



OHIO LOTTERY COMMISSION  
Audit Committee Meeting Minutes

Monday, March 16, 2015, 10:00 A.M. – 12:00 P.M.

*In attendance:*

Audit Committee Chairperson,  
Lottery Commissioner  
Sean Whalen

Audit Committee member,  
Lottery Commissioner  
William Morgan

Audit Committee member,  
Lottery Commissioner  
Angela Mingo

Venugopal Pallerla (OBM)  
IT Audit Chief  
Office of Internal Audit

Cindy Klatt (OBM)  
Acting Chief Audit Executive  
Office of Internal Audit

Larry Miltner  
Chief Legal Counsel  
(Ohio Lottery)

Constance Miller  
Deputy Director, Operations  
(Ohio Lottery)

Dennis Berg  
Executive Director  
(Ohio Lottery)

Mike Petro  
Deputy Director, IT  
(Ohio Lottery)

Jennifer Wilson  
Deputy Director, IA  
(Ohio Lottery)

Jack O'Donnell  
Deputy Director, Security  
(Ohio Lottery)

Kristen Calabrese  
Office of IT  
(Ohio Lottery)

Diane Nagorny  
EDP Internal Auditor  
(Ohio Lottery)

John Jones  
IT Internal Auditor  
(Ohio Lottery)

Joseph Volpi  
EDP Internal Auditor  
(Ohio Lottery)

**Call to Order**

At 10:01 am, Chairperson Whalen called the March 16, 2015 Ohio Lottery Audit Committee meeting to order, acknowledging first-time attendee, Jack O'Donnell, Deputy Director, Office of Security, Ohio Lottery. Anticipating arrival of OBM partners, Cindy Klatt, Acting Chief Audit Executive and Venugopal Pallerla, IT Audit Chief, Chairperson communicated he will allow for introduction of OBM representatives at the point of their arrival. Pallerla will also be a first-time attendee.

**Approval of Minutes**

Chairperson Whalen expressed hope committee members had found time to review the December 15, 2014 meeting minutes in anticipation of the first Ohio Lottery Audit Committee meeting of the calendar year. Before proceeding, Whalen requested a motion to approve the prior meeting's minutes without modification(s). Commissioner Angela Mingo motioned and Commissioner Bill Morgan seconded said motion. All commissioners voted yea unanimously approving December 15, 2014 meeting minutes. In the interest of time-management, Chairperson Whalen indicated he will execute the approval document following adjournment.

### Chairperson Whalen's Comments

Framing his comments, as dovetailing into Jennifer Wilson's report and interconnecting with audit statistics, Chairperson emphasized the fluidity of dashboard information. The latter data, a visual representation of both swift progress and areas calling for improvement, will remain dynamic in nature.

#### Process of Assigning Risk-Levels:

Upon his review of the prior meeting's minutes, Chairperson highlighted important information contained within: accurate definition-descriptions of categorizations, such as, high-risk, medium-risk and low-risk. Chairperson would like to revisit this point. Per minutes reviewed and approved, Whalen emphasized this undertaking involved considerable work. At this point, the committee has a level set. For instance, high-risk denotes certain characteristics and demands a high-degree of attention. Uniform definition-descriptions will allow for accurate communication and establish a baseline. Leveraging time, energy and resources to address risks of all levels in an appropriate manner will be crucial, as stated by Chairperson. Bearing in mind these levels establish criticality of audit recommendations/findings and implementations, it is essential the committee's understanding of risk matches the corresponding interpretation by staff. Chairperson identified one committee goal-- the importance of committee members and staff being in sync on the designation of risk. This standard will drive the committee's work.

#### TeamMate Software:

Chairperson shifted gears to query Wilson. Maximizing TeamMate software – the full suite of features/functionality—is one central factor which will contribute significantly to the effectiveness of internal audit. As the department hones skills and tools at its disposal, Whalen asked Wilson if there are additional features which may be harnessed – “more horsepower” to leverage in the work of internal auditors. Chairperson inquired if this software has proven to be an aid. Wilson responded the software has been helpful. In addition, Wilson discovered software features not currently being used, as she and the audit team filtered data for the dashboard piece. Wilson plans to use features allowing for analysis of raw data in preparation for future meetings.

Sharing comments ahead of her planned report, Wilson informed the committee she has spoken to Anthony Garofoli, Executive Director, Internal Audit, Cleveland RTA, who reached out to her, regarding his recent purchase of TeamMate software. Garofoli solicited Wilson's feedback regarding helpful features and less helpful options built into TeamMate. Both intend to pinpoint what is working and what is not working in a collaborative manner. In order to share TeamMate training costs, Garofoli suggested the Ohio Lottery and RTA plan a dual-agency training session. Wilson expressed doubt it would be pragmatic to use the full spectrum of TeamMate features, as Wilson does not feel all software options augment the work performed. Wilson cited feedback from other agencies, also utilizing this software. End-users have found it was not designed for their specific output. This includes OBM.

Wilson intends to confer with Garofoli on mutually agreed upon training topics. Wilson will update Chairperson, as training topics are fleshed out and cautioned this will be extremely expensive—TeamMate training totals \$3,000/day, plus expenses. Internally, the Office of Internal Audit will be working with the Office of IT to perform an upgrade of TeamMate to version 11.0 in the next few weeks, as reported by Wilson. Chairperson inquired if there are annual subscription fees or annual licensing fees. Wilson indicated the annual maintenance fee is approximately \$1400. Regardless of budgetary constraints, Whalen reiterated the committee's desire to ensure Lottery auditors have the proper tools at their disposal. Ideally, Chairperson would like to ensure the software enhances output--another committee goal. Addressing fellow committee members, Whalen queried for questions. Commissioners Mingo and Morgan posed none.

