



State of Ohio

Procurement and Expenditure Enterprise
Audit

Audit period: February 1, 2009 to April 30, 2009



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Executive Summary

Background

As part of the Fiscal Year 2009 State of Ohio Enterprise Audits, OBM Office of Internal Audit (OIA) conducted an audit of the Procurement and Expenditure processes performed by state agencies. Most state agencies utilize the Ohio Administrative Knowledge System (OAKS) financial system to record and process transactions. The OAKS subsystems for procurement and expenditures were operational for state agencies beginning July 1, 2007.

The Procurement and Expenditure processes are initiated at the individual state agency and processed by OAKS. Additionally, a central procurement function is performed by the Department of Administrative Services (DAS). Audit work was performed at a detail level by visits to the Department of Job & Family Services, Department of Transportation, Bureau of Workers' Compensation, Department of Commerce, Department of Public Safety, and Department of Development. Additionally, inquiries of processes were made at the other 15 state agencies within OIA oversight. The State procurement function at DAS was not part of the scope of this report due to planned changes in central procurement processes.

The governance structure for OAKS and the financial application was modified in early 2009. The OAKS enterprise resource planning (ERP) system is managed by three governing bodies:

- The OAKS Executive Board meets quarterly and consists of the department directors at DAS, OBM, Insurance, and Job & Family Services and the OAKS Steering Committee Chair. They are responsible for business oversight, risk management escalation, and approval of large projects.
- The OAKS Steering Committee is a nine member body which meets monthly and has overall strategic IT oversight. Additionally, they are responsible for issue and risk management as well as large discretionary change requests.
- The OAKS Change Control Board is an 11 member body which meets bi-weekly to serve as a central point for logging system changes and approving small discretionary change requests.

The financial application is overseen by OBM, while system and access updates are performed by DAS. The input, authorization, and monitoring controls for the Procurement and Expenditure processes reside with management at individual state agencies.

During the audit, OIA identified opportunities for state agency management to strengthen internal controls and improve business operations. Summary and detailed observations have been provided. OIA would like to thank state agency staff and management for their cooperation and time in support of this audit.



Scope and Objectives

Crowe Horwath, LLP, was engaged by OIA to review enterprise risks related to the Procurement and Expenditure processes. This work was completed between March 5, 2009 and June 17, 2009 with an update completed by OIA in July 2009.

The scope of this audit included individual state agency controls with the following areas:

- Procurement
 - System access is properly controlled;
 - Purchase requisitions are authorized and properly entered into the system; and
 - Purchase orders comply with competitive bidding and other state policies
- Expenditures
 - Vouchers and invoices are appropriately processed for payment; and
 - Warrants issued are approved and safeguarded
 - Reconciliation with OAKS general ledger information

The following summarizes the objectives of the review along with a conclusion on the effectiveness of management’s internal controls.

Objective	Conclusion ¹
Evaluate the design and effectiveness over system access within the OAKS financial system.	Major Improvements Needed – See Observation 1
Evaluate the completeness and accuracy of purchase requisitions entered into the OAKS financial system.	Well-Controlled
Evaluate the design and effectiveness of the purchase order process to determine compliance with competitive bidding and other state purchasing policies.	Well-Controlled with Improvements Needed
Evaluate the completeness and accuracy of vouchers and corresponding invoices processed for payment.	Well-Controlled with Improvements Needed
Evaluate the design and effectiveness for approval and safeguarding of warrants issued.	Well-Controlled
Evaluate the completeness and accuracy of the OAKS general ledger reconciliation process.	Major Improvements Needed – See Observation 2

¹ Refer to [Appendix A](#) for classification of audit objective conclusions.



Summary of Observations and Recommendations

The Summary of Observations and Recommendations includes only those risks which were deemed high or moderate. Low risk observations and recommendations were discussed with individual agency management and are not part of this report. However, the low risk observations and recommendations were considered as part of the audit objective conclusions above.

No.	Observation	Recommendation	Risk ²
1.	<p>Monitoring of System Access – Through inquiries with twenty one agencies, it was determined that most are not reviewing OAKS financial system access to validate if this access is appropriate. The lack of system access monitoring by the individual state agencies increases the risk of users having an inappropriate access role for their job duties. Additionally, contractors or former employees could have inappropriate system access without the knowledge of agency management.</p>	<p>State agencies should perform a complete system access review to determine that only current employees have OAKS system access. Additionally, their assigned role should align with their job duties and allow for adequate segregation of duties for the procurement and expenditures processes.</p>	<p>High</p>
2.	<p>OAKS Expenditure Reconciliation and Monitoring – Most agencies do not reconcile their independent financial systems to reports from the OAKS data warehouse. From discussions with agency management, required time and expertise to obtain appropriate report information from OAKS data warehouse is beyond the capability of most agencies. Additionally, those state agencies that utilize OAKS exclusively indicated end user frustrations with understanding the report features to generate cash and budgetary reports.</p>	<p>State management should enhance the ease and capabilities of the OAKS data warehouse and educate end users on its functionality. This will provide consistent retrieval of OAKS financial information across the enterprise.</p>	<p>High</p>

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist state agencies in achieving improvements in internal controls, compliance, and operational efficiencies.

