



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

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

**SEPTEMBER 21, 2015
10:00 P.M.**

Present at the meeting were the following:

Sean Whalen, Chairman, Audit Committee
Angela Mingo, Member of Audit Committee, OLC
Dennis Berg, Director, 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
Maria Robinson, Section Audit Chief, Office of Internal Audit, OBM
Kelly Steinke, Internal Audit Manager, Office of Internal Audit, OBM
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 September 21, 2015, was called to order at 10:02 P.M. at the Frank J. Lausche Building, First Floor Conference Room by Chairman Sean Whalen.

INTRODUCTION OF ATTENDEES

- Chairman Whalen asked everyone present at the Meeting to please introduce themselves: Sean Whalen, Chairman, Audit Committee; Kelly Steinke, Internal Audit Manager, Office of Internal Audit, Office of Budget and Management (“OBM”); Maria Robinson, Section Audit Chief, Office of Internal Audit, OBM; Jennifer Wilson, Deputy Director of Internal Audit, OLC; Cindy Klatt, Chief Audit Executive, Office of Internal Audit, OBM; Lawrence J. Miltner, Chief Legal Counsel, OLC; Traci Konesky, Assistant to the Director, OLC; Dennis Berg, Director, OLC; Liz Popadiuk, Deputy Director of Human Resources, OLC; John Jones, Office of Internal Audit, OLC; Diane Nagorny, Office of Internal Audit, OLC; Joe Volpi, Office of Internal Audit, OLC; and Angela Mingo, Member of Audit Committee, OLC.

APPROVAL OF MINUTES OF JULY 20, 2015

- Chairman Whalen requested a Motion to approve the July 20, 2015 Minutes. Commissioner Mingo made a Motion that was seconded by Chairman Whalen.

CHAIRMAN’S COMMENTS

- Chairman Whalen stated that the first item he would like to discuss is a revolving topic on the agenda which is the presence of the Advisory Panel. There are currently two (2) members of the Audit Committee present at today’s Meeting. The Audit Committee is a three (3) person Committee overall and the question is: Is there an appropriate structure to perhaps engaging an Advisory Panel; does it make sense;

what would it look like; and what are the legal ramifications that are involved in both the course of the Meeting and outside of the Meeting.

- Chairman Whalen stated that what he would like to do is start talking today about starting a full exploration of whether or not that is something that suits the Audit Committee or not. This was a recommendation from OBM as a best practice, and in some cases, perhaps could be a best practice for this Audit Committee. However, Chairman Whalen believes that they first need to start with Mr. Miltner to take a look at it from a legal perspective before they get into any particulars. He stated that over the next ninety (90) days they should take a look at the applicability and the implications of such an advisory group that would join the Audit Committee, and then they can continue the conversation with no real deadline in sight, but a goal to continue to progress until they reach a final decision as to whether or not this makes sense.
- Chairman Whalen stated that lately, this has been a topic that has been circulating around on the Agenda since the Audit Committee has been coming together as a group, so he would like to decide one way or another on an Advisory Panel at some point. Chairman Whalen asked if there were any questions.
- Mr. Miltner asked if the thought was to have individuals who would attend the Audit Committee Meetings and offer their comments at the Meeting or is the thought to have the establishment of an independent panel that the Audit Committee could go to with questions whenever they arose but would not necessarily be meeting with the Audit Committee.
- Chairman Whalen responded that the concept of an Advisory Panel is wide open. He stated that he would not want to be restrictive in any way. The fundamental goal would be to round out the experience of the Audit Committee to look at

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opportunities to backfill various areas where there may be a deficiency relative to examining the audit plans, the outcomes and the course of action. He stated that the reason he wants to start with Mr. Miltner is before they decide what course of action to take, is because he thinks that perhaps there could be several implications depending on what they decide to do.

- Mr. Miltner asked how the role of an Advisory Panel differs from OBM's presence as advisory services to the OLC. Ms. Klatt responded that she thinks that it would differ in that an Advisory Panel would just have the OLC to focus on where OBM has multiple agencies. An Advisory Panel would be more focused on the OLC and the issues at hand.
- Director Berg stated that the OLC is looking for a cross-section of professionals, and OBM is the expert at the Internal Audit function. There are many other facets that the OLC is doing so the goal is to have broader experience at the table.
- Ms. Wilson asked Chairman Whalen if he was thinking the Advisory Panel would be a permanent group of people or, depending on what is on the Agenda, would it be an "as needed" group of people.
- Chairman Whalen responded that those are questions he does not know because he does not know what the landscape would look like, such as the type of person the Audit Committee may want to engage with and how much engagement those people would like to be involved. If it is a non-member of the Commission, they would not have any of the protections or benefits to being on the Commission in a legal sense, so they may have a different perspective as to how they want to be involved versus a Commission member's sense of where they are materially responsible for being part of the decision making process and the voting.

