



STATE AUDIT COMMITTEE

THURSDAY, JUNE 25, 2015, 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
Ryan Hecht
Wendi Finn
Kai Monahan
John Merchant

Members Absent: N/A

Call to Order

Chairman DeMaria called the meeting to order at 10:04 a.m.

Approval of Minutes

Mr. Hecht moved for the minutes of the meeting held March 26, 2015 to be approved with no additions or corrections. Ms. Finn seconded the motion and all members unanimously approved.

OBM Financial Reporting Update

Jim Kennedy, OBM Senior Deputy Director for Services & Operations provided the financial reporting update. Mr. Kennedy reported that the joint financial reporting preparation timeline for the upcoming fiscal year has been prepared, which outlines all reporting activities to be performed by a targeted completion date. In addition, a meeting was held with the Auditor of State (AOS) to discuss the timeline, with which both OBM and AOS have agreed. At this time the information gathering is just getting started and there does not appear to be any concerns; all required activities to date have been completed with one exception noted. The independently audited organizations and college/university information requests are currently delayed due to the change in submission format through the new interactive portal, which is expected to be resolved in early July. AOS has been notified of the delay; however, the required reporting deadline is not until September, therefore the delay should not have any effect on timeliness of reporting.

Chairman DeMaria asked Mr. Kennedy to provide highlights for any new activity in the upcoming financial reporting process. Mr. Kennedy responded that the key item to note is the pension liability reporting, and OBM has been preparing for this implementation to ensure a successful transition.

Mr. Kennedy also provided the upgrade status for the two major changes to the State's accounting system. One completed change involves the hardware upgrade transferring Ohio Administrative Knowledge System (OAKS) data to the new Oracle Exadata platform, of which the State's hardware is now managed by IBM at the State of Ohio Computer Center (SOCC) located in Columbus, replacing the HP hardware located in Cincinnati. The State went live with the new platform on June 2, 2015, and the data transfer of seven years' worth of data was successful. However, there were some stabilization issues with a number of applications. Even so, queries and reporting are now nearly four times faster than the previous platform.

Mr. Kennedy continued the system update overview describing the Financial (FIN) application upgrade. This update has been rescheduled to go-live on September 8, 2015 instead of June 30 to reduce any technical issues during the year-end close, and also to allow time to be built in for contingency planning. The upgrade will move OAKS FIN from version 8.8 to 9.2, and the state has contracted with Accenture to assist with the upgrade. This revision is impacting ten of the OAKS modules of which OBM is the business owner of seven and the Department of Administrative Services (DAS) the business owner of the remaining three. Additionally, Mr. Kennedy noted that the Human Capital Management System (state payroll) had recently been upgraded to version 9.1 early in 2014 and therefore will not need to be a part of the 9.2 FIN upgrade. Mr. Kennedy also informed the committee about some of the new features and highlights the upgrade will include, such as reducing customization by 25 percent, adding additional work centers and dashboards for users based on security roles, enhancing the document attachment functionality, improving workflow capabilities, and adding a new Intrastate Transfer Voucher (ISTV) custom page to display billing and paying information.

Mr. Hecht inquired about how the new system upgrade would impact the OIA audit plan, particularly with the new processes involving the document attachment functionality to be utilized by the state agencies, as well as a process ensuring the upgrades are working as intended. Cindy Klatt, Acting Chief Audit Executive, responded that the upgrade should not affect the current audit plan, and that OIA will take into consideration the FIN upgrade during audit testing. Mr. Kennedy added that in addition to the updates increasing efficiencies for the state agencies, it will also enable the auditors (OIA and AOS) to have easier [read-only] access to the supporting documentation while performing their testing. Having this documentation available will also assist OBM in their monitoring of state agency expenditures. He stated that having the new hardware allowed for an increase in storage capacity on the server to hold the needed attachments. Ms. Finn commented on the upgrade and mentioned a concern about auditor access and how that would be addressed with employee turnover. Mr. Kennedy responded that the access would not permit for any auditor changes and providing access would be more centralized instead of the individual agencies being responsible.

