



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

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

**DECEMBER 14, 2015
10:00 A.M.**

Present at the meeting were the following:

Members of the Committee:

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

Also Present Were:

Allen Allred, Assistant Chief Auditor, Financial Audit, AOS
Dennis Berg, Director, OLC
Gregory Bowers, Deputy Director of Finance, OLC
Jim Brown, Office of Information Technology, OLC
Noreen Burke, Senior Audit Manager, Information Systems, AOS
Matt Goldman, Senior Audit Manager, Financial Audit, AOS
Maria Jackson, Assistant Chief Auditor, Information Systems, AOS
John Jones, Office of Internal Audit, OLC
Cindy Klatt, Chief Audit Executive, Office of Internal Audit, OBM
Traci Konesky, Assistant to the Director, OLC
Constance Miller, Deputy Director of Operations, OLC
Lawrence J. Miltner, Chief Legal Counsel, OLC

Also Present Cont'd:

Diane Nagorny, Office of Internal Audit, OLC
Brian Ohl, Assistant IT Auditor, Information Systems, AOS
Venu Pallerla, IT Audit Chief, OBM
Liz Popadiuk, Deputy Director of Human Resources, OLC
Kelly Steinke, Internal Audit Manager, Office of Internal Audit, OBM
Mary Vittardi, Office of Finance, LOT
Joseph 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 December 14, 2015, was called to order at 10:01 P.M. at the Frank J. Lausche Building, Room 200 by Chairman Sean Whalen. Chairman Whalen stated that this is the second quarter of fiscal year 2016 Audit Committee Meeting. Present were Whalen, Mingo, and McAleer.

APPROVAL OF MINUTES OF SEPTEMBER 21, 2015

- Chairman Whalen requested a motion to approve the September 21, 2015 Minutes. Commissioner McAleer made a motion that was seconded by Commissioner Mingo. The motion was affirmatively voted on by all Audit Committee Members present except for Commissioner McAleer who recused himself since this is his first Meeting.

CHAIRMAN’S COMMENTS

- Chairman introduced Commissioner McAleer as a new member to the Audit Committee. Commissioner McAleer was appointed to the OLC Commission in August 2015, and he replaces Commissioner Morgan on the Audit Committee. Commissioner McAleer currently works for Cuyahoga County Council as their Financial and Senior Policy Advisor and has been there since 2011. Prior to that, he worked for the Cuyahoga County Board of Elections for six (6) years.

- Commissioner McAleer stated that he is learning the ins and outs of the OLC, and he looks forward to serving on the Audit Committee.

OFFICE OF INTERNAL AUDIT, OLC, JENNIFER WILSON, DEPUTY DIRECTOR

- Ms. Wilson stated that Internal Audit has completed its review of documents relating to procedures, work instructions and forms. Some changes were made mostly to aligning the OLC's practices to the standard and reflecting what the Internal Audit Department actually does.
- Ms. Wilson stated that there is a new form currently being used called debriefing notes. This is a practice that the Office of Budget and Management ("OBM") uses and was requested by staff. Essentially, after every audit engagement, herself and a staff member will meet to recap the engagement to discuss items such as: what went well, opportunities for improvement and lessons learned. The debriefing will also give the staff member the opportunity to provide feedback on what could have been done better to assist them.
- Ms. Wilson stated that Agency wide, a lack of updated policies and procedures is the most common issue that was identified during their audits. It has been an issue in seven (7) out of the last ten (10) audits. The Internal Audit Department shared its approach on how it controls their own documents with a few Departments to show that it can be done, as well as emphasizing the importance of document control.
- Ms. Wilson reported that over two-hundred (200) applications were received for the Internal Audit Department's part-time Administrative Professional position. This person will also be developing an Agency wide document control system. Human Resources narrowed the applicant pool to approximately thirty-five (35), and she will narrow it to five (5) to seven (7) for interviews by the end of next week.

- Internal Audit staff members continue to accrue Continuing Education credits in order to comply with the forty (40) credit units required on an annual basis.
- Ms. Wilson reported on the quarterly status report. One item that she wanted to point out was the status of the Games audit. This received a high risk status because of the many times the subject was brought up in the Internal Audit Department's annual risk assessment, mostly from the OLC's stakeholders. The comments included: Is the OLC paying attention to the future gaming landscape in Ohio?; What is the projected maximum revenue for all these options?; and, Does the OLC carefully balance prize commissions and operational expenses to maximize profit potential?
- Ms. Wilson stated that the Internal Audit Department's suggestion for this quarter is a postponement of the Games audit due to the pending Business Assessment. According to the language in the RFP, the objective is to identify for the State, recommendations that would achieve the highest financial return to the State from lottery gaming offerings and to obtain efficiencies in operations and management of the OLC.
- Ms. Wilson stated that for the above mentioned reason, she is seeking Audit Committee feedback on potentially removing this from the audit plan since given the limited resources, she believes that this may be a duplicated effort. The decision does not need to be made right now but for the time being, the Internal Audit Department is not moving forward with the Games audit. Since it is high risk and the Audit Committee must approve a change of this nature to the plan, she stated that she wanted the Committee to be aware of that.
- Chairman Whalen inquired as to what the timeline is to be able to make a better assessment for postponement. He stated that if it is to be postponed until better information is known, how long of a period of time would that be.

