



Dave Yost • Auditor of State

**JOBSOHIO
FRANKLIN COUNTY**

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Dave Yost • Auditor of State

AUDITOR'S REPORT

JobsOhio
Franklin County
41 South High Street, Suite 1500
Columbus, Ohio 43215

To the Board of Directors:

We have tested certain accounts, financial records, files, and reports of JobsOhio, Franklin County, Ohio (JobsOhio), and including JobsOhio Beverage Systems (JOBS), a non-profit corporation of which JobsOhio is the sole member for the period July 5, 2011 through June 30, 2012 (the period), in accordance with Ohio Revised Code Section 117.10. Our engagement was not designed to result in expressing an opinion on the financial statements, compliance, or internal controls and we express no opinion on them.

Internal Control Over Compliance

During our procedures related to the internal control over compliance with certain compliance requirements outlined in Ohio Revised Code Chapter 187 and Ohio Revised Code Section 1702.04, we noted matters that, in our judgment, could adversely affect JobsOhio's ability to record, process, summarize, and report data consistent with these requirements. These matters are described in the Schedule of Findings as items 2012-05 through 2012-08.

Compliance and Other Matters

We tested compliance with certain provisions of laws, regulations, contracts, and grant agreements, applicable to JobsOhio, as outlined in Ohio Revised Code Chapter 187 and Ohio Revised Code Section 1702.04. The results of our tests disclosed instances of noncompliance that are reported in the accompanying Schedule of Findings as items 2012-01 through 2012-04.

On November 1, 2013, we held an exit conference with JobsOhio management and discussed the contents of this report. JobsOhio had fifteen days to respond to the findings in this report and their response is included as an attachment to this report. We have reviewed JobsOhio's response; we stand by our findings as reported herein.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 15, 2013

**JOBSOHIO
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JULY 5, 2011 THROUGH JUNE 30, 2012**

FINDINGS RELATED TO COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE
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FINDING NUMBER 2012-01

Noncompliance Citation

Ohio Revised Code § 187.01(F)(2) requires the Board of Directors to approve an employee compensation plan recommended by the chief investment officer.

During the audit period and as of the date of this report, the Board of Directors had not approved an employee compensation plan. The Board of Directors created and appointed members to a Compensation Committee responsible for reviewing any plan of compensation for JobsOhio employees recommended by the chief investment officer and making recommendations regarding any such plan of compensation to the Board. In addition, the Compensation Committee was tasked with reviewing compensation arrangements and property transactions with both employees and independent contractors of JobsOhio. However, JobsOhio management indicated no Compensation Committee meeting minutes were available for the period. As a result, we were unable to determine whether the Compensation Committee performed these functions.

We recommend JobsOhio develop and formally approve an employee compensation plan as required by the Ohio Revised Code. Once a plan is developed and approved, JobsOhio should periodically (e.g., annually to correspond with the annual IRS Form 990 filings) review the plan for reasonableness and make any adjustments to employee compensation and/or the plan where necessary. We further recommend JobsOhio document the process of developing, implementing, approving, and periodically reviewing the employee compensation plan. Such documentation could include research information, analyses performed, correspondence, employee compensation arrangements, Compensation Committee meeting minutes, and Board of Directors meeting minutes.

FINDING NUMBER 2012-02

Noncompliance Citation

Ohio Revised Code § 187.06(G) requires each director or officer shall annually sign a statement that affirms the individual:

- Has received a copy of the conflicts of interest policy;
- Has read and understands the policy;
- Has agreed to comply with the policy; and,
- Understands JobsOhio's statutory purpose and that it is a nonprofit corporation.

It is imperative that each director and officer not only receive a copy of the conflict of interest policy, but affirm that they have read and understand the policy and agree to comply with it so they can properly identify and communicate potential conflicts of interest to the appropriate individuals and, if necessary, abstain from working on or making decisions about any projects related to said conflict.

FINDING NUMBER 2012-02 (Continued)

None of the directors or officers signed the annual affirmations (i.e., Conflict of Interest form) prior to June 30, 2012. However, eight of the nine Directors signed their affirmations between November 1, 2012 and January 14, 2013. One Director, who served on the Board until July 5, 2012, did not sign an affirmation prior to the end of his term.

We recommend JobsOhio develop and implement policies and procedures to reasonably ensure each member of the Board of Directors signs the Conflict of Interest form at the initiation of his or her term and at the beginning of each subsequent fiscal year. These procedures should include a tracking mechanism that identifies each member, his or her term, and the date the member actually signed the Conflict of Interest form.

FINDING NUMBER 2012-03

Noncompliance Citation

Ohio Revised Code § 187.06(H) states:

To ensure JobsOhio operates in a manner consistent with its statutory purpose or contractual obligations, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, determine all of the following:

- (1) Whether compensation arrangements and benefits are reasonable, based on competent survey information, and the result of arm's length bargaining;
- (2) Whether JobsOhio's operations are consistent with its articles of incorporation, regulations, and contractual obligations, and are properly documented;
- (3) Whether transactions are fair to JobsOhio, reflect reasonable investment or payments for goods and services, further JobsOhio's statutory purpose or contractual obligations, and do not result in direct private benefit to directors, officers, or other persons, in other than a de minimis manner.

