



OBM | Office of Internal Audit

FISCAL YEAR 2011 ANNUAL REPORT

July 1, 2010 – June 30, 2011

Joe Bell, Chief Audit Executive

June 2011



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 Paolo DeMaria 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 2011

OIA Staffing - OIA staffing varied from 21 to 24 members throughout fiscal year 2011. Based upon the fiscal year 2011 Annual Plan, a staffing level of 20 full-time equivalent employees (plus 3 administrative staff) was necessary to complete our audit engagements. Our actual staffing level for fiscal year 2011 was 19.1 full-time equivalents which resulted in adequate resources. Our fiscal year 2012 Annual Plan will require 20 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 2011, OIA accomplished this objective with various topics on internal audit, fraud, ethics, information technology audit, and soft skill training. OIA staff averaged 47.7 hours of training in fiscal year 2011.

The following recognized professional certifications were held by OIA staff at June 2011:

Certification	Licenses Held
Certified Public Accountants (CPA)	8
Certified Information Systems Auditors (CISA)	10
Certified Internal Auditors (CIA)	2

OIA encourages professional certifications and would like to maintain a 90% certification percentage at fiscal yearend. With 21 staff, OIA held a 95% certification percentage at June 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 2011 with a combination of direct agency billings and centralized payroll charges. The following schedule reflects the fiscal year 2011 budget and actual expenditures:

Category	Budget Expenditures	Actual Expenditures
Expenditures:		
Payroll	\$2,627,000	\$2,456,324
Purchased Personal Services	50,000	12,224
Maintenance/Supplies	200,000	130,005
Equipment/Software	50,000	0
Total Expenditures	\$2,927,000	\$2,598,553

The OIA budgeted expenditures for fiscal year 2012 are planned for \$2,785,000 with payroll costs comprising \$2,630,000 of this amount.



SUMMARIZING FISCAL YEAR 2011 AUDIT ACTIVITY

OIA Reports and Remediation Activity – During fiscal year 2011, OIA completed 15 public reports which resulted in 21 high or moderate risk observations. Of these observations, 3 were remediated by the client and validated by OIA. 15 of the remaining observations are not scheduled for remediation until fiscal year 2012 and 3 were delayed by the client. Additionally, all 16 remaining fiscal year 2010 observations have been remediated by the client and validated by OIA.

OIA also completed 16 assurance audits 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. Three IT general control “security record” audits were leveraged by the Auditor of State to assist with audit coordination in completing the State of Ohio’s financial statement audit timely. In fiscal year 2012, one IT general control audit is planned to be leveraged by the Auditor of State for financial statement audit purposes.

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 2011, the majority of OIA consulting services related to process documentation, financial process reviews, and providing advice on new system development. Consulting services consisted of 19% of overall OIA audit effort in fiscal year 2011. This amount is expected to increase slightly in fiscal year 2012 with a new administration and changes to existing processes taking place.

2011 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.



The audit priorities from the OIA 2011 Annual Plan and subsequent results were as follows:

Priority 1: Database Vulnerability

- OIA purchased a database vulnerability tool in fiscal year 2010 and was able to provide valuable information concerning IT security to six agencies. In fiscal year 2011, OIA would like to expand the use of this tool to nine additional agencies.

Results: OIA was able to utilize the database vulnerability tool for six additional agencies in fiscal year 2011.

Priority 2: IT General Controls

- In fiscal year 2011, OIA will provide audit services to all 21 agencies in its oversight. A number of agencies have not received an IT general controls audit by an external party. OIA plans to complete an IT general controls review for 15 agencies in fiscal year 2011.

Results: OIA completed 12 IT general control audits in fiscal year 2011. The remaining three IT general control audits not completed are included in OIA's 2012 Annual Plan.

Priority 3: ARRA Program Audits

- OIA devoted significant resources and completed 15 audits related to American Recovery and Reinvestment Act (ARRA) programs in fiscal year 2010. In fiscal year 2011, OIA plans to focus new programs and follow-up on ARRA programs with previous OIA observations.

