



STATE AUDIT COMMITTEE

**TUESDAY, DECEMBER 1, 2009, 10:00 A.M.
VERN RIFFE CENTER FOR GOVERNMENT AND THE ARTS
77 SOUTH HIGH STREET, 31ST FLOOR, SOUTH CONF. ROOM A
COLUMBUS, OHIO 43215**

Members Present: William Shkurti, Chair
William Keip
Richard Mueller
Beverly Vitaz
Robert Richardson, new appointee

Call to Order

Mr. Shkurti called the meeting to order at 10:00 A.M.

Approval of Minutes

The minutes of the meeting held September 9, 2009, were approved.

OBM Financial Reporting Process Update

Tom Holsinger, Director of OBM State Accounting, opened by updating the committee on the progress of the Fiscal Year 2009 State of Ohio Financial Audit. He provided a Gantt chart outlining previous years' timelines and explained that his department's goal is to be able to provide financial data to the Auditor of State in a more expedient manner.

Mr. Holsinger stated that his department had held an entrance conference with the AOS audit staff and were currently gathering the financials from state agencies. Amy Hall explained that her staff was working to provide the information requested by the AOS as well as starting analysis and journal entries. Independent audits were being performed at the larger more complex agencies and were due to OBM November 30, 2009. She cautioned that it was likely some agencies would ask for a deadline extension and that it was typical to grant those extensions.

Mr. Holsinger explained that final financial statements were due to be turned over to the AOS on January 31, 2010, which is 100 days earlier than the fiscal year 2008 audit. Mr. Shkurti asked if it was to goal of OBM to get back to meeting the 2004 timeline. Mr. Holsinger responded that it is an aggressive goal but that yes that was their intention.



External Audit Update

Financial Update

Cynthia Klatt, Chief Auditor, State Region, Auditor of State's office, indicated since the last meeting the AOS released the fiscal year 2008 State of Ohio Single Audit (dated October 2, 2009; released October 13, 2009). Ms. Klatt also indicated the AOS is working with OBM to determine the timeline for the audit of the FY 2009 financial statements and hopes to be able to improve the timeline. In addition, Ms. Klatt informed the committee the AOS has met with OBM on the reconciliation issue identified in the prior audit report and will continue to work with OBM on this issue for FY 2010.

SAS 70 Update

Maria Jackson, Assistant Chief Auditor for Information Systems Audit (ISA), Auditor of State's office, indicated the SAS 70 report for the July 1, 2008 through June 30, 2009 audit period was released today. Ms. Jackson indicated periodic status meetings were held throughout the audit process and the final exit conference was held on November 17, 2009. Ms. Jackson explained the purpose of the SAS 70 report and its three sections (opinion, client's description of controls, and tests of operating effectiveness). There were some minor design deficiencies identified and there were some control objectives not met. She stated the auditor is not required to provide recommendations for improvement, but such recommendations have been provided in a separate communication in an effort to assist the State in improving its systems and processes. Ms. Jackson also indicated the name of this communication had been changed to "Transmittal Letter" to avoid confusion with the State of Ohio Management Letter and indicated this communication did not depict how these issues might be reported at the financial statement level for the State of Ohio. The AOS provided the committee with a summary sheet of the audit results by control objective (met/not met), with a comparison to the prior year. In total, there were four control objectives not met (one each in program change, IT Security, OAKS FIN, and Warrant Writing). Ms. Jackson indicated this is an improvement over the 2008 audit where 16 control objectives were not met. The handout also identified 24 recommendations included in the Transmittal Letter, with a notation for those items which were repeated from the prior audit, and the reference to the status meeting identifier.

Chairman Shkurti asked if the AOS would be doing any follow-up on these issues. Ms. Jackson indicated that her team would follow up as part of the FY 2010 audit. Joe Bell indicated the Office of Internal Audit group would also be following up on these issues. The Chairman asked which issue was the most significant; Ms. Jackson identified the user access issues. Chairman Shkurti also requested the SAS 70 process be added to the State of Ohio audit timeline going forward. Other clarification questions were asked by the board members and information provided by the AOS regarding one-time issues vs. systemic issues and the reconciliation issues in the EFT process.