Further, failure to have an adequate compensation plan that is adequately monitored could lead to adverse tax consequences from the IRS.

During the audit period and as of the date of this report, JobsOhio had not conducted a periodic review regarding compensation arrangements and benefits, operations, and transactions as outlined in Ohio Revised Code §187.06(H). In addition, there were no employee compensation arrangements to indicate or determine an individual's compensation and benefits.

We recommend JobsOhio develop and implement policies to reasonably ensure a periodic review is conducted regarding compensation arrangements and benefits, operations, and transactions. The policies should outline who should perform the review, how often it should be performed (e.g., annually to correspond with the IRS Form 990 filings), what is to be included in the review, how the results should be summarized, and how they should be communicated to management and the Board of Directors. We further recommend the periodic review be thoroughly documented and maintained to evidence compliance with the Ohio Revised Code.

FINDING NUMBER 2012-04

Noncompliance Citation

Ohio Revised Code § 187.061(A) requires each officer and employee shall do all of the following:

- Sign an ethical conduct statement prescribed by the Board of Directors of JobsOhio;
- Complete an annual course or program of study on ethics. The course or program of study shall be reviewed and approved by the Board of Directors; and,
- Comply with the gift policy prescribed by the Board of Directors.

Even though the Ohio Revised Code does not require all board members to sign the above affirmations, it is sound business practice to have them do so. As such, JobsOhio did require all Board members to sign an ethical pledge. However, one Board member did not sign an Annual Ethical Conduct Pledge form prior to his term ending on July 5, 2012.

Although the Board of Directors approved an ethical program, it was not approved until August 8, 2012. Furthermore, the ethics course attended by the employees did not occur until October 22, 2012 and the ethics course attended by the Board of Directors did not occur until November 1, 2012. Additionally, two officers selected for testing did not sign a Gift Policy Receipt and Acknowledgement form to affirm they would comply with the gift policy during the audit period. During the course of the audit, signed Gift Policy Receipt and Acknowledgement forms for these two officers were received; however, they were not signed until September 20, 2013.

We recommend JobsOhio develop and implement policies and procedures to reasonably ensure each Board member, officer, and employee signs an Annual Ethical Conduct Pledge and a Gift Policy Receipt and Acknowledgement form. These procedures should include a tracking mechanism that identifies each member, his or her term, and when the Annual Ethical Conduct Pledge and Gift Policy Receipt and Acknowledgement forms were signed. We also recommend JobsOhio implement procedures to ensure all Board members and employees annually attend an ethics course approved by the Board. JobsOhio should maintain pertinent documentation regarding the ethics course (i.e., instructor, subject matter, agendas, etc.) and who was in attendance to evidence compliance with the requirements set forth in the Ohio Revised Code.

FINDING NUMBER 2012-05

Conflicts of Interest

During the audit period the Board adopted a written conflicts of interest policy and procedure for Board members as required by Ohio Revised Code Section 187.06(A) and (G). Senior management officials and other employees who are not board members, however, are not subject to that policy and procedure even when such employees have decision-making authority or have significant other involvement in a project.

FINDING NUMBER 2012-05 (Continued)

We haphazardly selected and reviewed 28 project files for potential conflicts of interest.* Three potential conflicts of interest were identified. In each instance, the information initially available to the AOS through JobsOhio's business records and the individual's financial disclosure statements filed with the Ohio Ethics Commission (OEC) was insufficient to determine if an actual conflict existed, and if it did, whether it was so slight as to constitute a *de minimis* conflict. JobsOhio subsequently provided additional information, discussed in more detail below, that demonstrated either that the potential conflicts were not actual conflicts or were in fact so slight as to constitute a *de minimis* conflict.

The matters at issue in these situations involved services JobsOhio was paid to perform under its Services Agreement with the Development Services Agency (DSA or ODOD). In each instance, the action or recommendation was made at the senior management level and did not involve the consideration or approval of the Board. JobsOhio's conflict of interest policy should be extended to include all employees who have significant management responsibility and that policy should be diligently followed.

One situation involved an employee who had significant involvement working on a project for which a recommendation to approve state incentives was made by JobsOhio to DSA. The JobsOhio employee worked on the project with an entity from which the JobsOhio employee had received compensation, apparently as a result of holding a formal position with the entity, in the year previous.

A second situation involved a JobsOhio official jointly signing with DSA an offer letter to a company for an incentive which was processed during the audit period and approved July 30, 2012. The JobsOhio official ostensibly held stock in the publicly-traded company that was the recipient of the state incentive. The compensation and stock ownership in these situations were revealed by the financial disclosure forms that each employee was required to file with the OEC covering the year 2011. At the time, these were not confidential filings.

