

STATE AUDIT COMMITTEE

THURSDAY, SEPTEMBER 24, 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
Robert Sielschott
Tom Zitter

Members Absent: N/A

Call to Order

Chairman DeMaria called the meeting to order at 10:01 a.m.

New Committee Members

Chairman DeMaria explained that Kai Monahan and John Merchant's terms expired on June 30, 2015 and both had been appointed through the Senate. Wendi Finn submitted her resignation due to residency restrictions. This position is a House appointee and the Committee is working with the House to get another individual appointed. Chairman DeMaria asked the new members Tom Zitter and Bob Sielschott to introduce themselves. Tom Zitter introduced himself and stated he is from Fort Recovery, Ohio. Bob Sielschott stated he is a CPA and a Senior Partner at Sielschott, Walsh, Keifer, and Regula in Lima, Ohio. Joy Demarco, OBM Legal, then issued the Oath of Office to both Tom Zitter and Bob Sielschott.

Chairman DeMaria queried the audience to give the new members an overview of attendees. The audience included OIA staff, OBM staff, AOS staff, and other state agency staff.

Approval of Minutes

Mr. Hecht moved for the minutes of the meeting held June 25, 2015 to be approved with no additions or corrections. Chairman DeMaria seconded the motion and all members unanimously approved.

Agenda Overview

Chairman DeMaria provided the new committee members with an overview of how the meeting is formatted, parties involved, OIA's reporting process and types of reports issued, pointing out how some engagements are protected by state statute and are not subject to public record and are confidential. Chairman DeMaria asked if new members had any questions; none were noted.

Ohio Lottery Commission Internal Audit Update

Mr. Hecht stepped out of the room. Jennifer Wilson, Ohio Lottery Commission Deputy Director of Internal Audit stated that a year ago she had been in this position for only six months and she reported projects completed under a different administration. However, this year she has a full year under her administration. Ms. Wilson stated that Lottery's Internal Audit Department completed 65 percent of their fiscal year 2015 plan with another 11 percent projected to be completed in the first quarter of fiscal year 2016. This is lower than the goal of 80 percent due to the department taking an extended pause to develop internal policies and procedures; five unplanned consulting engagements were opened during the year, and; a more in-depth risk assessment process including one-on-one meetings with all 11 departments and external stakeholder surveys.

Ms. Wilson said that, based on OIA's recommendations, there are three independent audit committee members who are all commission members rather than including members of management as in the past. The Lottery Audit Committee Chairperson reports quarterly to the full Lottery Commission. She stated that the internal audit charter and audit committee charter were reviewed by the committee as required annually. The Internal Audit Plan and Internal Audit Annual Report were also reviewed by OIA as required by Ohio Revised Code.

Ms. Wilson attends monthly senior staff meetings and also discusses internal audit issues at least monthly with OIA CAE Cindy Klatt. She is also in communication with Lottery's audit committee chair at least quarterly but typically more frequently and has a goal to have one-on-one communications with the other audit committee members going forward.

Ms. Wilson stated that there are 20 audits planned this year covering nine lottery departments; nine audits are high risk, eight are medium risk and three are low risk, and nine are new to the audit universe. The plan also includes three continuing consulting engagements, follow-up procedures for a previously-issued Inspector General report, annual audit of gaming system vendor by third party, OIA's assurance review and the AOS external audit. OIA also has three Lottery engagements planned this year, one of which is a consulting engagement.

Ms. Wilson mentioned that a strategic plan will be developed to align with the requirements of the Institute of Internal Auditors' Internal Audit Capability Model which identifies a framework to identify fundamentals for effective internal auditing in the public sector. Efforts will continue to align practices with standards in order to obtain a favorable external peer review which is expected in fiscal year 2017.

Chairman DeMaria thanked Jennifer Wilson for the update and gave new members an update on Lottery's relationship with OIA and the State Audit Committee. Chairman DeMaria asked if there were any questions. Mr. Sielschott pointed out how he likes that Ms. Wilson addresses her clients' interests and identified the 16 risks to the agency. There was a general discussion of the State's awareness of risks. Chairman DeMaria asked Ms. Wilson to clarify "clients" and she indicated that it referred to other offices and divisions within Lottery. Chairman DeMaria mentioned the recent request for proposal to review the Lottery Commission as a whole; at this time, Ms. Wilson is unaware of what internal audit's role will be in this assessment but she is open to provide assistance. Mr. Hecht re-entered the meeting.

