



## STATE AUDIT COMMITTEE

THURSDAY, SEPTEMBER 25, 2014, 11:00 A.M.  
RHODES STATE OFFICE TOWER  
30 EAST BROAD STREET, 35<sup>TH</sup> FLOOR, JUPITER/SATURN CONFERENCE ROOMS  
COLUMBUS, OHIO 43215

Members Present: Paolo DeMaria  
Ryan Hecht  
Wendi Finn  
Kai Monahan (arrived at 12:30 p.m.)

Members Absent: John Merchant

### Call to Order

Chairman DeMaria introduced Wendi Finn, the newest State Audit Committee member, who was sworn in by Joy DeMarco from OBM's legal staff. Chairman DeMaria then called the meeting to order.

### Approval of Minutes

Mr. Hecht moved for the minutes of the meeting held June 25, 2014 to be approved with no additions or corrections. Chairman DeMaria seconded the motion and all members unanimously approved.

At Chairman DeMaria's request, Joe Bell introduced the newest staff members from the Office of Internal Audit.

### Ohio Lottery Commission Internal Audit Update

Chairman DeMaria introduced Jennifer Wilson, the Deputy Director of Internal Audit for the Ohio Lottery Commission (Mr. Hecht stepped out). Ms. Wilson, in her role for six months, mentioned that 12 audits were completed from Lottery Internal Audit's FY 2014 audit plan. The remaining audits scheduled were deemed to be either non-audit activities or no longer applicable. There are 27 audits planned for FY 2015 (20 high and moderate risk); the seven low risk audits may not be performed due to time and staffing constraints.

Lottery Internal Audit has been analyzing their process and concluded that audit scopes in prior audits have been too large. Ms. Wilson's team will endeavor to perform smaller scope audits in the future. Currently, audit work is on hold in order to document their internal audit process to be completed by October 1. The plan is to have new policies and procedures documented by December 1, 2014. In addressing OIA's prior review comments, there have been updated audit committee and internal audit charters created and a more robust annual report prepared as well as approved by their audit committee and OIA. Other plans to address the recommendations is

staff earning at least 40 continuing education hours per year; staff preparing independence statements; Lottery Internal Audit soliciting feedback from their internal customers; internal controls more clearly documented in their narratives and flowcharts; improving overall work paper documentation. In addition, Ms. Wilson will be personally overseeing the responses and action plans to the previously issued audit comments. Ms. Wilson also stated that Lottery's audit committee approved Lottery Internal Audit to participate with OIA in the next external peer review.

### **OBM Financial Reporting Update**

(Mr. Hecht stepped back in) Jim Kennedy, OBM Deputy Director, State Accounting and Reporting and Amy Hall, Financial Reporting Manager provided the financial reporting update. In discussing the GASB Statement update for FY 2014 financial reporting, Ms. Hall stated that GASB 65 requires the reporting of deferred outflow/inflow of resources. Regarding the impact to the CAFR, one will no longer see deferred revenue reported and debt issuance costs previously capitalized will be expensed. Mr. Hecht asked if there would be a restatement of the beginning net position and Ms. Hall said yes. Ms. Hall stated that GASB 66 is a technical correction and will result in no impact to financial statements. Ms. Hall further continued that GASB 70 requires the disclosure of non-exchange financial guarantees. The State has one they will be disclosing at the request of the Treasurer of State, which is on behalf of school districts. Mr. Hecht asked if expensing the debt issuance costs would have a significant financial statement impact. Ms. Hall stated that those costs will be included in the Government-Wide financial statements and will not have a significant impact, although they are a large amount. Chairman DeMaria requested that Financial Reporting update the Committee on technical changes in advance of their implementation.

Mr. Kennedy discussed direct and material laws and regulations. Statement on Auditing Standards 117 requires management to consider direct and material laws and regulations that impact financial statements. This is important information in order to ascertain that internal controls are in place to monitor those laws and regulations and also helpful to the external auditor when conducting the audit. Mr. Kennedy stated that OBM's Chief Legal Counsel previously reached out to large state agency legal staff to request any updated information to the direct and material law and regulation repository. The table he distributed to the Committee included new code sections (in green) and a few sections that were no longer applicable (in red). Mr. Kennedy reviewed the newly added laws and regulations, which involved law changes around the re-organization of Job and Family Services and the new Department of Medicaid, as well as some new sections at the Departments of Transportation and Taxation.

Mr. Hecht complimented Mr. Kennedy on the list and asked how it is monitored going forward. Mr. Kennedy stated that OBM's policies and procedures require state agencies to monitor and establish internal controls for the sections affecting their agencies.

Mr. Kennedy mentioned the audit timeline, which was not updated for this Committee meeting. He stated that there were not any significant changes to the prior timeline except that they have received the GAAP packages from the state agencies. The next significant event is receiving audited external financial reports (October 1).