Chairman DeMaria asked whether the payment card will have its own workflow system or if it would be integrated with OAKS. Additionally, he asked if the approval of purchases with a payment card will be changed as a part of the workflow updates. Mr. Kennedy responded that there were some workflow changes for the payment card process, mostly for adding and removing payment card users. Regarding the payment card approval process, that process will not be affected.

External Audit Update

Debbie Liddil, Chief Auditor, and Maria Jackson, Assistant Chief Auditor - Information Systems Audit from the Auditor of State provided an update. Ms. Jackson informed the audit committee that the OAKS SOC 1 field work is ongoing, there were no significant issues to communicate to the Committee, and a September report release is planned. The audit period covers through the end of March 2015; therefore, the audit will not include the system revisions described by Mr. Kennedy during his update. Ms. Jackson mentioned the additional procedures to be performed for fourth quarter (April – June 2015) activity, and Ms. Liddil clarified that the fourth quarter procedures are for AOS internal purposes for their FY 15 audit of the State of Ohio.

In providing the financial statement audit update, Ms. Liddil stated that her office held the entrance conference with OBM on May 8, 2015 where the timeline was discussed and agreed upon. The letter of arrangement has been sent to those charged with governance and included a copy of the timeline. Planning for the audit began in April; her office will be sending letters to the independent public accountants in July, and the assigned staff completing the financial statement audit should be onsite in late September or early October. The audit work at the individual state agencies began in late April/early May and will continue through October. Ms. Liddil said that the planned financial statement opinion date is December 22, 2015, with the Single Audit Report being issued within sixty days of the opinion, planned for February 19, 2016. Ms. Liddil stated, as Mr. Kennedy mentioned previously, that the primary change for this year's audit is resulting from the implementation of GASB 68, the reporting of pension liability. Ms. Liddil stated that they are awaiting the liability estimate to see how that will affect their audit plan. She does not anticipate significant changes since the liability will be reported at the government-wide level, but additional audit procedures will be performed for the reported liability.

Ms. Liddil clarified a point that she had shared with the Committee previously regarding the new federal Uniform Guidance. Significant deficiencies will continue to be reported in the Single Audit report, but will not be a factor when determining whether a major program is high risk. AOS has issued Bulletin 2015-04, available on their website, which summarizes the federal Uniform Guidance changes.

Ms. Liddil commented on the document attachment functionality mentioned in Mr. Kennedy's update. Ms. Liddil stated that this should provide efficiencies to the agencies as well as for obtaining documentation during the audit. In previous audits, her audit teams have experienced missing audit documentation due to the differing methods of document maintenance at the agencies. AOS audit procedures include evaluating the reliability of scanned data, so these procedures, which include assessing completeness and readability, will be utilized for testing the document attachments.

Chairman DeMaria asked Ms. Liddil if there were any circumstances for the upcoming audit that would cause her team to audit differently as compared to prior years. Ms. Liddil stated that except for GASB 68 she does not anticipate any significant changes from a financial audit perspective, although there may be a few new line items tested due to a change in processing at the Department of Job and Family Services. However, for the Single Audit, they are still seeking clarification on how to account for certain items such as entitlement programs. Ms.

Liddil mentioned that the AOS is involved in several federal government forums to stay up-to-date on changes and comment on pending implementations.

Mr. Hecht inquired if the changes in the Uniform Guidance would affect major program selection at the State. Ms. Liddil stated that the first phase of the Uniform Guidance will have a greater effect on payroll; the second phase will involve the threshold increases. Even so, the State with the high amount of federal funding should not be directly affected by those threshold changes. Where these threshold changes will have the most effect is with the State's monitoring of local and other entities and whether those entities will have a required single audit.