In the third situation noted, the recipient of a state incentive was a publicly-traded company. A key JobsOhio employee working on the project held stock in the company. The fact of stock ownership was revealed through the OEC's review of the employees' confidential financial disclosure statement filed with the Commission.

In each situation, we were not able to determine from JobsOhio files and documentation if the apparent conflict was an actual one, and, if it was an actual conflict, whether it was *de minimis* or more than *de minimis* and there was no documentation initially maintained by JobsOhio to indicate that an analysis of these potential conflicts was performed during the period. In the first situation, the compensation was reported on the employee's financial disclosure form filed with the OEC in 2012, which covered the year prior to the recommendation for approval of the project grant. Because the filings with the OEC are now confidential, we were unable to determine if the compensation continued into the year in which the project was recommended for approval of the incentive. In the second and third situations, the number of shares the employees held was not required by the ethics statute to be disclosed in the OEC filing and, even if it were required, the information filed with the OEC would be confidential under the statute and withheld from the Auditor of State.

Upon further discussions with JobsOhio management and Board representation, additional documentation was provided to us by JobsOhio, including portions of a subsequent financial disclosure form filed with the OEC for one of the situations discussed above. The documentation revealed, as to the

* We limited our reviews to those projects which were ongoing or recommended to DSA during the period and were included in the report from JobsOhio to DSA. We did not test projects that JobsOhio subsequently redacted from the DSA report since JobsOhio chose not to recommend those projects to DSA. Our review included projects related to entities in which our Office or outside parties identified Board members, officers, or employees with a potential conflict of interest

FINDING NUMBER 2012-05 (Continued)

first situation, that the employee's relationship and compensation with the entity seeking the incentive had terminated by the time the project application at issue had been filed. In the second situation, the documentation combined with a lack of any conflict notice provided by OEC for the 2012 year pursuant to Ohio Revised Code Section 102.02(B), revealed that the JobsOhio official no longer owned stock in the publicly-traded company during the project period. In the third situation, subsequently provided information revealed that the employee owned 7.3 common shares in the publicly-traded company; the outstanding shares of the company at the time were more than 108 million. Presumably, the conflict of interest in this situation fits well within the *de minimis* category. However, there was no documentation that JobsOhio made such a determination contemporaneously with the initiation of the project.

Each of these instances reveals that, during the audit period, JobsOhio had no clear formal procedure to screen for senior management and employee conflicts of interest or any mechanism for managing these situations. Safeguards for detecting, managing, and avoiding conflicts of interest at the staff level were missing. Moreover, JobsOhio did not document any actions that it may have taken to informally screen for potential conflicts or to avoid or mitigate actual conflicts of interests.

Although JobsOhio did not adopt a comprehensive policy and procedures to determine these matters, the DSA services contract with JobsOhio did contain a conflict of interest provision. That provision prohibited any

“employee, officer or Board member of JobsOhio . . . who exercises any functions or responsibilities in connection with the review or approval of any work completed under this Agreement...” from having “any personal interest, direct or indirect, which is incompatible or in conflict with the discharge or fulfillment of his or her functions or responsibilities with respect to the completion of the work contemplated under this Agreement.”

If such circumstance existed or arose in the contract period, then the person was required to

“...immediately disclose that interest to JobsOhio and ODOD in writing...” and no longer participate in the work unless it was determined that “...in light of the personal interest disclosed, such person's participation in that [work] would not be contrary to the Ethics laws.”

There was no documentation to indicate whether the disclosure requirement of the contract was followed or invoked.

Ohio Revised Code Section 187.061(A) and JobsOhio Code of Regulations Section 7.3 require that each JobsOhio officer and employee annually sign an ethical conduct statement prescribed by the Board. The content of the statement prescribed by the Board in Section 7.4 of the Code of Regulations, however, is inadequate in that it fails to specify conflicts of interest as a situation that senior management and employees must avoid.

We recommend that JobsOhio develop a clear formal policy regarding potential conflicts of interest of employees and senior management who are not board members, and that it establish a written procedure for determining in a timely manner whether an actual conflict of interest exists, such that the affected employee will be excused from participating in the transaction or matter, or whether, under the circumstances, the matter is either not a conflict of interest or is a *de minimis* one with insubstantial effect that does not necessitate the recusal of the affected employee. JobsOhio should consistently document in its project files its considerations or actions which address or mitigate any conflicts which may appear to exist.

We also recommend that the ethical conduct statement, which the Board is required by the statute and its code of regulation to prescribe, contain a specific statement regarding conflicts of interest.

FINDING NUMBER 2012-06

Expenses

JobsOhio was created as a private non-profit corporation to drive job creation and capital investment for the State of Ohio while moving at the speed of business. While it is important to carry out this mission in an efficient manner to successfully compete with other states and countries for job creation and retention in Ohio, it is also important to preserve accuracy and sound business practices.

It is management's responsibility to design and implement a system of internal controls to reasonably ensure expenditures are properly approved, accurately recorded, and contain sufficient documentation to support the transaction. To be effective, policies and procedures must be formally documented, approved by management, and communicated to employees. Management is also responsible to periodically monitor transactions to help ensure controls are being performed as intended to meet management's objectives.

