



OHIO LOTTERY COMMISSION Audit Committee Meeting Minutes

Monday, September 22, 2014, 10:00 A.M. – 12:00 P.M.

In attendance:

Audit Committee Chairperson,
Commissioner
Sean Whalen

Audit Committee member,
Commissioner
BillMorgan

Audit Committee member,
Commissioner
Angela Mingo

Joe Bell (OBM)

Cindy Klatt (OBM)

Jennifer Wilson
(Ohio Lottery)

Larry Miltner
(Ohio Lottery)

Jim Brown
(Ohio Lottery)

Greg Bowers
(Ohio Lottery)

Kristen Calabrese
(Ohio Lottery)

Joe Volpi
(Ohio Lottery)

John Jones
(Ohio Lottery)

Diane Nagorny
(Ohio Lottery)

Call to Order

At 10:01 am, Chairperson Whalen called to order the second quarterly Agency Audit Meeting of 2014. Chairperson thanked all parties present, noting on this day the Audit Committee has a full quorum, as two commission members are present.

Introduction of new Audit Committee Member

Chairperson remarked the newest Audit Committee member Angela Mingo will be joining the meeting later in the morning. At that time, Chairperson promised to take a few moments to formally introduce Ms. Mingo, as the third Lottery commissioner to become a committee member.

Approval of Meeting Minutes – June 16, 2014

Chairperson Whalen moved to approve the June 16 meeting minutes and asked all members who approve to say yea. Commissioner Morgan said yea and the Chair acknowledged the committee's formal approval of the June 16 2014 Audit Meeting minutes.

Chairman's Comments

Chairperson Whalen stated: We are meeting here today three months from our introductory meeting. Through my conversations with Jennifer Wilson, Deputy Director, Office of Internal Audit, Ohio Lottery, I have learned of significant progress in organizing the Office of Internal Audit, as well as setting the proper tone and schedule; all of which aim to align the committee with Best Practices. The chair commended Wilson for timely updates on audits, as well as keeping him abreast of challenges; some of which pertain to application of technology to streamline business practices.

The good communication channel between Chairperson Whalen and Wilson lends visibility to the entire audit committee process. Challenges, along the way, are being tracked with the intent to discuss these matters both today and moving forward. Chairperson queried committee members for their questions, thus far. There were none.

Deputy Director of Internal Audit Report

Wilson updated the committee on personnel matters. The latest new hire to the Office of Internal Audit, Joe Volpi will be joining the meeting, following completion of new-hire personnel forms. Volpi will also be a first-time attendee at the Ohio Lottery Commission Meeting later in the afternoon.

Documented policy and procedures/

OBM has noted the Office of Internal Audit does not yet have documented policies and procedures. As a result, Wilson postponed the continuation of work on the FY2015 Audit Plan to enable the internal auditors to focus on formulating procedures. Documenting procedures by October 1 2014 is the main goal of the Office of Internal Audit. The planning phase is nearing completion. Wilson expressed her satisfaction with this process. It is allowing internal auditors to both revisit standards and flag inefficiencies as the project unfolds.

Peer Review/

Compliance with International Internal Audit Standards (IIAS) mandates a Peer Review of Lottery Internal Audit every five years. OBM has extended an invitation to the Lottery's Office of Internal Audit to participate in their Peer Review in August 2017. At that time, audits which begin July 1, 2016 will be eligible for Peer Review. Audits commencing before July 1, 2016 will be excluded from this Peer Review. Wilson accepted OBM's invitation and asked the Audit Committee for acceptance.

Chairperson Whalen moved to approve the joint Peer Review of the Ohio Lottery Internal Audit, along with OBM under the auspices of the State of Ohio. Commissioner Morgan affirmatively responded to second this motion. All members approved. Bell explained extensive preparation is required in advance of the Peer Review process, which involves issuance of a RFP and the provision of in-depth paperwork to elucidate plans/processes. OBM will facilitate the Peer Review process, as the reviewers request information from the Ohio Lottery Internal Audit office. Bell expressed the educational value of performing the peer review, as it ultimately evolves into a self-review by participants. Supplying proper evidence and documentation allows the agency internal auditors to improve their auditing processes and understand the manner, in which, methods may be improved.

