



**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**

**June 20, 2016  
10:00 A.M.**

**Present at the meeting were the following:**

**Members of the Committee:**

Sean Whalen, Chairman and Commissioner, OLC  
Angela Mingo, Member and Commissioner, OLC  
Trevor McAleer, Member and Commissioner, OLC

**Also Present Were:**

Dennis Berg, Director, OLC  
Erin Brown, Office of Internal Audit, OBM  
Jim Brown, Office of Information Technology, OLC  
John Jones, Office of Internal Audit, OLC  
Cindy Klatt, Chief Audit Executive, Office of Internal Audit, OBM  
Traci Konesky, Assistant to the Director, OLC  
Lawrence J. Miltner, Chief Legal Counsel, OLC  
Diane Nagorny, Office of Internal Audit, OLC  
Liz Popadiuk, Deputy Director of Human Resources, OLC  
Carla Reeves, Office of Internal Audit, OLC  
Kelly Steinke, Office of Internal Audit, OBM  
Mary Vittardi, Office of Finance, OLC  
Joe Volpi, Office of Internal Audit, OLC  
Jennifer Wilson, Deputy Director of Internal Audit, OLC

**CALL TO ORDER**

- The Ohio Lottery Commission (“OLC”) Audit Committee Meeting of June 20, 2016, was called to order at 10:06 A.M. at the Frank J. Lausche Building, Room 200 by Chairman Sean Whalen.

**APPROVAL OF MINUTES OF April 18, 2016**

- Chairman Whalen asked Commissioner McAleer whether there were any questions regarding the meeting minutes. Commissioner McAleer stated no questions at this time. Chairman Whalen requested a motion to approve the April 18, 2016 minutes.

*At 10:05am, Commissioner Mingo arrived.*

- Commissioner McAleer made a motion that was seconded by Chairman Whalen. The motion was affirmatively voted on by all Audit Committee Members present.

**CHAIRMAN’S COMMENTS**

- Chairman Whalen welcomed Carla Reeves, Internal Audit’s Administrative Professional to the Audit Committee meeting.
- Chairman Whalen reported that there are a couple of executive documents, i.e. Charter policies, and Annual Internal Audit plan that the committee members need to approve at this meeting.

**DEPUTY DIRECTOR OF INTERNAL AUDIT REPORT**

- Ms. Wilson stated the agenda was designed to first report previous year’s data/audits, then present data, and then will conclude with reviewing the upcoming fiscal year 2017 Annual Audit plan, confirmation of independence forms, and Charters.
- Ms. Wilson stated for fiscal year 2016, the Internal Audit Plan completion rate was 60%. This completion rate included the consulting engagements and external audits. She stated there were thirty-three total projects planned; eight were re-assessed, cancelled, or removed bringing the total down to twenty five. Of those, ten projects were completed.

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- Ms. Wilson stated that there were eleven high risk audits planned. Eight of the eleven audits (73%) were completed. The remaining three are in various stages of fieldwork and will appear on the FY 2017 audit plan as carried over audits. Ms. Wilson stated that twenty audits were planned to be conducted by the Internal Audit department for fiscal year 2016; which, in hindsight, may have proven to either be too aggressive, identified a need for a fourth internal auditor, or a little bit of both. Looking ahead to fiscal year 2017, there are thirteen audits planned.
- Chairman Whalen asked what would be a reasonable goal to complete the audits. Ms. Wilson stated Internal Audit's goal is an 80% completion rate.
- Commissioner McAleer asked how the current 60% completion rate compares to the previous year's completion rate. Ms. Wilson stated the previous year's completion rate was 65%.
- Chairman Whalen asked in the planning phase how do you determine which audits are to be included in the audit plan and how to do you rate the audits i.e., high risk verses moderate risk verses low risk audits. Ms. Wilson stated in reference to how audits are determined, high risks audits are top priority, moderate risk audits are second, along with some low risks audits. All planned audits are reviewed on a quarterly basis to determine if the levels of risk have changed.
- Chairman Whalen asked after reviewing the annual audit plan, going forward what needs to be done to achieve the 80% benchmark to complete the audits. Ms. Wilson stated we have adequate coverage regarding the risks that have been identified.
- Chairman Whalen stated the committee members' want to review a plan of how the audit plan is created, what resources are needed to accomplish the 80% benchmark and examples of scenarios of what an operational internal audit looks like. Chairman Whalen stated the committee wants assurance that Internal Audit is using the current resources effectively and if there is an opportunity for additional resources, then that can be taken into consideration.

