



STATE AUDIT COMMITTEE

WEDNESDAY, JUNE 25, 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
John Merchant
Beverly Vitaz

Members Absent: None

Call to Order

Chairman DeMaria called the meeting to order at 10:02 a.m. He mentioned that there will be an audio recording of the meeting minutes, which will be discarded once the written minutes are approved in the subsequent meeting.

Chairman DeMaria recognized Committee member Bev Vitaz for her six years of service to the Committee and expressed his appreciation for her participation. He presented her with a resolution from the Ohio Senate and from the Ohio House of Representatives. Ms. Vitaz, no longer eligible to serve on the Committee after the June meeting, thanked the Chairman for the recognition. The Chairman introduced Geoffrey Phillips from BWC Internal Audit as attending the meeting, as well as Sean Whalen, Chairman of the Lottery Commission audit committee, Jennifer Wilson, Chief of Lottery's Internal Audit, John Jones, staff IT auditor at Lottery, and Wendi Finn, the new incoming member of the State Audit Committee whose term begins on July 1, 2014.

Approval of Minutes

Mr. Monahan moved for the minutes of the meeting held March 13, 2014 to be approved with no additions or corrections. Mr. Hecht seconded the motion and all members unanimously approved.

OBM Financial Reporting Update

Jim Kennedy, OBM Deputy Director, State Accounting and Reporting, discussed the FY 2014 Comprehensive Annual Financial Report (CAFR) schedule. Again there will be a six month window to issue the audited state CAFR. OBM just received their certificate from the Government Financial Officers Association for the previous CAFR. Mr. Kennedy feels confident

about the coming year. He noted that OBM will be including the Ohio Turnpike Commission in the state's reporting entity for FY 2014, since the bonds they issue are used for transportation. The Commission has a December 31 fiscal year end, which will be helpful in implementation. They will also be adding the Northeast Ohio Medical University to the reporting entity. Fiscal year 2014 financial reporting will be a light one for new GASB statement implementation – next year (FY 15) will be a significant one for GASB statements 67 and 68 (pension disclosures). Chairman DeMaria asked if OBM Financial Reporting were laying the groundwork now for next year's significant changes. Mr. Kennedy indicated that they were. Mr. Hecht asked why Northeast Ohio Medical University was being added. Mr. Kennedy stated that the university was not a large entity but due to a new reporting addendum, the University was required to be included in the state's entity. Mr. Hecht asked if the Committee could be provided guidance on new GASB standards so that they can be educated and prepared for any changes. Mr. Kennedy indicated that he could provide that. Chairman DeMaria asked if Mr. Kennedy had any system concerns about the FY 14 CAFR, and Mr. Kennedy said there was nothing new system-wise, but indicated that the state's accounting module will be undergoing an upgrade, which will take a year to prepare for, starting in July 2014. The state will also be acquiring new hardware, which should be faster, more stable and provide more functionality.

External Audit Update

Debbie Liddil, Chief Auditor, State Region, Auditor of State (AOS) and Maria Jackson, Assistant Chief Auditor provided the committee with the external audit update. Ms. Jackson indicated that the IT audit work was in the early stages and there was nothing significant to report at this time.

Ms. Liddil stated that the entrance meeting for the FY 14 CAFR and Single Audit was held with OBM officials on May 8; her Office has agreed to the audit timeline with dates similar to the prior year. The plan is to issue the opinion on financial statements on December 22, 2014 and issue the Single Audit opinion on February 20, 2015. The letter of arrangement for the audit has been provided to OBM and signed; planning the audit is under way; testing has begun at state agencies; and letters to IPAs will be issued in July. She noted that there should not be anything significantly different for the FY 2014 audit; however, her audit team is rotating, which is done periodically for a fresh perspective. Laura Swank and Chuck Vollmer will be the lead auditors for the state GAAP audit. The audit is currently on track.