Continuing Education/

In response to OBM's recommendation, Wilson is tracking the CEUs of the Lottery Internal Audit staff on a spreadsheet. This spreadsheet is housed on the Sharepoint site in use by the Office of Internal Audit. Diane Nagorny, a certified Information Systems Auditor currently has seven (7) CEUs for FY2015. John Jones is presently pursuing his Associate's Degree in Computer Information Systems/Software Development and has accumulated five (5) CEUs. Wilson ordered learning materials in preparation for the three-part Certified Internal Audit exam with a goal of completion by end of fiscal year. Wilson proactively scheduled an exam date. Thus far, Wilson has completed 12 CEUs. Internal Audit's goal is to complete 40 CEUs per internal auditor each year.

Commissioner Mingo joined the Audit Committee meeting at this juncture. Commissioner Mingo introduced herself. Ms. Mingo serves as the Director of Community Relations at the Nationwide Children's Hospital, devoting herself to Neighborhood Reinvestment and Revitalization around the hospital campus. Ms. Mingo said she is delighted to serve on the Audit Committee.

Deputy Director of Internal Audit Report (continued)

SharePoint Update/

Wilson updated committee members, as to the present status of bringing the SharePoint portal online with the goal to eliminate the production of hard copy materials, as a more cost-effective and up-to-date manner, in which, to communicate committee information. Thus far, I.T. glitches have hampered use of this portal by committee members. In advance of the next meeting in December, Wilson hopes to post meeting materials to allow members to access and review without technical challenges. Wilson promised to provide email instruction to committee members, as to how to access the SharePoint portal, once it is accessible to all members.

Presentation to State Audit Committee/

Wilson announced she will present to the State Audit Committee on 9/25/14. This will serve as a ten-minute formal update regarding completed audits; policies and other identified items from OBM's audit.

Chief Legal Counsel Report

Executive Session Statute Overview/

Larry Miltner, Chief Legal Counsel, Ohio Lottery, briefed the committee members on the requirements of moving into executive session. Entering executive session occurs infrequently. It is permissible to enter executive session based upon one of the enumerated reasons established in statute – O.R.C. 121.22. In discussion with Wilson, Miltner identified two exceptions falling into the categories of trade secrets and security arrangements. The motion to enter into executive session would disclose the reason for which the audit committee is entering into executive session. A vote to officially enter into executive session would then follow.

Review of Internal and External Audit Reports

The Chair asked Wilson to provide the framework for risk assessment of specific audit areas. Adoption of OBM criteria used to review medium to high risk audit areas will allow the committee more judicious use of time, circumventing the lower risk audit areas. In any event, should a committee member pose a question or raise a concern in relation to a particular low risk issue, the committee will discuss those findings and recommendations.

Payment Card Program Audit Report/

Documenting Procedures:

Updating procedures assumes medium risk. Wilson reported to the committee although the Office of Finance's management agreed this procedural documentation must occur, these procedures were not completed at the time of Wilson's follow-up due to other priorities in the Office of Finance. Greg Bowers, Deputy Director, Office of Finance, Ohio Lottery reiterated he is aware the procedures are not completed. Presently, Bowers is restructuring the office to allow for a greater number of non-managerial positions.

Wilson proffered that perhaps by the end of October this matter may be revisited by all parties. Bowers responded due to the budget deadline of October 31 2014, it would be more realistic to aim for end of November 2014 for compilation of procedures. Chairperson Whalen inquired, as to the length of time unwritten procedures have been a documented issue. Diane Nagorny indicated this is a fairly new issue and falls into the category of new updated guidelines as a standard. In order to set proper expectations for the audit committee, Chairperson requested Bowers' feedback should the approaching November 30 deadline become unattainable. This will allow the committee to ascertain what plan of action must be devised in advance of the December 15, 2014 audit committee meeting.

Hooven Dayton Audit Report/

Documenting Procedures:

Documented procedures, as identified by Wilson, have not been completed, to-date. Management acknowledged it was necessary to draft procedures. In September 2014, Wilson checked with management to measure the degree of progress. The deadline of June 30 2014 was not met in full. Partial procedures were forwarded to the Office of Internal Audit. The Deputy Director, Office of General Services, Ohio Lottery has not updated internal auditors with a target completion date, since the last follow-up. This remains an open item. Chairperson suggested a deadline be set for compliance.

Issuance of Certificates of Compliance:

There are two separate vendors who supply paper for Ohio Lottery bet slips. One vendor provides Certificates of Compliance for each delivery; the other vendor does not.

