



STATE AUDIT COMMITTEE

THURSDAY, MARCH 22, 2012, 10:00 A.M.
VERN RIFFE CENTER FOR GOVERNMENT AND THE ARTS
77 SOUTH HIGH STREET, 31ST FLOOR, West B & C
COLUMBUS, OHIO 43215

Members Present: William Keip
Beverly Vitaz
Robert Richardson
Richard Mueller

Members Absent: Paolo DeMaria

Motion to Appoint Interim Chair

Bill Keip called for a motion to have Rich Mueller act as chair of the committee for the purposes of the meeting in Paolo DeMaria's absence. Rob Richardson seconded the motion. A roll call vote was taken and, there being 4 yeas and 0 nays, the motion was approved.

Call to Order

Interim Chairman Mueller called the meeting to order at 10:04 A.M.

OBM Update

Janet Conkey, Senior Deputy Director, OBM Services and Operations, discussed the new audit oversight program established by OBM in January 2012. The activity monitored by the workgroup applies primarily to executive branch agencies, boards, and commissions. The Audit Oversight Workgroup, consisting of OBM budget, accounting, and internal audit professionals, meets monthly to review external audit findings issued in the previous month, review agency responses to the findings, and determine whether follow-up is needed. This program is intended to achieve the following goals:

1. Allow OBM staff to gain a better understanding of agencies' financial and operational strengths and weaknesses
2. Highlight to agencies the importance of audit results and correction actions
3. Identify and analyze trends within and across agency operations
4. Match OBM resources to identified needs within individual agencies (e.g., training or report writing)
5. Keep the State Audit Committee abreast of state agency audit results and corrective actions.

Tom Holsinger, Deputy Director of State Accounting, is the assigned point person to facilitate reporting and resolution of federal Single Audit comments.

Rich Mueller asked if the jurisdiction of the workgroup was primarily the Single Audit and Ms. Conkey responded that the primary focus was more at management letters to cabinet level agencies and all boards and commissions. Bev Vitaz asked if the group looked at areas outside of OIA's oversight. Ms. Conkey responded that, yes, with the exception of elected officials. However, the group would review another elected official's management letter to see if there were any issues that would affect the financials of the State.

Rich Mueller thanked Ms. Conkey for the update and asked that she update the committee in September and March of each year as to the activities of the Audit Oversight Workgroup.

Approval of Minutes

Rob Richardson moved for the minutes of the meeting held December 15, 2011, to be approved with no additions or corrections. Bill Keip seconded the motion and all members unanimously approved.

OBM Financial Reporting Update

Tom Holsinger, Deputy Director, Accounting Administration advised the members that OBM had received an unqualified opinion from the Auditor of State on January 20, 2012. He also stated that OBM expected to receive the Single Audit report sometime within the next week.

Mr. Holsinger also explained that for the FY 12 audit, the timeline for submitting materials to AOS would remain the same as the FY 11 audit. Rob Richardson asked whether the date can be moved ahead in future years. Mr. Holsinger stated that OBM is working to automate the information and, if all goes according to plan, they may be able to move the date up 30 days. He hopes the FY 13 audit will have the original CAFR completion date of December 31. OBM will also work more closely with agencies to get their financials submitted timely.

Amy Hall provided an overview of the FY 11 Management Discussion & Analysis (MD&A) which summarizes the State's CAFR. The MD&A explains the financial statements submitted to the AOS. It includes the financial analysis of the State as a whole, an analysis of the State's funds and the administration of Capital Assets and Debts.

The MD&A denotes primary government net assets, governmental activities net assets, revenues, expenses, and general taxes. It also analyzes ending fund balances in accordance with GASB standards. The State's assets & depreciation (mainly infrastructure and land) of those assets are noted along with the State's outstanding debts (general obligation bonds, revenue bonds that are secured with pledged revenues) are also explained.

