



OBM | Office of Internal Audit

FISCAL YEAR 2014 ANNUAL REPORT

July 1, 2013 – June 30, 2014

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.

Joe Bell, Chief Audit Executive

June 2014



FISCAL YEAR 2014 – OBM OFFICE OF INTERNAL AUDIT (OIA) HIGHLIGHTS

- ✓ Completed 88% of OIA's 2014 audit plan while reducing our budgeted expenditures by \$200,122.
- ✓ Assisted ODJFS in the successful remediation of the only material weakness reported in the State of Ohio's FY12 report; the comment was first reported as a material weakness in 2000.
- ✓ Increased OIA governance and oversight agencies from 22 to 26 agencies during fiscal year 2014, pursuant to the passage of provisions in H.B. 59. Included another voluntary agency request to provide internal audit services during 2014.
- ✓ Issued 22 public reports and ensured all but two of the prior year observations were remediated by agency management and validated by OIA.
- ✓ Performed 32 consulting engagements to enhance agency operations, provided valuable recommendations to improve internal controls and reduce risks.
- ✓ Completed eight information technology general control audits, two security assessments, and one virtualized server audit, and these provided agency management with a host of observations to strengthen their IT control environments.
- ✓ Maintained 91% favorable rating from client surveys received in fiscal year 2014.
- ✓ Successfully developed effective oversight of the auditors at BWC and LOT to enable reliance on other auditors.
- ✓ 68% of the audit team maintains at least one professional certification.
- ✓ Maintained a highly trained audit staff with an average of 51 training hours per person.
- ✓ Accomplished 10 of 17 goals in the FY14-15 strategic plan to bring OIA operations in the managed level of public sector internal audit effectiveness as determined by the Institute of Internal Auditors' Internal Audit Capability Model.
- ✓ Performed various financial and operational assurance engagements on areas such as procurement/contract management, grant processing, loans, revenues, expenditures, payment card and divisional processes, which resulted in a series of observations relating to operational weaknesses and inefficiencies.
- ✓ Provided state-wide internal control training on effective risk management and internal control design.
- ✓ 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 (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 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 is comprised of Chairperson Paolo DeMaria and members, Beverly Vitaz, Kai Monahan, Ryan Hecht and John Merchant. The Chairperson is appointed by the Governor and other members are appointed by the minority and majority leadership of the Ohio Senate and the Ohio House of Representatives. The Committee meets quarterly.

OIA STAFFING & BUDGET – FISCAL YEAR 2014

OIA Staffing - OIA staffing varied from 19 to 22 members throughout fiscal year 2014. Based upon the fiscal year 2014 Annual Plan, a staffing level of 23 full-time equivalent employees (plus 2 administrative staff) was necessary to complete our audit engagements. Our actual staffing level for fiscal year 2014 was 20 full-time equivalents which resulted in slightly less than adequate resources. Our fiscal year 2015 Annual Plan will require 23 full-time equivalents to complete our planned engagements.

OIA Training and Certification – OIA plans to provide an average of 40 hours of continuous professional education each year. In fiscal year 2014, OIA staff averaged 51 hours of training. The significant external training attended in fiscal year 2014 was as follows:



Date	Course (Local Professional Chapter)	OIA Attendees
Sept. 2013	Ohio Digital Government Summit (Government Technology)	5
Sept. 2013	2013 IIA Central Regional Conference (IIA)	19
March 2014	IT for Non-IT Auditors (Central Ohio IIA)	12
March 2014	Third Party Assurance Reporting and COSO Update (AGA)	6
April 2014	2014 Advanced Excel (AGA)	5
May 2014	Central Ohio InfoSec Summit (ISSA)	7
May 2014	Auditor of State Fraud Conference	19

(IIA): Institute of Internal Auditors; (AGA): Association of Government Accountants; and (ISSA) Information Systems Security Association

The following recognized professional certifications were held by OIA staff at June 2014:

Certification	Licenses Held
Certified Public Accountant (CPA)	9
Certified Information Systems Auditor (CISA)	6
Certified Internal Auditor (CIA)	4
Certified Government Auditing Professional (CGAP)	5

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 15 of 22 (68%) maintain at least one designation at June 30, 2014.



