



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

**HELD AT:
THE FRANK J. LAUSCHE BUILDING
ROOM 200
615 WEST SUPERIOR AVENUE - CLEVELAND, OHIO 44113**

**September 19, 2017
10:00 A.M.**

Present at the meeting were the following:

Sean Whalen, Audit Committee Chairman and Commissioner, OLC
Trevor McAleer, Member and Commissioner, OLC
Pat McDonald, Chairman of the Commission, OLC
Dennis Berg, Executive Director, OLC
Greg Bowers, Deputy Director of Finance, OLC
Cindy Klatt, Chief Audit Executive, Office of Internal Audit, OBM
Erin Brown, Internal Audit Section Chief, OBM
Joseph Volpi, Office of Internal Audit, OLC
James Brown, IT Manager, OLC
Charles LoPresti, Chief Legal Counsel, OLC
Diane Nagorny, Office of Internal Audit, OLC
Elizabeth Popadiuk, Deputy Director of Human Resources, OLC
Stephanie Miller, Human Resources, OLC
Gwen Penn, Contract Compliance, Finance, 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

Not Present:

Angela Mingo, Member and Commissioner, OLC

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CALL TO ORDER

The Ohio Lottery Commission (“OLC”) Audit Committee Meeting of September 19, 2017, was called to order at 10:05 A.M. at the Frank J. Lausche Building, Room 200 by Chairman Sean Whalen.

APPROVAL OF MINUTES OF June 19, 2017

- Chairman Whalen asked Commissioner McDonald whether there were any questions regarding the meeting minutes. Commissioner McDonald stated there were no questions at that time. Chairman Whalen stated he had one amendment to the minutes, because there was an extra bullet point that was irrelevant. He made a motion to have that sentence stricken from the minutes.
- Commissioner McDonald seconded the motion. All Audit Committee Members present affirmatively voted on the motion.

At 10:15am, Commissioner McAleer arrived.

CHAIRMAN’S COMMENTS

- Chairman Whalen welcomed Commissioner Pat McDonald to the Audit Committee meeting. Chairman Whalen stated that his comments would be brief as the Audit Committee members wanted to focus on the outstanding issues on the Aging Accountability Report (AAR). Chairman Whalen stated we would begin by reviewing the Dashboard. Chairman Whalen directed the meeting to Deputy Director, Jennifer Wilson.

DEPUTY DIRECTOR OF INTERNAL AUDIT REPORT

- Ms. Wilson directed the Audit Committee to the first pie chart located on the left-hand side of the dashboard. Ms. Wilson stated that 50% of the audits were in active status and 20% of those were in reporting status. Ms. Wilson stated that the pie chart did not include external audit progress. Ms. Wilson stated that the Auditor of State (AOS) would be finalizing its fieldwork at the end of September. The Office of Budget Management (OBM) had completed 25% of the audits that it had planned for Ohio Lottery Commission (OLC) and it was currently working on an audit that was in the planning phase.
- Ms. Wilson stated that the Retailer Winnings audit was not part of the data in the pie chart. Ms. Wilson stated that the audit was scheduled to be completed and finalized last month; however, we were still awaiting a response, therefore, the audit was still in draft.
- Ms. Wilson stated that meetings were held with the manager, but no response was received. Ms. Wilson stated that she has been anticipating a response for two months.
- Dennis Berg, Executive Director, OLC asked whether the response we were awaiting was from Deputy Director Connie Miller. Ms. Wilson stated no, we received her response.

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- Commissioner McDonald asked the name of the Deputy Director from whom we were awaiting a response. Ms. Wilson stated Deputy Director of Sales, Richard Perk. Ms. Wilson stated that two weeks prior she met with Kathy Polensek, Program Administrator to discuss the issue. Ms. Wilson stated she anticipated a response from Ms. Polensek and/ or Mr. Perk before the Audit Committee meeting. Ms. Wilson stated that in Mr. Perk's defense he has been out of the office and just recently came back.
- Executive Director Berg stated he would follow-up with Deputy Director Perk to ensure he provides Ms. Wilson the response.
- Ms. Wilson stated that once she receives the response, the audit would move onto our tracking software (Teammate) and the issues would be included on the dashboard for December's Audit Committee meeting.
- Executive Director Berg explained to the Audit Committee that management strives to submit their responses to the auditor within the ten-day timeframe; however, based on other work-related issues, it's challenging to provide responses back to the auditor within the designated timeframe.
- Chairman Whalen asked Ms. Wilson whether the issue was more of no response from management?
- Ms. Wilson stated that she agreed with Executive Director Berg's comment regarding the two-week timeframe of responding to the finding/recommendation; however, she has encouraged management to communicate with her department so that they can agree on a reasonable timeframe to respond to the issues/findings.
- Chairman Whalen agreed with Ms. Wilson. Chairman Whalen stated that lack of and/or no communication from management has become a familiar subject matter. Chairman Whalen stated that the Internal Audit department has devoted a great deal of time to finalize audits and its challenging when management does not provide a response.
- Chairman Whalen stated that he understands that management has been working diligently on other OLC business matters; however, the lack of and/or no communication was revealed on the Aging Accountability Report (AAR). Chairman Whalen stated that he trusted that management would work to improve their communication with the Audit department regarding responses to audit issues.
- Ms. Wilson moved on to the second chart, Corrective Action Timeliness. Ms. Wilson stated that there were 47 open issues that were in one of two categories; late or not due. Ms. Wilson stated last quarter we had 57 open issues.
- Ms. Wilson stated that the remaining charts represented data for both internal and external audits (Auditor of State (AOS), Office of Budget Management (OBM), Multi-State Association Lottery (MUSL), and the Inspector General's office. Ms. Wilson stated that of the nineteen audits that were

