



**MINUTES OF THE MEETING OF  
THE OHIO LOTTERY COMMISSION AUDIT COMMITTEE**

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

**June 18, 2018  
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  
Dennis Berg, Executive Director, OLC  
Charles LoPresti, Chief Legal Counsel, OLC  
Kaili Rasmussen, Intern, OLC  
T.J. Hunt, Intern, OLC  
Greg Bowers, Deputy Director of Finance, OLC  
Cindy Klatt, Chief Audit Executive, Office of Internal Audit, OBM  
Kelly Salomone, Internal Audit Section Chief, Office of Internal Audit, OBM  
James Brown, IT Manager, OLC  
Maureen Hall, Interim Deputy Director, Information Technology, OLC  
Michael Sliwinski, Assistant Legal Counsel, OLC  
John O'Donnell, Deputy Director of Security, OLC  
Diane Nagorny, Office of Internal Audit, OLC  
Carla Reeves, Office of Internal Audit, OLC  
Jane Parker, Office of Internal Audit, OLC  
Jennifer Wilson, Deputy Director of Internal Audit, OLC  
Nicole Kostura, Deputy Director of Government and Community Relations, OLC  
Donald Owens, Representative, Schneider Downs

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 2

## **CALL TO ORDER**

- The Ohio Lottery Commission (“OLC”) Audit Committee Meeting of June 18, 2018, was called to order at 10:04 a.m. at the Frank J. Lausche Building, Room 205, by Chairman Sean Whalen.

## **APPROVAL OF MINUTES OF JUNE 18, 2018**

- Chairman Whalen asked the Audit Committee members whether there were any questions regarding the March 2018 meeting minutes. There were no questions at that time. Chairman Whalen asked for a motion to approve the minutes. Commissioner McAleer motioned to approve the meeting minutes, which was seconded by Commissioner Mingo. A roll call vote was taken by Ms. Reeves, and all Audit Committee members present affirmatively voted on the motion.

## **CHAIRMAN’S COMMENTS**

- Chairman Whalen stated that the meeting’s agenda was a full one, so his comments would be brief. Chairman Whalen stated that he and the Audit Committee members were eager to hear the results of the peer review. Chairman Whalen stated that they had been anticipating that moment ever since they received the approval of the Request for Proposal (RFP). Chairman Whalen thanked Donald Owens, Representative, Schneider Downs for his attendance.
- Chairman Whalen stated that in addition to the peer review presentation, the Audit Committee members had several governance documents to approve. Chairman Whalen stated that the Audit Committee members would get through the audit committee agenda items as time permitted.
- Chairman Whalen stated that the top agenda priorities were: Peer review presentation and approval of FY 19 governance documents.
- Chairman Whalen asked whether there were any questions. There were no questions.
- Chairman Whalen directed the meeting to Donald Owens, Representative, Schneider Downs.

## **PEER REVIEW PRESENTATION**

- Mr. Owens provided the Audit Committee members with a brief introduction of his background. Mr. Owens stated that he managed the Risk Advisory department at Schneider Downs, that their primary office was in Pittsburgh, PA, and their sister office was in Columbus, OH. Mr. Owens stated that he worked in the Columbus office.
- Mr. Owens stated that one of the services provided was an External Quality Assessment Review (QAR). Mr. Owens provided a brief overview stating that when an Internal Audit department aspires to comply with the Institute of Internal Audit (IIA) Standards, the governing body for Internal Audit professionals, every five years the internal audit function would continue to be reviewed to ensure ongoing compliance.
- Mr. Owens stated that from his understanding this was OLC’s first peer review. Mr. Owens stated that they worked closely with Jennifer Wilson, Deputy Director, Internal Audit and requested a significant amount of documentation such as policies, procedures, copies of work papers and so forth. Mr. Owens stated that they reviewed all documentation that was provided. Mr. Owens stated that this was not an audit, but more of a consulting type of facilitated effort to work with Internal Audit to access their

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 3

practices and to ensure that they were in line with the IIA Standards, while identifying other areas that could be enhanced by any other best practices.

- Mr. Owens directed the Audit Committee to page 1 of the QAR report. Mr. Owens stated that IIA Standards directed this review. Mr. Owens explained that Internal Audit's mission statement came from the IIA Standards, which reads "*To enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.*" Mr. Owens stated that they looked for evidence of this philosophy and for the Core Principles of the Professional Practice of Internal Audit.
- Mr. Owens stated that these core principles were listed in the QAR report. Mr. Owens stated that each and every one of these principles was critical to Internal Audit being effective, efficient and by adding value.
- Mr. Owens stated that the report did not exactly indicate where Internal Audit measured as it related to the Core Principles. Mr. Owens stated that during this assessment his team looked collectively at the whole body of the Internal Audit Department's work. Mr. Owens stated that Schneider Downs concluded that OLC Internal Audit met the mission of IIA and that Internal Audit demonstrated all ten of the Core Principles.
- Mr. Owens stated that as part of their review, they conducted multiple comprehensive interviews and surveys. Mr. Owens stated that they were looking for insight into what the organization believed to be Internal Audit's value, such as their proficiency, professionalism, and so forth, within the course of an annual audit year.
- Mr. Owens stated that they sought total transparency and confidentiality while conducting the surveys and interviews.

Mr. Owens stated that for the purpose of this meeting he provided an Executive report. Mr. Owens stated that he provided Ms. Wilson with a more specific, detailed commentary report that she could review and follow-up as appropriate.

- Mr. Owens directed the Audit Committee to page 2 of the report. Mr. Owens stated that this information was a high-level review of the background structure of the OLC's Internal Audit Department, which is comprised of Jennifer Wilson, Deputy Director, Internal Audit and three Internal Auditors with significant support from Cindy Klatt, Chief Executive Auditor, from the Office of Budget Management.
- Ms. Owens stated that they looked at the appropriateness of the audit coverage. Mr. Owens stated that the guide for the OLCs Internal Audit plan was the Annual Risk Assessment. Mr. Owens stated that they wanted to know the most critical high-risk areas that were being looked at.
- Mr. Owens provided the Audit Committee with a brief explanation of inherent risk, or pure risk, that resides in any activity, department or function. Mr. Owens stated that financial reporting was an example of an area with high inherent risk. Mr. Owens explained that one would want to ensure that the books were correct and that the information received had high integrity, was accurate and complete. Mr. Owens explained that when one looked at the controls, checks, and balances that these items were part of financial reporting, i.e., reconciliation, segregation of duties, and so forth.
- Mr. Owens stated that during their review they tend to focus more on inherent risk. Mr. Owens stated that they wanted to know that Internal Audit was focused on those areas that required significant controls in order to manage the risks effectively. Mr. Owens stated that when they looked at Ms.

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 4

Wilson's risk assessment they looked at the high inherent risks and how she has tailored the audit plan to address the same.