- Ms. Wilson stated that she was also thinking that rounding out the experience makes sense. She stated that she wondered if there were people on the Commission currently that could be potential members of the Audit Committee, possibly making it a five (5) member Committee.
- Chairman Whalen stated that those are all great questions and that is probably where they want to go so there are a handful of options. He stated that the fundamental goal right now is to see if there is a way to broaden the Committee's experience as it receives information from Ms. Wilson on the on-goings of the OLC, what the Audit Committee's response is and does that response balance or is it very narrow in the sense that both he and Commissioner Mingo, being the only two (2) members present at today's Meeting, have their own area of expertise. This is a good example of an area where he would like to have a broader review before decisions are made or course of actions are taken.
- Director Berg asked if OBM has other examples of implementing something similar to an Advisory Panel in other agencies. Ms. Klatt responded that she was unaware of any because this is a unique circumstance. The Bureau of Worker's Compensation is the other Internal Audit function that OBM oversees, and they have many Board members of which five (5) to seven (7) are Audit Committee members. She stated that there may be Audit Committees in the private sector but none that she is aware of. She stated that it is possible the retirement system side could have Audit Committees so that is an area she could look into.
- Director Berg stated that the OLC could canvass the lottery industry through the National Association of State and Provincial Lotteries ("NASPL"). NASPL can send out a questionnaire to the entire lottery industry to see if there are any practices

with Audit Committees, who is on those Committees and whether there are Advisory Panels. He stated that he can personally reach out to the Legal Counsel of the North Carolina Lottery because their Commissioners have a big role there, and he can see what their practices are.

- Chairman Whalen stated members of the Advisory Panel do not have to be from outside the Commission. However, current Commissioners are also involved with other things such as the Problem Gambling Committee so resources are limited. For now, they need to survey the landscape as Director Berg mentioned, as well as discuss the issue with Mr. Miltner from a rules and legal ramification perspective because he does not want to walk down a path without knowing what it all means.
- Chairman Whalen stated that they will revisit the topic of an Advisory Panel at the December Meeting. He stated that there is no deadline; however, he does want to keep the conversation going.
- Chairman Whalen passed out an organizational chart for the State so that everyone can have a better understanding of the inner-workings of the State relative to the OLC. The OLC is one (1) of two (2) unique State Agencies relative to the following: the audit sphere; how it operates; who it interacts with within the State and why; and what type of relationships it has with other State Agencies. This is a good visual in clarifying the working members involved with the OLC. The Dashboard is another example of this type of document in that it helps clarify high level management reporting.
- Ms. Wilson stated that she was not sure if the document was as complete as Chairman Whalen wanted it to be. Chairman Whalen asked everyone to take a look at it on their own time and provide any feedback or questions to Ms. Wilson.

- Chairman Whalen stated that he would like to touch upon the Business Assessment RFP and asked Director Berg to give a brief overview as well as the status of the RFP at this point.
- Director Berg stated that the deadline for bid proposals was extended a week to September 28, 2015, and the question and answer period ends today. There are three (3) components to the RFP that the OLC wants outlined: a review of the governance structure; a review of operational efficiency; and possible revenue opportunities. The end result will hopefully be a list of recommendations that the State will review and decide what, if any, makes sense, and the consultant may have the opportunity to help implement those recommendations.
- Chairman Whalen asked if that consultant would come on-site to the OLC and have access to upper management. Director Berg responded that they would be given space at the OLC, if desired, and they would have access to all OLC staff to interview.
- Commissioner Mingo asked if there is a particular frequency in which the OLC goes through this process, and if not, what prompted the interest at this time. Director Berg responded that this is the first time the OLC has done this. The Auditor of State performed a performance audit on the OLC years ago, however, the OLC did not request that audit. The performance audit was more high level in nature, and it did not get into enough detail on the components that are within the RFP.
- Chairman Whalen stated that for the onsite participants, from a sensitivity perspective, the OLC needs to make sure that there are no issues from a confidentiality standpoint.

- Mr. Miltner stated that the OLC needs to be very concerned about confidentiality. There is a great deal of trade secret information with regard to current OLC vendors and VLT licensees. He foresees issues arising in this area.
- Ms. Wilson inquired if the consultants would be able to access that information through a public records request. Mr. Miltner responded that if a vendor is doing something under its contract that the OLC would otherwise be required to do itself, the courts have said that information relating to the performance of that service may be a public record but still subject to exceptions under the law.
- Mr. Miltner stated that there needs to be a state entity that conducts the lottery. Federal law provides that one cannot engage in a lottery which involves inter-state commerce unless it is conducted by a state. With that being said, the lottery must continue to be conducted by a state entity. There has been an opinion from the Department of Justice on exactly what conducting a state lottery means and that the state lottery has to have the final decision making authority on all substantial decisions. Chairman Whalen stated that that would address any concerns about a full privatization. Mr. Miltner stated that to say that this is an effort to privatize the OLC is not accurate. One cannot do that under federal law.
- Chairman Whalen stated that the Auditor of State will be attending the December Audit Committee Meeting to discuss the results of their audit.