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represented, eleven of them were internal audits. Ms. Wilson stated that 42% of the total audits were external and that 32% of the issues being tracked were from external audits.

- Ms. Wilson stated that the fourth chart represented FY 2018 Closed Issues by Department. Ms. Wilson noted that the Social Media audit was part of the data represented within the closed medium risk bar.
- Ms. Wilson moved on to the Total Issues Open/Closed in FY 2018 chart. Ms. Wilson stated that there were still open issues for FY 2013; however, eight issues have been closed and there were still five remaining open issues. Both the open and closed issues were related to the Business Continuity Plan (BCP) Audit.
- Ms. Wilson stated that she would be happy to answer any questions or comments.
- Commissioner McDonald asked why there were open issues from FY 2013 and FY 2015. Chairman Whalen stated there were various contributing factors regarding the issues. Chairman Whalen stated that we would be reviewing the Aging Accountability Report (AAR), and that staff would have the opportunity to explain why those issues were still open.
- Ms. Wilson moved on to FY 2018 Closed Issues by Department. Ms. Wilson gave kudos to Human Resources (HR) who have performed an excellent job in closing their audit issues. Ms. Wilson moved on to the next chart: Open Issues by Department. Ms. Wilson stated that in the first pie chart there were a total of twenty open high - risk issues and eleven of them were in the Information Technology (IT) department.
- Ms. Wilson directed the committee to the second pie chart. Ms. Wilson stated there were twenty-two open medium risk issues and, again, Information Technology represented the majority. Ms. Wilson stated that 47%, which included both high and medium risk issues, were in Information Technology.
- Ms. Wilson stated that on the AAR in the next steps column there were additional IT issues that were owned by different departments. Ms. Wilson stated that these departments were relying on IT to help them resolve their issues.
- Commissioner McDonald asked whether this was in addition to the already open IT issues? Ms. Wilson stated, yes.
- Ms. Wilson stated that other issue owners cannot close their issue(s) without IT assistance. Ms. Wilson stated that 64% of all open issues involved IT in remediation.
- Commissioner McDonald asked how this was being addressed.
- Chairman Whalen stated that all IT issues would be part of our review as an agenda item for the next Audit Committee meeting. Executive Director Berg stated that it was not unusual for IT to be involved in many of the issues, as IT drives our business.

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- Chairman Whalen stated that he agreed. Chairman Whalen stated that the lottery was a very IT intensive organization. Chairman Whalen stated that the Audit Committee wanted to focus on those issues that have been on the AAR for a long length of time and have not been able to be closed.
- Ms. Wilson stated the following statistics: The average age of open issues on the AAR was 450 days or 15 months. Ms. Wilson stated that the Business Continuity Plan (BCP) audit was 4 years old, which was the oldest issue, and the most recent issue age was 2 months old. Ms. Wilson stated that BCP was the outlier and that once completed, the next oldest issue was 330 days old or 11 months.
- Ms. Wilson stated that she calculated another stat regarding the average age of open issues passed revised dates: 135 days or 4 1/2 months.
- Chairman Whalen stated that this was tough because it bridged across two of our meetings and they had hoped to have had a more updated status. Chairman Whalen stated that this was where the Audit Committee started to observe communication breakdown between management and Internal Audit regarding responses to the issues.
- Commissioner McDonald stated that he hoped to have heard audit response updates in today's meeting. Chairman Whalen stated that that was the goal. Commissioner McAleer stated that one of the goals of the Audit Committee was to track the revised dates.
- Commissioner McAleer provided Commissioner McDonald a brief update regarding why the Audit Committee requested that the managers provide to the committee status date(s) by which he or she could reasonably respond to the issues presented.
- Ms. Wilson stated that this concluded her report. Chairman Whalen asked whether there were any questions. There were no questions.