Mr. Kennedy provided a quick recap on the State's significant estimates. Regarding taxes receivable, the total of which is about \$1.2 billion, actual July and August collections are included in that calculation. Each tax type has an element of an estimate that is not that significant. The Medicaid liability, which is just over \$1 billion, includes actual claims paid in July and August as well as an estimate for claims that have not yet been received. Mr. Kennedy mentioned the more significant estimate was the benefit liability reported at the Bureau of Workers' Compensation (\$16 billion), which is audited by a CPA firm.

### External Audit Update

Debbie Liddil, Chief Auditor, State Region, Auditor of State (AOS), Maria Jackson, Assistant Chief Auditor, and Jim Swonger, Senior Audit Manager, provided the committee with the external audit update.

Ms. Jackson indicated that the Service Organization Control (SOC) 1 report for the period 4/1/2013 through 3/31/2014 was released on September 23, 2014, earlier than previous years. The report was performed in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 16, and covered OAKS financials, warrant writing, EFT, and general controls for program change, security, and IT operations. Chairman DeMaria asked Ms. Jackson to describe what OAKS was for the new Committee member. Ms. Jackson stated that OAKS was the large PeopleSoft ERP system that processes financial and payroll transactions for the state. Ms. Jackson stated that her Office issued an unqualified opinion and all 36 control objectives were met for their audit. Mr. Hecht asked about all control objectives being met and if previous exceptions were mitigated. Ms. Jackson said that her team did find some exceptions; these were noted in the report.

Ms. Liddil stated that planning has been completed for the FY 2014 State of Ohio financial statement audit. Representation letters have been sent to the Independent Public Accountants (IPAs) in regards to Auditor of State reliance on that audit work. Due to the clarity standards, her team has re-evaluated some of that reliance and will not be relying on all of the IPA work as in past years. IPAs for smaller engagements, such as Washington State Community College, will not be required to sign a representation letter. In addition, her staff is working on the cash transaction audit work at the various state agencies and has been since the Spring.

Ms. Liddil mentioned two items currently challenging her audit group. One is the new Department of Medicaid, which will be audited by the AOS for the first time for FY 2014. There have been some delays with that audit; Chairman DeMaria asked if it was due to a lack of cooperation. Ms. Liddil stated that the newness of the agency and determining the appropriate procedures are what is causing the delay.

Ms. Liddil also mentioned the new eligibility determination system (currently for Medicaid) as causing audit delays due to trying to obtain the appropriate information about the system. Chairman DeMaria asked if this system was separate from MITS (Medicaid Information Technology System) and Ms. Liddil stated that it was. Mr. Swonger stated that the new eligibility system was contracted with Accenture with DAS as the overall project manager; it is an Oracle database with a Lynx platform. Mr. Swonger is in the process of identifying the IT

controls to test by gaining an understanding of the system from both DAS and Medicaid personnel. The system started in October and is currently only being utilized for a portion of the transactions. Ms. Liddil's team is still trying to determine what transactions occurred in FY 2014, but believe enough occurred to warrant testing the system for this audit. Ms. Finn asked about their struggles on defining the population of the new system, and Ms. Liddil stated that ascertaining which system (CRIS-e or new eligibility system) determined eligibility for the paid recipients has not been as clear as originally thought. Ms. Finn also asked about how training was rolled out and Mr. Swonger said that will be a part of their testing. He also stated that validating the amount of payments going through the new system was difficult and delayed their testing.

Ms. Liddil said that the GAAP audit team will be coming to OBM in early October to begin testing and that she currently expects the opinion to be issued within the agreed upon timeline. Chairman DeMaria asked if there were any constraints to testing, and Ms. Liddil mentioned the Department of Education, which is undergoing some changes, initially requested that the Auditor's office not perform their planned testing. Ms. Liddil stated that not testing at Education would not be appropriate so they negotiated with them on when they could begin their testing, which created a delay.

Mr. Hecht asked that if there were any future technical changes affecting the audit, could Ms. Liddil provide guidance to the Committee ahead of time. Ms. Liddil mentioned the Federal Super Circular, which may not have a significant affect for the state's processes. Mr. Hecht asked about the new pension guidelines and Chairman DeMaria stated that it would affect both financial reporting and audit. Ms. Liddil stated that other personnel at the Auditor of State were researching how the new pension standard would be rolled out. Chairman DeMaria asked Ms. Liddil to give some thought on when it would be appropriate to discuss any pending audit approach changes in more detail in a future meeting, and more time would be provided for that presentation.

