



OBM | Office of Internal Audit

FISCAL YEAR 2012

ANNUAL REPORT

July 1, 2011 – June 30, 2012

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 2012



FISCAL YEAR 2012 – OBM OFFICE OF INTERNAL AUDIT (OIA) HIGHLIGHTS

- ✓ Maintained a highly trained audit staff with an average of 58 training hours per person.
- ✓ 70% of the audit team maintains at least one professional certification.
- ✓ Completed 84% of our 2012 audit plan while reducing our budgeted expenditures by \$163,242.
- ✓ Issued 14 public reports and ensured all 18 prior year observations were remediated by agency management and validated by OIA.
- ✓ Accomplished six of 10 goals in the first year of the two year strategic plan to bring OIA operations in the integrated level of public sector internal audit effectiveness as determined by the Institute of Internal Auditor's Internal Audit Capability Model.
- ✓ Completed nine information technology general control audits and provided agency management with a host of observations to strengthen their IT control environments. One audit involved three large systems at the Department of Job & Family Services. This audit was completed for the first time utilizing the National Institute of Standards & Technology (NIST) standards.
- ✓ Performed three state payment card audits which resulted in a series of efficiency observations and a plan to expand this effort in fiscal year 2013.
- ✓ Completed the initial two IT virtualization audits and plan to expand these audits in 2013.
- ✓ Performed 22 consulting engagements to enhance agency operations, provide valuable recommendations to improve internal controls, and reduce risks.
- ✓ Maintained 87% favorable rating from client surveys received in fiscal year 2012.

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, William Keip, Richard Mueller, Robert Richardson and Beverly Vitaz. 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 2012

OIA Staffing - OIA staffing varied from 21 to 24 members throughout fiscal year 2012. Based upon the fiscal year 2012 Annual Plan, a staffing level of 20 full-time equivalent employees (plus 3 administrative staff) was necessary to complete our audit engagements. Our actual staffing level for fiscal year 2012 was 19.5 full-time equivalents which resulted in adequate resources. Our fiscal year 2013 Annual Plan will require 21 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 2012, OIA staff averaged 58.4 hours of training. The significant external training attended in fiscal year 2012 was as follows:

Date	Course (Local Professional Chapter)	OIA Attendees
July 2011	Certified Government Auditing Professional (CGAP) Certification Training (IIA)	10
Sept. 2011	Ohio Digital Government Summit (Government Technology)	4
Oct. 2011	Professional Development Conference (AGA)	14
Jan. 2012	Value Added Business Controls (IIA)	20
Feb. 2012	Planning, Scoping, and Executing Integrated Audits (ISACA)	13
April 2012	New Audit Senior/Manager Internal Audit School (IIA)	7
May 2012	Trends in Fraud Investigation and Prevention (CFE)	10
May 2012	Central Ohio InfoSec Summit (ISACA)	6

(IIA): Institute of Internal Auditors; (AGA): Association of Government Accountants; (CFE): Certified Fraud Examiners; and (ISACA) Information Systems Audit and Control Association



The following recognized professional certifications were held by OIA staff at June 2012:

Certification	Licenses Held
Certified Public Accountant (CPA)	11
Certified Information Systems Auditor (CISA)	10
Certified Internal Auditor (CIA)	4

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 16 of 23 (70%) maintain at least one designation at June 30, 2012.

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 2012 with a combination of direct agency billings and centralized payroll charges. The following schedule reflects the fiscal year 2012 budget and actual expenditures as of June 30, 2012:

Category	Budget Expenditures	Actual Expenditures	Variance
Expenditures:			
Payroll	\$2,629,782	\$2,515,630	\$114,152
Purchased Personal Services	25,000	19,678	5,322
Maintenance/Supplies	120,000	86,232	33,768
Equipment/Software	10,000	0	10,000
Total Expenditures	\$2,784,782	\$2,613,400	\$163,242

The OIA budgeted expenditures for fiscal year 2013 are planned for \$2,858,000 with payroll costs comprising \$2,698,000 of this amount.