Chairman DeMaria asked about the audit of the Ohio Turnpike Commission and whether Ms. Liddil was familiar with the audit. Ms. Liddil stated that the Auditor of State is in charge of contracting out that audit, but it is performed by a region different from hers.

Ms. Liddil provided charts to the Committee based on a prior meeting request for the Committee to learn about AOS audit comment trends for the State of Ohio Single Audit. The charts demonstrated the number of single audit comments is decreasing over time. Ms. Liddil mentioned how the number of comments was affected by interpretation of AICPA guidance throughout the various years and the implementation of OAKS also had an effect. The lowest number of comments occurred for fiscal year 2013. Chairman DeMaria thanked her for preparing the information.

CAE Update

Joe Bell, Chief Audit Executive for OIA, updated the Committee on the FY 15 Audit Plan. The plan is a risk-based, point-in-time plan which involved feedback from the 27 state agencies included therein. Mr. Bell stated that OIA met with the agencies, OBM budget analysts, Governor's office, OBM Director Keen and the Auditor of State when developing the plan. OIA also surveyed agency management on changes in people, process, and technology as well as stakeholder concerns. Mr. Bell pointed out a key change in this year's plan is for OIA to be adapting their audit categories to the IT controls remaining at the agency as a result of Statewide IT Optimization. The plan reflects 96 audit activities and is a 25% increase in projects compared to the prior year.

Chairman DeMaria asked if any of the members had questions. Mr. Monahan stated that he would recommend in the future developing a plan based on capacity as to what can be covered, including capacity for additional requests throughout the year. Mr. Hecht stated that stretch goals are good but asked how the projects are scheduled. More visibility in the prioritization of audits was requested. Also, in the future, "rolling" audits (ones that start in one fiscal year and are completed in another) should be noted in the plan in some manner.

Mr. Bell briefly described the more prominent audit projects for the members. Mr. Hecht asked about the IT general control work performed by the Auditor of State. Mr. Bell stated that the AOS performs IT general control work at approximately five state agencies based on which systems are material at the state level. When AOS has resource issues, they may be able to leverage some of the IT general control work that OIA performs. Mr. Hecht also asked about the category Institution Medical Services under DRC being high risk but no coverage noted for current or prior years. Mr. Bell along with Maria Robinson, Financial Audit Chief with OIA, stated that some coverage did take place in the past and Mr. Bell would determine if that should be reflected in the plan. Mr. Monahan also offered, in relation to the IT general controls to be performed at BWC, to have his team work with the OIA team on how data analytics can be used with this type of audit to gain effectiveness.

Mr. Bell discussed the agency heat maps and also explained the last page of the plan (appendix B) as a percentage comparison of work to be performed at the state agencies versus the percentage of appropriations. Appendix B has developed over time based on various updates of the plan over the years and feedback from the external peer review. Mr. Hecht mentioned that the form leads one to question the disposition of some of agencies where coverage is different from what would be expected. Mr. Bell also mentioned that AOS effort is not considered in those percentages. Chairman DeMaria suggested that the form be discussed in the September meeting for future audit plans as to whether it needs to be changed or taken out of the document. Members agreed to this suggestion.

Mr. Bell discussed the annual report with Committee members. This report is due by August 1 to legislature and the Governor. The report discussed is in draft form pending the completion of the fiscal year. Mr. Hecht asked about the rent allocation and how it impacted the financial amounts in the report; Mr. Bell discussed those amounts.

Mr. Hecht asked if OIA needed assistance with any of the initiatives towards the back of the report. Mr. Bell mentioned that he may need advice with data analysis and the career progression matrix. Mr. Bell also mentioned that Enterprise Risk Management (ERM) has been slow to develop in the State. OIA can encourage but not own ERM. Mr. Monahan asked if any other states had a good ERM process to model; Mr. Bell mentioned that the State of Washington did. Mr. Hecht suggested that Mr. Bell contact him about the career progression and contact Mr. Monahan on the data analysis. He also suggested that ERM be discussed as a topic in a future meeting. Mr. Bell and the members agreed to this.

