



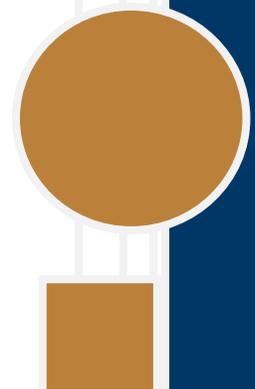
**OBM** | Office of Internal Audit

# FISCAL YEAR 2009 ANNUAL REPORT

*July 1, 2008 – June 30, 2009*

Joe Bell, Chief Audit Executive

June 30, 2009



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## MISSION STATEMENT

The OBM Office of Internal Audit was established for the purpose of providing state agency management and the State Audit Committee with a systematic, disciplined approach to evaluate agency information, internal controls and governance processes. As a trusted advisor, the Office of Internal Audit will provide independent, objective assurance and consulting activities designed to add value by improving agencies' operations and business processes. State agency management and the State Audit Committee will be presented with analyses, recommendations, and counsel to enhance transparency and accountability for the state's citizenry.

## IMPLEMENTING THE OBM OFFICE OF INTERNAL AUDIT (OIA)

House Bill 166 (127<sup>th</sup> Ohio General Assembly) created the Office of Internal Audit within the Office of Budget and Management. The bill requires that the Office of Internal Audit conduct the internal audits of certain state agencies according to an annual plan and report the audits' findings and recommendations. It allowed for the transfer of state agency employees who perform internal audit functions to the Office of Internal Audit. Additionally, it established the State Audit Committee to, among other things, review and comment on the annual internal audit plan prepared by the Office of Internal Audit.

Governor Ted Strickland appointed William Shkurti as the Chairman of the State Audit Committee in February 2008. Additional members, William Keip, Richard Mueller, Stuart Laws and Beverly Vitaz were appointed shortly thereafter. Members are appointed by the minority and majority leadership of the Ohio Senate and the Ohio House of Representatives. The committee held its first quarterly meeting in September 2008 wherein the members established their charter as well as approved the OIA charter.

In August 2008, OBM Director J. Pari Sabety appointed Joe Bell as the Chief Audit Executive for the Office of Internal Audit. In addition to the Chief Audit Executive position, a Chief Risk Assessment Officer, Chief of Business Process and IT Audit, and an Executive Assistant were hired to begin the establishment phase of implementing the Office of Internal Audit.

## BUDGETING FOR OIA ACTIVITY – FISCAL YEAR 2009

In May 2008, the Ohio Controlling Board appropriated (through state payroll check-off) \$8.6 million for the implementation of the Office of Internal Audit for FY 2009. Because of the current economic hardships Ohio is experiencing, OIA determined that a slow, thoughtfully planned, growth was warranted. OIA re-evaluated staffing and resource needs and reduced spending by approximately \$7 million.

The following reflects FY 2009 OIA spending through June 30, 2009:

<b>Controlling Board Amount</b>	<b>\$8,619,800</b>
<b>Total OIA Expenses</b>	<b><u>\$1,550,621</u></b>
<b>Unexpended balance</b> (e.g. expenses for outside consultants and software much lower than budgeted; reduced number of planned audit staff; and delayed hiring of OIA staff due to reclassification of positions. )	<b><u>\$7,069,179</u></b>

## ESTABLISHING OIA

In July 2008, OIA issued a Request for Proposal (RFP) to secure a vendor that would assist in the establishment of the office. The selected vendor, Crowe Horwath LLP, was utilized to develop policies and procedures, workforce planning, evaluate technology tools, and to perform enterprise risk audits in the areas of payroll, procurement, financial reporting and the Ohio Administrative Knowledge System (OAKS).

OIA is working with agencies to finalize various audit findings and recommendations in the audit report which will be discussed with the State Audit Committee. The delay in finalizing the report is due to 2009 budget reductions regarding the use of contracted vendors and services leading to the necessity of OIA completing the report instead of the hired vendor.

In February and March 2009, OIA hired two Internal Audit Section Chiefs and three Information Technology Audit Chiefs. In April 2009, the office hired two Internal Audit Managers. Through August 2009, OIA plans to hire an additional audit manager, three senior auditors, three staff auditors, four senior IT auditors, and three staff IT auditors to complete the FY 2010 approved audit plan.

HB 166 allowed the transfer of state employees performing internal audit functions within their agency. OIA determined that the Ohio Bureau of Workers' Compensation (BWC) and the Department of Public Safety (DPS) were the only agencies that had employees properly performing internal audit functions. BWC internal audit employees were slated to transfer to OIA beginning July 1, 2009. However, due to the economic downturn and budgetary constraints on agencies, OIA opted to delay the transfer of the BWC financial internal audit employees until the FY 2012-2013 biennium. However, two BWC IT audit employees are scheduled to transfer on July 1, 2009 along with two DPS internal audit employees.

