STATE AUDIT COMMITTEE

THURSDAY, DECEMBER 13, 2018, 10:00 A.M.
RHODES STATE OFFICE TOWER
30 EAST BROAD STREET, 35TH FLOOR, JUPITER/SATURN CONFERENCE ROOMS
COLUMBUS, OHIO 43215

Members Present: Larry Long
David Beule
Andrea Weaver
Ann Gabriel (arrived at 10:18 a.m.)

Members Absent: Ranjan Manoranjan

Call to Order

Chairman Larry Long called the meeting to order at 10:05 a.m.

Chairman Long and Cindy Klatt, OBM Office of Internal Audit (OIA) Chief Audit Executive, introduced new OIA staff members Gene Berry, Audit Manager; Kay Mangette, IT Audit Manager; Paul Mann, Internal Auditor; and Falon VanDervort, Internal Auditor; and recognized Hesham Sayed's for his time with OIA as IT Audit Chief prior to his separation from state service.

Approval of Minutes

Ms. Weaver moved for the minutes of the meeting held September 20, 2018 to be accepted with no additions or corrections. Mr. Beule seconded the motion; all committee members accepted the meeting minutes with no objections.

DAS Office of Information Technology Update

Katrina Flory, Department of Administrative Services' Interim Assistant State CIO, provided an update on the State's IT Optimization progress. Since the start of the IT Optimization initiative in 2012, agencies have been able to reduce their budget spending on IT infrastructure from 80% to 40%, recognizing almost $162 million in savings through the end of FY 2017. Ms. Flory discussed the State's IT strategic priorities for the future, including continued migration of agencies' legacy applications, unlocking state data through data sharing and collaborations, and migration to the public cloud. These strategic priorities align with the State's IT Statement of Direction, issued December 7th, which provides the roadmap to achieving those priorities. Ms. Flory indicated she would provide Ms. Klatt with a copy of the IT Statement of Direction, in addition to the State's case study on Ohio's IT Optimization, to distribute to the Committee members.   Ms. Flory also announced that Ervan Rogers, the new State CIO, was set to begin in January. He will be coming from the Attorney General's Office where he served as the agency CIO.

Chairman Long inquired about the security issues in unlocking state data, specifically regarding confidentiality across the human services applications, in addition to the timeliness of data being available. Russ Forsythe, Chief Information Security Officer, indicated that connecting those across state healthcare agencies to have access to cross-data is a challenge and requires the agencies to work together and have funding sources to line up. There has not been much effort and work in that direction. However, Ms. Flory pointed out the Ohio Benefits project, which is the State's integrated eligibility system, went live a month ago with the SNAP and TANF piece in place, as well as working a pilot piece with five counties to work on the documentation management side to get the data into the system in an expedient manner. The State's IT Office also recently implemented robotics processing automation, nicknamed 'baby bot', which automatically enrolls a new child in Medicaid if the mother was already on Medicaid, reducing the existing lag time between the baby's birth and Medicaid enrollment and redirecting county caseworkers' time towards other activities.

Mr. Forsythe provided the Committee members with an overview of the State's security optimization efforts, including consolidation of individual agency security personnel into an enterprise security team that has enabled ability to standardize security tools, processes, and procedures and leverage the dollars available to spend on the State's IT security. Current efforts of the enterprise security team are focused primarily on cybersecurity, including expansion of the tools and methods used to protect the State.

Ms. Gabriel inquired about the cybersecurity training being provided to state employees. Mr. Forsythe stated there is an annual cybersecurity training program given to all employees of cabinet level agencies. The enterprise security team can also send phishing e-mails to staff to train the employees to not click on unsuspecting links. The security team is currently working on getting a phishing button in Outlook for staff to be able to report suspicious emails, which will automatically open a ticket for the email to be investigated.

Chairman Long inquired about the competitiveness with the private sector in terms of positions and how are they doing in comparison, as well as when was the last time similar positions in this area had been compared to market in the private sector and is there any data available to compare. Mr. Forsythe responded that there was no data to provide, however, DAS, Human Resources, and Office of Personnel recently reviewed and helped develop new enterprise security classifications and the apprentice program.

OBM Financial Reporting Update

Linda Shook, OBM Financial Reporting Manager, discussed the timeline for the completion and audit of the FY 2018 Comprehensive Annual Financial Report (CAFR). Ms. Shook briefly explained the completed tasks and noted that Financial Reporting is meeting their deadlines. Ms. Shook indicated OBM plans to receive the financial statement opinion next Friday, December 21st. She also mentioned that the State's Schedule of Expenditures of Federal Awards (SEFA) is being completed and provided to the auditors.

Jim Kennedy, OBM Senior Deputy Director for Services and Operations, discussed the most recent draft financial statements for the State and changes in the General Fund over the last five years. Mr. Kennedy noted the State's General Revenue Fund has maintained a balance of over $5 billion for the past six fiscal years and the State's Budget Stabilization Fund has maintained a balance of $2.03 billion for the past four fiscal years. The State's unrestricted balance has increased significantly in past years due primarily to newer pension liability and Other Post-Employment Benefits (OPEB) reporting requirements.

External Audit Update

Maria Jackson, Assistant Chief Auditor of Information Systems Audit from the Auditor of State (AOS) State Region, discussed the results of the FY 2018 SOC-1 audit for the Ohio Administrative Knowledge System (OAKS). A qualified opinion dated September 28th was released on November 13th. The qualified opinion was a result of one control objective not being met; testing revealed employees having unnecessary access to data that did not match their job duties. Access was removed from those individuals identified shortly after fieldwork. A management letter will be supplied at the end of the financial audit and will be discussed at the March State Audit Committee meeting.

