



Department of Natural Resources Capital Improvement Program Audit

Audit Period: July 1, 2015 – June 30, 2017

Results Summary:

Objective	Conclusion*
Capital Improvement Projects	Well-Controlled
Compliance with Post-Issuance Requirements	Well-Controlled with Improvement Needed

* Please refer to Appendix A for classification of audit objective conclusions.



Executive Summary

Background

The State of Ohio has significant capital program requirements, both for the funding of new facilities, the renovation and replacement of existing facilities, and other qualified capital purposes such as research and development. The State provides funding for its capital programs primarily through the issuance of tax-exempt bonds (debt) to be paid from the State's general revenue fund (GRF) receipts, highway user receipts, federal transportation grants, and other State revenues. Funding for various capital projects is appropriated under the capital bill. Debt-supported funds, Fund 7031 and 7035, Ohio Parks and Natural Resources Fund and the Parks and Recreation Improvement Fund, were appropriated \$40.3 million and \$231.9 million, respectively, to Department of Natural Resources (DNR) over the 2017-2018 biennium.

When agencies utilize tax-exempt bonds for capital projects, the agency is responsible for ensuring compliance with the post-issuance obligations required under federal and state tax laws. Such requirements outline: allowable expenditures of bond proceeds, use of bond-financed assets, use of private management contracts, compliance policies and procedures, and record retention and record keeping.

DNR's Capital Improvement Program (CIP), utilizes the Division of Engineering as the primary mechanism by which the agency develops, rehabilitates, improves, and expands its facilities and associated physical resources with funding guidance provided by DNR's Office of Budget and Finance. Under the authorities granted in Chapter 1501 of the Ohio Revised Code, DNR is authorized to enter into contracts with professional consulting firms for planning, design, and construction administration observation on capital improvement projects, both under local administration and in partnership with the Ohio Facilities Construction Commission (OFCC). This same authority also authorizes DNR to competitively bid, execute, and administer construction contracts for these projects. During the audit period (July 1, 2015 through June 30, 2017), there were 25 capital projects funded in part by Fund 7035, that were started and completed, with a total budget of approximately \$9.9 million.

During the audit, OIA identified opportunities for DNR to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DNR staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.



Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over DNR's key processes related to the Capital Improvement Program within the Engineering Division and key processes to meet post-issuance compliance requirements with federal tax laws. This work was completed September 2017 through January 2018.

Detailed Observations and Recommendations

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



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement 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.
Major Improvement 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.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
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.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee