



**MINUTES OF THE MEETING OF
THE OHIO LOTTERY COMMISSION (OLC) AUDIT COMMITTEE**

**HELD AT:
THE FRANK J. LAUSCHE BUILDING
CONFERENCE ROOM 205
615 WEST SUPERIOR AVENUE - CLEVELAND, OHIO 44113**

**September 11, 2019
10:00 A.M.**

Present at the meeting were the following:

Sean Whalen, Audit Committee Chairman and Commissioner, OLC
Angela Mingo, Audit Committee Member and Commissioner, OLC
Trevor McAleer, Audit Committee Member and Commissioner, OLC
Patrick McDonald, Executive Director, OLC
Nicola Kostura, Assistant Director, OLC
Sean Webster, Assistant Director, OLC
Cindy Klatt, Chief Audit Executive, Office of Budget and Management
Erin Brown, Internal Audit Section Chief, Office of Budget and Management
Kelly Salomone, Internal Audit Section Chief, Office Budget and Management
Gregory Beyer, Deputy Director of Internal Audit, OLC
Carla Reeves, Office of Internal Audit, OLC
Jane Parker, Office of Internal Audit, OLC
Joseph Volpi, Office of Internal Audit, OLC

Not Present:

Diane Nagorny, Office of Internal Audit, OLC

CALL TO ORDER

The Ohio Lottery Commission's (the "OLC") Audit Committee Meeting of September 11, 2019, was called to order by Chairman Sean Whalen at 10:16 a.m. at the Frank J. Lausche Building, Room 205.

APPROVAL OF MINUTES OF JULY 10, 2019

- Chairman Whalen asked the Audit Committee Members whether there were any questions regarding the July 2019 Meeting Minutes. There were no questions at that time. Chairman Whalen asked for a motion to approve the Minutes. Commissioner Mingo motioned to approve the Meeting Minutes, which was seconded by Commissioner McAleer. Ms. Reeves took a roll call vote, and all Audit Committee

Members present affirmatively voted. The motion passed 3-0.

APPROVAL OF FISCAL YEAR 2019 ANNUAL AUDIT REPORT

- Chairman Whalen stated that Deputy Director Beyer provided the Audit Committee Members with the Fiscal Year 2019 Annual Audit Report prior to today's meeting. Chairman Whalen stated that he did not have any additional questions or comments and asked the Audit Committee Members whether they had any questions. There were no questions at that time. Chairman Whalen asked for a motion to approve the Fiscal Year 2019 Annual Audit Report. Commissioner McAleer motioned to approve the Fiscal Year 2019 Annual Audit Report, which was seconded by Commissioner Mingo. Ms. Reeves took a roll call vote, and all Audit Committee Members present affirmatively voted. The motion passed 3-0.

CHAIRMAN'S COMMENTS

- Chairman Whalen stated that there was an abbreviated meeting today. For that reason, he stated that he would forego his comments and directed the meeting to Gregory Beyer, Deputy Director of Internal Audit.

