



State Audit Committee

Mike DeWine, Governor
Jon Husted, Lt. Governor

Larry L. Long, Chairman

STATE AUDIT COMMITTEE

THURSDAY, MARCH 21, 2019, 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
Ann Gabriel
Ranjan Manoranjan
Andrea Weaver

Call to Order

Chairman Larry Long called the meeting to order at 10:00 a.m.

Chairman Long and Cindy Klatt, OBM Office of Internal Audit (Internal Audit) Chief Audit Executive, introduced new Internal Audit employees Mike Lloyd, IT Audit Chief and Neal Bucklew, Internal Auditor.

Approval of Minutes

Mr. Beule moved for the minutes of the meeting held December 13, 2018 to be approved with no additions or corrections. Ms. Gabriel seconded the motion; all committee members approved the meeting minutes with no objections.

OBM Director's Update

Kathleen Madden, OBM Assistant Director, introduced herself to the committee and thanked them on behalf of OBM Director Kim Murnieks, who was unable to attend as she was working with the Governor's office on the pending operating budget. Ms. Madden provided a brief background about herself and the Director, both of whom had prior assignments working at OBM. Chairman Long and the committee welcomed the new administration.

OBM Financial Reporting Update

Jim Kennedy, OBM Senior Deputy Director for Enterprise Services, discussed the FY 2018 Comprehensive Annual Financial Report (CAFR) preparation timeline. OBM met their deadlines and was able to issue the CAFR within six months after the fiscal year end. Mr. Kennedy noted that the report release deadline has been met six years in a row and that only 22 other states have met the reporting deadline requirement issued by the Government Finance Officers Association (GFOA) for each of the previous five years. Chairman Long inquired about the implications for not making the reporting deadline. Mr. Kennedy indicated the CAFR opinion and the timeliness with which the CAFR is issued could have an impact on bond ratings, thus they will

plan on keeping the schedule they have. Regarding the release of the State Single Audit, which occurs after the CAFR's issuance, Mr. Kennedy noted a special situation this year as there were two administrations from which management representations were required. This transition delayed the opinion on the Single Audit issued by the Auditor of State by five days. The Single Audit opinion was issued February 25, 2019 and the report released on March 7, 2019. Mr. Kennedy noted the timing of both the CAFR and the Single Audit report releases were positive for the Office.

Linda Shook, OBM Financial Reporting Manager, provided a summary of the GASB standards for FY 2019 reporting consideration, which are anticipated to have minimal impact on the financial statements.

- **GASB 83 – Certain Asset Retirement Obligations:** GASB 83 is targeting assets that have established rules and regulations regarding their retirement or decommissioning to determine if there are any liabilities to report for any costs associated with the retirement that must be reported. Ms. Shook indicated OBM is still considering the guidance and has yet to make a final determination on its effects the State CAFR, but does not expect there to be any reporting of these assets at the State level due to their immateriality.
- **GASB 88 – Certain Disclosures Related to Debt:** This guidance involves debt issuances that are direct borrowings or direct placements, neither of which the State of Ohio issues as public offerings. As such, it is expected that no new disclosures for debt will result from this new standard.

Ms. Shook indicated there is a standard that will be required for FY 2020, GASB 84 - Fiduciary Activities, that could have some impact on the financial statements. GASB 84 better defines the criteria over fiduciary control. The financial reporting staff are working through this currently for reporting in the FY 2020 financial statements; the standard will result in a restructure of the financial statements.

External Audit Update

Debbie Liddil, Chief Auditor from the Auditor of State, State Region, introduced the committee to Steve Gibson, who was recently promoted to a Senior Audit Manager in the State Region's Information Systems Audit (ISA) group. Ms. Liddil indicated that because the ISA's work has been expanding, a second Senior Audit Manager was needed for the additional work. Ms. Liddil also noted that while the SOC-1 audit is currently underway, unless the committee had any questions specifically on the SOC-1, her update for the committee would focus on the results of the FY 2018 CAFR audit and State Single Audit. The members indicated they had no questions.

Before proceeding into discussing the results of the FY 2018 State CAFR and State Single Audit, Ms. Liddil addressed some initial questions posed by the committee to give the members better perspective about the audit results. Ms. Liddil discussed the process for determining the materiality thresholds for each opinion unit based on the expenditures reported in the prior year's financial statements; the differences between a material weakness and a significant deficiency; how and when questioned costs are reported in the Single Audit; and the parameters for reporting findings for recovery and the associated liability for recovery.

