



OHIO LOTTERY COMMISSION
Audit Committee Meeting Minutes

Monday, June 15, 2015, 10:00 A.M. – 12:00 P.M.

In attendance:

Audit Committee Chairperson Ohio Lottery Commissioner Sean Whalen	Audit Committee member Ohio Lottery Commissioner Angela Mingo	Audit Committee member Ohio Lottery Commissioner William Morgan
Cindy Klatt (OBM) Chief Audit Executive Office of Internal Audit	Dennis Berg Executive Director Ohio Lottery	Venugopal Pallerla (OBM) IT Audit Chief Office of Internal Audit
Larry Miltner Chief Legal Counsel Ohio Lottery	Mike Petro Deputy Director, IT Ohio Lottery	Jennifer Wilson Deputy Director, IA Ohio Lottery
Diane Nagorny EDP Internal Auditor Ohio Lottery	Joseph Volpi EDP Internal Auditor Ohio Lottery	John Jones IT Internal Auditor Ohio Lottery
	Kristen Calabrese Office of IT Ohio Lottery	

Call to Order

Chairperson Sean Whalen called to order the June 15, 2015, Ohio Lottery Audit Committee Meeting at 10:04 am.

Approval of Minutes

Chairperson signaled for a motion to approve minutes from the March 16, 2015, Ohio Lottery Audit Committee meeting, as no concerns were raised by committee members. Commissioner Angela Mingo motioned and Whalen seconded said motion. Both members voted yea, formally approving the March minutes, as presented in full to the committee.

Chairperson Whalen's Comments

Chairperson emphasized the importance of reviewing essential internal audit documents, authorizing both the charter and plan, customized for fiscal year 2016-17. Whalen anticipates a meaningful review each year, simultaneously closing the current fiscal year, ushering in planned auditing for the next four quarters. [Note: auditing plan forecasts may be subject to modifications due to new developments]. The committee reviewed the following listed documents:

- *The Ohio Lottery Commission Office of Internal Audit Policy Manual, June 2015, Version 1.0*
- *The Ohio Lottery Commission Audit Committee Charter FY 2016-17*
- *The Ohio Lottery Commission Internal Audit Charter FY 2016-17*
- *The Ohio Lottery Commission Internal Audit Plan FY 2016-17*

Factoring in insights from Executive Director Dennis Berg, Whalen established that a multi-pronged review will address any material changes, as well. It will also take into account the valued feedback of committee members. Jennifer Wilson, Deputy Director, Office of Internal Audit prefaced the discussion by explaining the order of documents in meeting materials is reflective of a progression from high-level information to documents containing more specificity.

Review/Approval - Office of Internal Audit Policy Manual:

The Ohio Lottery Commission Office of Internal Audit Policy Manual, June 2015, Version 1.0, enclosed in meeting materials was the first document discussed. Whalen solicited Cindy Klatt's feedback, as Chief Audit Executive for the Office of Internal Audit, OBM. Klatt indicated OBM representatives reviewed the draft version of the policy, during Joe Bell's tenure with OBM. OBM provided feedback to Wilson at that time. Whalen queried attendees for their thoughts -- Director Berg and the committee had no additional remarks. Thus, Whalen requested a motion to approve the current policy for the upcoming fiscal year. Commissioner Mingo motioned to approve. Whalen seconded said motion and two yeas were put forth, approving the policy manual for FY 2016.

Wilson pointed out if there are no modifications made to the IIA Standard during the annual review period, then it will be reviewed every other year. If no changes in policy are documented, Chairperson would like to issue a report to the committee noting policy stands as presented one year prior with appropriate notation in meeting minutes. Wilson explained how versioning is represented. Changes to references are represented after the decimal point - .1, for illustration. Significant changes to the standards are represented in the number preceding the decimal point – 1.0 or 2.0. Whalen inquired if this policy was aligned with best practices. Klatt verified OBM handles policy approvals in the same manner – no alterations in the policy manual permits an automatic resumption of the policy moving into the next fiscal year. Commissioner Mingo felt this practice was consistent and an appropriate protocol to follow.

Review/Approval – Audit Committee Charter: -
Advisory Panel/

During review of the *Audit Committee Charter, FY 2016-17*, Chairperson introduced the matter of creating and using an advisory panel. This panel would augment the expertise of the internal audit committee. Whalen summarized there are three members of the committee presently; two members make up a quorum. There are three voting members and there is no resource presently for non-voting member(s). Consulting OBM representatives, Whalen requested Klatt expound on industry standards and categorize the employment of an advisory panel, as a common resource or rarely-used supplement. In anticipation of the upcoming fiscal year, Whalen sought to better understand industry practices. The committee may consider creating an advisory panel to oversee areas or specialties not covered by members' expertise. Chairperson felt it was a suitable time to discuss such a panel, as members transitioned into FY 2016.

[Commissioner Bill Morgan joined the meeting at 10:13 am.]

Klatt responded OIA OBM does not have an advisory panel, as they instituted a five-member state audit committee with decisions representing an amalgamation of perspectives. One year prior, Klatt introduced the topic of a panel, as a viable option, understanding the issue of payment versus non-payment was not settled. Klatt explained the state audit committee members are not compensated. Director followed-up to ask how these advisory panel members are recruited by OIA OBM. In the case of state audit committee members, Klatt explained OIA OBM reviews resumes and backgrounds of potential state audit members and offers advice, as to who would be a valuable contributor. The Ohio House and Senate reaches a formal decision, ultimately selecting the candidate based upon qualifications.