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- Chairman Whalen stated including an estimate on the number of hours needed would help in how hours are allocated and if additional assistance may be necessary. Chairman Whalen asked Ms. Wilson if this request was reasonable to expect this be completed before September's audit committee. Ms. Wilson stated yes and she will use the hours noted in the plan as criteria. This will assist in determining the need for an additional Internal Auditor.
- Commissioner McAleer asked Ms. Wilson to explain the status for the current three high risk audits. Ms. Wilson stated that she's moving onto the Dashboard which will help explain not only those audits but all the audits. Ms. Wilson stated the Dashboard only indicates internal audits and excludes the external and consulting engagement audits. Ms. Wilson stated the legend in the Dashboard will be revised so that the information displayed is clearer.
- Ms. Wilson stated there are six carried forward audits. Ms. Wilson stated carried forward audits are audits that began in fiscal year 2016 but will not be completed in fiscal year 2016. Ms. Wilson stated Retailer Management and E-Application are combined audits as opposed to individual audits. In addition, the Audit Committee agreed that the Games audit will be conducted by Spectrum. However, Ms. Wilson wants to keep this audit on the Internal Audit list. The Information Security audit is also included. Per Ms. Wilson these audits are currently in Fieldwork status. The Retailer Winnings audit is pending a start date. This audit was re-assessed from a Moderate Risk in FY 2016 to High risk in FY 2017. Commissioner Mingo asked for insight of why is the status removed for seven audits for fiscal year 2016. Ms. Wilson referred the Audit Committee to the FY 2016 Internal Audit Quarterly Status Report which explains in detail why those audits were removed for fiscal year 2016.
- Commissioner McAleer asked Ms. Wilson to explain why the Retailer Winnings audit status changed from a Moderate risk to High risk. Ms. Wilson stated the audit was rated high risk because Director Berg requested that the Retailer Winnings be audited. Director Berg's audit requests are deemed to be a priority.

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- Ms. Wilson directed the committee back to the Dashboard and focused on the 2<sup>nd</sup> chart. Ms. Wilson stated there are forty-one open issues and sixteen closed issues in Teammate. Out of the forty-one open issues, twenty-four are reported as being late. Thirteen of those issues are related to the Business Continuity audit and of the eleven open, late issues that remain, five are dependent on the Social Media corrective action getting implemented.
- Chairman Whalen asked what is the timeline established to close the Social Media audit. Ms. Wilson stated Liz Popadiuk, Deputy Director, Human Resources and Lawrence J. Miltner, Chief Legal Counsel are present and can speak to the status of that corrective action when we review that audit later in the agenda.
- Ms. Wilson stated the remaining six issues are from a combination of two audits; the Inspector General's report and the Lottery Profit Education Fund (LPEF) audit.

### **INTERNAL AND EXTERNAL AUDIT REPORT REVIEW**

- The first audit report is the Bank Reconciliation audit. The first issue is noted as high risk and it's in a pending status. Ms. Wilson requested guidance on how to move forward to complete the audit since no timeline was provided.
- Chairman Whalen asked was this audit a formal evaluation. Director Berg stated the Deputy Director of Finance planned to re-evaluate Solomon and is looking into other state lotteries and the products they use at the upcoming NASPL Professional Development seminar in August.
- Chairman Whalen asked that the Deputy Director of Finance report back to Deputy Director Wilson, Internal Audit and the Audit Committee in September regarding follow up on progress of this high risk issue. Commissioner Mingo agreed with Chairman Whalen on the importance of having a timeline as it relates to this high risk issue.
- Ms. Wilson moved onto the next issue which relates to change control of the spreadsheets that Finance utilizes in their department. She stated the revised due date is 6/30/2016. The Deputy Director of both Finance and General Accounting

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are working to identify high risk spreadsheets and once this is identified will implement controls.