- Ms. Wilson stated that the first item she would start with is the dashboard. The first chart depicts fiscal year 2016 audits per status. The chart shows sixteen (16) audits, however, it does not show the three (3) audits that were carried over from fiscal year 2015 that were not completed: the bank reconciliation audit (post-audit scheduled for September 22, 2015); the LPEF audit (post-audit scheduled for October 6, 2015); and the MPNG audit (post-audit was held on July 30, 2015).
- Chairman Whalen stated that they are not always looking for a full completion because there are a lot of things that occur between start and finish. It is always about the overall quality.
- Ms. Wilson stated that the next chart depicts the corrective action timeline. The first one shows that there are two (2) that are open that are late; eighteen (18) that are open that are on time; and one (1) that was not followed up, however, that was followed up on in the MPNG audit so it should move to open on time. The last dashboard had twelve (12) open but late.
- Ms. Wilson stated that there are still thirteen (13) open issues from fiscal year 2013 but they are all from the BCP audit. Commissioner Mingo asked if the BCP audit was the Business Continuity Plan audit. Ms. Wilson responded yes it was, and Ms. Popadiuk will speak on that later in the Meeting.
- Chairman Whalen stated that he would be interested in seeing the cross-section by fiscal year of the number of high risk or medium risk output of account by department by fiscal year. Then it could be considered year after year the high risk. The impact to the OLC can be looked at relative to the audits that take place.
- Ms. Wilson stated that the last chart depicts open issues by department that are high risk. On the last dashboard, the biggest piece of the pie was Operations; however, it

is now Human Resources because the responsibility for the corrective action on the BCP audit moved to that department.

- Chairman Whalen asked if the OLC has a centralized location where policies and procedures are housed. Ms. Wilson responded that they are on the OLC's Intranet. Chairman Whalen asked if they are proactively evaluated for staleness or reviewed to make sure they are still applicable. Ms. Wilson stated that the OLC is currently working on that and a policy review committee may be developed.
- Mr. Miltner stated that there had been an issue that grew out of the social media audit, and Director Berg had identified that the OLC needs someone to handle the entire policy and procedure review process.
- Ms. Popadiuk stated that Human Resources handles the review of policies and procedures currently. Human Resources has collected all of the policies from all of their respective owners and Deputy Directors. Before sending the policies, they were asked to review them and make any necessary revisions or let Human Resources know if a policy needs to be deleted or added. The goal is to roll out new and revised policies by the end of 2015 for the entire agency.
- Ms. Popadiuk stated that she is working with Director Berg on setting up a policy review committee. Human Resources is also going to begin documenting a formal review process so there will be a procedure and formal review process that the OLC can refer to for policies. This process will be done annually or more frequently if needed.
- Ms. Wilson stated that in regards to the other two (2) consulting engagements, the on-boarding and off-boarding, recommendations were received in July. Both of

those were linked to another audit so that audit will be closed because the consulting engagement is open and that is where those two (2) items will be taken care of.

- Ms. Wilson stated that the contract and vendor management policy development was on hold but now it is not because the person that was put in that position now has the authority to write policies.
- Ms. Wilson stated that in regards to the external audits, the Auditor of State is still working on that piece. The Inspector General's report will be followed up on as part of the cross-cashing audit scope..
- Ms. Wilson stated that in July 2015, the OLC's Internal Audit staff all started over again to earn forty (40) hours of continuing education. In August 2015, all Internal Audit staff attended a webinar entitled, "The New International Professionals Practices Framework, What to Expect." The Department was brought up to speed on things that are changing with the standards of the Institute of Internal Auditors. Highlighted things that may change are their mission statement and the core principals. When their changes are final, the OLC will align its policies to those changes.
- Ms. Wilson noted from the prior Audit Committee Minutes that the results from submitting language for the Budget Bill that would protect draft audit reports from public records requests was not discussed. That language did not make it into the Budget Bill. She stated that her understanding was that the OLC does not need to wait for the next Budget Bill to try again, and she and Mr. Miltner will talk to Ms. Tricarichi regarding that.