Unlike the state audit committee selection process, Klatt is not familiar with the mechanics of forming an advisory panel. Incorporating advisors with auditing and technical experience would be valuable per Klatt. As a helpful suggestion, Klatt had previously mentioned the name of a former state audit committee member from the Cleveland area, who could potentially be of service to the Ohio Lottery Audit Committee. This former member was interested in serving and was not accustomed to receiving compensation for this work. Klatt is supportive of the Ohio Lottery Audit Committee creating an advisory panel.

Venugopal Pallerla, IT Audit Chief, OIA OBM broke down his understanding of an advisory panel: the audit committee invites the advisor to participate in a committee meeting and offer his knowledge and expertise on a specific matter before the committee. Whalen responded with his understanding of the advisory panel function: it introduces a subject-matter expert in a particular area. It is an option open to the committee to bridge existing gaps in knowledge. As Chairperson described, it becomes an extension of the audit committee in a non-voting sense. The individual would possess knowledge and experience, necessary and different from current members, as described by Whalen. Pallerla contrasted this configuration to the state audit committee. The state audit committee ensures each member has a distinct area of specialized knowledge – I.T., CPI, etc. A wide-spectrum of knowledge is drawn upon through the regular discourse of the committee. Joseph Volpi, EDP Internal Auditor, stated this is an industry-driven practice. For instance, when working in the field of construction in the midst of a construction boom, a contract-management expert would be called upon to lend knowledge.

Larry Miltner, Chief Legal Counsel, Ohio Lottery delineated the selection process for Ohio Lottery Commissioners per statute. Ohio Lottery Commissioners are appointed by the Governor with the advice and consent of the Ohio Senate. The commission may have nine-members, only. If an individual was invited to serve on the advisory panel, this individual would not serve in the capacity of an Ohio Lottery Commissioner. The advisor does not assume the same status as a commissioner. Miltner has experience with situations in which an individual has been brought in to assist a board. In these cases, the individual is offering advice without the same immunity of the commissioners and employees. Miltner stated the standard legal practice is to have the advisor acknowledge in writing he does not have the same protections that the board or commissioners have by virtue of statute. Once this written acknowledgement is on file, the individual may provide advice to the particular body in the specified area of expertise.

Chairperson Whalen cast this issue as dependent upon members' confidence in the progress made by the Internal Audit group; their ability to satisfactorily meet the committee's expectations and committee members may not recognize a performance issue pertaining to subject-matter outside individual areas of expertise. Due to the criticality of this topic, Whalen plans to lead a discussion at the September 21 2015 audit committee meeting, mapping out what direction he would like to take. In the interim, Whalen would like to discuss creating an advisory panel with both Commissioner Mingo and Commissioner Morgan in anticipation of the next meeting.

Whalen queried Wilson to learn of any significant changes to the *Audit Committee Charter, FY 2016-17*. Wilson explained there have been no edits made to the draft submitted at the March 16, 2015 meeting, which contained changes in red at that time. Chairperson addressed Klatt to determine if she would like to offer her thoughts about the charter, including any issues she has identified. Klatt offered no additional thoughts. Whalen asked members for their questions pertaining to the charter document. Neither raised queries. In light of the committee's review and results of the discussion, Chairperson Whalen requested a motion to approve the *Audit Committee Charter, FY 2016-17*. Commissioner Mingo motioned to approve and all members said yeah, approving the audit charter for the next fiscal year.

Review/Approval – Internal Audit Charter:

Whalen directed participants to consider the next approval document, *The Ohio Lottery Commission Internal Audit Charter, FY 2015-16*. As Chairperson had not noted any items when reviewing this document, he inquired if Wilson would like to make comments for benefit of the committee. As stated earlier, Wilson informed members she had provided red mark-ups in the draft document enclosed in March 16, 2015 meeting materials. These red highlights represented modifications necessary to align the charter with internal audit standards. Once again, following the March meeting, no additional modifications were necessary. Whalen addressed Klatt for feedback, whether positive or negative. Klatt stated she had no questions. Commissioners Mingo and Morgan did not pose any questions. Chairperson then asked for a motion to approve. Commissioner Morgan so moved and Commissioner Mingo seconded said motion. All members voted yeah, approving *The Ohio Lottery Commission Internal Audit Charter, FY 2015-16*.

Review/Approval – Internal Audit Plan:

In review of *The Ohio Lottery Commission Internal Audit Plan, FY 2016-17*, Chairperson studied *Appendix A, Internal Audit Department Hours and Allocations Fiscal Year 2016*. In sum, Whalen surmised forty-five hundred (4500) hours will be devoted to auditing, separate from non-auditing work periods. Wilson confirmed this understanding as accurate. Chairperson probed to learn if Wilson felt comfortable with 4500 hours for audits. The complexities involved in auditing led Wilson to explain this is a difficult determination to make; audit scope and findings are twin drivers in determining the length of the audit. Findings may change the audit path and lengthen the time devoted to the audit, significantly. Wilson analyzed the total number of audits for FY 2015, twenty-seven (27) as too high. This served as Wilson's benchmark for the next year's audit plan. By conjoining audits when feasible, the total number was reduced to twenty (20) audits. Wilson felt comfortable with twenty (20) audits for FY 2016.

