



OBM | Office of Internal Audit

FISCAL YEAR 2017

ANNUAL REPORT

July 1, 2016 – June 30, 2017

MISSION STATEMENT:

OBM Office of Internal Audit (OIA) will provide independent, objective assurance and consulting activities designed to improve operations of state agencies obtaining OIA services. OIA will help these state agencies accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Cindy Klatt, Chief Audit Executive

June 2017



FISCAL YEAR 2017 – OBM OFFICE OF INTERNAL AUDIT (OIA) HIGHLIGHTS

- ü Completed 114 projects, or 91 percent, of the projects identified in the updated 2017 OIA annual audit plan.
- ü Maintained an average of 22 staff during the year and reduced budgeted expenditures by \$396,470.
- ü Provided internal audit services at 27 state agencies during 2017; one of these entities was not under OIA's purview and requested OIA's services.
- ü Issued 46 public reports and provided numerous recommendations for agencies to improve internal controls, processes and procedures.
- ü Performed 36 consulting engagements to enhance agency operations, providing valuable recommendations to improve internal controls and reduce risks.
- ü Utilized data analysis across enterprise-wide data to identify potential control issues. This function was used to complete 16 IT access control engagements which ultimately resulted in a number of recommendations surrounding user account controls; additionally, 24 payment card transaction projects were completed providing agency management with recommendations over the monitoring of payment card use.
- ü Completed eight IT security reviews, one incident management engagement, one information technology general control audit, and one system access review, providing agency management with awareness and a host of observations to strengthen their IT security and IT control environments.
- ü Achieved an 92 percent favorable rating from client surveys received in fiscal year 2017.
- ü Successfully maintained continuing oversight of the internal audit functions at Bureau of Workers' Compensation and Lottery Commission through OIA's completion of separate provider assurance and work paper reviews at each agency; this process enabled OIA to rely on those audit functions.
- ü Fifty-four percent of OIA's audit team maintains at least one professional certification.
- ü Supported a highly trained audit staff with an average of 46 training hours per person.
- ü Performed various financial and operational assurance engagements on areas such as licensing, payroll, assets and inventory, grant program compliance and various other business processes, which resulted in a series of observations relating to operational weaknesses and inefficiencies.
- ü Provided internal control training on effective risk management and internal control design for the sixth cohort of the State Fiscal Academy.
- ü Actively participated in ongoing statewide initiatives involving enterprise grant systems and financial management workgroups.



OIA AND THE STATE AUDIT 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 (Committee) to, among other things, review and comment on the annual internal audit plan prepared by the Office of Internal Audit. The purpose of the Committee is to assist the Governor and the Director of the Office of Budget and Management in fulfilling their oversight responsibilities in the areas of financial reporting, internal controls and risk assessment, audit processes, and compliance with laws, rules and regulations.

During fiscal year 2017, the State Audit Committee, which meets quarterly, welcomed two new members. The committee is comprised of Chairperson Larry Long and members Robert Sielschott, Thomas Zitter, and Ranjan Manoranjan. There was one vacancy on the Committee during the fiscal year. The Chairperson is appointed by the Governor; two public members are appointed by Speaker of the House of Representatives, one of which may be a person recommended by the minority leader of the House of Representatives; and two members are appointed by the President of the Senate, one of which may be a person recommended by the minority leader of the the Ohio Senate. No more than two of the four members appointed by the President of the Senate and Speaker of the House shall belong to or be affiliated with the same political party.

OIA STAFFING & BUDGET – FISCAL YEAR 2017

OIA Staffing - OIA staffing varied from 21 to 23 members throughout fiscal year 2017. Based upon the fiscal year 2017 Annual Plan, a staffing level of 25 full-time equivalent employees (plus 2 administrative staff) would be necessary to complete OIA's audit engagements. However, due to occasional vacancies, the actual staffing level in fiscal year 2017 averaged 22 full-time equivalents, slightly below optimal resources. OIA's fiscal year 2018 Annual Plan will require 24 full-time equivalents to complete the planned engagements.