- Mr. Owens stated that during the QAR process, they identified eight individuals they wanted to interview face to face, which included Audit Committee members and Executive and Senior management.
- Mr. Owens stated that they also conducted surveys with other individuals. Mr. Owens explained that surveys were effective, but one could get a lot more specific content with face to face interviews, because individuals were more open and were willing to expand upon what they wanted to convey as opposed to filling out a survey.
- Mr. Owens stated that there were questions, which required those surveyed to click boxes to answer. However, they did provide an open comment field in the survey. Mr. Owens stated the combination of the two provided them with a good view of the overall function of Internal Audit and how it was perceived by the organization.
- Mr. Owens stated that the primary driver was Ms. Wilson's risk assessment, and how the information collected determined the audit plan. Mr. Owens stated that he would explain the various areas that they focused on as it related to the risk assessment and the audit plan. However, this would be discussed further in the report.
- Chairman Whalen asked whether, during the peer review process, Mr. Owens had access to the materials and/or people that were needed to perform the assessment effectively. Mr. Owens replied, yes, and that they were not inhibited in any way. Mr. Owens stated that Ms. Wilson provided his team with all the documentation that they needed, everyone was accommodating with his or her schedules, and his staff appreciated the honesty at the table. Mr. Owens stated that all the information that they expected to collect they received.
- Mr. Owens stated that, in Schneider Downs' opinion, the Internal Audit Department generally conformed to the expectations of the IIA Standards.
- Mr. Owens explained that there were three categories: Generally Conforms, Partially Conforms and Does Not Conform. Mr. Owens stated that there were a couple of Standards with which Internal Audit did not Generally Conform, but they did Partially Conform. Mr. Owens added that just because one or two Standards fell into the Partially Conforms category, did not default the entire opinion into a Partially Conforms category.
- Mr. Owens explained that they took the opinion of the entire body of work, the intent, the proficiency, the objectivity, the independence, and competency of the Internal Audit function. Mr. Owens stated that one strike did not automatically move someone down a rating. Mr. Owens stated that one could get one strike in a certain area and that could move the rating based on criticality, but in this case it did not.
- Mr. Owens stated that they found evidence that the Internal Audit department conformed to the IIA Standards, and that they applied a risk-based approach with Internal Audit's efforts having all high marks.
- Chairman Whalen stated that the committee had two objectives in engaging this process. The first objective was to understand the quality of work that was being performed and the second objective was to identify areas that could be improved.

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 5

- Chairman Whalen stated that from the Audit Committee perspective, they were very pleased to hear that Internal Audit conformed to the Standards. Chairman Whalen also stated that he had the opportunity to review the report and wanted to discuss some of the observations where improvement was identified.
- Chairman Whalen stated that the peer review was a great exercise and the opinions that were rendered were helpful to affirm to the Audit Committee that all the work and effort that had been undertaken over the last several years had placed the committee in a good position. Chairman Whalen stated that he looked forward to the opportunity for improvement.
- Mr. Owens stated that they broke the observations down into three categories: (1) Successful Internal Audit Practices; (2) Gaps with Respect to Conformance with Standards and/or the Code of Ethics; and (3) Opportunity for Continuous Improvement which was beyond what the Standards stated.
- Mr. Owens stated that from an Internal Audit practice standpoint, Ms. Wilson's commitment to the Department, her passion for Internal Audit, her conviction to do the right thing and the value she placed in the organization was apparent throughout the peer review process. Mr. Owens stated that Ms. Wilson was engaged and provided all the required documentation. Mr. Owens stated that he felt that Ms. Wilson's expertise and professionalism was very impressive. He added that Ms. Wilson's desire to move the organization and the Internal Audit Department forward, as opposed to just working with the tools she had in hand. Ms. Wilson was looking toward bigger and better things.
- Mr. Owens stated that he wanted to acknowledge that in the report.
- Mr. Owens stated that Ms. Wilson had well-designed practices in place that aligned with the Standards and/or Code of Ethics. Mr. Owens stated that the Charters and the Policy and Procedures manual was a great foundation. Mr. Owens stated that there was always room for improvement for any department and/or function, but there was a very strong alignment to Internal Audit's purpose.
- Mr. Owens stated that there were effective and efficiency type matters, which they did not mention nor spell out as leading edge. Mr. Owens stated that these matters were expected to be in place. Mr. Owens stated that just doing it right did not get added to the report. Mr. Owens stated that from their observation the Internal Audit department did a lot of things right.
- Mr. Owens moved on to (2) Gaps with Respect to Conformance with the Standards and/or the Code of Ethics. Mr. Owens referred the committee to page 6 of the report.
- Mr. Owens stated that Ms. Wilson and Ms. Klatt both had like comments regarding *Standard 1100-Independence and Objectivity* because the Internal Audit function was mandated by the Legislature and structured based on the reporting lines. Mr. Owens stated that strictly speaking the Internal Audit function did not meet the criteria for independence and objectivity. Mr. Owens stated that he was not proposing that a lobbyist go down and try to flip the legislature or tighten it up. Mr. Owens stated that he was just pointing this out by the fact that objectivity and independence in Internal Audit tended to be impaired because of the reporting line structure.
- Mr. Owens stated that from a structural position Ms. Wilson reported to the Executive Director and to the Audit Committee.
- Mr. Owens stated that in the Internal Audit Department they would like to see, the Chief Internal Auditor reporting straight to the Audit Committee with a dotted line of reporting to the Executive Director.
- Mr. Owens stated that he was not sure if that was correctable in the confines of the legislature.

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 6

- Commissioner McAleer stated that they had a conversation about this in the past regarding the structure and the challenges that come with it. Commissioner McAleer stated that he agreed that this was not as easy to change, but this was a subject for discussion with the Executive Director. Commissioner McAleer stated that he thought that the Executive Director understood from their standpoint that it was a fine line of ensuring Ms. Wilson had independence, but also reported directly to the Audit Committee. Commissioner McAleer again agreed that this was a challenge that had been talked about within the last couple of years.
- Executive Director Berg stated that there also had been a discussion of bringing others onto the Audit Committee. Executive Director Berg stated that there was some concern regarding whether these individuals had to work for the organization, and if not, what liability was associated with being on the board. Executive Director Berg stated that he had spoken to the former Chief Legal Counsel about these issues in the past.
- Mr. Owens stated that the Audit Committee should have a bigger role in the Chief Internal Auditor's compensation, performance evaluation, and so forth and be fully engaged in that. However, at the end of the day, this would ultimately be Executive Director Berg's responsibility under the Code. Mr. Owens stated that he would have liked for the Audit Committee to be proactive in those duties and to be more involved; that would be a move forward without a requirement of any type of legislation change.
- Commissioner McAleer asked Mr. Owens whether he had come across this type of situation in prior consultant roles?
- Mr. Owens stated that he had encountered this type of situation even in the public sector. Mr. Owens stated that he had seen a Chief Internal Auditor that reported to the Chief Financial Officer (CFO). Mr. Owens stated that a lot of times you would find that type of structure in private companies that are not publicly traded, so they reported to the CFO and potentially to the President, but reporting to the CFO was challenging because again one audits so much under the CFO.
- Mr. Owens stated that again the recommendation was to incorporate more independence and objectivity into the process. Mr. Owens stated that the issue was how critical Internal Audit will be under the parties that they report directly to, as opposed to having a direct report outside of the group they audit.
- Commissioner Mingo asked whether he had seen, in looking outside the private sector, a structure in which staff or colleagues provided feedback on how to balance the structure? Mr. Owens stated that in the private sector they had what one would call a "management committee," which would be composed of in-house Legal Counsel, the CFO, CEO, and maybe the principal owner of the organization. So yes, it was common.
- Mr. Owens stated that the structure was a dotted line that tended to report under the CFO. Mr. Owens stated that in the current reporting structure, Executive Director Berg would be the preferred direct report, as opposed to the Audit Committee.
- Mr. Owens directed the Audit Committee back to page 6. Mr. Owens explained that in *Standard 1110 Organizational Independence* if they would have found evidence that in Ms. Wilson's role she had been influenced by the Lottery Commission, then the X would have been moved to Does Not Conform. However, all evidence that they reviewed verified that there was no evidence that Ms. Wilson was directed nor manipulated by any management.