#### Continuing Education for Internal Auditors:

Chairperson addressed Wilson to ascertain the status of auditors' CEUs, as well as any progress achieved with training initiatives. Wilson deferred to the subsequent audit report.

*[Klatt and Pallerla joined the committee meeting at 10:10 am].*

Chairperson Whalen paused to ask Klatt and Pallerla to briefly introduce themselves for benefit of attendees. Following these introductions, committee business resumed.

Business Flow Diagram (State Audit/Internal Audit/OBM):

Chairperson shared that he and Pat McDonald, Ohio Lottery Commission Chairperson, discussed possible ways to shed light on the interaction among auditors from Auditor of State, Ohio Lottery and OBM to better understand business obligations and interactions among counterparts. A business schedule and timeline of engagement in diagram form would be helpful in elucidating when and how these parties interface. The diagram would illustrate the following components of each interaction: purpose/goal(s), duration and individuals involved. All components contained in one diagram would arm the committee with pertinent information. As acknowledged via other meeting discussions, audit interactions at the Ohio Lottery and BWC are unique. In short, Chairman reiterated it is necessary for committee members to understand standard rules and procedures involved in the auditing process.

Referring to the *Ohio Lottery Commission Office of Internal Audit Policy Manual, Version 1.0* dated February 2015, also included in meeting materials, Wilson indicated a hierarchy structure is outlined in this document. However, this information excludes Auditor of State engagements. Whalen further explained he is seeking an overview of working relationships, including engagement schedules. Wilson identified the *Internal Audit Annual Plan*, as one source of this information (i.e. external audits – AOS – first quarter). Chairperson restated that a diagram would facilitate a clearer understanding of timing and who is responsible for specific tasks and when said duties are fulfilled. Specifically, a diagram of the cycle of interaction would be effective in the future when transitioning new committee members, as stated by Whalen. Commissioner Mingo opined it would be helpful to have this comprehensive visual aid.

Executive Director Berg delineated Ohio Lottery obligations. The Ohio Lottery is required to have financial statements both audited and completed, no later than October 1, annually. In prior years, the guideline allowed for completion of financial statements in December each year. Federal rules governing reimbursements for a variety of programs have impinged upon the historical timeline, mandating a tightening of regulations surrounding the completion of these statements, as explained by Director Berg. Berg stated the State of Ohio directed agencies to submit financial statements by the pre-established date, no exceptions. Director emphatically stated regulations have greatly assisted the Ohio Lottery in closing out financial business in a timely fashion. Director Berg further described how the AOS performs two major audits each year. A Financial Audit is performed as well as an Information Systems Audit.

Mike Petro, Deputy Director, Information Technology, Ohio Lottery explained AOS Information Systems auditors begin work with the Ohio Lottery Office of Information Technology in May each year. In May, these auditors gather data for the upcoming audit of the current fiscal year concluding June 30. The AOS works from the Ohio Lottery Office of Information Technology during July, conducting field work for approximately one month. Petro explained AOS finalizes documentation by the deadline of October 1, as established by Director Berg. Petro added in past years, it would not be atypical for fieldwork to start in July and conclude in October. The new deadline, welcomed by Director Berg and Petro, requires AOS to complete their audit document by a specified date.

Audit Engagement Planning Document (AEPD):

In order to measure the effectiveness of the *Audit Engagement Planning Document*, Chairperson sought feedback from Wilson. Wilson confirmed the AEPD is a tool consistently employed by internal auditors in every engagement. Its purpose is multi-fold: the AEPD safeguards compliance to standards and a standards matrix by allowing auditors to strategize or pinpoint key risks and define how these risks are critical. It segregates/categorizes security documents and verifies independence of auditors. An executed AEPD is the official starting point for fieldwork performed by internal auditors, as explained by Wilson. This document encapsulates work performed in the planning phase. Once the Deputy Director of Internal Audit formally approves the AEPD, fieldwork commences and the internal auditor begins the testing phase.

Chairperson Whalen returned to the topic of risk-rating, inquiring if there is a discussion of risk-rating at this point in the auditing process. Wilson affirmed there is discussion of risk-rating at this time. It does not equate to an issue risk-rating per se. It is dependent upon results of testing. In general, risk categories are identified in the plan.

For example, contract compliance management was high-risk, based upon the annual assessment. Chairperson probed committee members for related questions in respect to these documents. Whalen validated use of these documents in the planning phase, as a way to begin the process in a cohesive manner and reaffirmed his approval of employing the AEPD, as another value-added tool.

