



Mike DeWine, Governor
Jon Husted, Lt. Governor

State Audit Committee

Larry L. Long, Chairman

STATE AUDIT COMMITTEE

THURSDAY, SEPTEMBER 19, 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
Andrea Weaver

Call to Order

Chairman Larry Long called the meeting to order at 10:02 a.m. Chairman Long acknowledged the committee members in attendance.

Approval of Minutes

Ms. Gabriel moved for the minutes of the meeting held June 26, 2019 to be accepted with no additions or corrections. Mr. Beule seconded the motion, with all committee members finding in favor of approving the meeting minutes with no objections.

Bureau of Workers' Compensation (BWC) – Internal Audit Update

David Kooser, BWC Chief of Internal Audit, provided a brief background and activities of the Commission's Internal Audit activity. As reported to BWC audit committee during the July 2019 meeting, BWC Internal Audit had completed 22 of the 25 scheduled projects, or 88%, of their FY 2019 audit plan, in addition to using approximately 1,000 hours to assist the external auditors conducting the BWC financial statement audit. In November 2016, BWC went live with the multi-year CORE implementation project which created a new claims processing system and a new data warehouse. There have been only minor issues with this implementation in the last three years. BWC is also looking to build a data analytics program in the future.

Mr. Kooser indicated in April 2019, the FY 2020 annual risk assessment process began where BWC met with board members, management and key staff to determine the risks to the agency and to rank those risks. The FY 2020 audit plan is designed to address the highest ranked risks of the agency and was presented to the BWC audit committee at the July 2019 meeting. BWC Internal Audit is conducting audit follow-up on items dating back to October 2016. BWC management is required to provide quarterly status updates, and audit staff are to confirm the statuses provided. Updates will continue to be presented to the BWC audit committee on a quarterly basis. BWC Internal Audit has faced some challenges, including turnover due to retirements, which could impact completion of the FY 2020 audit plan. Mr. Kooser recently hired an audit manager over Investment Compliance and obtained approval to hire an additional Director to help with knowledge transfer and continuity.

BWC will also be contracting with an outside firm to complete an external assessment in the upcoming year in accordance with the BWC Charter and IIA standards. This is to be done every five years and is the first external assessment to be conducted for BWC Internal Audit.

Ms. Gabriel asked what the highest risks were in the risk assessment and Mr. Kooser indicated investments and actuarial work are always high risk and safety grants was another higher risk area on which they are working to strengthen controls.

Chairman Long asked who makes up the BWC audit committee, to which Mr. Kooser indicated the board is made up of twelve members, and five members are on each committee. The audit committee is made up exclusively of board members. Mr. Kooser responded to Chairman Long's question about staffing for BWC Internal Audit, indicating they currently have thirteen staff and one manager overseeing three audit teams. Chairman Long asked if there was an actuary on internal audit staff, which there is not. He also asked if this was an issue and Mr. Kooser indicated it was not since they focus on the controls over the process(es). Mr. Kooser also pointed out there are actuaries on staff at BWC outside of Internal Audit. Chairman Long asked the same about investments and Mr. Kooser indicated there is a full-time investment professional on staff within Internal Audit, along with other highly credentialed individuals within BWC.

Chairman Long asked about the timing of implementation of audit recommendations. Mr. Kooser indicated they are currently reimplementing this process. They have catalogued all risks and are rebuilding the process and he should have more details during his next update. Chairman Long also asked if BWC reports are available on their website and Mr. Kooser indicated all public reports are posted to the BWC website.

Ms. Gabriel asked if there was any review of the data being provided to the actuaries, both internal and those contracted, to ensure accuracy. Mr. Kooser indicated this is part of their process and where they provide assistance to the external auditors.

Ohio Lottery Commission – Internal Audit Update

Cindy Klatt, OBM Office of Internal Audit (Internal Audit) Chief Audit Executive, introduced the new Deputy Director of Internal Audit at the Lottery Commission, Greg Beyer. Mr. Beyer indicated he started with the Commission in July 2019 and came from Cuyahoga County Office of Budget and Management and prior to that, the Cuyahoga County Board of Elections.

