAS. They are looking to automate those activities in the future. Mr. Monahan asked what was projected beyond Phase 1. Mr. Brown stated that there are different timelines for the 10 products. Phase 2 includes data loss prevention strategies, assessing the network, and Internet filtering, with service and compliance being the goals. There are 20 controls to address, and they aim to fill in the gaps through the process. Mr. Monahan asked if training was included with this process. Mr. Brown stated that it would be a part of it, since they plan to build up staff. Mr. Monahan also asked about the net change in head count. Mr. Brown said that overall there would not be much of a change. Chairman DeMaria asked about the agencies' reactions to this process. Mr. Brown stated that they have increased their communications with the agencies, including a weekly newsletter to every IT person in state, and they are holding monthly meetings with leaders to discuss impact to agencies, status of initiatives, and how they will continue to stay compliant with standards. Chairman DeMaria stated that the Committee appreciates this effort and to keep up the good work.

BWC CORE Update

Chairman DeMaria introduced Kathy Martin, Chief Information Officer at the Bureau of Workers' Compensation (BWC). Ms. Martin provided an update to the Committee on CORE, the new information system being implemented at BWC.

Ms. Martin mentioned that the CORE program is replacing BWC's current claims and policy systems. StoneRiver is the vendor providing and supporting the product. A challenge in selecting this product was that it had to work with all of the systems at BWC and other agencies.

Ms. Martin provided a background of BWC, including that \$1.7 billion of premiums are collected annually. She stated that the product, which is called PowerSuite, is an excellent insurance product but is not tailored to the state. One key change is that the payment of premiums will convert from a retrospective to a prospective basis. BWC's call center software will need to be updated for PowerSuite. BWC's V3 and WCIS systems will also need to be converted.

The Go Live timeframe is planned for November 7 through 11, 2014. It is critical that conversion time for data is 48 hours or less. BWC has eight months to fine tune the 48 hour conversion time line. Existing interfaces needed to be re-written and tested. Their largest external trading partner is the Industrial Commission. The Health Partnership Program supporting the MCOs is the largest data volume partner.

BWC has also experienced challenges in staffing, such as restrictions on hiring IT personnel due to IT Optimization. Another challenge is an aging workforce at BWC, with many eligible to retire before new system is in place and those remaining may have difficult learning curve. BWC is undertaking a huge training effort for such a big change so that employees can use the system the first day it is operational. This is also the largest implementation that StoneRiver has experienced.

Ms. Martin stated that the OIA consulting project on CORE has gone well and OIA has been given free rein to look at the CORE statuses on SharePoint.

Mr. Monahan asked why BWC was making switch to CORE. Ms. Martin stated that both of the systems were old legacy systems, requiring maintenance. This will also enable BWC to get off the mainframe and save those costs. Mr. Monahan asked if CORE will be able to generate electronic claims instead of paper and fax transmissions. Ms. Martin said they need to work with their partners and the medical community which still use paper. Mr. Monahan also asked about their use of consultants, to which Ms. Martin said they did use consultants but may not be able to for very long. Mr. Hecht said he was concerned about this project being the largest for StoneRiver, as well as the staffing issues. Chairman DeMaria thanked Ms. Martin for her time and to keep the Committee apprized on CORE's progress.

OBM Financial Reporting Update

Amy Hall, Financial Reporting Manager, OBM, spoke about the CAFR preparation timeline. Ms. Hall stated that OBM received an unqualified opinion on the financial statements on December 20. This was the first time since 2004 that they received an audit opinion before December 31. The final Single Audit opinion was issued on February 20. There were a few errors noted in the Schedule of Federal Awards, for which OBM will work with the agencies to correct for next year. There were no yellow book (material) items noted this year for the first time in a long time. Financial Reporting will be meeting with the Auditor of State on next year's timeline. Currently her group is researching changes for the next set of financial statements. The change in pension reporting will not occur until fiscal year 2015.

Chairman DeMaria praised the good work OBM Financial Reporting has done and appreciates them working with the Auditor to accomplish their goal.