Random Verification of Compliance:

Wilson explained that, as a best practice, a random check is warranted when Intralot receives these paper bundles with certificates of compliance. This will allow Intralot to verify compliance, while also using the technology Intralot has in place to carry out compliance checks. Steve Kmiotek, Deputy Director, General Services agreed with this suggestion and indicated he would discuss this matter with Intralot staff. As of September 2014, Kmiotek had not discussed this issue with Intralot. Commissioner Morgan stated the parameters of the recommendation must be discussed with the Deputy Director to determine what a reasonable timeframe would be for implementation.

Electronic Fund Transfers (EFT) and Retailer Adjustments Audit Report/

Wilson noted the large scope of this audit. It contained seven low risk areas. There was one medium risk and one high risk associated with this audit. All items have been implemented on the plan of action, as reported by Wilson. Exceptions

to this statement are areas requiring a Change Control Request Form (CCRF) to modify or update feature(s) or function(s) in the Gaming System. Jim Brown, IT Manager, Office of Information Technology, Ohio Lottery inquired if this was a request for modification of the Gaming System. Wilson confirmed it was. Brown outlined there are three software batches installed per year. Wilson established the auditee performed all items on their plan of action. This matter is now in the domain of I.T. Commissioner Morgan commented this is in keeping with the natural work flow for these types of requests. Brown added he does not think this request is in the next batch. Wilson indicated it will be included in the January 2015 software release. Chairperson Whalen expressed that he was pleased a timeline for the request was already established.

Prize Expense – Prize Validation Audit Report/

There were three issues in total which included two medium risks and two high risk recommendations in this audit, as stated by Wilson. At the time of Wilson's follow-up, all recommendations had been implemented with the exception of the Policy for Claims of Missing Tickets. A policy was drafted and sent to legal. Miltner informed committee members that the Executive Director Dennis Berg, Ohio Lottery approved the policy. The policy is ready for distribution per Miltner. Wilson informed attendees this audit report is now officially closed.

Lottery Managed Winstations Audit Report/

The audit reports contained in the committee binders were taken from Wilson's Annual Audit Plan issued June 2014. In this plan, Wilson identified Lottery Managed Winstations as requiring resolution from the audit committee. Since this time, internal auditors have reported all outstanding issues have been properly addressed.

Thistledown – Video Lottery Sales Agent (VLSA) Audit Report/

There were a total of twelve recommendations—four low risks and eight medium risks, as reported by Wilson. Upon further follow-up, three of the recommendations were noted as past due for auditee response due to special circumstances. During this timeframe, the manager of this area was on medical leave. Following this manager's arrival back at work, the recommendations were implemented, proper responses were issued and as a result, there are currently no outstanding issues in the manager's queue.

VLT Audit - Conducted by OBM/

Wilson summarized she observed resolution of the moderate risk identified via this VLT audit. Development of a FY 2015 review calendar was recommended by OBM. Also important, OBM recommended completion of an accompanying Audit Plan. As a side note, Wilson hypothesized this particular plan had not been formally documented due to the continuous start-up efforts occupying VLT staff, as they diligently worked to bring seven (7) racinos online in Ohio. Optimistic about the likelihood of completion in the near-term, Wilson informed committee members the conclusion of the seventh opening will allow the VLT team to begin to shape an audit plan for the unfolding year. Wilson saw evidence of a FY 2013 Annual Report meshed in with the overall Operations Report. Moving forward, the Operations Department plans to issue their own annual report highlighting milestones accomplished and planned.

(Joe Volpi joined the meeting). Wilson took a moment to formally introduce Joe Volpi, the Office of Internal Audit's newly-hired internal auditor. Wilson briefly explained to Volpi the committee is on a quarterly schedule and Wilson would like Volpi to sit in on today's meeting.

OBM's Review of Internal Audit/

Wilson informed the committee of OBM's audit of the Office of Internal Audit did not involve a risk assessment of recommendations put forth. The first six recommendations were fully addressed: the charter was drafted and approved, confirmations of auditor independence were completed and filed and tracking of CEUs is in process. The sixth recommendation is to consider ACL software, as a tool for data-gathering and analyzing. Wilson deferred to Cindy Klatt to better understand the parameters of this recommendation. Klatt explained this consists in software that may help sort data; identify certain attributes in data. It is sometimes referred to as data-mining. Bell added it allows for identification of trends.

Bell underscored the technology implemented must be suitable for the environment. Wilson reassured OBM representatives each internal auditor has the background to address this recommendation. Bell advised Wilson to make it a budgetary item if she determines a certain technology is requisite to the performance of Internal Audit work.

Public Records Policy:

OBM's recommendation to draft Internal Audit procedures was touched upon earlier in the meeting. Second, OBM indicated the Ohio Lottery should consider drafting a Public Records policy, as to what working papers are public versus

private (private work papers may contain security or IT infrastructure records). Wilson agrees upon finalization of this policy. OBM would like to see the final policy disseminated to all Ohio Lottery employees, including Internal Audit staff. However, Wilson would like to know if there is existing policy which addresses this matter. Miltner would like to review the records retention schedule to better answer Wilson's query. DAS has records retention schedules for all state agencies available on the DAS website. Each agency may adopt its own records retention schedule, as long as it is approved by DAS. Miltner continued saying that it is certainly feasible to create a Lottery-specific policy and apply to DAS for formal approval. Wilson supports borrowing OBM's practice of identifying documents as security records in audit reports. In agreement with Wilson, Chairperson Whalen insisted it is important for committee members to understand which documents are security records to ensure proper handling of any sensitive information. Equally important, Whalen took comfort in categorization of documents, as a guiding framework for the appropriate response to public records requests, while abiding by exemptions.

Performance Measures:

OBM recommended internal auditors survey auditees at the conclusion of the audit. This survey would serve as a tool to glean feedback from individuals undergoing audits. Bell pointed out that survey results make up a baseline, and it behooves the audit committee to learn what efforts auditors are making to address negative feedback. OBM's audit committee will ask OBM auditors how they are responding to negative comments. OBM does receive negative feedback – a sign the OBM auditors are independent and critical of processes. The negative survey responses have helped OBM greatly. An example of negative survey results might be: the scope was too broad; OBM should narrow it down a bit. OBM reports both positive and negative survey results to their audit committee. Bell uses survey results to help train employees to alter negative perceptions. In particular, Bell does not want auditees to distance themselves from OBM. Rather, a collaborative relationship working toward common goals is in order, even during the planning phase of a project. This initial stage is a rich area for both project team members and OBM representatives. Wilson indicated Internal Audit is incorporating a survey into their process, as well.

Documentation of Controls:

OBM prefers Internal Audit document the controls in place, as a separate piece from the audit report's narrative. Wilson assured Bell internal auditors are in the process of implementing this recommendation.

Tracking Responses:

It has been brought to Wilson's attention that there is an issue with timely responses from some Ohio Lottery divisions. In the short-term, Wilson's role will involve follow-up on each recommendation to encourage timeliness. Traditionally, this follow-up was performed by internal auditors. As a way to better understand the dynamics of the situation, Wilson prefers to perform the follow-up at the present time. This will allow Wilson to stay engaged in the audit process and be knowledgeable about the status of each audit.

Chairperson Whalen inquired what escalation is in place for important items. Specifically, Whalen asked Bell what is the role of the audit committee or management. Bell's experience has allowed for various practices. Bell highlighted the importance of establishing the culture from the onset. This is determined top-down. Bell strives to establish an interactive audit experience, whereby a date is set for implementation of recommendation(s) and management designs an action plan to make this possible. If this fails to occur, auditors become involved with an aim to understand why a control (s) did not materialize. Is there a key process or a new function? Therefore, a discussion regarding the lack of action would once again take place in the audit committee's sphere. Bell emphasized the importance of Wilson's role in bringing these unresolved items before the committee. Good recommendations should not be pushed aside. Follow-up to verify implementation of recommendations is imperative. It is a key component of the audit process, as stated by Bell. Otherwise, re-auditing becomes necessary, as the passage of time clouds the overall picture. It grows more labor-intensive when this occurs.

In order to avoid such a challenge, it is important to ask for a response from the auditee ninety days from the conclusion of the audit. If it is apparent implementation will not occur within this timeframe, the audit committee will be satisfied if the auditee is working to adopt intermittent controls. Most especially, intermittent controls are critical to mitigate high risk audit areas. No auditor is comfortable with allowing high risk to exist for an extended period of time. Bell informed attendees the State Audit Committee has called for a quarterly report to the committee for each high risk issue brought before the body. In summary, Chairperson underscored his concern with allowing high risk items to linger for lengthy periods of time.

