



**OBM** | Office of Internal Audit

# FISCAL YEAR 2010 ANNUAL REPORT

*July 1, 2009 – June 30, 2010*

Joe Bell, Chief Audit Executive

July 2010



## MISSION STATEMENT

The OBM Office of Internal Audit will provide independent, objective assurance and consulting activities designed to improve management practices, identify operational improvement, and reduce agency risk exposure.

## THE OBM OFFICE OF INTERNAL AUDIT (OIA) AND THE STATE AUDIT COMMITTEE (COMMITTEE)

Ohio Revised Code Section 126.45 created the Office of Internal Audit within the Office of Budget and Management. The ORC also requires that the Office of Internal Audit conduct the internal audits of certain state agencies according to an annual plan and report the audits' observations and recommendations.

Additionally, ORC Section 126.46 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. The mission of the Committee is to provide assurance to the Governor, Legislative leadership, and the general public that agencies are identifying risks and implementing proper internal controls of those risks in order to mitigate circumstances of fraud, waste and abuse.

The State Audit Committee is comprised of Chairperson William Shkurti and members, William Keip, Richard Mueller, Robert Richardson and Beverly Vitaz. The Chairperson is appointed by the Governor and other members are appointed by the minority and majority leadership of the Ohio Senate and the Ohio House of Representatives. The Committee meets quarterly.

## OIA STAFFING & BUDGET – FISCAL YEAR 2010

**OIA Staffing** - OIA added staffing throughout fiscal year 2010. By April 2010, OIA was staffed with 25 full-time employees. Based upon the fiscal year 2010 Annual Plan, a staffing level of 20 to 22 full-time equivalent employees was necessary to complete our audit engagements. Our actual staffing level for fiscal year 2010 was 22.4 full-time equivalents which resulted in adequate resources. Our fiscal year 2011 Annual Plan will require 24 to 26 full-time equivalents to complete our planned engagements.



**OIA Training and Certification** – OIA plans to provide an average of 40 hours of continuous professional education each year. In fiscal year 2010, OIA accomplished this objective with various topics on internal audit, fraud, ethics, information technology audit, and soft skill training.

The following recognized professional certifications were held by OIA staff in fiscal year 2010:

Certification	Licenses Held
Certified Public Accountants (CPA)	11
Certified Information Systems Auditors (CISA)	8
Certified Internal Auditors (CIA)	3

OIA encourages professional certifications and would like to add 2 CISA and 2 CIA licenses in fiscal year 2011.

**OIA Budget** – OIA is required to recover its costs pursuant to Ohio Revised Code Section 126.45. OIA was able recover its costs in fiscal year 2010 with a combination of direct agency billings and centralized payroll charges. The following schedule reflects the fiscal year 2010 budget and actual expenditures:

Category	Budget Expenditures	Actual Expenditures
<b>Expenditures:</b>		
Payroll	\$2,500,000	\$2,283,362
Purchased Personal Services	190,000	199,629
Maintenance/Supplies	245,000	157,770
Equipment/Software	140,000	144,350
<b>Total Expenditures</b>	<b>\$3,075,000</b>	<b>\$2,785,111</b>

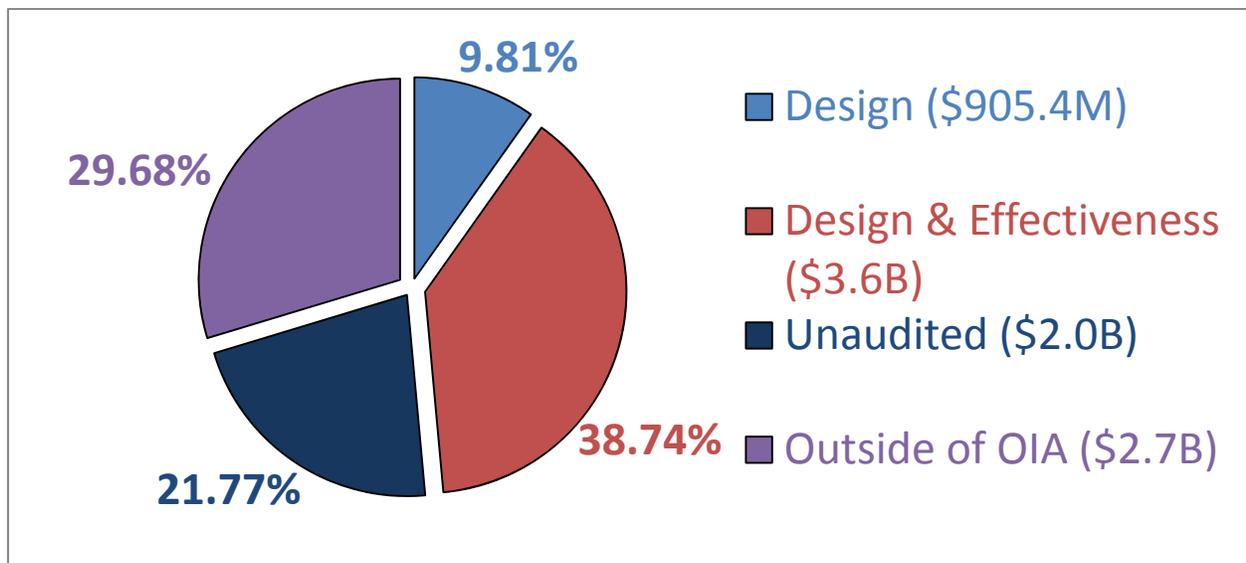
The OIA budgeted expenditures for fiscal year 2011 are planned for \$3,200,000 with payroll costs comprising \$2,700,000 of this amount.