Results: OIA completed four additional ARRA audits in fiscal year 2011. These four audits resulted in two reportable observations which have been remediated by the agencies. Additionally, all 13 open ARRA observations from fiscal year 2010 were remediated in fiscal year 2011. A cumulative total of over 75% of all ARRA monies disbursed (within OIA oversight), have been subject to audit over the past two years.

Based upon the limited observations noted in fiscal year 2011 and subsequent remediation of all previous comments, OIA views future ARRA audits as a lower risk and does not have ARRA engagements included in its 2012 Annual Plan. ARRA monies are subject to audit by the Auditor of State and the Ohio Inspector General in fiscal year 2012.



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 2011 Annual Plan:

State Agency	Planned Engagements	Completed Engagements	Deferred Engagements
Administrative Services	3	2	1
Aging	1	1	0
Agriculture	1	1	0
Alcohol and Drug Addiction Services	2	2	0
Budget and Management	1	1	0
Commerce	2	2	0
Development	4	3	1
Developmental Disabilities	1	1	0
Environmental Protection Agency	3	3	0
Health	3	2	1
Insurance	1	1	0
Job and Family Services	5	5	0
Mental Health	1	0	1
Natural Resources	2	1	1
Public Safety	2	2	0
Rehabilitation and Correction	1	1	0
Taxation	2	2	0
Transportation	4	3	1
Veterans Services	1	1	0
Workers' Compensation	2	2	0
Youth Services	1	1	0
Total	43	37	6

OIA is aware that changes occur during the year; however, OIA's goal was to complete 80% of engagements originally documented in the 2011 Annual Plan. OIA completed 37 of 43 engagements (or 86%) of engagements included in the fiscal year 2011 Annual Plan. Three of the six deferred engagements resulted from the reduction of planned ARRA funded programs while two were IT general control audits delayed until FY 2012 due to limitations of OIA staffing.



LOOKING FORWARD TO FISCAL YEARS 2012 AND 2013

Part of OIA's Policy and Procedures Manual was to develop a two year strategic plan aligned with the biennial budget. The initial OIA Strategic plan was developed around the Institute of Internal Auditor's Internal Audit Capability Model. This framework was recently developed to identify fundamentals needed for effective internal auditing in the public sector and consists of six separate elements (services and roles; people management; professional practices; performance management; organizational relationships; and governance structures). The following future strategies were a result of the Fiscal Years 2012 and 2013 OIA Strategic Plan:

Element / Future Strategies	Implementation Date
Services and Roles of Internal Audit: <ul style="list-style-type: none">Develop audit scope and objectives in future OIA Annual Plans that focus on revenue enhancement or economy of operations for certain agency processes.	June 2012
<ul style="list-style-type: none">Provide staff training on operational auditing techniques.	December 2011
People Management: <ul style="list-style-type: none">Develop an OIA specific performance appraisal that aligns with current performance appraisal form and recognizes the value of leadership participation in professional organizations.	September 2011
Professional Practices: <ul style="list-style-type: none">Institute internal quality assessments with the follow-up action plans for instances to improve processes or fully comply with the Standards. Share the results with the State Audit Committee on an annual basis.	December 2011
<ul style="list-style-type: none">Develop client surveys to obtain feedback on assurance and value-added services.	July 2011
<ul style="list-style-type: none">Facilitate enterprise risk management (ERM) framework development at the Bureau of Workers' Compensation and evaluate opportunities to further ERM capabilities at other agencies.	December 2012



Element / Future Strategies	Implementation Date
Performance Management and Accountability: <ul style="list-style-type: none">Develop a process to capture OIA cost information on a monthly basis and produce a monthly monitoring report on budget and actual cost information.	July 2011
Organizational Relationships and Culture: <ul style="list-style-type: none">The OIA CAE and other senior managers become more engaged and involved in agency leadership meetings to anticipate emerging issues and enhance our value-added services.	June 2012
Governance Structures: <ul style="list-style-type: none">Strengthen the State Audit Committee Charter around independence and add specific language concerning its members being outside of state government.	June 2012

OIA will report progress with these future strategies in the 2012 and 2013 OIA Annual Reports.