DEPUTY DIRECTOR OFFICE OF INTERNAL AUDIT COMMENTS

- Deputy Director Beyer stated that over the last couple of months he had been actively collaborating with Internal Auditors Joseph Volpi, Jane Parker, and Diane Nagorny, Assistant Directors Nicole Kostura and Sean Webster, and OLC Deputy Directors, to resolve the outstanding issues on the Aging Accountability Report (AAR).
- Deputy Director Beyer stated that they were able to validate and close five issues since July's Audit Committee meeting; one external issue and four internal issues. Deputy Director Beyer stated that they would continue to meet with the Deputy Directors to discuss how to rectify issues on the AAR.
- Deputy Director Beyer stated that the Finance Department has most of the outstanding issues. Deputy Director Beyer stated that he, the ADs and the Internal Auditor assigned to the issues, plan to meet with the Deputy Director of Finance on a bi-weekly basis for status updates.
- Deputy Director Beyer stated that he would continue to provide updates to the Audit Committee Members on progress made.
- Deputy Director Beyer stated that he would be presenting the Fiscal Year 2019 Internal Audit Annual Report to the State Audit Committee on Thursday, September 19, 2019, in Columbus, Ohio.
- Executive Director McDonald asked what would be included in the Annual Audit Report. Deputy Director Beyer responded that it would include activities from the Fiscal Year 2019; i.e., an Audit Plan, a summary of audits completed, and external and internal client survey results.
- Deputy Director Beyer stated that this concluded his report.
- Chairman Whalen asked whether there were any questions for Deputy Director Beyer. Commissioner McAleer asked if the meetings have been productive as far as conversations on how to resolve the outstanding issues.
- Deputy Director Beyer responded that the meetings have helped him understand the functions of the different departments and how they have played a role in the success of the Ohio Lottery. Deputy Director Beyer stated that sometimes there were some contentiousness, in terms of push back, however, overall the meetings have been positive.
- Chairman Whalen stated that when he reviewed the Annual Audit Report there was a chart on the last

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page, representing the Client Survey results from individuals who responded (i.e., strongly agree, disagree and so forth), related to the topic of engagement.

- Chairman Whalen pointed out that the final results were reached prior to Deputy Director Beyer taking over in that capacity, and that the goal moving forward would be to collaborate with the Deputy Directors with the assistance of the ADs.
- Chairman Whalen stated that the Deputy Directors should have the appropriate information so that they would know what they need to get things done and/or to understand the issue so that they could provide the correct information that will be needed to resolve a given issue. Chairman Whalen stated that the key was to balance these requirements.
- Chairman Whalen stated that Deputy Director Beyer has work to do to improve the survey scores.
- Executive Director McDonald asked who responded to the survey. Joseph Volpi, Internal Auditor, responded that every Fiscal Year, individuals who participated in the planning of the Risk Assessment, received a survey. The survey asked for feedback about the Internal Audit processes. The purpose of the survey was to analyze the data and include the results in the development of the Annual Audit Plan.
- Mr. Volpi added that we not only review the data, but we also look at the context of the audit as it relates to what was addressed, what was the audit scope and the issues.
- Chairman Whalen stated that, based on Mr. Volpi's response, that this was the balance that he was referring to in asking the question, "Did Internal Audit do everything that they could to ensure that the client was provided all the information they needed to make an informed decision?"
- Commission McAleer asked who else received the survey, i.e., Deputy Directors and Commissioners. Mr. Volpi responded stating that the survey was sent to Deputy Directors, Commissioners, the Executive Director of OLC, Office of Budget and Management and Internal Audit staff.
- Commissioner Mingo responded that the Audit Committee wanted to ensure that the risk levels are appropriate for the audits that are chosen. Commissioner Mingo added that this would be important so that everyone was on the same page, i.e., Deputy Directors, External staff, and Internal Audit staff.
- Commissioner Mingo stated that there may be varying opinions while going through the Risk Analysis process in regards to what the level of risk should be, how the level of risk should be defined and who makes that final determination. However, collaboration with internal and external clients would be important as there have been times during previous the Audit Committee meetings that the Audit Committee Members had to redefine the risk level on some issues.
- Commissioner Mingo stated that at that time it was an opportunity for the Audit Committee members to discuss with Senior Management what their concrete definition was for what constituted a high, medium or low-risk issue. Commissioner Mingo stated that Senior Management who were present shared with them that they felt that they would be part of the resolution.
- Cindy Klatt, Executive Director, Office of Budget and Management, noted that on the Annual Audit Report it stated that four audits were completed. However, two of those audits were completed by the Office of Budget and Management (OBM). Ms. Klatt stated that this information might be a little misleading to the reader.
- Ms. Klatt added that her office performed a Quality Assurance audit on OLC Office of Internal Audit and last year's Quality Assurance Review the audit completion rate was mentioned as part of their report.
- Ms. Klatt stated that they will continue to have conversations on how OLC Internal Audit can improve

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their completion rate.