Once the tone has been set at the top, Chairperson would like the committee to account for unaddressed recommendations to ensure there is accountability. Bell explained it is appropriate for the committee to invite management to the quarterly meetings to explain why a recommendation has not been implemented, to-date. It is a rare occurrence. However, Bell is accustomed to his Chair not involving the committee, but attempting to better understand

the process. Management must try to understand whether the risk will be lowered by implementing the recommended plan of action. Bell suggested coaching management to simplify the conversation in regard to the specific risk being identified and the steps recommended. Otherwise, management may be overwhelmed with the misperception it is a complex undertaking. In conclusion, Chair would like the committee to learn what the manager's plan of action consists of, yet remain separate from the implementation process. Prior to the audit committee meeting, Whalen would like to review recommendations with Wilson to collaboratively understand the path being recommended for an auditee.

Instant Ticket Inventory and Sales Audit Report/

Wilson reported this audit has outstanding issues: eight medium risks and three high risks. In discussion with the Deputy Director of Finance, Ohio Lottery, Wilson learned competing priorities, such as CAFR, budget formulation have interfered with the execution of auditors' recommendations. The deadline for implementation is November 2014 per Greg Bowers, Deputy Director, Finance, Ohio Lottery. As of today, Bowers learned the first issue identified has been resolved. In respect to the second point identified – *discrepancy in shipped date of initial orders to retailer*, Wilson informed the committee the auditee has performed his duty of following through by completing and issuing a CCRF. This is what the auditor requested of the auditee. Internal Audit must now ensure this software update is contained in the software batch. Jim Brown, IT Manager, Ohio Lottery asked which CCRF this related to and stated he was not certain if this CCRF will be included in the upcoming batch scheduled for install shortly, being that he does not have a list of all the CCRFs on hand to reference. Brown intimated if this is not included in the upcoming batch, IT management will ensure it is installed in the new year. Chairperson directed the committee to note this CCRF documents this request has been drafted and submitted to the Office of IT for installation.

Wilson informed the committee she has been unable to ascertain the status of audit recommendations for the next three audit issues, as Jack O'Donnell, Deputy Director, Office of Security has been working in the field on the start-up of the racinos. High risk is associated with these audits.

Book Movements:

Wilson has been unable to determine if any recommendations have been completed and queried to learn if the step of comparing figures to the BOS Retailer Invoice Report credited or denied in the STP had been folded into investigators' procedures. Wilson would like to see the inclusion of this additional step in the department's documented procedures, as well. If the retailer performed movements correctly, BOS reports could provide this verification per Diane Nagorny, Internal Auditor, Ohio Lottery. Nagorny qualified this by saying the movements could be performed correctly, however, there is no indication of this.

Stolen Ticket Report:

Wilson queried Nagorny for the status of the Stolen Ticket Report recommendations. Nagorny explained no signature exists in the Stolen Ticket Database as official verification the information is closed. Wilson will request evidence of this implementation from O'Donnell.

As an interim solution, Chairperson requested Wilson delineate which items are high risk when she issues an update to committee members. Chairperson would like to receive an email report from Wilson when open high risk issues are resolved.

Issuance of Books:

The last recommendation was to strengthen the security of issuing books of tickets to retailers. The internal auditors would like an observer to be present to verify the books of tickets have not been played (scratched) prior to issuance.

Top Prizes:

(A Top-Prize Drawing is held whenever all top prizes have been redeemed). Internal auditors would like to see controls implemented to reduce the risk associated with the selling of a top prize game, as a top prize could be included in a partially returned book, as defective and destroyed inventory. The auditee responded there is no other measure that could be taken. Thus, the auditee is comfortable assuming this risk. Nagorny indicated the recommendation served as information to the auditee that a risk exists. Internal audit was unable to devise any additional procedure or control to eliminate or reduce this risk. In a TPD drawing, it will be possible a Top Prize could be in the partials – the partially returned ticket inventory. Partial books of tickets returned are not sent out again. One recommendation made by Nagorny was to hold the Top Prize Drawing sooner, rather than later in the event there are a significant number of returns. This would reduce the risk.