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 2014 with a combination of direct agency billings and centralized payroll charges. The following schedule reflects the fiscal year 2014 budget and actual expenditures as of June 30, 2014:

Category	Budget Expenditures	Actual Expenditures	Variance
Expenditures:			
Payroll	\$2,722,368	\$2,464,122	\$ 258,246
Purchased Personal Services	65,385	64,654	731
Maintenance/Supplies	125,111	188,966	(63,855)
Equipment/Software	5,000	0	5,000
Total Expenditures	\$2,917,864	\$2,717,742	\$ 200,122

SUMMARIZING FISCAL YEAR 2014 AUDIT ACTIVITY

OIA Reports and Remediation Activity – During fiscal year 2014, OIA completed 22 public reports which resulted in 19 high or moderate risk observations. Of these observations, six were remediated by the client and validated by OIA. Ten of the remaining observations are not scheduled for remediation until fiscal year 2015 and three were delayed by the client. Additionally, all remaining fiscal year 2013 observations except two have been remediated by the client and validated by OIA.

OIA also completed 26 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. In addition, four IT audits were relied upon by the Auditor of State’s office in reducing their external audit testing.

OIA performs a combination of assurance engagements as well as consulting activity. 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 2014, the majority of OIA consulting services related to transition of fiscal processes, vendor contracting and monitoring, loan processing and monitoring, new or merging programs, 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 33% of overall OIA audit effort in fiscal year 2014. This amount is expected to decrease to approximately 25% 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.

2014 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 auditors, and reviews conducted by external auditors.

In fiscal year 2014, OIA added the following agencies within its oversight: Ohio Lottery Commission, Public Utilities Commission of Ohio, Ohio Adjutant General's Office, Office of Medicaid, and Opportunities for Ohioans with Disabilities. The Ohio Departments of Mental Health and Alcohol and Drug Addiction Services merged in fiscal year 2014. Also in 2014, internal audit services were offered to agencies outside of OIA's oversight upon request by the agency. The Ohio Casino Control Commission elected to have OIA perform internal audit services during 2014 and will continue this relationship in 2015.

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 our planned and completed engagements from the 2014 Annual Plan:



State Agency	Planned Engagements	Completed Engagements
Adjutant General	1	1
Administrative Services	7	7
Aging	1	1
Agriculture	1	1
Budget and Management	4	2
Casino Control Commission	1	1
Commerce	3	3
Development Services	5	5
Developmental Disabilities	3	2
Environmental Protection Agency	2	2
Health	3	1
Insurance	1	1
Job and Family Services	8	7
Lottery	3	3
Medicaid	3	3
Mental Health and Addiction Services	3	3
Natural Resources	2	2
Opportunities for Ohioans with Disabilities	4	3
Public Safety	5	4
Public Utilities Commission	1	1
Regents	3	2
Rehabilitation and Correction	2	2
Taxation	4	3
Transportation	4	4
Veterans Services	0	0
Workers' Compensation	6	6
Youth Services	2	2
Total	82	72



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 2014 Annual Plan. OIA completed 72 of 82 engagements (or 88%) included in the updated fiscal year 2014 annual audit plan. The 10 engagements not completed resulted from two of the audits actively being worked on but delayed completion into FY 15; six consulting engagements whereby the client shifted their priorities; and two projects that were delayed as a result of client requests and will be performed in a subsequent year.

Client Surveys and Value-Added Requests

Client Survey Results – OIA sent out client surveys during fiscal year 2014 and received 32 responses. The responses are summarized below:

Survey Questions	Very Good	Good	Fair	Poor	Don't Know
1. Technical proficiency of OIA auditors	20	8	3	0	1
2. Professionalism of internal auditors	27	5	0	0	0
3. Auditor knowledge of your business	11	14	5	2	0
4. Selection of important operational area	20	11	0	0	1
5. Pre-audit notification of purpose and scope	20	9	2	0	1
6. Timeliness of audit report	21	10	0	0	1
7. Value of audit recommendations	18	9	5	0	0
8. Effectiveness of OIA management	21	9	0	0	2
9. Independence and objectivity of OIA staff	22	7	1	0	2
Total	180	82	16	2	8

OIA appreciates the feedback received from our clients and uses the results as a benchmark for effectiveness. We strive to have at least 80% of our responses to be very good or good. Of the 32 client responses received, 262 of 288 question responses were favorable which resulted in a 91% 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 2014. The nature of these requests includes the following:

- ✓ Reviewed multiple requests for proposals; assessed vendor’s control environment; and reviewed numerous vendor audit reports
- ✓ Actively participated in taskforce, program steering, and governance committee meetings
- ✓ Conducted IT audit over data security to include federal requirements; reviewed demo of Internet-based security access design; evaluated control design of secure Federal Tax Information as outlined in the IRS Internal Inspections Reports; documented control objectives for future IT central service audit
- ✓ Review updated manual, draft policies and procedures, proposed business process documentation and program changes, and future IT internal control structure considerations
- ✓ Evaluated adequacy of remediation to external audit comments
- ✓ Identify causes for high payment error rates and recommend efficiencies which lessen overpayment percentages; review technical service request process efficiency and response time

LOOKING FORWARD TO FISCAL YEAR 2015

Part of OIA’s Policy and Procedures Manual is to develop a two-year strategic plan aligned with the biennial budget. OIA’s Strategic plan was developed around the Institute of Internal Auditor’s Internal Audit Capability Model. This framework identified 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).