OIA staff offers diverse backgrounds combining both government and private sector auditing skills. Most audit staff carry various certifications in areas of public accounting, internal audit, and information systems audit.

## PLANNING FISCAL YEAR 2010 ANNUAL AUDIT ACTIVITY

The OIA will formally begin operations on July 1, 2009. In order to develop an annual audit plan, OIA performed a risk analysis for the 21 state agencies in OIA's oversight utilizing seven risk factors. The objective of the risk assessment is to ensure optimized assignment of audit resources through a comprehensive understanding of the audit universe and the risks associated with each universe item. To minimize the potential for duplication of effort and to maximize the amount of coverage achieved, OIA considered other audits or related reviews performed by the Auditor of State and reviews conducted by external consultants.

The IIA defines risk as:

*“The uncertainty of an event occurring that could have an impact on the achievement of objectives.”*

OIA recognizes that most state agencies are at an informal stage of enterprise risk management and, therefore, plans to engage agency management on enterprise risk and lead them to a maturity level where they can independently assess their enterprise risk management processes over time. OIA obtained agency input for three of the seven risk factors (changes in systems, processes, & people, stakeholder concerns, and financial/operational reporting). The remaining risk factors were evaluated by OIA (control environment, materiality, prior audits, and potential for fraud, waste, and abuse).

The risk assessment process included the following activities:

- Planning the assessment and identifying the audit universe.
- Conducting the risk assessment with agency management.
- Internal analysis of the results.
- Discuss draft heat map with agency management.

A copy of the FY 2010 Annual Audit Plan will be available on the OIA website:

[www.obm.ohio.gov/SectionPages/Internalaudit](http://www.obm.ohio.gov/SectionPages/Internalaudit).

## EVALUATING AGENCY FEDERAL STIMULUS ACTIVITY

When the American Recovery and Reinvestment Act (ARRA) was implemented by the federal government, OIA became actively involved in providing consulting services to state agencies who were receiving ARRA program funds. Also, OIA coordinates federal stimulus audit activity with other external entities such as the Government Accountability Office, Auditor of State, and Inspector General.

OIA developed a work process diagram which specifically designates agencies with ownership of internal controls, and reporting requirements at specific stages of ARRA implementation. Each agency has been asked to develop process maps on ARRA funded programs and provide those to OBM as part of their risk assessment activities. OBM will assure that all agencies have completed their risk assessments, compliance and reporting, in support of their assurance statements submitted to support the Governor’s certification.

OIA will evaluate the adequacy of agency risk assessments and the design of internal control documentation. OIA will conduct subsequent testing of key internal controls to provide assurance that documented internal controls are operating effectively. Results will be reported to agency management, an independent State Audit Committee, and State legislative leadership.

## LOOKING FORWARD TO FISCAL YEARS 2010 AND 2011

OIA will focus on the following goals for Fiscal Years 2010 and 2011:

1. Provide state agency management with quality, value-added services.
  - a. OIA will review and appraise the soundness of operation controls and promote effective internal controls at reasonable cost.
  - b. Where applicable, determine compliance with American Recovery and Reinvestment Act (ARRA) requirements.
  - c. Identify opportunities for cost savings and make recommendations for improved cost efficiencies.

- d. Provide consultative services on new programs, processes and strategic plans.
2. Prepare and present annual audit plan.
  - a. OIA will continue on-going communication with management and the State Audit Committee regarding identified risks at agencies.
  - b. OIA will consult with stakeholders and external auditors to identify existing areas of audit coverage.
  - c. The annual plan will be presented to the State Audit Committee by June 30, 2010 and June 30, 2011 (fiscal year end).
3. Engage all 21 cabinet-level agencies in FY 2011.
  - a. OIA will develop a communication plan for all agencies that will have internal audit activity in Fiscal Year 2011.
  - b. OIA will increase awareness of the Office of Internal Audit through various communication mechanisms.
4. Recruit and hire qualified staff.
  - a. OIA will continue to hire and recruit qualified staff into the beginning of Fiscal Year 2010 with the goal of employing 26 full-time audit staff.
  - b. OIA plans to hire additional staff in Fiscal Year 2011.
5. Create an effective work environment.
  - a. OIA management will set annual goals and strategies, including key performance objectives, training and development plans, milestones, actions and resource requirements.
  - b. Management will ensure progress reviews occur on a regular and timely basis identifying goals, effectiveness and areas for improvement.
  - c. OIA will provide opportunities for staff to rotate among various audit assignments.
  - d. OIA will promote and emphasize continuing education development to enhance professional growth.
  - e. Management will support staff in acquiring professional certifications such as the CIA, CPA, or CISA.