During the audit period, JobsOhio spent \$3,325,375 and JOBS spent \$10,722,447 in non-payroll expenses. We noted the following in our testing of select non-payroll expenditure transactions:

Personal Charges to Corporate Charge Cards

JobsOhio's Expense Process Summary indicates corporate charge cards should not be used for personal expense other than business related personal expenses and any such costs shall be promptly reimbursed to JobsOhio by the employee. However, there was no evidence of reimbursement to JobsOhio for personal expenses in five instances. The amount of these expenses was inconsequential, but continued unreimbursed personal use of corporate charge cards could lead to significant misuse of JobsOhio funds over time if proper control is not exercised.

We recommend JobsOhio perform detailed reviews of corporate charge card expenses to identify personal expenses charged to them and diligently pursue reimbursement from employees for these expenses in a timely manner.

Meals for Government Employees

JobsOhio's Expense Process Summary indicates the costs for meals of state and local government officers or employees are not allowable. However, JobsOhio paid for lunches of state employees on five different occasions. The amount of these expenses was inconsequential, but still violated JobsOhio policy. Continued violations of this policy could lead to significant unallowable expenses over time if proper control is not exercised.

We recommend JobsOhio no longer pay for meals of government employees. We further recommend JobsOhio maintain documentation of how the meals of government employees are paid at meetings or trainings.

Expense Documentation

JobsOhio's Expense Process Summary indicates that credit card purchases must be sufficiently documented by support which is reasonably and customarily available in business, such as a paid invoice or receipt. The practice of completing a Statement of Missing Receipt form when receipts were lost or otherwise unavailable was sometimes used by employees, but the form and any instructions for its use were not included in the Expense Process Summary. For all other purchases, the supervisor and CFO were responsible for ensuring appropriate documentation was included to support the payment.

FINDING NUMBER 2012-06 (Continued)

We selected 131 JOBS and JobsOhio payments, totaling \$13,043,669, for testing which contained 563 separate transactions. Each separate transaction could have multiple invoices or receipts associated with it. The required submission of sufficient documentation or alternative use of the Statement of Missing Receipt form was inconsistently applied throughout the audit period, as indicated below:

- 58 items, totaling \$59,747, did not contain an invoice or receipt to verify the payments were accurate and consistent with JobsOhio's statutory purpose. Furthermore, 26 of the 58 items did not contain a Statement of Missing Receipt form. Nine of these items, totaling \$55,889, were paid from public funds received by JOBS. The entire amount of public funds received by JOBS was repaid to the Development Services Agency on April 5, 2013.
- 55 items, totaling \$8,997, did not contain enough detail about the purchase on the invoice or receipt (e.g., non-itemized meal receipts, etc.) to verify the payments were accurate and consistent with JobsOhio's statutory purpose.

Without sufficient or appropriate supporting documentation, there is an increased risk of inappropriate or inaccurate payments. We recommend JobsOhio management more clearly identify in the Expense Process Summary the types of support that are required for purchases, as well as when a Statement of Missing Receipt form should be submitted. This will increase employee accountability and enhance management's ability to properly monitor and approve purchases.

Payment Authorization Forms

JobsOhio's Invoice Payment Process Summary indicates that once the purchaser of goods or services verifies the receipts of those goods or services and validates the invoice, he or she is to complete a Payment Authorization Form, staple the form to the invoice, and submit it to their supervisor or a member of the executive team for approval. The Approver is to indicate his or her approval of payment of the invoice by signing the Payment Authorization Form and dating it. In addition, the Payment Authorization Form was not formally included in the Invoice Payment Process Summary until later in the fiscal year. The practice of using the Payment Authorization Form was inconsistently applied throughout the audit period. As a result, 29 of 131 expenses selected for testing did not include a Payment Authorization Form. Also, two expenses that had a Payment Authorization Form did not contain the Approver's signature.

We recommend JobsOhio reinforce existing policies and establish internal monitoring controls over Payment Authorization Forms to ensure goods or services are properly received and approved prior to payment. We also recommend JobsOhio maintain the signed forms to evidence the approval of payment.

Overpayments

Of the 131 JOBS and JobsOhio payments selected for testing, the following errors were noted:

- Included in a reimbursement from JOBS to a network center, an invoice from an international vendor reflected an amount due of 5,950 Euros. In the conversion from Euros to U.S. dollars, the vendor was paid \$8,861 by the network center. However, upon re-performing the foreign exchange conversion based on various potential conversion dates, we were unable to verify the precision of the amount paid to the vendor. Depending on the appropriate date of conversion, the overpayment to the vendor ranged between \$151 and \$499.