Consulting Engagements/

Consulting engagements were a component of the FY 2015 plan. Consulting engagements absorb a considerable amount of auditors' time, as established by Wilson. Relieving auditors of the task of performing follow-up to recommendations has facilitated progress in completing audits. Wilson reported to the committee she is now completing the follow-ups to ascertain if audit recommendations were acted upon. Chairperson Whalen expressed his interest in learning if consulting engagements will be occurring with more, less or equal frequency, as compared with historical auditing practices at the Ohio Lottery. Again, Wilson responded this is a challenging question because employees seek out the internal audit staff to garner assistance for example, with procedure development; business process analysis and related risk-assessment. Wilson expressed favorable sentiment that three consulting engagements were incorporated into the FY2016-17 audit plan, to-date. Wilson characterized the consulting engagement as a positive first step to mitigate risk discovered during later audits. Wilson was not certain the number of consulting engagements would necessarily increase. Whalen put forth his support for consulting engagements, as an effective way for the audit team to become involved early in the process.

Evolution of the Ohio Lottery Internal Audit Department/

Chairperson Whalen addressed Executive Director Berg to learn if senior managers and office deputy directors were aware it is possible to initiate a consulting engagement with internal audit at the outset of a project or new policy initiative. Although Director Berg has not broadcast this to his senior management, he assured Whalen he will communicate this service is always available, as he is solidly behind the committee's efforts to add value to the organization. Referencing *Appendix A, Internal Audit Department Hours and Allocations Fiscal Year 2016*, Executive Director Berg shared with committee members how he understands the challenge of formulating an audit plan and estimating associated audit hours.

Director was able to recognize the hours and allocations table, as quite similar to the spreadsheet he created at the time he started the internal audit function at the Ohio Lottery, as the first Manager of Internal Audit in the early 1990s. At that time, the internal auditors were involved in a significant number of consulting engagements, which strengthened the organization. Director chronicled how he and his team started the internal audit department in 1991, as the Ohio Lottery did not have an internal audit division.

Providing further insight from his internal audit experience, Director underscored how challenging it is to precisely plot each audit's associated hours. In addition, Director does not recall completing every aspect of the audit plan by fiscal year end; fulfillment of the audit plan in its entirety with time leftover to conduct more audits is not typical. Commissioner Morgan remarked it is apparent Director Berg understands this process well. For edification of committee members, Director clarified the Office of Internal Audit, by definition, is the only department at the Ohio Lottery allowed to not meet its target. Director expressed his understanding of the consulting engagement, as he facilitated much consulting during his tenure as manager of internal audit.

Commissioner Mingo took the opportunity to inquire, as to the total size of the present Ohio Lottery Internal Audit group. Wilson responded there are four internal auditors. Mingo inquired if there are also internal audit employees who provide administrative support. Wilson explained there is no administrative support for the internal audit department.

OBM's Experience & Advice on Consulting Engagements/

Venugopal Pallerla, IT Audit Chief, OIA OBM reported on OIA staff's extensive experience with consulting engagements. Recounting OIA's experience with Medicaid, Pallerla detailed how OIA auditors assisted in the process of separating the IT group from the existing agency. OIA worked with the agency to walk staff through the process of how to create the IT business unit and how to approach new projects, versus maintaining existing operations. During the IT Optimization Project, OIA guided the agency on which policies should be updated; what aspects of operations management must be reassessed; which processes should be reviewed and so forth. Key to the consulting engagement: determining auditing requirements, as a precursor to building the new business unit. Before building a new group or devising a new concept, it is vital to address the question: 'What are the auditing requirements?' Commonly, auditing requirements are not identified, nor are they clearly communicated in the initial phase of a new endeavor. Pallerla reiterated that OIA collaborates with agency staff to define auditing requirements before undertaking a new project, regardless of the project's scope..

Commissioner Mingo posed this question to OIA OBM representatives: are you participating in consulting engagements more often when an agency has its own internal audit function or does it vary? Klatt responded most agencies do not have an internal audit function. Pallerla interjected to state OIA is typically involved in consulting engagements with large agencies that have large systems.

Whalen returned to his goal -- how Ohio Lottery internal audit can make consulting engagements part of value-added services. Wilson responded she has attempted to leverage the Ohio Lean Team, specifically, trained green belts on staff at the Ohio Lottery. One trained staff member working with Wilson left the agency, but Wilson has knowledge of several other employees who may be able to offer assistance in this area. These individuals are trained in process mapping, which could be beneficial to internal audit. Wilson would like to facilitate trained staff to map out various processes, as defined by the internal audit group, arriving at key decisions. Chairperson Whalen reiterated for the committee the value of the consulting engagement and is hopeful senior staff will take advantage of these opportunities.

Whalen queried representatives, members and senior staff for final questions on the audit plan. Executive Director Berg assessed the situation positively recollecting how during his tenure as internal audit manager, the State Auditor had approving authority over the plan.

At that time, it was common to receive approval after the start of the next fiscal year, even two to three months into the audit plan. Berg added he is pleased to offer his stamp of approval for such timeliness in the administrative review and approval of the FY 2016-2017 internal audit plan. Chairperson Whalen motioned to approve *The Ohio Lottery Commission Internal Audit Plan, FY 2016-17*. Commissioner Morgan so moved and Commissioner Mingo seconded the motion. All members voted yeah, approving the *Internal Audit Plan, FY 2016-17*.