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 7

- Mr. Owens moved on to *Standard 1130 Impairment to Independence or Objectivity*. He stated that this was a typo and that Internal Audit ‘Generally Conforms’. Mr. Owens stated that he would re-issue the report to correct this.
- Mr. Owens moved on to *Standard 2010 Planning* that required the Chief Internal Auditor to review the audit plan as necessary in response to changes in the organization’s risk, operations program, etc. Mr. Owens stated that what they primarily identified was that Ms. Wilson goes through the risk assessment once until the next fiscal year. Mr. Owens stated that could be a factor in lack of resources which he stated he would comment on later in the report.
- Mr. Owens stated that as situations may occur in the organization that may require attention, hopefully management speaks up and presents these issues in the managers’ meetings stating that an issue(s) has occurred that required our attention. At that point, Internal Audit could assist with offering support.
- Mr. Owens stated that they did not see any touches on the risk assessment during the year nor the audit plan. Mr. Owens stated that he knew that the Audit Committee was aware that in the audit plan that there are hours that exceeded their ability to complete, so the high-risk areas were a priority, and the moderate risk areas are on the plan, and Mr. Owens stated that he was not sure if low-risk areas were even on the plan. Mr. Owens stated that they tended to get reassessed year after year.
- Chief Legal Counsel LoPresti, referring back to *Standard 1100*, asked whether Mr. Owens would move the X from PC (Partially Conforms) to GC (Generally Conforms)? Mr. Owens stated he would not, because *Standard 1110 Organizational Independence*, was the primary category of the four categories and it was based on a weighted average.
- Mr. Owens stated that he thought this was consistent with Office of Budget and Management’s (OBM) report. Ms. Klatt agreed.
- Chief Legal Counsel LoPresti asked whether there was any hope of ever moving *Standard 1100* from Partially Conforms to Generally Conforms. Mr. Owens stated that it depended on how one defined the Audit Committee’s abilities as they related to the overall management, oversight and involvement in performance review and compensation of the Chief Auditor.
- Mr. Owens stated that they looked at the situation in light of OLC and OBM involvement with the parties holding those positions, and they had no concern over independence, but rather how the reporting line was set up.
- Ms. Klatt responded that the OBM and OLC situation was a little different. Mr. Owens stated that because of the current structure of the Lottery Commission, he could not move Partially Conforms to Generally Conforms. Mr. Owens stated that he did not know how OLC could achieve this change. Mr. Owens stated he was unsure if there was any wiggle room in the law to allow for amplified Audit Committee authority.
- Mr. Owens directed the Audit Committee back to page 7 of the peer review report. Mr. Owens stated that anything that was listed in *Standard 2010 Planning*. Although the OLC received a Partially Conforms, it was based on management’s flexibility, department size, and bandwidth. Mr. Owens stated that he would explain in more detail in another portion of the report.
- Commissioner McAleer stated that he would like to discuss the comment on the report category *Planning* regarding the annual risk assessment. Commissioner McAleer stated he would like to know Mr. Owens’ recommendation regarding reviewing the risk assessment on a quarterly basis.



# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 8

- Mr. Owens stated that part of the equation was taking this to Senior Management meetings to discuss the situation that had occurred within the organization, and whether or not the situation impacted the risk assessment rating and to formalize the process. This would carry over to notes to include on the risk assessment to make it more of a living document as opposed to an annual one and done.
- Chairman Whalen asked who should own the risk assessment process? Mr. Owens responded that Internal Audit should be conducting the risk assessment process from an enterprise risk management perspective. Mr. Owens stated the typically there was a second line defense where parties are doing an assessment across the organization, which has not been the case at the Lottery Commission.
- Mr. Owens responded that one could incorporate in, but that would be a budgetary approach to risk management, which was not preferred or promoted. If this approach were to be used, then one would have to ensure that those duties were kept separate. Mr. Owens posed the question of who then would have access to the Chief Auditor if that person was wearing the risk management hat? Mr. Owens stated that there are a lot of workarounds that get thrown into the equation.
- Mr. Owens stated that when you are a small Internal Audit office, everything tends to get thrown into that department. Then the question becomes how could you distinguish your duties? Mr. Owens stated that the Internal Audit Department was the third line of defense; objective and independent.
- Chairman Whalen stated that he wanted to understand how these findings affected the Internal Audit Department from a planning resource point of view. Mr. Owens stated that because both the risk management and internal audit functions are combined in the same office, this created a significant risk.
- Mr. Owens moved on to *Standard 2110 Governance* and commented that Internal Audit activities' must assess and make appropriate recommendations to improve the organization's governance. Mr. Owens stated that there had been a lot of conversation pertaining to strategy and strategic initiatives of the Lottery Commission, and Internal Audit's involvement in formalizing the same. Mr. Owens stated that this was a work in process.
- Mr. Owens stated he knew that Ms. Wilson requested those types of materials and he believed that a draft strategic plan was present, but it was not linked to the Audit Plan. Mr. Owens stated that executive management and Internal Audit were ensuring that what the strategic incentives were part of a major platform and that Internal Audit was aware of the risks at the front end/pre-implementation phase, along with, from post-implementation.
- Mr. Owens stated that these were the type of matters noted in this section of the report.
- Mr. Owens moved onto *Standard 2030 Resource Management*. Mr. Owens stated that this area created a significant concern. He stated that when his team looked at the risk assessment plan and the auditable areas, it appeared that it would take significant time to audit each and every area. Mr. Owens stated that Ms. Wilson's analysis was over a ten-year term, which he concluded was within reason. Mr. Owens stated that one of the issues was the Audit Committee's and Management's stance on risk appetite. Because Ms. Wilson could not control, nor could she add resources, he believed that Management had to be comfortable that the audit coverage was appropriate for concluding the overall effectiveness of the internal control environment. Mr. Owens stated that controls not only must come from the internal control environment, but also from the managers and the underlying staff. Mr. Owens stated that Management should have a perspective on what was going on beneath them.



# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 9

- Mr. Owens stated that a lot of the audits rolled on from year to year and a lot of them did not get addressed from a high-level limited scope standpoint. Mr. Owens stated that with a staff of three, supplemented by the Office and Budget Management (OBM) and also the Auditor of State (AOS), this collective coverage makes one step back and analyze whether or not we are getting the appropriate coverage.
- Mr. Owens stated that based on the QAR, the risk assessment, and the audit plan, his staff has concluded that we do not have the appropriate coverage. Mr. Owens stated that Resource Management was an area that specifically needed to be addressed.
- Mr. Owens stated that another matter that needed to be addressed, was that two of the three OLC staff members likely would be retiring within the next five years. Mr. Owens stated that before all the organizational knowledge walks out the door, there should be a plan to address the knowledge management, transfer and the process of onboarding new hires, orientation, and shadowing people.
- Commissioner McAleer asked how much Resource Management played into the organizational factor in terms of Partially Conforms versus Generally Conforms? Mr. Owens replied that Resource Management determined the planning. Mr. Owens stated that if you are limited on resources then what you do from a planning perspective drives how one addresses the audit plan based on the hours available.
- Mr. Owens stated when one is limited then one gets selective in where to place resources.
- Commissioner McAleer asked whether Mr. Owens had any recommendations, based on the size of this organization, on where the staffing level should be? Mr. Owens stated that that was a tough question. Mr. Owens posed the question of whether the audit department lacked resources? He replied, "Yes." Mr. Owens stated that the driver was in the comprehensive risk assessment in identifying the critical areas and in other areas that you want to look at, whether it be every other year or every third year, which do not have to be on that type of schedule. The risk assessment drives the staff numbers along with the competencies needed to perform the work.
- Mr. Owens stated that currently, OLC gets assistance from Office of Budget Management (OBM) and the Auditor of State (AOS), but again it was not as nearly effective in accomplishing the audit plan in its entirety.
- Chairman Whalen stated that in addition, they are not involved in the strategic planning process. Chairman Whalen stated that there are things that they don't even know about that could be in development that have not been addressed because there has not been that level of front-end engagement in the strategic planning as identified in the peer report. Chairman Whalen stated that this created additional burdens on staff to be able to assess from a business consultant perspective to understand what was happening and to determine whether or not there was room for improvement. He added that there was also a lack of an on-going assessment throughout the year. Chairman Whalen stated that we are relying on the annual risk assessment in terms of whether we are covering those areas. Chairman Whalen stated that we do have to address the topic of Resource Management from a resource perspective.
- Commissioner McAleer agreed, adding that Ms. Wilson did a great job in at least managing the high-risk areas, and the Audit Committee tries to make those areas their top priority. Commissioner McAleer stated that he gets a little concerned because one could make a resource management argument regarding all of the OLC departments, and he would like one or two recommendations on how to obtain

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 10

more staff auditors. Commissioner McAleer stated that the Audit Committee could speak with the Executive Director regarding their concerns along with recommendations from the peer report.

- Commissioner McAleer again stated they do a really good job of addressing the high-risk areas. Commissioner McAleer stated to Mr. Owens point regarding planning and maintenance of the risk assessment plan, that there was another level that needed to be addressed.
- Commissioner Mingo added that addressing the Resource Management need would assist in getting us to address the moderate risk areas, as well as getting us to ask how these areas should be addressed. Commissioner Mingo stated that although our priorities are the high-risk areas, the moderate risk areas are also important, and often times we don't address them based on the lack of resources.
- Executive Director Dennis Berg stated that the bigger picture was based on the structure of the Lottery and the budget, in light of the legislative process. Executive Director Berg stated that they have to back into certain numbers, which required cutting and pasting in prior biennials. Executive Director Berg stated that all departments are struggling, and when you look at the audits performed and associated comments, it was proven that most departments do not have the resources or time to implement all desired policies.
- Executive Director Berg stated that this goes beyond Internal Audit. He added that he did not have a solution for this problem, but it remains a problem. Executive Director Berg stated that if you look at this organization, and compare us to a Fortune 500 company, we rank about 160<sup>th</sup> in profits with 375 employees, which he found to be phenomenal. Executive Director Berg stated that we do not produce goods and services like other companies do, however, we still do a lot.
- Executive Director Berg referenced the previous budget cycle to remind the Committee that we were mandated by legislation to increase our profits by at least \$44 million. He added that the Lottery was also given a list of other initiatives, which did not provide for the hiring of additional staff.
- Executive Director Berg stated that we have been doing our best and we should certainly always assess whether the Internal Audit department has enough staff; adding that we likely would never have enough staff.
- Chairman Whalen stated that it was our role, as an Audit Committee, to not back into anything but to take the objective viewpoint of what would it will take to accomplish this task and at what level. He added that he hoped to have that spectrum of resources to be able to say, "In a perfect world we would like 10 people." He acknowledged that we know that will not happen. Chairman Whalen would like to be able to answer the questions, "What if you had x number of staff, and then as an organization, how can we be comfortable enough to accomplish reasonably those things that can get done and that cannot get done?"
- Chairman Whalen stated that he wanted to ensure that they bring facts to the table especially for this particular subject matter. Chairman Whalen stated that the one thing that the Lottery was good at, which could either be a good thing or bad, was having incredibly talented senior management. Chairman Whalen stated, regarding the senior staff at the Lottery, that they knew so much about the business that they could manage and make assumptions that if you were not unreasonable about something then at the end of the day we were doing well.
- Chairman Whalen stated that if we were low on resources, and if everyone decided to get new jobs, and brand-new people came in, we would not have the same reliance on his or her expertise especially when

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 11

it comes to Executive Director Berg, being that he is a long-tenured individual who was very knowledgeable with the business. Chairman Whalen stated that Executive Director Berg could assess what needs to be done and get it done.

- Chairman Whalen stated from Executive Director Berg's perspective if he decided to do something different other than working at the Lottery, then Chairman Whalen would be very concerned from an Internal Audit perspective. Chairman Whalen stated that Executive Director Berg was a valuable resource to the organization.
- Chairman Whalen stated that he wanted to ensure that the Audit Committee was thinking about three to five years from now to be able to continue. Chairman Whalen stated that he thought it was the unstated benefit of the organization on how talented the senior staff was. Chairman Whalen stated that then it trickled down to situations like this where we were managing with just three people in Internal Audit with a Fortune 500 company, if you call it that, maybe it was the hope that we were able to get by with.
- Chairman Whalen stated that this was a statement from his perspective, but at the end of the day, from an Audit Committee standpoint, was to acknowledge and assess what was the true need to meet *Standard 2030*, and according to Mr. Owens' QAR, the Lottery did not meet this Standard from a resource management standpoint.
- Chairman Whalen asked Mr. Owens what would it take to change Partially Conforms to Generally Conforms for the Internal Audit Department, and what would that mean for Executive Director Berg from a planning resource allocation perspective?
- Mr. Owens stated that it was typically driven through the Audit Committee, and the one thing that could be done was to take the prior two years audit plans and look at what was accomplished, what was deferred, and what was reduced. Mr. Owens stated that this process would give someone a good snapshot of audits from a critical scope. Mr. Owens asked, from Executive Director Berg's perspective, who defined the size of an audit? Mr. Owens stated that that was where a risk assessment would be able to drill down to specific risks when planning each audit. Mr. Owens stated that you could give someone 1,000 hours to work on reconciling bank statements and a person would work the hours that they were given. Mr. Owens stated that one should be practical on what was assigned and be efficient in the use of that time.
- Mr. Owens directed the Audit Committee to *Standard 2200 Engagement Planning*, and there was a lot of discussion around this Standard. Mr. Owens noted, "that OIA is unable to collaborate with management on the specific audit risks during the planning (audits) process because management is not familiar with the organization's risk due to the lack of an entity-wide risk assessment process or program."
- Mr. Owens stated that IA went through a risk assessment process with management, and then they arrived at their risk assessment. That risk assessment drove the audits and the audit scope, but then when the auditor goes back to perform the audit and/or scope, there tended to be some disconnect/agreement on the areas that were being looked at and were those areas really high-risk.
- Mr. Owens stated that this got back to looking at inherent risk versus residual risk. Mr. Owens stated if there was a level of separation, a risk assessment program that was performed independently of Internal Audit, to work with management then there would be a meeting of the minds.

