

STATE AUDIT COMMITTEE

THURSDAY, SEPTEMBER 27, 2012, 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
Kai Monahan
Beverly Vitaz
John Merchant

Members Absent: Robert Richardson

Call to Order

Chairman DeMaria called the meeting to order at 9:58 A.M.

New members Kai Monahan and John Merchant were sworn in by Brianne Brown, OBM Legal Counsel, and Joy DeMarco, OBM Legal Program Administrator. Chairman DeMaria welcomed Mr. Monahan and Mr. Merchant. Each member provided a brief professional history. Chairman DeMaria stressed that questions are always welcome at any point during the meeting.

Approval of Minutes

Bev Vitaz moved for the minutes of the meeting held June 21, 2012, to be approved with no additions or corrections. Kai Monahan seconded the motion and all members unanimously approved.

OBM Financial Reporting Update

Tom Holsinger, Deputy Director, Accounting Administration advised the members that final year end IAO audits and information requests are due to OBM on Monday, Oct. 1. Colleges and Universities audits and information requests are due mid-October. At the end of November, the final State GAAP financial statements are due and all other CAFR sections are due December 7. OBM is on target to meet all of those dates.

Material Laws and Regulations

Tom Holsinger, Amy Hall, and Brianne Brown provided an overview of the material laws and regulations monitoring and reporting process. Mr. Holsinger explained that State Accounting works closely with OBM Budget Analysts, OBM Legal and OBM Legislative Sections to monitor pending Ohio and Federal legislation and Controlling Board (CB) actions.

State Accounting receives and reviews enacted appropriation bills, relevant enacted legislation and Controlling Board actions and incorporates those changes into OAKS. State Accounting consults with the Budget Section and Legal Sections for clarification and interpretation.

There are also situations where the Budget Section may request fund transfers or encumbrance changes that may be required by new legislation or Controlling Board Actions.

Brianne Brown explained that OBM Legal supports the Budget, State Accounting and Financial Reporting sections by providing legal interpretation and research for new legislation and Controlling Board actions.

Mr. Holsinger explained that all legislative and CB actions are applied to OAKS by State Accounting. These changes may include new funds, account codes, etc. Once these changes are incorporated into OAKS then the CB action or legislation is effectively implemented.

Amy Hall explained that Financial Reporting is copied on all changes and her section works to ensure consistency between the Actuals Ledger and the Accrual Ledger so that they can prepare the CAFR. Annually, the funds and financial activities are reviewed for materiality to determine proper classification for CAFR Reporting. Results are incorporated into AOS Schedule Exhibit E. This process also results in changes to financial reporting policies and procedures to support the CAFR and Schedule for Expenditures of Federal Awards (SEFA) preparation.

Chairman DeMaria left the meeting at 10:20 A.M.

External Audit Update

SOC 1 Update

Maria Jackson, Asst. Chief Auditor for Information Systems Audit (ISA), Auditor of State's office (AOS), provided the Committee with an update on the State of Ohio's SOC 1 report on the State's Ohio Administrative Knowledge System (OAKS) for the period July 1, 2011 through March 31, 2012. Ms. Jackson indicated that testing had been completed and the report for the nine-month period is in its final stages. She indicated the report is expected to be released in a couple of weeks. Until that time, details on the audit results and recommendation remain confidential.

Data Files Update

Jim Swonger, Senior Audit Manager for ISA, AOS, summarized for the Committee the processes used to obtain the OAKS data files for the July 1, 2011 through June 30, 2012 audit period. Mr. Swonger stated the new process to obtain the files quarterly has improved the efficiency and timeliness of obtaining the data necessary for the financial audit teams to perform testing in support of the State of Ohio financial and single audits. Mr. Swonger indicated there were some minor issues and variances identified in the integrity testing related to the files, which is common, but all were within acceptable amounts.

Financial Update

Cynthia Klatt, Chief Auditor, State Region, AOS, provided the committee with an update on the financial audit of the State of Ohio for the period July 1, 2011 through June 30, 2012. She indicated audit work on the State's revenue and expenditure cash basis transactions is pretty far along at the various support agencies. She also indicated the audit team for the financial audit has started planning procedures and is expected to be fully staffed for financial statement testing at OBM in mid to late October. In the meantime, the team has communicated to all of the Independent Public Accountants (IPAs) who audit the colleges and universities and other state agencies included in the State's CAFR. The signed representation letters for all of these entities have been received.

Ms. Klatt indicated that, based on the timeline agreed upon with OBM earlier this year, the target date for completing the fiscal year 2012 financial statement opinion was January 21, 2013, with an anticipated Single Audit opinion by March 21, 2013. However, Ms. Klatt informed the committee the auditors have a major concern regarding their ability to deliver the financial audit opinion and single audit opinion within this time frame. As such, the AOS has not yet provided the letter of arrangement to OBM since the attached timeline will most likely need to be amended for this concern. Ms. Klatt hopes to be able to provide the letter in the coming weeks.