### **Legal Update**

Joy DeMarco, OBM Associate Legal Counsel, spoke briefly about confidential information that the State Audit Committee handles. At the Chairman's request, Ms. DeMarco prepared a memorandum for the Committee regarding the protection of confidential documents and information. She specified two main types of documents that the Committee handles: OIA draft audit reports and OIA reports that are security records. OIA draft audit reports of a designated "public report" eventually become public records; the audits containing security records do not. Ms. DeMarco cautioned the Committee members to handle electronic versions of these records carefully. Chairman DeMaria also stated that outside conversations about any topic related to OIA business, if they were to occur, should be handled with care as well.

### **CAE Update**

Joe Bell, Chief Audit Executive for OIA, updated the Committee on the FY 2015 Audit Plan on the first quarter activity. He mentioned that the audit plan status form now includes the audit activity codes to help Committee members reference the various audits, color codes to audit

changes (consulting to assurance, for example), as well as expanded space to include more detailed comments when audit plan changes occur.

Mr. Bell talked to the committee about the Business-IT Alignment projects and that six of them were completed in the first quarter; there will be an additional 19 projects for the year. These projects assist OIA in determining the current state of the IT environment at the state agencies, which is especially important considering IT Optimization.

Mr. Bell provided a high level overview of the audit plan status. He mentioned some of the projects completed during the quarter, such as the federal schedule reconciliation consulting project at OBM and several payment card audits, performed to address the de-centralization of controls. He also mentioned that a project will be replaced at Casino Control Commission. There have been five different projects added based on client requests. Mr. Bell stated that he is comfortable with all project changes.

Mr. Bell also spoke about the Department of Education (ODE) reaching out to OIA to perform some procedures and that a Memorandum of Understanding has been established with them. Mr. Bell referenced the statutory changes made to permit agencies not in OIA's oversight to request OIA's services.

Mr. Bell also noted other projects completed during the quarter, such as JFS UC Improper Payments and the Board of Regents SSI review, both of which were continued from FY 2014. Mr. Bell also noted the IT general controls review at the Department of Transportation, which will be relied on by the Auditor of State, so timeliness is important. Mr. Bell also mentioned that management at the Bureau of Workers' Compensation has paused the CORE project, so we have also ceased our consulting work there for the present time .

Mr. Hecht asked about whether ODE had an internal audit group. Mr. Bell mentioned that they did have such a group but he was not familiar with their projects. It is possible that, like other agencies internal audit shops in the past, the group may not follow IIA standards and may be performing more management monitoring-type activities. Mr. Hecht pointed out that ODE was the largest organization not under OIA's oversight. Mr. Hecht also asked about the BWC CIO coming back to talk with the Committee about the status of CORE.

Mr. Bell stated that there were four public reports to be issued this quarter, and also mentioned the much higher percentage in consulting this quarter due to client requests. Also, even though the staffing level for the first quarter was lower, OIA has pursued additional resources, such as adding an intermittent person for an employee on FMLA. Mr. Bell feels that OIA is very close to having a complete staff. He also mentioned the completion of plan rate of 23 percent. There was a discussion about various ways of looking at the completion of plan (hours vs. audits). Ms. Finn asked about whether OIA recommends automating manual controls. Mr. Bell affirmed that OIA does that, although at times the internal controls in place may warrant overall changes rather than automation. Mr. Bell asked the Committee to consider the current measures being reported and let him know if there are additional ones they would like to see. Ms. Finn said it would be helpful to see a standard scope for OIA's IT audits. The Chairman offered for Ms. Finn to observe OIA's IT audits if she is interested.

Mr. Bell discussed the outstanding financial issues dashboard, stating that there were 10 moderate issues still outstanding and these issues are being actively addressed by state agency. Mr. Monahan entered the meeting at 12:30 p.m.

Cindy Klatt, Chief of Quality Assurance, OIA, mentioned the overall favorable results of the quarterly surveys provided by OIA's state agency clients, as well as the internal reviews she has conducted within OIA. Her results were positive overall, noting some minor issues such as adding more documentation to the work papers like conversations with the clients and ascertain that the work papers stand alone. Mr. Bell mentioned that periodic assessments are important so that OIA can be ready for the next peer review, even though it is a few years away. He also mentioned that Ms. Klatt has assisted BWC and Lottery Commission with quality reviews as well. Mr. Monahan asked about the frequency of the internal reviews, and Ms. Klatt stated that it is quarterly. Mr. Hecht asked about the frequency of the surveys and Ms. Klatt stated that it is also quarterly, although the results she was reporting today were from two quarters.

Mr. Bell mentioned the technical topics that were included in the agenda for Committee member study, such as Enterprise Risk Management (ERM) and Cybersecurity. Mr. Bell talked about ERM and how this and COSO have affected the federal government's issuance of the "Green Book". Mr. Monahan asked about the gap between what agencies are doing versus what they should be doing. Mr. Bell said there are pockets of excellence, but improvement is needed. Mr. Bell sees the Green Book framework as an opportunity to make statewide improvements in internal control.