Confirmation of Independence:

Chairperson introduced the next agenda topic. Wilson informed members the documents are enclosed at the end of this section in meeting materials, as the proper order of business is to first devise an internal audit plan for the next fiscal year and to then review its components for conflicts of interests. Whalen voiced his observation -- there are no conflicts, as is evident from the signed documents. Wilson confirmed this, informing attendees she no longer had a conflict of interest in the area of VLTs, as she had worked outside of VLT management for one year. The conflict of interest automatically expired after the passage of one year. Commissioner Mingo asked Wilson if this document is completed annually. Wilson stated it is signed every year, based upon the plan.

Director of Internal Audit Report

Chairperson transitioned the meeting to the fourth agenda topic -- Wilson's general status update to the committee.

TeamMate Software/

During the last month, Wilson informed members the internal audit group underwent an upgrade of TeamMate software to version 11.0.1. As the internal auditors use this software with greater frequency, they are gaining a better understanding of its features and functionality. Internal audit has conferred as a team in preparation for a session with the Cleveland RTA. The internal auditors compiled a list of questions, which were forwarded to Anthony Garofoli, Executive Director of Internal Audit at the Cleveland RTA. Garofoli and Wilson continue their efforts to coordinate a date to sit-down in the training room at the Ohio Lottery and discuss aspects of TeamMate--features the Ohio Lottery internal audit group would like to learn more about, touching upon various modules, as part of this discussion. Wilson is hoping this discussion takes place before the end of June 2015.

Annual CEU's/

Wilson reiterated how each internal auditor is required to earn 40 CEUs annually each fiscal year. There is no additional planned training for FY 2015. All staff fulfilled the requirement. Tracking within Sharepoint of earned CEUs continues. Wilson plans to rollover to FY 2016 on the Sharepoint site and tally hours moving forward.

The Client Survey/

Wilson refreshed members' memories, explaining this survey is conducted through Survey Monkey. It is distributed to auditees, following the exit conference at the conclusion of the audit. There are seven questions posed. Thus far, fifteen client surveys were disseminated. Seven have been completed and returned to Internal Audit. The survey protects the anonymity of the individual surveyed. Wilson voiced her preference to devote time to review the surveys individually with her internal auditors. Additionally, Wilson would like time to develop a metric to the dashboard. Klatt informed attendees the OIA OBM responses are captured in a table format, not a survey: very good, good, etc. Wilson inquired if OIA OBM utilizes hard measures or soft measures. Klatt indicated OIA OBM has a certain percentage target for very good responses, which comprises the only metric on this data.

Personnel/

Wilson reported all auditors continue to produce quality work and teamwork has been outstanding. As of July 1 2015, Joseph Volpi will be relocating to the Columbus Regional Office with identical job duties.

Peer Review/

Wilson announced all audits beginning July 1 2015 will be subject to Peer Review and requested verification from Klatt. Klatt thought there would be another year prior to Peer Review. Wilson thought Peer Review would entail a look-back from fall FY 2017. Klatt believed it would be a look-back of only one year. Klatt recalled how the Peer Review of 2012 included any information from July 1 2011 through June 30 2012. Klatt will check into this and follow-up with Wilson. Wilson added that she and Klatt will be working together along with the Chief Internal Audit Executive from BWC, utilizing the IIA's assessment tools in preparation for the Joint Peer Review. Wilson queried participants for any questions. None were forthcoming.

Dashboard:

FY 2015 Audits per Status Pie Graph/

Wilson pointed out on this pie chart two audits in "Carry Forward" status were started in FY 2015. These will be completed in July FY 2016. The one audit in "Fieldwork" status is scheduled to be completed in June 2015. "Re-Assessed" are audits internal auditors have not yet begun. During internal audit's risk assessment exercise, four out of the five audits in this status actually appear on the FY 2016 Audit Plan. One of the five "re-assessed" audits was removed from the FY 2016 audit plan due to the results of the risk assessment. No questions were raised in regard to this breakdown.

Corrective Action Timeliness Bar Graph/

Wilson qualified that the colors on the bar graph do not represent a risk category or data series. Wilson stated the following in regard to this bar graph:

- ⬇ twelve issues are open and late;
- ⬇ eighteen issues are not due; and
- ⬇ follow-up has not yet occurred for one audit

Whalen inquired if these issues consist in some variation of high, medium and low risk. Wilson confirmed there is a cross-section of risk represented. Wilson added she believed there is only one high risk issue in the late category.

'Late' Audit Classification/

Commissioner Mingo addressed Wilson, inquiring how she defines late. Wilson responded late is when she follows up and discovers the recommendations are not implemented. The auditee may request more time at this juncture. Wilson considers these issues to be late. Commissioner Mingo inquired if there is an expectation of a certain number of days, during which, the action should typically be addressed. Wilson detailed how in all instances, the auditee drives the timing. Wilson stated the auditee establishes the due date.

If Wilson verifies the action has occurred, it is closed, not considered late. If this procedural document is incomplete on the due date provided by the auditee, Wilson considers it open and late, unless the auditee communicates special circumstances delaying the deliverable.

Workaround(s) for TeamMate Default Settings/

Whalen recollected how the System may categorize an audit as late technically due to the established due date having elapsed, even if the auditee has completed the action. Wilson indicated if she does not close out the issue on the precise close date, the issue is classified as late in TeamMate. Wilson has discovered this close date can be manually entered into TeamMate, since the last audit committee meeting. For example, Wilson may not enter/view/update the System for a particular issue until a month following the close date. Even so, Wilson will establish in the system an accurate close date, reflective of the auditee's actions, not the date Wilson reviewed and updated the fields in the System, which may happen at a time later than issue completion.