Ms. Klatt explained the concern involves AOS not receiving information in a timely manner related to the Medicaid Information Technology System (MITS). This system is new for fiscal year 2012 and replaces the previous system (MMIS) used by the Ohio Department of Job and Family Services (ODJFS) for processing Medicaid claims. The new system was developed and is maintained by an outside vendor; MMIS was maintained in-house by ODJFS. Last year, the State processed approximately \$13.1 billion in Medicaid claims. Therefore, this activity is very material to the testing of both the financial statements and single audit for the State of Ohio.

Ms. Klatt indicated that, in prior years, the AOS requested and received Medicaid claims data during fieldwork in June, July, and August that allowed them to perform testing on the general and application controls over these significant Medicaid expenditures. This data is also critical for the AOS to identify transactions related to CHIP (Children's Health Insurance program) and enables the audit teams to pull samples for testing at both the State and county levels.

Ms. Klatt stated that information has been slow in coming for the 2012 audit cycle despite AOS' attempts to highlight the need for information related to this new system early in the audit process. In April, 2012, the AOS first communicated to ODJFS the need to have the data and additional information. This was discussed again in a meeting with ODJFS and the vendor in May, and in a formal official request to ODJFS on July 19 (in addition to other communications). The AOS was initially told by ODJFS they would receive the data and narrative updates on August 1, 2012. However, Ms. Klatt was later told that ODJFS did not make an official data file request to the vendor until September 12, 2012. As such, the audit process is approximately two to three months behind. The AOS also anticipates they will have a learning curve regarding the processes, controls, and data related to this new system, after they receive the data and additional information.

Ms. Klatt also informed the Committee of an additional concern related to MITS. She indicated the AOS requested the SOC 1 report over MITS in May, but were told in June there was no such report. However, on September 28, 2012, the AOS received the SOC 1 report for MITS that covers the first two months of the fiscal year.

As a result of the information provided by Ms. Klatt, the Committee asked several questions, which Ms. Klatt, Ms. Jackson, and Mr. Swonger answered, as indicated below:

Q: Have there been SOC 1 reports issued previously on the vendor's process?

A: The AOS was not sure.

Q: Would this issue indicate a problem in the ODJFS contract with the vendor?

A: The contract is quite lengthy and the AOS has not been able to review the entire document, so they could not say for sure. However, it would be an expectation that such a requirement would be included.

Q: Has the AOS considered doing work at the vendor?

A: In the absence of the SOC 1, the plan has been to perform work similar to the SOC 1 with ODJFS and the vendor. AOS believes they should be able to perform most of the control testing. The process has been extremely slow. This would still be the plan for control objectives not covered by the SOC 1 (and assuming AOS is going to receive a second SOC 1 for the period.)

Q: Has the AOS discussed with other states how they have handled information processed by this vendor and the impact on their testing?

A: No; the processes for Ohio are unique.

Q: What is the timeline for next contact with the vendor?

A: Not certain; the AOS is not permitted to contact the vendor directly, but continues to get assurances from ODJFS that the information will be provided.

Q: What are the options regarding this situation: Delay the audit or identify a scope limitation and audit finding?

A: Yes, those are options to be considered; however, the AOS preference would be to complete the audit.

Q: When will final timeline impacts be evaluated by the AOS?

A: A decision will be made in October.

The Committee offered to help in any way they could to resolve the MITS issue. They requested the Office of Internal Audit provide regular updates to the Committee to keep them informed.

The Committee also asked the following questions not related to the MITS issue, which were answered by Ms. Klatt:

Q: What is the anticipated impact of the new pension auditing standards?

A: This new standard will impact the 2013 audit cycle and has not yet been fully evaluated.

Q: Are there any other delays the Committee should be aware of?

A: Yes; the Ohio Air Quality Development Authority had not provided final financial statements within the expected timelines. Financial statement adjustments were requested in July and were not received until September 28th. As a result, this audit will not be submitted to OBM by October 1st.

OBM Fiscal Academy Overview

Robert Cooperman, Director, OBM Training Academy provided committee members with an overview of the new OBM Fiscal Academy. He explained that the Fiscal Academy is a certification program for state employees who have fiscal responsibilities at their agency and are looking to become a certified fiscal professional. The course work and activities are taught and led by those who “do the work” which are agency Chief Fiscal Officers. Those completing the program will become Ohio Fiscal Professionals.

Mr. Cooperman explained that the pilot cohort program is limited to 25 people all of whom were chosen by agency CFOs. The curriculum is broken into three tiers with the first tier just completed in early September. Tier 2 will begin and end in January 2013. Tier three is planned for April 2013. Curriculum is still being developed and finalized for the remaining tiers. Two new groups of cohorts are planned for calendar year 2013.