The Committee discussed the timeframe of adopting the standards and Mr. Bell said that a timeline will be developed. Mr. Hecht said that monitoring the level of OIA personal services available to prepare for that is important and perhaps outside assistance may be needed. Some agencies may be early adopters and we can inquire with them.

Mr. Bell spoke about the Cybersecurity article and asked the Committee about what information they would like to have. Ms. Finn stated that she wanted to know about the state's risk assessment regarding cybersecurity and what is at risk. She asked whether the state has identified concerns and what has been done to mitigate that risk. Mr. Hecht mentioned that he is interested to find out what attacks have occurred at which state agencies and what controls are in place. This could be discussed in executive session. Mr. Bell stated that he would set up a phone call to discuss the topic with Ms. Finn and Mr. Hecht.

Mr. Bell talked about Appendix B from the FY 2015 audit plan and his suggestions for improving the form for the future.

The Committee paused their meeting for lunch at 12:53 p.m. and reconvened at 1:25 p.m.

*Executive Session* -- At 1:25 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 four yeas and 0 nays, the motion was approved. The Committee moved out of Executive Session at 2:40 p.m.

## **Bureau of Workers' Compensation (BWC) Internal Audit Update**

Geoffrey Phillips, Interim Internal Audit Director at BWC, provided a background of the Bureau and the work performed by the internal group. In FY 2014, his group performed 30 audits and made 51 recommendations. In the FY 2015 plan, his group will perform 33 audits. He shared the heat map and risk assessment with the Committee. He also mentioned that as a result of OIA's review of BWC Internal Audit, Mr. Phillips plans to begin using TeamMate work paper software, as well as joining OIA's external peer review in 2017. Mr. Phillips also mentioned about the CORE project being paused. Chairman DeMaria asked about why the project has been paused. Mr. Phillips stated the reason was that several testing goals had not been met. Chairman DeMaria thanked Mr. Phillips for providing the update.

Chairman DeMaria made a motion to approve the four public reports. Mr. Hecht seconded, and all approved without objection. The Committee determined the following four reports to be final public reports in accordance with Revised Code Section 126.48:

1. Department of Agriculture – Payment Card Audit
2. Opportunities for Ohioans with Disabilities – Payment Card Audit
3. Department of Public Safety – Driving Suspension Process
4. Public Utilities Commission – Consumer Complaints Process

## **Open Discussion**

### **State Audit Committee Charter**

Chairman DeMaria stated that the charter is updated every year and shared the edits that were suggested by OIA and OBM Legal. Mr. Monahan moved to approve the revised charter; Ms. Finn seconded. The revised charter was approved with no objection.

### **CAE/OIA assessment and SAC self-assessment**

Chairman DeMaria discussed both assessments and stated that the Committee is generally satisfied with the performance of OIA and the CAE; the Committee is also satisfied with its process. The assessments included some recommendations for further improvement. The other members had an opportunity to provide additional feedback prior to the meeting. Upon hearing no objections, the Chairman declared the draft assessments to be final.

Other open items included the possibility of providing the meeting materials electronically. Since a complete set of meeting materials may not be available until close to the meeting time, Mr. Hecht and Mr. Monahan indicated that they preferred the hard copy materials for the meeting. Chairman DeMaria offered to test an electronic version of the meeting materials for the next meeting. He also asked Mr. Bell to send suggested dates for calendar year 2015 Committee meetings to the Committee members. The Chairman also mentioned the possibility of adding 30 minutes to future meeting durations.

The meeting was adjourned at 3:02 p.m.

### Open Items for December, 2014 meeting

1. Select dates for calendar year 2015 meetings (December)  
Responsible Party: Joe Bell/Members
2. Provide feedback on Committee meeting assessment (each meeting)  
Responsible Party: Joe Bell/Members
3. Schedule periodic IT Optimization updates with State Chief Information Officer Stu Davis (December)  
Responsible Party: Joe Bell
4. Consider update of OIA Charter (December)  
Responsible Party: Joe Bell
5. Address independence and objectivity of OIA (December )  
Responsible Party: Joe Bell
6. Provide financial reporting technical update to Committee (December)  
Responsible Party: Jim Kennedy/Amy Hall
7. Auditor of State technical update (as needed)  
Responsible Party: Debbie Liddil
8. Develop timeframe to implementing Green Book standards/COSO  
Responsible Party: Jim Kennedy/Joe Bell
9. Schedule BWC CIO to provide update to Committee (December)  
Responsible Party: Joe Bell
10. Discuss Cybersecurity issue with members  
Responsible Party: Joe Bell
11. Develop ERM strategy (to be determined)  
Responsible Party: Members