



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

**HELD AT:
THE FRANK J. LAUSCHE BUILDING
ROOM 205
615 WEST SUPERIOR AVENUE - CLEVELAND, OHIO 44113**

**March 19, 2018
10:00 A.M.**

Present at the meeting were the following:

Sean Whalen, Audit Committee Chairman and Commissioner, OLC
Trevor McAleer, Audit Committee Member and Commissioner, OLC
Dennis Berg, Executive Director, OLC
Greg Bowers, Deputy Director of Finance, OLC
Cindy Klatt, Chief Audit Executive, Office of Internal Audit, OBM
Erin Brown, Internal Audit Section Chief, OBM
Amy Radebaugh, Internal Audit Section Chief, OBM
Joseph Volpi, Office of Internal Audit, OLC
James Brown, IT Manager, OLC
Maureen Hall, Interim Deputy Director, Information Technology, OLC
Constance Miller, Deputy Director, Operations, OLC
Daniel P. Carter, Assistant Legal Counsel, OLC
Michael Sliwinski, Assistant Legal Counsel, OLC
John O'Donnell, Deputy Director of Security, OLC
Diane Nagorny, Office of Internal Audit, OLC
Carla Reeves, Office of Internal Audit, OLC
Jane Parker, Office of Internal Audit, OLC
Jennifer Wilson, Deputy Director of Internal Audit, OLC
Nicole Kostura, Deputy Director of Government and Community Relations, OLC

Angela Mingo, OLC Audit Committee member and Commissioner, was not present at today's meeting.

OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

March 19, 2018

Page 2

CALL TO ORDER

The Ohio Lottery Commission (“OLC”) Audit Committee Meeting of March 19, 2018, was called to order at 10:03 a.m. at the Frank J. Lausche Building, Room 205 by Chairman Sean Whalen.

APPROVAL OF MINUTES OF March 19, 2018

- Chairman Whalen asked the Audit Committee members whether there were any questions regarding the December 2017 meeting minutes? There were no questions at that time. Chairman Whalen asked for a motion to approve the minutes. Commissioner McAleer motioned to approve the meeting minutes. All Audit Committee members present affirmatively voted on the motion.

CHAIRMAN’S COMMENTS

- Chairman Whalen stated that his comments would be brief. Chairman Whalen noted that Chairperson McDonald would not be in attendance, and as such, he would be the Chairperson of the 12:00 p.m. Commission meeting. Accordingly, Chairman Whalen stated that he would end the Audit Committee meeting around 11:45 a.m. so that he could prepare for the immediately following Commission meeting.
- Chairman Whalen stated that he and the Audit Committee were interested in the following topics: Peer Review and Annual Risk Assessment status as far as where we are in the process and how the progress was going. Chairman Whalen stated that they would like to discuss the Commissioners’ survey results which were included in the meeting’s documents. Chairman Whalen noted that he would mention the governance documents, however, they would not be voted on nor approved until June’s Audit Committee meeting.
- Chairman Whalen stated that he also wanted an update on the current audit plan and wanted to know the status of the audits that are in process. Chairman Whalen asked whether there were any questions? There were no questions.
- Chairman Whalen directed the meeting to Deputy Director, Jennifer Wilson.

DEPUTY DIRECTOR OF INTERNAL AUDIT REPORT

- Ms. Wilson stated that she was prepared to address Chairman Whalen’s comments. Ms. Wilson stated that she has included in the Audit Committee package all the redlined Governance documents.
- Ms. Wilson stated that on page 13 of the Internal Audit policy document, the sentence “The external assessor is selected by OBM.” was removed. Ms. Wilson noted that was the only change to the document.
- Ms. Wilson moved onto the Audit Committee charter. Ms. Wilson stated that on page 3, she added that part of the Audit Committee’s responsibilities was to “Annually conduct a formal performance evaluation of the Deputy Director of Internal Audit.” Ms. Wilson noted that thus far she and the Audit Committee have not discussed how this would be conducted.
- Ms. Wilson stated that there were no changes to the Internal Audit charter except that she updated the fiscal year from 2018 to 2019.

OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

March 19, 2018

Page 3

- Ms. Wilson moved onto Peer Review status. Ms. Wilson stated that Legal has completed and sent the contract to Schneider Downs for their signature. Daniel Carter, Assistant Legal Counsel, noted that Schneider Downs notified him that they had received the contract.
- Ms. Wilson stated that she reviewed the contract before it was sent to Schneider Downs and she did not identify any discrepancies.
- Chairman Whalen asked whether there were any comments from Legal on the status of the contract? Mr. Carter stated, no and that he was awaiting a response from Don Owens, who is the contact person for Schneider Downs.
- Chairman Whalen stated that once we receive a signature from Schneider Downs, then we will move forward. Ms. Wilson noted that currently, we have a delivery date of June 8, 2018. Mr. Carter agreed that the delivery date was scheduled for June 8, 2018, and the final report was scheduled for June 18, 2018.
- Chairman Whalen asked whether the Audit Committee needed more time at June's meeting for her presentation? Ms. Wilson stated, perhaps.
- Ms. Wilson stated to Chairman Whalen that as June's meeting approaches she would schedule a meeting with the Audit Committee to discuss a possible time and agenda change.
- Chairman Whalen agreed and asked for the anticipated start date of the Peer Review. Ms. Wilson stated the end of April 2018.
- Ms. Wilson moved onto the progress of the annual Risk Assessment. Ms. Wilson stated that she had included in the Audit Committee documents the Commissioner's survey results. Ms. Wilson noted that based on the results that the following subjects scored high: Cyber Threats, Changes in Technology and Sustaining Customer Loyalty and Retention. Commissioner McAleer asked how many surveys were emailed and how many responses were received? Ms. Wilsons stated that nine surveys were sent, which included a survey to OBM, and she received seven responses.
- Chairman Whalen asked Cindy Klatt, Chief Audit Executive, OBM whether anything seemed shocking and whether the results matched the trends from other agencies that they have reviewed? Ms. Klatt stated that she had not had a chance to review the results before the meeting. Ms. Klatt noted that they were also concerned about Cybersecurity.
- Chairman Whalen stated that he agreed. Chairman Whalen stated that while reviewing the documents, he saw that the top two subjects that scored highest were Cyber Threats and Changes in Technology. Chairman Whalen also noted that the third subject of concern was Sustaining Customer Loyalty and Retention. Chairman Whalen stated that he found this subject to be interesting. Chairman Whalen stated that he was wondering if this was in regards to the sustainability of sales. Ms. Wilson noted that nobody provided comments to explain why that subject scored as high as it did.
- Chairman Whalen stated that we do not have another lottery that we are competing against from a loyalty perspective. Commissioner McAleer noted that he was also surprised to see the high score on that subject primarily from the Commissioner's point of view considering they receive monthly sales reports. Commissioner McAleer stated that he was not surprised to see the scores for Cyber Threats and Changes in Technology.
- Chairman Whalen stated that he would like to have a conversation with the Commissioners for feedback regarding the subject Sustaining Customer Loyalty and Retention.

OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

March 19, 2018

Page 4

- Chairman Whalen stated that he was a little surprised that that subject rated a little higher than the other subjects.
- Ms. Wilson agreed. Ms. Wilson stated that “sustained and retained” may not necessarily be limited to the recruitment of the millennial demographic.
- Chairman Whalen stated that he was wondering if this is related to sales focus or the Lottery being relevant to attract the younger generation.
- Chairman Whalen stated that this might be an area to look at, however, he was not sure how it should be approached. Chairman Whalen noted that this could be a question for Richard Perk, Deputy Director, Sales.
- Ms. Wilson moved onto the Annual Risk Assessment meetings. Ms. Wilson stated that her process included meeting with all OLC Deputy Directors to review their audit areas. Ms. Wilson noted that there were twelve Deputy Directors and so far, she had met with three; Finance, IT and Security.
- Ms. Wilson stated that the interviews thus far had gone well. Ms. Wilson noted this year she had asked each Deputy Director (with the Executive Director’s approval) to provide their objectives in support of OLC’s FY 19 business goals. Ms. Wilson stated that the information and the conversations thus far had been helpful.
- Chairman Whalen stated that this would help as we begin to think about how each goal may help the organization to remediate future risk.
- Chairman Whalen asked whether there were any questions regarding the risk assessment exercise? There were no questions.
- Chairman Whalen stated that the risk assessment was a valuable tool from the Audit Committee perspective because of the amount of time invested as it was related to audits. Chairman Whalen noted that this was a priority setting exercise that helped the Audit Committee assess the risk and set the plan so that everyone’s time was used in the best conceivable way.
- Chairman Whalen stated to Ms. Wilson that he appreciated her time in developing the risk assessment exercise.
- Ms. Wilson stated that the last comment related to the Aging Accountability Report (AAR) format. Ms. Wilson noted that the new format was easier to read. Ms. Wilson thanked Joseph Volpi, Carla Reeves and John Jones for their efforts in re-formatting the AAR.
- Chairman Whalen stated that the Audit Committee reviewed the new format a week before this meeting and noted that the new format looked great and that the report was easier to read.
- Ms. Wilson stated that this concluded her follow-up to Chairman Whalen’s comments. Ms. Wilson asked whether there were any questions? There were none.
- Ms. Wilson moved onto the Dashboard. Ms. Wilson stated that we were on target to complete two audits by June’s Audit Committee meeting.
- Ms. Wilson moved onto the Quarterly Status Report. Ms. Wilson stated that three audits had not been started. Ms. Wilson noted that the audit entitled Off-Boarding is rated High-Risk with a Medium level of effort. Ms. Wilson stated that there were no changes as far as the risk level, however, there were three outstanding issues that were directly related to Off-Boarding. She indicated that she was considering canceling the audit as she saw minimal added value at this time. Ms. Wilson stated that the three open items were the result from audits conducted by MUSL, Auditor of State (AOS) and Internal Audit.

OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

March 19, 2018

Page 5

- Chairman Whalen asked whether the issues were currently being addressed or if we were at a standstill? Ms. Wilson stated that HR owned one of the issues and IT owned the remaining two issues. Ms. Wilson stated yes, there was on-going progress to resolve these issues.
- Chairman Whalen stated that since there was continuous progress being made, that he would be ok with the issues still being opened. Chairman Whalen noted that if no progress were made, then he would be a little more concerned.
- Ms. Wilson stated that from her perspective incremental progress was being made to resolve these issues.
- Ms. Wilson asked whether there were any questions on the Quarterly Status Report?
- Chairman Whalen stated that every fiscal year we over plan for audits on purpose. Chairman Whalen noted that we strive to achieve an 80% completion rate. Chairman Whalen asked Ms. Wilson whether we would meet this goal? Ms. Wilson stated that she estimated a completion rate of about 70%.
- Ms. Wilson stated that she was basing this information on internal audits only. Ms. Wilson noted that looking at both internal and external audits planned, would cause the percentage to be higher. Ms. Wilson stated that OBM had completed all their OLC audits to date.
- Chairman Whalen stated that as we approach the end of the fiscal year, he wanted to have a conversation with Ms. Wilson regarding what should be in the Audit Plan as it related to internal and external audits.
- Ms. Wilson agreed.
- Ms. Wilson moved back to the Dashboard. Ms. Wilson stated that currently there were forty-four open issues, however, one issue was closed after the document was produced.
- Ms. Wilson stated that eight issues had been closed since last quarter. Ms. Wilson noted that the average age from the issuance date of open issues was three hundred sixty-five days. Ms. Wilson stated that during the previous quarter she reported four hundred and forty-one days. Ms. Wilson noted that this was a 20% reduction.
- Chairman Whalen stated that this was an excellent improvement.
- Ms. Wilson stated that the average age of past due items from the estimated completion date was one hundred ninety-one days old. Ms. Wilson stated that last quarter she reported two hundred eighty-seven days past due. Ms. Wilson noted that this was a 33% reduction.
- Chairman Whalen asked whether there were any items from fiscal years '15 or '16 that were scheduled to be or have been closed?
- Ms. Wilson stated that they would discuss those in the latter half of the meeting.
- Ms. Wilson stated that all fiscal years '13 and '14 were closed. Ms. Wilson noted that June's dashboard would only show fiscal year '15 to current.
- Ms. Wilson asked whether there were any questions regarding the Dashboard? There were no questions.
- Ms. Wilson asked whether there were any questions about the Quarterly Status Report? Ms. Wilson stated that she did not have any specific details to point out other than the Off-Boarding audit.
- There were no questions.