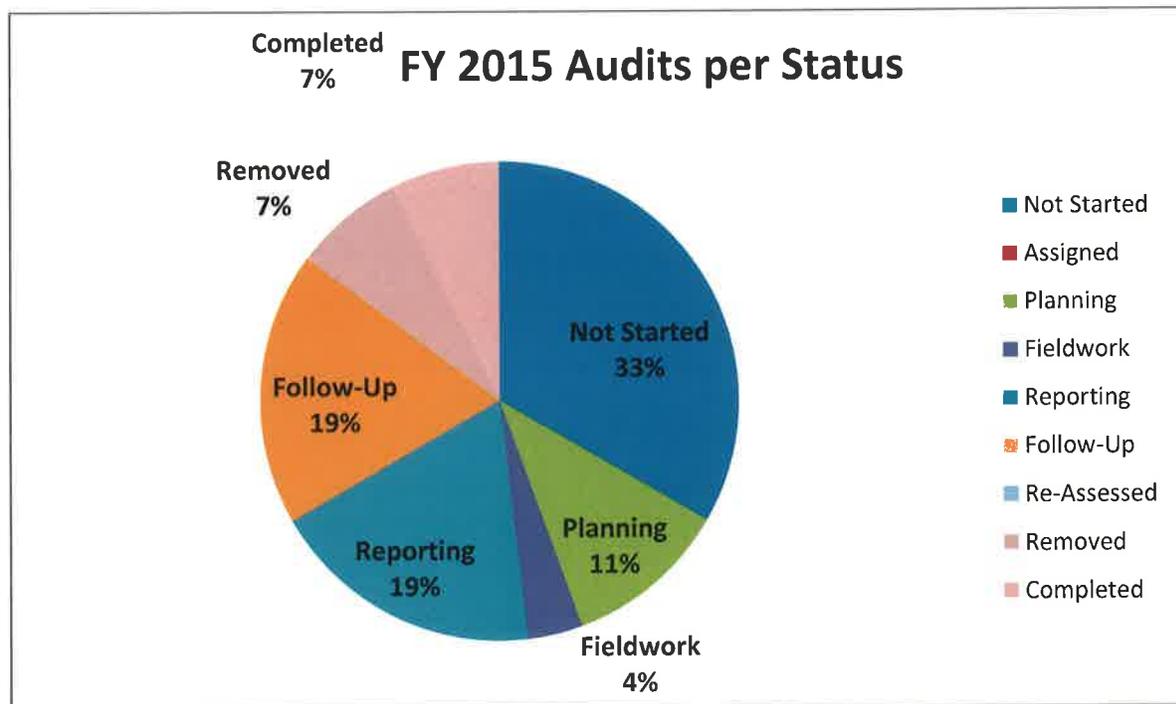
YTD Dashboard:

*[Dashboard data is dynamic in nature. Graphs represent fluid data updated during the second week of March 2015].*

FY 2015 Internal Audit Quarterly Status Report – March 2015/

Chairperson requested a year-to-date status update. Wilson transitioned to the next agenda item, spotlighting the year-to-date dashboard piece. In reference to a handout entitled *FY 2015 Internal Audit Quarterly Status Report – March 2015*, also available in meeting materials, Wilson explained the status information, taken directly from the *Internal Audit Annual Plan*, populates the spreadsheet. The spreadsheet is reflective of what has changed in each audit category since formulation of the plan. For instance, Wilson pointed out several contract audit and review categories were removed due to results of the contract compliance audit. The contract audit results, high-level in nature, do not justify repeat auditing and would produce duplicative information of no real value. Commissioner Morgan offered his assessment that repeat auditing of this area would only waste time. Wilson agreed. Looking ahead, Wilson informed committee members henceforth, they will be receiving an *Internal Audit Quarterly Status Report* at each Audit Committee meeting. This format, based upon the OBM model, will capture quarterly progress throughout the fiscal year. In the future, Whalen would like to see a distinction made between AOS, OIA and OLC in the *Internal Audit Quarterly Status Report*. Chairperson said this might be accomplished by using a different color of font for each agency name. Once again, Chairperson thanked Wilson for such a clean document and stated he looks forward to future progress reports.

FY 2015 Audits Per Status/



First, Wilson informed members the data driving the pie chart's breakout originated from TeamCentral, a module in TeamMate and essentially mirrors the *FY 2015 Internal Audit Quarterly Status Report – March 2015*.

Alternatively, Chairperson Whalen voiced his preference for lines demarcating stages in the audit process:

- not started through planning represent inactive status
- follow-up/removed represent items off the table
- the middle section correlates to collection of data reflecting active auditing

A clear indicator of the stage during which active review is underway would be beneficial for Whalen's purposes. It offers a different perspective for purposes of discussion, as explained by Chairperson. Whalen analyzed the pie chart according to these parameters: one-third were yet to be started; over fifty-percent were in process and the final fourteen percent were in the follow-up stage and beyond. Chairperson Whalen deferred to Wilson to surmise if he had accurately understood the information. Wilson confirmed Chairperson had properly summed up the breakdown per status-stage. Wilson felt it would behoove her team to also include "assigned" as another piece which should be represented in the *FY 2015 Audits Per Status* graph. In order to maximize resources, Wilson assigns each internal auditor a primary and secondary audit. During the primary audit's periods of inactivity, a secondary audit becomes the focus. This workload allows for optimal use of the internal auditors' time and greater adherence to the annual audit schedule for the year. Thus, Wilson determined "assigned" audits may be better represented in the not started category.

#### FY 2015 Timeline of Audit Activities /

Chairperson Whalen questioned Wilson to gauge Wilson's overall assessment of the department's progress this year. Chairperson asked Wilson to base her assessment on the dashboard data. Frankly, Wilson informed committee members she does not anticipate completion of the internal audit plan in its entirety. It is probable there will be a portion of low-risk audits which will not be completed. Wilson's two chief concerns, presently, are two high-risk audits remaining. Although doubtful these high-risk audits will reach completion by fiscal year end, Wilson informed participants she will work assiduously to assure they are started and in fieldwork or end of planning stage by close of FY 2015. Importantly, Chairperson Whalen asked Wilson to illuminate reasons for benefit of committee members, as to why the entire breadth of the plan could not be completed by end of fiscal year. Wilson drew members' attention to the bar graph, highlighting the July 2014 – October 2014 period of time. During this period, audits were halted to allow for documentation of formal procedures.