FINDING NUMBER 2012-06 (Continued)

- Included in a reimbursement from JOBS to a network center, an invoice from an international vendor reflected an amount due of 6,085 Euros. In the conversion from Euros to U.S. dollars, the vendor was paid \$8,718 by the network center. However, upon re-performing the foreign exchange conversion, it appears an error was made in the conversion once JOBS backed out a cost that was not allowed. As a result, the vendor was overpaid \$125.
- An employee cancelled a flight with costs in the amount of \$350 due to a schedule change and no documentation was provided to indicate this amount was recovered by JobsOhio. In addition, JobsOhio overpaid the same airline \$159 due to a different flight change and incorrect application of the ticket exchange.

We recommend JobsOhio more closely monitor and recalculate requests for payment or reimbursement from outside entities. We also recommend JobsOhio take measures to ensure flight changes and cancellations are properly refunded or credited.

Overall, we recommend JobsOhio reinforce existing internal processes or implement new processes where necessary to help ensure expenditures are accurate, fair to JobsOhio, reflect a reasonable investment or payment for goods and services, further JobsOhio's statutory purpose or contractual obligations, and reflect a reasonable business judgment rule.

FINDING NUMBER 2012-07

Board Meeting Minutes

During the audit period, the Ohio Business Development Coalition (currently known as JOBS) Board held two meetings: one on December 14, 2011 and the other on January 22, 2012. The meeting minutes did not contain sufficient detail for a reader to know the full details of the business conducted during the meetings. For example, the name or subject matter of a major contract approved by the Board was not identified in the minutes. Additionally, the minutes did not show a roll call of the Board members in attendance, whether a quorum was present to officially vote on and approve business of the Board, or a motion and vote to approve the Board going into executive session. The minutes also did not consistently contain the times the meetings were called to order and adjourned. Lastly, the Board did not vote to approve the previous meeting's minutes and the Chairperson or Secretary did not sign the minutes to prevent unauthorized edits to the minutes.

We recommend JOBS take measures to ensure Board meeting minutes are adequately documented and contain sufficient detail for a user of the minutes to be able to determine what business took place during the meeting, as well as who was present at the meeting to vote on actions of the Board. We further recommend JOBS review *Robert's Rules of Order* which is the recognized authority for parliamentary procedures to ensure its Board meetings are conducted and the minutes are documented in accordance with proper rules/guidelines, similar to other governing bodies. At each JOBS Board meeting, the minutes from the previous meeting should be reviewed and approved by the Board. JOBS should consider having the Chairperson and Secretary sign the minutes to indicate they are accurate and the approved version. These approved minutes should be maintained by JOBS so they are readily accessible for reference and to determine actions or business of the Board throughout the year.

FINDING NUMBER 2012-07 (Continued)

Additionally, the JobsOhio Board meeting minutes did not contain a resolution to formally establish and adopt the annual strategic plan and standards of measure to be used in evaluating JobsOhio's success in executing the plan which is required by ORC Section 187.01 (F)(5) and JobsOhio's Articles of Incorporation, Section 5.1 (e). The February 1, 2012 meeting minutes indicate the 2012 strategic framework was discussed, but there was no formal approval by the Board.

We recommend JobsOhio formally establish and adopt the annual strategic plan and standards of measure through an action of the Board. These actions should be formally documented in the Board meeting minutes.

FINDING NUMBER 2012-08

Contributions

Article III part (3) of JOBS' Code of Regulations states in part, the Corporation shall have the authority to receive gifts and contributions, including all cash and cash equivalents and all real and tangible or intangible personal property and shall use and apply all or any part of such property and/or income therefrom exclusively for exempt purposes within the meaning of Sections 501 (c) (3) and 170 (c) (2) of the Internal Revenue Code.

When contributions were received, standard practice for JOBS was to prepare and present the contributor with a Restricted Gift and Acceptance form that stated the amount of the contribution and that it "may be used by OBDC solely for the benefit of, to perform the functions of, or to carry out the charitable and educational purposes, including without limitation, to pay operational expenses of JobsOhio". The form was then signed by the Chief Investment Officer, accepting the contribution subject to the restrictions set forth within the form.

For two contributions received during the audit period, JOBS did not maintain the Restricted Gift and Acceptance form. As such, we could not determine if there were any additional restrictions placed on the contributions beyond the standard restrictions outlined in the other Restricted Gift and Acceptance forms maintained by JOBS.

We recommend JOBS maintain copies of the Restricted Gift and Acceptance forms when contributions are made to help track contributions received and any restrictions imposed on them. If contributors impose more stringent restrictions on the use of the funds, we recommend JOBS exercise due care in ensuring the funds are not used outside restricted purposes.



**Responses of JobsOhio and JobsOhio Beverage System
To the Auditor of State's
"Findings Related to Compliance and Internal Control Over
Compliance"**

November 15, 2013

Introduction

Dear Auditor Yost:

We are in receipt of your report presenting the results of your office's compliance and control review of JobsOhio and the JobsOhio Beverage System for the fiscal year ending June 30, 2012. On behalf of the Board of Directors for both JobsOhio and JobsOhio Beverage System, we would like to express our thanks and appreciation for the fair, thorough, and professional manner in which your staff conducted their work. We also would like to thank you for the opportunity to review and respond to your report.

