



OBM | Office of Internal Audit

FISCAL YEAR 2016

ANNUAL REPORT

July 1, 2015 – June 30, 2016

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 2016



FISCAL YEAR 2016 – OBM OFFICE OF INTERNAL AUDIT (OIA) HIGHLIGHTS

- ü Completed 78 projects, or 89 percent, of the projects identified in the updated 2016 OIA annual audit plan.
- ü Maintained an average of 20 staff during the year and reduced budgeted expenditures by \$627,720.
- ü Provided internal audit services at 27 state agencies during 2016; one of these entities was not under OIA's purview and requested OIA's services.
- ü Issued 25 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 seven business-IT alignment assessments, five information technology general control audits, two access control 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.
- ü Achieved an 90 percent favorable rating from client surveys received in fiscal year 2016.
- ü 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.
- ü Forty-eight percent of OIA's audit team maintains at least one professional certification.
- ü Supported a highly trained audit staff with an average of 47 training hours per person.
- ü Performed various financial and operational assurance engagements on areas such as asset management, procurement/contract management, grant program compliance, permitting, and various other business processes, which resulted in a series of observations relating to operational weaknesses and inefficiencies.
- ü Provided statewide internal control training on effective risk management and internal control design for the fifth cohort of the State Fiscal Academy.
- ü Actively participated in ongoing statewide initiatives involving IT Optimization workgroups, financial management workgroups, and enterprise grant initiatives.



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.

During fiscal year 2016, the State Audit Committee, which meets quarterly, was comprised of Chairperson Paolo DeMaria and members Ryan Hecht, Robert Sielschott, and Tom Zitter. There was one vacancy on the Committee during the majority of 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 2016

OIA Staffing - OIA staffing varied from 19 to 21 members throughout fiscal year 2016. Based upon the fiscal year 2016 Annual Plan, a staffing level of 25 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 2016 averaged 20 full-time equivalents, slightly below optimal resources. OIA's fiscal year 2017 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 2016, OIA staff averaged 47



hours of training. The significant external training sessions attended in fiscal year 2016 were as follows:

Date	Course (Local Professional Chapter)	OIA Attendees
July 2015	Data Privacy Webinar (IIA)	5
Sept. 2015	CGAP 4-Part Review	3
Sept. 2015	Ohio Digital Government Summit (Government Technology)	4
Oct. 2015	Professional Development Training (AGA)	11
Nov. 2015	Ohio IG: Targeting Fraud Conference	8
March 2016	Central Ohio InfoSec Summit (ISSA)	13
April 2016	Audit Report Writing Fundamentals, Tips and Tricks (IIA)	3
May 2016	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 2016:

Certification	Licenses Held
Certified Public Accountant (CPA)	4
Certified Information Systems Auditor (CISA)	4
Certified Internal Auditor (CIA)	2
Certified Government Auditing Professional (CGAP)	3
Certified Fraud Examiner (CFE)	1

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 10 of 21 (48 percent) maintain at least one designation at June 30, 2016.

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 2016 with a combination of direct agency billings and centralized payroll charges. The following schedule reflects the fiscal year 2016 budget and actual expenditures as of June 30, 2016:

Category	Budget	Actual Expenditures and Encumbrances (cash basis)	Variance
Expenditures:			
Payroll	\$2,919,745	\$2,319,823	\$ 599,922
Purchased Personal Services	62,625	48,946	13,679
Maintenance/Supplies	192,247	183,128	9,119
Equipment/Software	5,000	0	5,000
Total Expenditures (unaudited)	\$3,179,617	\$2,551,897	\$ 627,720

SUMMARIZING FISCAL YEAR 2016 AUDIT ACTIVITY

OIA Reports and Remediation Activity – During fiscal year 2016, OIA completed 25 public reports which resulted in 45 high or moderate risk observations. Of these observations, eight were remediated by the client and validated by OIA. Thirty of the remaining observations are not scheduled for remediation until fiscal year 2017 or 2018, and seven were delayed by the client. There are currently an additional 16 observations outstanding from public reports issued in fiscal years 2013 and 2015.

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.



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 overall risk.

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 2016, the majority of OIA consulting services related to vendor management, new or merging programs/processes, IT system upgrades, data analytics, and providing advice on how new legal requirements would affect processes. Consulting services consisted of nearly 38% of overall OIA audit effort in fiscal year 2016.