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 12

- Mr. Owens stated that when one looked at the risk assessment performed by management and then the one performed by Internal Audit and then both parties could collaborate on how to move forward with the planning of the audits. Mr. Owens stated, in this case, they went through the risk assessment, they concluded and generally, the planning was launched through email correspondence, and there tended to be a disconnect.
- Mr. Owens stated that he was not saying that the enterprise-wide risk program could be created or placed on the side of management. Mr. Owens stated that it would allow better connectivity between what Internal Audit was proposing to do and what management believed they should be focusing on.
- Commissioner Mingo asked did one see that this could be incorporated or addressed with the strategic plan? Commissioner Mingo stated, that way we could streamline that process of prioritization.
- Mr. Owens stated that when you say to incorporate into a strategic plan for developing the risk management program...?
- Commissioner Mingo stated that she referred back to some of the discussions that they had in the Audit Committee where they were looking at risk and the level of risk, and they really tried to make a determination collectively on what is high- risk versus an audit that may not be high risk but ensured that we were aligning those lines of thought in trying to balance the level of time that the Office of Internal Audit had to execute audits versus that high-level assessment a priority because the audit department had a maximum number of hours. Commissioner Mingo asked whether there was any thought on how to get to the top of the pyramid with working with the limitation of staff and hours. Just knowing that every department was working extra hard based on limited resources with high expectations.
- Mr. Owens stated one approach would be to implement a risk assessment leader to prepare a risk assessment independent of Internal Audit and that Internal Audit could assess. Mr. Owens stated that Internal Audit would go and meet with management individually to discuss their risk assessment. Mr. Owens stated this method would certainly identify large gaps in what management might perceive as high-risk compared to what Internal Audit perceived as high-risk. Mr. Owens stated that one wants collaboration and agreement at the end of the day. Mr. Owens stated this could be the approach to getting the connectivity. Mr. Owens stated that overall *Standard 2200* Generally Conforms even with some concern.
- Mr. Owens moved on to resources, budget and where time was invested. Mr. Owens stated that there were very outdated issues from the perspective of Internal Audit. Mr. Owens stated that in the current structure this concern went back to the independent reporting lines. Mr. Owens stated that Ms. Wilson reported the issues to the Audit Committee, but the way it was structured it was the honor system for management and where they were going to invest time and prioritize. Mr. Owens stated that management should look at what was the watchdog so that issues did not remain unaddressed for an inordinate period of time.
- Mr. Owens stated that currently there was no authoritative structure in place. Mr. Owens stated that one's priority was not necessarily the priority of another. Mr. Owens stated that he was not saying one was right or wrong. Mr. Owens stated that the high-risk issues that were outstanding were matters that required immediate attention. Mr. Owens stated again there was a pattern of issues remaining open for an extended amount of time. Mr. Owens stated that he believed everything that they have discussed from

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 13

a resource management perspective played a role in this situation. Mr. Owens stated that at some point was there an action plan? Or did it remain as is?

- Chairman Whalen stated that the Audit Committee struggled with this subject matter. Chairman Whalen stated that one of the approaches that they, as a committee have taken, was to continue to strive to meet the objectives knowing there were resources utilizing the input of the managers as to why issues have not been resolved, to develop a game plan that was achievable within a reasonable timeframe so that they could accomplish the issues.
- Chairman Whalen stated that when Mr. Owens mentioned “the authoritative opportunity to manage those issues that go beyond the deadline date” that from the Audit Committee perspective, they might not have been successful in this area to have the ability to be stern on those things have gone way beyond the reasonable standard for the delay.
- Chairman Whalen stated that he was interested in knowing how to be more effective. Chairman Whalen stated that we attend the Audit Committee meetings, we have discussions, and then we walk away.
- Chairman Whalen stated that we had expectations for dates and deadlines, ninety days later we came back to the Audit Committee meeting, and we discuss the same issues, and the Audit Committee got a new story. Chairman Whalen stated that the new story sets a new date and deadline then we went for another ninety days. Chairman Whalen asked how would that ever stop and what was the way that we solve for this to say ok we are done you get no more ninety days? Chairman Whalen stated that we had never gotten to that point, but he could see a couple items that were outstanding that could certainly get there. Chairman Whalen stated that yes, it was a touchy subject, but he would like to discuss.
- Mr. Owens stated again it is about the accountability, responsibility and the general authorities by law. Mr. Owens stated in the corporate world whether it be the Audit Committee or Senior Management group a lot of times naturally there are compensation matters, performance matters that get rolled into why aren't these issues being addressed? Mr. Owens stated that the organization as it stands, he did not know what may have been delayed that should not have been that may have been addressed more timely, but at this point, Mr. Owens stated the way the structure was, it had competing priorities.
- Mr. Owens stated as an Audit Committee you do not carry that authoritative step to say that we want this cleared by next meeting. Chairman Whalen stated that there was a pattern of behavior and that he was continuing to see lack of attention on recommendations. Then it comes back to the Audit Committee as not having the authority to force the issue so that it could be addressed. Chairman Whalen stated from the Audit Committee perspective we want to better understand at one point do we raise our hand and say “enough”; the pattern of behavior has gotten to the point where it was unacceptable, and we are going to pursue what we need to from an authoritative perspective to ensure that these issues get addressed.
- Chairman Whalen stated that the Audit Committee's current approach and going forward was always to be as collaborative as possible to get to the objective. Chairman Whalen stated that he did not want this to be an opportunity to “kick the can down the road” for another ninety days after ninety days. Chairman Whalen stated that this was something for the Audit Committee to keep an eye on moving forward.
- Mr. Owens guided the Audit Committee back to the chart located on page 6 of the peer review report. Mr. Owens stated from a monitoring perspective Ms. Wilson was doing everything within her power to monitor, track, and communicate with management and the Audit Committee.
- Mr. Owens asked whether there were any questions on the chart? There were none.

