

OBM Office of Internal Audit

Escalation Process

DRAFT as of June 19, 2015

There may be occasions when an agency will not agree to correct an audit observation or update procedures to reduce the risk to a lower level. For example, an agency may not agree with the audit's assessment that the risk is at a moderate or high level and believes their current processes are adequate. Or an agency may agree with the observation during the period of audit and indicate an intention to implement changes, but other priorities occur after the audit is completed that divert the agency's attention, leading it to decide against making changes.

This document outlines the process to be followed by OBM's Office of Internal Audit (OIA) when these situations occur. OIA personnel will inform client personnel when the escalation process is taking place and that OIA will be communicating with higher levels of management at the agency, the Director of OBM and ultimately the State Audit Committee regarding the audit issue.

This escalation process will only be utilized for moderate or high risk observations, since OIA's audit process does not require corrective action plans for observations deemed as low risk. Please see Appendix A on page 3 for descriptions of risk classifications.

For observations determined to be a moderate or high level of risk [as approved by the cognizant Audit Chief and the Chief Audit Executive (CAE)]:

1. The Audit manager or Senior IT Auditor schedules a discussion with the agency's audit contact. The audit contact may be our audit liaison or the divisional employee in charge of the process in question. If the audit contact indicates that the agency is unwilling to correct the audit observation or reduce the risk, and OIA still believes the issue to be of moderate or high risk, the process advances to step 2. OIA will notify the OBM Director and the State Audit Committee that the escalation process is being initiated.
2. The Audit chief discusses the issue with the agency employee to whom the audit contact reports (for example, an assistant director, CEO, CIO, CFO, or chief of staff). If this agency employee also is unwilling to indicate that the agency will correct the issue or reduce the risk level, and the audit chief still believes the issue to be of moderate or high risk, the process advances to step 3.
3. The CAE discusses the issue with the director or head of the state agency. If the director also is unwilling to indicate that the agency will correct the issue or reduce the risk level, and the CAE still believes the issue to be of moderate or high risk, the CAE will submit a written communication to the director evidencing their conversation and documenting the agency's acceptance of risk. A

copy of this communication will be delivered to the Director of OBM. The Director of OBM, at the director's discretion, may engage with the agency on the issue.

4. The CAE will report this issue to the State Audit Committee at the next state audit committee meeting. This observation and the state agency's response will be considered in OIA's risk assessment process, and OIA will report any agency's lack of remediation in OIA's annual report. The State Audit Committee may, at its discretion, ask a representative of the agency to appear before the committee to discuss the issue. The committee may also ask the OIA to continue to monitor the issue in question to assess on-going risk.

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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