Bell educated the committee on the assumption of risk on the part of management. It is acceptable to allow management to assume risk. The role of audit is to bring the matter to management's attention. Chairperson Whalen inquired if it is

necessary to revisit these audits on an annual basis. Bell stated no. Once the auditors have reviewed and issued recommendations, there is no valid reason to spend committee time re-analyzing the processes. Auditors will limit the scope if there is a known risk. They will indicate upfront “there is a risk management has assumed, therefore we are not auditing this particular control, as a result.” An exception to this would be if other risks materialized along with the original risk. In that case, Bell felt it would be appropriate to call for additional testing.

Mid-Day Nightly and Promotional Drawings with Ball Calibration Audit Report/

Wilson identified a total of two high risks and one medium risk. Both high risks are identical dealing with calibration. The Ohio Lottery calibrates the ping pong balls used for drawings. The solid rubber balls used in the Classic Lotto drawing are not calibrated. Smart Play certifies the Classic Lotto drawing balls upon the Lottery’s receipt of the equipment. Internal auditors questioned why these two processes would be dissimilar between ping pong balls and solid rubber balls. The auditee agreed all equipment should be calibrated. They purchased a drawing ball calibration system. The auditee is documenting their process for using this system, presently. The auditee will also begin using a scale/micrometer calibration system, as well.

Miltner queried Wilson, as to whether or not, the calibration systems are approved by the current vendor. John Jones responded the drawing ball calibration system is approved by Smart Play. It is the same system used by Smart Play. Miltner cautioned auditors to keep in mind if the Ohio Lottery does not use the vendor’s approved system, it will void the warranty. Whalen asked Wilson how often drawing balls are replaced. John Jones indicated there is no specific timeframe for replacing drawing balls. The Ohio Lottery has three full sets of drawing balls, which are rotated each time Smart Play performs certification of the drawing machines. There is an “in-play” set of drawing balls, a “back-up” set of drawing balls and a third set in storage. In light of the lengthy period of use, Whalen is comfortable that they are recertified to verify compliance with specifications. Bowers verified new sets of drawing balls are purchased every three to five years.

To expand the amount of storage space for this type of log information, OLC IT is converting its database server from Oracle to Microsoft SQL. The conversion will be operational by the end of the 2014 calendar year. IT will increase the capacity for storage in line with the Agency policy for Record Retention. Further, it should be noted that the new server will provide timely information for access going forward. Past information will only be accessible using the former, more time consuming method.

Accessing Confidential Personal Information (CPI) Audit Report/

Two-Year Retention Rule:

There were two high risk recommendations associated with accessing CPI, as cataloged by Wilson. This audit pertained to record retention or data retention. The retention policy indicated CPI information must be retained for a period of two years. During the audit of how CPI is accessed, Wilson recounted that accessing the data over one month old was time consuming and cumbersome. The auditee is striving to expand the amount of storage space for this type of log information. OLC IT is converting its database server from Oracle to Microsoft SQL. In the past, hindered by the constraints of physical space, the auditee was limited in the amount of easily accessible data he could retain. Nagorny offered insight that policy-makers did not fully understand the volume of CPI housed in agency systems.

Wilson expressed her concern regarding the auditee’s response – exploring options for expanding physical space for storage of CPI; implementation of expanded storage space scheduled for June 30 2015. Whalen requested additional background information. Nagorny explained that this centers on an Oracle database. This database is being converted to .NET. Jim Brown affirmed this will be housed on a SQL server. Wilson verified this lengthy implementation period is to allow for the SQL project to reach its completion. Whalen inquired what risk level is assigned to this audit area. Wilson responded high risk is associated with this recommendation.

Chairperson pondered if there would be an avenue available- a way to bridge this gap between now and June 2015. Jim Brown asked Wilson to restate the response. Brown informed the committee that I.T is converting all applications – it is a mammoth project and I.T. is diligently working toward this goal. Whalen questioned Brown to determine if management was aware of the high risk issue. Brown stated there was a meeting to discuss this issue; Brown indicated he arrived at the meeting late. Brown reiterated there is nothing that can be done with Oracle, as I.T. is moving off of this platform. Wilson stated the committee can gauge the status of this conversion before the next audit committee meeting. Whalen asked for confirmation that management understands the present status, the go-forward plan and the inherent risk. Brown indicated yes. Whalen would like to make sure the Deputy Director, Information Technology is aware of this situation. Brown said yes. Chairperson deferred for further comments from the committee. No issues were raised.

