



## FY 2014 Audit Prioritization Process

### **Risk Assessment Methodology**

In developing the audit plan, OIA performed a risk analysis for the 26 state agencies in OIA's planned oversight utilizing seven risk factors. The objective of the risk assessment is to ensure optimized assignment of audit resources through an understanding of the audit universe and the risks associated with each universe item.

The OBM Office of Internal Audit recognizes that most state agencies are at an informal stage of enterprise risk management. OIA plans to engage agency management on enterprise risk and lead them to a maturity level where they can independently assess their enterprise risk management processes over time. In the current audit plan, we obtained agency input for two of the seven risk factors (changes in systems, processes, & people and stakeholder concerns).

The audit prioritization process included the following activities:

- Planning the assessment and identifying the audit universe.
- Conducting the risk assessment with agency management.
- Internal analysis of the results.
- Discuss draft heat map with agency management.

### **Audit Universe**

Each agency audit universe has multiple categories depending upon the state agency. The primary source for determining the categories is the biennial budget bill which identifies significant agency processes and functions.

Enterprise risks are not presented separately since the State has one agency that provides service for central support functions which typically are part of each agency audit universe. These include legal representation (Ohio Attorney General); ethics enforcement (Ohio Ethics Commission); human resources (Department of Administrative Services); investments (Treasurer of State); risk management reserve (Department of Administrative Services); budgeting/financial reporting/shared services (Office of Budget and Management); and general debt issuance (Commissioners of the Sinking Fund).



## Risk Factors

The seven risk factors utilized for the assessment were developed using IIA guidance and historical knowledge of state government, as well as best practices in internal auditing. Each risk factor was scored based on likelihood of the risk and the measure of consequence of the event. The overall goal of the risk scoring approach is to ensure that OIA audits high and moderate risk areas routinely with the consideration of work performed by other auditors.

Once the various risk factors were rated, they were weighted in order to arrive at a composite risk score for each area, which was used to determine areas to prioritize for the fiscal year 2014 audit plan.

The seven risk factors and assigned weighting are as follows:

Risk Factors	Weight	Description
Control Design and Effectiveness	25%	The assessed reliability of the internal control system is important in judging the likelihood of errors in the system.
Materiality	25%	This factor focuses on the financial size, complexity, or sensitive nature of auditable areas.
Changes: System, Process, and People	15%	A dynamic environmental change, in terms of systems/processes/people, increases the probability of efficiencies as well as errors occurring. (Agency input was obtained for this risk factor.)
Stakeholder Concerns/ Reputational Risk	10%	Management or other stakeholder concerns can influence the priority of an auditable area and could take priority over other risk factors in some cases. The reputation of an agency can be impacted by failures in certain sensitive processes. (Agency input was obtained for this risk factor.)
Impact of Fraud, Waste, and Abuse	10%	The impact of illegal acts or wasteful spending can result in a heightened consequence with public funds regardless of the dollar amount.
Prior Audits	10%	The recency of prior audits (OIA, Auditor of State, State Inspector General, actuaries, etc.) may more accurately predict the likelihood of future outcomes.
Financial/Operational Reporting	5%	Accuracy of reported financial activity is magnified by anticipated use by outside parties.



## Preliminary Audit Scope

The state agency heat maps in Appendix A identify the audit priorities and preliminary scope for the 26 agencies based upon the seven risk factors. The audit universe categories are identified on a graph based upon likelihood and impact. The likelihood is the measure of the probability of an unfavorable event occurring while impact is the measure of the consequence of an unfavorable event occurring at the agency. Those areas in the upper right side corner of the heat map (red boxes) represent higher audit priorities while those in the lower left side corner (green boxes) represent lower audit priorities.

To reflect each agency's relational size, a comparison table is presented in Appendix B to show their proposed 2014 annual budgeted appropriation in relation to other agencies. The Department of Medicaid's appropriations are reported separately at the bottom of the schedule since their proposed \$21.1 billion appropriations could distort the overall schedule.

Based upon discussions with the Auditor of State (AOS), we have identified those areas planned for audit by the AOS in fiscal year 2014. There are some areas planned for audit by both OIA and AOS while some areas are not planned by either audit group.

For the Bureau of Workers' Compensation (BWC) and Ohio Lottery Commission (LOT), OIA plans to leverage the financial audit work completed by the BWC and LOT internal audit teams. In order for OIA to rely upon this work, OIA will perform the following:

- Review the independence and objectivity of the BWC and LOT internal audit teams.
- Assess the competencies and qualifications of the BWC and LOT audit teams by verifying the professional experience, qualifications, and professional certifications of the audit teams.
- Ensure the work performed by the BWC and LOT audit teams are appropriately planned, supervised, documented, and reviewed. Additionally, OIA will consider whether the audit evidence is sufficient to determine the extent of use and reliance on the work.
- Determine that audit significant observations have been communicated to the BWC Board of Director's Audit Committee and LOT Audit Committee. Additionally, evaluate the follow-up procedures by the BWC and LOT audit teams to determine whether management has implemented the recommendations or assumed the risk of not implementing them.