- Chairman Whalen asked whether there were additional comments. There were none.

EXECUTIVE SESSION

- Chairman Whalen stated that, “At this time I would like to move to go into Executive Session to consider security and infrastructure records, required to be kept confidential by the Ohio Revised Code sections 149.433, and to consider preliminary reports of Internal Audit of the Office of Budget and Management (OBM), required to be kept confidential by Ohio Revised Code 126.48.”
- Chairman Whalen asked for a motion to move into Executive Session. Commissioner McAleer made a motion and it was seconded by Commissioner Mingo. Ms. Reeves took a roll call vote, and all Audit Committee Members present, affirmatively voted. The motion for passed 3-0.
- The Audit Committee moved into Executive Session at 10:25 a.m.
- The Audit Committee moved out of Executive Session at 10:53 a.m.

OPEN SESSION: INTERNAL AUDIT REPORT REVIEW

- Chairman Whalen asked Assistant Director Sean Webster to provide the Audit Committee a status update on the open issues.
- AD Webster provided the Audit Committee a high-level summary on the progress they have made. AD Webster stated that they have created a one-page worksheet to identify contracts such as the RFPs and the SOC reports. This checklist included dates of when the items were due.
- AD Webster stated that they would collaborate with both Finance and IT departments to work on the gathering of information to add to the checklist.
- AD Webster stated that at July’s Audit Committee meeting he mentioned that he anticipated closing between eight to twelve issues. Currently, they have closed five issues. AD Webster stated that there are three to four issues that are close to being resolved. These issues are currently being reviewed by the Internal Audit team to ensure that what was said would be implemented.
- AD Webster stated that currently, Mr. Volpi was working with Human Resources to resolve the issues pertaining to the Employee Reimbursement audit. . AD Webster added that there was also a Finance issue that he wanted to have resolved by December’s Audit Committee meeting.
- AD Webster stated that, within the last couple weeks, the Finance Department has had a reduction in staff, which has impacted resolving a couple of issues.
- AD Webster stated there were a couple of IT-related issues that should be resolved by October 2019. AD Webster stated that there were a couple of issues that they thought they could remediate, however, when they sent their responses to IA staff, the response was that they needed more evidence, therefore, the issues would remain open.
- AD Webster stated that they would review the information that IA would look for and he hoped to have the issues rectified by December’s meeting.
- AD Webster stated that he would be focusing on Confidential Personal Information (CPI) and will work with Legal, Finance and Contract Compliance departments to redefine their processes.
- AD Webster stated that currently he would be involved with the Request for Proposal (RFP) process.
- Chairman Whalen asked whether he had any general concerns.

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- AD Webster responded that in working with certain departments he wanted to ensure that those departments are receptive to Internal Audit findings and that they take the findings seriously.
- This concluded AD Webster report.
- AD Nicole Kostura reported that one of her departments had a finding related to the Retailer Winning audit and that they had met with her, the Auditor, the Deputy Director of Internal Audit, the Deputy Director of Finance, and the Deputy Director of Sales, to discuss solutions to resolve the issues.
- AD Kostura stated that the Auditor explained some of her concerns. AD Kostura stated that her department provided some documentation to help resolve some of the issues. AD Kostura that stated currently she was waiting to hear back from the Auditor.
- AD Kostura stated that some of the issues would be resolved once Intralot released games.
- AD Kostura stated that her goal would be to resolve those issues by the next Audit Committee meeting.
- This completed AD Kostura's report.
- Chairman Whalen asked whether there were any questions. There were none.