² Refer to [Appendix A](#) for classification of audit observations.



Detailed Observations and Recommendations

Observation 1 – Monitoring of System Access

State agencies process procurement and expenses utilizing the OAKS financial application. System access to authorize or remove state agency users is initiated by individual state agencies and executed by OAKS personnel. State agencies are responsible for monitoring system access roles within their agency.

Through inquiries with twenty one agencies, it was determined that most are not reviewing OAKS financial system access to validate if access is appropriate. Some agencies are maintaining an Excel file listing employees and his/her access to roles within OAKS. This file is maintained internally as individuals are hired, terminated, and transferred, but because it is limited to the people currently working at the agencies that should have access, this review would not detect any people who have inappropriate access.

It should also be noted that until this audit was performed, agencies were not aware of a report within OAKS that would allow them to create a user access list by security role. Agencies were only able to run user access by employee to determine the roles for which that specific employee had access.

The lack of system access monitoring by the individual state agencies increases the risk of users having an inappropriate access role for their job duties. Additionally, contractors or former employees could have inappropriate system access without the knowledge of agency management.

Recommendation

We recommend state agencies perform a complete system access review to determine that only current employees have OAKS system access. The assigned role should align with their job duties and allow for an adequate segregation of duties for the procurement and expenditures processes. Additionally, the agency access list should be monitored by state agency management on a periodic basis for accuracy and completeness.

Management Response

In April 2009, OBM conducted an OAKS financial security audit of the state agencies. All state agencies were required to review and update system access for their users. Additionally, state agencies are establishing or refining their system monitoring access process to address the risks identified during this audit.

This management response was a composite of individual state agency remediation plans.

Risk	Remediation Owner	Reported Completion Date
High	State Agency Management	July 2009



Observation 2 – OAKS Expenditure Reconciliation and Monitoring

Many state agencies utilize a separate financial system which also interfaces with OAKS. The expenditure information included in these separate systems should reconcile to reports produced from OAKS. The state agencies use a self-service data warehouse in OAKS to create customized reports for the reconciliation process.

Most agencies do not reconcile their independent financial systems to reports from the OAKS data warehouse. From discussions with agency management, the required time and expertise to obtain the appropriate report information from the OAKS data warehouse is beyond the capability of most agencies. Additionally, those state agencies that utilize OAKS exclusively indicated end user frustrations with understanding the report features to generate cash and budgetary reports.

The lack of a systematic reconciliation process increases the risk of entry or processing errors going undetected by agency management. The lack of understanding of report features in the data warehouse has lead some agencies, that utilize OAKS exclusively, to create financial information processes outside of OAKS to manage cash and budgetary compliance.

Recommendation

We recommend state management enhance the ease and capabilities of the OAKS data warehouse and educate end users on its functionality. This will provide consistent retrieval of OAKS financial information across the enterprise.

Management Response

The state management team recently developed and presented a series of Cognos report writing courses to assist state agencies with the OAKS data warehouse. These courses are designed for agency end users with little or no experience with retrieving financial information from the OAKS data warehouse.

Additionally, the OAKS management team obtained financing to purchase and implement a new PeopleSoft Enterprise Performance Management (EPM) application. This application will provide EPM dashboards at the summary, detail information, and actual transaction levels. The implementation involves several state agency business owners and anticipates providing the following benefits:

- Provide a consistent and accurate view of financials to management
- Examine spending trends by agency, supplier, as well as item categories
- Evaluate financial performance such as revenue, expense, and budget amounts
- Closely manage cash position

A host of sample metrics are available in the PeopleSoft EPM for the general ledger, accounts payable, project management, accounts receivable, and procurement processes.

Risk	Remediation Owner	Estimated Completion Date
High	State Agency Management	June 2010



Appendix A – Classification of Audit Objective Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Major Improvements Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
Improvements Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Well-controlled with Improvements Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and are operating effectively to manage risks. Control issues may exist, but are minor.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Audit Committee, Senior Management, Department Management
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Audit Committee, Senior Management, Department Management
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), Audit Committee (Not reported)



Appendix B – Audit Follow-up Procedures

OIA will periodically follow-up on management's plans to remediate high and moderate risk audit observations. Follow-up activities may generally be broken down into three categories:

- Detailed** Detailed follow-up is usually more time-consuming and can include substantial audit customer involvement. Verifying and testing procedures implemented as well as substantiating records are examples. The more critical audit observations usually require detailed follow-up.

- Limited** Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, cannot be accomplished through memos or telephone conversations with the audit customer but requires onsite observation or testing.

- Informal** This is the most basic form of follow-up and may be satisfied by review of the audit customer's procedures or an informal telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical observations.

Low risk audit observations will not result in an OIA audit follow-up, although these observations will be factored into the continuous risk assessment process for future OIA engagements.