The period covered by your review was the first year of existence for JobsOhio, which was incorporated on July 5, 2011. For the first few months of its existence JobsOhio only had a handful of employees as it began to establish its operations. Many of the findings and recommendations in your report reflect our start-up mode, as compliance and control policies and procedures were being developed.

As you know, we believe that this review was beyond the statutory audit authority of the Auditor of State under Chapter 117 of the Ohio Revised Code. However, we believed it was important to permit you and your staff to complete this engagement, not only to confirm our dedication to accountability and transparency, but also to provide another point of reference in our efforts to continuously improve the integrity of our processes and procedures.

As we continue our mission to promote job creation and retention, capital investment and economic growth for Ohio, we will carefully consider the audit results and take into consideration the recommendations presented in this final report.

Sincerely,

A handwritten signature in cursive script that reads "James C. Boland".
James C. Boland, Chair

Response to Finding Number 2012-01

Compensation Plan Approval

Ohio Revised Code §187.01(F)(2) requires the articles of incorporation for JobsOhio to contain a provision that requires the Board to “[a]pprove an employee compensation plan recommended by the chief investment officer.” The JobsOhio Articles of Incorporation, at Section 5.1(b), complies with this requirement. Neither the statute nor the Articles establish a date by which an employee compensation plan must be recommended or approved, although the Board will likely approve such a plan in the current fiscal year. As a result, JobsOhio is in full compliance with the statute.

Response to Finding Number 2012-02

Ohio Revised Code §187.06(G)

Policies have been adopted by management since the audit period (FY2012) to identify each director and officer and their term, track the date on which he or she signs the statement required by R.C. 187.06(G), and ensure that each member of the Board signs the required annual statement.

Response to Finding Number 2012-03

Ohio Revised Code §187.06(H) – Periodic Review

The General Assembly did not require JobsOhio to perform a periodic review during the audit period (FY 2012), by the plain language of Revised Code 187.06(H). Perhaps this is because the legislature knew it would not make sense to require a *periodic* review to be performed during a corporate entity’s first year of existence, when the operations and procedures of the corporation were just being established and put into place. The General Assembly did not require reviews to be conducted *annually*. The statute provides no other guidance on what frequency is required by the word “periodic.” As a result, it is within the sole discretion of the Board of Directors to determine what frequency of “periodic” review will be “in accordance with ORC 187.06 (H),” and the Board has taken on that responsibility in Section 6.8 of the JobsOhio Code of Regulations.

Management has recommend that the specific periodic reviews required by R.C. 187.06(H) be conducted as part of the compliance and control reviews required by R.C. 187.01(J), to ensure that such review is thoroughly documented and maintained to evidence compliance.

Finally, management has conferred with tax counsel and has been assured that the process we follow to determine and document compensation is adequate for IRS purposes.

Response to Finding Number 2012-04

Ohio Revised Code §187.061(A)

Although not required by the Ohio Revised Code, all members of the Board of Directors of JobsOhio and the JobsOhio Beverage System ("JOBS") are required to sign the same Annual Ethical Conduct Pledge that is required of officers and employees of JobsOhio by R.C. 187.061(A).

Additionally, all Board members, officers and employees of both corporations are required to complete the annual course or program of study on ethics required by the statute. Comprehensive ethics programs with supporting materials were conducted in the fall for fiscal year 2013 and 2014 by outside instructors who covered the entire spectrum of ethics, corporate governance and accountability. The program for the current fiscal year was two (2) hours in length, attendance was kept, and certificates of completion were issued to all those attending. All new employees of the corporation are provided the ethics program materials at the time of hiring.

Finally, and in compliance with R.C. 187.061(B), on June 26, 2013 the JobsOhio Board provided to the Controlling Board a comprehensive review of the ethics policies and procedures that have been adopted by JobsOhio.

Response to Finding Number 2012-05

Potential Conflicts of Interest

(a) Conflicts of Interest Prohibited for Employees.

The statutory conflicts of interest policy mandated by R.C. 187.06 is designed to "protect JobsOhio's interest when it is considering a transaction or arrangement that might benefit the private interest of a director or officer of JobsOhio or might directly benefit that individual in other than a de minimis manner." By law, this policy is applicable only to members of the Board of Directors ("directors and officers") of JobsOhio.

Contrary to the statement in this Finding, senior management and other employees of JobsOhio are required by Board-approved policy to avoid conflicts of interest. First, and although not required by R.C. 187.06, JobsOhio management requires all employees to nonetheless adhere to and comply with the Board-adopted Conflicts of

Interest Policy, and must sign the same *Annual Conflicts of Interest Statement* that is signed by directors and officers.