Graphically, Whalen is noting a trend in higher numbers of closed late, versus closed on time and would like to be able to discern what, if any, are the issues impacting these figures. Wilson acknowledged she has not entered the correct dates for the forty-two audits closed late, depicted in the *Corrective Action Timeliness* bar graph. Wilson agreed this is misleading information. Chairperson concluded by requesting formal acknowledgement of the timing nuances inherent in TeamMate functionality in respect to late and on time statuses.

Total Issues Open/Closed by Fiscal Year Bar Graph/

Wilson continued to expand upon data in this next bar graph, explaining how she tends to focus on open items, as the fiscal year draws to a close. In particular, there are remaining open tasks from FY 2013, such as the Ohio Lottery Business Continuity Plan. Wilson stated she has closed one remaining open item in regard to FY 2013, so total issues open are not thirteen in real-time. In respect to FY 2014 open items, one medium-risk audit has been recently closed, bringing the total to three, not four, as depicted in the dashboard handout. In the FY 2014 open category, the CPI audit is the single high-risk audit and will be discussed, shortly.

Analyzing the FY 2015 open audits, Wilson reported five of these audits are not due. Chairperson noted approvingly there are no high-risk issues in the FY 2015 open category. Wilson queried members for questions. There were none at this time.

Closed Issues by Department Bar Graph/

Chairperson Whalen queried Wilson to better understand the period of time encapsulated by the graph. Wilson deferred to John Jones, who was not able to verify the data represents all three years - FY 2013, FY 2014 and FY 2015. Whalen estimated, based upon the numbers in the preceding chart, it is likely the *Closed Issues by Department* graph is representative of FY 2014 and FY 2015. Wilson indicated she will include a definition below the *Closed Issues by Department* graph, so the information is clearer. Whalen commented how *Closed Issues by Department* is graphically depicted in a manner that facilitates a better understanding of the spectrum of risk impacting the agency.

Open Issues by Department Pie Chart/

Wilson detailed the high-risk as Office of Operations – Business Continuity Planning. Wilson added CPI is the other high-risk open item. Chairperson summed up the *High Risk* pie chart as a solid purple in reality, being that the Information Technology piece was closed out by Wilson. Wilson reported this open Information Technology issue will not be formally closed until month's end.

Chairperson thanked the internal audit team for providing dashboard statistics for his review, inquiring as to the amount of time devoted to producing this information. Wilson categorized the first attempt to collate dashboard data as time-consuming. At this time, internal audit is utilizing the system; the system pulls the data and automatically creates a graph. Whalen pointed out the usefulness of a high-level dashboard summary. It is necessary, following review of the highly detailed *FY 2015 Internal Audit Quarterly Status Report – March 2015*. As the chairperson, Whalen would like to capture high-level information as well as review more detailed reports to gain insight into how internal audit is adding value to the Ohio Lottery. Commissioner Morgan offered his compliments, remarking the data is very helpful.

Open Session Audit Issue Review

Electronic Fund Transfers and Retailer Adjustments:

Wilson reported to the committee she has closed one of the three open issues and was unable to confirm the second open issue had been closed prior to forwarding meeting materials. CCRFs – one of which has not been scheduled, to-date and the other CCRF which did not fulfill the needs of the end-user are part of the explanation, as to why these items remain open. There is one medium risk item and one low risk item which remain open, according to Wilson's most recent account. Chairperson offered to field members' questions, however, there were none at this time.

Field Staff and Vehicle usage with Credit Card Purchases:

Referencing how audits are classified as 'late' by the internal audit group, Wilson categorized this open session audit as an example of a 'late' audit. The auditee established the recommendations were implemented and the audit was complete when in fact, upon verification, Wilson discovered it was not complete. Toward the end of June 2015, Wilson will re-evaluate the status of the issues in the system.

Communicate to Senior Staff How Risk Assessed:

Whalen inquired how often Wilson discusses how risk is assessed with senior staff; is this taking place on an annual basis. The understanding of risk categorizations is a pressing matter, as stated by Whalen. Grasping the urgency surrounding a high-risk, as an example will motivate staff to work as a team to resolve open high-risk items in an expeditious manner. Wilson informed members this discussion has not been revisited, since the risk designations were initially defined during the fourth quarter of 2014. Chairperson suggested this discussion might air divergent opinions regarding what constitutes a high risk, for example. Wilson informed members the rationale for how the auditor arrived at the risk-level (likelihood and impact) is discussed at the time of the exit conference with the auditee. At the time of the exit interview, Wilson and auditors are prepared to discuss with the auditee. In the event the auditee disagrees with the risk rating and presents information supporting a different risk designation, the auditors are open to changing the risk assessment.

Wilson expressed her confidence that internal auditors are effectively risking audits and working well with the auditees to reach common ground on these designations. Chairperson probed Executive Director Berg to learn if he is receiving feedback from staff regarding risk rating. Director explained he has not received feedback, as the auditee will typically share their views on risk categories at the time of the audit. Berg is not aware of any controversy in relationship to disagreements about risk levels and how these levels are set by internal audit. Whalen thanked Director for his input and resumed the business of the committee pertaining to open session audit issue review.