Mr. Beyer announced that in FY 2019, the Lottery Commission's Internal Audit completed four of the eleven planned engagements, or 36%. Of those four, two were completed by OBM Internal Audit. Mr. Beyer indicated 19 outstanding observations were addressed and closed in FY 2019 and 31 remain open. Observations were open for an average of 422 days which has decreased slightly from the previous year. Mr. Beyer said he takes these observations seriously and is meeting with each department on a regular basis, including Assistant Directors, to get them closed more promptly. For FY 2020, there are ten planned engagements including two carry-over projects from the previous year. OBM is scheduled to complete two assurance engagements and one consulting engagement. Mr. Beyer indicated he is working to get to

know the agency and determine the best way to move forward with the risk assessment and the audit universe matrix.

Ms. Gabriel asked what the cause was for not completing all the planned engagements in FY 2019. Mr. Beyer indicated it was most likely due to audit complexity and change in audit scope, as well as information not being readily available for audit. There are currently only three auditors, an administrative assistant and the Director so Mr. Beyer wants to evaluate the potential need for more staffing. Chairman Long indicated a memo was sent to the Commission regarding resources and pointed out the remediation timing needs to be a focus and addressed as a priority, as this amount of time is significantly higher than expected.

OBM Financial Reporting Update

Linda Shook, OBM Financial Reporting Manager, discussed the timeline for the completion of the audit of the FY 2019 CAFR. She briefly explained which tasks have been completed and the impending deadlines for October. Her group is currently on schedule to meet their respective deadlines.

Jim Kennedy, OBM Senior Deputy Director for Enterprise Services, presented the material laws and regulations for the State of Ohio. He indicated OBM identifies these material laws and regulations in collaboration with the legal departments from the various state agencies. OBM provides this information to the Auditor of State for their audit of the State's financial statements.

Ms. Weaver asked about those laws under the \$300 million threshold and if they would ever be audited. Mr. Kennedy explained that those were not audit thresholds and the Auditor of State would perform their own materiality checks so it is possible some of those items would be audited.

External Audit Update

Maria Jackson, Assistant Chief Auditor of Information Systems Audit from the Auditor of State (AOS), State Region, discussed her group's work on the service organization audits, or SOC-1, and they are wrapping up fieldwork and issues. They are on track to report at the end of September 2019 and will also be issuing a letter of comments that explains any identified deficiencies or issues to management. Typically, the report and the letter of comments are sent at separate times but this year AOS will be reporting them together. Additional details on results of the SOC-1 will be discussed at the December 2019 meeting.

Debbie Liddil, Chief Auditor from AOS, State Region, indicated that transaction testing started in May and testing of the financial statements will start once they are received. She also discussed the federal compliance supplement which was issued in July 2019; however, the federal Office of Management and Budget will be releasing a revised version to resolve some errors and inconsistencies. The compliance supplement has been scaled down from previous years to include only the top six compliance areas (down from twelve); however, this will likely not have a significant impact on the level of effort to complete testing. AOS is still on track to release the single audit by the end of February 2020.

Ms. Gabriel inquired about the independent auditors who perform audits and how AOS is involved in that process. Ms. Liddil indicated AOS manages the contracting process and

ultimately has the final decision on the firm to perform the audits. The goal is to have this process completed and firms selected two to three months prior to the fiscal year end being audited.

Chairman Long asked if there were any new GASB requirements. Ms. Liddil stated that AOS is in the process of evaluating GASB 84 for next year's audit and she believes it will have a material impact on the FY 20 financial statements.

CAE Update

Ms. Klatt provided an update to the Committee members on the FY 2020 first quarter activities by discussing the Annual Audit Plan status, percentage of engagements completed as compared to the Annual Plan and any plan changes, staffing levels, and the remediation dashboards covering all outstanding observations from prior issued assurance engagements. Ms. Klatt addressed Ms. Gabriel's question about how long outstanding items will remain open, indicating they remain open until the risk has been sufficiently mitigated or the agency accepts the risk. Ms. Weaver asked if the risk rating is assessed at the time of the audit and the length of time to correct the issue was not a factor in the rating. Kelly Salomone, OBM Office of Internal Audit Chief of Quality Assurance, explained that some observations, especially IT-related observations, take time to address and implement a new system or changes to the system and time to remediate does not impact the risk rating. Ms. Klatt pointed out a disadvantage of the dashboard is that it does not show the progress that an agency has made to remediate the observation.