SUMMARIZING FISCAL YEAR 2012 AUDIT ACTIVITY

OIA Reports and Remediation Activity – During fiscal year 2012, OIA completed 14 public reports which resulted in 14 high or moderate risk observations. Of these observations, one was remediated by the client and validated by OIA. Nine of the remaining observations are not scheduled for remediation until fiscal year 2013 and four were delayed by the client. Additionally, all 18 remaining fiscal year 2011 observations have been remediated by the client and validated by OIA.

OIA also completed 12 assurance audits 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 general control “security record” audit was leveraged by the Auditor of State to assist with audit coordination in completing the State of Ohio’s financial statement audit timely.

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 2012, the majority of OIA consulting services related to process documentation, financial process reviews, and providing advice on new system development. Consulting services consisted of 29% of overall OIA audit effort in fiscal year 2012. This amount is expected to remain at approximately 30% in fiscal year 2013.

2012 OIA Annual Plan - In order to develop an annual audit plan, OIA performed a risk analysis for the 22 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 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 and reviews conducted by external consultants.



The audit priorities from the OIA 2012 Annual Plan and subsequent results were as follows:

Priority 1: IT General Controls

- In fiscal year 2011, OIA performed IT general control audits at 11 state agencies. The 2012 annual plan identified 10 additional IT general control audits to provide a comprehensive assessment of IT environments for state agencies within OIA oversight.

Results: OIA was able to complete nine IT general control audits in fiscal year 2012 with one delayed by OIA due to staff constraints.

Priority 2: Integrated Audits

- There was an increased focus in fiscal year 2012 for end-to-end process reviews which result in more integrated audits of financial and IT audit staff. There were seven integrated audits planned in fiscal year 2012.

Results: OIA completed five integrated audits in fiscal year 2012. Two planned integrated audits were modified based on client operational changes during the fiscal year.

Priority 3: Consulting Activities

- A larger concentration of consulting activities was planned in fiscal year 2012 due to an increase in process changes and new systems at state agencies. These consulting activities included risk management, agency monitoring, privatization, cash collections, audit resolution, and mapping of processes. The consulting activities in the annual plan represent approximately 30% of engagement hours for the fiscal year.

Results: OIA consulting services represented 22 engagements and approximately 29% of engagement hours in fiscal year 2012.

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 2012 Annual Plan:



State Agency	Planned Engagements	Completed Engagements
Administrative Services	4	4
Aging	1	1
Agriculture	1	1
Alcohol and Drug Addiction Services	1	0
Budget and Management	2	1
Commerce	2	1
Development	3	4
Developmental Disabilities	2	1
Environmental Protection Agency	2	3
Health	2	2
Insurance	1	1
Job and Family Services	4	4
Mental Health	1	1
Natural Resources	3	2
Public Safety	3	2
Regents	2	2
Rehabilitation and Correction	2	2
Taxation	4	3
Transportation	3	3
Veterans Services	1	1
Workers' Compensation	4	4
Youth Services	2	1
Total	50	44

OIA is aware that changes occur during the year; however, OIA's goal was to complete 80% of engagements originally documented in the 2012 Annual Plan. OIA completed 42 of 50 engagements (or 84%) of engagements included in the fiscal year 2012 Annual Plan and two unplanned engagements. Four of the eight deferred engagements resulted from a change in client operations; three from OIA IT staff constraints; and one planned consulting engagement was later declined by the client.



Client Surveys and Value-Added Requests

Client Survey Results – OIA sent out 23 client surveys during September 2011 to March 2012 and received 17 responses. The responses are summarized below:

Survey Questions	Very Good	Good	Fair	Poor	Don't Know
1. Technical proficiency of OIA auditors	11	5	0	0	1
2. Professionalism of internal auditors	14	1	1	0	1
3. Auditor knowledge of your business	5	10	0	1	1
4. Selection of important operational area	8	7	1	0	1
5. Pre-audit notification of purpose and scope	13	2	0	1	1
6. Timeliness of audit report	10	4	2	0	1
7. Value of audit recommendations	7	8	0	1	1
8. Effectiveness of OIA management	9	4	1	1	2
9. Independence and objectivity of OIA staff	12	3	0	1	1
Total	89	44	5	5	10

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 17 client responses received, 133 of 153 question responses were favorable which resulted in an 87% favorable rating.