## SUMMARIZING FISCAL YEAR 2010 AUDIT ACTIVITY

**American Recovery and Reinvestment Act (ARRA)** - When the American Recovery and Reinvestment Act (ARRA) was implemented by the federal government, OIA became actively involved in providing training and consulting services to state agencies who were receiving ARRA program funds. OIA coordinated federal stimulus audit activity with other external entities such as the Government Accountability Office, Auditor of State, and Inspector General. OIA made a concerted effort to perform assurance audits of the large ARRA programs in fiscal year 2010.

Of the \$9.2 billion of ARRA funds slated for Ohio, the following chart depicts the audit efforts of OIA related to this ARRA funding in fiscal year 2010:



OIA risk assessed each ARRA program and completed 15 ARRA assurance audits in fiscal year 2010 which included \$4.5 billion of the \$6.5 billion awarded ARRA funds in its audit oversight. OIA oversight is limited to 21 state agencies as defined by Ohio Revised Code Section 126.45 and does not extend to the Department of Education, Board of Regents, and Rehabilitation Services Commission which comprise the majority of the \$2.7 billion ARRA funds outside of OIA oversight.

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 developed process maps on ARRA funded programs and provided those to OBM as part of their risk assessment and internal control activities. OBM management assured that all agencies completed their risk assessments.



OIA evaluated the adequacy of agency risk assessments and the design of internal control documentation. OIA conducted subsequent testing of key internal controls to provide assurance that documented internal controls were operating effectively. Results were reported to agency management, the State Audit Committee, and State legislative leadership. Final reports provide added transparency to the audit process and are contained on OIA's website ([www.obm.ohio.gov/SectionPages/Internalaudit](http://www.obm.ohio.gov/SectionPages/Internalaudit)).

**OIA Reports and Remediation Activity** – During fiscal year 2010, OIA completed 21 public reports which resulted in 31 high or moderate risk observations. Of these observations, 15 were remediated by the client and validated by OIA. Eleven of the remaining observations are not scheduled for remediation until fiscal year 2011 and 5 were delayed by the client. Three of the public reports were enterprise in nature and analyzed central processes across all agencies in OIA oversight.

OIA also completed 34 assurance audits that met the definition of a "Security Record" per Ohio Revised Code Section 149.433 and are exempt from public disclosure. The majority of these audits related to 21 technology audits of all agencies related to mobile data security. These engagement results are provided to agency management with a verbal update to the State Audit Committee in executive session.

OIA performs a combination of assurance engagements as well as consulting activity. Assurance audits provide an independent assessment on governance, risk management, and control processes for an agency while consulting services are advisory in nature and provide value without OIA assuming management responsibility. In fiscal year 2010, the majority of OIA consulting services related to assisting agencies with ARRA documentation and providing advice on new system development. Consulting services consisted of 32% of overall OIA audit effort in fiscal year 2010. This amount is expected to be slightly less or approximately 25% in future years.

**OIA Annual Plan** - 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 analysis 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.



Modifications to the plan occur throughout the year and were discussed with the State Audit Committee in their quarterly meetings. The table below details our planned and completed engagements from the 2010 Annual Plan:

State Agency	Planned Engagements	Completed Engagements	Deferred Engagements
Administrative Services	5	3	2
Aging	2	1	1
Agriculture	2	1	1
Budget and Management	2	2	0
Commerce	3	3	0
Development	5	5	0
Environmental Protection Agency	2	2	0
Health	2	2	0
Insurance	2	1	1
Job and Family Services	7	7	0
Natural Resources	2	2	0
Public Safety	4	3	1
Taxation	3	3	0
Transportation	4	4	0
Veterans Services	2	1	1
Workers' Compensation	3	2	1
Enterprise Only Agencies	5	5	0
<b>Total</b>	<b>55</b>	<b>47</b>	<b>8</b>

OIA is aware of changes that occur during the year however plans to complete 80% of engagements originally documented in the Annual Plan. OIA completed 47 of 55 engagements (or 85%) of engagements included in the fiscal year 2010 Annual Plan. Five of the eight deferred engagements resulted from the reduction or elimination of planned ARRA funded programs.



## LOOKING FORWARD TO FISCAL YEARS 2011 AND 2012

OIA will focus on the following goals for Fiscal Years 2011 and 2012:

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, provide consulting and assurance activity with American Recovery and Reinvestment Act (ARRA) requirements.
  - c. 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, 2011 and June 30, 2012 (fiscal year end).
3. Engage all 21 cabinet-level agencies in FY 2011.
  - a. OIA developed the audit 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, hire, and retain qualified staff.
  - a. OIA will continue to hire and recruit qualified staff in fiscal years 2011 and 2012 as needed.
  - b. OIA will continue to promote and emphasize continuing education development to enhance professional growth.
  - c. Management will support staff in acquiring professional certifications such as the CIA or CISA.



5. Create an effective work environment.
  - a. OIA management continually sets 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 continue to provide opportunities for staff to rotate among various audit assignments
  
6. Develop a strategic plan for OIA during 2011.