CAE Update

Cindy Klatt, Acting Chief Audit Executive, provided an update to the committee on OIA's FY16 Audit Plan. She stated that the same approach was used as in the past in order to determine areas to prioritize for the upcoming fiscal year audit plan. This involved getting feedback from the 27 state agencies, audit liaisons, CFOs, and CIOs, as well as having internal discussions with audit staff to identify and assess concerns by rating the various risk factors to arrive at a composite risk score for each area. The risk factors, which are contained in the planning document, include materiality, stakeholders concerns, and changes in systems, people or processes. Ms. Klatt pointed out that the Casino Control Commission will not be requesting assistance for the upcoming fiscal year; therefore, they have not been included in the plan. However, the Department of Education is interested in continuing working with OIA and is included on the plan.

Ms. Klatt discussed OIA's capacity and that the plan has been developed to align capacity closer to the audit plan hours. As a result, the estimated OIA capacity as depicted in the audit plan is 95 percent of the audit plan hours. This accommodation was made to address the Committee's concerns about the prior year plan which included an 84 percent capacity as compared to audit hours. The plan does have fewer audits this year as compared to last year and OIA also has requested two additional staff members as part of the State budget process. Ms. Klatt stated that 95 percent capacity allows for some flexibility to the plan in the event that changes are made to the audits, process changes occur, or other high risk areas are identified for review. Mr. Monahan asked to clarify the capacity rate calculation of the prior year. Chairman DeMaria assisted in clarifying that the capacity percentage is determined by comparing estimated OIA staff hours to the hours in the audit plan.

Ms. Klatt discussed that the audit plan approach included some similar engagements for different agencies in an effort to streamline some of the audit processes and gain efficiencies. For example, in OIA's consideration of two of the top 20 SANS controls (as mentioned in previous SAC meetings), OIA plans to conduct asset management audits in order to assess agencies' controls around inventory of devices and inventory of software. There are nine asset management audits in the plan, which will allow IT and financial auditors to work collaboratively on the audits. Other planned similar engagements across the agencies include; Voyager card reviews, NIST control reviews for IT systems, and continuing the Business-IT alignment assessments. Chairman DeMaria mentioned that the Voyager card is for gasoline and automotive-type purchases, and Ms. Klatt concurred.

Mr. Hecht inquired about the estimated audit hour allocation between IT and financial audits and whether OIA's IT staff aligns with the allocation. Ms. Klatt replied that IT audit hours are slightly higher in relation to IT audit staff, which is why it was decided to have financial auditors assist with the asset management engagements. Chairman DeMaria added that although the IT audit hours appear to be higher than the available IT staff hours, using the integrated approach should allow the IT audits to get completed. Ms. Klatt agreed and stated that developing an audit program and obtaining guidance from the IT auditors should assist the financial auditors in completing those engagements. Ms. Finn concurred that a properly developed audit program should enable any auditor, financial or IT, to complete the work.

Ms. Klatt continued describing some of the similar engagements across state agencies, such as audits of IT General Controls. She also mentioned OIA's intention of testing access controls in an automated manner utilizing the data analytic process recently developed. Ms. Klatt mentioned other notable audits in the plan for the Ohio Departments of Education, Administrative Services, Commerce, Agriculture, Health, Taxation, and Public Safety.

Ms. Klatt discussed the agency heat maps and noted the high risk items as well as any agency that had a change in their risk levels as compared to last year's plan. Chairman DeMaria inquired about the risk level changes and how this assessment would change. Ms. Klatt responded that the reason is typically due to stakeholder concerns or if changes to people, processes and systems occurred. Mr. Monahan inquired about the risk levels on the heat map and how often they are cycled. Ms. Klatt stated that the high risk areas are planned to be reviewed once every two years and the moderate risk items once every four years at a minimum. Additionally, Ms. Klatt noted that a few line items may not indicate that a review will be performed as expected; these audit universe areas will be reassessed and possibly reallocated in the future audit plan. Mr. Hecht stated that he would recommend taking a look at the three areas in the heat maps where OIA assessed at moderate risk but no review or audit is planned. Ms. Klatt said she would look into those areas prior to finalizing the plan. Ms. Finn commented on the planned integrated audits and recommended OIA ensure these audits are truly integrated as opposed to the individual financial and IT auditors performing their separate functions. Ms. Finn suggested that collaboration when building the audit program will help to ensure that all key risks and controls are being identified from both an IT/Security and financial/operational perspective. Chairman DeMaria mentioned that at the next SAC meeting to be held in September, the Committee will be conducting an assessment over the Office of Internal Audit and the Acting CAE; as such, he suggested part of the assessment include the Office's approach to including the continued focus on integrated auditing in the strategic plan. Ms. Klatt agreed that this was a valuable goal and will provide the strategic plan for the September meeting.