Ohio IT Security Update

David Brown, State Chief Information Security Officer from Department of Administrative Services' Office of Information Technology (DAS OIT) gave a brief history of the State's IT initiative to consolidate IT services into a central IT organization. DAS is also in the process of centralizing some security functions.

Mr. Brown stated that DAS had 12 staff to oversee governance of IT security in 2012. DAS currently has a staff of 29 with a change in mission to perform security operations, monitor systems for security breaches, designing security architecture for new or revised systems, and getting individuals into agencies to serve as security officers. Contractors have also been put into place temporarily to assist in 24/7 security monitoring until additional staff is hired. Mr. Brown plans to hire seven more individuals this year. He mentioned that a security officer was recently put into place at the Department of Rehabilitation and Correction, and they are in the process of hiring for the Department of Veterans Services and Ohio Department of Health as well. DAS is experiencing benefits of centralization such as tighter enterprise integration and requests for security support.

Mr. Brown said that his agency has performed major security upgrades including a comprehensive security sweep for desktop and laptops, and his office has deployed about 41,000 licenses for McAfee software across the enterprise. This is designed to have multiple layers and will be a multi-year project to cover about 75-80,000 endpoints.

Mr. Brown also mentioned a second project, vulnerability management, for which his office deployed a security scanning tool to identify system weaknesses for all cabinet agencies. The tool is currently scanning over 100,000 devices each week. His team also rolled out the application security scanning device to review for weaknesses and alerting the developer of those findings. Their goal is to provide a dashboard of what each agency's vulnerability picture looks like for CIOs to review.

Mr. Brown's third major project involves security information and events management to capture a log of security issues/events, primarily used by analysts to monitor security threats. DAS is currently working with nine different agencies to get their systems communicating to the monitoring platform as there are millions of events each day.

Mr. Brown stated that DAS OIT is also working on a database encryption initiative. Even though laptops are encrypted, DAS is finding that databases are not consistently encrypted. His team is working first with Oracle, which includes about 12 different state agencies, to start the database encryption process.

Mr. Brown mentioned that three enterprise security policies have been approved (data classifications, handling sensitive data and security awareness and training). All agencies of the executive branch are now required to provide SANS Institute training to all new hires and to employees on an annual basis. DAS OIT is continuing to develop policies which should be completed in the next few months.

Mr. Brown talked about a Cyber Day event on October 15, 2015 to be held at the Department of Agriculture, which is an annual event to draw in state and local government IT employees. He stated that there will be a tabletop cybersecurity exercise involving Federal EMA, Office of Information Security and Privacy, National Guard, State Highway Patrol, state EMA and Homeland Security in November to ensure processes are solid in the event of an emergency in the State.

Chairman DeMaria provided the new members some background and context around the relationship with OIA and DAS OIT. Mr. Brown noted that OIT is meeting regularly with OIA to ensure controls are being addressed and to gather feedback.

Mr. Zitter asked if other branches of state government have their own IT security or if OIT works with them and what will the level of effort would be to penetrate OIT security and the amount of sophistication. Mr. Brown indicated they provide other government branches (judicial and legislative) security advisories even though OIT does not have responsibility or authority over those agencies. Mr. Brown stated that OIT also works extensively with Ohio Homeland Security and notifies all branches of government regarding concerns. Some branches contact OIT for services to be provided and OIT is open to assisting. Regarding penetration and sophistication, Mr. Brown said that OIT is aware that there are sophisticated entities who try to attack government systems, but OIT is designing controls to address these potential attacks.

Chairman DeMaria mentioned how the Department of Taxation was mentioned in the media about people filing false tax forms and he asked if OIT is helping their systems to be secure. Mr. Brown said OIT and Taxation are working on stronger controls to address this, but this activity will never be fully eliminated.

Mr. Hecht mentioned the new policies being created and asked if these are under the scope of any current OIA engagements. Mr. Brown indicated that they are, due to operating under the NIST requirements. Mr. Hecht asked if the NIST results for other state agencies were being shared with Mr. Brown and if those results were helpful. OIA IT Chief Venu Pallerla indicated that results were being shared. Mr. Brown indicated that the results were very helpful and indicate where controls are not fully functioning or where new initiatives should be created. Mr. Hecht then asked what the goal is with security officers. Mr. Brown indicated that some agencies have security officers in place from years ago and those remain in place in now. However, the goal is for DAS Central Office to assign a security officer to each of the cabinet level agencies. Mr. Hecht inquired about the Business IT Alignment engagement and if those results been shared with Mr. Brown. Mr. Pallerla indicated that the high level results have been shared with State CIO Stu Davis.