Second, all employees of JobsOhio must comply with the JobsOhio Standards of Conduct Policy adopted by the Board on July 11, 2011 and established in the Corporation's Code of Regulations, at Section 7.4. This Policy mandates that employees perform their duties in a manner "not opposed to the best interests of JobsOhio," and the Policy contains an express prohibition against obtaining or seeking to obtain "a personal advantage or benefit due to relationships established by my position with JobsOhio," as well as a prohibition against engaging in "unethical business practices of any type." Every employee, including senior management, and every Board member is required to sign an *Annual Ethical Conduct Pledge* that contains this prohibition, in compliance with R.C. 187.061. Thus, although the words "conflict of interest" are not used in the Standards of Conduct Policy or the Pledge, both prohibit the very thing that the conflict of interest policy addresses – that is, obtaining a personal benefit or advantage as a result of the performance of their duties with JobsOhio.

(b) Cleared Potential Conflicts.

As part of their work, your staff selected 28 project files to review for potential conflicts of interest. Of these projects, 15 involved a company that the Ohio Ethics Commission had previously flagged as having the possibility of raising a potential conflict of interest with a Board member or employee of JobsOhio.

Out of these 28 projects, only three (3) were identified by your staff as raising a potential conflict of interest, based on information available from contemporaneous business records of JobsOhio and from the employee's filed financial disclosure statements. The remaining 25 projects were cleared of potential conflicts by the first phase of the Auditor staff's review.

None of the potential conflicts raised on the three (3) remaining projects involved an independent member of the JobsOhio Board, and only one (1) of them involved a company that had been previously flagged by the Ohio Ethics Commission.

After your staff had narrowed the potential conflicts to only three (3) projects, management provided additional information to your staff to support management's conclusion that no actual conflict of interest existed with any of them. As noted in Finding Number 2012-05 of your report, management's information demonstrated that in two (2) cases there was no conflict of interest at all, actual or potential. In both instances, the project occurred in calendar year 2012, but the financial interests of the employee involved existed in calendar year 2011 – and had been divested prior to January 2012. In the third instance, the potential conflict, which involved ownership of common stock in a large, publicly traded corporation, "was so slight as to constitute a de minimis conflict." In fact, the employee's stock

represented an approximate 0.00000000646% ownership interest in the company.

These results confirming that there were no conflicts of interest, and the detailed work your staff conducted in order to reach these results, point out the danger of those who would – with limited information – rush to judgment on matters involving an individual’s reputation.

(c) The DSA Contract.

The Auditor’s report recognizes that JobsOhio agreed to a detailed conflicts of interest obligation, applicable to all Board members and employees of JobsOhio, among others, in the January 2012 Agreement for Services with the former Ohio Department of Development (the DSA Contract). Your report states that there “was no documentation to indicate whether the disclosure requirement of the [DSA] Contract was followed or invoked.” The reason is that this provision did not require documentation of anything but actual conflicts of interest – none of which occurred during the period reviewed by your staff in this report. Since no actual conflicts of interest arose during the reviewed period, no documentation was created, or was required to be created.

(d) Auditor’s Recommendations.

Your staff has recommended that JobsOhio should clarify its conflicts of interest policies, establish procedures to identify and manage or mitigate conflicts of interest at the earliest possible time, and to consistently document in its project files all actions taken with respect to potential conflicts of interest that may exist. Indeed, since the end of fiscal year 2012, management anticipated and established several procedures to accomplish these recommendations.

Effective September 30, 2013, JobsOhio and DSA amended the conflict of interest provision of the DSA Agreement for Services to extend the conflict procedures to even potential conflicts, and to more clearly define what constitutes a significant financial or fiduciary interest that is other than de minimis in nature. The de minimis levels established in the amendments – which apply to all JobsOhio employees – are more stringent than the ownership levels applicable to public employees. Effective October 1, 2013, the Board created an independent review panel to, among other things, assess the adequacy of the Corporation’s review process regarding potential conflicts of interest.

JobsOhio uses customer relationship management (CRM) software to track all of its project information. JobsOhio has built into that CRM a robust conflict identification system that searches, at three points in the project development process, for matches of known financial and fiduciary interests of Board members and employees with any company that seeks an economic development incentive. The system alerts the Corporation’s compliance staff of any disclosed potential conflicts

and requires the potential conflicts to be cleared or managed before the project may proceed to approval. Manual searches are also conducted prior to each project review meeting conducted by JobsOhio and Development Services Agency staff.

Management is working on revisions to the Conflicts of Interest policy for recommendation to the Board that will expressly broaden its application to employees and will clarify what constitutes a significant financial or fiduciary interest that is other than de minimis in nature.

Through these efforts, and others as necessary or desirable, JobsOhio will continue to improve on its commitment to responsible corporate governance, and will post many of those efforts on the JobsOhio website at: jobs-ohio.com/corporate-governance.

Response to Finding Number 2012-06

(a) Personal Charges to Corporate Charge Cards

Despite the inconsequential nature of the expenses referred to in the Auditor's report, which were between \$8.95 and \$74.00, management has taken steps to improve its internal financial controls. In fiscal year 2013, management improved existing expense reimbursement procedures. All corporate credit card transactions are reviewed and documented by the cardholders on a monthly basis, and reconciled to the credit card statement summarizing monthly charges by the cardholder. An employee expense report, with supporting documentation, is also completed for each month by each cardholder and presented to a supervisor for review and approval. Exceptions or questioned expenses requiring further documentation are returned to the cardholder for remediation.