External Audit Update

Debbie Liddil, Chief Auditor, State Region, Auditor of State (AOS) and Maria Jackson, Assistant Chief Auditor provided the committee with the results of the audits of the FY 13 State of Ohio CAFR and federal Single Audit.

Ms. Liddil stated that she was pleased to be able to report the results of the financial audit in the State Audit Committee's March meeting. She stated that everyone worked hard and was cooperative. This was not an easy accomplishment - overtime hours were the highest this year. Chairman DeMaria asked if recognition was provided for the audit team. Ms. Liddil said this was difficult to do, other than acknowledging them. Her audit team is still finalizing management letters with a goal of issuing within 30 days from the date of the Single Audit. Chairman DeMaria stated that the Committee would send an acknowledgement.

Maria Jackson, Assistant Chief Auditor, provided an update on the fiscal year 2014 SOC 1 audit. Her team is in the final planning phase to get audit started. A combined entrance/exit meeting was held and they have submitted their requests for information. The letter of arrangement will be provided next week and the audit period will be April 1, 2013 through March 31, 2014. They hope to issue the report by September 30, 2014.

Ms. Liddil talked about the issuance of the opinions and that they had great cooperation. She praised the State Audit Committee for their part in assisting the audit effort. She mentioned that her team reviewed 32 major programs, which was 96% of total federal awards for the State of Ohio. In the Single Audit report, three major programs had a qualified opinion for one of the 14 compliance requirements. Overall, the report had the lowest number of findings in many years. There are still several repeat findings, but progress is being made. Page 43 of the report relates to questioned costs, which amounted to \$859,000 and included two for which an amount could not be determined. There were two findings for recovery that had to be reported but were not significant. She will soon be providing the letter to those charged with governance to the Committee.

Joe Bell stated his appreciation for Ms. Liddil's team in that they did a great job working with the agencies and collaborating in addressing prior audit comments. Mr. Hecht asked why overtime was higher this year. Ms. Liddil stated that it occurred due to the compressed window of time available to do the audit.

Ms. Liddil said that her team is starting the fiscal year 2014 planning process and plans to begin auditing agencies in late April. They will also be meeting with OBM on the timeline and any changes to the financial reporting standards. One major thing her team will experience for the fiscal year 2014 audit will be the Department of Medicaid audit and its split from the Department of Job and Family Services. Her team will need to evaluate the changes in order to develop their approach. Mr. Hecht asked how the Auditor of State's timeline impacts the Office of Internal Audit (OIA). Mr. Bell stated that OIA coordinates their work with that of the Auditor of State and meets with them formally twice a year. There is not too much of an impact since OIA works on other projects. Audit periods for the two groups are also different. Chairman DeMaria noted the two pages of findings and is interested in learning more about patterns and trends of the audit findings and asked Ms. Liddil to speak to that for the next meeting and what the State Audit Committee should know about those patterns and trends. Chairman DeMaria thanked Ms. Liddil for her staff's hard work.

OBM Legal Update

Chairman DeMaria introduced Joy DeMarco, OBM's Associate Legal Counsel. Ms. DeMarco spoke to the group about ethics training and financial disclosure statements. She shared with the Committee the dates of training offered by the Ethics Commission since OBM's ethics training is still being considered. For the financial disclosure statements, the Ethics Commission sends a notice to the Committee members, whose statements are confidential. These statements are due on April 15. After the Ethics Commission reviews the financial disclosure statements, they send any potential conflicts of interest to OBM to evaluate.

CAE Update

Joe Bell, Chief Audit Executive for OIA, updated the Committee on the progress on the OIA annual plan for the second quarter of fiscal year 2014. He thanked the Committee for recognizing the Department of Job and Family Services' employees. He also introduced Geoffrey Phillips, Internal Audit Director from BWC, who was visiting the meeting. Chairman DeMaria stated that he appreciated the partnership with BWC.

Mr. Bell stated that the number of consulting engagements this quarter was higher than what is typical. He also mentioned that his team has performed quite a bit of work with IT Optimization as well as the SOCC remediation. They have also assisted BWC with their efforts on CORE.