Ms. Salomone discussed the quality assurance results for assurance and consulting engagements performed by Internal Audit during the third and fourth quarters of FY 2019. The purpose of her review is to ensure the work adheres to Internal Audit standards and that an outside party/reviewer can understand the work performed and reach the same conclusions. The summary noted several improvement opportunities, including documenting the control frameworks being used, expanding on control testing, and documenting completion and review of audit steps. Ms. Salomone mentioned the detailed items noted during the quarterly reviews were discussed with Internal Audit management and action is being taken to address the items noted through a mixture of updates to audit procedures, project coaching and training.

The Committee paused their meeting for lunch at 11:20 a.m. and reconvened with all four members present at 11:43 a.m.

Executive Session -- At 11:44 a.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. Weaver seconded the motion. 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 1:23 p.m.

Chairman Long moved that the State Audit Committee accept the assurance reports submitted by OBM's Office of Internal Audit. Ms. Gabriel seconded the motion; all members accepted in

favor of the motion. Pursuant to these motions, the following 11 assurance reports were accepted in accordance with Revised Code Section 126.48:

1. Department of Health – Patch Management
2. Department of Higher Education – Access Controls
3. Department of Job and Family Services – Social Media
4. Ohio Lottery Commission – Retailer Licensing and Bonding
5. Department of Mental Health and Addiction Services – Community Housing Capital Program
6. Opportunities for Ohioans with Disabilities – Information Security – Incident Response
7. Department of Public Safety – Vendor Management
8. Department of Rehabilitation and Correction – Vendor Management
9. Department of Taxation – Habitual Offender Program
10. Department of Transportation – IT General Controls
11. Department of Youth Services – Capital Expenditures

Open Discussion

Joy DeMarco, OBM Chief Legal Counsel, gave the committee a brief overview of the confidentiality laws over internal audit reports. She indicated draft reports, prior to finalization, and security/infrastructure records are to remain confidential. She reminded the committee they have a duty to ensure reports remain confidential. Ms. DeMarco indicated the committee will also receive information regarding the required annual Ethics training.

Ms. Gabriel asked Ms. DeMarco about whether “reply all” emails constitutes a meeting for the committee members. Ms. DeMarco indicated the Supreme Court recently ruled that the State’s public meetings laws had been violated, deeming that deliberations were held when a majority of members of a public body emailed back and forth about public business. Ms. DeMarco recommended that if emailing, members of the Committee should be careful not to exchange emails with other members about business that should occur at a meeting. Ms. DeMarco also recommended that the members consider only emailing the chair with specific questions, and that if communications or notifications are required to be sent to the entire Committee, members should send the email with the other members blind copied, as to discourage deliberation with a majority of the members.

Ms. Klatt discussed how she submits final public assurance reports and final security/infrastructure assurance reports separately to the committee members to help establish the differences in the reports. Ms. DeMarco stated both public and security/infrastructure record reports and memos are discussed in executive session. Once accepted, they are shared with the audit committee, governor and the agency directors before they are public.

Chairman Long asked if audit reports posted to the site were safe to discuss. Ms. DeMarco stated that public internal audit reports are no longer posted on the OBM website. Chairman Long inquired why the audit reports were no longer posted on the website and Ms. DeMarco indicated that OBM recently updated its website and these reports, along with other information and records of the agency, were not included in the update but still retained as public records by OBM. Chairman Long asked if the Speaker of the House and Senate President were still provided copies of the final reports. Ms. Klatt clarified that a memo used to be presented to both legislative leaders but indicated that this memo is no longer sent due to an updated internal audit process adding legal review to the determination of which records should be considered security or infrastructure records. Chairman Long expressed concern about removing the reports from the website; and Ms. DeMarco explained that the reports are readily available to the public when requested like all other OBM public records.

Ms. Klatt then provided the committee with the CAE/Internal Audit Assessment and Chairman Long provided the committee members the opportunity to comment. No additional comments or revisions were suggested by the other Committee members.

Discussion was held around the upcoming December 2019 meeting which will include a review of the State Audit Committee and Internal Audit Charters, as well as an update on the internal audit standards. The date of the December meeting was discussed, and the committee agreed to move the meeting to Wednesday, December 18, 2019.

The meeting was adjourned at 1:39 p.m.

Open Items for December 18, 2019 meeting

None.