



**OBM** | Office of Internal Audit

# FISCAL YEAR 2015

# ANNUAL REPORT

*July 1, 2014 – June 30, 2015*

## 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.

Cindy Klatt, Acting Chief Audit Executive

June 2015



## **FISCAL YEAR 2015 – OBM OFFICE OF INTERNAL AUDIT (OIA) HIGHLIGHTS**

- ✓ Ninety-eight projects were originally identified in OIA's 2015 audit plan. Through agency requests and shifting priorities, the audit plan was updated throughout the year, ending with 100 projects requested. OIA staff completed 94 projects, or 94%, identified in the updated 2015 audit plan. OIA averaged 21 staff during the year and reduced budgeted expenditures by \$266,101.
- ✓ Provided internal audit services at 28 state agencies and one state commission during 2015; three of these entities were not under OIA's purview and requested OIA's services.
- ✓ Issued 30 public reports and ensured all but three of the prior year observations were remediated by agency management and validated by OIA.
- ✓ Performed 25 consulting engagements to enhance agency operations, providing valuable recommendations to improve internal controls and reduce risks.
- ✓ Completed 17 business-IT alignment assessments, four information technology general control audits, three vendor and asset management audits, and five IT security reviews, providing agency management with awareness and a host of observations to strengthen their IT security and IT control environments.
- ✓ Achieved a 93% favorable rating from client surveys received in fiscal year 2015.
- ✓ Successfully maintained continuing oversight of the audit functions at Bureau of Workers' Compensation and Lottery Commission through OIA's completion of separate provider assurance reviews at each agency; this process enabled OIA to rely on those audit functions.
- ✓ Fifty percent of OIA's audit team maintains at least one professional certification.
- ✓ Supported a highly trained audit staff with an average of 51 training hours per person.
- ✓ Performed various financial and operational assurance engagements on areas such as procurement/contract management, grant program compliance, payment card, and divisional processes, which resulted in a series of observations relating to operational weaknesses and inefficiencies.
- ✓ Provided statewide internal control training on effective risk management and internal control design for the fourth cohort of the State Fiscal Academy.
- ✓ Actively participated in ongoing statewide initiatives involving IT Optimization workgroups, Ohio Shared Services committees, enterprise grants initiatives, and OAKS Steering Committee.



## 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 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, which meets quarterly, is comprised of Chairperson Paolo DeMaria and members Wendi Finn, Ryan Hecht, John Merchant, and Kai Monahan. 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 2015

**OIA Staffing** - OIA staffing varied from 20 to 22 members throughout fiscal year 2015. Based upon the fiscal year 2015 Annual Plan, a staffing level of 23 full-time equivalent employees (plus 2 administrative staff) was necessary to complete OIA's audit engagements. However, due to occasional vacancies, the actual staffing level in fiscal year 2015 averaged 21 full-time equivalents, slightly below optimal resources. OIA's fiscal year 2016 Annual Plan will require 25 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 2015, OIA staff averaged 51 hours of training. The significant external training attended in fiscal year 2015 was as follows:



Date	Course (Local Professional Chapter)	OIA Attendees
July 2014	Changes to Single Audits: OBM Super-Circular (AGA Webinar)	6
Oct. 2014	Ohio Digital Government Summit (Government Technology)	5
Oct. 2014	Professional Development Training (AGA)	13
Jan. 2015	Investigators Using Data Analytics to Accomplish Objectives (AGA Webinar)	14
Feb/May 2015	ACL Applications Training	5
Feb 2015	Green Book Overview (NASACT Webinar)	3
March 2015	Central Ohio InfoSec Summit (ISSA)	8
April 2015	Leveraging Data Analytics to Fight Fraud (ISACA)	3
May 2015	Auditor of State Fraud Conference	16

*(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 2015:

Certification	Licenses Held
Certified Public Accountant (CPA)	7
Certified Information Systems Auditor (CISA)	5
Certified Internal Auditor (CIA)	2
Certified Government Auditing Professional (CGAP)	2

OIA encourages professional certifications and would like at least 60% of its employees to have a recognized professional certification. Several OIA employees possess multiple certifications and 11 of 22 (50%) maintain at least one designation at June 30, 2015.



**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 2015 with a combination of direct agency billings and centralized payroll charges. The following schedule reflects the fiscal year 2015 budget and actual expenditures as of June 30, 2015:

Category	Budget Expenditures	Actual Expenditures (cash basis)	Variance
<b>Expenditures:</b>			
Payroll	\$2,666,802	\$2,418,488	\$ 248,314
Purchased Personal Services	65,250	54,168	11,082
Maintenance/Supplies	169,300	167,595	1,705
Equipment/Software	5,000	0	5,000
<b>Total Expenditures (unaudited)</b>	<b>\$2,906,352</b>	<b>\$2,640,251</b>	<b>\$ 266,101</b>

## SUMMARIZING FISCAL YEAR 2015 AUDIT ACTIVITY

**OIA Reports and Remediation Activity** – During fiscal year 2015, OIA completed 30 public reports, which resulted in 36 high or moderate risk observations. Of these observations, three were remediated by the client and validated by OIA. Twenty-six of the remaining observations are not scheduled for remediation until fiscal year 2016 and seven were delayed by the client. Additionally, all remaining fiscal year 2013 and 2014 observations except four have been remediated by the client and validated by OIA.