OIA Training and Certification – OIA plans to provide an average of 40 hours of continuous professional education each year. In fiscal year 2017, OIA staff averaged 49 hours of training. The significant external training sessions attended in fiscal year 2017 were as follows:

Date	Course (Local Professional Chapter)	OIA Attendees
Sept. 2016	IT General Controls Training (ISACA)	5
Oct. 2016	Ohio Digital Government Summit (Government Technology)	8
Oct. 2016	Professional Development Training (AGA)	15
March 2017	Central Ohio InfoSec Summit (ISSA)	8
May 2017	Auditor of State Fraud Conference	14

(IIA): Institute of Internal Auditors; (AGA): Association of Government Accountants; (ISACA): Information Systems Audit and Control Association; and (ISSA) Information Systems Security Association

The following recognized professional certifications were held by OIA staff at June 2017:

Certification	Licenses Held
Certified Public Accountant (CPA)	4
Certified Information Systems Auditor (CISA)	6
Certified Internal Auditor (CIA)	3
Certified Government Auditing Professional (CGAP)	4
Certified Fraud Examiner (CFE)	2

OIA encourages professional certifications and would like at least 60 percent of its employees to have a recognized professional certification. Several OIA employees possess multiple certifications and 13 of 24 (54 percent) maintained at least one designation during fiscal year 2017.



OIA Budget – OIA is required to recover its costs pursuant to Ohio Revised Code Section 126.45. OIA was able to recover its costs in fiscal year 2017 with a combination of direct agency billings and centralized payroll charges. The following schedule reflects the fiscal year 2017 budget and actual expenditures as of June 30, 2017:

Category	Budget	Actual Expenditures and Encumbrances (cash basis)	Variance
Expenditures:			
Payroll	\$2,998,286	\$2,608,650	\$ 389,636
Purchased Personal Services	56,000	48,236	7,764
Maintenance/Supplies	160,000	163,930	(3,930)
Equipment/Software	3,000	0	3,000
Total Expenditures (unaudited)	\$3,217,286	\$2,820,816	\$ 396,470

SUMMARIZING FISCAL YEAR 2017 AUDIT ACTIVITY

OIA Reports and Remediation Activity – During fiscal year 2017, OIA completed 46 public reports which resulted in 38 high or moderate risk observations. Of these observations, nine were remediated by the client and validated by OIA. Twenty-nine of the remaining observations are scheduled for remediation in fiscal year 2018. There are currently an additional 23 observations outstanding from public reports issued prior to fiscal year 2017.

OIA also completed 42 assurance and consulting engagements that met the definition of a “Security Record” per Ohio Revised Code Sections 149.433 or 5703.21(B)(2) and are exempt from public disclosure. These engagement results are provided to agency management with a summary update to the State Audit Committee in executive session.

OIA performs a combination of assurance and consulting engagements. 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 2017, OIA consulting services related to vendor management, new or merging programs/processes, IT system upgrades, security control assessments on behalf of agencies utilizing IRS data, enhancing internal controls and compliance, and providing advice on how to make processes more efficient. Consulting services consisted of nearly 42% of overall OIA audit effort in fiscal year 2017.

External Assessment – In accordance with the Institute of Internal Auditors’ Standards, OIA is required to have an external party either conduct an assessment or review a self-assessment of OIA’s internal audit activities. OIA contracted with experts from the Institute of Internal Auditors to perform an external assessment in fiscal year 2013. The results reported that OIA maintains the highest standards available as designated by “Generally Conforms” with all IIA *Standards*. OIA continues to maintain conformance to the IIA’s *Standards* through its ongoing Quality Assurance and Improvement Plan via periodic internal assessments. Considerable efforts by OIA management and staff have resulted in OIA’s ability to maintain these professional standards. OIA has contracted with Schneider Downs & Co., Inc. to perform the next external assessment in fiscal year 2018.

2017 OIA Annual Plan - In order to develop an annual audit plan, OIA performed a risk analysis for the 26 state agencies in OIA’s oversight utilizing seven risk factors. The objective of the analysis is to ensure optimized assignment of audit resources through an understanding of the audit universe and the risks associated with each universe item. No enterprise risk management process is in place for the State so OIA collaborated with senior management at each agency to better understand risks. 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, BWC and Lottery’s internal auditors, and reviews conducted by other external auditors.

In fiscal year 2017, internal audit services were offered to agencies outside of OIA’s oversight upon request by the agency. The Ohio Department of Education chose to have OIA perform internal audit services during 2017 and will continue this relationship in fiscal year 2018.