In instances where personal costs were charged to a corporate credit card, employees are required to reimburse JobsOhio for the amount of the charge. Those payments are documented and recorded in JobsOhio's accounting system. JobsOhio provides staff with periodic reminders that credit card reports should be reviewed monthly to identify any improper personal charges. Additional periodic management reviews are conducted during the fiscal year as an additional method of detection.

(b) Meals for Government Employees

In the instances noted in the Auditor's report, the meal expense was between \$5.20 and \$9.95, and management provided documentation of its request to the public employees involved for reimbursement in the first of those instances. JobsOhio is evaluating its policy to clarify the conditions under which meals for government employees are permissible. When meals for government employees are purchased, without the expectation for reimbursement, procedures for documenting those

costs will be implemented. Moreover, the most recent two-hour ethics training attended by all JobsOhio staff addressed the guidelines for meals purchased for government employees.

(c) Expense Documentation

While receipts are the preferable form of documentation for corporate credit card purchases, instances arise where that is not always possible. For reference, IRS regulations do not require documentary evidence for expenses individually less than \$75 and transportation receipts for which a receipt is not readily available. Receipts for taxi cab service, recurring monthly charges for subscriptions, and costs for parking are examples of these types of transactions. Likewise, receipts only verify that the charge from the credit card company is accurate. They do not, on their own, substantiate the validity of the charge.

Statements of Missing Receipts were used to document some transactions in fiscal year 2012 as an alternate means of documentation. However, the Statement of Missing Receipt is not a required form of documentation. JobsOhio intends to update its Employee Reimbursement and Corporate Credit Card policy to clearly explain the documentation process.

(d) Payment Authorization Forms

Payment Authorization Forms are not required by any legal or accounting standards. During the early part of fiscal year 2012, there was an insufficient number of staff to consistently administer the payment authorization form process, and 22 of the 29 expense items referred to in your report were from the first 4-months of JobsOhio's existence. Even so, compensating controls were in place during this time, including review of the monthly financial reports. JobsOhio has consistently used payment authorization forms in fiscal years 2013 and 2014. Effective May 2013, two finance professionals were added to the Finance Staff.

(e) Overpayment

Neither JobsOhio nor JOBS had a relationship with the international vendors cited in the audit report. Rather, JobsOhio's network partners held relationships with them. JobsOhio and JOBS made no payments to international vendors; the network partners did. JOBS functioned as a pass-through entity, between the network partners and the State. The payments were ultimately approved by the State, based on the documentation provided, which the State determined to be sufficient. Finally, conversion rates provided on most websites represent rates that the banks are charged to convert large sums of money. The Internet rate is not a consumer rate; rather the consumer rate is higher, typically by a few percentage points.

JobsOhio will provide staff and management with periodic reminders that they must verify and document that canceled flight credits are accurate and properly applied.

Additional periodic management reviews will be conducted during the fiscal year as an additional control.

Response to Finding Number 2012-07

(a) JOBS Board Meeting Minutes

JOBS has already taken measures to more fully document through its minutes the Board of Director discussions and actions taken during meetings of the Board.

(b) JobsOhio Board Meeting Minutes

Neither Ohio law nor the corporation's Articles of Incorporation require a Board resolution to formally establish and adopt the annual strategic plan and standards of measure. The law, R.C. 187.01(F)(5), requires the JobsOhio Articles of Incorporation to *establish* the plan and standards of measure, and the Articles, at Section 5.1(e), do just that.

Yet in any event, the JobsOhio Board *did* approve the strategic plan and standards of measure as part of the Agreement for Services with the Ohio Department of Development ("ODOD Contract"). The Board's approval of the ODOD Contract is reflected in the minutes and resolutions of the Board, which were provided to the Auditor of State. The ODOD Contract unequivocally sets forth both the overall strategic plan of JobsOhio, as well as "[t]he primary measures of success with respect to [the State's] programs," also known as the "JobsOhio Metrics."

In addition, the Board minutes of the February 1, 2012 meeting clearly reflect the presentation of "the Corporation's strategic plan for 2012" to the Board by the corporation's President and Chief Investment Officer. This plan and the metrics for success contained within it were fully consistent with the Scope of Work approved by the Board in the ODOD Contract.

Future Board actions related to the strategic plan and standards of measure will continue to be formally documented in the Board's meeting minutes.

Response to Finding Number 2012-08

Contributions

No legal or accounting requirements exist which require a non-profit corporation to request or maintain "Restricted Gift and Acceptance" forms, and the Auditor of State has cited none. Moreover, use of the referenced form is not required by any JOBS policy. In any event, neither JOBS nor JobsOhio plan to accept private contributions in the future.



Dave Yost • Auditor of State

JOBS OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 21, 2013**