Ms. Liddil stated the unqualified opinion on the FY 2018 State CAFR was issued on December 21, 2018, with one significant noncompliance/material weakness comment related to Medicaid drug rebate monitoring. The State Single Audit opinion was dated February 25, 2019 and released by the Auditor on March 7, 2019. The Auditor's Office reviewed 26 federal programs at 10 state agencies and obtained 96% coverage on the total \$26.6 billion federal dollars administered by the State in FY 2018 (\$3.8 billion of which was passed through to subrecipients). The Single Audit opinion was qualified for nine federal compliance requirements, and they issued 38 total audit findings, including the one drug rebate monitoring comment above. Three findings for recovery were also reported in the Single Audit report. The remaining 34 findings related to the federal programs, of which 15 were repeated from the FY 2017 Single Audit. Ms. Liddil stated the related state agency management letters associated with the audit work conducted to support the Single Audit are currently being completed. The Auditor of State's office met with OBM Financial Reporting to discuss the upcoming FY 2019 audit and have started planning, with a similar timeline expected for completion of the FY 2019 State CAFR and Single Audits.

CAE Update

Ms. Klatt provided an update to the committee on the FY 2019 third quarter activities by discussing the Annual Audit Plan status, staffing levels, percentage of engagements completed as compared to the Annual Audit Plan, and the remediation dashboards covering the outstanding observations from prior issued Internal Audit public reports.

Ms. Kelly Salomone, OBM Internal Audit Chief of Quality Assurance, discussed the quality assurance results for audits performed during first quarter of fiscal year 2019. The summary noted improvements made from the prior quality assurance reviews conducted, as well as areas for continued improvement. Ms. Salomone also presented the assurance review results for the Bureau of Workers' Compensation's Internal Audit Department and Ohio Lottery Commission's Office of Internal Audit. Ms. Salomone stated her conclusion that OBM Internal Audit can continue to place reliance on the internal audit functions at those two agencies.

The committee paused their meeting for lunch at 11:51 a.m. and reconvened with all five members present at 12:21 p.m.

Executive Session -- At 12:22 p.m., Chairman Long moved that the committee enter into executive session to discuss 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. A roll call vote was taken: Mr. Beule, Ms. Weaver, Mr. Manoranjan, Ms. Gabriel, and Chairman Long all approved. The committee moved out of Executive Session at 1:58 p.m.

Chairman Long moved that the State Audit Committee accept the following eighteen assurance reports submitted by the Office of Internal Audit. Ms. Weaver seconded the motion; all members accepted in favor of the motion. Pursuant to these motions, the following 18 assurance reports were accepted in accordance with Revised Code Section 126.48:

1. Adjutant General – Air Guard Firefighting Cooperative Agreement
2. Department of Agriculture – Meat Inspection Process
3. Department of Administrative Services – MBE Certificate Program
4. Department of Administrative Services -ODX NIST Security Controls
5. Department of Commerce – Liquor Control Compliance Function
6. Department of Education – Jon Peterson Special Needs Scholarship
7. Department of Education – NIST Cybersecurity
8. Environmental Protection Agency – Revenue Processing
9. Department of Health – HIV/AIDS Treatment (Ryan White)
10. Department of Higher Education – Choose Ohio First
11. Department of Insurance – External Review System
12. Department of Job and Family Services – Adult Protective Services
13. Mental Health and Addiction Services – Grant Process Review
14. Department of Natural Resources - Orphan Well Plugging
15. Opportunities for Ohioans with Disabilities – Personal Care Assistance Program
16. Department of Public Safety – BMV Remittance Processing
17. Department of Taxation – Software Development
18. Bureau of Workers' Compensation – Cybersecurity Protect Controls



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Open Discussion

Chairman Long reminded the committee members about the Financial Disclosure Statement filing requirement. The statements can be filed online through the Ohio Ethics Commission website and are due by May 15, 2019.

Ms. Klatt informed the committee of the planned activities for the June 26, 2019 meeting, specifically discussion and acceptance of the FY 2020 annual audit plan.

The meeting was adjourned at 2:00 p.m.

Open Items for June 26, 2019 meeting

None