Fixed Assets:

Wilson categorized this open audit as in follow-up. Both the auditor and auditee will reconvene at a mutually-agreed upon time to discern the status and to ultimately ensure implementation of recommendations outlined. One auditee is grappling with the Manage Engine application. The Asset Activity Report is not functioning and the vendor does not consider this a priority. Chairperson would like to take action to reduce the effects of this medium risk. Wilson explained a paper form is being used, as an alternative, which is a mitigating the risk. The auditees continue to strive to convert to an electronic-based process. Whalen questioned if Wilson feels comfortable moving forward inch by inch, making steady, yet slow progress. Wilson responded she is comfortable with checking with the auditee every so often to obtain a status update. Members did not present Whalen with queries on this topic.

Keno Monitors:

Wilson reported to members this open audit is near completion, as procedures have been submitted, although lacking an audit function. This monitoring function was a recommendation made by internal auditors. Security employees completed procedural updates pending approval by the Deputy Director. Wilson was aware that formal approval by the deputy director is delaying completion.

Social Media:

There is one open issue pending with this particular audit, which is not due until October 2015, as stated by Wilson. Wilson queried members for any questions related to these open session audits. Chairperson returned to the topic of social media policy, as a medium-risk requesting history, as to how this policy-making evolved and what parameters are cornerstones of effective policy-making, including the correct way to craft this policy. Larry Miltner, Chief Legal Counsel, Ohio Lottery informed Chairperson Whalen that this was a request by the Office of Human Resources. HR approached Legal to review the Social Media Policy and other HR policies. Legal determined that a comprehensive review of all policies should take place since such reviews had not occurred in the recent past. Legal's low staffing levels slowed the pace of the review. Internal Audit issued a recommendation for this review to be completed. Miltner recounted how this project was then delegated to the individual departments to individually review and update their office policies. Each deputy director was asked to review and update their departmental policies consulting with Legal, if necessary.

Wilson agreed with Miltner's report, reiterating each Deputy Director has been asked to do their part and review respective policies to determine if the information requires updating. Wilson added the Office of Human Resources has been asked to create a policy for policy development. Chairperson explained to attendees this was precisely his point from the outset – what is the policy of policy development. Once the policy of policy development is finalized, this will migrate to the office directors to complete their piece.

Executive Director Berg informed attendees that Constance Miller, Deputy Director of Operations is collaborating with Elizabeth Popadiuk, Deputy Director Human Resources to discuss the policy of policy development. Chairperson questioned Berg to determine steps in the formal approval process of a policy update moving forward – will this information be directed up the chain of command to the Executive Director for final approval. As this approval process has

not been finalized, to-date, Director could not verify that the final step in the approval process would be obtaining his sign-off. Nevertheless, Director did report to members that the current approval system involves securing his sign-off before the policy is activated. Presently, Miller and Popadiuk are in the process of clarifying what the final approval must be, as stated by Director. Whalen was hopeful there will be a schedule detailing the required frequency of policy review built into the policy of policy development. Director Berg recalled how in past years, the Ohio Lottery formed a Policy Review Committee to allow senior staff a forum to discuss policy. Berg lent some perspective to this project, explaining it is not necessary to seek the Policy Review Committee's approval to alter a sentence in a policy, for example. As it is easy to allow policies to become outdated, Whalen expressed how he is most supportive of establishing a structure to periodically review policy.

EZ Play Game Liability:

Wilson informed Chairperson the due dates for these issues are in the future.

EXECUTIVE SESSION

Chairperson Whalen indicated at this time it was appropriate to move into executive session. Miltner established a roll call must be taken. Second, a motion to enter executive session is required. Miltner established for the record the Ohio Lottery Audit Committee is required by statute to enter executive session to preserve the confidentiality of matters protected by law-- security and emergency response protocols. Whalen took the roll call: Commissioner Morgan, Commissioner Mingo and Commissioner Whalen were all present. Chairperson so moved to enter executive session. Commissioner Morgan seconded this motion. The Ohio Lottery Audit Committee meeting moved into executive session at 11:10 am.

[The committee moved out of executive session at 11:25 am]

OBM Office of Internal Audit Report

Fourth Quarter Auditing:

Klatt shared the following three highlights regarding OIA OBM's quarterly audit work:

- ✦ Business IT Alignment Engagement Assessment (OIA OBM worked in conjunction with Ohio Lottery staff)
- ✦ IT Security Review (most recent requirements)
- ✦ VLT Review

The above audits, identified in the OIA OBM Audit Plan were completed in the last three months at Ohio Lottery headquarters, as reported by Klatt.

Klatt stated it will not be possible to share actual audit results at this audit committee meeting. As a preliminary measure, OIA OBM distributed draft reports on two of the above three audits to Ohio Lottery officials. The completion of the VLT audit is currently in progress. However, Klatt cautioned members it will most likely not be released or reported on in time for the State Audit Committee, delaying the dissemination of its results until the next quarter. Klatt opened the discussion to any questions from participants, however no queries were presented.

IT Security Audit/

Pallerla expanded on the IT security audit for benefit of committee members. The IT Security Review report will be discussed at the next Ohio Lottery Audit Committee Meeting. This federal security-based standard has now been adopted by the State of Ohio. There are over 255 controls to implement at state agencies. Pallerla's audit analyzed 51 controls, which were policy-related in nature; the goal being to help agencies identify missing components. Pallerla recapped for attendees that the 51 controls defined by quality assurance requirements will be detailed in the next report submitted at September's Ohio Lottery Audit Committee Meeting.