- Ms. Wilson stated the next issue is Bank Reconciliation Back up Personnel; management agreed with Internal Audit's recommendation. Ms. Wilson received the revised policy that was recommended and agreed upon. Internal Audit will follow up at the end of July, 2016 to confirm that the policy was implemented.
- Ms. Wilson stated the next audit is the Claims- Expired Ticket Review and Deferred Payments. The first issue is divided into a two stage corrective action process as it relates to IT. The first part of the process was completed. IT was able to provide evidence that the project was submitted into ManageEngine. The second stage, to update the procedure, is to be completed by the end of calendar year 2016.
- Chairman Whalen asked will updates be included in one of the scheduled batches and what the timeframe is. Mr. Brown, IT Manager stated the issue is in ManageEngine and will be resolved by the end of calendar year 2016.
- Ms. Wilson stated the next issue, Management Review and Oversight of Policies and Procedures is scheduled to be complete the end of the calendar year 2016.
- Ms. Wilson stated the next audit is the EZPLAY® Game Liability audit. The first two issues are closed. The third issue is the Improvement needed to the Liability Performance Oversight and a BOS Liability Report. Management agreed with IA recommendations to monitor the performance of the EZ Play games to ensure that Intralot is complying with the agreed upon liability of percentage of sales. Although monitoring of the games was shown to Internal Audit for the months of November through April the report was incomplete as countdown games were not included in their monitoring. Also, if a prize payout were to fall below the spec, it was not clear to the monitor what to do with the information. Deputy Director of Finance will follow up with Deputy Director of IT and may consider changing the monitors. Ms. Wilson will follow up with Deputy Director of Finance by the end of July, 2016.

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- Chairman Whalen asked are we still on target to have this issue closed for the end of June, 2016. Ms. Wilson stated the date has been moved to the end of July, 2016.
- Ms. Wilson moved on to the Lottery Profits Education Fund (LPEF) audit. IT agreed to modify the game specifications as recommended. Mr. Brown, IT Manager, stated they are in the process of completing the MPQK process by September's audit committee meeting, at that time the modified specification will be completed. Chairman Whalen stated since this is a high risk issue it's important to figure out how to decrease the risk.
- Chairman Whalen asked when the modified specifications would be completed. Mr. Brown, IT Manager did not specify a date but did state it will be a short process and will report for September's audit meeting.
- Ms. Wilson stated the next issue, TAP Wins Liability Reclassification in Gaming System but Not in Reports, is also high risk. She stated the CCRF was submitted to IT; however, the CCRF is not complete and according to IT is scheduled to be completed in June, 2016 under the project QK Platform. Mr. Brown, IT Manager stated he will follow - up regarding the modification. He also stated QK platform went live on 6-29-16. The IT Director will provide an audit update for September's audit committee meeting.
- Ms. Wilson moved on to the next issue, Documented Procedures are somewhat outdated, she stated she will contact Ed Slyman for status update on policies and procedures.
- Ms. Wilson stated the next issue, Duplications of Validations on Some BOS Reports, is also pending a status update. She stated this relates to the CCRF and general accounting is waiting to be completed.
- Ms. Wilson stated the next couple i.e. Lack of a Specific Journal Entry for Some Printed Vouchers, Pay Voucher Liability Is Not Being Fully Reconciled, Some LPEF Components Were Lacking Substantiation and Voucher Purging Totals Not Considered in LPEF Calculations are pending for BOS reports to become available

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via CCRFs. Status update will be provided for September's audit committee meeting.

- Commissioner Mingo asked is there a person who is second in command to Mr. Slyman that can answer questions relating to the audit. Ms. Nagorny stated Mr. Mike Gonzalez.
- Chairman Whalen asked Ms. Wilson to update the commissioners before the September's audit meeting on the status of the high risks issues. Meeting will be next month with the Commissioners and Ms. Wilson to discuss status of high risks issues.
- Ms. Wilson moved to the Field Staff and Vehicle Usage with Credit Card Purchases audit. There is one open issue relating to policies.
- Chairman Whalen asked the timeline for the policy to be complete and published. Deputy Director Popadiuk stated the policies (Social Media Audit) have been reviewed and sent to Legal for review. Ms. Popadiuk asked Ms. Wilson for a list of policies that are priority so that she can review them.
- Commissioner Mingo asked Ms. Wilson what is the process for final approval of policies. Ms. Popadiuk stated the policies are sent back to the departments. If there are additional questions Human Resources and Legal will follow up with the prospective department to discuss.
- Chief Legal Counsel Miltner stated policies have been reviewed in the order in which the policies have been received. Mr. Miltner stated the Legal department is willing to re-prioritize which policies get reviewed as to not delay the audit process.
- Ms. Popadiuk stated she will contact Ms. Wilson for those policies that need to be reviewed for audit.
- Chairman Whalen asked what is the number of policies that Human Resources are currently reviewing. Ms. Popadiuk stated approximately one hundred policies, procedures and directives agency wide.
- Ms. Wilson stated once the policies are reviewed and updated then we can move forward to reviewing the policies on a yearly basis.