Mr. Sielschott noted the large amount of sensitive data being maintained by the State, and the more information processed online, the bigger the scope and risk of security especially in regards to the Department of Taxation. He also asked if the State accepted credit cards for income tax payments. Mr. Brown indicated that credit cards are accepted for certain things, but did not believe that Taxation accepted credit card payments for income taxes but was not sure. He also indicated that they try to offload the credit card submission process to the processors so there is not exposure directly to state systems. OIT is also working with Taxation on fraud prevention methods and also working closely with the IRS.

OBM Financial Reporting Update

Jim Kennedy, OBM Senior Deputy Director for Services & Operations, provided the financial reporting update. He said that OBM's target is to prepare the financial statements and have them audited within six months; this has been met the past two years. The creation of the audit timeline has helped since it is a shared responsibility between OBM and AOS. Mr. Kennedy indicated that since the last State Audit Committee meeting in June, only four areas in the timeline have come due. OBM has received all of the calendar year-end individual audits included in the CAFR on time, except for the Air Quality audit. Mr. Kennedy also stated that OBM received all additional information from agencies with only one being a few days late. Due to the FIN upgrade, the accounting system was shut down for two working days. This delay and a few system defects did not impact receiving timely information from the agencies.

Mr. Hecht asked if there is any expected impact to the timeline going forward due to the upgrade. Mr. Kennedy indicated that he did not believe the upgrade would impact future audit timelines. Mr. Hecht asked if the FIN upgrade issues will impact the timeline or compound over time. Mr. Kennedy indicated that he does not believe that will have a long-term impact. Mr. Hecht inquired regarding the Air Quality financial statements still being in draft form nine months after the calendar year end. Mr. Kennedy indicated that it is an agency management's responsibility to ensure the timely and proper compilation of financial statements. Chairman DeMaria asked if this service was contracted out at Air Quality and Mr. Kennedy was not sure but AOS would be aware. Mr. Kennedy indicated that some component units have already given notice that they might be up to two weeks late, and Chairman DeMaria asked if these component units are commonly late to which Mr. Kennedy indicated that they were not.

Mr. Kennedy informed the State Audit Committee of the imminent departure of the financial reporting manager but indicated there is an agency sharing agreement in place to still have assistance through Thanksgiving. Mr. Hecht asked for an update on the pension standards. Mr. Kennedy gave a background on the nature of GASB 68 and how it requires inclusion in the CAFR. This is a big change since this is the first time this unfunded obligation will have to be reported. Mr. Hecht asked if support was already coming in or will this impact the timeline. Mr. Kennedy reported that the pension system auditors are already reviewing this information to ensure it is reported correctly and should not impact timing of the OBM CAFR.

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 indicated the SOC1 report is being completed for OAKS (financial and payroll applications); it covers a nine month period ending March 31, 2015 and is expected to be released next week (10/2/15). Ms. Jackson stated that her team is waiting on representation and certification letters, which has been challenging due to the change in vendors for OAKS. Ms. Jackson indicated that a full update on the SOC1 audit will be provided to the State Audit Committee after the report is released. Chairman DeMaria pointed out that the SOC 1 reporting period ends March 31 due audit management purposes. Ms. Jackson indicated that it helps

with timing of the support work for the State Single Audit. She also noted that when the SOC1 is released, Chairman DeMaria will be given a link to the report. Mr. Zitter asked about more detail regarding a SOC1 report was and Ms. Jackson explained the process and purpose. Mr. Sielschott gave some additional clarification to the use of SOC1 in an audit process.

Ms. Liddil indicated the financial audit is in process, and they will be very busy the next three months starting October 1, 2015 but intend to meet all deadlines. She stated that her staff has performed most of the testing on the cash basis transactions and at agencies, starting this past spring, and the results of that work will be included in the GAAP work for the financial statements. Ms. Liddil said that her team has obtained the estimated pension obligation amount for planning purposes and she does not anticipate a significant impact to their audit process. Ms. Liddil indicated that since her team relies on other auditors for some portions of the CAFR, there is required communications with them which includes signing of a representation letter. She stated that all of these letters have been received except for Jobs Ohio but she hopes to receive that letter next week. Ms. Liddil stated that she expects staff to be onsite at OBM the beginning of October and does not expect the timeline to change at this point.