Also during this timeframe, Wilson acknowledged inconsistencies in audit practices were eliminated. Equally notable, the AEPD was created. Commissioner Morgan interjected to categorize this policy development phase, July–October 2014, as a one-time only occurrence. Wilson agreed. Pertinent to the discussion, the hiring of Joseph Volpi proved most helpful in early FY 2015. Activity resumed, once documentation of policy and standards wrapped up. Commissioner Mingo inquired what goal or strategy has been used or followed historically for low, moderate and high risk. In other words, Mingo inquired if there is a timeframe for auditing each type of risk from beginning to end or is it subject to individual considerations. Wilson indicated each audit varies greatly. Overall, Wilson maintained a great amount of subjectivity is applied in determining the length of an audit. It is common for pre-audit estimates to differ from audit completion. Time-frames, dependent upon data collection/analysis and other variables made planning for twenty-seven audits rather aggressive, as described by Wilson.

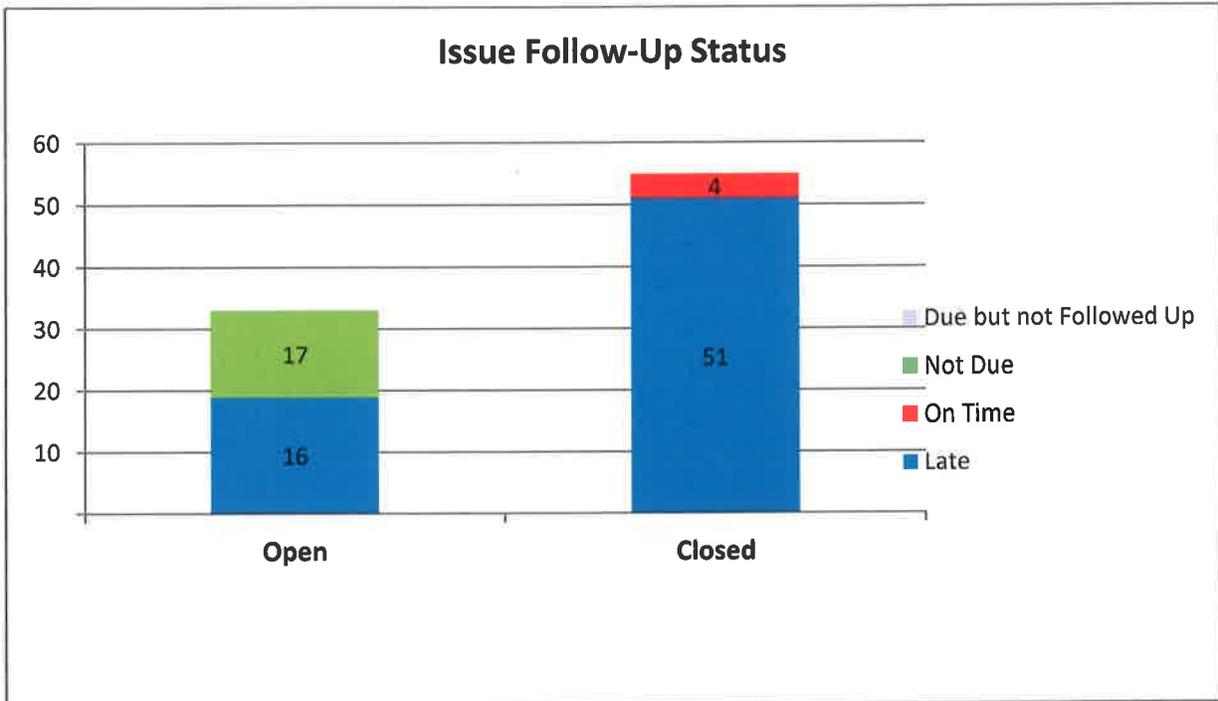
At this juncture, Chairperson Whalen solicited feedback from Klatt and Pallerla to understand how the audit committee might strategically plan for the upcoming audit year. Klatt revealed OBM OIA had inadvertently over-planned for their fiscal year, also. Klatt cast a most positive light on strides made by the Ohio Lottery Internal Audit group. Klatt expressed support for the investment of time early on in building for subsequent milestones. Clearing the calendar to allow for documentation of policy was a wise strategy, as defined by Klatt. In planning for next year, Klatt suggested approaching the audit cycle according to the following guideline used by OBM:

- high-risk audits: perform at least once every other year
- moderate/low risk audits: perform once every four years
- not necessary to complete moderate/low risk audits annually

As a helpful strategy, Klatt recommended structuring the audit plan according to the above schedule predicated on risk.

FY 2015 Issue Follow-Up Status/

Pallerla posed a question regarding open items. First, Pallerla asked if the FY 2015 *Audits per Status* graph was related to the *Issue Follow-Up Status* graph. Wilson responded yes.



Pallerla addressed Wilson, requesting more information in regard to the open and late items, particularly the high-risk audits. Referring to the *Issue Follow-Up Status* bar graph, Wilson responded to Pallerla with several points:

- (16) sixteen open audits are late
- (17) seventeen open audits not due

In review of the raw data, Wilson found discrepancies, in which, the audit was labeled open despite the fact Wilson closed the audit. Wilson reported it may be possible correct parameters were not selected before running the data in TeamMate. Wilson determined (7) seven do not belong in the open late category of (16) sixteen. Therefore, (9) nine open audits are late. Chairperson acknowledged, as a first attempt to run dashboard figures, raw data and report format may not match up with real-world statistics. It serves as a good system-check to ensure TeamMate is reflecting information cataloged by Wilson. Reconciling off-line and on-line numbers is a good exercise, as stated by Chairperson; he is pleased the numbers are trueing up to (9) nine.

Pallerla asked if the (9) nine are high-risk. Wilson confirmed this and pointed to the *Total Issues Open/Closed by Fiscal Year* graph, which encapsulates this data in pink; (9) nine open audits are highlighted in pink, symbolizing high risk.