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 14

- Mr. Owens moved onto page 5, (3) *Opportunities for Continuous Improvement*. Mr. Owens stated that *Standard 2060 Reporting to Senior Management and the Board* they felt the Chief Executive Auditor should consider metrics for monitoring and reporting audit progress such as planned hours versus actual hours and so forth. Mr. Owens stated that they advised Ms. Wilson that there might be other types of metrics that would demonstrate the best use of resources for the Internal Audit department. Mr. Owens stated that they provided examples of this in the detailed report.
- Chairman Whalen stated it would be great to read the examples. Mr. Owens stated that for *Standard 2330 Documentation* the information they mainly looked for enhanced documentation; more detail, and more specifics in the work papers. Mr. Owens stated that could apply the reperformance standard and go into the work papers and look at the end result and conclusions. Mr. Owens stated that a number of times it was not a direct connection but they saw a commentary that work was performed but it was not specifically noted in the work papers to be able to say “I can concur with that conclusion“, or tying the step back to the risk and saying “that was properly addressed”. Mr. Owens stated that they were looking for a little more specification in the work papers and documentation. Mr. Owens stated that it was a matter of coaching/ training.
- Mr. Owens stated that the risk management program and practices could facilitate in identifying the scope and risk so when Internal Audit comes in then everyone was on the same page. Mostly in agreement with what was being covered.
- This concluded Mr. Owens report. Chairman Whalen opened the floor to any questions. There were none.
- Chairman Whalen stated that they appreciate the comments and they were looking for that guidance for improvement and the Audit Committee will look at the areas of improvement and will speak with Executive Director Berg for the assistance of what could we do with the resources that we have.
- Chairman Whalen stated that Internal Audit had made incredible progress in the last four years in some of the efforts working with the Audit Committee and Senior management clearing out some of the past due audit issues. Chairman Whalen stated that the last time the Audit Committee met they saw a tremendous amount of past due issues that had fallen off the list. Chairman Whalen stated that this was positive traction in the reporting. Chairman Whalen stated that the Aging Accountability Report (AAR) has helped in identifying which issues required more attention.
- Chairman Whalen stated that he is very proud of what has been accomplished and he was very appreciative of the information provided. Chairman Whalen stated that collectively as an organization we should also be very happy with the generally conforms outcome keeping in perspective how important this was having a third party evaluate us and say generally speaking you are doing the right thing.
- Chairman Whalen stated that the Audit Committee would take the opportunities for improvements and work on them. Chairman Whalen thanked Mr. Owens for his time.
- Chairman moved onto the approval of the governance documents. Chairman Whalen stated the governance documents were included in everyone's packets. Chairman Whalen opened the floor for any questions regarding the current governance documents which included: The Internal Audit policy, the Audit Committee Charter, the Internal Audit Charter and the Annual Audit Plan.

- Chairman Whalen stated, hearing no questions, he would group the four governance documents together into one request for approval by the Audit Committee. Chairman Whalen asked whether there was a motion to do so? Commissioner Mingo made such a motion and Commissioner Mc Aleer seconded the motion. A roll call vote was taken by Ms. Reeves, and all Audit Committee members present affirmatively voted on the motion.
- Chairman Whalen directed the meeting to Jennifer Wilson, Deputy Director of Internal Audit.

### **DEPUTY DIRECTOR OF INTERNAL AUDIT REPORT**

- Ms. Wilson stated that as reported the last two years, one of our key performance indicators is the percentage of recommendations that management agreed to take action on to remediate. Ms. Wilson stated that in looking at the data, it occurred to her that this Key Performance Indicator (KPI) could be reported in two different ways:
- Ms. Wilson stated that the first way was from the management response perspective: 100% of all audit reports with recommendations issued, management has agreed with both the issue and recommendation and has responded in a manner that sets out to remediate the issue. Ms. Wilson stated that we had not finalized a report where management's response has been , "Management Accepts the Risk" (of not remediating.)
- Ms. Wilson stated that the second way was that, in practice, management's implementation of their responses were not 100%. Ms. Wilson stated that when management did not fully implement according to their response and then requests that Internal Audit close the issue, IA determines if the action they have taken at least lessens the risk, determines whether management intends to act further, and if not, IA closes the issue citing Management Accepts the Risk of what remained.
- Ms. Wilson stated that from that perspective, this KPI is 92%. She stated that this was not intended as a criticism of management, management had the right to determine the amount of risk it was willing to accept. Ms. Wilson stated that it gets complicated though when issues remain open for extended periods of time. It was difficult for IA to determine whether management was accepting the risk of not implementing or was it something else, i.e., lack of resources (people, time, or money), or was their intention not to implement at all? Ms. Wilson stated in those cases, she had to rely on responses from management.
- Ms. Wilson moved on to staff updates. Ms. Wilson stated that all staff exceeded the required 40-hour continuing education units for the fiscal year. Ms. Wilson stated that the four IA staff, which includes herself, have five certifications in various disciplines: Two are certified in Information Systems Auditing, one was a Certified Fraud Examiner, one Certified Internal Auditor, and one was certified in Risk Management Assurance. Ms. Wilson stated that, combined, IA staff has approximately 90 years of audit experience.
- Ms. Wilson moved on to the fiscal year 2019 audit plan. Ms. Wilson stated that the audit universe for the fiscal year 2019 contains approximately 58,800 hours of audit work; 45% of those hours are rated low risk, 40% medium risk and 15% are rated high risk. Ms. Wilson stated that the estimated number of hours in the high-risk range total approximately 8,400 hours. Ms. Wilson stated that her staff could cover a little less than 4,400 hours per year. Ms. Wilson stated that for this audit plan, decisions were



# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 16

made in consideration of open audit issues and that there were several circumstances where longstanding open issues precluded conducting another audit in the same area.