FY 08 SAS 70 Management Remediation Update

Quentin Potter, Department of Administrative Services, provided the update of the OAKS FY 09 SAS 70 audit and compared the improvement achieved from the FY 2008 audit to the FY 2009 Audit. In FY



2008, there were 15 unmet control objectives and 38 audit comments. The FY 2009 indicated 4 unmet control objectives and 24 audit comments.

Mr. Potter also provided an update on the OAKS disaster recovery approach. Production operations will transition to a managed services vendor in February 2010. Testing is slated for January 2010 and results will be reported at the March 2010 audit committee meeting. Bill Keip, member, asked if the disaster recovery test would be a surprise or scheduled test. Darlene Wells, DAS, responded that it would be a scheduled test. Rob Richardson, member, commented that it is typical to do a scheduled test and once the operations are more mature, then it would be possible to do an unscheduled disaster recovery test. Mr. Richardson indicated that he would like DAS OIT to benchmark with other states to determine their approach to scheduled vs. unscheduled disaster recover testing.

Committee members indicated that they would like an update on lessons learned from the scheduled January test and recommendations for an unplanned test. Relating back to the FY 09 SAS 70 results, Mr. Shkurti asked what the standard would be for "0" unmet control objective. Mr. Potter answered that while that is an optimal goal, there are a lot of variables and limited resources that may hinder that goal. Mr. Shkurti stated that a steady state with "0" unmet control objectives should be the goal with the understanding that there would be audit comments still issued.

Chief Audit Executive Update

Joe Bell updated the members on the progress of the Office of Internal Audit and its continuing role in the federal stimulus project. The 1512 report which was due to the federal OMB by October 10 was sent to OMB. The federal 1512 report was made available to the public in November. He noted there has been some question on how OBM calculates jobs retained as well as the tracking and monitoring of sub-recipients who received stimulus money from Weatherization (Department of Development) and Transportation (ODOT). Mr. Shkurti and Ms. Vitaz asked for an update on these issues at the March 2010 meeting.

Mr. Bell then provided the committee members with explanation of how the Office of Internal Audit will determine consulting engagement audit activities and how those engagements would impact the scheduled assurance audits. He explained that consulting engagements were a value-added service to agencies and that he would update committee members on those engagements verbally. Because consulting engagements are more advisory in nature, no final or formal report would be issued.

Committee members expressed concern that agencies would try to engage OIA in more consulting engagements vs. assurance engagements in order to circumvent written reports. Mr. Bell assured committee members that it was not the intention of OIA to engage in an abundance of those types of engagements given the amount of annual audit plan assurance activities that are scheduled. The annual plan deadlines must be met first and requests for consulting engagements would be evaluated for its impact on the plan before committing staff to an agency.

Mr. Bell then provided an update on OIA's plan to report remediation progress of audit comments. Mr. Shkurti recommended that he report to the committee every 6 months on comments that are significantly past due for remediation, e.g. 6 months past due date. Mr. Bell can update the members on an interim basis if a comment is elevated to a high risk due to the agency exceeding deadlines.



Member Bev Vitaz asked Mr. Bell how OIA coordinated risk assessment with the agencies. Mr. Bell explained that OIA is in constant communication with agencies as well as the AOS. OIA leverages AOS and other external audits with an ongoing assessment of related audit comments. These variables are weighed in the development of the annual audit plan.

At 11:30 A.M. Chairman Shkurti moved the committee members break for a brief lunch. At 12:05 p.m., Chairman Shkurti moved the meeting into executive session for the purpose of discussing confidential matters exempted from public disclosure per Ohio Revised Code 126.48.

The committee ended executive session at 1:00 P.M. and the meeting was adjourned with no further discussion.

Open Items for March 9, 2010 Meeting

- Update GANTT chart to include AOS timelines.

Responsible party: Tom Holsinger, Amy Hall, Bob Hinkle, Cindy Klatt

- Disaster Recovery Approach – benchmark with other states to determine their method of testing – e.g. scheduled vs. unscheduled testing.

Responsible party: Sam Orth, Quentin Potter

- ARRA Update on Weatherization, Transportation and OBM guidance on jobs retained.

Responsible party: Joe Bell

Next meeting: Tuesday, June 15, 2010, 10:00 A.M.