Chairman DeMaria returned to the meeting at 11:00 A.M.

CAE Update

Joe Bell reviewed the FY 13 Quarter 1 activities for OIA. He noted that 2 new projects were added at clients' request. Three preliminary audit reports were to be discussed in executive session. He noted that 74% of audit activities were devoted to assurance projects that were completed in the first quarter. He informed members that OIA is now fully staffed for the planned audit activities and that two employees were due back from maternity/paternity leave on October 1.

Mr. Bell provided an overview of the remediation of previously issued audit comments. He noted that the four comments that were due were considered fully remediated and closed. Kai Monahan asked if OIA followed up on low comments. Mr. Bell explained that staff only followed up on moderate or high comments and that low comments were considered during the risk assessment for the next audit plan. Mr. Monahan suggested that the remediation activity also include information on any outstanding comments so that members have some idea how many open items remain. Mr. Bell said that he and Jim Kennedy would make those changes on future reports.

Mr. Bell informed the committee that since the last meeting the Institute of Internal Auditors (IIA) had been selected to perform the external peer review. He noted that the IIA is very knowledgeable and has an experienced team in government and peer reviews. All information that had been requested for the review has been sent to the IIA. He stated that peer review

surveys would be sent to clients, staff and audit committee members on October 1. He stated that it was decided to not send the survey to new members Kai Monahan and John Merchant as they were not a part of the previous year's activities. The surveys will be sent to former members Bill Keip and Rich Mueller. Interviews and site visits are scheduled for Nov. 1- 9 and the final report due December 15. Audit committee members suggested that Mr. Bell push to have the final report ready for the December 13 meeting. Mr. Bell advised that he would stress to the IIA team leader to have the report ready.

Jim Kennedy updated the committee on the OIA client surveys as well as the quality assessments he performed during the last 6 months. He noted that the client surveys were generally positive. Mr. Kennedy also stated that the quality assessments performed on the closed audits were generally positive. Mr. Monahan suggested that these updates only be provided yearly to the committee. The committee members agreed.

Mr. Kennedy also updated the members on his recent review of BWC internal audit activity. He explained that the review is a requirement of the IIA Standards. It was done to provide assurance that OIA could rely on the work of the BWC internal auditors. Mr. Kennedy also reviewed OIA's FY 13 BWC IT audit plan. Chairman DeMaria asked if OIA would be on target for the deliverables and Mr. Bell stated yes. Mr. Monahan asked how much of the work was a joint effort. Mr. Bell stated that in most cases it's just OIA but that some work was coordinated. Mr. Monahan asked if this amount of OIA IT audit effort at BWC takes away efforts at other agencies. Mr. Bell stated that for this year yes it does but that given the merging of critical information systems at BWC, it was worth the initial time and resource commitment. That commitment would likely be ratcheted down in following years.

Mr. Bell informed the committee that he had presented the best practices employed by OIA at a national IIA conference.

He also stated that OBM was working to modify OIA budget language for FY 14/15 that is to be submitted in early October. There was some minor language updates requested as well as additional agency oversight requested.

The committee broke for lunch at 11:48 A.M.

The committee reconvened at 12:16 P.M.

Executive Session -- At 12:16 P.M. Chairman DeMaria 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. John Merchant 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 1:34 P.M.

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

1. Department of Health – Payment Card Audit
2. Department of Aging – Payment Card Audit
3. Department of EPA – Payment Card Audit

Paolo DeMaria made the motion to finalize the above reports and Kai Monahan seconded the motion. All members were in favor.

Open Discussion

Members were provided with tentative meeting dates for 2013. They will advise Susan Patterson of their availability.

Joe advised members that from time to time OIA may enter into an agreement to assist the Ohio Inspector General on investigations. Depending on the nature of the investigation, there may be considerable impact on the audit plan. He asked if members would like to have the IG come and discuss with them the role of the Inspector General. Chairman DeMaria stated that such a presentation should center on how OIA and IG activities would intersect.

Mr. Bell also asked if members would like to have the State CIO provide an update on the State IT Strategy, statewide IT standards & OIA's involvement. Members agreed that it would be beneficial.

Finally, Mr. Bell advised that OIA had recently revamped its website to enhance its usability by customers. The new site makes it easier to find important information and reflects OBM's brand.

The meeting was adjourned at 1:48 P.M.

Open Items for December 13, 2012 meeting

1. Review 2013 tentative meeting dates and advise availability.

Responsible Party: Members

2. Obtain biweekly updates on progress of JFS/MITS and AOS.

Responsible Party: Joe Bell

3. Presentations: Inspector General and State CIO

Responsible Party: Joe Bell