OPEN SESSION: INTERNAL AUDIT REPORT REVIEW

- Chairman Whalen stated that the next item on the agenda was the open issues on the Aging Accountability Report (AAR). Ms. Wilson provided the Audit Committee with a summary regarding the **Contract Compliance audit**. Ms. Wilson stated that at the June Audit Committee meeting, Mr. Bowers stated that he was going to provide the committee with a list of contracts. Also, Mr. Bowers stated that he would review and revise, if necessary, the Contract Compliance policy, and meet with Executive Director Berg for approval. Ms. Wilson directed the meeting to Greg Bowers, Deputy Director of Finance, and Gwen Penn, Contract Compliance Manager, to provide the Audit Committee an update on Contract Compliance.

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- Mr. Bowers stated he had provided the Audit Committee an updated copy of the contracts, which were sorted by department. Mr. Bowers stated that the list had both internal (OLC) and external(DAS) contracts. Mr. Bowers stated that there were approximately 40 contracts on the list and that in-house sponsorships were not included. Mr. Bowers stated that 9 of the contracts were written by OLC's legal department. Mr. Bowers stated that 16 contracts were DAS related and the other 15 contracts were issued by entities other than DAS. Mr. Bowers stated that most likely those were related to real estate, which were our facility lease contracts.
- Mr. Bowers stated that his department had identified 10 major contracts, such as Intralot, Hooven Dayton, advertising vendors and so forth. Mr. Bowers stated that his department would evaluate these major contracts on a bi-annual basis. Mr. Bowers stated that out of those 10 contracts, they have received all the evaluations except for 2. Ms. Penn stated that 2 of the contracts were completed, but not signed, and 2 contracts were not completed. Mr. Bowers stated that they would follow-up on those contracts that have not been completed.
- Chairman Whalen asked who was performing the evaluations. Mr. Bowers stated that the contract managers were performing the evaluations.
- Chairman Whalen asked Mr. Bowers whether he had reviewed the scope of work regarding what each contract evaluation entails.
- Mr. Bowers stated that he had reviewed the Contract Management policy and the next step was to have Executive Director Berg review the policy. Mr. Bowers stated that after Executive Director Berg reviewed the policy then he would forward the policy to Human Resource for review. Human Resource would then forward the policy to the Legal department for their review.
- Chairman Whalen asked whether the policy would provide us information on the structure of Contract Management. Mr. Bowers agreed; however, Ms. Penn disagreed. Ms. Penn stated that the policy to which Mr. Bowers was referring, was specifically developed for Contract Evaluations, not the Contract Management program.
- Chairman Whalen asked for clarification of the status on the Vendor Management policy. Chairman Whalen asked whether the Vendor Management policy governed the Contract Evaluation policy. Ms. Penn stated yes. However, currently we have not completed a Vendor Management policy.
- Chairman Whalen stated that it sounded like currently the Contract Evaluation policy was more specific. Chairman Whalen asked whether there was a plan to work on a broader policy pertaining to Contract Compliance. Mr. Bowers stated yes.

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- Mr. Bowers stated that he and Ms. Penn have had discussions regarding the redefining of her role from Contract Compliance manager to Procurement Officer.
- Chairman Whalen asked Mr. Bowers what he thought was a reasonable time by which to have completed the Contract Evaluation policy. Mr. Bowers stated that he anticipated providing the draft policy to Executive Director Berg no later than the end of September to review. Mr. Bowers stated that by the December Audit Committee meeting, the policy would be completed and approved by all responsible parties.
- Commissioner McAleer asked Ms. Penn to add a summary of each contract and include this information on the report (contract grid). In addition, Commissioner McAleer stated that a review and revised date should also be included in the footer of the report.
- Mr. Bowers stated that the Contract list would be part of his quarterly report.
- Chairman Whalen asked whether there were any additional questions. There were none.
- Ms. Wilson moved on to the **Lottery Profits and Education Fund (LPEF)** audit and provided the committee a brief update. Ms. Wilson stated that at the previous Audit Committee meeting, Finance stated that they were going to follow-up on the CCRF that should have been submitted to Intralot to assist General Accounting in verifying that the out of balances were due to timing differences. Ms. Wilson stated that currently General Accounting did not have any reports to verify timing difference for the out of balances.
- Ms. Wilson directed the meeting to Jim Brown, IT Manager, to speak on the topic of the CCRF. Mr. Brown stated that he and Mr. Bowers spoke briefly about the CCRF. Mr. Brown and Mr. Bowers stated that their departments were currently working on projects that were on a time schedule. Mr. Bowers stated that once these projects were near completion, then IT and Finance would collaborate to provide a report to Internal Audit, which evidenced the timing difference.
- Mr. Bowers stated that they were going to prove out the difference, which was \$800 a month, and which was immaterial.
- Chairman Whalen asked if there were a way to build this such that it could be an identification for reporting. Mr. Bowers stated yes. Mr. Brown stated that they needed to determine the specification for building the report.
- Mr. Brown and Mr. Bowers agreed that another CCRF was not necessary.
- Chairman Whalen asked how old this audit was? Ms. Wilson stated that the audit was 530 days old.
- Chairman Whalen stated that we needed to identify a solution to resolve the issue. Chairman Whalen asked Mr. Brown if he could provide the committee a date that the issue would be resolved. Mr. Bowers