- Ms. Wilson responded that what she believes will help make a decision would be to actually see the consulting scope and know exactly what the Business Assessment is going to cover. At this time, it is pretty broad so if she could see how they are line iteming that out, then it could help in the decision. Ms. Wilson asked Director Berg if he was aware of a timeline.
- Director Berg stated that they have gone through the final interviews and analysis, and there should be an announcement of the winning vendor soon. Once selected, the vendor will still need to gather research. Director Berg stated that he does not expect to see any reports for at least six (6) months. However, he is not on the evaluation team.
- Ms. Wilson asked if staff will be able to see the scope of work before their findings. Director Berg stated that the RFP had parameters but the respondent can determine what they feel is the most important or critical areas to focus on. Director Berg stated as he has previously reported, the overall goal is to look at operational efficiency, governance structure and revenue opportunities, and he expects that the OLC will get some good information out of this assessment.
- Chairman Whalen stated that he is still not comfortable with the postponement of a high risk item and would like to have more discussion on that first. It was tabled for further discussion at the next meeting.
- Ms. Wilson stated that she would like to move to the dashboard. In the first pie chart, carry-forward audits were added. There were three (3) of them, and they consumed a good amount of resources so she felt that it was fair to put them on this chart. The Internal Audit Department is in good shape for being half way through fiscal year 2016 and are tackling items that have a higher priority.

- Chairman Whalen stated that they had talked about putting a time horizon on the top right for the next round “as of date”. Also, the note for the Audit Committee on the bottom left top issues open and closed by fiscal year. The change that might be seen there is the overall counts between thirteen (13) and fourteen (14). He stated that there was a redefining of risk definition that applied to audits, so there is a breakpoint there where a more updated version of high, medium and low risk definitions started to be used so the composition changed.
- Commissioner McAleer stated that he had a recommendation on the open issues by department on the bottom right. He asked if a number could be added to that showing the actual number of open issues for each Department. Ms. Wilson responded that yes it can be added. Chairman Whalen asked Commissioner McAleer if he would like that by number or percentage. Commissioner McAleer stated that he would like it by number.

EXECUTIVE SESSION

- Chairman Whalen stated that the Auditor of State (“AOS”) is present at today’s Meeting, and at this time he would like to move into Executive Session to discuss matters that are to be kept confidential by State Statute, specifically a preliminary Audit Report of AOS and a preliminary Audit Report from the Internal Office Department of OBM. Chairman Whalen made a motion to move into Executive Session that was seconded by Commissioner McAleer. A roll call vote was taken and affirmatively voted on by all Audit Committee Members present. The Audit Committee moved into Executive Session at 10:15 a.m.
- The Audit Committee moved out of Executive Session at 11:23 a.m.

**OFFICE OF INTERNAL AUDIT, OLC, JENNIFER WILSON, DEPUTY
DIRECTOR**

- Ms. Wilson reported on the following open, high risk issues which included issues from the MPNG audit, the Social Media audit, and the Bank Reconciliation audits.
 - The MPNG audit issue pertained to the status of the Restricted Player Procedure which is to be implemented at the end of January. Connie Miller, Director of Operations was on hand to discuss in more detail.
 - The Social Media audit issue pertained to the document control over the Agency's policies as well as the employee acknowledgement piece. The HR Director explained that there are HR policies and non-HR policies. Some policies were deemed to actually be directives or procedures and were re-classified as such. She is working with the Legal Department to get them reviewed and available for use by June 2016.
 - The Bank Reconciliation audit issue pertained to the financial reporting system that both the Internal Audit Department identified along with OBM's consulting engagement. The Finance Director is currently evaluating the current financial reporting system regarding the feasibility of automating some of the processes involved. He explained that this decision should be made by June 2016.

**CINDY KLATT, CHIEF AUDIT EXECUTIVE, OFFICE OF INTERNAL AUDIT,
OBM**

Two upcoming projects are scheduled for 4th quarter, plans to get started with the information gathering phase should begin in mid- 3rd quarter.

The annual Quality Assurance Audit will be completed in the 3rd quarter.

New Business

Ms. Wilson stated that to expect the annual review of the Internal Audit Charter and the Audit Committee Charter as part of the materials for the next Audit Committee meeting in March. This will give the Audit Committee time to review the proposed changes by the June meeting, when they are due.

ADJOURNMENT

- Chairman Whalen adjourned the meeting at 11:47 a.m.



Secretary – Traci Konesky

Approved:



Sean Whalen, Chairman