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- Ms. Wilson stated the next audit is the Call Center audit. The first issue is verified and closed. For the second issue, Updating Documented Procedures, Management has agreed with IA recommendations. Ms. Wilson is awaiting a status update from Steve Kmiotek. This is scheduled by the end of June, 2016. Ms. Popadiuk stated Senior Management is evaluating the need for a Lead supervisor and if this is the case, is there someone within OLC that meet the qualifications to oversee the day to day operations in the Call center or do they need to look outside of OLC. The next issue, The Lottery's Customer Service Standards Are Not Incorporated into a Policy, is in pending status until the end of calendar year 2016. Ms. Popadiuk stated the policy is drafted she will place high priority on this policy and will send to Legal to review.
- Ms. Wilson stated this issue will be closed by September's audit meeting. Chairman Whalen asked do we know how the Ohio Lottery Call Center compares to other Lottery call centers. Ms. Wilson stated she will follow up with Bill Gregg to find out if he uses other Lotteries as benchmarks. Commissioner Mingo stated it would be interesting to know what other Lotteries do to improve their customer service. Ms. Wilson stated the next issue she will also follow with Bill Gregg regarding options for a new database.
- Ms. Wilson stated the next issue refers to the Call Monitoring Policy. Management agreed with Internal Audit's recommendation. However, HR and Legal has to review the department's policy for approval. Human Resource already has a policy regarding monitoring which the Call Monitoring policy could be integrated as one.
- Ms. Wilson moved on to the Stolen Tickets audit. An updated procedure was received on February 1, 2016. However, an issue was found where stolen tickets were not moved into the correct status, and the tickets remained cashable for a month so that process needs to move quicker.
- Chairman Whalen stated why the issue has not been identified as high risk. Ms. Wilson stated the likelihood of this situation was not high. So the issue was categorized by what impact this would have on our organization. John Jones,

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Internal Auditor, stated this type of issue happens infrequently. The only time this situation occurs is when he found twenty - two tickets in one theft report. Two of the tickets were overlooked. The total dollar amount was approximately \$6.00. However, those two tickets could have been the jackpot. So therefore, the likelihood is very low based on the dollar amount. Ms. Wilson stated that Internal Audit's recommendation was to have a second reviewer to ensure issue is addressed.

- Chairman Whalen asked to walk him through the process of a stolen ticket and how to identify what tickets have been stolen. Mr. Jones explained the process.
- Chairman Whalen stated as long as we can exhaust all possibilities to ensure that this risk is not high then he is satisfied. Ms. Wilson stated that there has been some turnover in Security recently which may have caused the issue to stay open.
- Ms. Wilson stated the next issue pertains to outdated policies. The policies were updated and sent to Ms. Wilson. However, the policies have to be reviewed and approved by Legal.
- Commissioner Mingo asked when the process is working as it traditionally does, what is the timeline when the reporting is done and the investigator comes into play. Mr. Jones stated that the retailer has 24 hours to report to the OLC, and usually it is either that day or the very next day depending on the time that it gets reported that the status is changed.
- Ms. Wilson moved on to the Auditor of State audit. There were four issues. However, only two are in pending status. The first issue pertains to the Bi-Annual audits as noted in the Key Card System policy to ensure that access granted is appropriate. The Deputy Director of the Office of Security (not present) has hired an Administrative Professional and one of her responsibilities will be to develop a process that will document the biannual audit for all key holders. Ms. Wilson stated the next issue is closed.
- Ms. Wilson stated the next issue is IT needs to update their Change Control policy. Ms. Wilson will provide the committee an update by September's audit meeting.