Mr. Bell's team is currently down two staff and OIA has completed 63% of annual audit plan, which was quite aggressive this year. His team has already started the fourth quarter projects. Mr. Bell hopes to complete in the mid to upper 80% of the plan.

Mr. Monahan asked what percentage of the plan is typically completed. Mr. Bell stated that 88% of the plan was completed two years ago; last year, it was 96%. Additional audits were added this year as well as the Quality Assurance reviews at BWC and Lottery Commission. Mr. Monahan suggested recalibrating the target percentage to align with what has been achieved in the past. Mr. Monahan also stated that it would be helpful for the Committee to see the number of audits, including a running total, and audits from the original plan along with new audits added. Chairman DeMaria suggested including abbreviations such as "SR" for security record, in case space is an issue. Mr. Bell said he would submit a revised schedule with the requested changes.

Mr. Hecht observed that OIA appeared to be more efficient regarding the audit plan budget (59%) versus the personal services spent (69%) and asked about whether the third quarter expenditures were projected through the end of March. Mr. Bell stated that they were, and even though OIA had two people out during the period, a major part of their payroll expenses had to be absorbed.

Mr. Bell discussed the IT Staffing Analysis with the Committee to demonstrate the decisions and options for when IT shortages are experienced. There are various factors as to what type of resource to be utilized (short term vs. long term employee) and whether any IT specialization is required. Project urgency would also be a factor. Mr. Bell will be speaking with OBM

Administration about OIA's options, perhaps utilizing a term contract or co-sourcing with another state agency. Mr. Hecht asked whether consultants could be used, similar to what BWC is using. Mr. Bell said it could be possible to utilize consultants, perhaps using a sub-vendor on a state term contract, on a pilot basis.

Mr. Bell briefed the Committee on the Remediation status. He stated that all comments for public reports issued in the past requiring remediation at this point had been closed. He mentioned that OIA could expand the reporting function for financial comments to show trends.

Mr. Bell mentioned the upcoming audit plan process, along with audit prioritization. He intends to use the same process as in prior years and no plan to change risk factors. He asked the Committee to let him know if they desired any changes. Chairman DeMaria requested that if the Committee had any questions or comments about planning process to please ask Mr. Bell soon, since the plan will be provided in June. The Chairman also stated that he values input from Committee members and would like to get feedback on the current heat maps and other planning documentation.

Mr. Bell also mentioned that OIA would be adding an audit for the Ohio Casino Control Commission (CCC) for the fourth quarter. OIA is in the process of finalizing a Memorandum of Understanding (MOU) with CCC, even though CCC is not legally part of OIA's purview. Lottery Commission and CCC have similar types of risks and Mr. Bell is obtaining training and seeking professional outreach to learn more about gaming industry. Mr. Hecht mentioned a concern about OIA taking on more responsibility as well as legal issues. Ms. DeMarco stated that the CCC MOU contained more specific references about requirements and that we would be reporting CCC results in the same manner as our other agencies and that we are performing the audit under our statute. Mr. Bell went on to say that CCC has an audit unit that reviews casino activity and the Auditor of State is intending to audit CCC once every two years. Mr. Monahan asked about the reporting of CCC results and Ms. DeMarco said reporting would be the same and there would be more communication of the results with the Auditor of State.

Cindy Klatt, Chief of Quality Assurance, OIA, discussed the memo she prepared for the assurance review of the Lottery Commission's internal audit function. She mentioned several concerns included in the memo, such as the Lottery's audit committee containing members of Lottery management, a lack of a tracking mechanism for remediation of comments, and the internal audit charter not being updated timely. The overall conclusion, however, was that OIA could rely on Lottery Internal Audit's work with ongoing oversight and involvement from OIA.