BOS Logs:

Additionally, Wilson reported a recommendation was brought forth to the auditee to include the name accessing CPI on the BOS logs. This information should be retrievable from the application history. Date parameters selected by the end-user would be a minimal requirement when accessing CPI. Wilson highlighted it is critical to know the name of the person accessing CPI about another person in BOS. A CCRF has been submitted. Brown stated Intralot would make this modification. Implementation date for this system change is December 31 2015. Whalen asked if this was high risk. Wilson confirmed it is. Brown commented if there is a CCRF, we should be able to implement this change in a software release prior to December 31, 2015. Chairperson stated he is uncomfortable with waiting a year and a half to implement this modification due to the high risk associated with it. Nagorny has been provided I.T. reports in an effort to work on improving the logging. Therefore, Nagorny assured the committee I.T. staff continue to work on this issue as a high-priority item. Whalen expressed thanks for the mitigation efforts occurring in the interim period. Whalen directed Brown to follow-up on the timing of the upgrade by Intralot for the committee.

Bell reminded the committee of the “Joe The Plumber” situation and applauded staff for finding ways to mitigate the risk in the interim. Other manual processes could possibly be brought to bear. In any event, Bell is aware of a low return on investment if there are plans to move from one platform to another. Bell cautioned attendees to be aware that external auditors may not be as understanding about this predicament. Whalen concurred – external auditors may disagree with management’s stance on waiting to fully implement this recommendation until movement to the new environment has taken place. Chairperson thanked I.T. staff for working to mitigate this risk in the interim period.

CPI Officer:

The shift from this officer’s position being an internal audit function to an Information Security role has been formally approved by the Deputy Director, Information Technology and the Executive Director. Originally, the designation of this officer, as part of the Office of Internal Audit’s structure occurred in 2009 by the former Executive Director. Internal Audit should not be part of the control; as a result, this officer fittingly now belongs to the domain of Information Security.

Executive Session

Chairperson made a motion to move into Executive Session at 11:01 am for purposes of discussing the details of the Lottery’s security arrangements and for discussion of matters required to be kept confidential by statute. The motion was seconded. Whalen took a roll call vote: Mr. Morgan, Ms. Mingo and Commissioner Whalen. There being 3 yeas and 0 nays, the motion was approved.

The committee moved out of Executive Session at 11:48 am.

Office of Budget and Management Report

Bell summarized the recent efforts by the Office of Internal Audit and OBM serve to illuminate the positive work being conducted. Bell emphasized the importance of changing the culture and complimented the work of Jennifer Wilson and the committee. Bell re-focused the committee on the importance of working toward the same goals and avoiding repetitive issues and comments. Walking through processes together with staff, especially as staff migrates to a new system may be a productive exercise. Bell introduced himself along with Cindy Klatt to the first-time attendees and explained they are the heads of OBM’s Office of Internal Audit. They work collaboratively with the Ohio Lottery’s internal auditors to provide coverage to all audit areas. OBM may assist with IT work or VLT-related audits, while Wilson studies processes. Klatt added that Bell and she maintain excellent communication with Wilson. Klatt will schedule her next assurance review to coincide with the next phase of audits, rather than interpose herself in the middle of Internal Audit’s initiative to compile procedures. Klatt reiterated she and Bell feel confident progress is being made.

New Business Items

Bell provided an overview of OBM’s fourth quarter projects:

- ✚ Business IT Alignment: 19 state agencies being audited by OBM to determine status of communication, disaster recovery, governance, security, vendor-management, etc. I.T. management will be asked about the

present status of their business and how to better align their practices to achieve stated goals. Centralized core functions may call for a realignment of business practices.

- + VLT follow-up: scope and objective being fleshed out
- + Application Development

Bell volunteered to perform a walk-through with staff if they determine this would be beneficial. Brown complimented Bell on the helpfulness of his last walk-through and audit and added that he views the relationship as a consultancy. Bell agreed this is more value-added, versus auditing after the fact and identifying missing components. The ultimate goal is for those being reviewed to be able to see the value of the reviews performed. Bell is hopeful this will become ingrained in the culture. Sometimes, OBM will share results with State Audit group, especially as it relates to financial statements. The State Audit group reviews financial statements.

Chairperson Whalen thanked Bell for helping to solidify the committee's mission, identity and role.

Adjournment

There being no further business at this time, the meeting adjourned at 12:05 p.m.

Meeting minutes prepared by:



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

Meeting minutes approved by:



Sean Whalen
Ohio Lottery Commission
Audit Committee Chairperson