Ms. Klatt then discussed Appendix B of the Audit Plan, which includes the percentage comparison of work planned to be performed at the state agencies verses the percentage of appropriations at those agencies. She mentioned that, due to prior year Committee feedback, she has included explanations on Appendix B for situations where the percentage level of effort differed by more than two percent when compared to the percentage of appropriations.

Ms. Klatt also discussed that she met with individuals at the Auditor of State's office regarding the audit plan to ensure that there is minimal duplication of effort. These meetings between OIA and AOS occur at least bi-annually.

Ms. Klatt discussed the annual report with the members, which per Ohio Revised Code is due by August 1 to Legislature and the Governor. She mentioned that the annual report included information such as staffing, training, staff certifications, OIA budgeted versus actual expenditures, remediation activity, accomplishment of FY15 audit plan and value-added activities. Mr. Hecht inquired about when OIA is due for their next external peer review, and Ms. Klatt stated that the last review was conducted in fall 2012, so the plan is for the next review to occur in the fall of 2017. Mr. Hecht commented on the positive survey results included in the annual report and recommended adding training for improving auditor knowledge of the agency's business to the strategic plan. Mr. Monahan inquired about the request of two additional OIA staff members and whether OIA's FY 2016 budget had been adjusted for these additional staff. Ms. Klatt stated that the FY 16 budget did indeed include amounts for the additional staff, as well as the anticipated 2.5 percent pay increase included in the bargaining unit contract that may also be extended, pending legislation, to all OIA employees.

Ms. Klatt discussed the audit plan status and stated that 22 engagements were completed in the fourth quarter of which seven of the engagements resulted in a public report. Additionally, Ms. Klatt mentioned the fourth quarter plan changes including: two added consulting engagements for Department of Education and the Ohio Elections Commission; two added assurance engagements for Department of Education and the Department of Developmental Disabilities; four deleted engagements for Department of Taxation, Department of Administrative Services, Office of Budget and Management and the Department of Developmental Disabilities; and six engagements to be completed in Fiscal Year 2016 for Department of Education (2), Ohio Lottery Commission, Department of Insurance, Department of Natural Resources, and the Department of Job and Family Services.

Ms. Klatt then discussed the completion percentages included in the handouts. A new grid was prepared for the Committee that displayed the types of audits (financial assurance, financial consulting, IT assurance, IT consulting, and Quality Assurance reviews), the number of audits in the original plan, as well as additions and deletions of the audits to help enhance the understanding of the percentage completion calculation. Chairman DeMaria mentioned that the data displayed in this manner aided in his understanding of the movement that took place (with regards to new audits and deleted audits) and demonstrated the baseline on which the percentage completion calculation is created.

Ms. Klatt discussed the remediation of financial issues from prior assurance reports and provided the members with the remediation dashboard. Members had questions about the dashboard, including the reason for the dramatic fluctuation between quarters, whether or not there was enough time provided for remediation, and whether observations for which the agency is accepting the risk should be included in the remediation dashboard. Mr. Monahan also pointed out that without an established remediation completion standard, of which 100% is not a realistic rate, it is difficult to interpret the results. Mr. Monahan suggested the Office determine an achievable goal as a standard in creating the metric and partner with those agencies that are in risk of not closing their observations. Chairman DeMaria also spoke about

the draft escalation process (to be discussed later in the meeting) and how this will determine how to address observations for which the agency is accepting the risk. Mr. Monahan offered that it has been his experience for management to annually sign off that they are accepting the risk of not addressing an audit observation. Chairman DeMaria asked about the level of management who would accept the risk, and Mr. Monahan replied that the level of management accepting the risk was driven by the degree of risk of the audit observation, whether it was low, medium or high.