At this point, Chairperson paused to open the discussion to members' questions. Commissioner Mingo queried Klatt for an idea about the frequency and schedule of the State Audit Committee meetings. Klatt responded these are quarterly meetings. Commissioner Mingo followed-up attempting to pinpoint the timing of the release of their official report to the Ohio Lottery Audit Committee. Pallerla summarized State Audit Committee will meet July 25 2015. Drafts of the report are being circulated among management, as the OIA OBM auditors continue to review the reports. Verifying the consistency among the reports, as it relates to the Business Continuity Plan will be critical, as stated by Pallerla. Pallerla's

business unit is occupied with cross-checking to ensure all controls have been reviewed and the information matches across the board.

OLC-OBM Meeting Regarding Internal Audit Plans FY 2016-17:

In addition, Klatt informed the committee OIA OBM has met with Wilson in respect to the respective audit plans for FY 2016-17. A conference between Director Berg, Wilson and OIA OBM took place as well to delve into the Ohio Lottery internal audit risk assessment of the agency, highlighting zones of high risk. During this meeting, all parties reached an agreement, as to what would be the focus of auditing during the upcoming fiscal year. The following areas to audit were discussed: General Accounting; supply and merchandise inventory and the Player Loyalty Program. Klatt qualified her remarks by adding auditors are willing to adjust this schedule to accommodate new developments as the year unfolds.

Chairperson inquired if OIA OBM selected these areas to audit or if the Ohio Lottery internal audit group identified these processes, systems and programs as requiring immediate attention. Klatt informed all parties a quality assurance review will be conducted in the third quarter of FY 2016. This is reflected in the Ohio Lottery Internal Audit Plan FY 2016-17. Commissioner Mingo inquired who made the suggestions, as to what areas should be the focus. Klatt responded Director Berg and Wilson made the suggestions. Wilson further explained these suggestions were based upon results of the risk assessment and included a discussion of the survey results of stakeholders. Whalen opened up to all parties for additional comments. No comments were made.

New Business/Announcements

Inspector General's Report:

Define Role and Responsibilities of Audit Committee/

Chairperson Whalen addressed participants in regard to the Inspector General's recent report. Ohio Lottery commissioners have prior knowledge of this report. Whalen framed the goal of the discussion to define what responsibilities are incumbent upon the audit committee to meet and what responsibilities are outside the auspice of the committee. According to this framework, Whalen deferred to Wilson for additional information on this topic. First, Wilson explained she included the Inspector General's recent report in the FY 2016-17 Internal Audit Plan. Wilson outlined the internal audit group's responsibility. Management must respond to this report. The response is due in July 2015. The response will be posted to the Inspector General's website and will constitute a public record. Director Berg asked for confirmation, as to whether or not this was a topic of discussion at the last audit committee meeting. Wilson did not believe the report had been released at the time of the last audit committee meeting. Chairperson stated the committee last met in March 2015 and the report was released in the interim period between March and June 2015 audit committee meetings.

Define Role and Responsibilities of Internal Audit/

Chairperson Whalen redirected the focus of the discussion to answer the question: should the internal audit group have played a role in regard to the process of discovery relative to the theft? This topic is for discussion purposes to prevent any reoccurrence in the future. Chairperson acknowledged it is not reasonable to expect to foresee each and every potential incident. Whalen shared his present goal to encourage dialogue regarding whether or not the proper internal audit controls were in place. Next, Whalen would like to address the query: would it be unreasonable to expect to be able to prevent this type of activity even with appropriate controls in place?

Wilson provided her understanding of the situation: the Inspector General's Report, issued May 2015 dealt with an issue which had occurred two and a half years prior. Wilson stated this was the length of time it took the Inspector General's office to investigate and issue a report. Wilson commented that Whalen's question "...should internal audit not have caught this?" is not an uncommon question. In response to this question, Wilson stated "not necessarily." The State Auditor's office receives the same feedback when there is fraud or some other activity – in these situations, Wilson stated the question becomes "why didn't the State Auditor find this?" Wilson continued to explain the internal auditors are following the internal audit plan and are not sampling a broad spectrum of items, randomly – they are not omnipresent in their auditing activities. Internal auditors would like to always assure controls are created and remain in place on a department-level. Due to the fact that Wilson was not the Deputy Director of Internal Audit at the time of this event, Wilson is not certain about all of the considerations and details. Wilson deferred to Director Berg for his contribution to this discussion.

Director Berg informed members in light of the education and hindsight gained there are steps internal audit may take in response to this situation. As a first step, Wilson can verify whether or not certain internal controls, once in place have

gradually broken down over the course of time. Director also suggested staffing changes over the years affect how well controls are exercised. Even if numerous controls are recommended and implemented, a new manager might not closely monitor these safeguards. As another important consideration, Director pointed out complacency develops over time and stringent regulations are loosened. Expanding reporting may mitigate the potential of a reoccurrence, based upon Director Berg's understanding of the situation. These reports may assist in the identification of irregularities, as stated by Director. Nevertheless, Director Berg communicated to members these measures will not guarantee prevention; they will consist in attempts to institute reasonable controls to flag any anomalies for further inspection and follow-up.

Director identified another useful practice of conducting inspections of work vehicles. Vehicle inspections, once a routine occurrence, dissipated in frequency over time, until they were no longer being completed. Director Berg maintained random inspections of vehicles and work areas are an effective tool to learn more about how business is being conducted. Director observed when an employee is involved in unlawful behavior the individual's work environment offers clues, as the employee will become complacent and expose his activities inadvertently.