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- Chairman Whalen asked why the language did not make it in the Budget Bill. Director Berg responded that there was so many statewide items that were trying to be added to the Budget Bill.
- Chairman Whalen stated so the OLC did not receive a clear reason why and that it was just more process oriented. Mr. Miltner stated that the OLC made sure that the language was on the agenda to be added to the Budget Bill but it did not get approved.
- Mr. Miltner stated that the OLC did try at the Conference Committee to get the language in but there was so many other issues being addressed at that point in time that it just was not high level enough on the radar to make the final Budget Bill. Mr. Miltner stated that he had spoken with OBM's Chief Legal Counsel and the OLC made modifications to the language and the modifications were approved by the OBM Director, however, when it came time to identify the items going in the Budget Bill, the OLC's language did not make the cut.
- Ms. Klatt stated that she tried as well on the OLC's behalf to get the language in the Budget Bill but it did not work.
- Ms. Wilson stated that the Internal Audit Department has successfully justified the need for a part-time Administrative Assistant. Conversations are still taking place and the job has not posted yet. The position would entail being the Audit Committee coordinator, assist in organizing follow-up audits, assist in daily needs for the Internal Audit Department and the OLC document control coordinator, however, that could be a conflict. The solution to that would be to have that person report to someone else for just that function or the OLC could develop a system to the point where it becomes maintenance and then it could be handed off to someone in another

department. The decision on which way to go does not need to be decided right away.

- Chairman Whalen asked what the percentage of time would be for the document control coordination. Ms. Wilson responded that they would be starting from scratch so this person could potentially work forty (40) hours a week on just that. Chairman Whalen stated that it sounds like there is a true need for this person. As stated, the decision does not need to be made today, and it would be great to fulfill both areas because there is a true need on both sides.
- Ms. Klatt stated that she has talked to Ms. Wilson about the position, and OBM would certainly assess the risk the same way they do every year. OBM is there to support the OLC's internal audit endeavors.
- Commissioner Mingo asked if there was a timeline for the Administrative Assistant to begin. Ms. Wilson responded that she was not sure because they are still discussing details.
- Director Berg stated that he started the OLC's first Internal Audit Department in 1991 and there was always that balance between doing the job yet being independent. Internal Audit did not follow a lot of the standards that are seen today. He stated that his argument was always if something was non-existent or broken, he'd much rather have a conflict if it was going to bring value to the Agency as opposed to using the umbrella that it can't be done or we can't get involved. He stated that if something was not working or non-existent that Internal Audit could play a role and help build it and move it over to someone else at some point.

- Ms. Wilson stated that she will keep the Audit Committee posted and if anyone has a strong opinion on which way to go to please let her know.
- Chairman Whalen stated that he has no direct opinion on any of the options; however, he wants to seek a balance. He stated that he wants the OLC to continue to explore options and see what makes the most sense.
- Commissioner Mingo states that it makes a lot of sense, and she likes the idea of having someone who can assist with the Internal Audit Department's needs.

EXECUTIVE SESSION

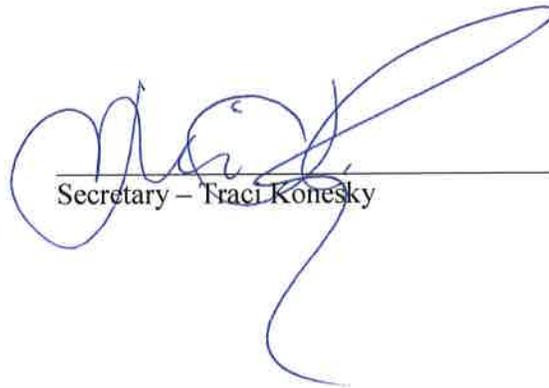
- Chairman Whalen requested a motion to move into Executive Session. Commissioner Mingo made a Motion to move into Executive Session that was seconded by Chairman Whalen. Mr. Miltner stated Executive Session would be for consideration of matters that need to be kept confidential by law and that would include the security and emergency response protocol for the record and a roll call vote is necessary. A roll call vote was taken and Chairman Whalen and Commissioner Mingo voted to move into Executive Session. The Audit Committee moved into Executive Session at 11:05 a.m.
- The Audit Committee moved out of Executive Session at 11:30 a.m.

AUDIT ENGAGEMENT DISCUSSION

- Due to time constraints, only one audit issue was discussed. Strategically, the one chosen for discussion was a high risk issue associated with the MPNG Audit: Lack of Restricted Player Claims Controls. A proposed procedure will be drafted by the next audit committee meeting.

ADJOURNMENT

- Chairman Whalen requested a motion to adjourn the Meeting. Commissioner Mingo made a motion to adjourn the September 21, 2015 Meeting. Chairman Whalen adjourned the meeting at 11:47 a.m.



Secretary – Traci Konesky

Approved:



Sean Whalen, Chairman