Ms. Klatt gave a brief staffing update and stated that OIA is down a few staff members and is utilizing an intermittent employee as an IT auditor. OIA will be employing a revised interview instrument to help select qualified audit staff, and Ms. Klatt indicated that she hopes to have additional staff in place by the next State Audit Committee meeting.

The Committee paused their meeting for lunch at 11:44 p.m. and reconvened at 12:15 p.m. At this point, Mr. Merchant left the meeting.

Executive Session -- At 12:16 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. Ms. Finn seconded the motion. A roll call vote was taken and, there being four yeas and zero nays, the motion was approved. The Committee moved out of Executive Session at 1:20 p.m.

Chairman DeMaria made a motion to approve the seven public reports; Mr. Monahan seconded the motion. The Committee determined the following seven reports to be final public reports in accordance with Revised Code Section 126.48:

1. Department of Administrative Services: Rate Development
2. Department of Administrative Services: Voyager Card
3. Department of Developmental Disabilities – Medicaid Administrative Claiming Program Random Moment Time Studies
4. Department of Public Safety – Highway Patrol Investigatory Petty Cash Fund
5. Department of Public Safety – Emergency Management Agency Homeland Security Grant Program
6. Board of Regents – Articulation and Transfer
7. Department of Veteran Services – Contract Management

Open Discussion

Chairman DeMaria discussed the SAC self-assessment document that he had updated. He emphasized that Committee member feedback is important and wanted to be sure that the members were comfortable in providing any feedback regarding OIA processes or State Audit Committee meetings. Mr. Monahan stated that he had nothing to add or change to the self-assessment document. Chairman DeMaria stated that he considered the self-assessment final since there were no objections or additions, and the members concurred.

Chairman DeMaria discussed that the terms of John Merchant and Kai Monahan, both appointees of the Ohio Senate, were expiring effective June 30. Word has not yet been received regarding the new appointments.

Chairman DeMaria introduced the draft escalation process to the Committee, and Ms. Klatt provided a summary of the proposed process. Ms. Klatt mentioned that she had discussed the draft with OBM Director Keen. Committee members discussed the draft process; Mr. Monahan suggested tracking the agencies and the number of times they accepted the risk for OIA observations. Mr. Hecht mentioned concerns about documenting a process that may perhaps relieve agencies from performing due diligence as well as creating a process for just a few exceptions. Chairman DeMaria asked that the Committee consider the draft and they would discuss in the September meeting.

Chairman DeMaria told the Committee about the OIA/CAE assessment that is planned to be finalized in the September meeting. Chairman DeMaria shared a copy of the prior year assessment with the Committee so that they would be aware of what it entails. He stated that he wanted to get their individual feedback in the short term in order to prepare a draft for consideration in the September meeting.

Chairman DeMaria also mentioned that due to the typical length of State Audit Committee meetings [four hours], members would continue to not receive compensation for lunch, but any members coming from a distance could be compensated for mileage and parking. Ms. Klatt also stated that the State Audit Committee charter is due to be reviewed in the September meeting, and Chairman DeMaria indicated that the draft document would be circulated for Committee input for discussion at the September meeting.

The meeting was adjourned at 1:53 p.m.

Open Items for September, 2015 meeting

1. Provide feedback on Committee meeting assessment (each meeting)

Responsible Party: Cindy Klatt/Members

2. Schedule periodic IT Optimization updates with State Chief Information Officer Stu Davis and State Chief Information Security Officer David Brown

Responsible Party: Cindy Klatt

3. Auditor of State technical update (as needed)

Responsible Party: Debbie Liddil

4. State Audit Committee Charter Update

Responsible Party: Members

5. OIA/CAE Assessment

Responsible Party: Members

6. OIA Strategic Plan

Responsible Party: Cindy Klatt

7. Final Decision on OIA Escalation Process

Responsible Party: Members