stated that the CAFR should be completed by the end of October. Mr. Bowers stated that Ms. Vittardi would be available to meet with IT by November to discuss the specification of the CCRF. Chairman Whalen stated that they wanted an update on the CCRF at December'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, and to consider preliminary reports of Internal Audit of the Office of Budget Management (OBM) required to be kept confidential by Ohio Revised Code 126.48."
- The motion to go into Executive Session was seconded by Commissioner McDonald. 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 10:45 a.m.
- The Audit Committee moved out of Executive Session at 11:36 a.m.

OPEN SESSION: INTERNAL AUDIT REPORT REVIEW

- Ms. Wilson directed the meeting to Mr. Bowers to speak to the **Bank Reconciliation audit**. Mr. Bowers stated that they were considering purchasing a financial reporting software system. Mr. Bowers stated that he has had conversations with OBM and DAS to ensure that they could purchase a software system and both entities approved. Mr. Bowers stated that an integrator company would assist with implementation based on OLC specifications and needs. Bowers stated that they found an integrator company in Columbus that had experience with working with other lotteries to assist them.
- Mr. Bowers stated that once the CAFR was complete then they would focus more on obtaining the software system; however, he stated that they have made progress and that they were looking forward to the new software system.
- Chairman Whalen asked Ms. Wilson to provide to the Audit Committee a summary of what the original issue was with the Bank Reconciliation audit.
- Ms. Wilson stated that General Accounting was working outside of the general ledger software for their calculations and that staff was using spreadsheets that were not controlled. Mr. Volpi agreed with Ms. Wilson. Mr. Volpi stated that the finding was that an efficient method should be sought after to automate the process. Mr. Volpi stated that Solomon had a module that could be utilized, but after speaking with Mr. Bowers, he stated that Solomon did not fit their needs.
- Executive Director Berg asked if it was fair to eliminate spreadsheets. Mr. Volpi stated there was nothing wrong with spreadsheets. However, the Lottery was a 4-billion-dollar organization that handled detail transactions that were not well controlled. Mr. Volpi stated with an automated system, business rules could be set up to assist with details of the transactions.

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- Mr. Bowers agreed with Mr. Volpi. Mr. Bowers stated that, as he had mentioned in prior meetings, this issue should not be considered high-risk because controls were in place and they have reconciled all of their bank accounts. Mr. Bowers stated that they have processes in place to ensure that reconciliation was performed timely and accurately.
- Mr. Volpi stated he did not find any anomalies pertaining to the data or data manipulation. Mr. Volpi stated currently we do not have a suitable change management system.
- Chairman Whalen asked whether we have a functioning A/R system or ERP. Chairman Whalen asked whether we have an intermediary to store the system or was this more of the management of the data for the reconciliations.
- Mr. Volpi stated that that process started by looking at reconciliation. Mr. Volpi stated that the one process was the overriding focus of the audit. Mr. Volpi stated after further conversation they had identified other issues.
- Chairman Whalen asked the committee whether or not the risk could be reduced from high to medium risk. Commissioner McAleer stated that at this time the risk should remain high - risk. Commissioner McAleer asked Mr. Bowers how much was a new financial system and was the money budgeted for the new software. Mr. Bowers stated “initially, yes.”
- Commissioner McDonald asked Mr. Bowers what “initially” meant. Mr. Bowers stated that they had money planned; however, due to budget constraints they were looking at another method.
- Chairman Whalen asked Mr. Volpi if he could provide the committee the final report of his findings at the next audit committee so that they could review for a better understanding of the issue.
- Chairman Whalen recognized Cindy Klatt, Chief Executive Auditor, Office of Budget Management as next on the agenda. Ms. Klatt stated that her office had completed the **Non-traditional Prize Payments audit** and was in the planning phase of the **Succession Planning audit**.
- Chairman Whalen asked the status on Peer Review. Chairman McDonald stated that he received Chairman Whalen’s letter regarding his concerns regarding Peer Review and the MOU. Chairman McDonald stated that he spoke with Executive Director Berg and learned that those funds would be in IA’s budget for FY 2018.
- Chairman Whalen stated that this was a great meeting. Chairman Whalen stated he was looking forward to hearing updates at December’s meeting.

ADJOURNMENT


- Chairman Whalen called for adjournment of the meeting at Noon.

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Prepared by:



Carla Reeves, OLC IA Administrative Professional

Approved by:



Sean Whalen, OLC Audit Committee Chairman