Mr. Bell discussed the audit plan status and stated that 25 reports were completed in the fourth quarter. OBM Pre-Collections will be performed in FY 15, first quarter. JFS UC Improper Payments should provide good value and needs to be completed in September, so it will encompass both fiscal years. Mr. Monahan mentioned that it would be helpful to expand the comments column as to why new projects are added.

Mr. Bell discussed the new financial comment dashboard as to the status of remediating the financial report comments; comments have typically been addressed promptly. He requested that members provide feedback on any improvements of the dashboard report.

(Mr. Hecht stepped out of the room)

Cindy Klatt, OIA Chief of Quality Assurance, discussed the status of the Lottery Internal Audit group since she had reported some concerns in the March meeting. Outlook is positive as the Lottery Audit Committee structure has been changed to only consist of Lottery Commission members as opposed to including management. A new internal audit manager has been appointed; the internal audit and audit committee charters have been revised; annual report for FY 14 appears to be more robust and ready for OIA review; and Lottery Internal Audit is developing a system of managing the remediation of audit comments as well as policies and procedures document.

The Committee paused their meeting for lunch at 12:05 p.m. and reconvened at 12:33 p.m.

Executive Session -- At 12:33 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. Merchant seconded the motion and a roll call vote was taken and, there being four yeas and 0 nays, the motion was approved.

The Committee moved out of Executive Session at 1:40 p.m.

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

1. Adjutant General – Payment Card audit
2. Department of Administrative Services – Contract Management
3. Development Services Agency – Loan Processing

4. Department of Insurance – Consumer Services Division
5. Lottery Commission – Video Lottery Terminal Reviews
6. Public Utilities Commission – Renewable Energy

Chairman DeMaria made a motion to approve four of the six public reports, excluding the Insurance and Lottery reports. Mr. Merchant seconded, and all approved without objection. Chairman DeMaria moved that the Department of Insurance report be approved; Mr. Hecht seconded, Mr. Monahan abstained, all others approved. Chairman DeMaria moved that the Lottery Commission report be approved; Mr. Monahan seconded, Mr. Hecht abstained, all others approved.

Open Discussion

SAC self-assessment CAE/OIA assessment

Chairman DeMaria discussed the Committee self-assessment process and the Committee assessment of the Office of Internal Audit. He asked the members to look at these forms and he would follow up with more information in the near future. Mr. Bell was asked to include information from various sources on the CAE/OIA assessment for Committee review.

Staff Update

Mr. Bell mentioned that three senior IT staff had left OIA since the March meeting; those vacancies have been filled with one new hire and an internal promotion. One new hire is still outstanding. On the financial side, there has also been internal promotion and a new hire starting on June 30. Another new hire is needed for a backfill position, whereby interviews are being scheduled.

Chairman DeMaria also mentioned the upcoming FY 16-17 budget preparation and asked Mr. Bell to let him know if any Committee assistance is needed.

The meeting was adjourned at 1:55 p.m.

Open Items for September, 2014 meeting

1. Advise availability for future meetings.

Responsible Party: Members

2. Provide feedback on Committee meeting assessment

Responsible Party: Joe Bell/Members

- Schedule periodic IT Optimization updates with State Chief Information Officer Stu Davis (December)

Responsible Party: Joe Bell

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

Responsible Party: Joe Bell

- Evaluate Appendix B from Audit Plan for FY 16 Audit Plan (September)

Responsible Party: Members

- Finalize State Audit Committee self-assessment (September)

Responsible Party: Members

- Finalize CAE/OIA assessment (September)

Responsible Party: Members

- Perform annual update of Audit Committee charter (September)

Responsible Party: Members

- Develop Enterprise Risk Management (ERM) strategy (December)

Responsible Party: Members

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

Responsible Party: Joe Bell

- Add more detail to comment section of Audit Plan Status report (September)

Responsible Party: Joe Bell