In regards to the earlier question about Air Quality Development Authority, Ms. Liddil indicated there is a compilation performed by a contracted firm. Historically, financial statements have not been received timely. AOS, which is conducting the audit, did identify some adjustments needed and there has been some issues identified which is causing additional delays. Chairman DeMaria asked if AOS was involved in the process of selecting the compiler, and Ms. Liddil indicated that they were not. Chairman DeMaria asked if there was a way to influence who was utilized since they seem to be consistently late, and Ms. Liddil pointed out that the compiler can only perform the work based on information provided.

Chairman DeMaria pointed out that at the next State Audit Committee will be just ahead of AOS opinion and will hope to get an update on the status at that time.

CAE Update

Cindy Klatt, Chief Audit Executive, provided an update to the committee on OIA's FY16-17 Strategic Plan. This year a slightly different approach was utilized, based on the Institute of Internal Auditors' practice advisory on how to complete a strategic plan. There were four critical success factors identified, which include Adequately Skilled and Knowledgeable Staff, Maintaining Efficient and Effective Audit Process, Increasing Collaboration with Agency Stakeholders, and Enhancing Stakeholder Knowledge and Education.

Ms. Klatt emphasized that staff skills and knowledge are vital; a few respondents of the client surveys stated that OIA knowledge of their business could be enhanced. More cross-training and developing a continual learning program for each employee can help with this.

Regarding the audit process, Ms. Klatt indicated that this is especially important with the external peer review in 2017 and OIA would like to repeat the favorable assessment. The upcoming review will also include the internal audit functions at the Ohio Lottery Commission and Bureau of Workers' Compensation.

Increasing collaboration includes agency directors, CIOs, and CFOs to ensure that the risk assessments are appropriate, which is necessary with 27 different agencies. Currently OIA is leading the risk assessment process as opposed to the agencies. For enhancing stakeholder knowledge and education, OIA will continue to inform the State Audit Committee about updated standards and other technical information and will present pertinent information to agency stakeholders.

Chairman DeMaria provided some context on the background of the Strategic Plan and how it is a two year plan in correlation with the two year state budget. The strategic plan is a high level document but the work plan is the detail and support to the strategic plan. Chairman DeMaria indicated that Ms. Klatt will periodically provide status updates on the key tasks and that he was comfortable with the approach since it is based on standards.

Mr. Hecht asked if Ms. Klatt can give a more detailed roadmap on how the key tasks will be achieved. Ms. Klatt indicated that a plan/roadmap has not yet been finalized but will include small steps at first. Both Chairman DeMaria and Mr. Hecht asked for more specific action steps for the next meeting with quarterly updates. It was also indicated that, if necessary, the Committee can provide some assistance.

The Committee paused their meeting for lunch at 11:37 p.m. and reconvened at 12:13 p.m.

Office of Budget and Management Update

Chairman DeMaria introduced the Director of the Office of Budget and Management (OBM) Tim Keen. Director Keen provided some background on his experience within OBM over the past several years, as well as an update on the biennial budget process. Director Keen mentioned that OBM also manages the accounting for the State of Ohio, prepares the State CAFR, serves as the debt manager for the State, and includes the State Controlling Board and Ohio Office of Shared Services. OBM is also involved with the financial planning supervisory commission that assists municipalities and school districts when they are placed into fiscal watch or fiscal emergency. Mr. Keen also discussed the creation of statute to establish a centralized internal audit department for those agencies under the direct control of the Governor.

Director Keen stated that the General Assembly passed the budget bill for two years for a \$36 billion General Fund and \$68 billion for all other funds; the State has over a thousand funds that are self-balancing. The General Fund is the State's largest fund and requires the greatest discretion on its resources. He indicated that Governor Kasich has been persistent that all funds be reviewed to ensure proper stewardship of the resources. Director Keen indicated that the budget is balanced with strong reserves, as the Budget Stabilization Fund has a balance of just over \$2 billion which is 6.4 percent of last year's revenue. He said that traditionally the balance has been five percent of the prior year's GRF, but Senate President Faber requested an increase to 8.5 percent, which will be obtained gradually.

Director Keen stated that, by statute, he submits monthly financial reports to the Governor and to date, tax revenues are higher and expenditures are less than projected. Director Keen thanked the audit committee members for their service, time and effort on the committee.

Mr. Zitter asked if OBM prepares a 10 year budget similar to the federal government. Director Keen indicated that by law Ohio only prepares a two year budget but will perform longer projections as needed, for example a multi-year tax plan. Director Keen indicated that conversely, capital budget is a six year plan. Chairman DeMaria also noted that some extended planning is performed for debt purposes as well.