Finally, the MD&A notes any conditions expected to affect future operations of the State. These conditions included: deposits of \$246.9 million in fiscal year 2012 into the Budget Stabilization Fund, spending cuts at agencies, Medicaid reform, and restructuring of debt service expenditures.

External Audit Update

Financial Update

Cynthia Klatt, Chief Auditor, State Region, Auditor of State's office, provided a status of the 2011 State of Ohio Single Audit. She indicated the report is scheduled for release on March 29, 2012, pending the corrective action plans from OBM. Ms. Klatt also informed the committee that, at the request of OBM, the timeline for the FY 2012 audit will be the same as 2011, with a goal to adjust the timeline and issue the report earlier for FY 2013. The AOS anticipates having an entrance conference with OBM in early June.

SOC 1 Update

Jim Swonger, Senior Audit Manager for ISA, Auditor of State's office, provided the Committee with an update on the State of Ohio's SOC 1 audit and report for the period July 1, 2011 through March 31, 2012. Mr. Swonger pointed out that, with the concurrence of State of Ohio management, this reporting end date has been changed to March 31st, causing this initial year to be a nine month period. In future years, the period will cover the full 12 months ending March 31. Mr. Swonger indicated the entrance conference for the current audit took place February 1st and field work is expected to be completed by the end of June, allowing for an end of July/early August 2012 report release. The committee asked if there would be any necessary updates required for the three months between April 1, 2012 and June 30, 2012, the end of the state fiscal year. Mr. Swonger responded that updates would be required for certain areas, but was not certain how those results would be documented.

Mr. Swonger also referenced the audit timeline provided to the Committee by OBM and highlighted the deadlines established for the AOS to receive the OAKS data files. In prior years, this information has been provided for the entire fiscal period in the months following fiscal year end, which created some delays for the financial audit teams. To address this concern, OAKS transaction files are now going to be provided to the AOS on a quarterly basis. First quarter information for FY 12 has been received and data integrity testing has been completed. The AOS hopes this process will allow for audit efficiencies going forward. The Committee asked for an update on this process in the June meeting.

Ohio Department of Job & Family Services (ODJFS)

Christina Helm, Chief of Audit Resolution, provided the members with an update of ODJFS's remediation efforts of prior Single Audit comments. She stated that of the 27 comments issued for FY 10, six were cleared by the AOS for the FY 11 audit. JFS continues to work the unresolved issues and are working with OIA to expedite remediation. They are in the process of sharing federal information with the AOS (supporting documentation, etc.) to continue to resolve issues.

Rich Mueller asked what the process was for addressing any disagreements. Ms. Helm explained that they work with the federal agencies to get their feedback on issues and if they agree with ODJFS's remediation efforts. If the federal agency agrees with ODJFS that they have sufficiently remediated any finding then ODJFS conveys this to the AOS. Bev Vitaz asked

why the comment would not be considered cleared and Ms. Helm explained that it's usually a timing issue since getting a federal determination is a lengthy process.

Ms. Helm assured members that ODJFS management take all audit comments seriously and will continue to work with OBM and OIA to resolve the issues. Rich Mueller stated that the committee appreciated their hard work and look forward to future updates.

OBM Legal Update

Brianne Brown, Associate Legal Counsel, reminded members that they must complete Ethics Training for the year. In addition, members were reminded to file annual financial disclosure statements with the Ohio Ethics Commission by the April 15 due date. Members expressed the desire to have OBM Legal Counsel provide the training to them prior to the June 21 Audit Committee meeting. Ms. Brown stated she would check their schedule and would provide a time for the training.

Ms. Brown also updated the members on the Sunshine Law as it pertains to Executive Sessions. She explained that based on a recent ruling, *Triplett Chapel of Peace, LLC, vs. Ohio Board of Embalmers and Funeral Directors*, OBM Legal thought it best to remind members that executive session can only be entered into appropriately and matters discussed must fall within the scope defined by law. In the *Triplett* case, the Ohio Board of Embalmers and Funeral directors were found to have inappropriately discussed matters not pertaining to litigation (which was the reason stated for entering into Executive Session).