Modifications to the plan occur throughout the year and were discussed with the State Audit Committee in their quarterly meetings. The following table details OIA’s planned and completed engagements from the 2017 Annual Plan:



State Agency	Planned Engagements	Completed Engagements
Adjutant General	3	3
Administrative Services	10	9
Aging	3	3
Agriculture	2	2
Budget and Management	4	4
Commerce	5	6
Developmental Disabilities	5	5
Development Services	3	2
Education**	6	5
Environmental Protection Agency	3	3
Health	5	5
Higher Education	4	4
Insurance	2	2
Job and Family Services	8	7
Lottery *	7	7
Medicaid	5	3
Mental Health and Addiction Services	5	5
Natural Resources	4	4
Opportunities for Ohioans with Disabilities	4	5
Public Safety	5	5
Public Utilities Commission	4	4
Rehabilitation and Correction	2	2
Taxation	5	4
Transportation #	7	0
Veterans Services	3	3
Workers' Compensation *	8	8
Youth Services	4	4
Total	126	114

* Includes an Assurance Provider Review conducted by OIA over the audit procedures performed by the internal audit staff at Lottery Commission and Workers' Compensation.

**Agency outside of OIA's oversight which requested audit services.

Unable to issue any of the agency reports due to lack of quorum for voting by State Audit Committee members.



OIA's goal was to complete at least 92 percent of the 126 engagements originally documented in the 2017 Annual Plan. Through agency requests and shifting priorities, the audit plan was updated throughout the year with 11 projects added and 12 projects deleted from the original plan, ending with 125 projects. As a result, OIA completed 114 of 125 engagements (or 91 percent) in fiscal year 2017. Of the 11 engagements not completed, two resulted from the reviews actively being worked on but completion will be delayed into fiscal year 2018; one engagement was postponed to fiscal year 2018; one had a scope limitation in that OIA was not permitted to perform the audit; and the remaining seven have been completed but OIA was not able to present them to the State Audit Committee. If those seven would have been able to be presented to the Committee, OIA's completion percentage would have been 97 percent.

Client Surveys and Value-Added Requests

Client Survey Results – OIA sent out client surveys during fiscal year 2017 and received 52 responses. The responses are summarized below:

Survey Questions	Very Good	Good	Fair	Poor	Don't Know
1. Technical proficiency of OIA auditors	33	15	2	1	1
2. Professionalism of internal auditors	45	6	1	0	0
3. Auditor knowledge of your business	16	23	6	2	5
4. Selection of important operational area	31	16	2	1	2
5. Pre-audit notification of purpose and scope	38	11	2	0	1
6. Timeliness of audit report	37	13	2	0	0
7. Value of audit recommendations	30	18	1	3	0
8. Effectiveness of OIA management	32	14	2	0	4
9. Independence and objectivity of OIA staff	41	10	0	0	1
Total	303	126	18	7	14

OIA appreciates the feedback received from state agency clients and uses the results as a benchmark for effectiveness. OIA strives to have at least 80 percent of the responses



to be very good or good. Of the 52 client responses received, 429 of 468 question responses were favorable which resulted in a 92 percent favorable rating.

Value-Added Requests – Survey results are an important gauge of OIA effectiveness; however, agency requests for OIA to perform additional services are also important. The nature of these requests included the following:

- ü Conducted a review of a new application to suggest recommendations in order to maximize operational efficiencies and provide adequate internal controls and oversight
- ü Evaluated the design of the configuration of a new application to provide recommendations on the selection of user roles and permissions in order to achieve adequate segregation of duties
- ü Evaluated the State's supplier population to document and verify account accuracy, compliance and activity level and to provide recommendations to mitigate risks, ensure compliance and enhance internal controls
- ü Assessed the designed process over unclaimed funds' revenue processing, recommended ways to streamline the process, and identified methods to enhance internal controls
- ü Evaluated the review process performed by state agency personnel designed to monitor their vendors, recommended enhancements and confirmed their testing results
- ü Assessed the design of controls over a system's log management process and evaluated the appropriateness of business rules in place, especially those associated with monetary transactions
- ü Gained an understanding of a new system's security processes and provided best practices and recommendations to help enhance the agency's processes regarding access controls, access review, segregation of duties, and account management