In addition to survey questions, the survey asked clients to identify the greatest strengths of the OIA audit department as well any suggestions for improvement. We received 10 areas of strength and three suggestions for improvement which are summarized below.

Summary of responses related to greatest strengths:

- Works with agencies to identify issues and share best practices of other agencies.
- OIA team provides value-added consulting services; staff is professional and customer-oriented.
- Overall knowledge and expertise of audit best practices and network security.



- Willingness to learn and understand agency processes without preconceived notions.
- OIA auditors listened very carefully and asked questions to understand our operations; we will be incorporating most of their well-documented suggestions.

Summary of responses related to suggestions for improvement:

- It may be beneficial for OIA to share its knowledge in a training series.
 - OIA follow-up: OIA will participate in the new Fiscal Academy Training Program
- The presentation of the OIA report could be streamlined.
 - OIA follow-up: OIA streamlined its reports effective June 2012.
- I was disappointed in the audit process and the report.
 - OIA follow-up: OIA Chief Audit Executive met with agency chief financial officer to resolve misunderstandings.

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 15 requests in fiscal year 2012. The nature of these requests includes the following:

- ✓ Review of IT Request for Proposal
- ✓ Perform data analysis to identify trends on unnecessary expenditures
- ✓ Assist with remediating external audit recommendations
- ✓ Advice on purchase card utilization
- ✓ Training on audit practices and reports
- ✓ Review processes for potential fraud risks
- ✓ Review of draft policies and procedures

LOOKING FORWARD TO FISCAL YEAR 2013

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



Nine future strategies resulted from the fiscal year 2012/2013 OIA Strategic Plan and the progress of these future strategies are displayed below.

Element / Future Strategies	Planned Implementation	Status as of June 2012
<p>Services and Roles of Internal Audit:</p> <ul style="list-style-type: none"> Develop audit scope and objectives in future OIA Annual Plans that focus on revenue enhancement or economy of operations for certain agency processes. 	June 2012	In process - part of 2013 Annual Plan
<ul style="list-style-type: none"> Provide staff training on operational auditing techniques. 	December 2011	Complete – January 2012
<p>People Management:</p> <ul style="list-style-type: none"> Develop an OIA specific performance appraisal that aligns with current performance appraisal form and recognizes the value of leadership participation in professional organizations. 	September 2011	Complete – August 2011
<p>Professional Practices:</p> <ul style="list-style-type: none"> Institute internal quality assessments with the follow-up action plans for instances to improve processes or fully comply with the Standards. Share the results with the State Audit Committee on an annual basis. 	December 2011	Complete – began March 2012
<ul style="list-style-type: none"> Develop client surveys to obtain feedback on assurance and value-added services. 	July 2011	Complete – began September 2011
<ul style="list-style-type: none"> Facilitate enterprise risk management (ERM) framework development at the Bureau of Workers' Compensation and evaluate opportunities to further ERM capabilities at other agencies. 	December 2012	Limited progress to date
<p>Performance Management and Accountability:</p> <ul style="list-style-type: none"> Develop a process to capture OIA cost information on a monthly basis and produce a monthly monitoring report on budget and actual cost information. 	July 2011	Complete – began monthly reporting July 2011



Element / Future Strategies	Planned Implementation	Status as of June 2012
Organizational Relationships and Culture: <ul style="list-style-type: none">The OIA CAE and other senior managers become more engaged and involved in agency leadership meetings to anticipate emerging issues and enhance our value-added services.	June 2012	Limited progress to date; expand and formalize in 2013
Governance Structures: <ul style="list-style-type: none">Strengthen the State Audit Committee Charter around independence and add specific language concerning its members being outside of state government.	June 2012	Complete – July 2011