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.

2016 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 2016, 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 2016 and will continue this relationship in fiscal year 2017.

Modifications to the plan occur 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 2016 Annual Plan:



State Agency	Planned Engagements	Completed Engagements
Adjutant General	1	1
Administrative Services	8	8
Aging	2	2
Agriculture	3	3
Budget and Management	4	4
Commerce	4	3
Development Services	2	2
Developmental Disabilities	4	4
Education	4	4
Environmental Protection Agency	2	2
Health	5	5
Higher Education	3	3
Insurance	3	3
Job and Family Services	6	4
Lottery	4*	2
Medicaid	3	4
Mental Health and Addiction Services	2	1
Natural Resources	1	1
Opportunities for Ohioans with Disabilities	3	3
Public Safety	5	4
Public Utilities Commission	2	1
Rehabilitation and Correction	2	2
Taxation	3	3
Transportation	4	2
Veterans Services	2	2
Workers' Compensation	4*	3*
Youth Services	2	2
Total	88	78

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



OIA's goal was to complete at least 95 percent of the 92 engagements originally documented in the 2016 Annual Plan. Through agency requests and shifting priorities, the audit plan was updated throughout the year, ending with 88 projects. OIA completed 78 of 88 engagements (or 89 percent) included in the updated fiscal year 2016 annual audit plan. Of the 10 engagements not completed, six resulted from the reviews actively being worked on but completion will be delayed into fiscal year 2017 and the remaining four have been completed but not presented to the State Audit Committee. If those four would have been able to be presented to the Committee, OIA's completion percentage would have been 92 percent.

Client Surveys and Value-Added Requests

Client Survey Results – OIA sent out client surveys during fiscal year 2016 and received 49 responses. The responses are summarized below:

Survey Questions	Very Good	Good	Fair	Poor	Don't Know
1. Technical proficiency of OIA auditors	27	15	4	1	2
2. Professionalism of internal auditors	38	9	2	0	0
3. Auditor knowledge of your business	15	21	12	1	0
4. Selection of important operational area	22	19	6	0	2
5. Pre-audit notification of purpose and scope	28	17	3	0	1
6. Timeliness of audit report	31	14	3	0	1
7. Value of audit recommendations	22	21	5	0	1
8. Effectiveness of OIA management	24	20	3	0	2
9. Independence and objectivity of OIA staff	33	12	3	0	1
Total	240	148	41	2	10

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 49 client responses received, 388 of 441 question responses were favorable which resulted in a 88 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. We expect to receive 10 requests annually for value-added services and received 12 requests in fiscal year 2016. The nature of these requests and other initiatives included the following:

- ü Piloted two projects utilizing data analysis, including the identification of payment card anomalies and assurance of user access controls, and laid the groundwork for automating similar audits across agencies under OIA’s purview in fiscal year 2017.
- ü Conducted a review of a large program that assists low income households to analyze the adequacy of the control environment and identify improvement opportunities over the forecasting process.
- ü Assisted in mapping the information flow upon which utility and other assessments are based to identify where efficiencies can be achieved.
- ü Recommended ways for an agency to align processes and controls with the federal Green Book internal control framework.
- ü Assisted with an agency’s assessment of security controls relating to receiving federal income tax information in order to provide independent review.
- ü Completed the Business-IT Alignment Assessments for agencies under OIA purview and reported the overall results to stakeholders.
- ü Researched and documented program and fiscal requirements for the various federal programs relating to Child Nutrition.
- ü Provided recommendations to enhance internal controls regarding customized progress and role definitions for the design phase of information system projects



LOOKING FORWARD TO FISCAL YEAR 2017

OIA created a two-year strategic plan for fiscal years 2016 and 2017, aligned with the biennial budget. Four critical success factors were identified: adequately skilled and knowledgeable staff; maintain efficient and effective audit processes; increase collaboration with agency stakeholders; and enhance stakeholder knowledge and education. Various objectives and key tasks have been identified within those critical success factors.

OIA will report on the progress of these key tasks to the State Audit Committee throughout the year. OIA will also be preparing for the next external peer review, due to take place after the end of fiscal year 2017. This external review will also include the internal audit functions at the Bureau of Workers' Compensation and the Ohio Lottery Commission.