In this instance, the regional manager noticed vehicle damage which had gone unreported raising suspicions. The manager shared this information with the appropriate individual in the chain of command. Once an inspection of the vehicle occurred, the tickets were discovered and a report was generated. Director informed members once the activity is criminal in nature, the Ohio Lottery is obligated to turn the matter over to the jurisdiction of the State Highway Patrol. The State Highway Patrol followed legal guidelines and the Inspector General's office became involved. As the Ohio Lottery is precluded from pursuing an agency investigation once a jurisdictional shift takes place, Director indicated this would serve as part of the explanation, as to why internal audit did not become involved. Director added Miltner can further describe the legal process for members.

Based upon his experience, Director offered the rationale why it is not possible to detect these occurrences with one-hundred percent certainty. Berg stated this issue could have been identified immediately by any one of the retailers who were defrauded. The problem is the retailers are extremely busy and are not adhering to conventional principles of basic book-keeping. This is how the sales rep was able to take advantage of the situation, according to Director. Until retailers (9,700 retailers in total present day) balance their books and maintain records, the Ohio Lottery will be unable to guarantee that this type of situation will not reoccur. Director underscored with a lack of strict bookkeeping by retailers, the Ohio Lottery exception reports may not always uncover these irregularities. In addition, Director frankly stated the van inspections may not always shed light on this type of activity. Other than taking these measures, Director is not certain what other steps may be taken, but remains open to any and all suggestions made by members based on their respective areas of expertise.

In sum, Chairperson thanked Director Berg for the clarification as it shed light on what is reasonable as an expectation. Whalen now understands certain processes may not uncover criminal activity, as the Ohio Lottery does not possess the manpower, hours or resources to pursue every conceivable angle. As the Chairperson of the audit committee, Whalen remarked the initial presentation, contrasted with Director's input, altered the landscape for him, as to what would be feasible and what would simply be unrealistic given known constraints. Whalen has reached the conclusion these activities may not always be detected in all instances, even when following best practices. Whalen thanked Berg for detailing the situational factors and sequence of events for members.

May 2015 Directive to Ohio Lottery from the Office of Chief Legal Counsel, Office of Governor:

Miltner offered his supplement to this discussion. A directive from May 2015 was passed to the Ohio Lottery from the Office of Chief Legal Counsel, Office of Governor. The directive mandated if the Lottery has a reasonable factual basis for believing or suspecting that unlawful or improper activity has occurred, it should stop any further review and provide a report to the Governor's Office, the Inspector General and the State Highway Patrol. They coordinate among themselves to determine who will take the lead and what aspects will be pursued. In this particular situation, because it involved potential theft, the State Highway Patrol became involved and the criminal piece traveled on its own track. The Inspector General looked at this information and asked the question: Do we need to analyze how the regional reps handle their business to better understand how we put improvements in place? Miltner emphasized it is not unusual for the Ohio Lottery to identify a problem, report the matter to the Inspector General and then have the Inspector General issue a report. In this case, the Ohio Lottery found the issue and reported it. This is part of the process. Chairperson looked to attendees for other commentary.

OBM Perspective on Jurisdictional Issue:

Klatt communicated her perspective – it appears the proper procedures were followed. As Miltner said, the Ohio Lottery discovered the issue and the Inspector General has to issue a report.

Ohio Lottery Commission Perspective on Jurisdictional Issue:

Commissioner Mingo felt the overview of the process was helpful to ensure the Commissioners understand at what point other entities must assume jurisdiction.

New Business

Chairperson expressed thanks to Wilson for the draft document diagramming the role of state government in respect to the internal audit function. Chairperson would like members to digest the flow chart representing the interrelationships among three parties: AOS, OBM and OLC. Revisions of this diagram may be necessary as members deem appropriate. Whalen would like to confer with his colleagues to learn if they have any questions or comments about this information. This chart is similar in nature to the fluid internal audit plan. As time progresses, the information will evolve and change to be used as a reference tool by members and representatives, alike. The dashboard metrics are similar in nature; data points adjust over time as they relate to a data series. The diagrams, plan and flow chart are supplemental aids for members, as characterized by Whalen. The different pieces of information bring clarity to varying aspects of the internal audit process, defining responsible parties for an assortment of tasks and associated timelines. Chairperson would like to avail the internal audit group's talents to members and representatives. If any party has a suggestion or new idea for additional supplemental resources, Whalen would like participants to feel free to make a request.

Wilson differentiated between the AOS, OBM and OLC. The AOS has definitive timelines. The operational norm for both OLC and OBM is to follow the timing laid out in the internal audit plan and annual review of policies and charters.

Wilson reiterated Whalen's original request pertained to the interaction among agencies and associated timelines, even if those timelines are subjectively developed and subject to change. Chairperson further defined his original request by stating he was interested in better understanding the interplay among AOS, OBM and OLC, based upon a quick overview, one which might be offered in ninety seconds by a subject-matter expert in the internal audit arena. Chairperson addressed participants, requesting new business items. None were introduced. In close, Chairperson thanked attendees for an extremely productive meeting, noting participants' significant contribution to the discussion. Whalen stated he anticipates another meaningful discussion at the September 21 2015 Ohio Lottery Audit Committee Meeting.

Adjournment

There being no further business at this time, Chairperson requested a motion to close. Commissioner Morgan so moved and the meeting adjourned at 11:42 a.m.



Sean Whalen
Ohio Lottery Commission
Audit Committee Chairperson



Kristen Calabrese
Ohio Lottery Commission
Office of Information Technology
Audit Committee Recording Secretary