Ms. Brown stated that while OBM Legal was confident that the Audit Committee had not violated any Sunshine Law, they wanted to take this opportunity to remind them that they may only enter into Executive Session to discuss preliminary reports of the Office of Internal Audit, infrastructure security records and related updates that are required to be kept confidential under Ohio law.

CAE Update

Joe Bell reviewed FY 12 Quarter 3 audit activities with the committee stating that 6 preliminary public reports were set to be presented in Executive Session. He noted that there was an increase in assurance work this quarter (82%) which raised the year-to-date assurance to 66%. He expects to meet the anticipated projection of 70% assurance work by fiscal year end.

Mr. Bell also reviewed the status of the FY 12 annual audit plan noting that 7 audit projects had been removed or delayed. He explained that most were delayed to FY 13 and this was due to process changes, agency organizational changes, OIA staff constraints, and changes in agency priorities or slow moving legislation.

Rob Richardson expressed his concern about the Department of Taxation's STARS project. He asked how far behind they were with implementation. Naresh Vadrevu, OIA Chief of IT Audit, explained that Taxation is currently two years behind on the project and, from his perspective, that project management is the biggest concern. Mr. Richardson stated that he felt it important that the committee and OIA "get their arms around this project" and determine how Taxation

plans to finish it and how much money has been spent so far on this project and the degree of confidence in the management of the project. He would like an update at the June 21 meeting.

Rich Mueller asked why audit projects were dropped from the FY 12 plan and if it was primarily due to lack of resources. Joe explained that it was due in part to lack of resources and changes in priorities at agencies. He explained that when the FY 12 plan was being developed that most of the agency directors had just been appointed and were unfamiliar with current agency processes. A few of the projects were based on pending legislation at the time of plan development and the legislation has moved too slowly to keep the project on this year's plan.

Mr. Mueller asked about the lost hours on these projects and if they were moved to other areas. Mr. Bell explained that in some cases the hours were moved to other projects; however, due to lack of resources some hours were just taken out of the plan. Mr. Mueller stated that he would like to see the annual plan status update include why an audit is being removed from the plan and note if the hours will be absorbed by another project or cut out of the plan.

Jim Kennedy, OIA Chief of Quality Assurance, updated the committee on outstanding audit comment remediation. He noted that of the observations that were due, two had been closed and two had action plans to be implemented by the agency and once they are in process OIA will validate.

Mr. Kennedy also updated the members on quality assurance reviews performed on completed audits. He explained that his activities are conducted in accordance with the IIA's International Professional Practices Framework. He utilizes a checklist and internally communicates the results to enhance OIA operations.

A summary of internal assessments was compiled for engagements completed between July 2011 and December 2011. Mr. Kennedy advised that he sampled five out of the 15 engagements completed during this timeframe. The average overall rating for the reports and supporting working papers was 2.92 out of 3.0.

Mr. Kennedy also reviewed with the committee the results of OIA client surveys for engagements completed between September 2011 and February 2012. Some of the responses received included suggestions to work with state agencies to identify issues and share best practices. One respondent suggested "lunch and learn" series as a way to educate employees on the benefits of internal audit. It was also suggested that OIA streamline audit reports.

Rob Richardson asked if Joe was planning to have a "lunch and learn" series and Joe responded that OIA was looking into it. Janet Conkey offered that OBM would be offering a Fiscal Academy for agencies that would result in employees being certified as fiscal officers. OIA/internal audit would be a part of that curriculum. The committee asked that Janet update them on the Fiscal Academy at the June 21 meeting.

Joe Bell provided an update on the OIA peer review planned for late 2012. He stated that OIA received a bid from the IIA External Quality Assessment group to perform the review. Rob Richardson asked if others would be considered. Joe stated that some CPA firms perform internal audit external assessments however the cost may be higher.