In reference to the *Issue Follow-Up Status* graph, touching upon the (51) fifty-one items closed late, Wilson explained documentation in TeamCentral might be skewed due to system features and/or incomplete auditee implementation:

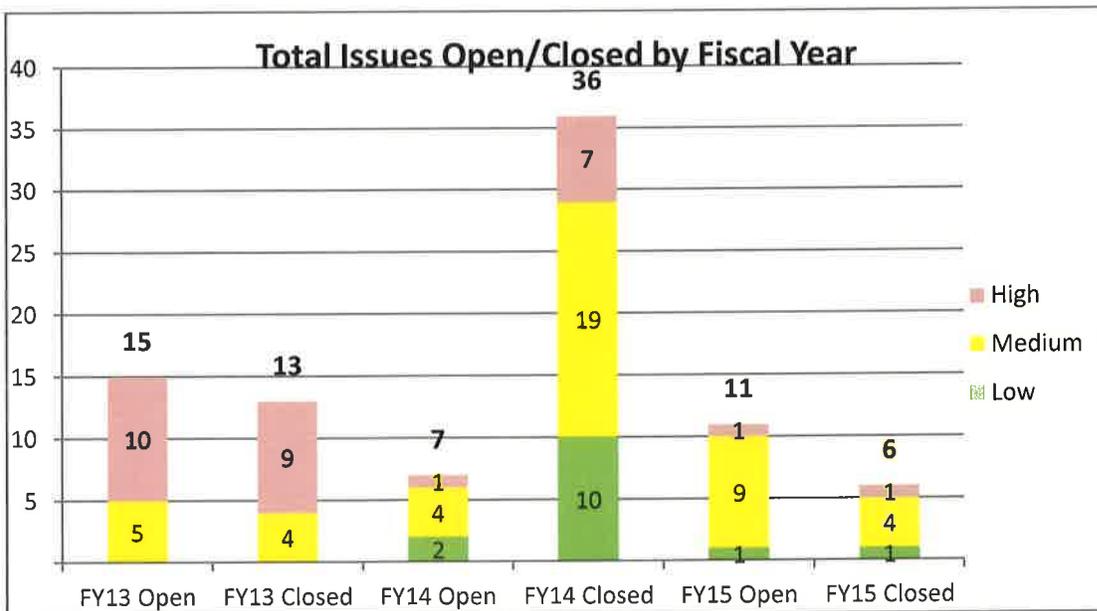
- Dates in TeamMate are drop-dead dates:
  - Auditee finishes work on a particular date
  - Internal Audit Director closes the audit on a date later than the date specified by the auditee
    - TeamMate classifies the audit as closing late
- Internal Audit Director follows-up and determines the audit is not complete
  - The audit is then classified as late

Pallerla indicated OBM representatives will confer with Wilson. OBM places the audit in a pending validation stage in order to circumvent system timing. In other words, the audit will not be classified as open in the database, once it is placed in pending validation status.

In reference to the *Issue Follow-Up Status* graph, specifically the (4) four items closed on time; the auditee completed their responsibilities prior to the deadline, allowing Wilson to close in advance or by the due date. Commissioner Mingo inquired if the on time status was a function of the AEPD. Wilson responded this is not a function of the AEPD. The auditee met their obligations prior to the due date. Commissioner Mingo asked for clarification surrounding how the due date is determined. Wilson stated the auditee sets a due date, based upon the most realistic time the recommendation can be completed or implemented. One scenario might be related to the auditee’s ability to carve out time to document procedures.

Open and Closed Issues by Fiscal Year/

Chairperson’s vision for the dashboard is to identify the reason for a late item: auditee-related, internal audit issue or due to an external factor. This will be feasible, once the system-related timing issues are resolved. For example, Whalen would like to identify the actual number of late audits – perhaps, (35) thirty-five to (40) forty of the (50) fifty audits are late. Furthermore, isolating the reason(s) for the late completion would be helpful in future meetings. A goal of the committee, as defined by Chairperson Whalen is to understand the root cause(s) of late items, along with data trends which surface. Then, it will be feasible to tap committee resources and skills to ameliorate these conditions. Wilson expressed her desire to work with Pallerla to overcome such challenges. In addition, Wilson stated she would like to learn how Pallerla presents information from TeamMate to State Audit Committee.



Wilson moved on to explain numbers in the graph, *Total Issues Open/Closed by Fiscal Year*. Graphing was based upon high, medium and low risk levels. Wilson stated it is important to bear in mind, the designation system or the manner, in which, high, medium and low risk is currently determined, was not in place during FY 2013 and FY 2014. In FY 2013 Open, there are (10) ten open high risks; Business Continuity and Software Quality Assurance audits are included. In FY 2014 Open, CPI is the only open high-risk audit. In FY 2015 Open, contract compliance management makes up the remaining open high risk audit. Wilson stated she would offer additional comment in the upcoming Internal Audit Report.

In relationship to the last two charts, *Closed Issues by Department* and *Open Issues by Department*, Wilson defined each graph as self-evident, querying members for any questions on data presented. In general, Chairperson Whalen validated these efforts, as an effective way to measure how risk cuts across senior management. Significantly, it will also provide Executive Director Berg insight into agency zones of high risk.

Wilson asked for members' feedback on the salience of charting low-risk data. Chairperson would like to postpone dashboard statistics pertaining to low-risk audits. Instead, Whalen would ask all parties focus on refining systemic issues connected to critical data illuminating high and moderate risks. At a later time, Chairperson will request an analysis of the low-risk layer of data for a more all-encompassing benchmark.

Expressing approval for such dashboard analytics, which allow keener insight, Whalen stated the data clarifies the status of each internal auditor's daily work and solidifies how the audits fit into risk categories. Chairperson concluded this tool will bring clarity to the information, allowing members to easily grasp and digest relevant facts and figures. Thus, the committee may focus on issue-based business, rather than struggling to grasp the fundamentals of quarterly numbers. No additional questions were posed regarding the dashboard. Wilson emphasized this footnote: graphs are reflective of the audit plan only, and exclude meetings, consulting engagements, follow-up activities and other administrative duties.