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- Mr. Brown stated that his department is confident that the Auditor of State will not find any issues this year.
- Ms. Wilson moved onto the Inspector General report. There were four issues; two of the four issues are closed. The 1st issue relates to the monitoring of retailers to ensure passwords are secure. Commissioner Mingo asked is there a timeframe that the retailers have to change their passwords as an added security. Ms. Wilson stated that the retailers do not change their password and this is what caused the security risk.
- Ms. Wilson stated for the next issue she and Ms. Nagorny are meeting with the security department to discuss a recommendation involving useful BOS Reports.

### **EXECUTIVE SESSION**

- Chairman Whalen stated at this time he would like to move into Executive Session to discuss infrastructure and security measures and OBM internal preliminary reports. Chairman Whalen made a motion to move into Executive Session that was seconded by Commissioner Mingo. The motion was affirmatively voted on by all Audit Committee Members present.
- The Audit Committee moved into Executive Session at 11:03 a.m.
- The Audit Committee moved out of Executive Session at 11:30 a.m.

### **APPROVAL OF EXECUTIVE DOCUMENTS BY THE AUDIT COMMITTEE**

- Chairman Whalen stated we will now review the Charters, the Confirmation of Independence forms, and the 2017 Annual Audit Plan. Chairman Whalen stated he and the other members of the audit committee read the Charters before today's audit committee meeting. Ms. Wilson stated she made the recommended changes and Carla has the final copies of the Charters for Chairman Whalen to sign after the Audit Committee.

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- Chairman Whalen shifted to the Annual Audit Plan. Ms. Wilson stated that she added in section 2.2 of the Annual Audit Plan OLC has added new games i.e., Lucky for Life, Multi-Purpose Quick Keno (MPQK) and EZ Play. Also, in section 2.3, the cashing program has some changes. US bank will no longer be providing Lottery cashing services as of July 1, 2016. Ms. Wilson directed the committee to section 5 of the Audit Plan. She stated that she changed the format to reflect fiscal year instead of quarters. Cindy Klatt, OBM approved Ms. Wilson's format change. In addition, Ms. Wilson clearly stated that she added a category for Internal Audit and she stated Internal Audit also, gets audited.
- Chairman Whalen stated Appendix A in the Audit plan that the inclusion of the resources is helpful. Chairman Whalen stated as we evolve in the priorities and the commitment to service delivery as what we can do year in and year out we will have that discussion and the inclusion of the resources of topics. So pending that, this Audit Plan guides the audit committee going into the year. Chairman Whalen stated he would like to move forward with 2017 Annual Audit plan. Chairman Whalen asked were there any final questions and asked for a motion to approve the plan. Commissioner McAleer made a motion and Commissioner Mingo seconded the motion and the entire committee approved.-.
- Ms. Wilson stated she included the Confirmation of Independence documents. There is a conflict of interest for one staff member. Due to this conflict, this person will not be assigned selected audits. Otherwise, there were no reportable matters.

**OFFICE OF BUDGET AND MANAGEMENT, OFFICE OF INTERNAL AUDIT,**

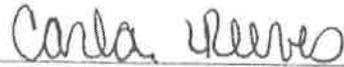
**CINDY KLATT, CHIEF AUDIT EXECUTIVE**

- Ms. Klatt reported that OBM has had some turnover in their Audit committee. In addition, they are in the process of selecting a new chairman.
- Ms. Klatt reported that she is looking forward to working with the Ohio Lottery with the upcoming audits. She also stated for a couple of the audits her department will perform a data analysis for the payment cards that are used to gain access

control into the system. This will be a new process that they are auditing for all the state agencies.

NEW BUSINESS AND ADJOURNMENT

- Chairman Whalen called for new business. Ms. Wilson stated the audit committee dates and rooms have been scheduled for Fiscal Year 2017 and the schedule is on the OLC website. Ms. Wilson also stated she would have the reports for SOC 1 and SOC 2 to present to the Audit Committee. In addition, once she receives the narrative from the MUSL's audit she will report these reports at September's audit meeting Chairman Whalen adjourned the meeting at 11:40 a.m.



Secretary – Carla Reeves

Approved:

  
Sean Whalen, Chairman