OBM | Office of Internal Audit

FISCAL YEAR 2018 ANNUAL REPORT

July 1, 2017 – June 30, 2018

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

July 2018

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FISCAL YEAR 2018 – OBM OFFICE OF INTERNAL AUDIT (OIA) HIGHLIGHTS

ü Successfully obtained an overall rating of "Generally Conforms" on the external quality assessment.

ü Completed 90 projects, or 97 percent, of the projects identified in the updated 2018 OIA annual audit plan.

ü Provided internal audit services at 27 state agencies; one of these entities was not under OIA's purview and requested OIA's services.

ü Issued 42 public reports and provided numerous recommendations for agencies to improve internal controls, processes and procedures.

ü Performed 30 consulting engagements to enhance agency operations, providing valuable recommendations to improve internal controls and reduce risks.

ü Completed eight IT security reviews, two automated control engagements, two information technology general control audits, and two disaster recovery reviews, providing agency management with awareness and a host of observations to strengthen their IT security and IT control environments.

ü Achieved a 95 percent favorable rating from client surveys received.

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 Sixty percent of OIA's audit team maintained at least one professional certification.

ü Supported a highly trained audit staff with an average of 49 training hours per person.

ü Performed various financial and operational assurance engagements on areas such as licensing and permitting, inspections, grant program monitoring, assets and inventory, 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 seventh 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 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 2018, the State Audit Committee, which meets quarterly, welcomed one new member. The committee is comprised of Chairperson Larry Long and members Robert Sielschott, Thomas Zitter, Ranjan Manoranjan, and David Beule. 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 2018

OIA Staffing - Based upon the fiscal year 2018 Annual Plan, a staffing level of 24 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 2018 averaged 23 full-time equivalents, slightly below optimal resources. OIA's fiscal year 2019 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 2018, OIA staff averaged 49 hours of training. The significant external training sessions attended in fiscal year 2018 were as follows:

Date	Course (Local Professional Chapter)	OIA Attendees
Oct. 2017	Auditing Cybersecurity Governance and Controls (ISACA)	3
Oct. 2017	Ohio Digital Government Summit (Government Technology)	8
Oct. 2017	Professional Development Training (AGA)	16
Nov. 2017	Targeting Fraud-Safeguarding Integrity (Ohio Inspector General)	4
May 2018	Central Ohio InfoSec Summit (ISSA)	8
May 2018	Auditor of State Fraud Conference	9

(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 2018:

Certification	Licenses Held
Certified Public Accountant (CPA)	4
Certified Information Systems Auditor (CISA)	7
Certified Internal Auditor (CIA)	3
Certified Government Auditing Professional (CGAP)	4
Certified Fraud Examiner (CFE)	3

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 15 of 25 (60 percent) maintained at least one designation during fiscal year 2018.

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 2018 with a combination

of direct agency billings and centralized payroll charges. The following schedule reflects the fiscal year 2018 budget and actual expenditures as of June 30, 2018:

Category	Budget	Actual Expenditures and Encumbrances (cash basis)	Variance
Expenditures:			
Payroll	$2,953,192	$2,915,742	$ 37,450
Purchased Personal Services	52,000	45,492	6,508
Maintenance/Supplies	167,300	162,661	4,639
Equipment/Software	500	0	500
Total Expenditures (unaudited)	**$3,172,992**	**$3,123,895**	**$ 49,097**

SUMMARIZING FISCAL YEAR 2018 AUDIT ACTIVITY

OIA Reports and Remediation Activity – During fiscal year 2018, OIA completed 42 public reports which resulted in 35 high or moderate risk observations. Of these observations, seven were remediated by the client and validated by OIA. Twenty-eight of the remaining observations are scheduled for remediation in fiscal year 2019. There are currently an additional nine observations outstanding from public reports issued prior to fiscal year 2018.

There was one moderate level observation for which the Ohio Lottery Commission accepted the risk. The State Audit Committee was made aware of this issue, and the observation is no longer being tracked for remediation.