Chairperson commended allocation of resources to allow for concurrent audit engagements, avoiding inefficient "start-stop" audit patterns, which may or may not have existed in the past. Whalen observed Wilson is measuring bandwidth appropriately and exercising flexibility with departmental resources, staying in sync with the ebb and flow of business requirements. Chairperson is pleased a dynamic environment is becoming the norm, as overlapping audits occupy auditors' time throughout the fiscal year. Categorizing the management of multiple deliverables as quite challenging in the business world, Whalen applauded the internal auditors for performing multiple activities, simultaneously. Chairperson acknowledged hard work is evidenced by data presented. Whalen intimated each graph should be given a suitable name for purposes of discussion.

#### **Comments by Deputy Director of Internal Audit**

First and foremost, Wilson reminded members internal auditors are in the midst of the planning phase for the FY 2016 Audit Plan. The following points contrast this year's audit plan with last year's audit plan and touch upon new ways to garner feedback from auditees. Fresh ideas include a survey of the Ohio Lottery Commissioners and OBM representatives, respectively, departmental meeting sessions and a client survey of each auditee:

- Surveying Ohio Lottery Commissioners to garner feedback regarding areas of risk and/or concerns
  - Sample survey included in New Business section of meeting materials
  - Survey is to be disseminated via email for electronic submission by recipient
  - Chairman McDonald will formerly announce the upcoming survey in the commission meeting and highlight a deadline of April 3
- Surveying OBM experts (Cindy Klatt, Maria Robinson and Venugopal Pallerla)
- Face-to-face meeting with departmental manager, as part of a rating session to glean Senior Management input (in contrast to last year's attempt to collect feedback via a word document distributed by email)
  - Focus on Finance and Office of IT -- largest number of auditable areas
    - To-date, (10) ten face-to-face sessions scheduled
    - Sessions will conclude end of April 2015

This timeline will allow adequate time to draft an audit plan and will facilitate Audit Committee/OBM review of it in anticipation of the June 15, 2015 Audit Committee Meeting.

Chairperson Whalen inquired if members will be able to review results of the face-to-face sessions in an easy-to-read format. Wilson responded a well-done risk matrix will be provided. Explanations of ratings will be forthcoming. Wilson noted the first client survey was postponed to protect anonymity, as the contract compliance management audit had only one auditee. The client survey will be sent out April 26, 2015 for the Responsible Gaming Audit. Whalen queried Wilson to learn if she plans to archive results. Wilson would like to mimic OBM's practice; OBM reports the information to State Audit Committee. Klatt informed members OBM reports this information twice yearly in a table format; most auditees report satisfaction with the process. Questions are answered and then summarized for these reports. OBM allows respondents to populate a free-form area—suggestions for improvement and submission of future audit ideas may be included in this section. In the long-term, Wilson envisions this response information populating dashboard statistics.

Personnel Update:

Joseph Volpi's final probationary review is due today. Wilson commented Volpi has been a positive addition to the department. Reviews of Diane Nagorny and John Jones are due end of April 2015. Staff remain on pace to satisfy the (40) forty hours in CEUs required each year. Wilson took a moment to thank each team member for their contribution to improvement of internal audit processes, stating the internal auditors' possess good ideas and a willingness to embrace change.

Chairperson solicited questions, however, none were raised.

**Internal and External Audit Report Review**

MyLotto Rewards Program Consulting Engagement:

Wilson introduced the MyLotto Rewards Program, as the first consulting engagement completed. Deferring to Chairperson Whalen, Wilson informed members this was the first time she had written a consulting memorandum and hoped it met with Whalen's approval. As an effective preventative measure, Wilson prefers to see more consulting engagements as the plan unfolds. Whalen inquired if Wilson had received feedback from the recipients of the memorandum. Wilson followed-up with a portion of the recipients. Neither positive nor negative in nature, the feedback did not raise any red flags.

Contract Compliance Management Audit:

This audit resulted in two high risks; one of which is now closed. Gwen Penn has assumed the role of Contract Compliance Director for the Ohio Lottery, closing the first high risk denoted in the enclosed audit report. As a new appointee, Penn is diligently working to address the pressing issues associated with this area. In regard to the second open high risk, Wilson referred members to the last section of the audit report for a status update. The formulation of a committee to address the remaining high risk issue has occurred. Penn is striving to meet a May 3, 2015 deadline for completion of procedures, a key step in mitigating risk. Whalen anticipates a report on this important step in the June 15, 2015 Audit Committee meeting.

Fixed Assets Audit:

Wilson informed members all associated risks were medium-level. During this audit, Wilson noted five instances of discrepancies between the date of departure/transfer and the retrieval of fixed assets, as listed in the report's audit status update. Inconsistency in the timing of the retrieval of fixed assets contradicts written procedures, as flagged by Wilson. Wilson received exceedingly positive feedback from the auditees contacted and has since received three procedural documents, appropriately updated and revised; topics entailed onboarding/off boarding and intra-agency transfer. Wilson conferred with the Inventory Control Specialist and Telecom Coordinator. All parties are working to comply with recommendations to address this medium risk by the next follow-up meeting, scheduled in two weeks. Wilson drew members' attention to the Asset Activity Report from Manage Engine, planned for future use. As an acceptable alternative, the Asset Transfer Form will be used until the report becomes active. A communication issue with the vendor has delayed immediate use of the report. An Internal Audit goal is to transition paper forms to online mechanisms wherever feasible.