OIA also completed 25 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. One IT audit was completed on behalf of the Auditor of State’s Office, and another two IT audits were relied upon by the Auditor of State’s office in reducing their external audit testing.



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 2015, the majority of OIA consulting services related to reviewing processes for efficiencies, vendor contracting and monitoring, new or merging programs/processes, and providing advice on new policies, security risk assessments, and design and system development, taking into account the State's IT Optimization initiative. Consulting services consisted of nearly 27% of overall OIA audit effort in fiscal year 2015.

**External Peer Review** – In accordance with the Institute of Internal Auditors' Standards, OIA is required to have an external party conduct a peer review of OIA's internal audit activities. OIA contracted with experts from the Institute of Internal Auditors to perform an external assessment in late 2012. 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* via its ongoing Quality Assurance and Improvement Plan via periodic internal assessments. Considerable efforts by OIA management and staff resulted in OIA's ability to maintain these professional standards.

**2015 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 met 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 2015, internal audit services were offered to agencies outside of OIA's oversight upon request by the agency. The Ohio Department of Education, the Ohio Casino Control Commission, and the Ohio Elections Commission chose to have OIA perform internal audit services during 2015; Education will continue this relationship in fiscal year 2016.

Modifications to the plan occurred throughout the year and were discussed with the State Audit Committee in their quarterly meetings. The table on the next page details OIA's planned and completed engagements from the 2015 Annual Plan:



State Agency	Planned Engagements	Completed Engagements
Adjutant General	1	1
Administrative Services	9	8
Aging	2	2
Agriculture	2	2
Budget and Management	3	4
Casino Control Commission	3	2
Commerce	5	5
Development Services	6	6
Developmental Disabilities	3	3
Education	0	1
Elections Commission	0	1
Environmental Protection Agency	3	3
Health	6	4
Insurance	2	1
Job and Family Services	7	6
Lottery	4*	3*
Medicaid	4	5
Mental Health and Addiction Services	3	3
Natural Resources	3	3
Opportunities for Ohioans with Disabilities	3	3
Public Safety	4	5
Public Utilities Commission	2	2
Regents	4	4
Rehabilitation and Correction	3	3
Taxation	4	3
Transportation	4	4
Veterans Services	1	1
Workers' Compensation	4*	4*
Youth Services	3	2
<b>Total</b>	<b>98</b>	<b>94</b>

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



OIA is aware that changes occur during the year; however, OIA's goal was to complete at least 80% of engagements originally documented in the 2015 Annual Plan. OIA completed 94 of 100 engagements (or 94%) included in the updated fiscal year 2015 annual audit plan. The six engagements not completed resulted from the reviews actively being worked on, but completion will be delayed into fiscal year 2016.

## CLIENT SURVEYS AND VALUE-ADDED REQUESTS

**Client Survey Results** – OIA sent out client surveys during fiscal year 2015 and received 44 responses. The responses are summarized below:

Survey Questions	Very Good	Good	Fair	Poor	Don't Know
1. Technical proficiency of OIA auditors	28	13	2	0	1
2. Professionalism of internal auditors	33	11	0	0	0
3. Auditor knowledge of your business	12	25	6	1	0
4. Selection of important operational area	21	18	5	0	0
5. Pre-audit notification of purpose and scope	29	12	1	0	2
6. Timeliness of audit report	29	13	1	0	1
7. Value of audit recommendations	20	20	4	0	0
8. Effectiveness of OIA management	27	15	2	0	0
9. Independence and objectivity of OIA staff	29	13	2	0	0
<b>Total</b>	<b>228</b>	<b>140</b>	<b>23</b>	<b>1</b>	<b>4</b>

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% of the responses to be very good or good. Of the 44 client responses received, 368 of 396 question responses were favorable which resulted in a 93% 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. We expect to receive 10 requests annually for value-added services and received 20 requests in fiscal year 2015. The nature of these requests included the following:

- ✓ Built a framework for agencies to provide assurance to other state entities and federal government for outsourced IT functions
- ✓ Reviewed Cloud Service Agreements and other contracts to include assurance and audit-related language
- ✓ Conducted architectural review of major initiatives; helped agencies identify bottle necks and improve efficiency of IT systems
- ✓ Actively participated in taskforce, program steering, and governance committee meetings
- ✓ Conducted multiple IT audits over data security to include federal requirements adopted by the State
- ✓ Evaluated multiple agency processes to identify opportunities to improve operations and efficiencies
- ✓ Documented a sub-agency's governance structure and reliance on third parties as a tool for the oversight agency
- ✓ Performed testing to assess the methodology and reasonableness of calculated amounts owed to a local entity
- ✓ Evaluated business processes and data transfer completeness as part of the pre-implementation activities for several new agency applications
- ✓ Performed an agency capital fund reconciliation for accuracy and completeness and identified opportunities to prevent future reconciliation issues
- ✓ Reviewed an agency's competitive review processes over key grants to identify opportunities for a uniform review process



## LOOKING FORWARD TO FISCAL YEAR 2016

Part of OIA's Policy and Procedures Manual is to develop a two-year strategic plan aligned with the biennial budget. OIA will create a new strategic plan for fiscal years 2016 and 2017 after the biennial budget is finalized. The strategic plan will be devised in accordance with the Institute of Internal Auditor's Internal Audit Capability Model. This framework identifies 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).