Mr. Monahan stated that he would hesitate to rely on their work, given the issues included in the memo. Mr. Bell stated that he has reached out to the chairman of the Lottery Commission, who agrees that more transparency is needed. Mr. Bell also mentioned that OIA will be more interactive with Lottery, and OIA will be performing some of the internal audit work. Lottery also receives an external audit each year. Mr. Monahan asked how the MOU with Lottery differs from OIA's other MOUs. Mr. Bell stated that Lottery is a part of OIA's oversight and they are actually more similar in that respect to BWC than to the Casino Control Commission. Mr. Monahan questioned whether Lottery needs their own internal audit staff and suggested that they could be a part of OIA and operate under a single set of standards. Mr. Bell stated that the Lottery internal audit team is behind on accomplishing their audit plan, but they will soon have a

new leader. Mr. Bell thinks the team needs more exposure and development. He will consider Mr. Monahan's suggestion, discuss with Lottery's Director and provide an update in June. Mr. Hecht also expressed concern about relying on Lottery's audit committee if the majority of it consists of Lottery's management.

The Committee paused their meeting for lunch at 12:07 p.m. and reconvened at 12:32 p.m.

Executive Session -- At 12:32 p.m., Chairman DeMaria stated 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. Monahan seconded the motion and a roll call vote was taken and, there being 3 yeas and 0 nays, the motion was approved.

The Committee moved out of Executive Session at 1:36 p.m.

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

1. Department of Commerce - Securities
2. Department of Developmental Disabilities – Procurement Process
3. Department of Public Safety – OCJS Subrecipient Monitoring
4. Department of Transportation – Petty Cash
5. Department of Youth Services – RECLAIM Funding

Chairman DeMaria made a motion to approve the five public reports, with the notation to be added to the Department of Developmental Disabilities' report regarding the "Improvement Needed" rating which had no corresponding observation in the report; Mr. Hecht seconded the motion. All agreed and the reports were approved.

Open Discussion

Technical Updates

Mr. Bell mentioned the technical guides that were included as part of the agenda. The first one, KPMG Audit Committee Priorities for 2014, included five suggestions for audit committees. Two of them do not apply to OIA. A second item, a one page overview of OMB's 2 CFR 200 *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, was provided to the Committee so that they would be aware of upcoming changes. This new federal guidance combined information from several Circulars and was intended to ease administrative burden on recipient agencies. The third item, "Tone at the Top", issued by the Institute of Internal Auditors, has a focus on cybersecurity, including six steps to protecting IP. Mr. Hecht asked if Internal Audit was affected by the new COSO framework and whether OIA's practices would need to change. Mr. Bell said that OIA is obtaining more information and attending COSO framework-related training to evaluate the applicability. Chairman DeMaria stated that it would be helpful to know whether OBM (internal audit, financial reporting and external audit) needs to alter any practices in relation to the new framework and asked for an update in the September meeting.

Assessment of Committee meeting

Committee Member Composition

Given that Beverly Vitaz' appointment will expire on June 30, the members discussed the Committee Member composition table in order to determine what competencies the new Committee member would need. Chairman DeMaria asked committee members to evaluate the vacancy and provide feedback to Mr. Bell, who will in turn submit a letter to the state House of Representatives to recommend a new committee member with certain competencies. The Chairman also stated that he appreciates OIA staff addressing the Committee's comments. Mr. Hecht will not be able to attend the June meeting.

The meeting was adjourned at 2:06 p.m.

Open Items for June, 2014 meeting

1. Advise availability for future meetings.

Responsible Party: Members

2. Provide feedback on Committee meeting assessment

Responsible Party: Joe Bell/Members

3. Schedule periodic IT Optimization updates with State Chief Information Officer Stu Davis (September)

Responsible Party: Joe Bell

4. Schedule BWC and Lottery Internal Audit to present to Committee (September)

Responsible Party: Joe Bell

5. Discuss audit findings' patterns and trends (June)

Responsible Party: Debbie Liddil

7. Update annual plan status to include removed audits (June)

Responsible Party: Joe Bell

8. Provide audit plan process updates (if applicable) to Joe Bell

Responsible Party: Members

9. Provide update on Lottery Commission Internal Audit process (June)

Responsible Party: Joe Bell

10. Provide update on new COSO framework and how it affects processes (Internal Audit, Financial Reporting, External Audit (September)

Responsible Party: Joe Bell

11. Prepare letter to General Assembly for new Audit Committee member (June)

Responsible Party: Joe Bell, Members