HR Notification of Employee Movement(s)/

It is incumbent upon the Office of Human Resources to notify impacted staff during hires, transfers, separations and retirements. Procedures for notification of employee movements, due end of February 2015, were delayed until end of March 2015 by request of the Deputy Director, Office of Human Resources to accommodate heightened activity in the Office of Human Resources. In the interim, draft procedures were submitted with an intended implementation date also noted for Internal Audit. Wilson will follow-up on the date of implementation to confirm this has occurred. Wilson voiced her confidence the documentation/implementation will be both comprehensive and on-time.

#### Inventory - Absent Financial Information/

Wilson distinguished between inventory assigned financial data in the Fixed Assets System and those items not linked to a value amount. Certain items consistently reappear without an assigned value of worth. Staff acknowledged OAKS did not provide these numbers, therefore financial data remained incomplete. Incomplete information dates back to 2012 in some instances, as reported by Wilson. The auditee was not aware of tools available in the software program to reconcile inconsistencies. In the course of the audit, Wilson learned the auditee was educated about comments which may be added to eliminate such anomalies. Wilson is reviewing items with the employee and her manager to enter appropriate information, so these assets will not continuously reappear as incomplete in the Fixed Assets System.

#### Field Staff and Vehicle Usage with Credit Card Purchases:

This audit was classified as late in the system, as the due date was Sunday March 15, 2015. Wilson plans to follow-up on the first two recommendations with Steve Kmiotek, Interim Deputy Director, Office of General Services to assess if the necessary steps have been taken.

#### Electronic Fund Transfers and Retailer Adjustments:

In sum, Wilson reported four CCRFs will resolve three issues detailed in the remediation activity report. CCRF 2413 and CCRF 2414 will be installed in the April 2015 software release. Wilson was unable to locate CCRF 2431 and CCRF 2469 on the schedule of release dates. Petro outlined the upcoming software timeline which may include CCRFs 2431 and 2469 dependent upon other gaming initiatives. Petro made the following points:

- The delay of Powerball has made resources available for other projects
- The multi-state progressive Keno and Lucky for Life games are planned for a summer installation
- Late July/early August 2015 would be the target timeframe if the CCRFs were included in the summer batch
- In the event resources are devoted to other priorities, the CCRFs will be included in the fall batch – late October/early November 2015

Wilson minimized the importance of immediately installing these modifications, as they fall into the low risk category.

#### Instant Ticket Inventory and Sales:

Wilson informed the commissioners this audit is due April 2015; it is a medium risk. An up-to-date status report will be shared with the committee at the next quarterly meeting.

#### Mid-Day & Nightly Promotional Drawings with Ball Calibration:

The Office of Security had procedures detailing destruction of drawing balls no longer serviceable, as stated by Wilson. As a result of an update to the policy, destruction methodology was removed. Internal auditors recommended it be included as part of the new policy. The employee agreed. Wilson requested a status update via email. However, no response has been forthcoming to-date. The Draw Team Manager completed the first half of the audit's recommendations per O'Donnell. The manager was out for medical leave for a period of time, delaying completion. O'Donnell verified the manager has returned to work, as of March 16, 2015 and will be winding up audit recommendations within two weeks. Chairperson inquired what the process is to destroy the drawing balls. O'Donnell informed members his team is in the process of reaching a decision, as to the best method.

Commissioner Mingo asked for a definition of non-serviceable. John Jones, Internal Auditor responded there may be numerous reasons. Opting to use a different color for the drawing balls led to the destruction of the old equipment. If the drawing balls are out of calibration (bi-annual calibration check performed), they will be slated for destruction. In general, if more than two drawing balls fall on the floor, during the loading of the machines, they will be recalibrated. The policy stipulates if the drawing balls fail a calibration, they are no longer usable.

Thistledown – VLSA:

Wilson updated participants with this audit's status: a CCRF has been completed, but not submitted due to the need for GLI approval. Internal audit recommended VLT management/Finance management submit a CCRF for modifications to the related iGEM reports. Joe Angelillo, Deputy Director, VLT Management agreed. Wilson called for increases in efficiency for the Retailer Detail Accounting Reports and provision of historical information by machine and by date. Petro summarized the status: a CCRF was submitted to Intralot; Intralot performed the work and GLI has yet to certify the upgrade to the CMS (Central Monitoring System). Petro provided process information for members: a meaningful upgrade to the CMS means GLI (Intralot's independent test lab) must re-certify the CMS again before the Lottery will permit Intralot to install the upgrade. The re-certification is dependent upon GLI's schedule – it can mean waiting one to four weeks. GLI will provide a document indicating the CMS has been re-certified and Petro and Intralot will coordinate the upgrade. Chairperson Whalen pointed out how a third-party source, such as GLI, can contribute to lateness of implementation – internal auditor may be one source, an auditee may be another source. These causes are important to note per Whalen. Chairperson would like all members to be cognizant that this medium risk's dependency on a third-party is delaying completion.

## EXECUTIVE SESSION

Larry Miltner, Chief Counsel, Office of Legal, Ohio Lottery noted reasons per ORC the audit committee may enter into executive session. The committee may enter into executive session to keep confidential matters required to be kept confidential by law, namely, security and emergency response protocols. Chairperson Whalen moved to enter executive session for these stated reasons. Commissioner Morgan seconded said motion along with Commissioner Mingo. A roll call vote was taken and there being 3 yeas and 0 nays, the motion was approved. At 11:00 am, the committee entered executive session per reasons enumerated above.

[The committee moved out of executive session at 11:19 am].