OFFICE OF BUDGET MANAGEMENT UPDATES

- Cindy Klatt, Chief Audit Executive, Office of Internal Audit, Office of Budget and Management, stated her office had completed the License and Bonding audit for Q3 and would provide the final report in the coming weeks. Ms. Klatt stated that their next assigned audit was the Marcus Thomas Advertising Contract for Q4.
- Ms. Klatt stated that it was mentioned that Internal Audit wanted to purchase software relating to Data Analytics and that her department had planned on providing consulting services for that purchase. Ms. Klatt stated that she has someone on her staff who could write coding if Internal Audit decided to purchase the software.
- Chairman Whalen asked to add Data Analytic software as an agenda item for December's meeting to discuss how the software would increase the number of audits performed. *Note: there was a discussion on Computed Aided Audit Tools (CAAT) software at the June's Audit Committee Meeting.*
- Ms. Klatt stated that they would also perform their yearly Quality Assurance Review and that Kelly Salomone, OBM, Internal Audit Section Chief, had previously performed this audit for OLC.
- Ms. Klatt stated that Ms. Salomone would begin requesting information in January 2020. Ms. Klatt stated that they would request administrative documents such as training certifications for staff, updated department policies, and procedures, and would randomly select an audit or two.
- Commissioner McAleer asked when they were planning to start the Marcus Thomas audit and what would be the scope? Ms. Klatt stated that they would review the controls around the contract. Ms. Klatt stated that there may be other areas of interest, but presently, they have planned to focus on reviewing the controls.
- Mr. Volpi added that Marcus Thomas was a huge component being that they have a lot of OLCs data. He asked whether OBM would review the IT controls and their system development process.
- Ms. Klatt stated that at this point she was not sure if that was former Deputy Director Wilson's original plan. Mr. Volpi stated that this would be a huge risk area and added that Intralot handled the Lottery gaming system and Marcus Thomas handled myLottery rewards.
- Mr. Volpi explained that the Lottery's IT department was responsible for timesheet applications,

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information systems, and so forth. He stated that we distribute a lot of our data to third party vendors, which related back to Contract Compliance and CPI.

- Mr. Volpi stated that, in his opinion, this would be a high-risk area, and suggested that OBM review the Marcus Thomas contract in terms of data classification and security.
- Chairman Whalen stated that he agreed with Mr. Volpi and that they have been working to improve the front end of contracts before they are executed. Chairman Whalen stated that he hoped that OBM could assist us with better preparation of processes around contract management and to identify triggers such as vendor liability, vendor data security, and so forth, so that we would have that information to provide to the Director, regarding how to address the ongoing contract oversight.
- Chairman Whalen stated that he appreciated any insight related to Vendor Management. Ms. Klatt stated that, as they move closer to preparing for the audit, they would reach out to Deputy Director Beyer to discuss the high-risk concerns.
- Commissioner Mingo asked how did OBM identify the Marcus Thomas contract as an area to audit? Ms. Klatt stated that former Deputy Director Wilson performed a Risk Assessment Analysis, which included feedback from the Internal Auditors and the Deputy Directors, and this subject was categorized as a high-risk of concern. Ms. Klatt stated that was the reason why they were asked to perform the audit.
- Commissioner Mingo asked if OBM provided recommendations regarding various aspects of the contract or if they base their decision on the information that was provided from the Deputy Director of Internal Audit. Commissioner Mingo clarified her questions as it related to the scope of OBMs review.
- Ms. Klatt stated that they engaged OLC personnel as part of their review. In addition, her staff carbon copied (cc) their report to include the Deputy Director of Internal Audit, the Executive Director and the Commissioners, so that they could review and respond with additional questions.
- Ms. Klatt stated that they would cc the ADs on the reports moving forward.
- For clarification purposes, AD Kostura asked why the document she received noted that OBM would be auditing the Marcus Thomas Advertising contract, but Mr. Volpi mentioned a different aspect of the Marcus Thomas contract involving MyLottery rewards. AD Kostura asked which Marcus Thomas audit would be on OBMs plan.
- Ms. Brown responded that it would be the Marcus Thomas Advertising audit.
Chairman Whalen responded stating that Mr. Volpi's comments were broad in nature and that he believed OBMs scope for the audit was appropriate. Chairman Whalen stated that he would like OBM to continue to audit the subject matter.
- Chairman Whalen stated that he would like to discuss the broader portion of the Vendor Management topic as more of a consultant engagement, versus an audit, on how we could assure that we have the right policies (measures) in place around the subject matter.
- Chairman Whalen thanked OBM for their clarification. Chairman Whalen stated that he did not want to disrupt their current plan to audit Marcus Thomas Advertising and they are requesting at a different time for a consultant engagement on Vendor Management.
- Ms. Klatt stated that this concluded her report.
- Chairman Whalen asked whether the ADs and/or the Audit Committee members have any additional questions. There were none.