A new strategic plan was developed for fiscal years 2014/2015. OIA’s strategic plan identified 49 current strategies that will continue to be maintained, as well as the initiation of 17 future strategies. During FY14, 10 of the 17 are considered to be implemented and four are considered to be partially implemented. Progress on these strategies is included below:



Element / Future Strategies	Planned Implementation	Status as of June 2014
<p>People Management:</p> <ul style="list-style-type: none"> Develop an agency specific job classification series within OIA for IT positions to ensure IT auditors have necessary technical expertise. 	June 2014	Partially implemented- unable to fully complete
<ul style="list-style-type: none"> Enhance knowledge of new and existing clients through orientation training of client key lines of business and maintain documentation in a central repository. 	December 2013	Completed – August 2013
<ul style="list-style-type: none"> Establish a workgroup with data mining skill sets to enhance audit planning strategies. Also, document data analytic considerations for each engagement to improve engagement effectiveness. 	September 2014	Partially implemented
<ul style="list-style-type: none"> Develop career progression system via a skills matrix by auditor to align with competency framework, compare required skills to existing staff, perform a gap analysis for future needs, and develop strategy to reduce resource gap through training, tools development, co-sourcing, and outsourcing. 	September 2014	Limited progress to date
<p>Professional Practices:</p> <ul style="list-style-type: none"> Facilitate enterprise risk management (ERM) framework development at the OBM State Accounting and evaluate opportunities to further ERM capabilities at other agencies. 	June 2015	Limited progress to date
<ul style="list-style-type: none"> Solicit review and comment on OIA’s Annual Plan from the Governor’s Office. 	June 2013	Completed - June 2013 & June 2014
<ul style="list-style-type: none"> Conduct external assessment of LOT and BWC’s internal audit activities. 	July 2014	Completed - March 2014
<ul style="list-style-type: none"> Implement recommendations from external quality assessment. 	June 2015	Partially implemented



Element / Future Strategies	Planned Implementation	Status as of June 2014
<ul style="list-style-type: none"> Develop global benchmarking comparisons to world class IA activities for costs and relevant key performance indicators (e.g. IIA's GAIN reports) in a dashboard format. 	June 2015	Limited progress to date
<p>Performance Management and Accountability:</p> <ul style="list-style-type: none"> A summary schedule will be added within OIA's Annual Plan to reflect planned audit resource hours allocated by agency. 	June 2013	Completed – June 2013
<ul style="list-style-type: none"> OIA will maintain a data repository of payroll time charged by engagement to enhance real time monitoring of engagement budgets and quarterly billings. 	July 2013	Completed – September 2013
<ul style="list-style-type: none"> Actively work with agency management to help resolve AOS' comments designated as material weaknesses or comments that are repeated or sensitive in nature. 	June 2015	Completed and continuous – March 2014
<ul style="list-style-type: none"> Develop remediation tracking schedule and escalation process on status of IT audit comments to mirror financial process. Add Audit Committee requests as necessary. 	January 2014	Completed – March 2014
<p>Organizational Relationships and Culture:</p> <ul style="list-style-type: none"> The OIA CAE and audit chiefs/managers become more engaged and involved in monthly IT MAC-CIO leadership meetings and quarterly CFO/CIO meetings to anticipate emerging issues and enhance our value-added services. 	June 2014	Completed and continuous – March 2014



Element / Future Strategies	Planned Implementation	Status as of June 2014
<ul style="list-style-type: none">CAE and audit chiefs establish formal quarterly 'touch point' meetings with top management to facilitate relationship building, trust, awareness of change, and OIA focus toward areas of value add and priorities to management.	January 2014	Completed – December 2013
<ul style="list-style-type: none">Expand CAE participation in agency and state-wide mission critical committees; facilitate organizational learning by identifying changes in the overall business environment that impacts the state.	June 2015	Partially implemented
Governance Structures: <ul style="list-style-type: none">Issue a communication to state agencies not in OIA's oversight of the new language proposed in ORC 126.45 (D) and the option to request OIA services.	August 2013	Completed – August 2013