Chairman DeMaria asked about OBM's forecast factors regarding the budget, and Director Keen stated that his staff used economic consultants and other resources; projection was for continued economic growth over the next two years, utilizing a more conservative approach.

CAE Update (Continued)

Ms. Klatt noted that OIA is partnering with the Michigan Internal Audit Office regarding best practices in internal audit. Some Michigan internal audit employees came to Columbus for a day in August and some OIA management staff will be travelling to Michigan in October. Ms. Klatt also mentioned how OIA participates in the Ohio Fiscal Academy that is offered to state employees.

Ms. Klatt discussed the annual plan status and provided the Committee with a listing of agency acronyms. Mr. Hecht asked about the delaying of OBM's Green Book engagement, and Ms. Klatt indicated that because of the OAKS upgrade, the timing of the green book engagement was not practical; the intent is to perform the engagement at a later date. Ms. Klatt provided a brief synopsis about the internal control framework recommended in the federal Green Book and its similarities to COSO and offered to share additional information to the members at a future meeting. Mr. Hecht indicated that the Green Book is not required for the State but that OBM plans on using it as a best practice for state agencies.

Ms. Klatt discussed the annual plan statistics document. She indicated that 21 reports were issued this quarter, the staffing level was around 21 employees, and OIA currently has several positions open. The annual plan budget is at 19% and the completion of the plan is currently at 23%. Mr. Hecht indicated that OIA's completion percentage this year is higher than last year at this time.

Ms. Klatt stated that there were questions at previous meetings regarding the percentage of completion of the plan. As such, a grid was created to help reflect the percentage of completion based on changes that have occurred to the original plan. Ms. Klatt also discussed the outstanding audit issues dashboard. As of the end of August there were 19 issues that were not yet remediated, of which 16 were moderate risk and three were high risk (two were DAS and one was DRC). As of August 31 there are three issues that are 90 days late.

Executive Session -- At 1:02 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. Hecht seconded the motion. A roll call vote was taken and Mr. Hecht, Mr. Zitter, Mr. Sielschott, and Chairman DeMaria voted in the affirmative; thus, the motion was approved. The Committee moved out of Executive Session at 2:05 p.m.

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

1. Adjutant General – National Guard Scholarship Program
2. Department of Commerce – State Fire Marshal Forensics Lab
3. Department of Health – Children with Medical Handicaps
4. Department of Insurance – Onboarding/Off-Boarding Process
5. Department of Natural Resources – Oil & Gas Permitting

Chairman DeMaria made a motion to approve the following report; roll call indicated that Mr. Hecht, Mr. Sielschott and Chairman DeMaria approved and Mr. Zitter abstained, therefore the motion was approved. The Committee determined the following report to be final in accordance with Revised Code Section 126.48:

1. Department of Youth Services - Asset Management

Chairman DeMaria made a motion to approve the following report; roll call indicated that Mr. Zitter, Mr. Sielschott and Chairman DeMaria approved and Mr. Hecht abstained, therefore the motion was approved. The Committee determined the following report to be final in accordance with Revised Code Section 126.48:

1. Ohio Lottery Commission – Video Lottery Terminals (VLT) Reviews

Chairman DeMaria made a motion to approve the following two IT Security reports; seconded by Mr. Hecht:

1. Department of Rehabilitation and Corrections – IT Security (NIST)
2. Department of Veteran Services – IT Security (NIST).

Chairman DeMaria made a motion to approve the following two IT Security reports; roll call indicated that Mr. Hecht, Mr. Sielschott and Chairman DeMaria approved and Mr. Zitter abstained, therefore the motion was approved:

1. Department of Transportation – IT General Controls
2. Department of Transportation – IT Security (NIST)

Open Discussion

Chairman DeMaria discussed items that will be moved to the next meeting, including the State Audit Committee Charter and the OIA/CAE assessment which he will complete with the assistance of Mr. Hecht and will provide to the new members so they are aware. He also mentioned reviewing the proposed 2016 State Audit Committee Dates so those can be finalized.

Chairman DeMaria asked members to consider the current meeting process and asked them to provide comments to him and Ms. Klatt for feedback and improvements. Chairman DeMaria asked if there were any additional questions; none were noted.

The meeting was adjourned at 2:10 p.m.

Open Items for December, 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: Chairman DeMaria and Mr. Hecht

6. OIA Strategic Plan – Establish specific action steps and provide updates at each meeting

Responsible Party: Cindy Klatt

7. Provide Green Book outline to members

Responsible Party: Cindy Klatt