EXECUTIVE SESSION

- Chairman Whalen stated, “At this time I would like to move to go into Executive Session to consider security and infrastructure records required to be kept confidential by the Ohio Revised Code sections 149.433, and to consider preliminary reports of Internal Audit of the Office of Budget Management (OBM) required to be kept confidential by Ohio Revised Code 126.48.”
- Chairman Whalen asked whether there was a motion to move into Executive Session? Commissioner McAleer made such a motion. All Audit Committee members present affirmatively voted on the motion.
- The Audit Committee moved into Executive Session at 10:24 a.m.
- The Audit Committee moved out of Executive Session at 11:20 a.m.

OPEN SESSION: INTERNAL AUDIT REPORT REVIEW

- Ms. Wilson stated that based on the last quarter’s meeting minutes the Audit Committee wanted to hear about the progress regarding the **Contract Compliance audit**. Ms. Wilson noted that Greg Bowers, Deputy Director, Finance was present to speak on the topic.
- Mr. Bowers stated that the Legal department was currently reviewing the Contract Compliance policy. Mr. Bowers stated that he intended to get the policy completed and approved before today’s Audit Committee meeting. Mr. Bowers reported that other pressing issues had to be addressed.
- Mr. Bowers stated that at December’s Audit Committee meeting, Legal had made some recommendations and submitted the policy back to Finance. The Finance department reviewed their recommendations and accepted the changes. Mr. Bowers stated that currently, the policy was again with the Legal department for final review.
- Michael Sliwinski, Deputy Director, Legal stated that Charles LoPresti, Chief Legal Counsel, mentioned to him that he received Finance’s Contract Compliance policy and that he was in the process of re-reviewing the document.
- Chairman Whalen asked Mr. Bowers, from his perspective, when did he expect this to be completed? Mr. Bowers stated that it depended on when he received comments back from Legal.
- Chairman Whalen asked whether, once he received Legal’s comments, this would be the definitive version of the policy? Mr. Bowers stated he believed so, however, Human Resources may have to review the policy as well.
- Chairman Whalen stated that it sounded like we had the execution of completing the policy, then the second part was disseminating the policy. Chairman Whalen asked Legal when they expect to have the policy completed? Mr. Sliwinski stated that the Legal department should have their portion completed in approximately two weeks. Chairman Whalen noted that April 30th should be a reasonable date to have this policy completed. Both Mr. Sliwinski and Mr. Bowers agreed.
- Chairman Whalen asked Mr. Bowers whether there were any additional comments regarding the Contract Compliance policy? Mr. Bowers stated no.
- Ms. Wilson moved onto the next audit: **Bank Reconciliation**. Ms. Wilson stated that this audit also was discussed at the last Audit Committee meeting and that the Audit Committee decided to reduce the risk to low. Ms. Wilson noted that the Audit Committee wanted Mr. Bowers to also speak on the progress of the audit. Mr. Bowers reported that they had chosen a new software system and they

OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

March 19, 2018

Page 7

submitted a bid to DAS for approval. Chairman Whalen asked Mr. Bowers for the name of the software. Mr. Bowers stated that they chose Great Plains, which was developed by Microsoft.