- Ms. Wilson stated that considering IA's goal of 80% completion, she planned for 5,700 hours for OLC IA work (or about 10% of the audit universe); 23% more work than available hours. Ms. Wilson stated that Office of Budget and Management (OBM) planned to assist us with an additional 1,300 hours.
- Ms. Wilson moved on to the dashboard. Ms. Wilson stated that we finished the fiscal year 2018 with a 60% OLC audit plan completion rate, short of our goal of 80%. Ms. Wilson stated that it looks like 50% were completed but for the one labeled as reporting, a post-audit had been scheduled for this month. Ms. Wilson stated that for the entire plan (which included OBM and other external auditors), we achieved a 69% completion rate.
- Ms. Wilson stated that there was a combination of reasons for not reaching their goal. Ms. Wilson stated that she thought that in some cases the estimated amount of time to complete was underestimated; she also thought that there was some improvement needed on her side as being more timely in reviewing work papers and providing feedback to the auditors in a more on-going fashion. Ms. Wilson stated that she thought some of the gaps and opportunities for improvement from the Schneider Downs report could help her with managing the area better.
- Commissioner McAleer asked whether in terms of underestimating hours was it due to one or more audits? Ms. Wilson stated that it was a guess. Ms. Wilson stated that she might determine the hours too soon before they really know what was involved in the audit, case in point, the Employee Reimbursement audit. Ms. Wilson stated that the data that was available to Internal Audit was difficult to get in a way that was helpful for the auditor to draw conclusions. Ms. Wilson stated that the majority of the issue was that she probably estimated the number of hours too soon.
- Commissioner Mingo asked whether she thought that this accounted for the 50% outcome versus the goal of 80%... just the time that goes into each of the audits planned? Ms. Wilson stated that she thought that it was a factor but she thought that probably the larger factor was Ms. Wilson's involvement in a more ongoing way. Ms. Wilson stated that she had a couple of long-standing auditors that know what they were doing. Ms. Wilson stated that she felt they didn't need her ongoing review. Ms. Wilson stated that by the time they were at the end of the reporting stage, she reads it and states that yes, it all makes sense and she sees where the auditor was coming from. Ms. Wilson stated that if sometimes she became more involved in the process then her and auditor could make better decisions on time budgets.
- Commissioner McAleer asked Ms. Wilson based on the number of hours how many more hours would she need to reach her 80% goal. Ms. Wilson stated that she did not have that number. Ms. Wilson stated that their milestones were based on dates and would have to calculate the number of hours with the milestone dates. Commissioner McAleer stated that would be helpful based on the discussion of resources.
- Ms. Wilson stated that the second bar chart indicated that the open issues on the chart represented 19 different audits. Ms. Wilson stated that there were 41 open issues, 4 less than last quarter, and 16 less than last year at this time. Ms. Wilson stated that there would be an additional nine issues from the report about to be issued later this month. Ms. Wilson stated that if all are accepted, this will raise the number to 50.
- Ms. Wilson stated that the average age of open issues slightly exceeds 400 days; with the oldest being slightly over 1,200 days, or over 3 years.

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 17

- Ms. Wilson stated that she did not have any specific comments on the last 3 charts which break down the data into years, department, and the risk levels but she would be glad to address any comments or questions.
- Commissioner McAleer stated that the average number of days open were a little less from where it was previously, correct? Ms. Wilson stated yes, that when the BCP audit was open the average number of days was a little over 500 days old.
- Ms. Wilson moved onto the quarterly status report. Ms. Wilson stated that this was also the year-end status report. Ms. Wilson stated that she had nothing to add and that the pie chart on the dashboard was a summation of the status provided here. Ms. Wilson stated that some information was noting changes in risk and various rationale for why an audit wasn't conducted, etc. Ms. Wilson stated that if there were questions or comments she would address them.
- Chairman Whalen asked whether there were any questions. There were none.

## **OPEN SESSION: INTERNAL AUDIT REPORT REVIEW**

- Ms. Wilson stated that we were now in the Open session of our agenda. Ms. Wilson stated the first item was the **Contract Compliance Audit**. Ms. Wilson noted that Greg Bowers, Deputy Director, Finance was present to speak on the topic.
- Mr. Bowers stated that the revised policy was shared with Legal back in March. Mr. Bowers stated that Legal opined on the policy and that there were some differences that Chief Legal Counsel commented on.
- Mr. Bowers stated that he received the policy with comments last week and they were still working on the document. Chairman Whalen asked whether these comments pertained to definitions or job-related duties? Chairman Whalen asked what were the some of the differences between the two versions of the policy?
- Mr. Bowers stated that the differences did not pertain to the definitions but more on the job duty related items mostly with the process. Chairman Whalen asked was it more of who owns the job between the two departments? Mr. Bowers stated that not from the perspective of who owns it but he thought that Legal wanted Finance to have a defined process embedded into the policy. Mr. Bowers stated that he did not agree, but they were not too far off from Legal's recommendation.
- Chief Legal Counsel LoPresti stated that Mr. Bowers delivered a policy and he completely re-wrote it and added several questions in the comments stating that he (Chief Legal Counsel LoPresti) needed more information. He also stated that the policy stated that it included a list of guidelines but the guidelines were not included. Chief Legal Counsel LoPresti stated again that he completely rewrote the policy and emailed the policy back to Finance and they responded with the same responses similar to the first policy. Chief Legal Counsel LoPresti stated that 90% of his changes were not incorporated, and in addition, none of his questions were answered.
- Chief Legal Counsel LoPresti stated that he went back and adopted all of his suggestions and stated to Finance that this was what he thought the policy needed to look like. Chief Legal Counsel LoPresti stated he then posed a different set of questions to Finance to get the process going. Chief Legal Counsel LoPresti stated that there seemed to be a little more agreement, however, he did not want to provide the Audit Committee with limited information just to receive feedback from the Audit Committee saying that this was not what they were looking for.

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 18

- Chief Legal Counsel LoPresti stated that he would share with the Audit Committee of where the policy is currently and share with them where it needs to be. Chief Legal Counsel LoPresti stated that there needed to be more clarity from Contract Compliance perspective as far as who was doing what, who was starting the process, and what were the criteria.
- Mr. Bowers stated that this was his policy and he felt that the type of contract and the definition of each type of contract, whether it was major or non-major, needed to be defined within the Contract Compliance policy itself. Mr. Bowers stated that the policy read that if it was a major contract it was to be determined by Finance and to be re-evaluated twice a year. Mr. Bowers stated that the definition, type and the process itself would be documented in other documents such as the framework or guidelines.
- Chairman Whalen stated that there was a Finance definition and then there was a Legal definition of how the policy should have been written. Chairman Whalen asked Ms. Wilson whether she had the opportunity to assess each department's point of view? Ms. Wilson stated that she received both versions of the Contract Compliance policy. Ms. Wilson stated that Mr. Bowers scheduled a meeting with her and Legal. However, the meeting was canceled. Ms. Wilson stated she did not have the opportunity to speak on any of her observations.
- Mr. Bowers stated that he did not agree with Chief Legal Counsel LoPresti that there was 90% of his changes not incorporated. Mr. Bowers stated that there were comments, but no major comments and that they differed on a couple of comments.
- Ms. Wilson stated if the meeting had occurred between her, Legal and Finance she was going to say she felt the emphasis should not be on getting the performance evaluation procedure in place. She believed we were putting the cart before the horse, because there was another major document i.e., guidelines, that was not fully developed yet. They were focusing on developing a small piece of the document. Ms. Wilson stated that in her opinion she felt like it was being approached backward.
- Ms. Wilson stated that one should see what this looked like holistically, then one could focus on the pieces.
- Chairman Whalen asked Ms. Wilson when she stated "looking at the holistical view is she referring to the general policy?" Ms. Wilson stated yes, the question was how are we managing contracts? How are we managing vendors? Mr. Bowers stated that to him there was more of a framework at that point. Ms. Wilson stated correct and this was what she was looking for before she would look at how we were going to perform evaluations of our vendors. Ms. Wilson stated that she felt like it was kind of backward.
- Mr. Bowers stated that they have that framework and Finance shared it with Executive Director Berg and some senior staff members in previous times. Mr. Bowers stated that it was still a work in progress; however, they have worked and developed the policy over the years. Mr. Bowers stated the current policy just speaks to the evaluations only.
- Chairman Whalen asked whether or not the finding was that there was no performance evaluation policy? Ms. Wilson responded, yes, and then they acknowledged at the previous Audit Committee meeting that this finding has gotten bigger through conversation and through Audit Committee meetings, which have now created a life of its own.
- Ms. Wilson stated that she realized that we did not have a formalized structure, i.e., Who was doing what? What was the role of Contract Compliance Manager? Where was the repository of contracts?

# OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

Page 19

- Chairman Whalen asked how long we have been working on this issue? Ms. Wilson stated that this was the 1,200 day issue; the oldest issue on the AAR.
- Chairman Whalen asked what was so difficult about creating the policy? Chairman Whalen stated that he did not understand why establishing a framework and building policy was difficult. Chairman Whalen asked whether we were dealing with a resource issue. Did we not have clear definitions of roles and responsibilities of the parties involved in the process that need to be sorted out? Was it the lack of opportunity to focus on the issue at hand? Chairman Whalen stated the 1,200 days was a long time to get a policy in place. Chairman Whalen stated if the business processes were there then it sounded like the business process needed to be improved that may be adding people or changing role definitions then this would become a different aspect of the issue.
- Chairman Whalen stated if we were not able to, in 1,200 days, to express how the policy worked then he felt like there was a disconnect on our priority.
- Mr. Bowers stated there was no buy-in from every member of senior staff on the Contract Compliance and Procurement functions; they still do things on their own. Mr. Bowers stated that contract managers still contact Legal when the contract was due instead of contacting Finance.
- Chairman Whalen directed this question to Executive Director Berg: Who owns the ability to decide the way the organization should administer contracts authoritatively? Chairman Whalen asked Executive Director Berg whether has he given Finance the authority to do this or has he asked both Legal and Finance to work together on this issue?
- Executive Director Berg stated that historically no one could go to any policy and state what was a major or non-major contract. Executive Director Berg stated there was no question that Legal had played a major role pertaining to the major contracts. However, Finance did play a role as well. Executive Director Berg stated he wanted to be clear that we were not out of control. He stated that if you look on paper it may appear that we have no process, but that was not 100% true.
- Chairman Whalen stated from the Audit Committee perspective, this has taken 1,200 days to tell us that we could not write the policy. Chairman Whalen stated that he was not suggesting that we were out of control, all they were asking for was the opportunity to understand visually on how the organization wanted to achieve this so that this could be assessed and worked forward.
- Mr. Bowers provided the committee an example that we are not out of control, further stating that we have nine contracts due and only two are outstanding.
- Chairman Whalen stated that the question was not whether or not you are out of control. Chairman Whalen asked why has it taken 1,200 days to write a policy dictating who was responsible for A, B, C and so forth?
- Mr. Bowers stated that they had several meetings with the former Chief Legal Counsel and there was some agreement on roles and responsibilities. Mr. Bowers stated that when current Chief Legal Counsel LoPresti got promoted to his new role, they both sat down to discuss their vision for the process of Contract Compliance. Mr. Bowers stated that they did agree on most ideas of how they wanted to see the process work. Mr. Bowers stated that the policy was the only piece that has had some delay.
- Chairman Whalen stated that if it was just the policy, why were we still where we are? Chairman Whalen asked what it was about the policy that could not get accomplished? Mr. Bowers stated that they

shared the policy with Legal back in March and they just received the policy back last week. Mr. Bowers stated that yes there were some differences and Finance and Legal were working them out.

- Executive Director Berg stated that he would intervene to ensure the policy gets completed.
- Chairman Whalen stated that he appreciated Executive Director Berg's offer to step up. Chairman Whalen stated that 1,200 days was a long time for this particular type of issue. Chairman Whalen stated that he appreciated the opportunity to resolve this issue.
- Ms. Wilson moved on to the next two issues **IG Report** and **Fraud Monitoring**. Ms. Wilson stated that Jack O'Donnell was present to speak on these issues and that both issues pertained to Mr. O'Donnell's need for IT assistance to create reports that will help him monitor fraud. Ms. Wilson stated that as of today he had not received those reports.
- Ms. Wilson directed the meeting to Maureen Hall, Interim Deputy Director of IT. Ms. Hall stated that this issue was not Mr. O'Donnell's fault. The original program that Security wanted was called an online scanned history report that we currently do for instant games. Ms. Hall stated it would take 270 man hours to program this report, and with everything going on with the gaming system this may not happen any time soon. Ms. Hall stated they do have an online game summary report that we currently have and this will provide Mr. O'Donnell almost all of the information that he would need and they could modify if need be. However, Ms. Hall stated that the information was not reliable. Ms. Hall stated that they placed the information in the April release, but it broke down. Ms. Hall stated that she could run a report one day, but the next day she could not. Ms. Hall stated that the plan was to have this issue fixed by September, as this was when the Photons go live. Ms. Hall stated that she could not provide Mr. O'Donnell exactly what he wanted, but she could provide him a report as close as possible.
- Chairman Whalen asked Ms. Wilson whether or not she had a chance to review the report? Ms. Wilson replied, no.
- Chairman Whalen asked that Mr. O'Donnell and Ms. Hall present their updates at the September's Audit Committee.

### **EXECUTIVE SESSION**

- Chairman Whalen stated, "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 section 149.433."
- Chairman Whalen asked whether there was a motion to move into Executive Session? Commissioner McAleer made such a motion and Commissioner Mingo second the motion. A roll call vote was taken by Ms. Reeves, and all Audit Committee members present affirmatively voted on the motion.
- The Audit Committee moved into Executive Session at 11:41 a.m.
- The Audit Committee moved out of Executive Session at 11:46 a.m.

### **OPEN SESSION: OFFICE OF BUDGET AND MANAGEMENT (OBM) UPDATE:**

- Chairman Whalen directed the meeting to Cindy Klatt, Chief Audit Executive, Office of Budget and Management. Ms. Klatt introduced Kelly Salomone as the new Chief of Quality Assurance. Ms. Klatt stated that Amy Radebaugh used to perform this job function and she has moved on to working for the Auditor of State.

OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

June 18, 2018

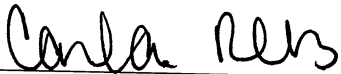
Page 21

- Ms. Klatt stated that Ms. Salomone took over Ms. Radebaugh position and Ms. Klatt was very happy that Ms. Salomone was on her team. Ms. Klatt stated that Ms. Salomone would be performing the Annual Quality Assurance review and Ms. Brown will continue to manage the audits.
- Ms. Klatt stated in addition to the annual Quality Assurance review, OBM will be working on Withheld Taxes for Prizes and the Incident Management engagement. Ms. Klatt stated if there were hours remaining they will assist with another of Internal Audit's projects.
- Chairman Whalen asked whether there were any questions. Ms. Wilson noted that the end of July she will have an Annual Report for the Audit Committee's review.

**ADJOURNMENT**

- Chairman Whalen called for adjournment of the meeting at 11:48 a.m.

Prepared by:



Carla Reeves, OLC IA Administrative Professional

Approved by:



Sean Whalen, OLC Audit Committee Chairman