



OBM | Office of Internal Audit

FISCAL YEAR 2013

ANNUAL REPORT

July 1, 2012 – June 30, 2013

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 2013



FISCAL YEAR 2013 – OBM OFFICE OF INTERNAL AUDIT (OIA) HIGHLIGHTS

- ✓ External peer review of OIA received the highest rating of “Generally Conforms” for all of the Institute of Internal Auditors’ *Standards*.
- ✓ Maintained a highly trained audit staff with an average of 55 training hours per person.
- ✓ 67% of the audit team maintains at least one professional certification.
- ✓ Completed 94% of OIA’s 2013 audit plan while reducing our budgeted expenditures by \$297,277.
- ✓ Issued 23 public reports and ensured all but one of the prior year observations were remediated by agency management and validated by OIA.
- ✓ Accomplished seven of nine goals in the FY12-13 strategic plan to bring OIA operations in the integrated level of public sector internal audit effectiveness as determined by the Institute of Internal Auditors’ Internal Audit Capability Model.
- ✓ Completed two information technology general control audits, three security assessments, two mainframe audits and two virtualized server audits, and these provided agency management with a host of observations to strengthen their IT control environments.
- ✓ Performed five state payment card audits, two tax credit audits, key procurement and shared services audits which resulted in a series of efficiency observations.
- ✓ Performed 21 consulting engagements to enhance agency operations, provide valuable recommendations to improve internal controls, and reduce risks.
- ✓ Maintained 97% favorable rating from client surveys received in fiscal year 2013.
- ✓ Improved OIA governance and oversight agencies from 22 to 26 agencies beginning in fiscal year 2014, pursuant to the passage of provisions in H.B. 59.



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, Robert Richardson, Beverly Vitaz, Kai Monahan, 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 2013

OIA Staffing - OIA staffing varied from 19.5 to 25 members throughout fiscal year 2013. Based upon the fiscal year 2013 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 2013 was 21 full-time equivalents which resulted in adequate resources. Our fiscal year 2014 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 2013, OIA staff averaged 55 hours of training. The significant external training attended in fiscal year 2013 was as follows:



| Date | Course (Local Professional Chapter) | OIA Attendees |
|------------|--|---------------|
| Sept. 2012 | Ohio Digital Government Summit (Government Technology) | 7 |
| Oct. 2012 | Professional Development Conference (AGA) | 14 |
| Feb. 2013 | Data Analytics – An Example of Strategy and Execution | 18 |
| April 2013 | Power of Accounting in Successful Strategy | 6 |
| May 2013 | Critical Thinking and Root Cause Analysis (IIA) | 7 |
| May 2013 | Central Ohio InfoSec Summit (ISACA) | 6 |
| June 2013 | Trends in Fraud Investigation and Prevention (CFE) | 19 |

(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 2013:

| Certification | Licenses Held |
|---|---------------|
| Certified Public Accountant (CPA) | 10 |
| Certified Information Systems Auditor (CISA) | 8 |
| Certified Internal Auditor (CIA) | 3 |
| Certified Government Auditing Professional (CGAP) | 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 24 (67%) maintain at least one designation at June 30, 2013.



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 2013 with a combination of direct agency billings and centralized payroll charges. The following schedule reflects the fiscal year 2013 budget and actual expenditures as of June 30, 2013:

| Category | Budget Expenditures | Actual Expenditures | Variance |
|-----------------------------|---------------------|---------------------|-------------------|
| Expenditures: | | | |
| Payroll | \$2,698,185 | \$2,389,381 | \$ 308,804 |
| Purchased Personal Services | 25,000 | 50,512 | (25,512) |
| Maintenance/Supplies | 120,000 | 105,307 | 14,693 |
| Equipment/Software | 15,000 | 15,708 | (708) |
| Total Expenditures | \$2,858,185 | \$2,560,908 | \$ 297,277 |

SUMMARIZING FISCAL YEAR 2013 AUDIT ACTIVITY

OIA Reports and Remediation Activity – During fiscal year 2013, OIA completed 23 public reports which resulted in 32 high or moderate risk observations. Of these observations, seven were remediated by the client and validated by OIA. Twenty-one of the remaining observations are not scheduled for remediation until fiscal year 2014 and four were delayed by the client. Additionally, all remaining fiscal year 2012 observations except one have been remediated by the client and validated by OIA.

OIA also completed 18 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, one audit was utilized by the Inspector General’s Office in support of an investigation.

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 2013, the majority of OIA consulting services related to process documentation, financial process reviews, new or merging programs, managing outsourced operations, and providing advice on new policies, security risk assessments, and design and system development. Consulting services consisted of nearly 32% of overall OIA audit effort in fiscal year 2013. This amount is expected to remain at approximately 30% in fiscal year 2014.