Mr. Bell reviewed with committee members the ARRA Summary Report that is legislatively mandated to be submitted to the Ohio Legislature. The report summarized the 20 ARRA audits performed to evaluate the design and/or effectiveness of the various ARRA programs. He also explained that OBM was working to remove the language requiring this report because OIA no longer performs any audit activity on these programs due to ARRA funding nearing its completion. Remaining ARRA monies are subjected to audit and investigation by the Auditor of State and the Ohio Inspector General in fiscal year 2012.

Mr. Bell briefly reviewed OIA's Suspected Fraud, Abuse, or Wrongdoing Reporting Process with members. This process had not been reviewed since 2009. He explained that there are no anticipated changes to the process at this time. OIA had recently received allegations that moved through this process and it worked well.

Mr. Bell provided a staffing update to members explaining that OIA has experienced turnover of four employees and is working to repost those positions and fill them within the next few months. He also explained that planned OIA employee audit hour utilization rate is averaging 65% for all OIA employees.

At the request of the committee, Joe provided an update on the Ohio Casino Commission. He explained that this Commission, like all other state commissions, has its own governance structure and will not be under the purview of OIA. He did note that the Commission had posted a few audit positions. Janet Conkey explained that the Casino Commission would fall under the OBM Audit Oversight Workgroup should any management letter comments be issued in the future.

Joe also updated the committee on OIA's and OBM's management participation on the IIA research project for "Enhancing CAE Effectiveness with the C-Suite". OIA is also participating with the state agency CIO group meetings and presented a summary of audit results at their March meeting. He also stated that OIA will continue to work to improve communication with the State's CIO community.

The committee broke for lunch at 11:50 A.M.

The committee reconvened at 12:20 P.M.

Executive Session -- At 12:20 P.M. Interim Chairman Mueller asked for 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. Bev Vitaz made the motion, Bill Keip seconded the motion and a roll call vote was taken and, there being 4 yeas and 0 nays, the motion was approved.

The committee moved out of Executive Session at 1:26 P.M.

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

Department of Aging – Subrecipient Monitoring Report (2012-AGE-01)
Department of Insurance – Electronic Licensing System Report (2012-INS-01)
Department of Natural Resources – Wildlife Licensing Audit Report (2012-DNR-01)
Department of Public Safety – Payment Card Audit Report (2012-DPS-07)
Department of Public Safety – Returned Checks Audit Report (2012-DPS-03)
Department of Rehabilitation and Correction – Payment Card Audit Report (2012-DRC-02)

Bill Keip made the motion to approve the above reports and Bev Vitaz seconded the motion with all members approving.

Open Discussion

Members and Joe Bell reviewed the open items list and determined that all had been resolved. Rich Mueller asked the committee's annual assessment of the Chief Audit Executive and the Office of Internal Audit be coordinated with the timing for OBM to complete a performance evaluation for Joe Bell.

The State Audit Committee charter was reviewed with all changes reviewed by members. A formal motion to approve the charter with noted changes was brought forth by Bev Vitaz and seconded by Bill Keip. All members approved and the charter is considered final.

Rich Mueller stated that the charter should now be linked to the committee's self-assessment and to the committee's yearly calendar.

At 1:45 P.M. the motion to adjourn the meeting was brought forth by Bev Vitaz and seconded by Bill Keip. All members agreed.

Open Items for Next Meeting

1. FY 2012 Ethics training for committee members for June 21 at 8:30am.

Responsible Party: Brianne Brown

2. Add OBM Audit Oversight Workgroup updates to SAC annual calendar for September and March.

Responsible Party: Joe Bell

3. Department of Taxation – STARS project status update.

Responsible Party: Joe Bell

4. Update on timeliness of OAKS quarterly reports for CAFR.

Responsible Party: Cynthia Klatt

5. Presentation of OBM's Fiscal Academy.

Responsible Party: Janet Conkey

6. OBM Director's performance evaluation of Joe Bell.

Responsible Party: Janet Conkey

7. Draft of SAC self-assessment and planning calendar as linked to SAC charter.

Responsible Party: Joe Bell