OIA also completed 20 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. Consulting services are advisory in nature and provide value without OIA assuming management responsibility. In fiscal year 2018, OIA consulting services related to succession planning, vendor management, new or emerging programs and processes, risk management, enhancing internal controls and compliance, and providing advice on how to make processes more efficient. Consulting services consisted of nearly 30% of overall OIA audit effort in fiscal year 2018.

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 Schneider Downs & Co., Inc. to perform an external assessment in fiscal year 2018. The overall result was reported that OIA maintains the highest standards available as designated by "Generally Conforms" with the 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.

2018 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 2018, 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 2018 and will continue this relationship in fiscal year 2019.

Modifications to the plan occured 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 2018 Annual Plan:

State Agency	Planned Engagements	Completed Engagements
Adjutant General	1	1
Administrative Services	7	7
Aging	1	1
Agriculture	2	2
Budget and Management	3	3
Commerce	4	5
Developmental Disabilities	3	3
Development Services	4	3
Education**	3	3
Environmental Protection Agency	1	1
Health	3	4
Higher Education	3	3
Insurance	1	1
Job and Family Services	6	6
Lottery *	4	4
Medicaid	6	5
Mental Health and Addiction Services	3	3
Natural Resources	3	3
Opportunities for Ohioans with Disabilities	3	3
Public Safety	4	4
Public Utilities Commission	2	0
Rehabilitation and Correction	2	2
Taxation	4	4
Transportation	11	11
Veterans Services	1	1
Workers' Compensation *	6	5
Youth Services	2	2
Total	**93**	**90**

* 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.

OIA's goal was to complete at least 92 percent of the 92 engagements originally documented in the 2018 Annual Plan. Through agency requests and shifting priorities, the audit plan was updated throughout the year with nine projects added and eight projects deleted from the original plan, ending with 93 projects. As a result, OIA completed 90 of 93 engagements (or 97 percent) in fiscal year 2018. The three engagements not completed were postponed to fiscal year 2019.

Client Surveys and Value-Added Requests

Client Survey Results – OIA sent out client surveys during fiscal year 2018 and received 56 responses. The responses are summarized below:

Survey Questions	Very Good	Good	Fair	Poor	Don't Know
1. Technical proficiency of OIA auditors	35	19	1	0	1
2. Professionalism of internal auditors	50	6	0	0	0
3. Auditor knowledge of your business	22	27	5	1	1
4. Selection of important operational area	37	15	3	1	0
5. Pre-audit notification of purpose and scope	43	12	0	1	0
6. Timeliness of audit report	43	11	2	0	0
7. Value of audit recommendations	36	13	7	0	0
8. Effectiveness of OIA management	40	15	1	0	0
9. Independence and objectivity of OIA staff	47	9	0	0	0
Total	**353**	**127**	**19**	**3**	**2**

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 56 client responses received, 480 of 504 question responses were favorable which resulted in a 95 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 Assessed the design of controls over an agency's database security and configuration in order to recommend improvements in monitoring critical systems, restricting access, and implementing security configurations.

ü Conducted a review of an agency's IT application development process to suggest recommendations and best practices for software development and methodology.

ü Performed a review of a state board that was being absorbed by a state agency per legislative action. This review included documenting processes, identifying controls and control weaknesses, as well as verifying the existence of assets and confirming cash balances, in order for the agency to be adequately prepared to successfully continue board operations.

ü Evaluated the design and effectiveness of controls over an agency's collection process and identified process efficiency opportunities.

ü Assessed the design and effectiveness of controls for purchasing various types of administrative goods and services and provided recommendations to address control weaknesses and complying with federal requirements.

ü Conducted a review of a newly designed process for receiving professional license fees to provide assurance on the control environment and suggest enhancements.

ü Evaluated operations at a long-used warehouse to recommend increased efficiencies, potential reduction of costs, items that should be removed, and enhancements to processing inventory.