## Office of Budget & Management Status Update

2015 OBM OIA Assurance Review of the Ohio Lottery Internal Audit Function:

Klatt reminded members last year she conducted an assurance review of the internal audit function at the Ohio Lottery. Recently, Klatt completed an assurance review, applauding auditors, as she compiled considerably fewer comments the second time. This improvement is attributable to the direction the Ohio Lottery chose to take and the assumption of responsibilities by Deputy Director Wilson. Advice provided also contributed to this success. It is commendable that Executive Director Berg has lent his support, as the Audit Committee has also. This involvement has allowed the internal audit group to make considerable strides, as characterized by Klatt. OBM internal auditors' sentiment is extremely positive about these recent accomplishments.

The foundation for Klatt's issued memo, *Relying on the Work of Assurance Providers* is guidance for these types of reviews issued by the Institute of Internal Auditors (IIA), entitled *Reliance by Internal Audit on Other Assurance Providers*. IIA guidance defines the purpose of the internal audit function: independence, competence, element of practice, communication of results and impact for remediation.

Collaborative Drafting-Review-Approval Process of Charter and Plan/

A distinction from past practices, Klatt pointed out the Internal Audit Charter is now updated frequently. Both the Internal Audit Charter and the Annual Audit Plan were updated in a more collaborative manner, meeting with the approval of Joe Bell, former Chief Audit Executive, OBM Office of Internal Audit (OIA), Executive Director Berg and Deputy Director Wilson. Klatt offered positive comments that the charter and annual plan were communicated more fully.

#### Element of Practice/

In regard to element of practice, Wilson's report indicated the policy manual has been drafted and provided to Bell and Klatt for review.

#### Confirmation of Independence/

Last year, OBM expressed concern independence was impinged upon by the committee composition – Lottery management and Commissioners comprised the body. The recommendation to reconfigure the committee to consist of Lottery Commissioners only was promptly acted upon by the Ohio Lottery. Likewise, Klatt touched upon how internal auditors have declared independence, documenting that no conflicts of interest exist.

#### Competence/

Competence is displayed in the fact that four staff members possess years of business and audit experience; two individuals have attained professional certifications related to the business of the committee. Continuing education is more readily tracked, as Klatt noted the ease of access she had to this important information during her most recent review.

#### Preparatory Tools for 2017 Joint Peer Review/

Ongoing self-assessments will be pivotal to prepare internal auditors for the upcoming 2017 Peer Review. Klatt offered the verbal comment it would behoove internal auditors to analyze the QA checklist in the AEPD. Also critical for internal auditors is an assessment manual tool that guides internal audit activity, available on the IIA website and in a more concise format, offered by Klatt. This guide will be helpful to run through in six months, as recommended by Klatt. Klatt is also recommending BWC reviews the information at the start of the new fiscal year. This tool will allow parties to identify items requiring documentation not formally reported on, thus far.

#### Effective Cross-Referencing: Risk-to-Engagement Relationship/

As an additional verbal comment, Klatt informed members another individual will be performing next year's assurance review of the Ohio Lottery. This person will evaluate how risk-assessment was developed and how risk has been mapped to the audit engagements completed. Therefore, internal auditors must ensure mapping is transparent for external review purposes.

#### TeamMate Resource to Realize Remediation of Comments/

Klatt stated communication of results and impact for remediation sections show how TeamMate Central is being utilized to track comments, as reported on by Deputy Director Wilson. Automated comments are helpful to guide auditors through the process per Klatt. As mentioned earlier, OBM had data-filtering challenges, also. TeamMate will allow for monitoring, as end-users become familiar with system features. In the future, Klatt recommends monitoring and tracking follow-up related to comments to solidify remediation.

#### Clarity of Internal Control Parameters/

A minor comment by Klatt pertained to the wording of the internal control protocol in the work papers –internal audit must clarify who is performing the control; what the control is; how often the control is performed and how it is evidenced. This will allow the external reviewer to understand the intention.

In conclusion, Klatt thanked all parties for the swift implementation of changes and emphasized much progress has been achieved. Klatt expressed gratitude to the commission, as a whole, for remarkable effort and encouraged staff to continue forward, as these initiatives will help to improve the agency, as a whole.

Chairperson Whalen conveyed his thanks to Klatt for this enlightening and educational overview, which will assist the committee in comprehending the needs of external review by a third-party. In retrospect, Whalen commended Executive Director Berg, committee members, internal auditors, senior management and OBM representatives for the intensive effort expended in improving the internal audit function and transparency of the committee. Nonetheless, Chairperson maintained much work remains to realize goals established by OBM and the committee, alike.

## New Business

Annual Review/Approval of Administrative Documents:

Chairperson took this opportunity to lay out the framework for the June 15, 2015 Ohio Lottery Audit Committee Meeting. The committee will review the following documents found in March 16, 2015 meeting materials:

- *OLC Office of Internal Audit Policy Manual – February 2015 – DRAFT*
- *OLC Audit Committee Charter (annual review)*
- *OLC Office of Internal Audit Charter (annual review)*

Wilson briefed members on the differences in the signatory pages of the documents. The Internal Audit policy manual and Internal Audit Charter are approved and signed by Deputy Director Wilson, Executive Director Berg and Audit Committee Chairperson Sean Whalen. The Audit Committee Charter is approved and signed by Ohio Lottery Commission Chairperson Pat McDonald, Executive Director Berg and Audit Committee Chairperson Sean Whalen. Wilson informed members she will be providing FY 2016 Annual Audit Plan in meeting materials sent out prior to June 15, 2015. Klatt stated there is no due date for the Annual Audit Report found in ORC pertaining to Ohio Lottery Internal Audit function.

## Adjournment

There being no further business at this time, the meeting adjourned at 11:31 a.m.



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Sean Whalen  
Ohio Lottery Commission  
Audit Committee Chairperson



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