



## RELYING ON THE WORK OF ASSURANCE PROVIDERS

**To:** Ohio Lottery Commission Audit Committee  
Dennis Berg, Executive Director, Ohio Lottery Commission (OLC)

**From:** Cindy Klatt, Chief of Quality Assurance, OBM Office of Internal Audit (OIA)

**Date:** March 12, 2014

**Subject:** OIA Review of OLC Internal Audit Operations

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As you are aware, the Internal Audit function at OLC is under the purview of OBM's Office of Internal Audit as of July 1, 2013. OIA's intention is to leverage and rely upon the work of OLC's internal auditors for certain processes at OLC. OIA will also perform some assurance work at OLC. OIA performed a review of OLC Internal Audit's engagements completed during fiscal year 2013 in order to determine the degree of reliance that could be placed on OLC's work.

The Institute of Internal Auditors (IIA) issued guidance in December 2011 entitled "Reliance by Internal Audit on Other Assurance Providers". This guidance suggests limited procedures be performed by internal audit (OIA) to determine whether the other assurance provider (OLC internal audit) meets the principles for providing reliance. The purpose for this review is not an external quality assessment or a validation on internal audit operations but a basis for reliance upon the work of OLC internal auditors.

Based upon the results of our work, OIA determined OLC's internal audit **may be relied upon** as an internal audit assurance provider, but with ongoing oversight and involvement by OIA.

The guidance above identified five principles in determining reliance which are summarized below, along with the our results and suggested actions:

1. **Purpose:** The assurance provider is clear in purpose and committed to providing assurance on a specific risk area and their work is relevant to internal audit's objectives and scope.

Results: OIA obtained the OLC internal audit charter and determined that it fully described its purpose in compliance with IIA *Standards*. The most recent charter revision was approved by the OLC Internal Audit Manager Carol Brown, Executive Director Dennis Berg, and Audit Committee Chair Constance Miller on November 25, 2013. The Internal Audit Charter in place during fiscal year 2013 was signed by the OLC Internal Audit Manager Carol Brown, former Executive Director Kathleen Burke, and Audit Committee



Chair Constance Miller on November 17, 2010. Additionally, OLC internal audit completed a Fiscal Year 2013 Annual Plan that was approved by the Executive Director and the Auditor of State's office on August 23, 2012.

Action: Noting the three year time span for updating OLC's internal audit charter, the Audit Committee should approve an updated internal audit charter on an annual basis. In addition, the Audit Committee should review and approve OLC's annual audit plan.

2. **Independence and Objectivity:** The professional judgment of the assurance provider is impartial, without inappropriate interference from others.

Results: The independence of the OLC internal auditors is clearly described in both versions of the OLC internal audit charter. One point of concern, however, is the composition of the OLC Audit Committee, which includes members of OLC's management. Even though two members of the Commission sat on the Committee during fiscal year 2013, all members should be independent of OLC's management. In addition, a review of Commission minutes determined that internal audit results reported to the OLC Audit Committee were not reported to the Commission, as required by IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Action: OLC should consider modifying their Audit Committee charter and composition to include individuals independent of OLC, specifically no members of OLC management. This can be achieved by having all members of the Audit Committee be members of the Commission. In addition, the Audit Committee should then report internal audit results to the Ohio Lottery Commission on at least a quarterly basis.

3. **Competence:** The assurance provider is knowledgeable of the risks to the organizational processes, how controls are designed to operate in response to the risks, and what constitutes a weakness or deficiency. Characteristics of proficiency for assurance providers include organizational process expertise, education level, professional experience, relevant professional certifications, continuing education, and reputation for sound judgement.

Results: The three OLC internal audit staff in place during fiscal year 2013 averaged eight years of business experience (excluding auditing) and 24 years of audit experience. All held bachelor's degrees and one had a relevant professional certification (Certified Information Systems Auditor). All three members of Internal Audit had at least 20 years of experience at OLC. It should be noted that as of December 31, 2013, two of the experienced members, including the Internal Audit Manager, retired from OLC.

Action: In addition to hiring a qualified internal audit manager to lead the group, we recommend OLC encourage internal audit staff to obtain professional certifications that are relevant to their position.



- 4. Elements of Practice:** The assurance provider has established policies, programs, and procedures and follows them. In execution, assurance work is appropriately planned, supervised, documented, and reviewed.

Results: A sample review of working papers by OIA Chief of Quality Assurance found engagements to be effectively planned, supervised, and reviewed. However, OLC Internal Audit has not established policies and procedures as required by the *Standards*. In addition, some of the audit procedures, such as the assessment of internal controls, and the flow of the audit work was not always clear to an outside observer. Also, OLC internal audit has not undergone an external quality assurance review.

Action: OLC Internal Audit should prepare documented Policies and Procedures which would guide the internal audit activity. Also, OLC should consider the benefits of OLC Internal Audit being reviewed for quality and completeness by a qualified external party. Alternatively, OLC may consider utilizing OIA's policies and procedures and being included as a part of OIA's internal and external reviews.

- 5. Communication of Results and Impactful Remediation:** The assurance provider communicates results and ensures management takes timely action.

Results: The OLC Internal Audit Manager provided well-documented audit reports to management and the OLC Audit Committee. However, the remediation of the issues contained in these reports was not readily apparent. A tracking mechanism previously utilized was not maintained by OLC Internal Audit after the workpaper software conversion. As such, it could not be determined whether timely remediation is occurring at OLC. Also, the Audit Committee meetings and internal audit results are not publicly reported. OLC's Internal Audit prepares a brief annual report summarizing its audit activities.

Action: OLC Internal Audit should endeavor to track remediation activity of their reported issues and communicate the progress to the OLC Audit Committee, which will then report to the Commission. In addition, the OLC Audit Committee should be reporting their meetings, agendas, minutes, and internal audit reports and annual audit plan to the public in some manner, perhaps online via the OLC website. A more robust report of annual audit activities and metrics should be prepared with the approval of the OLC Audit Committee.

OIA will send our less significant recommendations in a separate communication. I plan to discuss this memo with OLC's Audit Committee in the March 21 meeting, as well as a timeline for completion. If you have any questions, please feel free to contact me at (614) 995-9973.

cc: Joe Bell, Chief Audit Executive, OBM Office of Internal Audit