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NEW BUSINESS

- Chairman Whalen asked whether the Audit Committee had any feedback regarding the new structure of the Audit Committee meeting.
- AD Webster stated that he appreciated the new structure and that he has been learning a lot from the meetings. He added that he was learning more from the Deputy Directors and about their department process.
- AD Webster asked whether their updates were enough, and if they would like more detail specifically relating to opened issue items.
- Chairman Whalen responded that that measure would be based on the number of questions that the Audit Committee asked. Otherwise, their updates were good.
- Commissioner Mc Aleer agreed with Chairman Whalen and stated that Deputy Director Beyer, AD Webster and AD Kostura were new to their roles.
- Commissioner Mingo added that having new leadership at the table with a different perspective helped them to keep areas that they would not think of in the forefront of their minds, including those that they may not have been privy to or are not as knowledgeable about. Commissioner Mingo stated that she appreciated their updates.
- Chairman Whalen Chairman stated that he liked this new format as it is more conversational.
- Chairman Whalen stated that Deputy Director Beyer and the ADs could share the background information which could be stressful as they each must funnel the information to a single point to provide to the Audit Committee.
- AD Kostura added that this format has been helpful for her in her new role and that she, along with AD Webster and Deputy Director Beyer, have regular meetings to provide each other status updates on the issues.
- AD Kostura stated that she had a couple of departments that are currently going through the audit process. AD Kostura stated that knowing the findings allowed her and her team to work collaboratively with Internal Audit to rectify the issues in a timely matter.
- AD Webster added that he also felt that they would be able to rectify the issues in a more timely fashion as he met with Deputy Director Beyer and the Chief Legal Counsel regarding an issue he felt belonged to another department. AD Webster stated that the collaboration had been helpful as it got everyone on the same page.
- Commissioner McAleer stated that the Audit Committee has had experiences similar to the one mentioned, where an issue was placed under one department, but it was revealed that it belonged to another. Commissioner McAleer stated that that would be where the ADs come in, to make the decision of where the issue stemmed from and how to rectify it.
- Chairman Whalen agreed and stated that this would be where the ADs would drive accountability of the managers.
- Chairman Whalen asked Deputy Director Beyer and the Auditors what their thoughts were on the new format. Deputy Director Beyer stated that he liked the small setting and the conversation was helpful.
- Mr. Volpi stated that the ADs goal was be to strive for more collaboration and accountability, and thus far,

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they have been achieving that goal.

- Ms. Klatt stated that she liked the smaller setting, and that in previous meetings, people would get defensive when it came to the topic of their department. Ms. Klatt stated that she liked that AD Webster had been direct and thus far had performed a decent job in overseeing his areas.
- Chairman Whalen stated that this was valuable feedback and that they would continue with the new format.
- Chairman Whalen stated that the next Audit Committee meeting would be scheduled for Wednesday, December 11, 2019, and they have noted a few agenda items that they would review prior to December's meeting.

ADJOURNMENT

- Chairman Whalen called for adjournment of the meeting at 11:11 a.m.

Prepared by:



Carla Reeves, OLC IA Administrative Professional

Approved by:



Sean Whalen, OLC Audit Committee Chairman