- Chairman Whalen asked why Mr. Bowers choose Great Plains? Mr. Bowers stated that some of his staff felt that they needed something more comprehensive and budget friendly. Mr. Bowers stated that Great Plains was an updated version of Finance's current software and that the program had the bank reconciliation module as well as fixed assets.
- Chairman asked whether the State had software like the one chosen at other State agencies, or was this the process you decided to research and submit a bid? Mr. Bowers stated that this was what the Lottery decided to pick. Mr. Bowers stated that other State agencies utilized Great Plains, but they used the software for different purposes.
- Chairman Whalen asked whether this software, from a technological standpoint, would create the efficiencies needed for your staff once implemented? Mr. Bowers stated it should, and from a reporting standpoint, it should be a lot easier.
- Chairman Whalen stated that this would be an improvement from both an integrity viewpoint of what the audit mentioned regarding Bank Reconciliation to staff efficiencies and maybe more insights into reporting output. Mr. Bowers agreed.
- Chairman Whalen stated that he was more interested in the case behind the request of reporting. Mr. Bowers stated that cost was a factor as well. Chairman Whalen agreed.
- Mr. Bowers stated that it would be nice if the Lottery had an ERP system, however, the licensing fee was \$50,000 a year per person. Commissioner McAleer asked when he anticipated that this would be implemented?
- Mr. Bowers stated that his goal was to have the system implemented before June 30th, however, they must wait and see who would bid on it and their timeframe. Mr. Bowers stated that if they could get the system before this then they would, if not then they must look at how this overlapped to the audit/end of the year period. Mr. Bowers stated that they could not do both at the same time.
- Ms. Wilson moved onto the next audit: **EZ Play game liability**. Ms. Wilson stated that the issue regarding monitoring the performance of games was reassigned from Mary Tedeschi-Vittardi, Financial Analyst Supervisor to Mike Gonzalez, Data Administration Manager.
- Ms. Wilson stated that Mr. Bowers had provided her information regarding Mr. Gonzalez's progress. Ms. Wilson reported that she contacted Mr. Gonzalez and he emailed her an Excel spreadsheet. Ms. Wilson noted that this took place late last week and she did not have the chance to review it. Ms. Wilson stated that once she looked over the information with Mr. Gonzalez, she anticipated this issue would close soon.
- Mr. Bowers stated that currently, the process was manual, however, eventually it would be automated.
- Ms. Wilson stated that the next three issues related to the **Lottery Profits and Education Fund (LPEF)** audit. Ms. Wilson noted that these issues were related to vouchers. Ms. Wilson stated that we had IT involved with helping generate reports that were meaningful to General Accounting that they could use. Ms. Wilson noted that staff from General Accounting, IT and Internal Audit had a meeting in Strongsville to discuss some of the processes. Ms. Wilson reported that she had not received sufficient evidence that the issue was completed. Ms. Wilson noted that Mr. Bowers was

OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

March 19, 2018

Page 8

present to speak on the subject matter. Ms. Wilson stated that IT was present at the meeting. Ms. Maureen Hall, Interim Deputy Director, IT stated yes, she was present at the meeting along with Diane Nagorny, Auditor, Internal Audit. Ms. Hall reported that they spent two different days with staff from General Accounting and one day with Audit and General Accounting and reviewed items to ensure everything reconciled.

- Mr. Bowers stated that from his understanding they reconciled for two months. Mr. Bowers reported that both Finance and IT were satisfied with the results. Mr. Bowers stated that he was not sure what happened from that point. Ms. Wilson stated that she wanted to see if she could close the issue and she asked Ms. Nagorny to check to see if anything had changed since the recommendation was written. Ms. Wilson stated that she did not think anything had changed. Ms. Wilson noted that IT had provided sufficient training to both General Accounting and Audit, so their portion was complete.
- Mr. Bowers stated that at the last Audit Committee meeting he noted that this would be their last effort to get this reconciled. Mr. Bowers stated that he could not continue to add more time and resources to this issue. Chairman Whalen asked what Internal Audit needed to see to get this issue closed? Ms. Nagorny stated that there were differences found in the reconciliation.
- Ms. Nagorny noted that a prize tier was not reported correctly in ICS. Ms. Nagorny pointed out that this reconciliation would solve any liability errors and not show what was substantial to the timing difference. Ms. Nagorny stated that if we could reconcile in just the journal entries of the mistakes that we knew then maybe the small difference would be acceptable. Ms. Nagorny stated that we should have criteria of what would be acceptable.
- Mr. Bowers asked what the small differences were? Ms. Nagorny stated that this was due to a prize tier issue that still had errors that were found in the reconciliation. Ms. Nagorny reported that when the reconciliation was created there were still errors. Ms. Nagorny noted that if the reconciliation had not been built, then they would not have found the errors. Ms. Nagorny stated that adjusting journal entries needed to be performed so that ICS and the General Ledger matched BOS. Ms. Nagorny noted that currently she did not see any evidence that this had ever been done, however, this could be in another file that she was unaware of.
- Chairman Whalen stated that we had identified two things. Chairman Whalen noted that first, we had identified the timing difference, which was difficult to solve, and second, there were non-timing related errors that we would like to address.
- Chairman Whalen asked Mr. Bowers whether he knew what that was or did he need more information on the topic?. Mr. Bowers stated that he would need more information.
- Ms. Nagorny noted she believed IT was correcting the prize tier issue on ICS from their end.
- Chairman Whalen asked Mr. Bowers to consider the problem and report the materiality of reconciliation. Mr. Bowers stated that it was immaterial. Ms. Hall noted that one of the errors amounted to ten dollars. Mr. Bowers stated that it was very insignificant. Mr. Bowers stated that this was going to occur all the time and the amounts did not change. Mr. Bowers stated that he agreed with Ms. Nagorny that once you identified what the errors were that was the first step. Mr. Bowers noted that he had been saying that the amount was very immaterial. Ms. Nagorny stated that the timing difference was insignificant because the amounts could go up and down.

OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

March 19, 2018

Page 9

- Ms. Nagorny stated that if you did not find the errors then there would never be an accurate picture of what the timing difference was.
- Ms. Hall stated that this was one of the conversations that she spoke with Mr. Bowers about, regarding identifying what the minimum to maximum amounts were. Mr. Bowers stated that he already decided that there were no minimum or maximum values because the amount was immaterial.
- Chairman Whalen stated that at June's Audit Committee meeting, he wanted an update on what was the boundary regarding the insignificant amount. Chairman Whalen asked Mr. Bowers to provide the Audit Committee a summary of what the reconciliation non-timing issues were and a response to the on-going issue.
- Chairman Whalen stated that we needed to come to some agreement on how to get this issue closed so that we all could move forward.
- Mr. Bowers agreed.
- Ms. Wilson moved onto the **AOS Annual** audit. Ms. Wilson stated that this issue pertained to proper implementation of GASB 68 standards. Ms. Wilson noted that the response was that Accounting had contracted with an accounting firm to remedy accounting issues relating to GASB 68.
- Ms. Wilson asked Mr. Bowers whether he had any additional information to add regarding the topic? Mr. Bowers stated that currently, they were working with Mary Tedeschi-Vittardi, Financial Analyst Supervisor, to identify minor adjustments that were needed? Mr. Bowers stated that this issue would not be closed until Ms. Wilson reviewed the Auditor of State report in October.
- Ms. Wilson moved onto the **IG Report** audit. Ms. Wilson stated that the next two issues were related to Perkins' Warehouse. Ms. Wilson noted that the recommendation was to incorporate and formally revise an OLC policy according to LOT-HR-00-48. Ms. Wilson stated that she spoke with David Long, Labor Relations Administrator and he stated that it was a priority on his list of things to do, to add ORC 125.13.
- Chairman Whalen moved onto OBM'S updates. Ms. Cindy Klatt, Chief Audit Executive, OBM stated that as Ms. Wilson noted Office of Budget Management (OBM) had completed their assigned audits for Ohio Lottery Commission (OLC) to date. Ms. Klatt stated that they were in the process of planning for the fiscal year 2019. Ms. Klatt noted that she and Ms. Wilson plan to meet to discuss OLC's Risk Assessment. Ms. Klatt stated that OBM performs a condensed version statewide regarding their Risk Assessment to decide which audits to complete for next fiscal year.
- Chairman Whalen thanked Ms. Klatt for her insight in assisting to help plan for the upcoming Peer Review.
- Chairman Whalen asked whether there were any final comments? There were none.
- Chairman Whalen thanked all the Senior Directors that were present at today's Audit Committee meeting, and he looked forward to June's Audit Committee meeting.

OHIO LOTTERY COMMISSION AUDIT COMMITTEE MINUTES

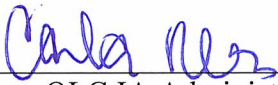
March 19, 2018

Page 10

ADJOURNMENT

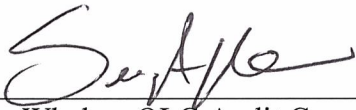
- Chairman Whalen called for adjournment of the meeting at 11:41 a.m.

Prepared by:



Carla Reeves, OLC IA Administrative Professional

Approved by:



Sean Whalen, OLC Audit Committee Chairman