Debbie Liddil, Chief Auditor from the AOS State Region, provided a status of the State of Ohio CAFR audit and Single Audit. The CAFR audit is primarily complete, with the remainder of the work verifying the presentation of the statements is correct, evaluating the footnotes, and trying to evaluate any exceptions that have occurred in the testing to determine the significance and how to report. The representation letter was presented to OBM for signature on December 7th. The CAFR opinion is planned to be issued on December 21, 2018.

Ms. Liddil highlighted the significant reporting changes incorporated into the 2018 CAFR, specifically OPEB from GASB 75 which required additional testing and evaluating policies and procedures. Field staff have moved on to single audit testing of 26 major programs at 10 separate state agencies. AOS intends to issue an opinion and release the Single Audit on February 20th, one week earlier than past years. The results of the State of Ohio CAFR and Single Audits will be discussed at the March State Audit Committee meeting.

Ms. Gabriel inquired whether any review of the IPA's work is performed by AOS to determine reliance on their work as part of the State CAFR. Ms. Liddil responded the IPAs are required to complete their work in accordance with standards specific to the entity being audited, and for those audits that have a significant impact on the financial statements, AOS is in communication with the IPAs during the audits to evaluate any information the IPAs have reported in their work. Additionally, there is a "Center for Audit Excellence" (CFAE) group within AOS that evaluates the reports coming from the IPAs to make sure they meet the standards and the work is completed in accordance with the established procedures. As part of the firms' eligibility to participate, the firms must register with AOS yearly and are required to provide a copy of their peer review report

and any issues. The CFAE group reviews the reports and periodically looks at the IPA's workpapers to make sure standards and expectations are being met.

CAE Update

Cindy Klatt, OBM Office of Internal Audit (OIA) Chief Audit Executive, provided an update to the Committee members on the FY 2019 second quarter's activities by discussing the Annual Audit Plan status including any plan changes, staffing levels, percentage of engagements completed per the Annual Plan, and remediation dashboards that included the outstanding observations issued from prior quarters' assurance engagements. Ms. Klatt addressed Ms. Gabriel's question regarding the Pharmacy Benefits Manager and if OIA has or should be involved in this, explaining OIA has not done anything in that space specifically but it is something OIA wants to be more involved in and will be considered on the risk assessment for the coming year. Ms. Klatt also addressed Chairman Long's question regarding OIA's communication of outstanding remediation issues with agency directors, explaining quarterly e-mails listing the outstanding and closed remediation items are sent to the agency contacts and directors. Additionally, Ms. Klatt is planning on meeting with the new agency directors after the first of the calendar year to discuss and provide them an overview of OIA, as well as a listing of any outstanding observations.

As required by IIA standards, Ms. Klatt confirmed to the committee members the independence and objectivity of the internal audit activity, as well as the independence of OIA employees.

The Committee paused their meeting for lunch at 11:34 a.m. and reconvened with all four members present at 12:02 p.m.

Executive Session -- At 12:02 p.m., Chairman Long moved that the Committee enter into executive session for the purpose of discussing confidential matters exempted from public disclosure under Ohio Revised Code Sections 126.48 and 149.433. Preliminary reports of the Office of Internal Audit of the Office of Budget and Management and reports that constitute a security record are required to be kept confidential under Ohio law. Ms. Gabriel seconded the motion to move into executive session and a roll call vote was taken: Ms. Gabriel, Ms. Weaver, Mr. Beule and Chairman Long all approved. The Committee moved out of Executive Session at 1:50 p.m.

Chairman Long moved that the State Audit Committee accept the assurance reports submitted by the Office of Internal Audit; the motion was seconded by Mr. Beule and all attending members approved the motion. Pursuant to the motion, the following ten assurance reports were accepted in accordance with Revised Code Section 126.48:

1. Department of Administrative Services - Patch Management

2. Office of Budget and Management - Supplier Operations: Supplier Portal

3. Office of Budget and Management - Operating Budget Process

4. Department of Developmental Disabilities - Database Security

5. Department of Health - Help Me Grow: Home Visiting Program

6. Ohio Department of Medicaid - Nursing Facilities Cost Reports

7. Department of Natural Resources - Timber Fee Revenue

8. Department of Natural Resources - Access Controls

9. Department of Veterans Services - Pharmacy Operations

10. Department of Youth Services - Bed Utilization

Open Discussion

Ms. Klatt presented the draft State Audit Committee Charter to the committee members and noted there were only a few minor edits to the document. There were no additional edits or objections by the committee members. Ms. Weaver moved to approve the State Audit Committee Charter as revised and Mr. Beule seconded the motion. All members unanimously approved the revised State Audit Committee Charter.

Ms. Klatt then presented the draft OIA Charter to the committee members and discussed the revisions/updates suggested by OBM Legal and OIA staff. There were no additional edits or objections by the committee members. Chairman Long moved to approve the OIA Charter and Ms. Gabriel seconded the motion; all members unanimously approved the revised OIA Charter.

Ms. Klatt informed the committee of the calendar year 2019 meeting dates: March 21, 2019; June 26, 2019; September 19, 2019; and December 12, 2019. The committee members were not aware of any conflicts with these dates.

Ms. Klatt informed the committee of delays occurring with the Department of Commerce regarding the scheduling of the Securities Enforcement Action Processes engagement. Legal counsel from both agencies have been involved; Ms. Klatt will provide an update to the Committee in the March meeting.

Ms. Klatt also informed the Committee that a memorandum was sent to Ohio Lottery Commission leadership based on the presentation by Ms. Jennifer Wilson, the Commission's Deputy Director of Internal Audit, at the December audit committee meeting. The memo outlined Chairman Long's concerns regarding the Commission's timeliness of remediation of audit observations and sufficiency of internal audit resources.

The meeting was adjourned at 1:58 p.m.

Open Items for December 13, 2018 meeting

None