2013 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. In late 2012, OIA contracted with experts from the Institute of Internal Auditors to perform an external assessment. The results reported that OIA maintains the highest standards available as designated by “Generally Conforms” with all IIA *Standards*. Considerable efforts by OIA and state agency staff resulted in OIA receiving this highly rated distinction after only three years of operation.

2013 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, BWC’s auditors, and reviews conducted by external auditors.

In fiscal year 2014, OIA will include the following agencies within its oversight: Ohio Lottery Commission, Public Utilities Commission of Ohio, Ohio Adjutant General’s Office, and Opportunities for Ohioans with Disabilities agency. The Ohio departments of Mental Health and Alcohol and Drug Addiction Services will merge in fiscal year 2014. Also in 2014, internal audit services will be offered to agencies outside of OIA’s oversight upon request by the agency.

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 2013 Annual Plan:



| State Agency | Planned Engagements | Completed Engagements |
|-------------------------------------|---------------------|-----------------------|
| Administrative Services | 4 | 3 |
| Aging | 1 | 1 |
| Agriculture | 1 | 1 |
| Alcohol and Drug Addiction Services | 1 | 1 |
| Budget and Management | 2 | 2 |
| Commerce | 3 | 2 |
| Development | 3 | 3 |
| Developmental Disabilities | 1 | 1 |
| Environmental Protection Agency | 1 | 1 |
| Health | 3 | 3 |
| Insurance | 1 | 1 |
| Job and Family Services | 3 | 3 |
| Mental Health | 1 | 1 |
| Natural Resources | 2 | 2 |
| Public Safety | 3 | 3 |
| Regents | 3 | 3 |
| Rehabilitation and Correction | 1 | 1 |
| Taxation | 3 | 3 |
| Transportation | 4 | 4 |
| Veterans Services | 1 | 1 |
| Workers' Compensation | 4 | 3 |
| Youth Services | 2 | 2 |
| Total | 48 | 45 |

OIA is aware that changes occur during the year; however, OIA's goal was to complete 80% of engagements originally documented in the 2013 Annual Plan. OIA completed 45 of 48 engagements (or 94%) of engagements included in the fiscal year 2013 Annual Plan and eight unplanned engagements. The three engagements not completed resulted from delays in IT project timetables and OIA expects to be involved in these long-range projects over the next few years.



Client Surveys and Value-Added Requests

Client Survey Results – OIA sent out client surveys during fiscal year 2013 and received 28 responses. The responses are summarized below:

| Survey Questions | Very Good | Good | Fair | Poor | Don't Know |
|--|------------|-----------|----------|----------|------------|
| 1. Technical proficiency of OIA auditors | 17 | 10 | 1 | 0 | 0 |
| 2. Professionalism of internal auditors | 24 | 4 | 0 | 0 | 0 |
| 3. Auditor knowledge of your business | 6 | 19 | 3 | 0 | 0 |
| 4. Selection of important operational area | 13 | 14 | 1 | 0 | 0 |
| 5. Pre-audit notification of purpose and scope | 20 | 8 | 0 | 0 | 0 |
| 6. Timeliness of audit report | 20 | 8 | 0 | 0 | 0 |
| 7. Value of audit recommendations | 15 | 11 | 2 | 0 | 0 |
| 8. Effectiveness of OIA management | 19 | 9 | 0 | 0 | 0 |
| 9. Independence and objectivity of OIA staff | 19 | 9 | 0 | 0 | 0 |
| Total | 153 | 92 | 7 | 0 | 0 |

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 28 client responses received, 245 of 252 question responses were favorable which resulted in a 97% 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 18 requests in fiscal year 2013. The nature of these requests includes the following:

- ✓ Audit/review IT security risk design; review policies and procedures
- ✓ Assist in remediating external audit comments; grant reconciliation and reporting system adequacy; advice on purchase card use, new project implementation
- ✓ Training on audit practices/reports; review processes for fraud risks;



LOOKING FORWARD TO FISCAL YEAR 2014

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 will be developed for fiscal years 2014/2015. For fiscal years 2012/2013 OIA’s strategic plan identified nine strategies and seven of 9 are considered to be implemented. Progress on these strategies is detailed below:

| Element / Future Strategies | Planned Implementation | Status as of June 2013 |
|--|------------------------|--|
| <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 | Complete – June 2012 & June 2013 |
| <ul style="list-style-type: none"> Provide staff training on operational auditing techniques. | December 2011 | Complete – January 2012 & May 2013 |
| <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 and November 2012 (external peer review) |



| Element / Future Strategies | Planned Implementation | Status as of June 2013 |
|--|------------------------|---|
| <ul style="list-style-type: none"> Develop client surveys to obtain feedback on assurance and value-added services. | July 2011 | Complete – began September 2011 through present |
| <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 and continuous |
| <p>Organizational Relationships and Culture:</p> <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 | Partially implemented January 2013 monthly CIO-MAC meetings |
| <p>Governance Structures:</p> <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 |